



**INTERNATIONAL TROPICAL  
TIMBER COUNCIL**

**COMMITTEE ON ECONOMICS,  
STATISTICS AND MARKETS**

**COMMITTEE ON FOREST INDUSTRY**

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**REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL**

**FORTY-SEVENTH SESSION OF THE**

**COMMITTEE ON ECONOMICS, STATISTICS AND MARKETS**

**AND THE COMMITTEE ON FOREST INDUSTRY**

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## REPORT

### 1. Opening of the Session

The Forty-seventh Session of the Committees was opened on 27 November 2013 at the Joint Session of the Committee on Economics, Statistics and Markets (CEM) and the Committee on Forest Industry (CFI), co-chaired by Mr. Tabi Agyarko (Ghana), Chairperson of CEM and Dr. Ruth Caroline Hitahat Turia (Papua New Guinea), Chairperson of CFI. Mr. Rob Busink (The Netherlands), Vice-Chairperson of the Council chaired the Joint Session of the Committees on 26 November 2013 which considered items 4 and 8A of the Agenda and on 27 November 2013 which considered item 6 of the Agenda. The list of participants is presented in document ITTC(XLIX)/Info. 2.

### 2. Adoption of Agenda and Organization of Work

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

### 3. Admission of Observers

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

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

The Committees noted the presentation made by Mr. Mario Rafael Rodriguez Palma (Guatemala), Chairperson of the Expert Panel for Technical Appraisal of Project Proposals at its Forty-fifth and Forty-sixth meetings held on 4-8 February 2013 and on 29 July-2 August 2013 in Yokohama, Japan as contained in documents ITTC/EP-45 and ITTC/EP-46, respectively.

### 5. New Projects and Pre-projects

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

<b>Committee on Economic Information and Market Intelligence</b>		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 686/13 Rev.1 (M)	Enhanced Research and Promotion of Non-Traditional Broadleaved Timber Species in Honduras	Honduras
PD 692/13 Rev.1 (M)	Implementation and Operationalization of a National Information System for the Sustainable Management of Forest Resources	Côte d'Ivoire
PD 694/13 Rev.2 (M)	Promoting Development of Teak Plantations on Farmlands to Improve Quality, Marketing and Livelihood of Local Communities in Forest-Savannah Transition Zone, Ghana	Ghana
PPD 167/13 Rev.1 (M)	Feasibility Study on the Certification of ONAB's National Plantation Estates	Benin

<b>Committee on Forest Industry</b>		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 660/12 Rev.3 (I)	Enhancing Industrial and Community Utilization of Wood Residues Through Briquette and Charcoal Production for Environmental and Livelihood Improvement in Ghana	Ghana

PD 687/13 Rev.1 (I)	Strengthening the Performance of the Wood Processing Sector in Guyana, through Building Local Capacity and the Enhancing National Systems that Promote Forest Products Trade and Sustainable Utilization of Forest Resources	Guyana
PD 689/13 Rev.1 (I)	Promoting Biological and Non-Biological Agent Prevention and Control Techniques in Mechanical Timber Processing in Peru	Peru
PD 698/13 Rev.2 (I)	Facilitating Forest-Industry-Market Integration	Guatemala
PD 700/13 Rev.1 (I)	Development of Intra-African Trade and Further Processing in Tropical Timber and Timber Products – Phase I	ITTO
PD 722/13 Rev.1 (I)	Capacity Building on Reduced Impact Logging (RIL) in Dry Inland Forest in the Permanent Forest on Peninsular Malaysia	Malaysia
PPD 172/13 Rev.1 (I)	Platform for Genetic Improvement of <i>Tabebuia</i> Species – Critical Information Development Phase for Implementation in Campeche, Mexico	Mexico
PPD 173/13 Rev.1 (I)	Management of Tropical Forest Species for the Production of Timber for Rural and Tourism Infrastructure Construction in South-east Mexico	Mexico

#### 6. ITTO Annual Market Discussion – 2013

The Committees noted the summary of the ITTO Annual Market Discussion – 2013, held in the Joint Session of All Committees on 27 November 2013, as contained in Appendix A. The theme of the Market Discussion was “Trade Approaches to Meeting Market Demand for Legality”. Mr. Rob Busink, Vice-Chairperson of the Council, chaired the meeting and Mr. Barney Chan (TAG Coordinator) served as the moderator of the Market Discussion.

The following feature presentations were made during the Market Discussion:

Mr. Alhassan Attah, Marketing Consultant Ghana	“Progressing Towards the Export of VPA/FLEGT License Timber: Ghana’s Experience and Lessons Learned”
Dr. Ivan Tomaselli, President STCP Engenharia de Projetos Ltda. (Brazil)	“Trends in Brazil’s Production and International Trade”
Mr. Ralph M. Ridder, Director General Association Technique Internationale des Bois Tropicaux (ATIBT)(France)	“Forest Sector and Timber Trade in ATIBT Focus Countries”
Mr. Maidiward, Forestry Attache Embassy of Indonesia in Japan	“Indonesia’s Readiness to Supply World Market with Legal Timber from Sustainable Managed Forests: Updating SVLK/VPA Implementation”
Mr. Boubacar Ben Salah, President Syndicat des Producteurs Industriels du Bois de Côte d’Ivoire (SPIB)(Côte d’Ivoire)	“FLEGT Processes in Côte d’Ivoire”
Mr. Rupert Oliver, Managing Director Forest Industries Intelligence, Ltd. (UK)	“The European Market for Tropical Timber: Turning a Crisis into an Opportunity?”

The TAG Coordinator informed the Committees that collaboration between TAG and the Secretariat would continue for the planning and organization of the ITTO Annual Market Discussion 2014. He informed the Committees that the tentative theme for the discussion would be “Domestic and Emerging International Markets – A Changing Market Landscape”.

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

7. Report on Completed Projects and Pre-projects

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

**Committee on Economics, Statistics and Markets**

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

The Committee took note of the presentation by the project coordinator (Mr. Olivier Ahimin) and the completion report in document CEM-CFI(XLVII)/2. He provided the background of this long-running project, including its phasing and the need for additional funding in order to complete Phase III, Stages 2 and 3. He detailed the many impacts of the project to date, including the establishment of national PCI working groups in 10 countries, contributions to forest certification/legality verification in several countries, collaboration with and inputs to activities of regional NGO's like WWF-CARPO, and the training of auditors/implementation of forest audits in several African countries. Future activities would include extension of project activities to new ITTO member countries in the region (Benin, Mali and Mozambique), conducting forest audits in a wider range of countries and expanded collaboration with relevant stakeholders and initiatives in the region.

Following the presentation, several delegations expressed their support for the work of the project and for its continuation. The representative of Benin expressed his country's interest to participate in future project activities. The representative of Congo noted the positive impacts of the project in his country and called for the project to continue. The representative of Côte d'Ivoire stated that the project activities undertaken in his country had assisted with rebuilding of forestry capacity and had established important links between central and west African countries. The representative of Gabon noted the importance of the forest concession audits carried out in her country under the project and requested continued support to extend audits to more concession areas. The representative of Switzerland commended the project for its many positive impacts to date which he hoped could be extended to more countries in future. He requested the project to attempt to gather data on its contribution to increases in certified forest areas in African countries in future. The representative of Togo expressed his country's gratitude for assistance from the project to develop PCI for Togo's plantation forests and requested assistance in future to extend the PCI to Togo's natural forests. The representative of Cameroon indicated his country's support for the project, recalling that the first two project coordinators had been from Cameroon which has developed national PCI that have been incorporated into the country's national forest strategy.

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

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

The Secretariat informed the Committee that this project had originally been included as a project under implementation in the documents prepared for the current session. However, due to the subsequent submission of the final report and financial audit by the Government of Gabon, the project could be considered under the agenda item on completed projects. The representative of Gabon made a brief presentation on the project, highlighting the achievement of its objectives to facilitate collection of log and timber production data in the field using netbook computers and transfer of this data to the STATFOR database. He detailed some of the problems faced in implementing the project including provision of the Gabonese contribution to the project budget and staff turnover partially due to a restructuring of the Ministry of Water and Forests. The Government of Gabon has submitted a new small project to ITTO under the Trade and Market Transparency thematic programme which will consolidate and build on the outputs of PD 182/03 Rev. 2 (M).

The Committee took note of the presentation of the representative of Gabon and duly declared the project complete.

PPD 139/07 Rev.1 (M)

Strengthening of the National Forest Information System (Thailand)

The Secretariat reported to the Committee that this pre-project was aimed at improving decision-making on forest management at the national, regional, political, sub-district and forest management unit (FMU) levels in Thailand while its specific objective is to strengthen the National Forest Information System (NFIS).

The Committee noted that these objectives had been achieved principally through the conduct of a feasibility study and the formulation of an action plan and a full project proposal for the strengthening of the NFIS of Thailand. The pre-project had been implemented successfully without any serious delay or problems encountered.

The Secretariat informed the Committee that the completion report, technical reports and final financial audit report had been delivered by the implementing agency in accordance with the Pre-Project Agreement. The Committee duly declared the pre-project complete.

### **Committee on Forest Industry**

PD 347/05 Rev.2 (I)

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

The Secretariat reported to the Committee that all activities were completed and all outputs were achieved in a period of 80 months, including assessment of the current situation of Gabonese SMEs, selection of five SMEs to participate in the project activities and in the missions, missions to Brazil and South Africa to learn about various existing financial schemes which support SMEs, the identification of a financing mechanism for Gabonese nationals and SMEs identified, and the drafting of a project proposal aimed at supporting the implementation of this mechanism with the participation of five nationals/SMEs, which is still to be officially submitted to the ITTO.

The Committee noted that the project was executed below the budgeted ITTO contribution, with savings in the amount of US\$20,505.

The Secretariat informed the Committee that the completion report, technical reports and final financial audit report had been delivered by the implementing agency in accordance with the Project Agreement. The Committee duly declared the project complete.

PD 385/05 Rev.4 (I,F)

Industrialisation, Marketing and Sustainable Management of Ten Mexican Native Species

The Secretariat reported that all activities were carried out and all outputs were achieved in a total period of 43 months, including prospective programmes for the sustainable silvicultural management of 10 selected species, training to forest producers, diagnostic study on primary and secondary timber industries in the region, technological characterisation of the selected species, technical assistance for primary and secondary timber processing industry personnel, product use and diversification, study of market niches and prices for the selected species, and product development and diversification.

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

The delegation of Mexico expressed its appreciation to the donors and ITTO for their support in the implementation of the project. She highlighted that forest industry development is of high priority of the Mexican government which has implemented a national programme on entrepreneurial capacity building in order to boost the competitiveness of the forest industry. The delegation of Mexico also informed that in this sense and with the aim of building from the outputs of the project, a new pre-project proposal has been submitted to ITTO for the utilization of tropical timber in the construction for the tourist sector.

The Committee duly declared the project complete.

PD 448/07 Rev.2 (I)

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

The Secretariat reported that all activities were carried out and all outputs were achieved in a total period of 42 months, including assessments of resource availability, extraction intensity and regenerative growth of NTFPs. A policy designed to regulate NTFP harvesting had been formulated and implemented; gatherers and handicraft workers were trained on sustainable collection and production of high quality handicrafts from NTFPs; improvements to production processes were made in the manufacture of handicrafts; marketing of finished products improved; handicraft producers' groups were organized; gender sensitivity in extraction was determined; processing and marketing of NTFPs was undertaken; and enrichment planting of NTFPs was carried out.

The Secretariat informed the Committee that the completion report, technical reports and final financial audit report had been delivered by the implementing agency in accordance with the Project Agreement. The Committee duly declared the project complete.

PD 512/08 Rev.2 (I)

Industrial Utilisation and Marketing of Ten Potential Timber Species from Secondary and Residual Primary Forests (Peru)

The Secretariat reported that all activities were carried out and all outputs were achieved in a total period of 34 months, including new timber species technologically characterized, proposal of suitable conditions for primary processing, diversification of products and study of value added prototypes, business plans for timber products made from new secondary and residual primary forest species, and dissemination, training and technical assistance programme for forest enterprise management.

The Secretariat informed the Committee that the completion report, technical reports and final financial audit report had been delivered by the implementing agency in accordance with the Project Agreement. The Committee duly declared the project complete.

PD 523/08 Rev.1 (I)

Operational Strategies for the Promotion of Efficient Utilization of Rubber Wood from Sustainable Sources in Indonesia

The Secretariat reported to the Committee that this project was aimed at contributing to the alleviation of wood raw material supply problem facing the national wood industry through the efficient utilization of rubberwood from sustainable sources. Its specific objective was to promote the utilization of rubberwood from sustainable sources. Outputs of the project were: i) increased interest in the utilization of rubberwood owned by large companies; ii) improved incentives for and capacity in the utilization of rubberwood from smallholders' plantations; iii) revised and enhanced government policy governing rubberwood resource utilization; iv) increased investment in rubberwood utilization; and v) appropriate technologies available for the utilization of rubberwood from smallholders' plantations.

The Committee noted that in light of the indicators of the outputs defined in the project document, all planned activities had been achieved and delivered through the full execution of 22 planned activities noting that Outputs 1 and 2 were somewhat short of targets for reasons that were beyond control of the project.

The Committee also noted that with the delivery of all planned outputs, the specific objective has been achieved. However, judging from the pre-defined indicators of the specific objective, it was more appropriate to declare the specific objective as "nearly achieved" due mainly to the partial fulfillment of the pertinent indicators, particularly Indicator No. 3, as elaborated in the Completion Report.

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

Following the report by the Secretariat, the delegation of Indonesia explained that the project had been implemented within the approved timeframe and budget. The delegation of Indonesia expressed its appreciation to the ITTO Secretariat as well as the Government of Japan, the Government of Korea, and the Japan Lumber Importers' Association (JLIA), for funding the project.

The Committee duly declared the project complete.

8. Ex-post Evaluation

**(A) Ex-post Evaluation Reports**

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

**Committee on Economics, Statistics and Markets**

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

**Committee on Forest Industry**

An oral report was made by the Secretariat on the progress in the implementation of the ex-post evaluation of the following completed project:

PD 40/00 Rev.4 (I)	Utilization of Small-Diameter Logs from Sustainable Source for Bio-Composite Products (Indonesia)
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The Secretariat informed the Committee that contact was established with the Common Fund For Commodities (CFC, the donor of the project) who indicated that in accordance with their procedures, ex-post evaluation can only be undertaken two years after the completion of the project. Therefore, the Secretariat will contact CFC again next year to arrange the evaluation of this project.

PD 306/04 Rev.1 (I)	Improving Utilization and Value Adding of Plantation Timbers from Sustainable Sources in Malaysia
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A presentation was made for the Committees by the consultant, Dr. Hiras Sidabutar (Indonesia), on the results of his ex-post evaluation of the project.

The ex-post evaluation was carried out in May 2013, thirty-two months after project completion. Dr. Sidabutar informed the Committees that the evaluation involved review of existing project documents and files; meetings with the executing agency and its collaborators, former PSC members, key project personnel and other main stakeholders; and visits to relevant forestry institutions and forest industries in three regions of Malaysia. The key stages of the evaluation included in-depth analysis of the project design using the ITTO Manual for project formulation, second edition, as the framework with special attention to the problem tree and definition of the project elements, and assessment of project performance covering appropriateness of implementation process, achieved outputs and objectives, and impact as well as sustainability of the project.

According to the consultant, the project stemmed from studies conducted in Malaysia and was urgently needed to help sustain its forestry and wood-based industry sector that had been contributing significantly to the Malaysian economy over the decades but was experiencing a growing threat to its future viability due mainly to the continuing shortfall in supply of natural timbers. The establishment of forest plantations is one of the solutions but the properties and uses of the tree species that had been planted on a trial basis remained unclear. This problem was addressed by the project through its interventions.

It was pointed out that the specific objectives of the project were achieved through delivery of ten outputs for which 32 activities had been fully implemented within the sanctioned budget and duration i.e. US\$1,446,001 and 48 months, including 12 months of extension without additional funding, respectively.

Dr. Sidabutar reported the following conclusions:

- The problems addressed were inadequately analyzed and the project design was somewhat weak because the main causes and sub-causes of the problems addressed were not well identified; conformity of the project interventions to the actual causes was conceptually lacking clarity;

- Despite weaknesses of the project design, the project had been successfully implemented and completed through full execution of all planned activities, delivery of the defined outputs and achievement of its defined specific objectives;
- The project was implemented in an effective manner in full compliance with the project agreement and established ITTO rules and procedures; the required documents had been prepared and submitted on time;
- The strategy pursued in implementing the project was employment of a multi-disciplinary group of national and foreign experts, agencies and stakeholders directly or indirectly involved in the project execution with Forest Research Institute Malaysia (FRIM) acting as the national coordinating agency;
- The project has generated significant favorable impacts: attitude of the primary beneficiaries towards commercial utilization of planted timbers and development of forest plantations is improving; enthusiasm of the forest industries for availability of appropriate processing technologies for planted timbers is growing while policies and programmes on forest plantation development are being enhanced;
- Technology transfer had been performed effectively through wide dissemination of the project outputs and publications, conduct of the workshop and seminar on improved utilization of tropical plantation timbers, execution of the road-show program throughout the regions and training of Malaysian researchers at FFPRI of Japan;
- Overall, sustainability of the project is promising: the forest research institutions across the regions are carrying out studies and experiments relating to planted wood properties and processing techniques using the methods developed under the project and a follow-up project proposal has been submitted to and approved by ITTO and is currently awaiting funding for its implementation;
- Overall, the project can be categorically rated as successful in terms of the positive impacts on the environment of planted timber utilization it is generating and the promising sustainability of the project;
- The project had been implemented in a cost effective manner; the sanctioned amount of ITTO budget was prudently expended to fully execute the 32 originally planned activities.

Finally, Dr. Sidabutar recommended that:

- In formulating future similar projects, strict adherence by proponents to the ITTO Manual on project formulation and full participation of the primary beneficiaries must be assured in order to arrive at a sound and workable project design;
- In convincing forest industries on the commercialization of planted timbers, the regional R&D institutions should continue doing intensified research on wood properties and appropriate processing techniques, independent of external financial assistance, in close consultation with the forest industries;
- In speeding up the development of forest plantations, it is strongly advisable to make use of the experience of other countries in order to economize use of needed resources;
- The consultation held with Asiaprima Resources Sdn Bhd in Pahang revealed that it has documented vast information on properties of acacia timber and its suitable processing techniques; exploring possibility of sharing this information is worth considering as this information would be very useful for purpose of developing effective R&D programs by concerned forestry research institutions;
- To ensure technical soundness of project design and relevance as well as effectiveness of project interventions, adherence by any proponent to existing manual on project formulation is to be fully observed by the Expert Panel in assessing any project proposal;
- To provide funding for immediate implementation of proposed project PD 600/11 Rev. 1 (I) entitled "Life Cycle Assessment and Carbon Foot Print-Based Initiative for Process Improvement and Innovative Product Development of Sustainable Plantation-Grown *Acacia mangium* in Malaysia".

The Committees commended the consultant for his report and presentation.

PD 334/05 Rev.2 (I)

Demonstration and Application of Production and Utilization Technologies for Rattan Sustainable Development in the ASEAN Member Countries (Philippines)

The Committees were informed by the Secretariat that the consultant scheduled to present his report on the ex-post evaluation of this project had been unable to attend the session due to his inability to obtain

an entry visa to Gabon. The Committees decided to postpone consideration of this project until their next session.

PD 425/06 Rev.1 (I)

Production and Utilization Technology for Sustainable Development of Eaglewood (Gaharu) in Indonesia

A presentation was made for the Committees by the consultant, Dr. Florence P. Soriano (Philippines), on her ex-post evaluation report on the project.

The Joint Committees took note of the presentation of Dr. Soriano on her ex-post evaluation of PD 425/06 Rev. 1 (I). The project was completed on time and within the approved budget. The ex-post evaluation was carried out in June 2013 (25 months after project completion) and involved review of all project materials as well as field visits to eaglewood production forests and plantations. Eaglewood is only produced by one in ten Gaharu trees leading to indiscriminate harvesting. Many species of the genera *Aquilegia* that produces eaglewood have been listed in CITES Appendix II which has given rise to work to establish plantations and treatments to induce eaglewood formation in order to promote sustainable management of the species. The project provided scientific evidence of the efficacy of technology for inducing eaglewood formation including direct inoculation with the relevant pathogens. It identified the most suitable species of *Aquilegia* for eaglewood formation, mass produced inoculum and established demonstration sites in plantations and natural forests.

All planned project outputs were completed. Some changes to planned activities were approved by the PSC without additional ITTO funding in order to enhance achievement of project objectives (i.e. visits to countries like Saudi Arabia with more advance eaglewood processing capacity versus originally planned visit to Vietnam). The project had to deal with an leaf-eating insect infestation of plantation Gaharu trees during implementation, a risk that was unforeseen in the project document. Measures to deal with the impacts of insect infestation should be built into future projects involving plantation establishment. The Government of Indonesia has adopted various measures to ensure sustainability of project outputs, including adoption of a 10-year Gaharu Master Plan.

Recommendations of the ex-post evaluation included the need to communicate project objectives more widely, the need for risk assessment including potential for invasive insect outbreaks at project formulation stage, the need for a national plan for eaglewood producing trees, the need for private-public partnerships, and the need for regulation of inoculum pathogens. Dr. Soriano concluded that the project was successfully implemented and urged ITTO to promote information-sharing between eaglewood producing countries. Work on eaglewood was also relevant to the ITTO-CITES Programme and some of the recommendations of the ex-post evaluation could be relevant to future work on *Aquilegia* species under that Programme.

The representative of Indonesia thanked the consultant, project donors and ITTO. He indicated that Indonesia had constituted a task force to take into account the recommendations of the ex-post evaluation in its future work on eaglewood. He noted that the project had drawn on and contributed to a long-running research program on eaglewood in Indonesia. The representative of the USA thanked the consultant and noted that there may be a need for improving benefit sharing so that those collecting eaglewood would benefit more from the income derived from it. He queried whether Indonesia planned to phase out collection of eaglewood in the wild in favor of plantations and whether consumer preferences would continue to favor wild-produced material. He also questioned whether pest infestation was a problem in the wild or only in plantations. The representative of Malaysia noted that *Aquilegia* was also native to his country and that its high value required special measures to conserve it. Since the findings of the project are extremely important to other countries, he suggested that Indonesia consider convening a workshop to share the results obtained under the project. The representative of PNG supported this call for an information sharing workshop on eaglewood producing species. The Secretariat informed the Joint Committees that a workshop on eaglewood/agarwood producing species would be convened in the second half of 2014 under the ITTO-CITES Programme and that relevant results from the project and its ex-post evaluation would be included in the agenda of this workshop.

The Committees commended the consultant for her report and presentation.

## **(B) Selection of Projects for Ex-post Evaluation**

The Secretariat reminded the Committees of Decision 3(XXVIII) which provided guidelines for the selection of projects for ex-post evaluation and established a pooled fund for ex-post evaluations to be drawn from unused project monitoring and evaluation funds.

### **Committee on Economics, Statistics and Markets**

The Secretariat informed the Committee that funds remaining in the CEM part of the pooled ex-post evaluation fund had been depleted and were only sufficient to carry out ex-post evaluation of one project. The Secretariat recommended, and the Committee approved, the following project for ex-post evaluation.

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

### **Committee on Forest Industry**

The Committee duly selected the following project for ex-post evaluation:

PD 523/08 Rev.1 (I)                      Operational Strategies for the Promotion of Efficient Utilization of Rubber Wood from Sustainable Sources in Indonesia

## 9. Policy Work

Five issues/activities under the CEM and two issues/activities under the CFI were discussed by the Committees.

### **Committee on Economics, Statistics and Markets**

#### **(i) Market Access**

The Secretariat reported on recent developments relating to market access since the previous session. During the discussion of last year's Council session, a study on "Improving Resilience of the Tropical Timber Sector to the Impacts of Global and Regional Economic and Financial Crises" was presented by the consultant, which analyzed the impact of the global financial and economic crisis on the market situation of the world tropical timber trade. Since then, many ITTO producers and consumers continued to be facing weakened market demand for primary and processed timber products caused by the crisis. There were still many uncertainties and challenges for demand, supply and market access of tropical timber products.

A number of challenges may affect market access for tropical timber market, such as the existence of unilateral measures of protectionism on timber products including anti-dumping and countervailing measures; the progress of international environmental regimes; the strengthened public procurement policies; the developments of timber legality requirements, and progress in regional and national initiatives, etc.

Timber legality requirements and actions have been drawing the attention of tropical timber producers as more and more consumers are demanding that products should come from legal and sustainable sources. A number of ITTO consumer countries have given precedence to legality considerations in recent years, and these requirements and policies have important implications for tropical timber suppliers.

The EU Timber Regulation applies to a wide range of timber and timber products imported by the EU. In 2012, significant developments were seen including the adoption by the European Commission of the implementing regulation, and the EUTR came into force on 3 March 2013. In the USA, implementation of the Lacey Act 2008 Amendments has also created changes in the practices of importers, manufacturers, and timber companies to avoid the imports of illegally sourced timber. The Australian Illegal Logging Prohibition Act 2012 was adopted in 2012 and will come into force in 2014. Its requirements prohibit the import and processing of illegally logged timber. These developments and their possible challenges and opportunities for timber traders have attracted considerable attention of tropical timber market participants.

(ii) Forest and Timber Certification

The Secretariat reported on the development of forest certification in ITTO producing member countries for the year 2012.

According to the statistics collected by the Secretariat, the total area of certified forests in ITTO producing member countries was 18.9 million hectares in 2012, which accounted for 4.5% of the world's total area of certified forests of about 421.7 million hectares. The number of Chain of Custody certificates (CoCs) in ITTO producing member countries was 1,985, which accounted for 5.8% of the total number of CoCs in the world.

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

- a. Forest Stewardship Council (FSC): The FSC certified forest area reached 10.7 million hectares in ITTO producing countries by the end of 2012, which accounted for about 6.3% of the total FSC certified forest area in the world. Meanwhile, the number of CoC certificates reached 1,669 in ITTO producing countries, accounting for 6.8% of the total in the world. The top three countries with the highest FSC certified forest area in ITTO producing member countries are Brazil, the Republic of Congo, and Gabon. Brazil has 7.2 million hectares of FSC certificated forest and 927 FSC-CoC certificates, followed by the Republic of Congo with 2.5 million hectares and Gabon with 1.9 million hectares of certified forest;
- b. Programme for the Endorsement of Forest Certification (PEFC): The PEFC certified forest area in ITTO producing countries reached 6.3 million hectares by the end of 2012, accounting for about 2.5% of the total PEFC certified forest areas in the world. The top two countries with the highest PEFC certified forest area in ITTO producing member countries were Malaysia and Brazil. Malaysia had 4.7 million hectares of PEFC certificated forest. Regarding PEFC-CoC certification, the number of CoC certificates reached 310 in ITTO producing countries, accounting for 3.1% of the total in the world. Malaysia led ITTO producers with 249 (CoC) Certificates.

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

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

The first two certification systems (CERFLOR and MTCC) had been endorsed by PEFC, and their certification statistics had been covered by PEFC. In Indonesia, the situation for LEI certification was 1.9 million hectares of certified forest and 6 CoC certificates in 2012. Additionally, Indonesia has also developed and enforced the SVLK (Indonesian Timber Legality Assurance System – Indo-TLAS), which is based on a certification approach and requires all business units to obtain legality certificates.

Similar to previous years, three-fifth of the world's certified forests were certified under PEFC and almost two-fifth under FSC. However, FSC accounted for the biggest share of certified forests in ITTO producing member countries in 2012. The area of FSC certified forest in the Asia-Pacific region grew by 30 percent in 2012, and the number of CoC certificates grew by 20 percent, mainly due to the growing demand in the North American market.

PEFC continues to be the largest certification scheme in the world. However the certified forest area of 2012 decreased by 3.3% from 2011. PEFC was expected to expand in tropical forests through endorsements of certification systems in ITTO producing member countries. The assessment of the China Forest Certification Scheme (CFCS) is progressing well and could hopefully receive the endorsement of PEFC by the end of this year.

Following the report by the Secretariat, the delegation of Malaysia informed the Committee that the Malaysian Timber Certification Council (MTCC) co-hosted the PEFC Week in Kuala Lumpur from 11 to 17 November 2013, the first time such an event was held in the Asia/Pacific region. During the week its General Assembly, related meetings and a Stakeholder Dialogue were held in addition to a 2-day field visit to certified and regenerated forests. The 2-day Stakeholder Dialogue was attended by more than 300 participants. The General Assembly approved the standards submitted by the China Forest Certification Council for endorsement through a postal vote. Another highlight during the event

was the submission of standards by the newly established Indonesian Forestry Certification body, also to be considered by PEFC for endorsement. The PEFC Week was highly successful in creating awareness and promoting forest certification and its contribution to sustainable forest management.

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

The Secretariat reminded the Committee that this item would be taken up at its next session when the first Biennial Review of 2013-2014 to be carried out under the ITTA, 2006 would be considered by Council. The Joint Forest Sector Questionnaire (JFSQ) had been distributed to all members in 2013 and ITTO's statistical database would be updated to allow data from this year to be included in the 2013-14 Biennial Review. The Secretariat reviewed responses to the 2013 JFSQ and urged countries that had not provided data yet (Members: China, Fiji, Gabon, India, Mozambique, PNG, Republic of Korea, Trinidad and Tobago; Non-Members: Bolivia, Central African Republic, Egypt, Madagascar, Nepal, Nigeria, Paraguay, Thailand, Vanuatu, Venezuela) to do so as soon as possible.

The Secretariat also reported on its efforts to seek approval at the World Customs Organization (WCO) for an expanded and updated list of tropical wood species to be included as a sub-heading note in Chapter 44 of the Harmonized System of Customs Classification (HS). The WCO had given preliminary approval to this proposal (jointly submitted by ITTO and FAO) and was currently considering logistical matters regarding the placement and content (common names, Latin names or both) of the new list of over 400 tropical timber species in Chapter 44 of the HS.

The representative of Malaysia asked for clarification on whether the recent restructuring of the Secretariat had left sufficient capacity in place to carry out the core work of ITTO on producing the Biennial Review. The Secretariat confirmed that one post lost in the restructuring was that of the Statistician but that the intention of the Secretariat was to carry out production of the 2013-14 Biennial Review through a consultancy agreement with the previous Statistician. He confirmed that funds were available to allow for this consultancy in 2014 for production of the 2013-14 Biennial Review, but that resources (which should be made available under the Core Activities component of the Administrative Budget) and availability of the consultant could not be confirmed beyond that.

(iv) Promote trade in tropical timber and tropical timber products from sustainably managed and legally harvested sources [Activity 46(a), ITTO Biennial Work Programme 2010-2011]

The Committee took note of the presentation of the consultant (Dr. Kwame Asumadu) which provided details of the Guyanese company involved in the activity (DTL) and the details of the tracking system established. The system, based on hand-held computers and bar-code scanners, provides detailed information on the nature and location of timber produced by DTL and its transport. The interface between DTL's tracking system and government forest control systems allows the Guyana Forestry Commission to monitor DTL's forestry operations to ensure compliance with relevant permits and licenses. The consultant recommended that the work carried out under this Biennial Work Programme activity to establish tracking systems be continued. There is a need for systems that can link to or otherwise interface with national forest monitoring systems.

The representative of the USA asked the consultant how the tracking system developed for DTL differed from existing commercial timber tracking systems. The consultant responded that all tracking systems based on scanners and hand-held computers were similar but that the DTL system had been customized to reflect unique characteristics in Guyana. The representative of Togo cautioned that over-reliance on computers could be dangerous and that manual systems need to be perfected before turning to computerized systems and databases. The consultant pointed out the advantages of computerized systems including removing some of the risk of human-error inherent in manual systems. The representative of PNG noted that difficulties can occur in implementing the system. The EU noted that cost is often a factor in uptake of tracking systems and that the use of open access software (such as in this case) is a good idea. The consultant noted that the total budget of the project was US\$44,000 but that the software development had only been part of that cost and that there had been several delays in project completion due to changes in DTL staff which affected costs. The EU requested information on the intellectual property rights over the system; the Secretariat responded that all project outputs had been provided to ITTO as per the MOU signed with DTL and were available to other members on request. The representative of Indonesia requested information on the value of the system and its potential impact on timber certification. The consultant responded that DTL had found the system valuable and that its implementation would contribute to Guyana's on-going negotiations with the EU on

a Voluntary Partnership Agreement and could certainly contribute to any certification initiative undertaken by the company in the future. The representative of the USA asked for details of the IT company that developed the system which was reported to be NTE, based in Georgetown. The Chair noted that this was the last of 6 tracking systems developed under the 2010-11 Biennial Work Programme activity. The Secretariat proposed and the Committee supported that an activity would be included under the 2015-16 Biennial Work Programme to continue this work.

(v) Analyse the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets

The Committee took note of the presentation of the consultant (Mr. Michael Martin) on his report prepared with Mr. Baharuddin Haji Ghazali [document CEM-CFI(XLVII)/5]. The presentation reviewed the terms of reference of the study and summarized highlights of the report. A general statistical analysis across countries found that shifts in demand reflect a range of factors, particularly general economic trends and consumer preferences. It was generally impossible to distinguish the impacts of public procurement policies for timber products from these wider trends. Declines in tropical timber imports in most major markets had pre-dated the introduction of public procurement policies. In Europe, declines were largest in countries most affected by the recent economic crisis, which were also countries without public timber procurement policies. Results of case studies of Belgium (with a public procurement policy for timber) and Italy (with no such policy) were presented. No statistically significant relationship was found between imports of tropical timber and the introduction of Belgium's public procurement policy. Italy, with no public timber procurement policy in place, shows a more pronounced decline in imports than Belgium.

The consultant noted that suppliers can meet the requirements of public timber procurement policies (and that many are doing so) but that compliance involves significant inputs of time and funds which some may decide are not worth expending due to the niche nature of markets for timber under public procurement policies. He recommended that ITTO could play a larger role in promoting demand for legal and sustainably produced tropical timber in emerging markets, and that these growing markets should be the focus of ITTO's efforts to develop and showcase sustainably and legally produced timber in the coming years.

Several delegations welcomed the informative report and presentation of the consultant, but called for more time to study the report given its importance and the wealth of information contained in it. The representative of Malaysia indicated that his country would undertake a process of consultation on the report with relevant stakeholders and called for ITTO support for a workshop to allow for full consideration of the report. The representative of the EU supported the main lessons of the report, i.e. that other factors are more important in determining demand for timber than public procurement policies; the increasing importance of emerging economies and domestic markets in producing countries; and the potential for ITTO to play a key role in promoting demand for legal and sustainably produced timber in emerging markets. He questioned the added value of a workshop to further discuss the report but welcomed the possibility of additional time to consider and comment on the report. The representatives of Congo and China echoed the call for more time to consider the report, with the former suggesting that further consideration of the report might take place in regional fora like COMIFAC and the latter noting that further information is needed to better reflect China's roles in the timber trade chain, especially as a major timber processing country. The representative of China supported Malaysia's call for a workshop to better understand the impacts of these public procurement policies and further discuss the report and its recommendations, taking advantage of ITTO's role as an important multilateral platform in tropical timber. The representative of Ghana echoed the call for a workshop. The USA and EU representatives continued to question the added value, objective(s) and content of such a workshop, noting that discussions on the report and its recommendations could continue under the Committee's Policy Work agenda at future sessions which would ensure wider participation than might be possible in a workshop.

The Committee recommended that members be invited to provide comments on the draft report to the Secretariat by 28 February 2014 to allow the consultants to finalize the report. It also invited members to submit ideas on and proposals for a workshop on this topic to the Secretariat. It decided to maintain this item on its Policy Work agenda for its next session, when the final version of the report incorporating member comments and any inputs received on the proposed workshop would be discussed.

(vi) Items on Policy Work for 2014

The Committee considered and agreed on the following items for policy work in 2014:

- Market access;
- Forest and timber certification;
- Selected data and analysis from ITTO Biennial Review and Assessment of the World Timber Situation; and
- Analyse the economic impact of governmental procurement policies on tropical timber markets (consider final report and proposal(s) for workshop).

**Committee on Forest Industry**

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

The Secretariat provided details of the work carried out to date under the 2010-11 and 2013-14 Biennial Work Programme activities. Seven training missions have been undertaken to date in PNG, Guyana, Myanmar, Malaysia, Ghana, Cameroon and Mexico, with an eighth scheduled for December 2013 in Guatemala. Several different types of processing mills have been selected for the in-house training in each country and participants have included mill owners, managers, workers and government representatives. The scope of training has included log stocking/loading, kiln and boiler operation/maintenance, saw doctoring, finger-jointing and waste minimization. Funding for this activity would be depleted following the completion of the Guatemala training mission so donors were urged to provide additional funds for this partially funded 2013-14 BWP activity.

The delegate of Indonesia noted that the in-house training activity was a follow-up of an Indonesian project which found in-house training is best way to improve forest industry efficiency. Efficiency improvements can greatly improve profitability, but are dependent on many factors. It would be useful for the Secretariat to undertake a study on the economics of improving efficiency in forest industries and the impact of this on SFM. This may assist in attracting funding to the IDE thematic programme.

The Committee took note of the Secretariat's report and recommended to the ITTC that additional funding for this BWP activity be made available and that a study on the economics of improving efficiency in forest industries and the impact of this on SFM be undertaken, with this matter to be further considered under Policy Work at the next session of the Committee.

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

The Secretariat informed the Committee that Mr. Vicente A. Molinos (USA) has been engaged as a consultant to assist in the implementation of the activity. The Secretariat compiled technical reports of outputs of the projects under the Committee on Forest Industry, which were grouped in the following topics:

- Biomass and residue utilization,
- Reduced impact logging,
- Primary processing of plantation logs,
- Value added processing,
- Utilization of lesser used timber species,
- NTFP utilization.

A survey was designed and tested in order to identify training needs and gaps for transfer of technology and know-how, and three questionnaires were defined for producers, consumers and others. In August 2013, the Executive Director circulated an invitation to members to respond to the survey and to provide contacts that could provide relevant responses. The survey will remain open until the end of 2013. As of mid-November 2013 a total of 427 responses to the survey had been received.

The next steps include the compilation and analysis of the data and the identification of potential matches of needs with technology and know-how developed by ITTO projects.

The Secretariat encouraged consumer and producer members to respond to the survey, as well as to donors to provide voluntary contributions so the partially funded activity could be implemented as originally foreseen.

(iii) Items on Policy Work for 2014

The Committee considered and agreed on the following items for policy work in 2014:

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

#### 10. Review of Projects and Pre-projects in Progress

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

##### **(A) Projects and Pre-projects under implementation**

###### **Committee on Economics, Statistics and Markets**

1. PD 449/07 Rev.2 (M) Enhancing Forest Law Enforcement in Papua New Guinea
2. PD 599/11 Rev.1 (M) Development and Testing of National Forest Stock Monitoring System (FSMS) with Improved Governance Capabilities at all Levels of the Forest Administration (Philippines)
3. PD 620/11 Rev.1 (M) Development and Implementation of a Species Identification and Timber Tracking System in Africa with DNA Fingerprints and Stable Isotopes (Germany)
4. PD 621/11 Rev.3 (M) Traceability of Timber Produced by Forest Concession and Native Communities in Madre de Dios and Ucayali (Peru)
5. PD 678/12 Rev.1 (M) Establishment of a National Forest Statistics Information Management System in Benin

###### **Committee on Forest Industry**

1. PD 73/89 (M,F,I) Assistance for Project Identification and Formulation (Global)
2. PD 39/93 Rev.4 (I) Ph II The Development, Application and Evaluation of Biomass Energy through Briquetting, Gasification and Combustion of (Wood and Agricultural) Residues (Cameroon)
3. PD 364/05 Rev.4 (I) Providing Village Communities with Basic Technological Training for Extracting Valuable Essential Oils from Eucalyptus Citriodora Plantations in Rural Areas of Congo (Rep. of Congo)
4. PD 433/06 Rev.3 (I) Sustainable Model for the Brazilian Wood Flooring Production Chain
5. PD 457/07 Rev.5 (I) Operational Supportive System for Promoting the Further Processing of Timber in Five Countries of the Congo Basin (Gabon)
6. PD 506/08 Rev.1 (I) Reviving Forestry Education in Liberia

7. PD 521/08 Rev.3 (I) Participatory Forest Management for Sustainable Utilization of Non Timber Forest Products (NTFP) Surrounding the Protected Area of Rinjani and Mutis Timau Mt, Nusa Tenggara Indonesia
8. PD 540/09 Rev.2 (I) Support to Improve the Productivity of the Peruvian Timber Industry for the Production of Higher Value-added Products
9. PD 600/11 Rev.1 (I) Model Capacity Building for Efficient and Sustainable Utilization of Bamboo Resources in Indonesia

**(B) Projects and Pre-projects pending agreement**

**Committee on Economics, Statistics and Markets**

None.

**Committee on Forest Industry**

None.

**(C) Projects and Pre-projects pending financing**

**Committee on Economics, Statistics and Markets**

1. PD 124/01 Rev.3 (M)  
Phase III Stages 2 and 3 Promotion of Sustainable Management of African Forests (Africa)
2. PD 686/13 Rev.1 (M) Enhanced Research and Promotion of Non-Traditional Broadleaved Timber Species in Honduras
3. PD 692/13 Rev.1 (M) Implementation and Operationalization of a National Information System for the Sustainable Management of Forest Resources (Côte d'Ivoire)
4. PPD 167/13 Rev.1 (M) Feasibility Study on the Certification of ONAB's National Plantation Estates (Benin)

**Committee on Forest Industry**

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

7. PD 687/13 Rev.1 (I) Strengthening the Performance of the Wood Processing Sector in Guyana, through Building Local Capacity and the Enhancing National Systems that Promote Forest Products Trade and Sustainable Utilization of Forest Resources
8. PD 689/13 Rev.1 (I) Promoting Biological and Non-Biological Agent Prevention and Control Techniques in Mechanical Timber Processing in Peru
9. PD 700/13 Rev.1 (I) Development of Intra-African Trade and Further Processing in Tropical Timber and Timber Products – Phase I
10. PPD 161/12 Rev.1 (I) Formulation of a Project Proposal for the Development of the Tara (*Caesalpinia spinosa*) Production Chain in the Andean Region - Peru and Ecuador (Peru)

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

#### **Committee on Economics, Statistics and Markets**

##### **PD 449/07 Rev.2 (M) Enhancing Forest Law Enforcement in Papua New Guinea**

The Secretariat reported to the Committee that the implementation of this project suffered substantial delays due to problems related to the replacement of key project staff and consultants since implementation began in August 2010. Subsequently, the implementation of the project was basically back on track and in line with the revised work plan. However, during the process in implementation, this project has also experienced considerable delay due to the change of project personnel and preparation for the completion report, final financial audit and technical reports. The implementing agency has recently submitted the project completion report and the technical reports, but is still working on the final financial audit report. After the final financial audit report is submitted and deemed satisfactory, the project will be declared complete at the next session of the Committee.

Following the report by the Secretariat, the delegation of PNG explained that the delay of the project implementation had been caused by the changes of project personnel and consultants as well as a collaborating partner. Eventually, all outputs and activities had been finished and the implementing agency had submitted the project completion report and the technical reports except the final financial audit report. This report will be provided to ITTO before the next session of the Committee. The delegation of PNG also expressed its appreciation to ITTO Secretariat as well as the Government of Japan, the Government of Australia, the Government of USA and Japan Lumber Importers' Association (JLIA), for funding the project.

#### **Committee on Forest Industry**

##### **PD 364/05 Rev.4 (I) Providing Village Communities with Basic Technological Training for Extracting Valuable Essential Oils from *Eucalyptus citriodora* Plantations in Rural Areas of Congo**

The Secretariat informed the Committee that at the time of preparation of the Committee report on on-going projects, a request for extension without additional funds was pending to be submitted by the implementing agency for further approval and consideration of ITTO and the Common Fund for Commodities (CFC), the donor of the project. This request had been submitted prior to the session of the Committee and approval for the extension of the project until May 2014 was granted by the CFC.

##### **PD 457/07 Rev.5 (I) Operational Supportive System for Promoting the Further Processing of Timber in Five Countries of the Congo Basin (Gabon)**

The Secretariat informed the Committee that this project had also been funded by the CFC, which retains the funds to be disbursed for the project. The implementing agency has not been able to engage the necessary personnel in order to commence project activities.

The representative of the implementing agency informed the Committee that a lengthy process has taken place to recruit the necessary personnel, starting from the development of terms of reference

(which was done in coordination with ITTO), the difficulty of finding an appropriate candidate for project coordinator under the allocated budget and the impossibility to modify the budget, which led to an adjustment as the regional coordinator was recruited through an in-kind contribution from the implementing agency with the request to hire an assistant to the project coordinator. This request was approved by ITTO in December 2012. The process to select an assistant to the regional project coordinator took six months as the first selected candidate was no longer available, thus having to repeat the recruitment process once again. The assistant to the regional project coordinator has now been recruited and the process for engaging national consultants has begun. The implementing agency is requesting that the start date of the project be considered December 2013 instead of October 2011.

The Committee recommended that the Secretariat continue liaising with the implementing agency to ensure satisfactory progress in the implementation of the project.

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

The Secretariat informed the Committee of the problems in the implementation of this project. Despite a mission by ITTO to try to resolve the problems with this project and another under the Committee on Reforestation and Forest Management, the implementing agency has not submitted any required reports since August 2012. There have been unjustified expenditures in excess of approved budget lines and two consultants remain unpaid. The Committee recommended that the Secretariat undertake a mission to Liberia to try to resolve the problems with this project and to inform the implementing agency that unless substantive progress in project implementation could be demonstrated to the next session of the Committee, it would recommend to Council that this project be terminated.

The Committee also noted that projects, PD 549/09 Rev.3 (I,F,M), PD 608/11 Rev.1 (I) and PD 612/11 Rev.2 (I) from Part C of the list presented at the start of the report on this agenda item would lose their status as approved projects under the sunset clause if they were not funded at this session.

11. Election of Chairpersons and Vice-Chairpersons for 2014

Following the usual consultations undertaken by the producer and consumer groups, Mr. Osamu Hashiramoto (Japan) was elected Chairperson of the CEM and Dr. Teguh Raharjo (Indonesia) was elected Vice-chair for 2014. Mr. Björn Merzell (Sweden) was elected Chairperson of the CFI and Mr. Miguel R. Mendieta (Honduras) was elected Vice-chair for 2014.

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

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

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

13. Other Business

No other business was raised under either Committee.

14. Recommendations to the International Tropical Timber Council

- (i) The Committees recommended that funding be made immediately available for the following projects and pre-projects approved under the time-bound electronic no-objection procedure for the spring and autumn project cycles 2013:

**Committee on Economics, Statistics and Markets**

PD 686/13 Rev.1 (M) Enhanced Research and Promotion of Non-Traditional Broadleaved Timber Species in Honduras [US\$408,285]

PD 692/13 Rev.1 (M) Implementation and Operationalization of a National Information System for the Sustainable Management of Forest Resources (Côte d'Ivoire)[US\$290,541]

- PD 694/13 Rev.2 (M) Promoting Development of Teak Plantations on Farmlands to Improve Quality, Marketing and Livelihood of Local Communities in Forest-Savannah Transition Zone, Ghana [US\$567,022]
- PPD 167/13 Rev.1 (M) Feasibility Study on the Certification of ONAB's National Plantation Estates (Benin) [US\$88,794]

**Committee on Forest Industry**

- PD 660/12 Rev.3 (I) Enhancing Industrial and Community Utilization of Wood Residues through Briquette and Charcoal Production for Environmental and Livelihood Improvement in Ghana [US\$705,107]
- PD 661/12 Rev.2 (I) Towards Sustainable Utilization of Bamboo Resources in Ghana: Development of Glued Bamboo Beams and Boards for Affordable Housing in Ghana through Collaboration with Local Communities in Two Districts [US\$607,264]
- PD 687/13 Rev.1 (I) Strengthening the Performance of the Wood Processing Sector in Guyana, through Building Local Capacity and the Enhancing National Systems that Promote Forest Products Trade and Sustainable Utilization of Forest Resources [US\$250,068]
- PD 689/13 Rev.1 (I) Promoting Biological and Non-Biological Agent Prevention and Control Techniques in Mechanical Timber Processing in Peru [US\$456,696]
- PD 698/13 Rev.2 (I) Facilitating Forest-Industry-Market Integration (Guatemala) [US\$419,440]
- PD 700/13 Rev.1 (I) Development of Intra-African Trade and Further Processing in Tropical Timber and Timber Products – Phase I (ITTO) [US\$5,159,245]
- PD 722/13 Rev.1 (I) Capacity Building on Reduced Impact Logging (RIL) in Dry Inland Forest in the Permanent Forest on Peninsular Malaysia [US\$226,041]
- PPD 172/13 Rev.1 (I) Platform for Genetic Improvement of *Tabebuia* Species – Critical Information Development Phase for Implementation in Campeche, Mexico [US\$96,600]
- PPD 173/13 Rev.1 (I) Management of Tropical Forest Species for the Production of Timber for Rural and Tourism Infrastructure Construction in South-east Mexico [US\$54,058]

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

**Committee on Economics, Statistics and Markets**

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

**Committee on Forest Industry**

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

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|----------------------|--|
| PD 608/11 Rev.1 (I)  | Life Cycle Assessment-Based Initiative for Carbon Foot Print Reduction and Improved Utilization of Tropical Timber Products from Malaysia [US\$607,349]                                    |
| PD 612/11 Rev.2 (I)  | Rural Community Development through Efficient Charcoal and Briquette Production from Logging and Corn Biomass Residues in the Afram Plains District of the Republic of Ghana [US\$550,692] |
| PD 655/12 Rev.1 (I)  | Capacity Building of the Builders' Woodworks Industry in the Philippines [US\$510,999]   |
| PD 671/12 Rev.1 (I)  | Boosting Investments in the Processing and Marketing of Forest Products in Atalaya (Peru) [US\$993,438]  |
| PPD 161/12 Rev.1 (I) | Formulation of a Project Proposal for the Development of the Tara ( <i>Caesalpinea spinosa</i> ) Production Chain in the Andean Region (Peru and Ecuador) (Peru) [US\$86,076]              |
- (iii) The CFI recommended that additional funding be made immediately available for the BWP activity "Strengthen the capacity to promote efficient wood processing technologies in tropical timber producing countries" and that a study on the economics of improving efficiency in forest industries and the impact of this on SFM be undertaken.

15. Report of the Session

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

## APPENDIX A

### REPORT ON THE ITTO ANNUAL MARKET DISCUSSION - 2013 27 November 2013, Libreville, Gabon

#### **Report of the 2013 Annual Market Discussion**

The theme of the 2013 Annual Market Discussion held on 27 November 2013 was “Trade Approaches to Meeting Market Demand for Legality”.

This theme was proposed by the Trade Advisory Group (TAG) to provide an opportunity for the sharing of experiences in the development of legality verification, on negotiations for Voluntary Partnership Agreements (VPAs) with the EU, the impact of the EU timber regulation (EUTR) on the structure of the timber sector in importing countries and the impact of the new regulations on tropical timber trade flows.

Illegal logging and the associated trade in illegally sourced wood products undermines environmental, economic and social structures and has heightened concern on over-exploitation and poor forest management. These concerns resulted in policy measures to address trade in illegally sourced wood products such as market-based incentives (certification) to more recent legal regulatory and enforcement measures. However, initiatives such as the EUTR and other related import regulations could have unintended direct and indirect effects that could result in changes in trade flows.

Six speakers addressed the 2013 ITTO Annual Market Discussion: Alhassan Attah, Marketing Consultant, Ghana; Ivan Tomaselli, President, STCP Engenharia de Projetos Ltda, Brazil; Ralph M. Ridder, Director General, Association Technique Internationale des Bois Tropicaux (ATIBT), France; Maidiward, Forestry Attache, Indonesian Embassy, Japan; Boubacar ben Salah, Président, Syndicat des Producteurs Industriels du Bois de Côte d'Ivoire (SPIB), Côte d'Ivoire and Rupert Oliver, Managing Director, Forest Industries Intelligence, Ltd. UK. The Market Discussion was facilitated by Barney Chan, Trade Advisory Group Coordinator.

The Market Discussion presentations are available on the ITTO website and the following report summarizes some of the main issues and the subsequent discussions.

#### **Convergence of domestic policy developments and the VPA - the formula for progress**

Indonesia and Ghana have concluded VPAs with the EU and are well on the way to producing FLEGT licensed timber. In two presentations ‘Progressing towards the VPA, Ghana’s experience and lessons learned’ by Mr. Attah and ‘A first for Indonesia, experiences in negotiating a VPA - what the SVLK will deliver for the Indonesian timber sector’ by Mr. Maidiward, the common theme was the synergy between domestic policy developments and the VPA.

The meeting learned from Mr. Attah that in Ghana the VPA is viewed as a tool supportive of the government’s aspiration to “create an environment that promotes sustainable forest management, improves rural livelihoods and equity as well as enabling industrial efficiency in a good governance environment”.

Much the same message was delivered by Mr. Maidiward of Indonesia who emphasised the strong synergy between the VPA and the Indonesian government’s commitment to sustainable development, to tackling climate change and to alleviating poverty while also delivering benefits to industry.

Both speakers reported that involving a wide range of stakeholders in the negotiations, while tough and difficult to manage, delivered benefits to otherwise marginalised groups and has the potential to strengthen forest governance.

The meeting heard from Mr. Salah that the primary, but not exclusive, reason for Côte d'Ivoire opening negotiations for a VPA with the EU was the need to secure the country’s most important export market. However, he noted that the VPA process would help to address the decline in the country’s forest area and to improve governance in the sector.

Mr. Salah explained that some 70 percent of the country’s wood product exports are destined for the EU market. Because of this and to ensure the continued contribution of the timber sector to the economy, to job creation and social stability it is essential to establish the framework for trade in verified legal wood products.

### **Declining imports of tropical timber by the EU**

Ivan Tomaselli, in his presentation on Brazil's timber sector, noted the overall decline in tropical timber exports (including to the EU) and the increase in domestic consumption. The EUTR, in the absence of FLEGT licensed timber, requires EU operators placing timber products on the EU market to exercise "due diligence" in order to minimise the risk of illegal timber entering the supply chain.

While it is too early to assess trade impacts of the EUTR, the managerial and financial burden of meeting the due diligence requirements of the EUTR may, said Mr. Oliver, in his presentation entitled 'The European market for tropical hardwood: how to turn a crisis into an opportunity', be driving many small EU companies away from direct importing and to relying on larger importers to look after the paperwork related to the EUTR. The downside of this consolidation could be first a reduction in competition in the trade and secondly rising prices of tropical timber as importers pass on the extra transaction costs to end-users thus undermining the competitiveness of tropical wood products in the market. However, Mr. Oliver noted that the recent decline was due to a perfect storm of factors include weak economic growth, irregularity of supply, high cost of infrastructure for stocking and distributing timber, shifting of demand from utility timbers to tightly specified engineered products, substitution by temperate hardwoods and other materials, and increasing focus on other markets and processing centres. It was still too early to be able to assess any direct impact of the EUTR on timber trade. However, Mr. Oliver said the FLEGT/VPA could provide a platform to start rebuilding tropical timber's market share in the EU.

### **Certification and FLEGT compatibility**

Mr. Ridder, in his presentation 'Forest sector and the timber trade in ATIBT focus countries', emphasised that responsible forestry enables socio-economic development, good governance, protection of forest ecosystems and biodiversity. He pointed out that there is a powerful story to tell on advances made in the tropical timber sector. Forest governance, sustainable forest management and market development have been boosted by timber certification. However, he reported that ATIBT member countries are finding marketing certified wood becoming increasingly difficult.

Weak demand in the traditional markets where certified wood has a foothold and the shift in emphasis to verification of legality are, in the words of Mr. Ridder, "punishing responsible producers of certified products". Mr. Ridder recognised the role of the EUTR and FLEGT VPAs in addressing illegal logging. However, he noted that while the EUTR text states that 'certification or other third party verified schemes may be used in risk assessment procedures', in the marketplace exporters are finding that certification does not currently automatically guarantee compliance with the EUTR. Major certification schemes have announced that they will take steps to ensure that certification provides the assurance of compliance with the EUTR but much more needs to be done to achieve widespread recognition of certification as FLEGT compatible.

### **Marketing campaign needed**

While there has been a long-term decline in consumption of tropical hardwood in the EU, there are now signs that European economies are stabilising. However, it is unlikely that there will be any significant increase in tropical hardwood consumption in the short to medium term due to the 'perfect storm' of factors identified above. Speakers stressed the compelling need for a coordinated tropical timber marketing campaign to reverse this situation.

Tropical hardwoods have a very powerful positive narrative that needs more effective articulation. Tropical producers need to make a long-term commitment to market development and to adopt professional and clearly focussed and co-ordinated communication in the market. This message was driven home by Dr. Tomaselli when he said; "To ensure that tropical forests are sustainably managed and tropical timber industries continue to contribute to improve the social-economic conditions of tropical countries, a coordinated global effort is required to improve the competitiveness of tropical timber products".

### **Interventions and Discussion**

The delegate from the EU commended speakers for inspiring presentations and stated that VPA partner countries could better tell the FLEGT story than anyone else. He noted the significant achievements of VPA processes and recognized the challenges and solutions highlighted in the presentations. He said that the EU will continue to work with partner countries to achieve more effective private sector engagement. He accepted that the idea for presenting the business case for VPAs and FLEGT introduced in one presentation had merit and that Indonesia would be well placed to do this based on their experiences.

The EU delegate reiterated the EU's commitment to closely monitor trade flows and market impacts of EU policies and regulations when FLEGT-licensed timber becomes available. One initiative to help achieve this will be an Independent Market Monitoring project which the EU has requested ITTO to implement.

The purpose of this activity is to explicitly monitor acceptance of FLEGT-licensed timber in the EU market. This project was designed in response to demand from VPA countries for information on their timber trade and acceptance of their FLEGT-licensed timber in the EU market, as enshrined in all of the VPAs negotiated to date. It will be launched next year in readiness for the first trade in FLEGT-licensed timber.

In responding to this announcement by the EU, a representative of the ITTO Secretariat informed the Committees that ITTO and the EU have been negotiating this initiative since early 2013. He indicated that the project will run for five years and will involve extensive consultation with stakeholders in VPA partner countries and the EU in the inception phase. The first phase of the project will also include the establishment of baseline trade data and development of the system with VPA partner countries. As soon as FLEGT-licensed timber begins to flow the project will be operationalized through a network of correspondents created to support data collection.

The delegate from Malaysia noted that while VPAs and the EUTR provide an important contribution to the elimination of trade in illegal timber, he was concerned that all costs for development and implementation of timber legality assurance systems are borne entirely by tropical timber producer countries. The delegate requested Mr. Oliver to elaborate on measures that need to be taken on the demand side to improve markets for tropical timber. In response Mr. Oliver reiterated that in the marketplace, especially with many end-users and final consumers, there is a deep prejudice against tropical timber and even temperate hardwoods from natural forests. The issues deeply embedded in the minds of specifiers, architects, designers as well as final consumers are deforestation and illegal logging. What is needed said Mr. Oliver, is a pro-active marketing campaign to communicate the positive and tremendous advances made by the private sector to address consumer concerns. This story is yet to be told and ITTO and the private sector need to find ways to tell it.

Mr. Oliver suggested the market could be turned around through an effective generic marketing campaign which he envisaged as a joint initiative involving every tropical producer who should put aside issues of competition and cooperate to achieve a common goal. In this way the tropical timber sector could turn a perceived crisis into an opportunity.

A spokesperson from John Bitar Co. which operates in Ghana and Gabon reconfirmed what several speakers had said in terms of the industry being in trouble. The experience of his company is that costs are rising while export prices have weakened. He further noted that honest and reliable operators such as his company are seriously disadvantaged by illegal logging by small operators. John Bitar Co. has forest-based mills near which unchecked illegal logging often occurs. The operations of John Bitar Co. are FSC certified and he expressed shock at the statement by the speaker from the ATIBT that certified timber is competing with illegal timber in the EU. Under these circumstances companies have little incentive to expand and even if they wanted to it is extremely difficult to secure bank loans as the timber business is now considered a high risk sector. He asked how legal players can survive and how they should meet demand for investments in capacity for high-value products with no source of investment finance.

The delegate from Honduras reported that his country had just opened VPA negotiations with the EU. Although the EU does not represent an important market for tropical wood products from Honduras, the government wishes to utilise the VPA process to strengthen forest governance. The VPA process requires the involvement of civil society and as such will provide the platform for the forest administration and private sector to reach a common understanding with the many civil society groups in the country.

### **Annual Trade Statement**

The 2013 Annual Market Discussion concluded with the delivery of the Trade Statement prepared by the ITTO Trade Advisory Group as contained in Appendix B. The Trade Advisory Group suggested the tentative theme for the 2014 Annual Market Discussion as 'Domestic and Emerging International Markets – A Changing Market Landscape'.

**APPENDIX B**

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

Barney Chan  
27 November 2013

Chairman

Ladies and Gentlemen

Please allow me to deliver a Trade Statement which was prepared by members of the Trade Advisory Group (TAG).

Tropical timber trade is declining on a global scale.

You have heard from the speakers in the Market Discussion and how they complained about the increasing transaction costs. Transaction costs on production and trade are increasing due to new requirements being forced upon the producers for a variety of reasons ranging from proof of legality to adherence to sustainability; from increasing shipping charges to certification expenses. Market prices have not responded positively. Our tropical timber products have become uncompetitive against alternatives and substitutes.

In the midst of this market meltdown, we note to our dismay ITTO has changed its focus. Council has been distracted by issues such as biodiversity, climate change, carbon and more. TAG accepts the fact that these are important issues but not at the expense of neglecting the promotion of sustainable trade which is the core function of ITTO.

The private sector has lost its confidence in the Council and other ITTO Committees. In fact, in the big scheme of global forestry issues, ITTO has been sidelined by many other international organisations. Meetings on climate change, for example, encroach into our territory when they focus a lot of their work on forests.

Recent extreme weather events like the terrible Haiyan Typhoon tragedy in Philippines have galvanised international attention and increased political thoughts on climate change. Does this mean ITTO will be further displaced by more international activities on climate rather than forests?

Intense international activities over the EU FLEGT, United States' Lacey Act, Australia's Illegal Logging Act and other legality issues have become very plentiful and significant in ITTO Member Countries. But we do not see any corresponding responses from Council on this critical legality matter. **Zero!**

ITTO needs to change to be relevant in today's world. Council has no choice but to search for alternatives. ITTO desperately need a more aggressive and innovative management; ITTO desperately need to go back to its core work; ITTO desperately need to be more assertive in view of declining revenue funding; ITTO desperately must identify new and alternative ways of working.

The Private Sector can help and be part of the solution: to design and operationalise a new and more relevant ITTO. But Council has to take up the challenge and show **leadership** and start to move ahead with its core functions.

Whatever this Council decides to do, you must ensure that tropical timber from sustainably managed forests continue to improve the social and economic conditions in tropical countries. You can do this by making sure our tropical timber is competitive in international markets.

ITTO can play a vital role to reduce transaction costs by eliminating market barriers and impediments. ITTO can support projects to develop technologies to create new products or improve performances of current products. ITTO can drive a global campaign to improve the image of tropical timber trade. ITTO can set up a Round Table Discussion with the Private Sector to chart out the Organisation's destiny.

Ladies and Gentlemen, we have **no choice** but to take up this challenge. Or the diminishing relevance will eventually make ITTO a spectator on the international stage, when we all will only sit on the sidelines and watch others play the Game of Tropical Forestry.

Thank you.

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