



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

**COMMITTEE ON ECONOMICS,
STATISTICS AND MARKETS**

COMMITTEE ON FOREST INDUSTRY

Distr.
GENERAL

CEM-CFI(XLVIII)/6
8 November 2014

Original: ENGLISH

FORTY-EIGHTH SESSION
3-8 November 2014
Yokohama, Japan

REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

**FORTY-EIGHTH SESSION OF THE
COMMITTEE ON ECONOMICS, STATISTICS AND MARKETS
AND THE COMMITTEE ON FOREST INDUSTRY**

Table of Contents

Report

Appendix A: Report on the ITTO Annual Market Discussion – 2014

Appendix B: Statement of the Trade Advisory Group (TAG)

REPORT

1. Opening of the Session

The Forty-eighth Session of the Committees was opened on 3 November 2014 at the Joint Session of the Committee on Economics, Statistics and Markets (CEM) and the Committee on Forest Industry (CFI), co-chaired by Mr. Shingi Koto (Japan), Chairperson of CEM and Mr. Björn Merzell (Sweden), Chairperson of CFI. Dr. B.C.Y. Freezailah (Malaysia), Vice-Chairperson of the Council chaired the Joint Session of the Committees on 4 and 5 November 2014 which considered items 4 and 8A of the Agenda. The Chairperson of CEM chaired the Joint Session of the Committees on 5 November 2014 which considered item 6 of the Agenda. The list of participants is presented in document ITTC(L)/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(XLVIII)/1 was duly adopted.

3. Admission of Observers

The Committees admitted the observers listed in document ITTC(L)/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-seventh and Forty-eighth meetings held on 3-7 February 2014 and on 4-8 August 2014 in Yokohama, Japan as contained in documents ITTC/EP-47 and ITTC/EP-48, respectively.

5. New Projects and Pre-projects

The Committees noted the 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(XLVIII), following the recommendations of the Expert Panel at its Forty-seventh and Forty-eighth Meetings as follows:

Committee on Economic Information and Market Intelligence		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 746/14 Rev.2 (M)	Strengthening the Production, Marketing and Conservation of Pinabete in Guatemala	Guatemala
PD 756/14 Rev.1 (M)	Development of a Business Management Services Program for Forest MSMEs (Micro, Small and Medium Enterprises) in Guatemala	Guatemala

Committee on Forest Industry		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 709/13 Rev.2 (I)	Enhancing Bali Wooden Handicraft Industry by Improving the Quality of Planted-Wood Raw Materials and Complying to Legality Standard	Indonesia
PD 719/13 Rev.2 (I)	Competitiveness and Business Strengthening for a Carpenter Group in Region VII (Huehuetenango – Quiché), Guatemala	Guatemala
PD 720/13 Rev.3 (I)	Strengthening of Two Community Associations to Improve the Forest Industry in the Department of Huehuetenango, Guatemala	Guatemala

PD 737/14 Rev.1 (I)	Developing Supply Capacity of Wood-based Biomass Energy through Improved Enabling Conditions and Efficient Utilization of Degraded Forest Lands Involving Local Communities in North Sumatra Province of Indonesia	Indonesia
---------------------	--	-----------

6. ITTO Annual Market Discussion – 2014

The Committees noted the summary of the ITTO Annual Market Discussion – 2014, held in the Joint Session of All Committees on 5 November 2014, as contained in Appendix A. The theme of the Market Discussion was “Domestic and Emerging International Markets – A Changing Market Landscape”. Mr. Shingi Koto, Chairperson of CEM, 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. Isac Zugman Vice President, ABIMCI Chairman, Lavrasul SA	Evolution of the Brazilian Timber Sector – High Value Exports and Imports
Mr. Jirawat Tangkijngamwong Chairman, Thai Timber Association Director, Deesawat Industries Co., Ltd./ Deesawat Design Co., Ltd.	Thailand, Opportunities for Timber Exporters
Mr. Roy Southey Chairman, The Wood Foundation South Africa Executive Director, Sawmilling Southeys South Africa	South Africa – the Emerging Market Opportunity, What We Have and What We Need
Ms. Cindy Squires, Esq. Executive Director Intl. Wood Products Association	Global Timber Forum Update and How Can We Go About Creating New Markets for Old Products – a Carrot vs Stick Approach
Mr. Enzo Barattini Retired Deputy Head, European Commission	EU Experience with Working with the Private Sector – Lessons for ITTO and the Trade Advisory Group
Mr. Gordon Gresham Marketing Advisor	25 Years of Observing ITTO

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(XLVIII)/2 as follows:

Committee on Economics, Statistics and Markets

None.

Committee on Forest Industry

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)
--------------------------	---

The implementation of the project has been terminated following the objection of CFC in October 2012 to the request by the Government of Cameroon for the project's duration to be extended further beyond its planned date of completion. The Cameroonian Government has responded in July 2014 to

the CFC's request to return the project's unspent budget. The Secretariat confirmed that remaining funds (US\$5,223.12) have been refunded to the CFC.

The representative of Cameroon expressed its appreciation to the CFC for their support in funding the project implementation and highlighted the lessons learned from the project implementation, as well as further utilization of the project's outputs to develop their biomass energy programme.

The Committees duly declared the project terminated.

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

The representative of Indonesia reported on the completion of the project, as all activities have been carried out and outputs achieved satisfactorily.

The result of this project contributed to the sustainable management of the protected area in Nusa Tenggara Indonesia. The project achieved two outputs: (1) capacity built in local communities to obtain permits for the utilization of NTFPs through a series of training exercises, development of a model for small scale forest economy and a series of extension activities for improving awareness of economic, social and ecological benefits of the protected area; and (2) plan for the economically viable extraction of NTFPs elaborated through a participatory process.

The project has achieved its objectives, completed its outputs and produced four technical reports, namely:

- (1) Training Module Development to Improve the Capacity of Local Community Groups for Sustainable Utilization of Non Timber Forest Products;
- (2) Policy Analysis of Non Timber Forest Products in West Nusa Tenggara Province and East Nusa Tenggara Province;
- (3) Management Plan of Non Timber Forest Products Within Community Forest in Central and North Lombok, West Nusa Tenggara Province; and
- (4) Dealing with Non Timber Forest Products for Income Generating of Local Communities in Pilot Villages (Rinjani and Mutis).

The Secretariat informed the Committees that the completion report, technical reports and final financial audit report had been delivered by the executing agency in accordance with the project agreement. The Committees duly declared the project complete.

8. Ex-post Evaluation

(A) Ex-post Evaluation Reports

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

Committee on Economics, Statistics and Markets

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

A presentation was made for the Committees by the consultant, Dr. Luiz Carlos Estraviz Rodriguez (Brazil), on the results of his ex post evaluation on the project.

The consultant noted that the specific objectives of the project were achieved through the following outcomes:

- A system for the management of forest resources at the national level from field level use to final consumption;
- Information feeds a central database enabling consolidation, organization and consultation;

- Adequate technological solution enables connectivity, good coordination and effective participation of all stakeholders;
- A regulatory legal framework that persuades stakeholders to participate;
- Good quality communications and outreach material.

The consultant found that the main outcome of the implemented strategy is the convergence of data and information flows in an arrangement that has facilitated the operation of the National Forest Directorate while promoting user participation and intensifying the use of geo-referenced statistical information. This outcome has significantly strengthened the capacity of the Ecuadorian government to manage, monitor and disseminate information on how forest resources are contributing to promote national development.

The consultant also assessed that ITTO funds contributed to the project were appropriately and effectively used. The government of Ecuador maintained its commitment to the project and after the end of the contract with ITTO expanded significantly its participation, ensuring that the outcomes of the project are effectively sustainable. The experience accumulated with the development of the forest management information system (SAF) motivated the government to expand the scope and develop an integrated and similar program for planted forests.

Lessons learned from this project were as follows:

- A well-orchestrated set of previously planned activities led to the success of the project, including other governmental initiatives that are external to the project and strong participation of the private sector;
- Adequate evolution of the legal framework and policies, promoting the rational use of forest resources and services, contributed significantly to achievement of the outcomes;
- Perseverance and dedication of governmental officials working together with targeted beneficiaries including all main representatives of the private sector helped to ensure success.

The following recommendations were made by the consultant:

- Governmental responsibilities on monitoring forest plantations should be transferred from the Ministry of Environment (MAE) to the Ministry of Agriculture and Livestock (MAGAP);
- A system should be developed by MAGAP to deal specifically with forest plantations;
- The decision splits the responsibilities of managing forest resources and is not expected to affect the way forest information is being managed on one single database;
- The SAF (run by MAE to monitor the use of native forests) and the new system (run by MAGAP to monitor forest plantations) should be further developed in parallel, streamlining bureaucracy and sharing the same database.

The consultant concluded that the Ecuadorian experience in developing a national forest and timber marketing statistics system can be reported as being successful. Ecuador needs to maintain this successful case study as an example to the rest of the world.

Following the presentation, the representative of Ecuador expressed appreciation to the consultant and the ITTO Secretariat for conducting the ex-post evaluation of the project. He confirmed the SAF system which was established through this project is sustainably running and the other system for forest plantation monitoring is also in place. The two systems which are run by the Ministry of Environment and the Ministry of Agriculture and Livestock will contribute to improving timber traceability and monitoring thereby increasing the potential for sustainability.

The Committees commended the consultant for his report and presentation.

Committee on Forest Industry

PD 40/00 Rev.4 (I)

Utilization of Small-Diameter Logs (SDL) from Sustainable Source for Bio-Composite Products (Indonesia)

A presentation was made for the Committees by the consultant, Prof. Zhou Yongdong (China), on the results of his ex post evaluation on the project.

The project, stemming from earlier studies conducted in Indonesia, was urgently needed to help sustain wood-based industry which was experiencing a continuing shortfall in supply of large diameter logs. The consultant noted that the specific objectives of the project were achieved through delivery of

seven outputs for which 18 activities had been fully implemented within the sanctioned budget and work plan i.e. US\$865,163 and 49 months, including 13 months of extension without additional funding, respectively.

The evaluation found that the executing agency satisfactorily completed all outputs. 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 in accordance with existing ITTO manuals and submitted in a timely manner to ITTO; and adequate management and monitoring of activities were critical to the success of this project.

Several post project developments showed positive indications of sustained project outcomes in the longer term. Some positive policies were issued in West Java Province (Indonesia) to ease the transportation of logs from plantation forests, and to allow state-owned forest farms to provide planting technologies to local communities. These developments encouraged the development of local plantation forest and wood industries.

Project implementation has strengthened the capacity of collaborating institutions through provision of basic facilities and competent professionals to carry out future studies on SDL utilization; and the establishment of a network between research institutions and wood industries through project activities.

Following the presentation, the representative of Indonesia expressed his gratitude to the consultant and the ITTO Secretariat for conducting the ex-post evaluation of the project, to the donor (the CFC) for funding the project, and to the collaborating countries: Malaysia, the Philippines and PNG. He confirmed Indonesia's commitment to the sustainability of the project outputs and requested further ITTO support for the crucial activities initiated under the project for the benefit of the forest industry sector in Indonesia, the Philippines, Malaysia and PNG.

The representative of Indonesia noted that the recommendation regarding lowering taxes on SDL might be difficult to implement since it could lead to over-harvesting. Indonesia will need time to ensure relevant agencies coordinate to come up with workable policies and regulations in this regard that are consistent with its goal to promote sustainable forest management.

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)

A presentation was made for the Committees by the consultant, Prof. Yu Yan (China), on the results of his ex-post evaluation of the project.

The project, which was implemented from April 2006 to November 2010 by the Ecosystems Research and Development Bureau (ERDB), based in Laguna, Philippines, aimed to strengthen ASEAN collaboration on sustainable management and utilization of the region's rattan resources. This was to be achieved through field-applied demonstration of rattan production and utilization technologies, with the goal of improving the socio-economic status of local rattan producer communities. The project was initially scheduled to last 48 months, with a total budget of US\$899,873, of which ITTO contributed US\$629,873, with the Government of the Philippines providing the rest of the funding. The project lasted for 54 months, with one approved 6-month no-cost extension.

The main project outputs were: (1) twenty training workshops conducted on rattan production and utilization technologies in ASEAN member countries (Cambodia, Indonesia, Lao PDR, Myanmar, Philippines, Thailand and Vietnam), with 500 participants and five training modules prepared and distributed during the different workshops; (2) eight small research projects completed on topics and relevant results presented in the project technical reports and in a regional rattan conference; (3) 222 hectares of rattan plantation plots established and maintained (versus 200 hectares as originally planned); (4) seven Rattan Newsletter issues published; (5) a Regional Conference on Production and Utilization Technologies for Rattan (an additional output from the original proposal) held in the Philippines from the 29th August to 1st September, 2010, where two publications were launched entitled "A Field Guide to Philippine Rattans" and "The ASEAN Rattans"; and (6) a project website (www.aseanrattan.com) and database on rattans launched.

The Committees commended the consultant for his report and presentation.

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

A presentation was made for the Committees by the consultant, Mr. Amha bin Buang (Malaysia), on the results of his ex post evaluation on the project.

The implementation of the project activities has contributed in some measure to the achievement of the planned outputs. However, there are gaps in the attainment of some of the outputs even on the basis of the revised indicators, casting some doubt as to whether all planned outputs have in fact been achieved in full. The gaps in the attainment of some of the project outputs have some bearing on the extent to which the strategic objective has been achieved. Furthermore, the performance of the project in relation to its revised outcome indicators has yielded mixed outcomes, making it appear that the strategic objective of the project has not been achieved in full. There is hardly any information and analysis that can be used as a basis to establish with certainty that the implementation of the project will contribute towards the attainment of its development objective.

In spite of the gaps in the achievement of some of the outputs and objectives of the project, its effects and impact are quite considerable, particularly in relation to the big rubber companies, rubber smallholders, policy review and enhancement, investment and appropriate technologies for rubberwood utilization. It has been implemented without any significant adverse impact on the environment while its impact on the local communities which constitute one of the key project stakeholders and target beneficiaries was salutary.

Following the presentation, the representative of Indonesia expressed his gratitude to donors (the Government of Japan, Korea, and Japan Lumber Importers Association) and ITTO for funding the project, and for the excellent work of the consultant, Mr. Amha bin Buang. He confirmed that the recommendations made in the report would be implemented to further promote the utilization of rubberwood harvested from replanting areas which would benefit especially small holders and farmers.

The Committees commended the consultant for his 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

In view of the lack of available funding, no project was selected for ex-post evaluation. The Secretariat reviewed the structure of the pooled accounts established under Decision 3(XXVIII) and suggested that members may wish to consider at future Sessions the possibility of establishing guidelines to allow sharing between the pooled accounts established for ex-post evaluation of projects under the different Committees.

Committee on Forest Industry

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

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

9. Policy Work

Six 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 for tropical timber in 2013-2014. In 2013, a number of factors and actions had effects on tropical timber market access, such as the developments of timber legality requirements, the progress of international environmental regimes, various trade measures on timber products, strengthened public procurement policies, and progress in certification, etc.

The policies and legislative actions related to timber legality continued to receive considerable attention of tropical timber countries as these requirements may have implications for tropical timber markets. Among others, the EU Timber Regulation, the Lacey Act Amendments of the USA, as well as the Illegal Logging Prohibition Act of Australia, are becoming major concerns for some producers and consumers.

The EUTR came into force on 3 March 2013, requiring importers in the EU to demonstrate due diligence in their trade in timber and timber related products originating in the EU market as well as from outside. It applies to a wide range of timber and timber products produced within the EU and products imported. Attention has concentrated on issues relating to its implementation, including consistency of application, risk assessment guidance, cost implications, etc.

The implementation of 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 in the USA. It expanded protections to a broader range of plant species and extended its coverage to timber and timber products. In July 2013, US agencies APHIS and FWS, who are responsible for provisions of the Lacey Act, published a regulation establishing definitions for the terms “common food crop” and “common cultivar”. Additionally, the web-based system called “Lacey Act Web Governance System (LAWGS)” was also developed and launched.

Similar to the EUTR and Lacey Act, the Australian Illegal Logging Prohibition Act 2012 which was adopted in 2012 prohibits both the import of illegally logged timber and the processing of illegally logged raw logs. In May 2013, the Australian Government adopted the Illegal Logging Prohibition Amendment Regulation, which defined the timber products to which the Act applies and the due diligence requirements for importers and processors. These requirements are to come into effect before the end of 2014.

With regard to international environmental governance, the 16th meeting of the Conference of the Parties (CoP16) of CITES was held in Bangkok, Thailand in March 2013. This meeting decided to include over 200 commercially valuable timber species under the control of CITES. In particular, the tree species in Appendix II, in which the international trade is closely controlled, were increased to more than 200 species from less than 100 species in Appendix II following the CoP15 meeting in 2010. These steps tended to strengthen enforcement efforts for the legal, sustainable and traceable trade of timber species, especially for tropical timber species.

(ii) Forest and Timber Certification

The Secretariat reported on recent developments of forest certification in ITTO producing member countries.

According to the most recent statistics available, the total area of certified forests in ITTO producing member countries in 2013 was 25.5 million hectares, which accounted for 5.7% of the world's total area of certified forests of about 444 million hectares. The number of Chain of Custody (CoCs) certificates in ITTO producing member countries was 2,653, which accounted for 9.7% of the total number of CoCs in the world.

The two major international certification systems, namely FSC and PEFC, continued to be the main schemes being implemented in ITTO producing member countries. The situation in 2013 for ITTO producing member countries was as follows:

- a. The FSC certified forest area reached 17.2 million hectares in ITTO producing countries by the end of 2013, which accounted for about 9% of the total FSC certified forest area in the world. Meanwhile, the number of CoC certificates reached 2,259 in ITTO producing countries, accounting

for 8.3% of the world total. The three ITTO producing member countries with the highest FSC certified forest area are Brazil, Gabon and Indonesia. Brazil remained first with 7.0 million hectares of FSC certified forest and 1,030 CoC certificates, while Gabon took second position with 2.1 million hectares and Indonesia overtook the Republic of Congo with 1.7 million hectares.

- b. The PEFC certified forest area in ITTO producing countries reached 6.4 million hectares by the end of 2013, accounting for about 2.5% of the total PEFC certified forest area in the world. The two main ITTO producing member countries with PEFC certified forest area were Malaysia (4.7 million hectares) and Brazil (1.7 million hectares). The number of PEFC CoC certificates reached 388 in ITTO producing countries, accounting for 3.9% of the total in the world. Malaysia (282) held almost three quarters of these.

In addition, there were three significant national certification systems in ITTO producing member countries in 2013 as follows: Brazilian Forest Certification Programme (CERFLOR), Malaysian Timber Certification Council (MTCC), and Indonesian Ecolabelling Institute (LEI). CERFLOR and MTCC have been endorsed by PEFC, and their certified areas and are included in the PEFC statistics above. In Indonesia, LEI certified forests reached 1.9 million hectares of forest in 2013 and 6 CoC certificates. 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.

As in previous years, PEFC accounts for almost two-thirds of all certified forests globally while almost one-third is under FSC. However, FSC held the biggest share of certified forests in ITTO producing member countries in 2013. PEFC is expected to expand in tropical forests in coming years through endorsements of certification systems in ITTO producing member countries such as Indonesia and Cameroon. The Indonesian Forestry Certification Cooperation (IFCC) system is currently under PEFC assessment, and the China Forest Certification Council (CFCC) was endorsed by PEFC in early 2014.

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

Additional information from the Draft Elements of the Biennial Review of the Tropical Timber Market Situation 2013-2014 was presented by the consultant (Ms. Frances Maplesden, New Zealand), focusing on the Southeast Asian region, including Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Thailand and Viet Nam. This region has had regular problems with data inconsistencies and had been the focus of a joint FAO/ITTO statistical training workshop in China in 2014. The consultant provided draft data from the 2014 Joint Forest Sector Questionnaire (JQ) indicating the importance of the region for production and trade in all the primary wood products. However, there are some limitations in the data on production and trade for the region. There are a number of countries that had not provided a JQ to the Secretariat in 2014 - India, Viet Nam and Indonesia - and most of the others had not provided a complete dataset. The Secretariat has inconsistent production data for Indonesia, Myanmar, Thailand and Viet Nam and very limited alternative sources of information to cross check this data. Consumption figures are derived from production and trade figures and this compounds the unreliability of the data. Viet Nam has not reported data to any known sources in 2014 and therefore data can only be derived from their trading partners' estimates. However, problems occur, and estimates are required, if the trading partner is a non-reporter, such as Lao PDR, and also when the trading partner usually provides poor quality, unreliable statistics – as is the case with Thailand.

- (iv) Analyze the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets

The Committees took note of the revised report which had incorporated comments received from several members (Australia, China, European Union, Malaysia, Mexico, New Zealand and the Philippines) following consideration of a first draft of the report at the Forty-seventh CEM Session.

The representative of Malaysia noted the importance of the report and called for efforts to disseminate it to all countries, possibly through a follow-up workshop. The representative of Indonesia supported the proposal for follow-up work to ensure the results of the study are regularly updated and disseminated. He noted that illegal forest activities in his country had been detrimental to the image of Indonesia's forests and forest products. Indonesia was trying to address such problems, including through initiatives like the Timber Legality Assurance System developed in partnership with the EU, but these efforts required corresponding efforts on the part of importers of its wood products to exclude illegal forest products from their markets. He urged ITTO to encourage all importing countries to follow the example

of the EU, USA, Australia and others in this regard. The representative of the EU agreed that both supply and demand measures were required to ensure the legal and sustainable trade of forest products called for by many procurement policies. Both bilateral and multilateral assistance is important in this regard.

The representative of the USA requested more information on Malaysia's proposal for a follow-up workshop, including the envisaged focus of such a workshop. She proposed that any follow up workshop should focus on the recommendations of the report, including on identifying ways in which ITTO and others could assist in the implementation of the recommendations. The Secretariat noted that its intention was to publish the revised report as part of its Technical Series and disseminate it to all members in hard copy and electronically via the ITTO website. Any follow-up workshop would need to be discussed under the 2015-16 (or subsequent) Biennial Work Programme. The representative of the EU agreed that publishing the report as part of ITTO's Technical Series was the best means of disseminating it and that individual countries bore the responsibility for taking the recommendations of the report forward at the national level. Any follow-up workshop such as proposed by Malaysia should focus on the recommendations of the report and encourage a forward-looking exchange of views on this important topic.

The observer from FSC made the following specific comments on the report for consideration of the Committees and in any follow-up work by ITTO on this topic:

- The consultants linked timber procurement policies to “environmental credentials of forest products”. That is only part of the motivation. As the consultants wrote, the first objective usually is timber legality. That is however not for environmental reasons alone, but also for social ones since illegal logging is considered also as a menace for people living in and/or dependent on forests and forestry, a driver for corruption and undermining the rule of law and tax income in producer countries. And when public authorities go one step further, seeking wood products with a sustainable forest management origin, the social motivation often plays a role, even though that is not always clearly expressed.
- The consultants also concluded that from 2005 there is less interest amongst governments for procurement of sustainably produced timber products and more focus on legal origin. We doubt that. A Chatham House publication of September 2014, on public procurement related to legal and sustainable timber, states that between 2008 and 2013 the number of countries with timber procurement policies have increased from 9 to 26, with more in preparation. All but two of these encourage or require sustainable sourcing in addition to legality. The countries mentioned are predominantly in Europe, but also include Australia, China, Ghana, Japan, Mexico, and New Zealand. The impacts of these national policies differ. Some are voluntary guidelines, others are binding on the central government only, and some require sustainable procurement by all levels of government.
- The consultants stated that “public timber procurement policies apply to government purchases of timber that in reality are a very small portion of the modern marketplace”. We think they are underestimating this. Apparently they look at central government only and conclude, for example for Belgium, that this covers less than 2% in the timber market. But this is the tip of the iceberg only: other levels of government need to be taken into account. In Belgium definitely regional governments should be considered, but for many countries in the world certainly cities also need to be considered in any analysis of public procurement. Cities are often the pioneers in sustainable procurement practices, and when national/regional governments follow, more cities follow again. Together they have a much bigger impact on the markets. Chatham House estimates this on average at 12% of GDP, and when knock-on effects are included, it could lead to a market leverage of up to 25%.
- The consultants rightfully observe that “many procurement policies accept third-party systems of verification as sufficient for legality assurance or forest sustainability” but that the specifics differ from country to country. Indeed, we believe that the success of forest certification schemes (as regards tropical timber this is predominantly FSC) has encouraged public authorities to require sustainably sourced products. While governments differ in their specific demands and requirements, it is a fact that forest certification plays a key role, as it helps public authorities to choose without having to do verification themselves. And in particular for tropical timber, success in the public sector could help regaining market share in those countries where it has been going down. But for that sustainable forest management needs to be practiced in the tropical countries at a larger scale, and made visible through certificates. FSC is keen on assisting in this process, and calls upon ITTO to not only use certification as a measure of impact, but also actively promote credible and effective certification, in particular for smallholders and communities, for which such support could be a decisive difference.

The Committees took due note of the comments and discussion regarding the revised report and urged the Secretariat to publish it as part of the ITTO Technical Series as soon as possible and ensure its wide distribution.

(v) Independent Market Monitoring of FLEGT-licensed Timber

The Secretariat provided a brief summary of the preliminary work carried out under the IMM project to date. This has included development of a baseline report containing data on EU imports which will be used to gauge the impacts of voluntary partnership agreements (VPAs) on timber trade, consultation with VPA partner countries and development of indicators to facilitate monitoring of timber flows in EU and VPA partner countries. A Steering Committee would be convened in December 2014 and a wider Advisory Committee in the first quarter of 2015. The Secretariat noted that a more detailed presentation would be provided by the lead consultant at the next Session.

(vi) Items on Policy Work for 2015

The Committees considered and agreed on the following items for policy work in 2015:

- Market access (including tax aspects of free trade agreements related to tropical timber);
- Forest and timber certification;
- Selected data and analysis from ITTO Biennial Review and Assessment of the World Timber Situation; and
- Independent market monitoring of FLEGT-licensed timber.

Committee on Forest Industry

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

The Secretariat made a presentation on the implementation of the activity, which included:

- An analysis of past ITTO projects in the field of forest industry (2013);
- A global survey carried out in 2013 on the needs of the forest industry from which the relevant topics for further dissemination arose, including:
 - Better access to information on lesser used timber species (LUS),
 - Support to value-added production, and
 - Promote certified forestry and its end-products;
- Based on the nature of above topics and the available know how on ITTO projects, the subject on *'better access to information on LUS'* was selected, and a website to disseminate the information is being constructed. A demonstration of the website and its various sections was provided. The Secretariat highlighted that 60 LUS profiles from Latin America have been updated and enhanced on this new website.

The Secretariat also informed the Committees that since the activity was only partially funded under the BWP 2013-2014, a follow-up activity was included in the proposed BWP 2015-2016 in order to expand the information on LUS to species from Southeast Asia and tropical Africa.

The representative of USA inquired if the website has been already been used and if there had been any comments or feedback from users. The Secretariat informed that although the website is still under construction and therefore not yet open to the public, private sector organizations of Latin America had been consulted during its construction and had recognized the usefulness of the information provided on LUS.

The representative of Côte d'Ivoire inquired when the expansion of the LUS site to species of Southeast Asia and tropical Africa was envisaged. The Secretariat reiterated that the activity was partially funded, and therefore work was initiated with countries in Latin America as this was the region with the largest number of responses to the global survey. The Secretariat also informed the Committees that the main purpose of the activity was to disseminate knowledge generated by ITTO projects and therefore, a follow-up activity for the expansion of the LUS site to other regions was included in the proposed BWP 2015-2016, and that such expansion would be subject to availability of funds.

(ii) Items on Policy Work for 2015

The Committees considered and agreed on the following items for policy work in 2015:

- Development of Environmental Product Declaration (EPD) for three tropical wood products; and
- Improving market perceptions of tropical timber.

10. Biennial Work Programme of the Committees for 2015-2016

The Committees considered eleven activities under the responsibility of CEM and CFI under the Draft ITTO Biennial Work Programme for 2015-2016 (BWP 2015-2016) as contained in document ITTC(L)/10.

On activity 23 (Creation and maintenance of web-based 'one-stop' interactive profiles of the wood based industry, trade and forestry sectors in producer member countries to support tropical timber market diversification), the representative of the EU welcomed this proposal from the TAG saying it will enhance transparency and deliver information required to support the trade in legal timber. However, the description of the proposal in the draft BWP was unclear in some areas and the aims unrealistic in terms of the proposed budget. He requested clarification on how this activity would be implemented given the limited manpower within the Secretariat. The representative of the EU also requested that the focus of the activity (currently mainly on the EUTR) be expanded as the objective should be to provide information on import regulations and legislation in all relevant countries. He informed the meeting that initial discussions had taken place with representatives of the TAG to further develop the proposal and revise the terms of reference.

The representative of USA supported the comments of the EU especially in terms of matching expected outputs and budget. She also recommended that before embarking on this activity, the work being done by others in this area be assessed. She reported that work on compiling forestry legislation in tropical countries is being undertaken by, for example, a Legal Atlas initiative and within the framework of APEC. She stressed that duplication of effort should be avoided.

On activity 24 (Development of Environmental Product Declaration (EPD) for selected tropical wood products), the Secretariat took note of the views of the representative of USA that the activity to undertake EPDs for tropical timber products in the BWP 2013-2014 was considered a pilot exercise to illustrate the standards and procedures for undertaking this kind of assessment and that the private sector should be primarily responsible for taking this work forward. She indicated that the activity could remain in the current BWP but that there should not be an expectation that ITTO would undertake numerous EPDs. The Secretariat also took note of the suggestion from the representative of the EU to establish contact with FAO which had approved a programme to work on EPDs for forest products during the most recent COFO meeting.

On activity 33 (Enhance the cooperation between ITTO and World Customs Organization (WCO) through the preparation of Guidelines for frontline Customs officials in monitoring legal timber trade and to combat illegal timber trade), the representative of the EU noted that the partnership proposed between ITTO, the World Customs Organization (WCO) and TRAFFIC appeared promising. He felt that ITTO could be an important source of technical expertise for the WCO regarding tropical timber. He recommended that cooperation with the UN Office on Drug Control and Crime Prevention also be explored in the context of this activity.

The Secretariat noted that the Committees' comments and proposals on all three of these activities would be conveyed to the Chairperson's Open-Ended Drafting Group meeting that was finalizing the BWP 2015-2016.

11. 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(XLVIII)/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 124/01 Rev.4 (M)
Phase III Stage 2 Promotion of Sustainable Management of African Forests (Africa)
2. PD 449/07 Rev.2 (M) Enhancing Forest Law Enforcement in Papua New Guinea
3. 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)
4. 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)
5. PD 621/11 Rev.3 (M) Traceability of Timber Produced by Forest Concessions and Native Communities in Madre de Dios and Ucayali (Peru)
6. PD 678/12 Rev.1 (M) Establishment of a National Forest Statistics Information Management System in Benin
7. PD 692/13 Rev.1 (M) Implementation and Operationalization of a National Information System for the Sustainable Management of Forest Resources (Côte d'Ivoire)
8. PPD 167/13 Rev.1 (M) Feasibility Study on the Certification of ONAB's National Plantation Estates (Benin)

Committee on Forest Industry

1. PD 73/89 (M,F,I) Assistance for Project Identification and Formulation (Global)
2. 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)
3. PD 433/06 Rev.3 (I) Sustainable Model for the Brazilian Wood Flooring Production Chain
4. PD 457/07 Rev.5 (I) Operational Supportive System for Promoting the Further Processing of Timber in Five Countries of the Congo Basin (Gabon)
5. PD 506/08 Rev.1 (I) Reviving Forestry Education in Liberia
6. PD 540/09 Rev.2 (I) Support to Improve the Productivity of the Peruvian Timber Industry for the Production of Higher Value-added Products
7. PD 600/11 Rev.1 (I) Model Capacity Building for Efficient and Sustainable Utilization of Bamboo Resources in Indonesia
8. PD 687/13 Rev.1 (I) Strengthening the Performance of the Wood Processing Sector in Guyana, through Building Local Capacity and Enhancing National Systems that Promote Forest Products Trade and Sustainable Utilization of Forest Resources
9. PD 722/13 Rev.1 (I) Capacity Building and Reduced Impact Logging (RIL) in Dry Inland Forest in the Permanent Forest on Peninsular Malaysia

(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 Stage 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 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

Committee on Forest Industry

1. 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
2. PD 689/13 Rev.1 (I) Promoting Biological and Non-Biological Agent Prevention and Control Techniques in Mechanical Timber Processing in Peru
3. PD 698/13 Rev.2 (I) Facilitating Forest-Industry-Market Integration (Guatemala)
4. PD 700/13 Rev.1 (I) Development of Intra-African Trade and Further Processing in Tropical Timber and Timber Products – Phase I
5. PD 709/13 Rev.2 (I) Enhancing Bali Wooden Handicraft Industry by Improving the Quality of Planted-Wood Raw Materials and Complying to Legality Standard (Indonesia)
6. PD 719/13 Rev.2 (I) Competitiveness and Business Strengthening for a Carpenter Group in Region VII (Huehuetenango-Quiché), Guatemala
7. PD 737/14 Rev.1 (I) Developing Supply Capacity of Wood-based Biomass Energy through Improved Enabling Conditions and Efficient Utilization of Degraded Forest Lands Involving Local Communities in North Sumatra Province of Indonesia
8. PPD 172/13 Rev.1 (I) Platform for Genetic Improvement of *Tabebuia* Species – Critical Information Development Phase for Implementation in Campeche, Mexico
9. 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

The Committees held discussions on the following projects:

Committee on Economics, Statistics and Markets

PD 449/07 Rev.2 (M)

Enhancing Forest Law Enforcement in Papua New Guinea

The Secretariat reported that this project has experienced considerable delays due to the change of project personnel and preparation of the required reports. The implementing agency has submitted the revised project completion report and technical reports in July 2014, but is still working on the final financial audit report. This project will be presented to the next Session of the Committee to be declared complete if the final financial audit report is submitted and deemed satisfactory prior to the Committee Session.

Following the report by the Secretariat, the representative of PNG explained that the implementing agency is currently working on the final financial audit report which will be submitted to ITTO before the end of 2014 so that the project can be declared complete at the next Session of the Committee. The representative of PNG expressed her appreciation to the ITTO Secretariat as well as the Government of Japan, the Government of USA and the Japan Lumber Importers' Association (JLIA), for funding the project. The representative of Japan hoped this project would be declared complete at the next Committee Session. He also requested more information on the capacity building activities carried out by this project. The representative of PNG responded that this project has implemented training workshops on standards for forest industry and timber tracking systems. PNG is working together with the Australian Government on another project in relation to the operation and use of the timber tracking system. The Secretariat added that details of the training activities implemented by this project were contained in the completion report, technical reports and progress reports which will be available through the new Project Search function on ITTO's website.

PD 620/11 Rev.1 (M)

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

The project is in Year 3 and progressing well, however it has experienced a delay of six months during the initial phase of field sampling. As the samples collected in the field provide the basis for all follow-up activities, this initial delay has affected all subsequent steps. Therefore, the second meeting of the Project Steering Committee (PSC) held in Pointe Noire, Congo on 3 December 2014 has recommended an extension of the project for a period of six months, until 31 July 2015. The extension will entail three components, i.e., additional samples and additional stable isotopes screened for iroko, a final project meeting and six months of additional project coordination. The additional isotopes are required due to the fact that the analysis of the original three isotopes (C, H and O) did not produce satisfactory results. The proposed final project meeting will include relevant stakeholders from participating countries and is likely to be held in Douala, Cameroon. The additional funding required for the proposed extension is US\$220,751. The representative of Germany stated that the German donors are very satisfied with the progress and performance of the project. He also noted that Germany is assigning great importance to this project and that the German contribution to the project is also meant as 'seed-funding' to attract additional donors. He also announced that the German Government has received and approved a proposal for the extension of the project. The German Government will provide an additional US\$220,751 during this Session to finance the extension as proposed.

Committee on Forest Industry

PD 73/89 (M,F,I)

Assistance for Project Identification and Formulation (Global)

The Secretariat informed the Committees that funds available under this long-running project had been depleted and that no further assistance could be offered to members for project formulation until additional funds were provided. In response to a query from the representative of the USA, he indicated that an alternative approach to funding this work under a project requiring voluntary contributions would be for an additional levy to be added to the programme support charge added to all projects to provide funds for such assistance in future.

The Committees noted the importance of support for project formulation and decided to recommend that additional funds be made available by donors for this project at this Session and that the issue of an

additional programme support charge to provide funds for project formulation assistance be included on the agenda of the Committee on Finance and Administration at its next Session.

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)

The Secretariat reported to the Committees on the slow implementation of the project's activities, in particular for those activities to be carried out in DRC, in spite of the latest approval from CFC (the donor) to modify the targets set in the logical framework matrix. The Committees encouraged the Government of the Republic of Congo and the Executing Agency to work with the Secretariat in order to expedite project implementation and allow the project to be declared complete at its next Session. Further, the Committees recommended that if the project was not satisfactorily declared as completed at its next Session of the Committees, it should be terminated.

The representative of the Republic of Congo noted that the project is ambitious and that laboratory results of the quality of the essential oils carried out in France were quite satisfactory. He acknowledged the delays in the implementation of project activities which were due to it being executed in two countries. He stressed that the will to satisfactorily complete the project exists, and that dialogue with the collaborating executing agency in DRC is underway to allow the project to be declared complete at the next Session of the Committees.

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 explained the various delays in the implementation of this project and the lack of submission of satisfactory biennial progress reports, annual financial audits and updated YPOs.

The Committees agreed to the Secretariat's proposal to take all possible efforts to encourage the Executing Agency to speed up the implementation of the planned activities and to complete all pending project reporting requirements prior to the organization of the 2nd Project Steering Committee (PSC) meeting scheduled on 10 December 2014. If satisfactory progress was not observed during the PSC meeting, the Secretariat would insist on changes to the project team.

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

In accordance with the recommendation of the Committee on Forest Industry during its Forty-seventh Session, a Special Financial Monitoring Mission (SFMM) was carried out by Mr. Manohar, the Finance/Administrative Officer of ITTO, from 30 June to 4 July 2014 in Monrovia, Liberia.

Following the presentation of the mission report by the Secretariat, the Committee recommended to release the project balance of US\$39,130 subject to the Executing Agency fulfilling the conditions set out under the recommendations listed in the mission report, and granted a 6 (six) month extension without additional funds. The Committee expressed its desire for this project to be declared complete at its next Session but will take into account the existing situation in Liberia and the ability of the Executing Agency to re-commence project implementation.

PD 608/11 Rev.2 (I) Life Cycle Assessment-Based Initiative for Carbon Foot Print Reduction and Improved Utilization of Tropical Timber Products from Malaysia

Following a request from the representative of Malaysia to renew the approved status of the project following its lapsing under the sunset provision, the Committee agreed to recommend that the approved status of this project be reinstated as of the date of adoption of the report of the Forty-eighth Session of the CEM-CFI and that funding be made available for its implementation.

The representative of Peru also made a request to the Committees to extend the sunset period of the project PD 689/13 Rev.1 (I) "Promoting Biological and Non-Biological Agent Prevention and Control Techniques in Mechanical Timber Processing in Peru", which will lose its status as an approved project under the sunset clause if it is not funded by 30 November 2014. The Secretariat informed the Committees that since this project has not yet lost its approved status under the sunset clause, the Government of Peru should resubmit the project proposal to the ITTO Secretariat before the end of

November 2014 in order for the project not to lose its status as an approved project in accordance with ITTO Rules and Procedures.

The Committees also noted that from Part C of the list presented at the start of the report on this agenda item, PD 686/13 Rev.1 (M), PD 694/13 Rev.2 (M), PD 660/12 Rev.3 (I), PD 689/13 Rev.1 (I), PD 698/13 Rev.2 (I), PD 700/13 Rev.1 (I), PPD 172/13 Rev.1 (I) and PPD 173/13 Rev.1 (I) would lose their status as approved projects and pre-projects under the sunset clause if they were not funded before the next Session of the Committees.

12. Election of Chairpersons and Vice-Chairpersons for 2015

Following the usual consultations undertaken by the producer and consumer groups, Dr. Teguh Raharjo (Indonesia) was elected Chairperson of the CEM for 2015. Mr. Miguel R. Mendieta (Honduras) was elected Chairperson of the CFI and Mr Satoshi Teramura (Japan) was elected Vice-chair for 2015.

13. Dates and Venues of the Forty-ninth and Fiftieth Sessions of the Committees

The Forty-ninth Session of the Committees will be held in conjunction with the Fifty-first Session of the International Tropical Timber Council in Kuala Lumpur, Malaysia, on 16-21 November 2015.

The Fiftieth Session of the Committees will be held in conjunction with the Fifty-second Session of the International Tropical Timber Council.

14. Other Business

Mr. Jean-Guenole Cornet of ONF International, a representative of the Moringa Agroforestry Fund (MAF), made a presentation MAF's innovative way of supporting sustainable local development by adding value to forests. The MAF is a private equity fund that focuses on investments in agroforestry in developing and least developed countries.

15. 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 2014:

Committee on Economics, Statistics and Markets

- | | |
|---------------------|--|
| PD 746/14 Rev.2 (M) | Strengthening the Production, Marketing and Conservation of Pinabete in Guatemala [US\$508,872] |
| PD 756/14 Rev.1 (M) | Development of a Business Management Services Program of Forest MSMEs (Micro, Small and Medium Enterprises) in Guatemala [US\$149,341] |

Committee on Forest Industry

- | | |
|---------------------|---|
| PD 709/13 Rev.2 (I) | Enhancing Bali Wooden Handicraft Industry by Improving the Quality of Planted-Wood Raw Materials and Complying to Legality Standard (Indonesia) [US\$540,008] |
| PD 719/13 Rev.2 (I) | Competitiveness and Business Strengthening for a Carpenter Group in Region VII (Huehuetenango-Quiché), Guatemala [US\$149,968] |
| PD 720/13 Rev.3 (I) | Strengthening of Two Community Associations to Improve the Forest Industry in the Department of Huehuetenango, Guatemala [US\$129,371] |

PD 737/14 Rev.1 (I) Developing Supply Capacity for Wood-based Biomass Energy through Improved Enabling Conditions and Efficient Utilization of Degraded Forest Lands Involving Local Communities in North Sumatra Province of Indonesia [US\$594,832]

- (ii) The Committees recommended that the following project regain its approved status and that funding be made immediately available for its implementation:

Committee on Forest Industry

PD 608/11 Rev.2 (I) Life Cycle Assessment-Based Initiative for Carbon Foot Print Reduction and Improved Utilization of Tropical Timber Products from Malaysia [US\$629,843]

- (iii) The Committees recommended that additional funding be made immediately available for the following projects approved and (partially) funded 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 Stage 3 [Phase III Stage 3 – US\$418,144]

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) [US\$220,751]

Committee on Forest Industry

PD 73/89 (M,F,I) Assistance for Project Identification and Formulation (Global)

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

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 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]

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 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 [US\$5,159,245]

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]

- (v) The Committees recommended that the issue of including an additional programme support charge on projects to provide funds for project formulation assistance under the regular project cycle be included on the agenda of the Committee on Finance and Administration at its next Session.

16. 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 - 2014 “Domestic and Emerging International Markets – A Changing Market Landscape” 5 November 2014, Yokohama, Japan

Six speakers addressed the 2014 Market Discussion, which was convened under a Joint Session of the Committees and organized by the Trade Advisory Group (TAG). These were: Isac Zugman, Vice President ABIMCI and Chairman of Lavrasul SA, Brazil; Jirawat Tangkijngamwong, Chairman of the Thai Timber Association and Director of Deesawat Industries Co. Ltd/ Deesawat Design Co., Ltd.; Roy Southey, Chairman, The Wood Foundation South Africa and Executive Director, Sawmilling Southeys South Africa; Cindy Squires, Executive Director, International Wood Products Association, USA; Enzo Barattini, retired Deputy Head, European Commission, Belgium; and Gordon Gresham, Marketing Advisor, UK.

The presentations made during the 2014 Market Discussion are (available on the ITTO website) were:

- Evolution of the Brazilian timber sector – high value exports and imports (Isac Zugman)
- Thailand, opportunities for timber exporters (Jirawat Tangkijngamwong)
- South Africa – the emerging market opportunity, what we have and what we need (Roy Southey)
- Global Timber Forum update and how can we create new markets for old products – a carrot vs stick approach (Cindy Squires)
- EU experience with working with the private sector - lessons for ITTO and the Trade Advisory Group (Enzo Barattini)
- 25 years of observing ITTO (Gordon Gresham)

In addition to presentations on the rapid growth in domestic consumption in tropical producer countries such as Brazil and Thailand and opportunities for an expansion of trade in tropical timber in South Africa, the 2014 Market Discussion had a second focus. In celebration of the Fiftieth ITTC Session and the long standing participation of the TAG in ITTO's work, an opportunity was taken to present to Council commentary on issues related to strengthening private sector involvement with ITTO.

The Market Discussion was chaired by Mr. Shingi Koto (Chairperson of CEM, Japan) and moderated by Mr. Barney Chan, (TAG Coordinator, Malaysia).

Interventions and Discussion

The representative of Indonesia commented that despite tropical timber being an eco-friendly material, it seems this is not a powerful enough message to sway market perceptions. He noted that in presentations on international and domestic market trends and opportunities in Thailand and South Africa mention was made of the poor perception of tropical timber in both international and domestic markets. He asked how the negative perceptions of tropical timber in the minds of consumers can be reversed.

The Moderator responded that reversing the negative perceptions of tropical timber in the marketplace had been discussed by the TAG over several days during this Session and that ideas on a way forward were included in the Trade Statement which was then read to the Joint Session. The 2014 Trade Statement prepared by the TAG can be found in Appendix B.

The TAG suggested the following theme for the 2015 Annual Market Discussion: “Raising the profile of tropical timber in the market place”.

Trade Advisory Group Co-coordinators

Mr. Barney Chan (Malaysia) and Mr. André de Boer (Netherlands) were confirmed by consensus within the TAG as its Co-coordinators for 2015-2016.

APPENDIX B

STATEMENT OF THE TRADE ADVISORY GROUP (TAG)

Presented at the 2014 Annual Market Discussion by
Barney Chan (TAG Coordinator)
5 November 2014

Chairman,
Ladies and Gentlemen,

Today we have reached an auspicious milestone for our Organization. We are meeting together as ITTO for the fiftieth time. In the ebb and flow of international relationships, this indeed is a remarkable achievement over the last 29 years.

Today also marked a significant milestone for the TAG as 15 members from consumer and producer countries came together in Yokohama for a pre-meeting to brainstorm how the TAG can enhance the work of Council.

This milestone presented us with an opportunity to discuss how to craft a new vision and a clear strategy for the next 50 years. This Statement is the result of our combined efforts.

Before I present the results of our meeting, we would like to take this opportunity to recognize and thank Emmanuel Ze Meka who worked tirelessly as the Executive Director to support the TAG. In particular, his recent encouragement for us to suggest ideas for inclusion in the ITTO's Biennial Work Programme (BWP). Thank you, Emmanuel.

We would like to draw Council's attention to our two proposals in the BWP:

- Development of Environmental Product Declaration (EPD) for three tropical wood products; and
- Creation and maintenance of 'One-Stop' interactive online producer country industry and profiles on trade and production and all relevant legislation related to forestry and the timber trade.

Now back to our main issue.

Enhancement of the international trade in tropical timber and timber products is one of ITTO's key fundamental objectives, and since its inception, the Organization has funded studies and supported other activities aimed at increasing the market share of tropical timber and timber products.

Unfortunately, today, the challenges to the international tropical timber and timber products trade have intensified. For example:

- Rising regulatory and consumer requirements;
- Increasing production and transaction costs; and
- Competition from alternative materials;

To name but just a few.

These challenges have resulted in declining competitiveness and market share, and low appreciation of our products, particularly in eco-sensitive markets. Declining market share continues to have major socio-economic impacts for producer countries, as the trade, in most cases, is one of the major income-generating sectors of their economies.

We see that, as a result of attempts by several producer countries to meet the requirements of major eco-sensitive markets through certification and verifying legality, consumer perception of tropical timber is improving, and we need to further build on these positive developments.

The TAG has a sufficient understanding of the reasons for the continual declining market share and competitiveness of tropical timber and timber products. What is needed now is a comprehensive strategy.

The TAG has developed ideas on how this strategy could be developed.

In the context of developing an innovative strategy, the view recently expressed by the EC Commissioner for Development on this subject is relevant and I quote: "The impact that private sector actors can have on development is now widely recognised, and donors around the world are seeking ways to effectively engage with the private sector in creating jobs, providing incomes, goods and services, advancing innovation, and generating public revenues essential for economic, social and environmental welfare."

We envisage an approach that 'blends' private sector initiatives and ITTC resources.

The TAG would like to suggest that the Secretariat be provided with resources to contract consultants to develop comprehensive and innovative ideas on the strategy to help all stakeholders in continually improving the market position and technical foundation of tropical timber and timber products as the environmentally-friendly material of choice. The TAG is ready to assist the Secretariat in developing the Terms of Reference to enable the desired objectives to be realised.

The strategy should draw on the accumulated experience and expertise of the ITTO, and public and private sector actors to secure the future of tropical forests and the international tropical timber trade.

This is not just 'more of the same', rather a more comprehensive approach to take advantage of opportunities presented by the international market place.

* * *