

**TRADE IN CHALLENGING TIMES –  
A ROLE FOR ITTO?**

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**That we are in challenging times is the one certainty we can be certain of. The global financial crisis is unprecedented in recent history and no one can predict the final outcome nor impact on the world economy.**

**While the currency crisis that befell many Asian economies in the late 1990's may provide some lessons in terms of shifting trade patterns and values, it is far too early to even hazard a guess as to which economies, and forest product markets, will emerge stronger and which may weaken or even disappear.**

**For comparatively small, emerging economies such as PNG the impact of a downturn in forest product production and exports could well be severe and widespread, especially in the rural areas where the industry largely operates and where economic alternatives are limited or non existent.**

**In PNG we would predict production for this year will record a decrease from last year due to –**

- Delay in start up of new projects, 2 and possibly 3 large FMA projects were the target, now only one may actually get going. The evaporation of capital markets for investment purposes may see further delays of two or more years in new project commencement.**
- Rising costs, especially fuel, and supply delays for equipment and parts, and building materials are having impacts.**

**These conditions are expected to worsen in the last quarter and to continue next year. We see the availability of credit for both investment and trade finance, even for large industry participants, will emerge as an issue.**

**The slow down in export markets – already markets are weakening as buyers become more cautious – may worsen as building and construction sectors slow down in our markets in Australia and New Zealand. A recession in the U.S. and E.U. member states will impact on our China trade as far as they remanufacture largely for re-export to those markets. Although domestic growth may underpin a continuing, if reduced demand from China.**

**The recent “rush” into so called agro-forestry projects, permanent forest conversion largely for oil palm, is expected to also slow as**

demand weakens – for logs initially and financing becomes harder to obtain.

We have already seen prices begin to weaken, average now for logs US\$66 per M3, down from \$77 earlier in the year. While not a ‘major’ decline, the strengthening of the currency, the Kina, by some 18% has had a significant impact and this may be a continuing trend. Like other export sectors of the economy, a strong local currency is bad for us!

Our forecast for 2008, and this is the second downward revision of the numbers, is –

- Log exports 2.4 to 2.7million M3. 2007, 2.9 million M3.
- Processed exports 150,000M3 to 175,000M3 – roughly equivalent to 400,000 to 500,000M3 log production.

For 2009 it is really too early to call, given current uncertainties, but certainly there is more downside risks than positive trends emerging. A cautious forecast would be 2.4 million M3 log export and maybe 120,000 to 150,000M3 processed. However, we will have to see what the U.S., E.U., and others come up with to revive their economies.

While economic and market uncertainty are of vital concern, it is probably beyond the ambit of ITTO to significantly influence outcomes of these events. However, other critical issues relating directly to tropical forestry are very much “on the agenda” and I would suggest that ITTO could play a significant role in influencing outcomes in the so called illegal logging debate.

### Illegal Logging

In PNG, and many other producing member states also no doubt, we are beset by constant claims that we are operating “illegally”. Such claims are usually proven to be false but are initially made with such enthusiasm and fanfare on the part many environmental NGOs, supported by international donor agencies, that subsequent corrections are rarely, if ever, given any notice nor credence.

In relation to PNG, it is often heard that 70% of logging is “illegal”. This assertion has attained a life of its own and is regularly reported and cited as established fact. The reality is far different - the World Bank was the first to officially suggest that 70% of PNG’s logging is illegal. The claim was made in a 2006 report. When the PNG

**Government requested the World Bank to provide information on how this was assessed, it turned out that US consultants, Seneca Creek Associates, had made this estimate in a report for the US government. Seneca, in fact, had made no attempt to study the situation in PNG. After looking at the situation in Indonesia and deciding that 70% of logging there was illegal, it assumed this figure should also apply to PNG despite vastly different circumstances. In a note provided to then Forest Minister, the Bank said, “the authors of the Bank report did not attempt to produce their own original estimate of illegal logging in PNG” but had evaluated the available literature on the subject.**

**When convenient, it is nice to be able to claim one has no direct knowledge of the subject matter being reported.**

**Such unfounded allegations do however impact on both consumer sentiment and government policy responses in our export markets, thus necessitating a response from producers. In our case, the Forest Industries Association has taken the lead in introducing market driven, voluntary actions to ensure legality certification systems are available when required. With initial support from ITTO, and of course our members, a pilot project on Chain of Custody implementation and the, separate but related, development of a timber legality standard under the SGS, Timber Legality and Traceability Verification (TLTV) Program, was successfully completed \*.**

**With the support of the Australian Government, we now hope to extend the “pilot” scheme to two additional project sites and at the conclusion of this phase we will have in place generic chain of custody models and the legality standard that broadly can be applied to all types of forest operations in PNG.**

**Of course there is some way to go yet, but with the involvement and active support of what I call “people of good will”, we are confident of a positive outcome. That is not to say there have not been difficulties along the way – and more appear almost daily!**

- The SGS, TLTV Program is gaining wide acceptance, including government recognition, in the U.K., N.Z., and Holland.**

**\*At Saban Enterprises LTD, a member of the Rimbunan Hijau Group PNG.**

- On the other hand, Australia is reviewing its “Bringing Down the Axe on Illegal Logging” Policy and there can be no certainty that the previously acceptable TLTV approach will survive the review.
- Also in Australia, a commercial, rival forest certification organization, is actively lobbying against government involvement in the expansion of TLTV.
- In the United States, amendments to the Lacey Act have created their own similar, but unique requirements.
- In the E.U., we heard yesterday that the European Parliament will consider actions to ban illegal timber imports – I would ask, based on what definition and standards of illegality, what trade restrictions will be imposed, and significantly, where is the producers input into the process and deliberations – producers are stakeholders and we do not get to vote in the Parliament.
- And, unique in our case, the apparent conflict between international agencies and their support for anti illegality initiatives where a proposed ITTO project for PNG would undo much of the work we have already achieved on the ground under previous and on going programs.

On a broader level, the issue of forest certification is often seen – some may say deliberately used – to further cloud the legality issue. Legality certification is not the same as forest certification. Forest certification requires chain of custody, legality and then, in most certification schemes, a sustainability test. This usually will involve assessing the forest resource, economics, and social and environmental aspects. There is also the question of to what standard forest certification will be assessed. Will the standard be a unique national development, such as in Malaysia and Australia, or will generic standards be adopted and if so, with or without amendment to reflect unique national requirements.

In PNG, as in many other developing countries, population growth and the development imperative – now often referred to as poverty alleviation – results in permanent forest conversion. This trend has increased dramatically in recent years, driven in PNG’s case by conversion to oil palm and other agricultural crops.

In all instances, conversion areas will fail the sustainability of resource test and obviously certification is not an option. However, we need to ask –

- Does forest conversion of itself make the forest products there from illegal?
- If there are approved land use plans in place, what type and level, national or regional etc, of approval is necessary to overcome questions of legality?
- And, as is the case in PNG, where the State has no rights to the land nor control over its use, on what basis would legality be determined?

If these, as yet undetermined aspects of illegality were not enough, there are the many and varied import regulations and government procurement policies to be complied with. A review of current import regulations in consuming countries reveals as many unique compliance requirements as there are countries. The role of the World Trade Organisation (WTO) in all this remains unclear: certainly in the area of tropical forest products trade there seems little uniformity in approaches to the “legality” issue.

This leads us to the question of the role for ITTO?

Allegations of illegality, accurate and proven or otherwise, diminish the value of tropical forest products either immediately in the form of price reductions, trade restrictions or outright trade bans, or over the longer term by creating consumer concern and product aversion in consuming countries.

Diminishing the value of the forest and its products creates a perverse incentive for forest owners, in PNG’s case the landowners, to look for better economic returns from their land – usually through conversion to other uses. It also impedes the ability of forest operators to improve operational standards and to make the necessary investment in post harvest management – both essential ingredients to sustainable forest management.

The rising costs of compliance with ever more restrictive, and an ever more diverse trade regulatory environment, puts legal operators in danger of actually being put out of business to the benefit of those prepared to “cut corners”.

**I would suggest that there is an urgent need for action on the issue of illegal logging as it is currently perceived in our export markets. The need for some commonality of approach and responses to illegal logging and the proliferation of trade restrictions and regulatory requirements will be critical if the future of the tropical forest products trade is to be strengthened.**

**Without pre-empting further consideration and actions, it would seem that ITTO could play a role in at least formulating and implementing some form of benchmarking and accreditation of legality standards; in promoting those standards including member country recognition of the standards; in ensuring that national trade policies and regulations are not in conflict with the standards; and promoting the trade in tropical forest products where those standards have been met.**