



**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-NINTH 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-ninth Session of the Committees was opened on 17 November 2015 at the Joint Session of the Committee on Economics, Statistics and Markets (CEM) and the Committee on Forest Industry (CFI), co-chaired by Dr. Teguh Rahardjo (Indonesia), Chairperson of CEM and Mr. Miguel Roberto Mendieta Duron (Honduras), Chairperson of CFI. Ms. Jennifer Conje (U.S.A.), Vice-Chairperson of the Council chaired the Joint Session of All Committees. The list of participants is presented in document ITTC(LI)/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(XLIX)/1 was duly adopted. The Joint Session of the CEM and the CFI met on 17, 18, 19 and 20 November 2015 which considered items 1, 2, 3, 5, 7B, 8, 9, 10, 11, 12, 13 and 14 of the Agenda. The Joint Session of All Committees met on 17, 18 and 20 November 2015 which considered items 4, 6 and 7A of the Agenda.

### 3. Admission of Observers

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

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

The Joint Session of All Committees considered the reports of the Expert Panel for Technical Appraisal of Project Proposals presented by its Chairperson, Ms. Marjukka Mähönen (Finland), as contained in documents ITTC/EP-49 and ITTC/EP-50, respectively.

The presentation highlighted the following:

- A total of fifty-seven proposals were appraised in 2015, including 54 project proposals and 3 pre-project proposals;
- The great majority of proposals (70%) were submitted under RFM, 19% under ESM and 11% under FI;
- Eighteen (18) proposals were accorded category 1, twenty-two (22) proposals were category 2, and seventeen (17) proposals were accorded category 4;
- Proposals were mainly foreseen to be executed by government agencies, but also to a lesser extent by NGO, and local community organizations addressing the various needs of the countries at the national, regional, and local levels;
- Most project proposals dealt with rather conventional themes for ITTO. The panel noted the submission of a few transnational proposals; and
- The Panel noticed that gender issues are generally not being incorporated in project proposals.

The presentation also highlighted general findings and recommendations of the Expert Panel at its Forty-ninth and Fiftieth Meetings, particularly regarding proposal preparation and project design to be addressed by the proponents.

Many of the delegates expressed concern over the lack of capacity of proponents in formulating good project proposals. They also questioned the apparent lack of effort by Focal Points and ITTO Regional Representatives in many member countries to guide the proponents. There is a need for additional training of countries on proposal preparation by the Secretariat. Several delegates from producer member countries noted the need for increased funds to be made available in order to undertake project formulation training.

### 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(XLIII), following the recommendations of the Expert Panel at its Forty-ninth and Fiftieth Meetings as follows:

<b>Committee on Economics, Statistics and Markets</b>		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 732/14 Rev.2 (M)	Improve Forest Governance in Mozambique	Mozambique

<b>Committee on Forest Industry</b>		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 770/15 Rev.1 (I)	Promotion and Sustainable Management of Lesser-Used Timber Species (LUTS) in the Moist Forests of the Departments of Atlantida, Colon and Northern Olancho in Honduras	Honduras
PD 771/15 Rev.2 (I)	Genetic Conservation, Utilization and Management of Gall Rust Resistant Strains of <i>Falcataria moluccana</i> Growing in the Philippines	Philippines

6. ITTO Annual Market Discussion – 2015

The Committees noted the summary of the ITTO Annual Market Discussion – 2015, held in the Joint Session of All Committees on 18 November 2015, as contained in Appendix A. The theme of the Market Discussion was “Raising the Profile of Tropical Timber in the Market Place”. Mr. Barney Chan (TAG Coordinator) and Dr. Manoel Sobral Filho (Director, UNFF Secretariat) co-chaired the Market Discussion.

The following feature presentations were made during the Market Discussion:

Dr. Wu Shengfu  
Vice President  
China National Forest Product  
Industry Association

“Expanding Green Consumerism in China – An Opportunity to Raise the Profile of Legal and Sustainable Tropical Timber”

Ms. Cindy Squires  
Esq. Executive Director  
International Wood Products Association (IWPA)

“Trends Affecting Acceptance and Demand for Tropical Timber in North America”

Mr. Ahmad Shah  
Programme Director  
CTCS (Certified Timbers and Credible Suppliers)

“Raising the Profile of Tropical Timber in the Malaysian Domestic Market”

Mr. Barber Cho  
Advisor  
Myanmar Forest Products Merchants Federation

“A New Chapter Opens for the Myanmar Timber Industry”

Mr. André de Boer  
Secretary General  
European Timber Trade Federation

“Raising the Profile – A One-Stop Website for the Tropical Timber Trade”

A special presentation on “Strengthening the Participation of the Private Sector in Advancing ITTO’s Objectives” was made by Dr. James Gasana.

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

7. 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 summary of the following ex-post evaluation report as contained in document CEM-CFI(XLIX)/2.

### **Committee on Forest Industry**

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

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

The project addressed the problem of the very limited participation of forest-dependent communities living in the vicinities of Mount Rinjani and Mount Mutis in the sustainable utilization of NTFPs and the conservation of protected forests. The project specifically aimed to:

- improve the capacity of forest-dependent communities to obtain permits to utilize the NTFPs in the protected forests; and
- develop a management plan for economically viable extraction of NTFPs through a community participatory process.

The project team completed all planned activities with some deviations approved by the PSC. The project outputs are described as follows:

- Forest communities in North and Central Lombok successfully set up cooperatives and were able to acquire permits to utilize NTFPs from designated areas in protected forests. In terms of additional forest area managed sustainably by communities in Nusa Tenggara, the new permits cover an additional 3385 hectares, i.e. 1516 hectares in North Lombok, and 1869 hectares in Central Lombok.
- A management plan for the sustainable development of priority NTFPs was completed. The plan highlights the importance of building a shared vision and mission for NTFP management, formulating development direction, objectives and strategies for the community, the institutions and businesses. It includes a matrix of responsibilities of all key agencies involved in the sustainable utilization of NTFPs. Using the management plan as a template, the project assisted the North Lombok and Central Lombok communities to draft management plans for their priority NTFPs.

A key project accomplishment was the conduct of a detailed study on the policy options that local governments can implement to support sustainable utilization of NTFPs. Within the project duration, the districts of North Lombok and Central Lombok were able to implement three (out of six) recommended policy options:

- Establishment of a district NTFP working group;
- Identification of priority NTFPs on a district level; and
- Implementation of guidelines for the sustainable utilization of NTFPs.

The priority NTFPs identified were honey, bamboo, candlenut, durian, sugar palm, jackfruit, areca nut, avocado, and various medicinal plants. With the assistance of the Provincial Extension Coordinating Agency, North and Central Lombok NTFP business groups successfully acquired all required product certifications, were issued business permits and registered with the Provincial Trade and Industry Service.

Following the presentation, the representative of Indonesia expressed his gratitude to donors (Switzerland, Japan and USA) and ITTO for funding the project, and for the excellent work of the consultant, Dr. Florence P. Soriano. He welcomed further support from donor countries for the development of the NTFPs enabling increased contributions to the forestry sector and local incomes. He informed that the results of the project had been followed up by the Government of Indonesia through the issuance of related regulations and involvement of an NGO to support communities in the project sites through the Plan Vivo scheme.

The Joint Session of All 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 Committees noted that there were no projects for consideration for ex-post evaluation at this Session.

### **Committee on Forest Industry**

The Committees noted that there were no projects for consideration for ex-post evaluation at this Session.

In view of a proposal being discussed in the CRF to undertake an ex-post evaluation on the thematic area related to teak projects, the Committees approved a proposal from the Secretariat to include Forest Industry's teak related projects in this proposed work pending agreement on the issue of funding ex-post evaluations at the Committee on Finance and Administration (CFA).

## **8. Policy Work**

Five issues/activities under the CEM and four 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 2014-2015. In 2014, a number of factors continued to have effects on tropical timber market access, such as the development of timber legality requirements, the progress of international environmental regimes, the existence of trade measures on timber products, and progress in certification, etc.

The legislative and policy initiatives for timber legality continued to attract considerable attention of tropical timber countries as these requirements might have implications for the tropical timber market. Among others, the EU Timber Regulation, the Lacey Act Amendments of the USA, and the Illegal Logging Prohibition Act of Australia, are becoming the main concerns of producers and consumers.

After the EUTR entered into force in March 2013, attention was given to its implementation across Europe. In 2014, a number of member states (9) introduced laws implementing the EUTR, so that the total member countries that had laws in place had reached 20. In the meantime, the EU Commission recognised 2 new monitoring organisations which offer due diligence systems to operators, in particular small and medium enterprises. In August 2014, the EU Commission also published a scoreboard presenting the progress of the 28 member states in implementing the EUTR.

As of 2014, there are six countries that have concluded a FLEGT VPA with the EU: Ghana, Cameroon, Republic of Congo, Liberia, Central African Republic and Indonesia. Indonesia signed a VPA with the EU in September 2013, and it came into force in May 2014. With the aim of improving the quality of information available for VPA processes, the Independent Market Monitoring (IMM) initiative was implemented by ITTO in 2014 to provide information that address questions on EU market acceptance.

The implementation of Lacey Act 2008 Amendments in the USA has also created changes in the practices of importers, manufacturers, and timber companies to avoid the imports of illegally sourced timber. The Act makes it unlawful to import certain plants and plant products without an import declaration, which must contain the scientific name of the plant, value of the importation, quantity of the plant, and name of the country from where the plant was harvested. Currently, enforcement of the declaration requirement is being phased in by US Department of Agriculture Animal and Plant Health Inspection Service (APHIS). The phased-in enforcement schedule began in April 2009, and Phase V of the enforcement schedule started from August 2015.

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. The Australian Government also adopted the Illegal Logging Prohibition Amendment Regulation in 2013, which defined the timber products to which the Act applies and the due diligence requirements for importers and processors. These requirements came into effect on 30 November 2014.

The representative of Malaysia asked if the ITTO Secretariat carried out studies on public procurement policy (PPP) which unilaterally affected the tropical timber trade including the exports to EU markets. The Secretariat responded that the draft and revised reports on "Analyze the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets" were presented in the previous two Committee Sessions, which incorporated the comments and suggestions of member countries. This report is available on the ITTO website. The representative of Malaysia further requested an overall analysis on the future impact of FLEGT/VPAs with its full implementation impact on tropical timber exports to EU market. The Secretariat noted the request and responded that as the FLEGT/VPA programme is under implementation, relevant assessment on its impact could be proposed in future.

The representative of Papua New Guinea noted the side event on the Independent Market Monitoring (IMM) of FLEGT-licensed Timber. He recognized the importance of the FLEGT for exporting timber products to EU markets, but felt the process is quite long. He further requested the possible advice from the ITTO Secretariat to shorten the process. The Secretariat responded that the process of FLEGT/VPA depends on the implementation of the programme by related parties and ITTO is not in the position to provide assistance in shortening the process. However, the IMM initiative will provide information that addresses questions on EU market acceptance in order to improve the quality of information available for VPA processes.

#### (ii) Forest and Timber Certification

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

In 2014, according to the statistics collected, the total area of certified forests in ITTO producing member countries was 25.6 million hectares, which accounted for 5.7% of the world's total area of certified forests of about 451 million hectares. The number of Chain of Custody certificates (CoCs) in ITTO producing member countries was 2806, which accounted for 7.2% of the total number of CoCs in the world.

The two main international certification systems, namely FSC and PEFC, continued to be the main schemes being implemented in ITTO producing member countries. The situation in 2014 for ITTO producing member countries in FSC and PEFC was as follows:

**Forest Stewardship Council (FSC):** The FSC certified forest area reached 16 million hectares in ITTO producing countries by the end of 2014, which accounted for about 8.8% of the total FSC certified forest areas in the world. Meanwhile, the number of CoC certificates reached 2339 in ITTO producing countries, accounting for 8.3% of the total in the world. The top three countries with the highest FSC certified forest area in ITTO producing member countries are Brazil, Gabon and Indonesia. Brazil remained as the number one with 6.5 million hectares of FSC certificated forest and 1038 FSC-CoC certificates, while Gabon kept the second position with 2.1 million hectares and Indonesia increased to 2 million hectares. Vietnam, as the new ITTO member, was in second position for CoCs with 384 FSC-CoC certificates while India held 261 certificates.

**Programme for the Endorsement of Forest Certification (PEFC):** The PEFC certified forest area in ITTO producing countries reached 7.7 million hectares by the end of 2014, accounting for about 2.7% of the total PEFC certified forest areas in the world. Three countries, namely Malaysia, Brazil and Indonesia had PEFC certified forest area in ITTO producing member countries. Malaysia maintained its 4.7 million hectares of PEFC certificated forest and Brazil increased to 2.5 million hectares, while Indonesia increased to 0.6 million hectares. Regarding PEFC-CoC certification, the number of CoC certificates reached 461 in ITTO producing countries, accounting for 4.3% of the total in the world. Malaysia was also the number one in this regard with 338 CoC certificates.

In addition, there were three national certification systems in ITTO producing member countries in 2014 as follows:

Brazil: Brazilian Forest Certification Programme (CERFLOR);

Malaysia: Malaysian Timber Certification Scheme (MTCS);  
Indonesia: Indonesian Forestry Certification Cooperation (IFCC)

These three certification systems (CERFLOR, MTCS and IFCC) had been endorsed by PEFC, and their certification statistics had been covered by PEFC. An important development in ITTO producing countries was that IFCC was endorsed by PEFC in October 2014, which contributed 0.6 million hectares of PEFC certified forest area. Additionally, the Indonesian Ecolabelling Institute (LEI) is also a national certification system with 1.9 million hectares of certified forest as of today.

Like previous years, PEFC continues to be the largest certification scheme in the world, with two-thirds of all certified forests globally. However, FSC held the biggest share of certified forests in ITTO producing member countries in 2014.

The representative of Indonesia requested that the future update for forest and timber certification should include another national scheme, the Indonesian Timber Legality Assurance System (the SVLK) in addition to the FSC and PEFC schemes in Indonesia. The Secretariat noted this request and will include the update under this item for its next Committee Session.

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

The Secretariat made a presentation on the selected data from the *ITTO Biennial Review and Assessment of the World Timber Situation 2013-2014*. He first presented the quality of the data pointing out that only 40% of the production data for the period 2010-2014 was drawn from the Joint Forest Sector Questionnaire (JFSQ). Over the same period, 37% of the production data was repeated while 21% was estimated. The quality of the data of the trade was much more satisfactory due to complementary data coming from COMTRADE.

The Secretariat presented the long-term evolution (1990-2014) of the production and trade in primary wood products (PWP), indicating that in 1990, the supply of primary wood products (PWP) was relatively concentrated within a few key players (Malaysia represented 48% of the exports of PWP in roundwood equivalent) while the demand was more widespread from numerous buyers. The situation has completely inverted 24 years later, with demand for PWP being much more dependent on a few key players (China imported 59% of the total tropical industrial roundwood and 43% of the total tropical sawnwood in 2014). At the same time, the share of Malaysia in the trade of PWP decreased significantly over this period of time, leaving room for the other ITTO member countries and non-ITTO member countries to supply the international markets. The Secretariat also reported that unlike the exports of secondary processed wood products, the trade in PWP was extremely sensitive to the economic cycle, itself being dependent on the housing and construction situation in many countries. In addition, the Secretariat highlighted the decrease of the share of the production and trade in the tropical PWP in the total production and trade of PWP, stressing the fact that the production and trade of non-tropical PWP had increased strikingly over the last 24 years.

Finally, the Secretariat presented 2015 forecasts, suggesting that the preliminary data was showing a decrease in demand for tropical PWP primarily due to stagnating housing starts in the United States and Japan and a strong economic slow down in China.

To the question of Dr. Teguh Raharjo, the Chair of the CEM, on whether these trade changes had been taken into account in the member votes distribution, the Secretariat answered in the affirmative. To the question of the Indonesian delegation whether surveys had been undertaken on substitute materials, the Secretariat pointed out that a chapter of the *Annual Review and Assessment of the World Timber Situation 2009* presented information on the competitiveness of tropical timber. The Indonesian delegation suggested that substitute materials be included in the next *Biennial Review and Assessment of the World Timber Situation*. The Malaysian delegation queried the reasons for the trend of the trade in tropical PWP. The Secretariat reported that it was difficult to answer as several factors needed to be taken into account on the future evolution of the demand for the tropical PWP. As a relatively large share of the PWP trade involves non-ITTO members countries (the Middle East countries on the demand side and Solomon Islands and Equatorial Guinea on the supply side), the PNG delegation queried if the Secretariat had sought new membership in these important countries. The Secretariat reported that ITTO had approached these countries without success so far. The Peru Delegation enquired whether it was possible to know the breakdown of trade in timber from plantation and natural forests. The Secretariat answered that such distribution was not reported in the international trade.

Finally, ITTO was asked if it had information on internal timber markets in the developing countries which could support the production of PWP in a context of a declining trade. The Secretariat pointed out that such a study could be conducted in the future but at present, statistics were produced within the framework of the ITTA, focussing mainly on the international trade and production of PWP.

(iv) Independent Market Monitoring of FLEGT-licensed Timber

Mr. Rupert Oliver (Lead IMM Consultant) made a presentation on the implementation of the FLEGT Independent Market Monitoring (IMM) mechanism, covering its background, objectives, methodology and the progress of the implementation. He outlined one of the Activity's outputs: Technical Series 45 'Europe's Changing Tropical Timber Trade' consisted of market position of timber products from VPA Partners prior to issue of licenses; EU's share of exports from VPA Partners; market share within the EU; all products within scope of existing and potential future VPAs; and 17 tropical timber supplying countries at various stages of VPA process.

Following the consultant's presentation, the delegation of Indonesia sought clarification on Indonesian log export data as presented, explaining that the country has banned the exports of logs since the 1980s. The Consultant acknowledged the intervention and would further liaise with the authorities in Indonesia to consolidate the data.

The Malaysian delegation appreciated the work of the consultant and sought support from consumer countries for capacity building in implementing the Malaysian TLAS. He further informed the Committees of the progress of work to ensure the legality of tropical timber exports from Malaysia. Noting the relevance of the IMM initiative to all members, the Committees recommended this item be shifted to the agenda of the Joint Session of All Committees at future Sessions.

(v) Items on Policy Work for 2016

The Committees considered and agreed on the following items for policy work in 2016:

- Market access (including tax aspects of free trade agreements related to tropical timber);
- Forest and timber certification;
- Selected data and analysis from the ITTO Biennial Review and Assessment of the World Timber Situation; and
- Strengthening the participation of the private sector in the work of ITTO.

### **Committee on Forest Industry**

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

Dr. Gan Kee Seng (consultant) made a presentation on the Development of Environmental Product Declaration (EPD) for Three Tropical Wood Products [Activity 33, ITTO Biennial Work Programme 2013-2014]. This Activity is to establish the EPD of three tropical timber products: meranti plywood (Indonesia/Malaysia), khaya lumber (Ghana) and ipe and cumaru decking (Brazil).

Dr. Gan mentioned that the EPDs were gaining market momentum as a tool which communicates the environmental performance of a product. He informed that the study was the first serious attempt at EPDs for tropical timber products. As such, the work was pioneering and challenging involving methodological and fundamental issues. He shared some of the significant lessons learnt:

- There is need to have more data collected under this Activity to improve the validity of the results on meranti plywood, khaya sawntimber and ipe and cumaru decking.
- The work carried out under this Activity was all within a mill, based on gate-to-gate. All raw materials were assumed to be within the mill entry gate. The potential elements to the EPD were captured up to the exit gate of the mill.
- The nature of timber industry worldwide is that the logging sites are typically located away from the mill sites. Transportation of input logs obviously contribute negatively to EPD ratings and can be substantial if the distance is great (as exemplified in the Brazil work on ipe decking).
- Except for one study in Malaysia, there is no work done elsewhere on the LCA of acquisition of raw material (ie. logging and transportation of logs to the mills).

Dr. Gan further indicated that this Activity on tropical timber products has clearly shown the vital and pivotal role which ITTO can play globally, e.g.: promote and encourage more EPD work amongst ITTO members, including work on raw material like logs; and Product Category Rules (PCR) need to be defined and clarified homogeneously for tropical timber products. ITTO is well placed to take a leading role in this. ITTO can be a neutral and credible depository of EPD information for tropical timber products internationally and should therefore assume this important role.

The Committees took note of the request of the TAG representative to take up the Consultant's recommendations and requested ITTO to further discuss the issue of PCR so that all members in the three regions can adopt the same rules. The US delegate appreciated the ITTO's work and noted the important information that the EPD study provided, but emphasized that investments in this work should be led by the private sector rather than ITTO. The delegation of Indonesia congratulated ITTO, TAG and the Consultants for the work on EPD and seconded the TAG intervention that further work on LCA for wood in producing countries be undertaken.

(ii) Improving Market Perceptions of Tropical Timber

The Secretariat informed that this policy issue was taken up in the ITTO Annual Market Discussion 2015.

(iii) Matching the Needs of Forest Industry with the Innovations, Technologies and Know-how Developed through ITTO Projects

The Secretariat made a presentation on the progress of Activity 31 under the BWP 2015-2016 on matching the needs of forest industry with the innovations, technologies and know-how developed through ITTO projects. This activity is aimed at disseminating the achievements of ITTO projects and promoting south-south cooperation through identifying country needs, relevant technology and outreach mechanisms among producer member countries. The web-based database on lesser used species developed as the output of this activity is accessible from the ITTO website.

The Secretariat made a demonstration of a dedicated and scalable web platform to disseminate silvicultural, technical and market information about lesser used tropical timber species (LUS). The dedicated website is now available under the domain [www.tropicaltimber.info](http://www.tropicaltimber.info), containing information of 984 tropical timber species. For 60 of them, from the Latin American region, it provides additional information on their availability and suppliers.

The website allows users to conduct simple and advanced searches of LUS, and search for LUS that can serve as replacements for more popular timbers. The website also contains a reference section that conducts searches of technical information on ITTO projects as well as relevant outside sources and libraries. The website is available in English, French, Portuguese and Spanish.

The Secretariat informed the Committees that activity 31 under BWP 2015-2016, which is currently unfunded, has the purpose to further expand the developed website and encouraged donors to provide the necessary funding.

(iv) Items on Policy Work for 2016

The Committees considered and agreed on the following items for policy work in 2016:

- Development of Environmental Product Declaration (EPD) for three tropical wood products; and
- Demonstration and adoption of credit schemes for small-medium forest enterprises.

9. 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(XLIX)/3 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. PD 756/14 Rev.1 (M)      Development of a Business Management Services Program of Forest MSMEs (Micro, Small and Medium Enterprises) in Guatemala
9. 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 700/13 Rev.2 (I)  
Phase I Stage 1      Development of Intra-African Trade and Further Processing in Tropical Timber and Timber Products – Phase I Stage 1

10. 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 financing**

**Committee on Economics, Statistics and Markets**

1. PD 124/01 Rev.4 (M) Phase III Stage 3 Promotion of Sustainable Management of African Forests (Africa)
2. PD 732/14 Rev.2 (M) Improve Forest Governance in Mozambique
3. PD 746/14 Rev.2 (M) Strengthening the Production, Marketing and Conservation of Pinabete in Guatemala

**Committee on Forest Industry**

1. 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
2. PD 700/13 Rev.2 (I) Phase I Stage 2 Development of Intra-African Trade and Further Processing of Tropical Timber and Timber Products – Phase I Stage 2 (ITTO)
3. 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)
4. PD 719/13 Rev.2 (I) Competitiveness and Business Strengthening for a Carpenter Group in Region VII (Huehuetenango-Quiché), Guatemala
5. PD 720/13 Rev.3 (I) Strengthening of Two Community Associations to Improve the Forest Industry in the Department of Huehuetenango, Guatemala
6. 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
7. PD 770/15 Rev.1 (I) Promotion and Sustainable Management of Lesser-Used Timber Species (LUTS) in the Moist Forests of the Departments of Atlantida, Colon and Northern Olancho in Honduras

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 the project has experienced considerable delay in implementation due to the replacement of project personnel and delay in the preparation of the completion report, final financial audit and technical reports. The Executing Agency has finalized and submitted the project completion report and the technical reports, but the final financial audit report was still pending. Following the report by the Secretariat, the representative of PNG explained that this project has been completed with the completion report and the various technical reports submitted to ITTO except the final audit report. There has been misunderstanding between the executing agency, the PNG Forest Authority (PNGFA) and the external auditor. PNGFA was undertaking intense discussion with the external auditor to finalize the financial audit. PNGFA needed time to complete the audit report. The project was very important to PNG as the tools and processes developed will strengthen its monitoring capabilities and SFM efforts. The Committees requested PNG to submit the audit report as early as possible before its next Session.

## Committee on Forest Industry

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

The Committees noted that the project budget had again been exhausted and agreed to recommend this issue to be raised in the CFA at its next Session.

PD 364/05 Rev.4 (I) Development of Marketing Chains for *Eucalyptus citriodora* Essential Oils 'A Non-Timber Forest Product with High Added Value' by Village Communities in the Congo

The Committees noted the information provided by the Secretariat on severe delay in completing this project. Considering its recommendation at the last Session, the Committees declared the project duly terminated.

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

Following the decision taken by the project donor (Common Fund for Commodities – CFC) to suspend their funding to the Executing Agency, and the changes of the CFC's funding framework, the Committees declared the project duly terminated.

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

The Secretariat informed the Committees that the Executing Agency is working on the project final reports (completion, technical and financial audit reports). The Committees decided that in the event that the outstanding final reports are submitted and deemed satisfactory prior to its next Session, the Committees may wish to declare this project completed.

The Committees also noted that from Part C of the list presented at the start of the report on this agenda item, PD 746/14 Rev.2 (M), PD 608/11 Rev.2 (I), PD 709/13 Rev.2 (I), PD 719/13 Rev.2 (I), PD 720/13 Rev.3 (I) and PD 737/14 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.

The delegation of Malaysia made an intervention on PD 608/11 Rev.2 (I), highlighted the importance of the project to fill in the gaps on carbon foot-print related information and sought funding for the project.

The delegation of Malaysia also expressed their concern over lack of attention from the Consumer members to the work of the Committees, proven by the lack of their representative presence in the Session. The delegate of Honduras supported the intervention of the Malaysian delegate on the importance of increasing project funding. He further explained on the importance of PD 770/15 Rev.1 (I) to promote and sustain the lesser use species in the moist forests of Honduras.

### 10. Election of Chairpersons and Vice-Chairpersons for 2016

Following the usual consultations undertaken by the producer and consumer groups, Ms. Alicia Grimes (U.S.A.) was elected Chairperson of the CEM and Mr. Jorge Malleux (Peru) was elected Vice-chair for 2016. Ms. Akiko Nakano (Japan) was elected Chairperson of the CFI and Mr. Lokossou Achille Orphée (Benin) was elected Vice-chair for 2016.

### 11. Dates and Venues of the Fiftieth and Fifty-first Sessions of the Committees

The Fiftieth Session of the Committees will be held in conjunction with the Fifty-second Session of the International Tropical Timber Council in 2016.

The Fifty-first Session of the Committees will be held in conjunction with the Fifty-third Session of the International Tropical Timber Council in 2017.

### 12. Other Business

No other business was considered by the Committees.

13. 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 2015:

**Committee on Economics, Statistics and Markets**

PD 732/14 Rev.2 (M) Improve Forest Governance in Mozambique [US\$321,138]

**Committee on Forest Industry**

PD 770/15 Rev.1 (I) Promotion and Sustainable Management of Lesser-Used Timber Species (LUTS) in the Moist Forests of the Departments of Atlantida, Colon and Northern Olancho in Honduras [US\$196,224]

PD 771/15 Rev.2 (I) Genetic Conservation, Utilization and Management of Gall Rust Resistant Strains of *Falcataria Moluccana* Growing in the Philippines [US\$1,248,913]

- (ii) 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.5 (M) Promotion of Sustainable Management of African Forests (Africa)  
Phase III Stage 3 [Phase III Stage 3 – US\$573,325]

**Committee on Forest Industry**

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

- (iii) 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 746/14 Rev.2 (M) Strengthening the Production, Marketing and Conservation of Pinabete in Guatemala [US\$508,872]

**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]

PD 700/13 Rev.2 (I) Development of Intra-African Trade and Further Processing of Tropical Timber and Timber Products – Phase I Stage 2 [US\$3,759,256]

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 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 [US\$594,832]

- (iv) The Committees recommended that ITTO should redouble its efforts to attract major non-member importing countries (such as middle-east countries) to become ITTO members in consideration of their significant involvement in the tropical timber trade.
- (v) The Committees recommended that the activity on Independent Market Monitoring of FLEGT-licenced Timber [Activity 25(b), ITTO BWP 2013-2014] be moved to the agenda of the Joint Session of All Committees at its future Sessions.

14. 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 - 2015 “Raising the Profile of Tropical Timber in the Market Place” 18 November 2015, Kuala Lumpur, Malaysia**

The theme of the 2015 Annual Market Discussion organised by the ITTO Trade Advisory Group (TAG) was “Raising the profile of tropical timber in the market place”

This year the Annual Market Discussion was in two parts, the first on raising the profile of tropical timber, moderated by Barney Chan, the TAG co-coordinator, and the second part involved a presentation proposing a strengthening of the participation of the private sector in advancing ITTO’s objectives.

Five speakers addressed the Council on raising the profile of tropical timber in the market place namely: Cindy Squires, Esq. Executive Director, International Wood Products Association; Wu Shengfu, Vice President, China National Forest Product Industry Association; Ahmad Shah, Programme Director CTCS (Certified timbers and Credible Suppliers); Barber Cho, Advisor, Myanmar Forest Products Merchants Federation and André de Boer, Secretary General European Timber Trade Federation and TAG Co-coordinator

A report including proposals for strengthening the participation of the private sector in advancing ITTO’s objectives was presented by James Gasana. Dr. Gasana was contracted by ITTO to follow-up on the call made by the TAG in its 2014 Trade Statement for greater private sector participation in ITTO. This second event during the Annual Market discussion was moderated by Dr. Manoel Sobral (Director, UNFF Secretariat).

The presentations made during the 2015 ITTO Annual Market Discussion were entitled:

- Expanding green consumerism in China – an opportunity to raise the profile of legal and sustainable tropical timber
  - Trends affecting acceptance and demand for tropical timber in North America
  - Adding Value to timber
  - A new chapter opens for the Myanmar timber industry
  - A ‘one-stop’ website for the tropical timber trade
- and
- Strengthening of the participation of the private sector in advancing ITTO’s objectives

At the Fiftieth Session of ITTC held in Yokohama in November 2014, the TAG made a statement in which it recalled the intensified challenges to the international tropical timber and timber products trade. The Statement went on to say that what is needed now is a comprehensive strategy to strengthen the participation of the timber private sector in advancing the objectives of ITTO.

The report presented by Dr. Gasana addresses strategic options for improving private sector involvement in the ITTC and ITTO under two scenarios: (i) More of the same (i.e. the same project and Council procedures) but with a stronger private sector involvement. (ii) a completely new strategy which provides options for consideration by ITTC for a strategic ‘blending’ of the intellectual, financial and physical resources of private sector forestry and forest industry practitioners with forestry administration managers, national policy makers and the ITTC to support of the aims of ITTO.

The report also summarizes the current framework of ITTO and trade interaction along with a review of the approach taken by other international organizations to partner with the private sector.

The report continues with an analysis of lessons that can be drawn from the approach to private sector partnerships by the United Nations Food and Agricultural Organization, International Fund for Agricultural Development and the United Nations Development Program. It concludes by evaluating the rationale for engagement of the private sector with the ITTC and proposes an approach to strengthening the participation of the private sector in advancing ITTO’ objectives.

All presentations from the Market Discussion and the report from Dr. Gasana are available on the ITTO website (<http://www.itto.int>).

## Interventions and Discussion

Following presentations addressing the theme of “Raising the profile of tropical timber in the market place” the ensuing discussion touched on issues central to development of market opportunities for tropical timber. These included the disturbing rise in export transaction costs, the rapidly expanding and far less regulated domestic consumption of wood products in producer countries and the need for harmonizing the scope and definition of legality.

The problem of rising transaction costs was raised by a private sector participant who pointed out that exporters face rising costs in meeting changing market requirements in terms of legality etc. which vary from market to market. He pointed to the need for development of common minimum market requirements.

In response speakers pointed to the wide diversity of wood products being traded and the diverse requirements applied to individual product types. While a common minimum requirement may be feasible for some primary products such as sawnwood, for added value products such as furniture, which involves the use of resins and coatings, for example, a common minimum requirement would not be feasible. The key, it was said, is in being able to adapt to changing market requirements.

A Delegate from Cameroon drew the attention of participants to the widely different market requirements faced by exporters and by those trading in domestic markets. It was suggested that, while export market requirements address legality and sustainability, there are few such requirements in the rapidly growing domestic markets.

The issue of harmonizing the scope and definition of legality was raised by two participants. A Delegate from Vietnam said when it comes to the verification of legality exporters face a serious problem as importing countries have widely different requirements on verification. The Delegate called for work to be undertaken on harmonizing the scope and definition of legality. The need for work on harmonizing the scope and definition of legality was also voiced by a European private sector participant.

The Moderator reminded participants that APEC countries have developed a common approach to the scope and definition of legality but agreed harmonizing the various definitions is desirable. The Secretary General of the ETTF commented that in the EU importers have problems when trying to satisfy the different Due Diligence requirements of member countries but that all members of the ETTF use a common definition for Due Diligence.

The second part of the 2015 Annual Market Discussion was taken up by a presentation from an ITTO consultant James Gasana on “Strengthening the participation of the private sector in advancing ITTO’s objectives”.

In opening the discussion the moderator, Dr. Manoel Sobral, Director of the UNFF Secretariat, noted that the participation of the private sector in the ITTC was institutionalized many years ago and, unlike many other international organisations, the ITTC is well up the learning curve in terms of private sector participation in its deliberations. Having said this, Dr. Sobral noted the change in level of ITTO activities in support of trade and industry since much more of the funds now provided to ITTO are ‘earmarked’ suggesting this has led to an emphasis on forestry rather than trade and industry issues by ITTO.

In returning to an issue raised in the first half of the Market Discussion on rising transaction costs Dr. Sobral lamented the paradox – as countries advance to SFM new barriers emerge and export costs rise.

A Delegate from Indonesia supported the call made in the consultant’s presentation for more private sector participation in ITTC deliberations. He reminded participants that Indonesia includes representatives of private sector organisations in Delegation and commented that in future it would be advantageous if company representatives could also be encouraged to participate. He further noted that SMEs play a major role in the timber sector but do not have a platform where they can raise the issues facing them.

The call from Indonesia for more private company participation in the ITTC was echoed by a European private sector participant who urged the TAG to expand its membership to mainstream manufacturers, construction companies and others so they can appreciate the advances the tropical timber sector has made.

In concluding the second part of the Market Discussion, Dr Gasana, the consultant, urged the ITTC and TAG to work together to define their individual expectations to advance opportunities for greater cooperative efforts.

**Annual Trade Statement**

The 2015 Trade Statement prepared by the ITTO TAG can be found in Appendix B of this document.

The TAG suggested the following theme for 2016 Annual Market Discussion: “Free Trade Agreements - Challenges and Opportunities for the Tropical Timber Trade”.

## APPENDIX B

### STATEMENT OF THE TRADE ADVISORY GROUP (TAG)

Presented at the 2015 Annual Market Discussion by  
Barney Chan (TAG Coordinator)  
18 November 2015

Ladies and Gentlemen,

This is a Trade Statement made by members of the ITTO Trade Advisory Group (TAG). We would like to draw attention of ITTO members to a few TAG initiatives which will be presented in this Council Session.

But first, it is worth reminding ourselves that, despite the success of many tropical-timber-producing countries in developing an international trade in added-value products, very little has changed in the past half-century or more in the market for natural tropical hardwood products.

A close look at the main tropical exporters of added-value products - Brazil, Indonesia, Malaysia, Thailand and Viet Nam—will show that the trade of such products depends largely on plantation resources such as rubberwood, acacia, albizia and pine. The main traded products from natural tropical forests are still primary products.

The trade in wooden furniture and the like is worth far more than the trade in primary products; nevertheless, logs, sawnwood and plywood remain the backbone of the international trade in tropical hardwoods. This trade has experienced considerable uncertainty in recent years.

It is in this context that we make this Trade Statement.

Firstly, in last year's meeting the Council supported a joint TAG/ETTF proposal to create a "one-stop" website on which each producer country can store information on forest resources, production, export and import data, legislative framework and applicable legislation. This website aims at enabling all stakeholders, be they importers, producers, enforcers or others, to obtain relevant information from one source. The project is run by the ETTF with support of ITTO and EU STTC. There will be a detailed presentation on this project and a report is available.

As a side note to this project, we should look towards the Asia Pacific Economic Cooperation (APEC) which adopted the "APEC Common Understanding of the Scope of Illegal Logging and Associated trade" in September 2015. And to further enhance transparency, APEC economies will provide information on their respective domestic laws or regulations in line with the APEC Timber Legality Guidance Template.

Secondly, Activity 23 of the current Biennial Work plan: "Development of Environmental Product Declaration (EPD) for Three Tropical Wood Products." This Activity is to establish the Environmental Product Declarations of three tropical timber products: meranti plywood (Indonesia/Malaysia), khaya sawntimber (Ghana) and ipe decking (Brazil). Many fundamental issues were uncovered in this work which presented an opportunity for ITTO to take the initiative to develop internationally agreed solutions.

This is the first serious attempt at EPDs for tropical timber products and TAG would like to thank ITTO for the support in this Activity. The work was pioneering and challenging with methodological and fundamental issues. This will be reported in full in Committee. Each of the three studies have important conclusions and recommendations but when taken as a whole, this Activity has clearly shown the vital and pivotal role which ITTO can play globally.

- Promote and encourage more EPD work amongst ITTO members, including work on raw material like logs.
- Product rules need to be defined and clarified homogeneously for tropical timber products. ITTO is well placed to take a commanding and leading role in this.
- ITTO can be a neutral and credible depository of EPD information for tropical timber products internationally and should adopt this important role.

Thirdly, TAG has always shown a strong interest to work together with ITTO, not only to increase the market shares of tropical timber in the global markets but also to achieve the ITTA Objectives.

In an answer of TAG's call, the ITTO Secretariat has contracted a consultant to develop comprehensive and innovative ideas to strengthen the private sector's involvement in ITTO. The consultant found there is no clear framework to optimise the private sector's contribution to ITTO's work. ITTO should consider a clear policy for orienting the partnership with the private sector and engaging it for achieving the ITTA's objectives. The policy should be operationalized by respective guidelines as well as internal TAG rules.

In addition, given the role that the private sector can play in post-2015 development, the TAG encourages Council to should raise the appreciation of member countries on the value of private sector partnerships to achieve national objectives in the forestry sector. Again, we in TAG stand ready to work with Council can members.

Finally, we urge Council Members to come together and elect a new Executive Director by the end of this Session in Kuala Lumpur so that our Organisation can move forward again to the benefit of all, especially the Tropical Forests.

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