



**INTERNATIONAL TROPICAL  
TIMBER COUNCIL**

**COMMITTEE ON ECONOMICS,  
STATISTICS AND MARKETS**

**COMMITTEE ON FOREST INDUSTRY**

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Lima, Peru

**REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL**

**FIFTY-FIRST 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 Fifty-first Session of the Committees was opened on 28 November 2017 at the Joint Session of the Committee on Economics, Statistics and Markets (CEM) and the Committee on Forest Industry (CFI), co-chaired by Mr. Jorge Malleux (Peru), Chairperson of CEM and Mr. Lokossou Achille Orphée (Benin), Chairperson of CFI. Mr. Zhang Zhongtian (P.R. China), Vice-Chairperson of the Council chaired the Joint Session of All Committees. The list of participants is presented in document ITTC(LIII)/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(LI)/1 Rev.1 was duly adopted. The Joint Session of the CEM and the CFI met on 28, 29, 30 November and 1 December to consider items 1, 2, 3, 5, 7, 8B, 9, 10, 11, 12, 13, 14, 15 and 16 of the Agenda. The Joint Session of All Committees met on 29 November 2017 to consider items 4, 6 and 8A of the Agenda.

### 3. Admission of Observers

The Committees admitted the observers listed in document ITTC(LIII)/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 report of the Expert Panel for Technical Appraisal of Project Proposals presented by panel member, Mr. Jobst-Michael Schroeder (Germany), as contained in document ITTC/EP-52.

In its general findings and recommendations, as derived from the appraisal of 46 proposals, the Fifty-second Panel noted that the quality of the proposals was variable, which is reflected by the fact that: twelve proposals (26% of the total) received a category 4, indicating that the Expert Panel does not commend these proposals to the Committee for approval as they require complete reformulation; nineteen proposals (two pre-projects and seventeen projects or 41% of the total) will be sent back to proponents for essential revisions, rated as category 2; and only fifteen proposals (two pre-projects and thirteen projects or 33% of the total) were commended to the Committee for final appraisal with minor modifications required (category 1).

Out of the 46 proposals, only 4 were categorized under Forest Industry, 14 were categorized under Economics, Statistics and Market and 28 were categorized under Reforestation and Forest Management.

The presentation also highlighted the following:

- Government agencies or research institutes were executing agencies (EAs) in 28 proposals. Out of this number, 12 were research organizations. NGOs and Associations were EAs in 18 proposals. From these, there was only 1 proposal submitted from a women's association and 2 from youth related associations.
- Only two proposals covered transboundary topics and gender issues are mostly not being incorporated in project proposals; and
- Proposals from new members often did not meet the criteria of the ITTO Manual for project formulation of 2009.

The presentation also highlighted general findings and recommendations of the Expert Panel at its Fifty-second meeting, which include the need to provide training and enhance the capacity of new members on project formulation, and review the Guidelines for Environmental and Social Risks and Impacts Assessment in ITTO Projects.

The representative of USA acknowledged the hard work of the Expert Panel members, as well as the Secretariat in undertaking the process of appraising the 46 project proposals within a short period of time. The representative encouraged the Secretariat, following the adoption of the Guidelines for Environmental and Social Risks and Impacts Assessment and the Guidelines for Achieving Gender

Equality and Empowering Women, to include the checklist of the Guidelines in the manual of project proposal formulation. The USA representative also expressed that her country is ready to discuss this issue in the next Expert Panel meeting.

#### 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 Fifty-second Meeting as follows:

<b>Committee on Economics, Statistics and Markets</b>		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 791/15 Rev.3 (M)	Community Forest Landscapes and Small Enterprises Contributing to Legal Timber Trade in Ghana	Ghana
PD 819/16 Rev.2 (M)	Market Survey for Forest Products in Peru	Peru
PD 832/16 Rev.2 (M)	Implementing Mechanisms to Improve Traceability in the Forest Production Chain in Guatemala	Guatemala
PD 839/17 Rev.1 (M)	Strengthening and Consolidating the National Process for Controlling Illegal Logging and Associated Trade in Cameroon – Phase 2	Cameroon
PD 845/17 Rev.1 (M)	Enhancing the Capacity of Forest Communities in Forest Governance, Monitoring and Community Development Projects in Mankraso Forest District Ghana	Ghana
PD 858/17 Rev.1 (M)	The Trends of Chinese Wood Product Markets and their Dependence on International Trade of Tropical Timber Towards 2030	China
PD 863/17 Rev.1 (M)	Development and Strengthening of the Domestic Market for Non-Timber Forest Products and Environmental Services in Guatemala	Guatemala

<b>Committee on Forest Industry</b>		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 815/16 Rev.2 (I)	Increasing Efficiency of Acacia Plantation and Timber Processing Industry in Vietnam	Vietnam

#### 6. ITTO Annual Market Discussion – 2017

The Committees noted the summary of the ITTO Annual Market Discussion – 2017, held in the Joint Session of All Committees on 29 November 2017, as contained in Appendix A. The theme of the Market Discussion was “Sharing Experiences on promoting investment in tropical timber industries and tropical forestry”. Mr. André de Boer (TAG Co-coordinator) chaired the Market Discussion.

The following feature presentations were made during the Market Discussion:

Ms. Ingrid Nielsen  
Head of Investment Advisory and  
Strategy Consulting  
Indufor Group, Finland

*Experiences of Profitable Investments in the Forestry Industry Value Chain with Expected Sustainable Development – Tanzania and Indonesia Case Studies*

Mr. Erik Luis Fischer Llanos  
President, Forest Committee  
Association of Exporters (ADEX), Peru

*Proposals to Promote Investment in the Timber Industry in Peru and its Socio-economic Development Impact*

Dr. Ivan Tomaselli  
President  
STCP Engenharia de Projetos Ltda  
Brazil

*Regional Experiences in Attracting Investments for the Forestry Sector*

Mr. Bob Tate  
Executive Officer  
Papua New Guinea Forest Industries Association

*Reconciling Investment Policy Confusion,  
Conflict and Conditionalities*

Mr. Christian Held  
Deputy Head, Forest Investment Division  
UNIQUE Consulting  
Germany

*Investing in Timber Production: Lessons Learnt  
from Plantations, Natural Forests and Silvo-  
Pastoral Systems*

Mr. Rik Sools  
Deputy Director and Senior Forestry Expert  
FORM International  
Netherlands

*Unlocking Investments for Forest Restoration  
on Degraded Lands in Africa – the Form  
International Experience*

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 (LI)/2 as follows:

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

PD 621/11 Rev.3 (M)                      Traceability of Timber Produced by Forest Concession and Native Communities in Madre de Dios and Ucayali (Peru)

The Committee received a report from the representative of the Executing Agency (Cámara Nacional Forestal) detailing the outputs of the project which had successfully implemented a log tracking system for forest concessions and native communities in Peru's Madre de Dios and Ucayali regions. The Secretariat informed the Committee that the project had been successfully completed with all outputs achieved and reporting requirements (including final report and financial audit) met. The Committee declared the project complete.

PPD 167/13 Rev.1 (M)                      Feasibility Study on the Certification of ONAB's National Plantation Estates (Benin)

The Secretariat informed the Committees that the development objective of this project is to gather the information required to formulate a forest certification project proposal to ITTO in order to improve the sustainable forest management of the estimated 17,856 ha of plantations managed by the Office National du Bois (ONAB) in Benin. The expected outputs were: (i) the gathering of a baseline information needed for the certification of the ONAB national plantation estates and (ii) a project formulation for the timber certification in Benin submitted to ITTO for approval.

The pre-project started in July 2014 and the activities related to the pre-project ended in April 2016. All activities and outputs were fully completed. The main output of the pre-project was a project proposal which was submitted to ITTO for the 51st Expert Panel (PD 821/16 (M) "Certification of forest plantations managed by the Office National du Bois (ONAB)"). Unfortunately however, the project proposal as the main result of the pre-project was rated category 4 and not recommended by the Expert Panel, mainly due to the lack of clarification of the certification schemes that the project was supposed to implement in the Benin plantations.

The completion report was submitted in June 2016 and the final audit report was submitted to ITTO at the end of 2016 and reviewed and accepted by the ITTO Secretariat.

The Committees duly declared this pre-project completed.

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

PD 722/13 Rev.1 (I)                      Capacity Building and Reduced Impact Logging (RIL) in Dry Inland Forest in the Permanent Forest on Peninsular Malaysia

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

The aim of this project was to strengthen human resource development via a capacity building program to produce adequate numbers of qualified skilled personnel for both state forestry departments and the private sector in Peninsular Malaysia on Reduced Impact Logging (RIL) implementation.

This project focused on training of personnel and concentrated on activities like training of forest workers and organizing seminars. It involved courses that related directly to RIL and the training was conducted mainly at Terengganu Forestry Training Centre (TFTC) in Kuala Berang, Terengganu. At the end of the project about 470 personnel were trained including 110 as qualified trainers and 360 forest workers both from the forestry department and the private sector. About 750 participants also benefited from awareness raising programs conducted through various seminars on forestry related issues during the course of the project.

In order to ensure sustainability of qualified trainers for future training purposes, a group of highly trained SMEs will be formed and recognized by the department. The trainers produced throughout the project are to be monitored and their performance, knowledge and skills on RIL practices is to be enhanced periodically. This will safeguard the longevity of technical knowledge and skills to be passed down to future forest guardians.

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 completed.

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 is undertaken in a Joint Session of All Committees. There were no ex-post evaluation reports on projects under CEM and CFI and selected Thematic Group evaluations under CRF were not conducted due to funding constraints resulting from the impairment of ITTO funds.

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

The Secretariat informed the Committees that due to the financial impairment, it would not be possible to select projects for ex-post evaluation at this session.

9. Policy Work

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

**Committee on Economics, Statistics and Markets**

(i) Market Access

The Secretariat reported on recent developments relating to market access for tropical timber in 2016-2017. In 2016, 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.

Three legislative instruments, EU Timber Regulation, the Lacey Act Amendments and the Illegal Logging Prohibition Act of Australia are all in force. The past year has seen publication of guidelines, reviews and rules to facilitate understanding, implementation and compliance of these acts. Meanwhile, attention should also be focused on updates of Regional Trade Agreements (RTAs) and CITES Appendices in order to be fully informed on market access issues.

## **EUTR**

EU member states have become increasingly engaged in the operation of the EUTR at the national level. All member states have put a law in place for national penalties. The updated version of the Guidance Document for EUTR was adopted in February 2016, providing information on certain aspects of the EUTR. After the VPA between Indonesia and EU entered into force in 2014, another development is that Indonesia and the EU launched the first operational FLEGT licensing scheme in November 2016, making Indonesia the first country to issue FLEGT licenses for timber products entering into the EU market.

## **Lacey Act**

Since 2008, the Lacey Act has set requirements for legality and declaration of a broader range of products from tree species. To facilitate import declaration, Animal and Plant Health Inspection Service (APHIS) released a new electronic system known as ACE (Automated Commercial Environment) and enforced business rules for Foreign-Trade Zones (FTZ) shipments in November 2016. APHIS also collaborated with National Association of Foreign-Trade Zones (NAFTZ) to facilitate orderly submission of declaration data in ACE. Before this, the Lacey Act Web Governance System (LAWGS) seminar was delivered in August 2016 to facilitate stakeholder engagement. A final rule was also published that established definitions for the terms 'common cultivar' and 'common food crop'.

## **Australia Illegal Logging Prohibition Act**

Since entry into force in 2013, Australia has been working with partners to facilitate the implementation process. Country specific guidelines were developed to assist importers to understand regulatory frameworks of exporting countries and verify the legality of imported timber products. The first country specific guideline was published in one of ITTO producer countries - PNG.

## **The Timber Law in Japan**

As a major tropical timber importer, Japan adopted a law to address illegal timber on the market in May 2016, called the "Act on Promotion of Use and Distribution of Legally Harvested Wood and Wood Products" Under the new law, wood product companies may apply for registration, certifying that they will apply measures to trade only in legally produced timber in their countries of origin, with Japanese government-licensed institutions that can certify such companies. The voluntarily register system is designed to enter into force in late 2017.

## **CITES**

COP 17 of CITES was convened in October 2016 and adopted decisions on regulating legal, sustainable and traceable trade in wildlife. 51 among 62 species-listing proposals submitted by 64 countries were accepted. Among these countries, 25 are ITTO member countries (22 producer countries). Some accepted proposals are concerned with the inclusion or deletion of new flora species in the CITES Appendixes and the others are about transferring species between Appendixes. As more species have been included into CITES Appendix II, tropical species in the Appendix have been increased from 231 to 238.

## **Regional Trade Agreements (RTAs)**

Following the notification of the RTA between Mongolia and Japan in June 2016, all WTO members now have an RTA in force. As of December 2016, there were 271 RTAs that were in force and notified to the WTO, 16 agreements more than that in 2015. Among the new 16 RTAs, 9 have already entered into force. Those agreements that are participated in by one or more ITTO members are Costa Rica-Colombia, EU-Côte d'Ivoire, EU-SADC, Eurasian Economic Union (EAEU)-Viet Nam, Japan-Mongolia, Republic of Korea-Colombia, and Pacific Alliance. More RTAs are under negotiations. As for potential partnership within the Asia-Pacific, the Trans-Pacific Partnership (TPP) faces uncertainties as the USA government has withdrawn its participation from the Agreement in January 2017.

### **(ii) Forest and Timber Certification**

The Secretariat reported on recent forest certification developments in ITTO producing member countries. In 2016, according to the statistics collected, the total area of certified forests in ITTO producing member countries was 52.2 million hectares, accounting for 10% of the world's total area of certified forests of about 498 million hectares, a big jump of more than 80% compared with 2015. The number of Chain of Custody certificates (CoCs) in ITTO producing member countries was 3,261 (5% up), which accounted for 8% of the total number of CoCs in the world.

The two international certification systems, namely FSC and PEFC, continued to be the main international schemes being implemented in ITTO producing member countries. The situation in 2016 for ITTO producing member countries in FSC and PEFC was as follows:

**FSC:** The FSC certified forest area reached 19 million hectares in ITTO producing countries by the end of 2016, which accounted for about 6% of global FSC certified forest area. Meanwhile, the number of CoC certificates reached 2,766 in ITTO producing countries, accounting for 8.5% of the total in the world. The top three countries with the highest FSC certified forest area in ITTO producing member countries are Brazil, Indonesia and the Republic of Congo. Brazil remained as the number one with 6.2 million hectares of FSC certified forest, while Indonesia switched position to 2nd with an area of 2.8 million, slightly larger than 2.6 million ha in the Republic of Congo. For FSC-CoC certificates, Brazil tops the list with 1,078 certificates, while Vietnam had 526 certificates and India 351 certificates.

**PEFC:** The PEFC certified forest area in ITTO producing countries reached 8.6 million hectares (5% up) by the end of 2016, accounting for about 2.9% of the total PEFC certified forest areas in the world. Among three countries that had PEFC certified forest area in ITTO producing member countries, Malaysia and Brazil's certified forests reached 4.04 and 2.72 million ha respectively, while Indonesia has more than doubled its certified area to 1.85 million ha. Regarding PEFC-CoC certification, the number of CoC certificates reached 490 in ITTO producing countries, accounting for 4.5% of the total in the world. Among them, Malaysia resumed the number one position with 353 CoC certificates.

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 2016.

**National Schemes:** Three national certification systems, CERFLOR of Brazil, MTCC of Malaysia and IFCC of Indonesia had been endorsed by PEFC, and their certification statistics had been covered by PEFC. IFCC, which was endorsed by PEFC in October 2014, was increasing rapidly in the first half of 2016.

The other two national schemes of Indonesia are also notable in operation. The Indonesian Ecolabelling Institute (LEI) has 2.4 million hectares of certified forest. More significantly, the Indonesian Timber Legality Assurance System (the SVLK) had certified 22.2 million hectares of forest, which caused the notable increase of timber certification in ITTO producing member countries in 2016.

After the update given by the Secretariat, the delegation of Peru commented that the export of tropical timber is facing more and more pressure from the market to have forest and timber certification. Certification not only shows legality and sustainability of forest management and timber, but also reflects social and economic aspects under the management concept. While other aspects are being considered, the economic impact of certification should also be taken into account. Certification could not guarantee market access, on the other hand it could bring burdens with additional costs, especially after the financial crises. Tropical timber is a commodity, but we did not see so many requirements (such as addressing climate change, sustainable management, gender issue, etc.) placed on other commodities. Therefore, timber certification is not only a passport of legality to market, but it has also become the recognition of best practices. It is therefore important to increase forest and timber certification in producer countries. The current certified forest area in Peru is around 1 million hectares and Peru is working on increasing the certified areas in response to the market requirements. Finally the delegation of Peru said ITTO is not in the position to promote individual certification schemes, but it can provide technical assistance to producers in highlighting the best practice of forest and timber management which could help lead to certification.

(iii) Progress report on Independent Market Monitoring of FLEGT-licensed timber in 2017

The Secretariat provided background on the activity which was designed to monitor FLEGT-licensed timber entering the EU market and which had started under ITTO's 2013-14 BWP. Following suspension during much of 2016 due to the impairment of funds, the activity recommenced in April 2017. The IMM lead consultant (Sarah Storck) and Market Analyst (Rupert Oliver) provided a detailed presentation (available on [www.itto.int](http://www.itto.int)) on IMM objectives, progress in implementing the system and plans for 2018. The presentation also included a statistical summary of EU imports of timber from tropical countries, focusing on countries that had signed or were in the process of signing a FLEGT voluntary partnership agreement with the EU, and a detailed summary of the trends of Indonesian (the first country issuing FLEGT-licenses since November 2016) timber in the EU market.



The representative of Indonesia noted that her country was ready to continue collaborating with ITTO on the IMM from which it was already benefitting. The representative of Cameroon noted that his country was finalizing a VPA with the EU and that he hoped that more benefits from FLEGT-licensing would become apparent soon. He described Cameroon's legality assurance system and expressed interest in continuing to receive information on the impact of FLEGT-licensing in Indonesia and elsewhere.

The representative of the USA noted the limited impact of FLEGT-licensing on tropical timber trade to date, and welcomed the recommendations made on how to improve this, including greater private sector involvement. She noted that part of the reason for declining tropical timber demand in Europe and elsewhere was negative campaigns by NGOs and she recommended that engagement and partnership with NGOs also be undertaken to promote the use of legal timber such as FLEGT-licensed timber.

The representative of the EC welcomed the presentation and informed that the next instalment of IMM funding would be sent to ITTO before the end of the year. She noted that the IMM project was already showing positive results and helping to raise awareness about forest governance and timber trade issues. It was also helping to build ITTO's own capacity for market monitoring. She noted that the IMM project would become even more relevant in coming years as more countries move towards implementing robust systems of forest governance and legality.

(iv) Strengthening the Participation of the Private Sector in the Work of ITTO

The Committee noted the inclusion of an activity on this topic in the 2018-2019 BWP and that future discussion on this topic would be covered in the progress reports on the implementation of the BWP.

(v) Items for CEM Policy Work for 2018

The Committee considered and agreed on the following items for policy work in 2018:

- Market access;
- Forest and timber certification;
- Selected data and analysis from the ITTO Biennial Review and Assessment of the World Timber Situation; and
- IMM progress report.

### **Committee on Forest Industry**

(i) Demonstration and Adoption of Credit Schemes for Small-Medium Forest Enterprises

Mr. A. Rizo Patron, the Director of Forest Competitiveness of SERFOR, Peru, briefed the Committees on the current development of policies and programmes related to the provision of a credit scheme for forestry business. The Peruvian Government is working on simplifying procedures for investment and promoting loans/credit schemes that meet the characteristics of forestry business sector. For this, it is necessary to have appropriate enabling conditions and incentives. The incentives may be in the forms of provision of funding for communities and forestry associations, loans with low interest rates and tax relaxation. The efforts in improving the policies and programmes have involved forestry stakeholders in Peru. It is expected that the improvement in forestry financing and investment will help recover the situation of the forestry sector in Peru which encountered slow progress in recent years.

Mrs. Desy Ekawati of Indonesia made a presentation on "Demonstration and adaptation of credit schemes for small medium forest enterprises (SMFEs) in Indonesia". She highlighted the progress of the credit schemes activity funded by ITTO which facilitate the channeling of credits for three SMFEs through a local farmer bank. She further shared lessons to learn: i) many SMFEs do not meet the requirements of bank and other financial institutions, ii) SMFEs need to increase their technical and administrative capacities, and iii) small loans can help SMFEs to manufacture more efficient and profitable products.

(ii) Items for CFI Policy Work for 2018

The CFI decided that there were currently no policy work items for inclusion on the agenda of its next meeting but that if relevant BWP activities received funding at this session, they might be proposed for discussion under Policy Work at its next session.

10. Biennial Work Programme of the Committees for 2018-2019

The Secretariat introduced the activities from the draft 2018-19 BWP which it deemed relevant to the mandates of the Committees, noting that the Chair of Council had requested the Committees to review relevant activities and (if possible) to prioritize them in order to guide eventual decisions on approval and possible funding. The Secretariat noted that several activities included in the BWP of relevance to the Committees were funded under the core activities component of the administrative budget and that since the CFA had already approved the 2018-19 administrative budget, there was no need to consider these in the analysis/ prioritization. These were:

Activity 20: ITTO Annual Market Discussion  
Activity 23: ITTO Market Information Service (MIS)  
Activity 24: Enhancement of Statistical Work and Databases on Statistics  
Activity 25: Biennial Review and Assessment of the World Timber Situation

The Secretariat noted that all of the BWP activities relevant to the work of the Committees were included in Group 1 (Field Oriented Activities with Engagement of/Work in Member Countries), including the IMM activity (Activity 7) which was fully funded under a contract with the EU and which was considered by the Committees under Agenda Item 9 (Policy Work). Other activities that required funding for implementation and which the Committees were invited to consider were:

Activity 1: Incentives for Green-growth Value Chain Investments in Tropical Forests  
Activity 2: Building Legal and Sustainable Forest Product Supply Chains  
Activity 3: Strengthening Participation of the Private Sector in the Work of ITTO  
Activity 4: Enhancing Teak Management  
Activity 6: Enhance Cooperation between ITTO and CITES  
Activity 9: Statistical Capacity Building Workshops

The Chairperson opened the floor for comments on these activities or any others that Committee members deemed relevant to their work.

The representative of the USA noted that her delegation had some concerns about Activity 2 "Building Legal and Sustainable Forest Product Supply Chains". She noted that the terms of reference were too broad and the beneficiaries of this proposed activity were unclear. She questioned whether this activity would target individual concessionaires and/or importers and whether it would cover costs that should be covered by industry (e.g. audit costs of certification). She indicated that her delegation was wary of any activities that would subsidize individual concessionaires or provide an individual country or economy with unfair market advantage. This would be an inappropriate role for ITTO, which should work to assist tropical forests as a whole rather than individual entities (except on pilot basis). She noted that several other organizations were undertaking similar work including WWF's Global Forest and Trade Network, Rainforest Alliance, RAFT and ITTO's own pilot initiatives to assist selected concessionaires to build capacity to become certified and link them to the market. While noting that the proposed activity was of great interest to some members, it was necessary for the TOR to be revised to make it clear who is benefiting and that these benefits are offered in a holistic way. Without these changes The USA would not be able to agree to the inclusion of this activity in the BWP.

Activity 3 (Strengthening Participation of the Private Sector in the Work of ITTO): The representative of the USA expressed support for this activity, including through in-kind contributions of training packages developed by WRI and IWPA. She noted there were discussions underway with organizations in Peru regarding these training packages and that the ITTO activity was intended to scale this up to allow training to occur in other countries.

The Trade Advisory Group (TAG) spokesperson drew attention to the TAG proposal to convene a workshop to enhance private sector participation in ITTO which was now found as part of Activity 2 of the BWP. This had originally been submitted to the Secretariat with the same title as the current Activity 3 which had caused some confusion. The representative of the USA, which had submitted the current Activity 3, noted that the use of the same title was a coincidence and that in fact Activity 3 was a different activity designed to provide training in due diligence to the private sector in the context of the Lacey Act. The Secretariat confirmed that proposed TAG workshop was now included in the TOR and budget of Activity 2.

Activity 4 (Enhancing Teak Management): The representative of the USA noted that the activity resembled a project more than a BWP activity. Her delegation felt it might better be handled under the project cycle. She also questioned whether the activity would cover only natural teak stands or global teak resources while welcoming collaboration with IUFRO and Teaknet. The Secretariat informed that the activity, which would cover all teak resources globally, arose out of consultations with the government of Germany which had expressed interest in providing funding for work on teak in Asia under the 2018-19 BWP.

Activity 9 (Statistical Capacity Building Workshops): The Secretariat noted its long-running work on statistical capacity building in member countries which this activity was intended to continue. Collaboration with FAO in convening these capacity building workshops allows efficient use of resources, with the requested budget under the 2018-19 BWP providing ITTO with funds to collaborate on up to 2 workshops per year with FAO.

In response to a question from the USA, the Secretariat confirmed that relevant comments/revisions to BWP activities and their terms of reference would be reflected in the draft decision on the BWP prior to that decision's consideration by the Chair's drafting group.

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

The Committees considered the Report of Projects and Pre-projects in Progress as contained in document CEM-CFI (LI)/3 Rev.2 and took note of progress in the implementation of the following projects and pre-projects:

##### **(A) Projects under implementation**

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

- |    |                     |   |
|----|---------------------|---|
| 1. | 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)  |
| 2. | PD 692/13 Rev.1 (M) | Implementation and Operationalization of a National Information System for the Sustainable Management of Forest Resources (Côte d'Ivoire)   |
| 3. | PD 732/14 Rev.2 (M) | Improve Forest Governance in Mozambique   |
| 4. | PD 751/14 Rev.3 (M) | Sustainable Forest Management in the Chimbo River Basin, Ecuador: Conserving Forest Resources and Agroforestry Systems as a Mechanism to Strengthen the Economic Inclusion of Community Families, Particularly Rural Women, Settled in the Area |
| 5. | PD 756/14 Rev.1 (M) | Development of a Business Management Services Program of Forest MSMEs (Micro, Small and Medium Enterprises) in Guatemala  |

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

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|----|---------------------|--|
| 1. | PD 600/11 Rev.1 (I) | Model Capacity Building for Efficient and Sustainable Utilization of Bamboo Resources in Indonesia   |
| 2. | PD 737/14 Rev.2 (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 |

**(B) Projects Pending Agreement**

**Committee on Forest Industry**

1. 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

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

**Committee on Economics, Statistics and Markets**

1. PD 124/01 Rev.5 (M) Phase III Stage 3 Promotion of Sustainable Management of African Forests (ITTO)
2. PD 791/15 Rev.3 (M) Community Forest Landscapes and Small Enterprises Contributing to Legal Timber Trade in Ghana
3. PD 796/15 Rev.2 (M) Establishing a System for the Collection, Storage, Processing and Dissemination of Forest and Wildlife Statistics in Cameroon
4. PD 819/16 Rev.2 (M) Market Survey for Forest Products in Peru
5. PD 832/16 Rev.2 (M) Implementing Mechanisms to Improve Traceability in the Forest Production Chain in Guatemala
6. PD 839/17 Rev.1 (M) Strengthening and Consolidating the National Process for Controlling Illegal Logging and Associated Trade in Cameroon – Phase 2
7. PD 845/17 Rev.1 (M) Enhancing the Capacity of Forest Communities in Forest Governance, Monitoring and Community Development Projects in Mankraso Forest District Ghana
8. PD 858/17 Rev.1 (M) The Trends of Chinese Wood Product Markets and their Dependence on International Trade of Tropical Timber Towards 2030
9. PD 863/17 Rev.1 (M) Development and Strengthening of the Domestic Market for Non-Timber Forest Products and Environmental Services in Guatemala

**Committee on Forest Industry**

1. 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)
2. 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)
3. PD 761/14 Rev.2 (I,M) Promoting Partnership between Farmer Group and Forest Industry (Indonesia)
4. PD 788/15 Rev.2 (I) Achieving Sustainable Forest Management through Enhanced Competitiveness of Small & Medium Wood Industries (SMWIs) in Ciamis District of West Java Province, Indonesia
5. PD 815/16 Rev.2 (I) Increasing Efficiency of Acacia Plantation and Timber Processing Industry in Vietnam

The Committees held discussions on the following projects:

**Committee on Economics, Statistics and Markets**

PD 732/14 Rev.2 (M) Improve Forest Governance in Mozambique

The Secretariat informed that the project agreement had been signed in June 2017 but despite repeated reminders and offers of assistance, the government of Mozambique had been unable to submit the inception report, work plan and other information required under the agreement to allow release of the first instalment of funds. The representative of Japan urged the Secretariat to continue its efforts to ensure implementation of this project commences as soon as possible and requested to receive a progress report as soon as project implementation commences.

PD 751/14 Rev.3 (M) Sustainable Forest Management in the Chimbo River Basin, Ecuador: Conserving Forest Resources and Agroforestry Systems as a Mechanism to Strengthen the Economic Inclusion of Community Families, Particularly Rural Women, Settled in the Area

The Secretariat informed the Committees that this project was approved by the Fifty-first ITTC in 2015 and funded at the Fifty-second ITTC in November 2016. The agreement for this project was signed by ITTO and the Executing Agency in July 2017. The Executing Agency submitted a draft inception report on 27 October 2017. The Secretariat reviewed and provided comments and suggestions for revision and the EA is currently revising it. Therefore, once the inception report is finalized, the first instalment will be made, which marks the inception of the implementation of this project.

The delegation of USA asked if the detailed workplan of the project has been finalized. The Secretariat responded that the current review is mainly focusing on finalization of the detailed workplan and once it is finalized and approved, it could be provided to the USA as a donor as well as other interested members.

PD 796/15 Rev.2 (M) Establishing a System for the Collection, Storage, Processing and Dissemination of Forest and Wildlife Statistics in Cameroon

The representative of Cameroon noted that this project would lapse under the sunset clause of Decision 3(X) on 30 November 2017 and requested that it be re-instated. The Secretariat noted that a letter had been received from Cameroon's Minister of Forestry asking to re-submit this project for donor consideration and that the sunset provision had been lifted.

The representative of Indonesia informed that it had submitted a letter to the Secretariat re-submitting the following 3 projects subject to the sunset clause that it considered still relevant:

PD 709/13 Rev.2 (I) Enhancing Bali Wooden Handicraft Industry by Improving that the Quality of Planted-Wood Raw Materials and Complying to Legality Standard

PD 761/14 Rev.2 (I,M) Promoting Partnership between Farmer Group and Forest Industry

PD 788/15 Rev.2 (I) Achieving Sustainable Forest Management through Enhanced Competitiveness of Small & Medium Wood Industries (SMWIs) in Ciamis District of West Java Province, Indonesia

The Secretariat confirmed receipt of the letter about these projects and others under the CRF, and informed the Committee that under the current interpretation of the sunset clause of Decision 3(X), their status as approved projects would be maintained for another 20 months. The Secretariat also noted that several countries had expressed confusion and/or dissatisfaction with the sunset clause of Decision 3(X), particularly given the amount of effort that went into developing projects and having them approved by ITTO. The Secretariat provided some background on the thinking behind the sunset clause and noted some apparent inconsistencies in the provisions under the sunset clause (e.g. funded projects that have not commenced having a longer sunset period than unfunded projects). The Committees agreed to recommend that Council review the terms and application of the sunset clause, perhaps under the working group proposed for establishment in the draft decision on fundraising and the ITTO project cycle.

### **Committee on Forest Industry**

PD 600/11 Rev.1 (I)                      Model Capacity Building for Efficient and Sustainable Utilization of Bamboo Resources in Indonesia

Mrs. Desy Ekawati briefed the Committees on the progress of the project. She informed that all project activities have been completed. All required final reports will be submitted to the Secretariat soon.

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 Secretariat informed that the agreement for this project was sent to the officials in Honduras immediately after funds were released in March 2017. Despite repeated reminders from the Secretariat, the government of Honduras has not yet returned the signed agreement to ITTO. The Secretariat had been in touch with the Executing Agency (ICF) and had been informed that all international cooperation agreements had to be cleared by a new department under the Ministry of Foreign Affairs as part of an anti-corruption initiative. The representative of Honduras reported that the Ministry of Foreign Affairs was expected to finalize its consideration of the project agreement soon so that it could be signed and project implementation could begin in 2018. The Secretariat noted that delays in signing project agreements and/or commencing implementation of projects could indicate capacity issues that might affect project implementation once it began. The representative of Japan urged the Secretariat to continue its efforts to ensure that implementation of this project commences as soon as possible and noted that delays in the implementation of this and other projects could impact efforts to rebuild donor trust in ITTO's ability to efficiently and effectively utilize donor funds.

#### 12. Election of Chairpersons and Vice-Chairpersons for 2018

Following the usual consultations undertaken by the producer and consumer groups, Mr. Björn Merzell (Sweden) was elected Chairperson of the CEM and Mr. Bruno Mfou'ou Mfou'ou (Cameroon) was elected Vice-chair for 2018. Ms. Anna Tyler (New Zealand) was elected Chairperson of the CFI and Mr. Mohd Kheiruddin Mohd Rani (Malaysia) was elected Vice-chair for 2018.

#### 13. Dates and Venues of the Fifty-second and Fifty-third Sessions of the Committees

The Fifty-second Session of the Committees will be held in conjunction with the Fifty-fourth Session of the International Tropical Timber Council in 2018.

The Fifty-third Session of the Committees will be held in conjunction with the Fifty-fifth Session of the International Tropical Timber Council in 2019.

#### 14. Other Business

None.

#### 15. Recommendations to the International Tropical Timber Council

- (i) The Committees recommended that funding be made immediately available for the following projects approved under the time-bound electronic no-objection procedure for the project cycle 2017:

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

PD 791/15 Rev.3 (M)                      Community Forest Landscapes and Small Enterprises Contributing to Legal Timber Trade in Ghana [US\$309,299]

PD 819/16 Rev.2 (M)                      Market Survey for Forest Products in Peru [US\$406,459]

PD 832/16 Rev.2 (M)                      Implementing Mechanisms to Improve Traceability in the Forest Production Chain in Guatemala [US\$416,080]

PD 839/17 Rev.1 (M)	Strengthening and Consolidating the National Process for Controlling Illegal Logging and Associated Trade in Cameroon – Phase 2 [US\$459,813]
PD 845/17 Rev.1 (M)	Enhancing the Capacity of Forest Communities in Forest Governance, Monitoring and Community Development Projects in Mankraso Forest District Ghana [US\$146,944]
PD 858/17 Rev.1 (M)	The Trends of Chinese Wood Product Markets and their Dependence on International Trade of Tropical Timber Towards 2030 [US\$328,608]
PD 863/17 Rev.1 (M)	Development and Strengthening of the Domestic Market for Non-Timber Forest Products and Environmental Services in Guatemala [US\$149,632]

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

PD 815/16 Rev.2 (I)	Increasing Efficiency of Acacia Plantation and Timber Processing Industry in Vietnam [US\$116,480]
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- (ii) The Committees recommended that funding be made immediately available for the following projects approved at earlier Sessions:

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

PD 124/01 Rev.5 (M) Phase III Stage 3	Promotion of Sustainable Management of African Forests (ITTO) [Phase III Stage 3 – US\$673,325]
PD 796/15 Rev.2 (M)	Establishing a System for the Collection, Storage, Processing and Dissemination of Forest and Wildlife Statistics in Cameroon [US\$567,627]

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

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) [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 761/14 Rev.2 (I,M)	Promoting Partnership between Farmer Group and Forest Industry (Indonesia) [US\$508,693]
PD 788/15 Rev.2 (I)	Achieving Sustainable Forest Management through Enhanced Competitiveness of Small & Medium Wood Industries (SMWIs) in Ciamis District of West Java Province, Indonesia [US\$569,710]

- (iii) The Committees recommended that Council review the terms and application of the sunset clause, perhaps under the working group proposed for establishment in the draft decision on Improving ITTO's financing infrastructure and fundraising strategies.

#### 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 - 2017 “Sharing Experiences on promoting investment in tropical timber industries and tropical forestry” 29 November 2017, Lima, Peru

The ITTO Annual Market Discussion was held on 29 November 2017 with the theme “Sharing experiences on promoting investment in tropical timber industries and tropical forestry”. The discussion featured six speakers:

Ms. Ingrid Nielsen Head of Investment Advisory and Strategy Consulting Indufor Group, Finland	<i>Experiences of Profitable Investments in the Forestry Industry Value Chain with Expected Sustainable Development – Tanzania and Indonesia Case Studies</i>
Mr. Erik Luis Fischer Llanos President, Forest Committee Association of Exporters, Peru	<i>Proposals to Promote Investment in the Timber Industry in Peru and its Socio-economic Development Impact</i>
Dr. Ivan Tomaselli President STCP Engenharia de Projetos Ltda Brazil	<i>Regional Experiences in Attracting Investments for the Forestry Sector</i>
Mr. Bob Tate Executive Officer Papua New Guinea Forest Industries Association	<i>Reconciling Investment Policy Confusion, Conflict and Conditionalities</i>
Mr. Christian Held Deputy Head, Forest Investment Division UNIQUE Consulting Germany	<i>Investing in Timber Production: Lessons Learnt from Plantations, Natural Forests and Silvo- Pastoral Systems</i>
Mr. Rik Sools Deputy Director and Senior Forestry Expert FORM International Netherlands	<i>Unlocking Investments for Forest Restoration on Degraded Lands in Africa – the Form International Experience</i>

The presentations were followed by a question and answer session with members of the Joint Committees. Mr. Barney Chan (Trade Advisory Group co-Coordinator, Malaysia) presented the TAG Market Statement (Appendix B). The Chairperson for the session was Mr. André de Boer (Trade Advisory Group co-Coordinator, Netherlands). Presentations made during the 2017 ITTO Annual Market Discussion can be accessed on ITTO's website ([www.itto.int](http://www.itto.int)).

#### Interventions and Discussion

Ms. Ingrid Nielsen (Indufor) said that in emerging markets, the gap between wood supply and demand is increasing due to high population growth, urbanization rates and stagnant supply. The expansion of large scale industrial plantations is limited in many countries due to land tenure, social stability and sovereign matters. Ms. Nielsen suggested that the future growth of forest industry value chains will be increasingly based on sourcing wood from private, small to medium size tree growers, instead of large-scale industrial estates. Drawing on evidence in Europe and Vietnam, and Indufor's direct involvement in several forest and forest industry investments around the world, Ms. Nielsen noted that timber supply chains integrating smallholders to downstream processing is proven to be an effective means to fight deforestation and expand forest assets while also producing benefits for local communities. Referring to Indufor experience in Tanzania, Ms. Nielsen demonstrated steps that can be taken to build associations of small to medium size forest owners to provide a foundation for forest industry development. A key requirement for the success of this development model is to establish industrial infrastructure capable of consuming a variety of different wood assortments and producing a diversity of wood products. Another requirement is targeted training for small to medium sized local enterprises covering issues such as better equipment and machinery, work safety and quality, and to highlight networking opportunities with material and service providers.



Mr. Erik Fischer (ADEX) commented on the challenges of promoting forest sector investment in Peru and highlighted the need to better communicate to consumers and investors the environmental and social benefits of sustainable timber production in managed natural tropical forests. Mr. Fischer observed that while Peru has the fourth largest tropical forest area in the world, covering 61% of national territory, the forest sector contributes only 1.1% to GDP. Mr. Fischer also showed that Peru's wood product exports declined from \$171 million in 2014 to \$130 million in 2016 and that there has been a longer term decline from \$219 million in 2008. This raises the question of why Peru is not a major exporter of wood products. Mr. Fischer suggested that while Peru had developed a good framework for concession allocation, it has not been implemented effectively. At present only 2 million hectares are fully operational out of the 7.5 million hectares available for concessions. The other concessions were allocated to companies without the required technical and financial resources and subsequently returned to the state. Using case studies of successful concessions in Peru, Mr. Fischer showed that in these areas deforestation is prevented, wildlife is conserved, and the local economy benefits from employment opportunities and infrastructure development. Mr. Fischer concluded by emphasizing that the model of natural forest concessions under sustainable forest management is both a profitable business and an effective conservation tool, but there is limited understanding of this model amongst investors and wood consumers. Mr. Fischer said producers and consumers share responsibility to raise awareness and encourage investment in this model.

Dr. Ivan Tomaselli (STCP) emphasized most investment in sustainable forest management derives from the private sector, notably forest industry corporations and institutional investors. Of the latter, TIMOs, organizations established specifically to aid institutional investors in managing forest sector investments, are becoming more important. There are now around 30 large TIMOs worldwide managing \$60 billion of forest assets. These investors manage forest land to maximize returns and investment decisions are based on their assessment of factors that will impact on future value. Dr. Tomaselli contrasted recent forest sector development in Brazil, Chile and Uruguay, on the one hand, with Bolivia, Peru and Venezuela on the other. In the former, timber production and forest industries are growing steadily based largely on plantations and with investments supported through a variety of development programs and incentive schemes. In the latter, timber production is mainly based on natural forests and has been stable for the last 30 years, while trade in forest products has been declining and their contribution to the national economy is limited. Drawing on experience in Latin America, Dr. Tomaselli suggested that the following factors encourage private forest sector investment: there is a robust and long term national program of support for investment which includes actions to improve the investment climate and considers integrated forest and industrial development; incentives are available to manage forests and, particularly, to establish forest plantations; plantations focus on a limited number of species with high productivity capable of producing market timber; there is concentration in regions with good infrastructure and logistics; and there is public sector support for technology and human resource development.

Mr. Bob Tate (FIA PNG) also highlighted that tropical forest and timber industry investment is dependent on the private sector which in turn looks to economic returns, political stability and legislative and policy stability to underpin its long term investment in the forest sector. Equally important is the extent and security of the forest resource base and, in the case of plantation investment, there is security of land tenure. Mr. Tate suggested that while PNG does have a large and secure forest resource, recent policy interventions have undermined, rather than enhanced, investment in the forest products sector. Mr. Tate said that PNG forest cover is 81% and deforestation rate has been less than 1% per year since 2000. The PNG sustainable harvest from the permanent forest estate is set at 3.8 million cubic meters per year, a level that has never been exceeded. However, the processing sector in PNG is in decline, a recent study finding that the number of large and medium scale mills has fallen from 14 to 7 over the last 15 years and there has been no new investment in mill establishment during that period. PNG forest plantation development has also effectively ceased. From a base of approximately 65,000 hectares per year in the 1990s it has fallen to 40,000 hectares currently. Mr. Tate said that the PNG Forest Act establishes a National Forest Policy which is subject to regular stakeholder review and amendment if necessary. However, over the recent two year period, this policy has been weakened as competing development objectives take precedence. Mr. Tate suggested that investor interest in the PNG forest industry is weakened by the Small Medium Enterprise Policy, which aims to increase PNG ownership of business, and the shift in legislative and regulatory power over forests, where it impacts on REDD+, away from the PNG Forest Authority to a new Climate Change Development Authority. He also said that efforts to develop a national framework for legality verification and certification, which could enhance interest in investment, have so far been hampered by the conflicting objectives of NGOs, industry and governments. Where necessary operators have, according to their market needs, obtained full FSC, Controlled Wood, or PEFC certification but these certification programs are expensive and their cost precludes most small enterprises from being certified.

Mr. Christian Held (UNIQUE) observed that, according to FAO data, plantations supply 46% of global industrial roundwood production despite accounting for only 7% of global forest area. However, there is only declining potential to increase the area of large commercial plantations because of land tenure conflicts and pressure to avoid conversion of the remaining natural forest. At the same time, global demand for industrial roundwood, currently between 1.7 and 1.8 billion cubic meters, is forecast to rise to 3 billion cubic meters by 2030. A large proportion of this production will need to derive from active management of natural forest including, where necessary, rehabilitation of degraded areas. Drawing on experience and data from Paraguay, Mr. Held compared the business case for three forest management systems; natural forest management, plantation and silvi-pastoral systems. While plantations win the economic competition, sustainable management of natural forest scores ecologically. For example, in the Paraguay case study, natural forest has an average carbon stock of 400 tCO<sub>2</sub>/ha compared to 200 tCO<sub>2</sub>/ha in the plantation. However mean annual increment of timber in the natural forest is only 5 m<sup>3</sup>/ha/a compared to 30 m<sup>3</sup>/ha/a in the plantation. Profits from the natural forest are 95 USD/ha/a compared to 950 USD/ha/a in the plantation. The silvo-pastoral system delivers profits comparable to those of the plantation, at 850 USD/ha/a, while also providing early cash flow and significant environmental improvements compared to traditional cattle farming. Mr. Held concluded that satisfying the rising demand for roundwood will be a challenge and the choice of forest management regime will depend on local circumstances. Plantations may be the most attractive economically, but they require substantial investments compared to natural forests and in many areas opportunities to develop plantations are limited. Natural forest management of tropical forest, though challenging, offers a competitive package of economic, social and environmental returns and has a critical role to play in future wood supply.

Mr. Rik Sools (FORM International) highlighted key success factors and challenges for tropical plantation investment drawing on experience in Ghana and Tanzania. Mr Sools observed that in Africa there is a growing timber supply gap as forest plantation development is enormously outpaced by deforestation. Using data from AFR100 (African Union, WRI), Mr. Sools suggested that at least 100 million hectares of forest in Africa will need to be planted or otherwise rehabilitated by 2030 but at the current rate of 200-300,000 ha/year, at most only 4 million ha will be rehabilitated by that date. A key challenge is lack of access to finance in the African forest sector which is still largely unknown to investors and where there is a perception of high risk, partly due to limited project experience and a track record of positive outcomes. The translation of international climate commitments to provision of actual finance for forest projects has been very slow, while the image of plantations is undermined by association with land grabbing and forest conversion. There is also limited skilled staff for plantation forestry in Africa. While there are challenges, Mr. Sools also reported successful outcomes where certain conditions are met. Success factors include: the phased development of projects including piloting and expansion at the right pace; reliance on a sound sustainable model offering social and environmental benefits as well as economic returns; good choice of species to match the site and climate so as to maximise growth rates; a mixed revenue model combining income from timber, cash crops, services, and carbon sequestration; a combination of finance from private investors and the public sector; and a strong management team combining appropriate technical knowledge with entrepreneurial acumen. Mr. Sools also emphasised the role of the public sector to provide an enabling environment, for example through direct support for sustainable private sector projects, human resource development and R&D, to facilitate land access and improve plantation regulations, and to provide subsidies and tax incentives for reforestation.

In the ensuing discussion, the representative from India said that, from an environmental perspective, there can be no doubt that wood is the best material and should be preferred in building and product design. While plantations are necessary to supplement wood supply, they cannot substitute for natural forest which provides greater biodiversity and carbon sequestration benefits. No natural forests should be cut down to provide room for plantations and natural forest should be maintained to provide eco-system services.

In response, Mr. Held agreed that plantations are not necessarily a better option than natural forest for future timber supply and that each country should adopt a forest resource development plan most appropriate to local circumstances, and that natural forests have an important role in timber supply in the future. Mr. Held also suggested that returns from ecosystem services will often be inadequate and there will need to be a timber component to ensure that natural forest management remains economically viable. Mr. Fischer agreed that promoting plantation establishment is necessary, but this should focus on degraded forest areas and not replace natural forest. He stressed that natural forest conservation is not the same as protection and implies active forest management, including for timber production.

The representative for Colombia stressed the highly variable forest context in each country, noting that the causes and agents of deforestation are complex and require different solutions. However, absence of finance for natural forest management, in contrast to the subsidies for alternative activities, is a common

problem in many countries. He also emphasised that natural forest management and plantation forestry should not be seen as competitive but complementary.

The representative for Costa Rica asked whether there was reliable data available comparing the energy intensity and carbon footprint of tropical wood with other materials. The Chair noted that the European Timber Trade Federation (ETTF) and Netherlands Timber Trade Association (NTTA) jointly commissioned comprehensive life cycle assessment studies comparing tropical timber with plastic, steel and aluminium alternatives which confirmed that tropical timber compares well with alternatives. Mr. Held noted that there are a wide range of other similar studies but that more work is required to ensure these studies are more widely available to communicate the results.

Following the presentation of the TAG Market Statement (APPENDIX B) by Mr. Barney Chan (TAG co-Coordinator, Malaysia), the representative from China provided details of the Global Green Supply Chain Mechanism. The mechanism is a key recommendation of a roundtable dialogue between government agencies, heads of enterprises and trade in China and is planned to be established in 2018. The objective is to promote the legality and sustainability of tropical timber through increased co-operation between traders, government agencies, and representatives of producers and consumers. The mechanism will be hosted in China but participation will be open to companies and organisations in all areas of the world. The mechanism will be action-oriented to include studies, investment, technology transfer, and capacity building. It will also involve close collaboration with ITTO and ITTO's Trade Advisory Group (TAG).

The mechanism is an industry initiative from Chinese enterprises and is planned to be established in 2018.

The representative of the Republic of Korea said that the National Institute of Forest Science in Korea will host the 2018 Conference on Timber Engineering in Seoul from 20-23 August 2018 to involve architects, builders, and timber producers and encouraged ITTO to participate. It was noted that timber building is very important to the ITTO mission, not only to add value to tropical timber products but also to enhance their carbon storage potential.

#### **Annual Trade Statement**

The 2017 Trade Statement prepared by the ITTO TAG can be found in Appendix B of this document.

The TAG suggested the following theme for 2018 Annual Market Discussion: "Private sector tropical timber promotion initiatives - an opportunity for collaboration".

## APPENDIX B

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

Presented at the 2017 Annual Market Discussion by  
Barney Chan (TAG Coordinator)  
29 November 2017

Ladies and Gentlemen,

In recent months, there have been exciting developments in the tropical timber industry.

In June, there was a promotion for the New Forests for Africa Initiative. The first African Forestry Investment Conference was held in Accra, Ghana. The event was co-organised by the African Development Bank and the Climate Investment Funds (CIF). The conference reached out to potential national and international investors, project developers, plantation owners, local commercial banks, universities, Ghana Forestry Commission and other relevant stakeholders in order to highlight the beneficial conditions for forestry investments in Ghana and in the region.

In other news, a 12-storey building constructed of cross-laminated timber (CLT) and glulam was approved for construction in Portland, Oregon. The building will be the first all timber tall building in the USA. It will include retail space, offices and apartments. However, 27 tall wood buildings have been completed to date in Europe and Canada, according to the Council on Tall Buildings and Urban Habitat. A 24-storey hybrid timber and concrete tower is under construction in Vienna, Austria. The tallest proposed buildings are a 26-storey hybrid timber and steel tower in Lagos, Nigeria and a 35-storey tower also in timber and steel in Paris, France.

On the demand side in Japan, there are two new major log users of domestic wood. One is plywood manufacturers and another is biomass power generation plants. Biomass power generation plants are mushrooming all over Japan and they are spurring domestic log harvesting. The Forestry Agency estimated domestic wood fuel volume for the power plants was 2,800,000 m<sup>3</sup> in 2015, 1,000,000 m<sup>3</sup> more than 2014 so the volume keeps growing.

Now, what are we in ITTO doing to meet these new global challenges? These new market developments mean we cannot keep on doing business as usual. ITTO needs to innovate and keep up with the times.

The issue for the private sector is how to galvanise financial resources to create the next wood fibre crops. The science is there to create future tree crops for whatever purposes but the stumbling blocks to future tree crop development is in: (1) getting the financial resources, (2) the application of current knowledge to create those tree crops, and (3) how to address the long gestation period whilst those tree crops are in their development period.

ITTO members have lands and associated land tenure systems; water and associated water rights for plantation development; sunlight; and most importantly the wishes and desires of the majority of private land owners to establish and grow future tree crops on their lands for purposes including the creation of wood fibre. The ITTO Trade Advisory Group (TAG) call upon Council to begin addressing these issues seriously by setting up a Working Group to guide ITTO's future work on tree plantations.

In September, a Round Table dialogue was held in Shanghai between 24 big timber companies based in China and the top management of ITTO. Amongst the topics discussed, illegal timber came up as the Chinese manufacturers are very concerned to avoid the use of illegal material in their products. Their concern was complicated by differing ways of ensuring legality in various parts of the world. It will be interesting to see how the initiative of these manufacturers develops and we in the TAG are ready to help.

In fact, there is a growing desire in China to have a timber supply chain which is green; for stable, legal and sustainable supply of tropical timber into their factories. All participants at the Shanghai meeting agreed that the aim should be to create a green supply chain mechanism to promote stable, legal and sustainable supply of tropical timber bringing together all stakeholders. TAG encourages Council to offer support and guidance to this private sector initiative and work closely with China and other member countries to ensure promotion and use of our sustainable timber.

We have been encouraged by the proposals in the Biennial Work Plan addressing production forests, private sector investment and verifiable supply chains. The TAG looks forward to contributing its experience and expertise to make the BWP a success. Thank you.