



**INTERNATIONAL TROPICAL  
TIMBER COUNCIL**

**COMMITTEE ON ECONOMICS,  
STATISTICS AND MARKETS**

**COMMITTEE ON FOREST INDUSTRY**

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FIFTY-SECOND SESSION  
5 – 9 November 2018  
Yokohama, Japan

**REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL**

**FIFTY-SECOND 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-second Session of the Committees was opened on 5 November 2018 at the Joint Session of the Committee on Economics, Statistics and Markets (CEM) and the Committee on Forest Industry (CFI), co-chaired by Mr. Björn Merrell (Sweden), Chairperson of CEM and Ms. Anna Tyler (New Zealand), Chairperson of CFI. Mr. John Leigh (Peru), Vice-Chairperson of the Council chaired the Joint Session of All Committees. The list of participants is presented in document ITTC(LIV)/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(LII)/1 was duly adopted. The Joint Session of the CEM and the CFI met on 5, 7 and 8 November to consider items 1, 2, 3, 6, 7, 8, 9B, 10, 11, 12, 13, 14 and 15 of the Agenda. The Joint Session of All Committees met on 6 November 2018 to consider items 4, 5 and 9A of the Agenda.

### 3. Admission of Observers

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

### 4. ITTO Annual Market Discussion – 2018

The Committees noted the summary of the ITTO Annual Market Discussion – 2018, held in the Joint Session of All Committees on 6 November 2018, as contained in Appendix A. The theme of the Market Discussion was “Private Sector Tropical Timber Promotion Initiatives – An Opportunity for Collaboration”. Mr. André de Boer (TAG Co-coordinator) chaired the Market Discussion.

The following feature presentations were made during the Market Discussion (available on [www.itto.int](http://www.itto.int)):

Mr. Benoît Jobbé-Duval, Managing Director  
Association Technique Internationale des Bois

*Fair and Precious, the Umbrella Brand to Support Certified Tropical Timber*

Ms. Françoise van de Ven, Secrétaire-Générale  
Union des Forestiers Industriels du Gabon et Aménagistes (UFIGA)

*Tropical Forest, Legality, Sustainability, Certification and .... Soccer Fields!*

Dr. Qian Meng, Research Associate  
Research Institute of Forestry Policy and Information  
Chinese Academy of Forestry

*The Newly Launched Global Green Supply Chain (GGSC) – A Chinese Private Sector Initiative for Sustainable Timber Purchasing*

Mr. Eric D. de Munck, MSc.  
Netherlands Timber Trade Association (NTTA)  
Timber Information Centre

*Strengthening Sustainable Tropical Timber in Civil Works – a Dutch Private Sector Promotion Initiative*

Mr. Ngo Sy Hoai, Vice Secretary General  
Vietnam Timber and Forest Products Association  
Secretary General, Vietnam Forester Club

*Promoting Partnership between Private Sector and Small Households for Sustainable Production and Marketing of Planted Wood in Vietnam*

Mr. Gleisson Tagliari, Director  
Mato Grosso State Timber Production and Exportation Industries Center (CIPEM)

*Responsible Production – Forest Guardians*

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

*North America – A Multi-Modal Collaborative Tropical Timber Promotion Strategy*

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

5. 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-53.

In its general findings and recommendations, as derived from the appraisal of 39 proposals (33 projects and 3 pre-projects), the Fifty-third Panel noted that the quality of the proposals improved in comparison to those assessed in the previous Panel, which is reflected by the fact that:

- Five (5) Proposals (13 percent of the total) received a category 4, indicating that the Expert Panel does not commend these to the Committee for approval as they require complete reformulation;
- Eighteen (18) Proposals: 1 Pre-project and 17 Project Proposals (46 percent of the total) will be sent back to proponents for essential revisions, rated as category 2;
- Sixteen (16) Proposals: 2 Pre-project and 14 Project Proposals (41 percent of the total) were commended to the Committee for final appraisal with minor modifications required (category 1).

Only 3 of the total 39 proposals were categorized under Forest Industry, 5 were categorized under Economics, Statistics and Markets and 31 (79%) under Reforestation and Forest Management. Government agencies submitted 15 proposals, research organizations submitted 13 proposals, and NGOs submitted 11 proposals. Only 2 proposals were submitted from a Women's Association and none from youth related Associations. Only one proposal focused on transboundary conservation and two proposals were focused specifically on gender issues. Although the Panel noticed that more proposals included gender aspects, there is still a need to further integrate gender according to the ITTO Policy Guidelines on Gender Equality and Empowering Women (GEEW).

The presentation also highlighted general findings and recommendations of the Expert Panel at its Fifty-third meeting, which include the need to include relevant elements from the ITTO Policy Guidelines on Gender Equality and Empowering Women (GEEW) and the Guidelines for Environmental and Social Risks and Impacts Assessment in ITTO Projects in the Panel members' Scoring Sheet.

6. New Projects and Pre-projects

The Committees noted the projects that were approved in September 2018 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-third Meeting as follows:

<b>Committee on Economics, Statistics and Markets</b>		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 844/17 Rev.2 (M)	Promotion Plantation of the Locally Endangered Species Timoho ( <i>Kleinhovia hospita</i> ), Mentaok ( <i>Wrightia pubescens</i> ) and Terbelo Puso ( <i>Hymenodictyon Orixense</i> ) to Enhance Sustainable Use, Local Communities Livelihood and Culture	Indonesia

<b>Committee on Forest Industry</b>		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 841/17 Rev.2 (I)	Building Partnerships Among Actors Involving in Acacia and Eucalyptus Value Chain in Vietnam	Vietnam
PD 870/18 Rev.1 (I)	Developing Effective System for Sustainable NTFP Utilization through Forest Management Unit Engagement to Improve Community Livelihoods in Nusa Tenggara	Indonesia

7. 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 (LII)/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**

1. 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
2. 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
3. PD 815/16 Rev.2 (I) Increasing Efficiency of Acacia Plantation and Timber Processing Industry in Vietnam

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

**Committee on Economics, Statistics and Markets**

1. PD 791/15 Rev.3 (M) Community Forest Landscapes and Small Enterprises Contributing to Legal Timber Trade in Ghana
2. PD 796/15 Rev.2 (M) Establishing a System for the Collection, Storage, Processing and Dissemination of Forest and Wildlife Statistics in Cameroon
3. PD 819/16 Rev.2 (M) Market Survey for Forest Products in Peru
4. PD 832/16 Rev.2 (M) Implementing Mechanisms to Improve Traceability in the Forest Production Chain in Guatemala
5. PD 839/17 Rev.1 (M) Strengthening and Consolidating the National Process for Controlling Illegal Logging and Associated Trade in Cameroon – Phase 2

6. PD 844/17 Rev.2 (M) Promotion Plantation of the Locally Endangered Species Timoho (*Kleinhovia hospita*), Mentaok (*Wrightia pubescens*) and Terbelo Puso (*Hymenodictyon Orixense*) to Enhance Sustainable Use, Local Communities Livelihood and Culture (Indonesia)
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 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)
2. PD 761/14 Rev.2 (I,M) Promoting Partnership between Farmer Group and Forest Industry (Indonesia)
3. 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
4. PD 841/17 Rev.2 (I) Building Partnerships Among Actors Involving in Acacia and Eucalyptus Value Chain in Vietnam
5. PD 870/18 Rev.1 (I) Developing Effective System for Sustainable NTFP Utilization through Forest Management Unit Engagement to Improve Community Livelihoods in Nusa Tenggara (Indonesia)

The Committees held discussions on the following projects:

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

- 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)

The Committee noted that this project is expected to submit its final report and financial audit soon and should be reported complete at the Committee's next session.

- PD 692/13 Rev.1 (M) Implementation and Operationalization of a National Information System for the Sustainable Management of Forest Resources (Côte d'Ivoire)

The Committee noted that this project is expected to submit its final report and financial audit soon and should be reported complete at the Committee's next session.

- PD 756/14 Rev.1 (M) Development of a Business Management Service Program of Forest MSMEs (Micro, Small and Medium Enterprises) in Guatemala

The Committee noted that this project was now complete and was therefore considered under Item 8.

PD 796/15 Rev.2 (M)

Establishing a System for the Collection, Storage, Processing and Dissemination of Forest and Wildlife Statistics in Cameroon

The delegate of Cameroon reminded the Committee that this project had been partially financed by the USA which had pledged US\$80,000 at the Fifty-third Session of Council. She thanked the USA for its pledge and requested that donors give special attention to providing the remaining funds (US\$487,627) to allow the project to be implemented. The Secretariat informed that Cameroon could maintain the project's approved status under the sunset clause by sending a letter requesting this to the Executive Director.

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

PD 815/16 Rev.2 (I)

Increasing Efficiency of Acacia Plantation and Timber Processing Industry in Vietnam

The Committee noted that this project had commenced during 2018 without full funding of the approved budget (i.e. an amount of US\$26,480 is still required from donors to fully finance the project). The Committee urged Council to immediately provide the remaining funding to this project to allow all of its objectives to be achieved.

#### 8. Report on Completed Projects and Pre-projects

The Committees considered the Report of Completed Projects and Pre-projects as contained in document CEM-CFI (LII)/3 and additional information presented during this Session as follows:

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

PD 756/14 Rev.1 (M)

Development of a Business Management Services Program of Forest MSMEs (Micro, Small and Medium Enterprises) in Guatemala

The Committee noted that the final report and financial audit of this project had recently been submitted to and approved by the Secretariat. The representative of Guatemala (Mr. Bruno Arias) provided a summary of the outputs of the project and its importance to the country and its many small and medium sized forest enterprises. He thanked the project donor (USA) for its support. The Secretariat noted that the pending finance project PD 832/16 Rev.2 (M) to implement traceability in the Guatemalan forest sector (including for SMEs) was a follow-up to this project. The final report is available (in Spanish) from the Secretariat. The Committee duly declared the project complete.

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

PD 600/11 Rev.1 (I)

Model Capacity Building for Efficient and Sustainable Utilization of Bamboo Resources in Indonesia

The Committee took note of the completion report contained in document CEM-CFI(LII)/3 and the presentation made by Ms. Desy Ekawati, the project coordinator.

All activities of the project have been carried out and outputs achieved satisfactorily. The project has contributed to the improvement of the management utilization of bamboo resources for their sustainable use and provided benefits to local communities

The delegation of Indonesia thanked the donor countries: Japan, USA and Australia and reported that the project's activities have been continued. A platform, '1000 Bamboo Village Development', has been established to promote national bamboo development.

The delegations of Japan, USA and Thailand expressed their appreciation of the successful implementation of the project and acknowledged the excellent communication vehicles/promotional materials produced by the project. The delegation of Japan in particular acknowledged the effective management and supervision of the project by ITTO and suggested that the project's activities be replicated in other countries. The delegation of USA recommended the production of communication vehicles of similar quality for ITTO's fundraising efforts.

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

9. 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 at this Session. The Joint Session of All Committees was informed that a Thematic Group assessment on Forest Rehabilitation, Landscape Restoration, and Secondary Forest Management under CRF will be conducted in 2019 in cooperation with IUFRO and other relevant organizations/institutions when the necessary ex-post evaluation funds are made available.

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

The Secretariat informed the Committees that all resources of the pooled ex-post evaluation fund had been used to resolve the financial impairment and that it would therefore not be possible to select projects for ex-post evaluation at this Session unless voluntary contributions were pledged specifically for this purpose. The Committees did not select any projects for ex-post evaluation at this Session.

10. Policy Work

Five issues/activities under the CEM and one issue 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 2017-2018 (Appendix C). Four legislative instruments, the EU Timber Regulation, the Lacey Act Amendments, the Illegal Logging Prohibition Act of Australia and the Clean Wood Act of Japan are all in force, regulating timbers entering into the timber markets in EU member states, the United States, Australia and Japan. Meanwhile, attention should also be given to updates of CITES and Regional Trade Agreements (RTAs) in order to be fully informed of market access.

The US delegation commented that in addition to the EUTR, Lacey Act and Clean Wood Act of Japan, there are some other countries with legality legislation related to tropical timber. The update in the future should include the Republic of Korea's new legislation as well as the development in VPA negotiations in Viet Nam. This is also the type of discussion included in APEC's Expert Group on Illegal Logging and Associated Trade (EGILAT). ITTO has been invited by APEC to attend its meetings in the past to build a closer relationship with EGILAT.

The delegation of Japan requested that the Secretariat share information on market access through the ITTO Newsletter and Forest Update as well as its website. Japan is also collecting information on forest legislation and related matters in relevant producer countries as part of its effort to provide a web-based information platform for its wood importers seeking to comply with its Clean Wood Act. The Secretariat noted in relation to this that it had been successful in submitting a bid to the Japan Forestry Agency during 2018 to assist in the collection of the relevant information for the Clean Wood Act website. The contract signed between ITTO and the Japan Forestry Agency provided a total of US\$400,000 for ITTO to collect relevant information in Brazil, Ecuador, Laos, Philippines and Thailand. This work is now underway and will be complete by March 2019. In response to a question from the delegation of USA, the Secretariat and the delegation of Japan clarified that the information being collected for the Clean Wood website included relevant forestry legislation, permits and other clearances required for legal export, etc. There was no intention to make judgements on the legality status of any specific shipments of wood or the effectiveness of specific legislation or other processes. The Committee recommended that the Secretariat provide a follow-up report on the implementation of this work at its next Session under this agenda item.

The delegation of Republic of Congo raised the recent listing of bubinga in CITES Appendix II and noted that in fact the bubinga species that existed in his country were not endangered or threatened. The Secretariat noted that the bubinga Appendix II listing covered 3 species in the *Guibourtia* genus and that all exports of these 3 species by any country required a certificate of legal production and a non-detriment finding (essentially a statement by the CITES Scientific Authority that the export of a specimen was not detrimental to its survival in the wild) to comply with CITES regulations. Support for Congo's efforts to manage bubinga could be sought from ITTO or through the CITES Tree Species Program (which would be discussed in Council).

(ii) Forest and Timber Certification

The Secretariat reported (Appendix D) on recent developments in forest certification in ITTO producer member countries. In 2017, the total area of certified forests in ITTO producer member countries was 56.3 million hectares (up 7.9%), accounting for 9.9% of the world's total area of certified forests of about 512 million hectares. The number of Chain of Custody certificates (CoCs) in ITTO producer member countries was 3,405 (up 4.4%), accounting for 7.5% of world global CoCs.

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

Ms. Frances Maplesden, consultant, presented selected data and analysis from the draft Biennial Review and Assessment of the World Timber Situation 2017-2018, focusing on the global trade in secondary processed wood products. The difficulties in tracking the volume of trade in tropical SPWPs were noted. Some of the tropical exporters had recorded significant growth in exports of SPWPs, particularly Vietnam, although it could be assumed that a proportion of China's exports were of tropical origin, given the volume of imports of tropical primary wood products. China accounted for nearly one-third of global wooden furniture exports in 2017, although its cost competitiveness was declining, leading to a shift in lower cost manufacturing to some of the other Asian tropical producer countries. Demand for SPWP imports continued to be dominated by the USA, EU countries and Japan, and closely linked to construction activity in those markets. While US housing starts and growing consumer confidence had pushed up demand levels in the US markets, in the EU construction activity overall had remained subdued with low demand levels leading to intense competition.

(iv) Progress report on Independent Market Monitoring of FLEGT-licensed timber in 2018

The Secretariat provided a brief summary of progress in implementing the IMM project under the 2018-19 BWP. The IMM was established under an EU-funded ITTO project to support the implementation of bilateral voluntary partnership agreements (VPAs) between the EU and timber-supplying countries and to analyze their market impacts. VPAs are a key element of the EU's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan and the EU Timber Regulation (EUTR), which define the EU's policy for promoting legal logging and the trade of legal timber.

The IMM 2017 annual report has been completed and will be published on the IMM website soon. The progress report for 2018 is being prepared now along with the audit required by the EC in order to release the next instalment of funds. The progress report, financial audit and request for the third instalment of funds will be sent from ITTO to the EC before the end of November. A budget neutral request to extend the implementation period of the contract signed with the EU/EC governing implementation of the IMM project was approved in October 2018 so the project will now run until the end of 2021.

The IMM lead consultant (Sarah Storck) and market analyst (Rupert Oliver) presented progress achieved by the IMM project during 2018 to the Committee. Work undertaken in 2018 included a survey of furniture importers (published as part of ITTO's Technical Series), several trade consultations and a survey of 96 companies in Europe on the impact of the Forest Law Enforcement, Governance and Trade (FLEGT) timber legality initiative. The latter survey found that most companies now consider that FLEGT licensing is making it easier to import timber products from Indonesia (to date, Indonesia is the only country to have commenced exporting VPA-licensed timber, although there are another 14 countries engaged in various levels of VPA negotiations with the EU).

The presentation also focused on Europe's timber imports and the extent of these imports accounted for by Indonesia and other VPA countries. It also highlighted the falling share of the EU in global tropical timber imports and provided reasons for this falling share. Recommendations arising from the 2018 work

included the need for more promotion for licenced wood products, consistent implementation of the EUTR and wider geographic representation of countries selling FLEGT-licenced timber.

Discussion focussed on steps that could be taken to promote and grow the market for tropical timber in Europe and the role of trade associations in adopting codes of conduct for members and encouraging use of FLEGT-licenced timber. The delegates of Germany and Mexico expressed regret that recent ITTC Sessions had allocated insufficient time to discuss market related issues. The Committees recommended that adequate time for discussions be provided at future ITTO sessions for market related issues, such as allocating a full day of the Council Session for the market discussion, the IMM progress report, CITES matters, statistical reviews, etc.

(v) Items for CEM Policy Work for 2019

The Committee considered and agreed on the following items for discussion under its policy work agenda in 2019:

- Market access;
- Forest and timber certification;
- Clean Wood progress report (see item (i) above); and
- IMM progress report.

**Committee on Forest Industry**

(i) Items for CFI Policy Work for 2019

The CFI decided to add a new item: 'Enhancing conservation and sustainable management of teak forests in Greater Mekong Sub-region' to report the progress of the Activity No. 4 of BWP 2018-2019 recently funded by the Government of Germany, to its Policy Work agenda at its next Session.

11. Election of Chairpersons and Vice-Chairpersons for 2019

Following the usual consultations undertaken by the producer and consumer groups, Mr. Bruno Mfou'ou Mfou'ou (Cameroon) was elected Chairperson of the CEM for 2019. Mr. Mohd Kheiruddin Mohd Rani (Malaysia) was elected Chairperson of the CFI for 2019. Ms. Catherine Karr-Colque (USA) was elected as Vice-Chairperson of the CEM and CFI for 2019.

12. Dates and Venues of the Fifty-third and Fifty-fourth Sessions of the Committees

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.

The Fifty-fourth Session of the Committees will be held in conjunction with the Fifty-sixth Session of the International Tropical Timber Council in 2020.

13. Other Business

(i) The Secretariat informed the Committees that as part of the Organization's fundraising efforts, ITTO had submitted a proposal in 2018 to assist the Japan Forest Agency in collecting data on tropical countries' forestry legislation and relevant measures to control illegal logging and illegal forest products trade to be included in a website maintained by the Forest Agency that will inform implementation of the country's Clean Wood Act. This proposal had been successful and ITTO had received US\$400,000 under a contract with the Japan Forestry Agency for this work. ITTO is now working with consultants and governments in Brazil, Ecuador, Laos, Philippines and Thailand as well as the Japanese NGO Institute for Global Environmental Strategies (IGES) to implement this contract. The Committees decided that a follow-up report on this work be provided under the agenda item for Policy Work under the CEM at its next Session.

(ii) The Secretariat introduced a draft concept note for a Central American regional timber tracking proposal which had been developed as an example of the type of fundraising initiative that the Organization may consider under the "business lines" approach being discussed by Council during this Session. ITTO intends to continue working on this proposal (covering El Salvador, Guatemala, Honduras and Mexico), which could also be submitted to the next regular project

cycle. The Secretariat will provide an update to the next Session of the Committees if the work described in the draft concept note is carried forward with support from any funding source.

14. 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 2018:

**Committee on Economics, Statistics and Markets**

PD 844/17 Rev.2 (M) Promotion Plantation of the Locally Endangered Species Timoho (*Kleinhovia hospita*), Mentaok (*Wrightia pubescens*) and Terbelo Puso (*Hymenodictyon Orixense*) to Enhance Sustainable Use, Local Communities Livelihood and Culture (Indonesia)[US\$592,051]

**Committee on Forest Industry**

PD 841/17 Rev.2 (I) Building Partnerships Among Actors Involving in Acacia and Eucalyptus Value Chain in Vietnam [US\$427,784]

PD 870/18 Rev.1 (I) Developing Effective System for Sustainable NTFP Utilization through Forest Management Unit Engagement to Improve Community Livelihoods in Nusa Tenggara (Indonesia)[US\$605,555]

- (ii) The Committees recommended that funding for the pending amount be made immediately available for the following project which is currently operational:

**Committee on Forest Industry**

PD 815/16 Rev.2 (I) Increasing Efficiency of Acacia Plantation and Timber Processing Industry in Vietnam [US\$26,480]

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

**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 796/15 Rev.2 (M) Establishing a System for the Collection, Storage, Processing and Dissemination of Forest and Wildlife Statistics in Cameroon [US\$487,627]

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 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]

- (iv) The Committees recommended that adequate time for discussions be provided at future ITTO sessions for market related issues, such as allocating a full day of the Council Session for the market discussion, the IMM progress report, CITES matters, statistical reviews, etc.

15. Report of the Session

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

## APPENDIX A

**REPORT ON THE ITTO ANNUAL MARKET DISCUSSION - 2018**  
**“Private Sector Tropical Timber Promotion Initiatives – An Opportunity for Collaboration”**  
**6 November 2018, Yokohama, Japan**

The theme of the 2018 Annual Market Discussion organised by the ITTO Trade Advisory Group (TAG) was private sector tropical timber promotion initiatives - an opportunity for collaboration.

Despite advances in sustainable tropical forest management, certification and legality verification, tropical timber traders continue to be challenged by changes in the species and products exported and loss of market share to engineered wood and, worse from an environmental perspective, alternative materials.

Efforts are being directed to market promotion to win over consumers. Speakers from Gabon, Vietnam, France, USA, Brazil, China and the Netherlands discussed how they perceive and approach tropical timber market promotion and ideas for innovative activities to recapture market share.

Seven speakers addressed Council on tropical timber promotion initiatives;

Mr. Benoît Jobbé-Duval, Managing Director Association Technique Internationale des Bois	<i>Fair and Precious, the Umbrella Brand to Support Certified Tropical Timber</i>
Ms. Françoise van de Ven, Secrétaire-Générale Union des Forestiers Industriels du Gabon et Aménagistes (UFIGA)	<i>Tropical Forest, Legality, Sustainability, Certification and .... Soccer Fields!</i>
Dr. Qian Meng, Research Associate Research Institute of Forestry Policy and Information Chinese Academy of Forestry	<i>The Newly Launched Global Green Supply Chain (GGSC) – A Chinese Private Sector Initiative for Sustainable Timber Purchasing</i>
Mr. Eric D. de Munck, MSc. Netherlands Timber Trade Association (NTTA) Timber Information Centre	<i>Strengthening Sustainable Tropical Timber in Civil Works – a Dutch Private Sector Promotion Initiative</i>
Mr. Ngo Sy Hoai, Vice Secretary General Vietnam Timber and Forest Products Association Secretary General, Vietnam Forester Club	<i>Promoting Partnership between Private Sector and Small Households for Sustainable Production and Marketing of Planted Wood in Vietnam</i>
Mr. Gleisson Tagliari, Director Mato Grosso State Timber Production and Exportation Industries Center (CIPEM)	<i>Responsible Production – Forest Guardians</i>
Ms. Cindy Squires, Executive Director International Wood Products Association (IWPA)	<i>North America – A Multi-Modal Collaborative Tropical Timber Promotion Strategy</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 2018 ITTO Annual Market Discussion can be accessed on ITTO's website ([www.itto.int](http://www.itto.int)).

### Summary of Presentations

#### *Fair and Precious, the umbrella brand to support certified tropical timber*

Mr. Jobbé-Duval explained that the “Fair and Precious” brand was launched in 2017 to fill a gap in promotion which so far had failed to ensure widespread awareness of the social, environmental and economic benefits of certified tropical timber. Fair and Precious is a collective brand – not a label – for certified tropical timber, which currently covers FSC and PEFC products from the Congo region and targets the European market. However, the brand could include other forms of certification and products from other tropical regions. There is also nothing to prevent the brand being used for promotion in other export regions.

Supporters of the brand commit to the Fair and Precious manifesto encapsulated in 10 principles that parallel closely the UN Sustainable Development Goals, for example to ensure that forests are conserved, biodiversity is protected, support is provided for social infra-structure such as schools and health care, to add value to the resource, provide training, and encourage responsible purchasing of tropical timber. ATIBT has commissioned studies to inform and build on the commitments, for example a recent assessment of biodiversity impacts of sustainable natural forest management in the Congo basin.

At present the brand is supported by six operators supplying certified timber from the Congo region and is also backed by a wide range of other official partners. Mr. Jobbé-Duval ended with a call for a wider range of organisations to support the brand.

*“Tropical forest, Legality, sustainability, certification and ..... soccer fields!”*

Ms. Françoise van de Ven began with the observation that the link between soccer and tropical forests is usually negative – deforestation is often described in terms of the number of soccer fields lost every minute. Ms. Van de Ven would return to this theme later, but first went on to describe the concerted efforts being made in Gabon to protect forests and the work underway to promote these efforts outside Gabon.

Ms. van de Ven observed that the timber sector in Gabon, which still has 85% forest area, required mandatory compliance to a whole range of regulatory codes covering not only forestry operations, but also issues such as labour relations, taxation, and timber utilisation. A draft forest sector investment code has also been prepared. The regulatory system is itself designed to deliver a sustainable forestry sector. A new forestry code has been developed by consensus by a multi-stakeholder working group involving government, industry and civil society. The text of the new code is now being considered by Parliament in Gabon and is expected to be agreed in 2019. In addition, the Gabon government has just set a target of 2022 for all concessions in the country to be certified and work is underway to develop an implementation strategy.

Although Gabon is negotiating a VPA, signing the agreement has been delayed so far, not because Gabon is uninterested but to allow progress of other countries that have already signed to be monitored and to learn from their experience. Ms. van den Ven said the requirements of the VPA are known to be very exacting, particularly the need to apply to all exporters, however this also has the advantage of ensuring all operators comply with the same standard.

On promotion and marketing, Gabon producers are working closely with ATIBT in support of the Fair and Precious brand. However, Ms. van de Ven also said that forest companies are poor communicators and need to be more innovative and to develop new strategies to change the narrative surrounding tropical forestry. A key message to the consumer is that sustainable tropical forestry not only involves no land use change but actively enhances conservation as well as providing economic and social values.

*Global Green Supply Chain (GGSC), a Chinese private sector initiative for sustainable timber purchasing*

Dr. Meng introduced the newly launched GGSC, noting as background the rapid growth of China's economy which has driven a massive increase in timber consumption to around 580 million m<sup>3</sup> in 2016. Dr. Meng proposed that ITTO could support the development of an international standard for verification of legality. It was noted that at present even companies implementing the best available certification standards struggle to provide assurances of legality and sustainability acceptable in international markets.

Dr. Meng said that GGSC was launched earlier this year with 12 initial members with a total turnover of US\$13 billion including some of China's largest flooring and plywood enterprises. GGSC has established a promotion committee with members from the enterprises, together with government, research, and international agencies. The aims of GGSC are: to establish an orderly and sustainable supply chain; to stabilise the resource base; increase opportunities for market access; and to raise awareness of legality and sustainability. Main tasks include organisation of conferences, workshops, trade negotiations, and overseas visits, and to build capacity and inform the market and media about the global green supply chain.

GGSC has developed a draft roadmap with ITTO assistance. An immediate objective is to identify trade and industry associations in producer countries willing to act as focal points and to sign an MoU including a commitment to implement a series of GGSC guidelines. Dr. Meng encouraged associations and other interests to contact the GGSC secretariat for further information on how to become GGSC focal point or to contribute to the work of the GGSC promotion committee.

*Strengthening Sustainable Tropical Timber in Civil Works – a Dutch private sector promotion initiative*

Mr. de Munck spoke about private sector promotion initiatives led by Centrum Hout in the Netherlands to increase demand for tropical timber in civil works. As background Mr. de Munck explained that Centrum Hout is a collaboration between the Netherland Timber Trade Association (NTTA) and Dutch Timber Industry Association (NBvT). He observed that the construction sector in the Netherlands, which the main source of demand for tropical wood in the country, was hard hit by the financial crises which led to a sharp downturn in activity in the 2012-14 period. While the economy is growing rapidly again, consumption of tropical timber in the Netherlands in 2017 was only around half that typical before the financial crises.

The Dutch timber trade and industry has taken a proactive approach to develop the green supply chain during the last 20 years, setting ambitious sustainability criteria for all members of the Netherlands Timber Trade Association (NTTA) that together account for 80% of tropical timber imports. NTTA now has a target of 90% wood to be certified sustainable by 2020. Through development and communication of this policy, the trade is recognised by government and NGOs as a credible partner.

However, Mr. de Munck also emphasised that certification alone “will not get the wood sold”. There also needs to be a strong focus on improving competitiveness relative to other materials such as PVC which is gaining market share. Centrum Hout has developed campaigns targeting specific end use applications. For example, one plan which aims to increase use of certified tropical timber in water protection works is supported by 12 companies. All are provided with detailed technical and environmental guidance. Communication activity is also targeted at the most influential decision makers in the specification and procurement process. Civil engineers have been identified as a particularly crucial target group and there is a strong focus on direct contact with the largest engineering firms to identify their concerns and the information they need.

Centrum Hout has also commissioned work on life cycle assessment (LCA) and full life cycle costing studies to assess the relative environmental impact and costs of using different materials on a cradle to grave basis. Science-based LCA studies have shown that tropical timber from sustainably managed forests has a lower environmental impact than key competitors such as concrete, steel and composites. A free online carbon calculator has been developed to allow users to easily calculate the carbon footprint of sustainably sourced tropical timber products. Short fact-sheets engineers, architects and other specifiers have also been prepared covering a range of topics including carbon footprint, the circular economy, and technical properties of tropical timbers. Centrum Hout has established a task force to ensure an immediate expert response to policy and standards changes.

There are signs that these targeted campaigns are having an impact after two years of promotion. Mr. de Munck summed up with the message, “while we obviously have to promote sustainable forest management, it’s also important to share experience of best marketing practices, to carefully target communication, and above all to focus on the competition from other materials rather than competition between different wood products”.

*Promoting partnership between private sector and small households for sustainable production and marketing of planted wood in Vietnam*

Mr. Ngo Sy Hoai delivered a startling array of statistics to show that Vietnam is rapidly emerging as a major wood importer, producer and exporter. He noted that Vietnam, a country of 95 million people, has 11 million hectares of natural forest and 2.9 million hectares of plantation (mainly acacia, eucalyptus, melaleuca and pine). These plantations now produce 20 million cubic metres annually with another 1.0 million hectares of rubber plantation delivering 3.0 million cubic metres every year. The timber sector comprises around 4,500 enterprises, mainly SMEs, where the labour rate is between US\$250-300 per month. These enterprises export US\$8.0 billion to 120 countries and exports are rising by around US\$1 billion every year.

Most exports are further processed products, notably furniture, some panels and only a small quantity of primary products (rubberwood to China). Most exports are to the US, followed by China and EU. Manufacturers rely heavily on imported raw materials valued at US\$2.2 billion, mainly logs, sawnwood and wood-based panels. Every year Vietnam imports 7 million m<sup>3</sup> comprising many species from over 100 countries. The leading wood suppliers are China, USA, Cambodia, Thailand and Laos. Total timber demand in the country is around 31 million m<sup>3</sup> per year (not including paper).

Mr. Ngo Sy Hoai said that supply is a significant challenge with domestic production consisting mainly of small sized and poor quality logs while there is intense competition for stocks of good quality wood imported from overseas. Prices are also highly volatile. Another challenge is traceability due to the diversity of supply sources and the fact that most domestic plantations are owned by smaller households. There are over 1 million plantation smallholders in the country. At present only a very limited area is certified, mostly FSC, but Vietnam is now considering development of a national scheme for PEFC endorsement.

Vietnam signed the FLEGT VPA with the EU in October 2018 and will develop a TLAS covering both domestic and imported wood, although fragmentation of the resource and supply chain means this will be a significant challenge. Due to illegal logging, Vietnam is particularly taking steps to reduce imports from Cambodia and Laos.

In international markets, Mr. Ngo Sy Hoai said enterprises complain that “production costs continue to rise to satisfy importers demands for legality verification but there is no compensation just a ‘market’ premium but no ‘price’ premium”. Other challenges for the Vietnamese industry include lack of widely recognised brands and only indirect connection with overseas markets. Most exports are via operators in other countries and Vietnamese wood products are often sold under foreign brands.

Despite the challenges, Mr. Ngo Sy Hoai ended on a bullish note, “I believe for Vietnamese wood processing trading companies, the greater the pressure from the market and from our competitors, the faster we will grow!”

#### Responsible Production - Forest Guardians

Mr. Tagliari explained that the Mato Grosso State Timber Production and Exportation Industries Center (CIPEM) is a group of eight forest-based employers unions and is one of the most active in Brazil in representing the sector through dialogue with the Brazilian government, civil society. CIPEM also has an active trade promotion function.

As background, Mr. Tagliari said that Brazil has the second largest forest area in world after Russia, with 5.16 million km<sup>3</sup> of natural forest, of which 3.5 million km<sup>3</sup> is tropical. Almost 70% of this area is potentially available for timber production. Despite this vast resource, the forest sector represents only 1.1% of national GDP, with just US\$250 million dollars per year derived from tropical timber. There is enormous potential to increase the value of tropical timber production. Although Brazil is no longer a large exporter of tropical timber, it has a very strong internal market.

Mr. Tagliari described the far-reaching regulatory controls in Mato Grosso to ensure the sustainability of the forest resource and the steps now being taken to build a robust timber tracking system in the state which, from 2019, will provide an assurance of legality throughout the supply chain, from forest to finished product.

While the forest resource in Brazil offers many natural advantages and progress is being to verify legality, there are also numerous challenges. The industry is still widely regarded as the “great villain of the forest” and associated with forest destruction when the reality is that the industry depends on its long-term survival. Another challenge is that legislation changes too rapidly which in turn creates uncertainty and undermines investor confidence. The tropical wood industry in Brazil is still largely dependent on outdated equipment with low efficiency and capacity and there has been little progress to develop markets for value-added products.

Mr. Tagliari said that CIPEM has five main areas of activity: increasing industry representation in policy making and standards formulation; raising awareness of the positive contribution of the forest sector to the economy and environment; training for both employers and employees; R&D, particularly to develop new products; and marketing and promotion to encourage industry investment and greater market access.

Mr. Tagliari suggested three priorities for ITTO; to support research into innovative wood products; to improve forest monitoring and assessment of impacts; and to focus on positive marketing. He suggested that ITTO’s strong focus on SFM needs to be complemented by wider efforts to promote the technical properties of tropical timber, improve market access and to engage with the private sector. He concluded: “*how can there ever be sustainability without a strong market?*”

North America - A Multi-Modal Collaborative Tropical Timber Promotion Strategy

Ms. Squires explained that IWPA's membership captures the entire supply chain for tropical timber imports into the United States, including overseas producers, traders, and manufacturers. IWPA's objective is to build acceptance and demand for globally sourced products from sustainably managed forests.

Ms. Squires emphasised that marketing is not just about money, or even brand recognition, but is also dependent on building credibility and trust and careful targeting based on good data. This was illustrated by a high-profile campaign to market milk in the US which, following massive media exposure, achieved 91% recognition by the US adult population. However, the campaign failed to halt the slide in milk consumption. Analysis showed that this failure was partly because consumers' needs changed and partly because the health campaigns could be readily challenged.

Ms. Squires agreed with other speakers that sustainability is important, emphasising that meeting this need requires government, industry, and communities to work together, and that associations like IWPA have a role to play to help ensure that consumer demands for SFM are workable. There is still much work required to communicate the benefits of a working forest, and the industry needs to take advantage of emerging opportunities to work with other initiatives to help improve communication and leverage, for example on climate change.

Ms. Squires also noted that "while we talk a lot about SFM and legality, other consumer needs should also be considered and addressed". For example, there are a lot of questions about fitness for purpose, and rules for volatile organic compounds (VOCs). Also, many manufacturers now work to very tight technical specifications and will buy from suppliers able to operate within those tolerances. Industry needs to focus on identifying exactly who is influencing consumption and to better understand their needs.

It was also stressed that companies are best placed to understand and communicate about their own products and a role of industry marketing campaigns is to first identify areas where additional outside input is required and to develop mechanisms to better anticipate change. As an example, Ms. Squires highlighted the opportunity to improve regulation and monitoring, while actively facilitating trade in CITES listed species, by replacing existing paper-based CITES permitting systems with electronic systems. IWPA has identified this need and is now working with a range of agencies to bring about change.

Ms. Squires also highlighted the role of associations like IWPA to build capacity and increase policy leverage in an industry dominated by SMEs. It was noted that much of IWPA's recent work has been to assist small companies with regulatory compliance issues. IWPA has partnered with DFID and WRI to develop a due diligence training program offered both in the US and producer countries. This is not only about the Lacey Act, but also covers VOCs and other risk management issues.

Ms. Squires concluded by suggesting that to better promote tropical timber "we need to be thinking about building confidence in tropical timbers, making sure that they are sustainable and fit-for-purpose, and always with a laser focus on who our customers are and what are their needs".

### **Discussion and interventions**

The delegate from Guatemala, referring to the presentation on the Fair and Precious brand, emphasised the need for certification to be tailored to specific social, environmental and economic conditions of the producer country and for certification systems to be easily applied and accessible in the initial stages with the aim of gradually refining standards over time. He asked for comments from the panel on how to evolve these systems.

Mr. Jobbé-Duval responded that he agreed that certification had to be appropriate to local conditions, as illustrated recently by the difficulties experienced in Africa to implement FSC Motion 45 on Intact Forest Landscapes which was introduced without considering the practical implications in a region like Congo. Mr. Jobbé-Duval also commented that rewards for certification are not necessarily limited to the direct benefits of a price premium for the timber, and that there may be opportunities, for example, to encourage companies like Caterpillar supplying infrastructure and machinery to contribute to marketing of sustainable forest management in the tropics.

The delegate from Germany observed that few cases of illegal wood being placed on the market can undermine years of promotional effort to build reputation. It was noted that this remains an issue, with product testing in Germany identifying cases where species content has been falsely declared and that this

is a particular problem for complex finished products. It was asked how industry associations could help to address this problem.

Mr. de Boer, speaking on behalf of ETTF, noted that the association is very aware of this issue and acknowledged that instances of illegal timber in product are unacceptable and every effort is being made to eradicate this problem.

Ms. Squires observed that there are significant technical challenges to overcome to establish full traceability. An underlying problem is that supply chains have evolved over many years to deliver timber of specific grades and qualities in bulk for particular end-uses. To achieve that usually requires that material is aggregated from a large number of different forest sources. Now laws like EUTR and Lacey and other controls are demanding that supply chains also deliver traceability. Achieving both objectives of supply efficiency and traceability is particularly difficult when the supply chain is dominated by SMEs and forest ownership is fragmented. Ms. Squires suggested that “we need to be clear on what it is we want to achieve. Do we want to trace every single piece of wood back to source, or do we want to change behaviour?” A big part of the solution lies in training and improved supply chain management.

Mr. Ngo Sy Hoai said that he shares concerns about the difficulty of identifying species in manufactured products and that in Vietnam steps are being taken to encourage greater co-operation between manufacturers and farmers to improve uptake of certification, with many successes. However, he also noted that experience in Vietnam suggests most buying organisations now require furniture products to be manufactured in a single consistent species, and that the problem of mixing of unidentified species may be overstated. But he conceded it’s more likely to be a problem for panels than for solid timber.

The delegate from Australia observed that building codes can present significant obstacles to greater timber usage and asked Mr. de Munck if this is a problem in the Netherlands. Mr. de Munck said that Centrum Hout surveys indicated that in the Netherlands barriers are more usually knowledge-based than technical. However, there is work to be carried out to ensure that the positive attributes of timber, both technical and environmental, are fully recognised in government policy measures, for example on climate change and circular economy.

The delegate from New Zealand asked the panel to comment on the potential for blockchain technology to overcome the challenge of traceability. Ms. Squires said she was unaware of blockchain being used anywhere in the forestry sector, although Walmart have been trialing the technology for other products and, so far, are struggling to make it work effectively for complex mixed products. FSC and PEFC are also exploring blockchain, but nothing is yet implemented, while the CITES secretariat has issued a “blockchain challenge” to encourage innovation. Ms. Squires believes that CITES would be a good place to pilot the approach and suggested that a steering group of associations be set up to consider it. However, blockchain is a new technology and it is important not to oversell it. The first stage should be to improve the level of understanding and to carefully assess where the real potential lies.

The delegate from Congo said that the presentation on the GGSC was very enlightening, particularly given the widespread perception that Chinese companies are less focused than their European counterparts on Sustainable Forest Management. He congratulated ITTO on their support for this initiative

The Chair concluded the meeting by thanking all speakers and delegates and reiterated the proposal of the Timber Advisory Group that ITTO should commission a study to examine why the industry’s long-term commitment to sustainable forest management has yet to deliver anticipated market benefits. He also emphasised the need for more co-operation between producers and consumers to improve promotion of tropical timber internationally.

### **Theme for 2019 Annual market discussion**

The Trade Advisory Group (TAG) decided to defer its decision on the theme for the 2019 Annual Market Discussion. A theme will be conveyed to the ITTO Secretariat in advance of the next ITTC session.

## APPENDIX B

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

Presented at the 2018 Annual Market Discussion by  
Barney Chan (TAG Coordinator)  
6 November 2018

Chairman

Ladies and Gentlemen

Sustainability and legality in the tropical timber trade are crucial issues; nobody knows it better than members of the Trade Advisory Group.

This very point was obvious in the recent trade agreement between Canada, USA and Mexico which pointedly acknowledges the importance of Sustainable Forestry Management (SFM) and noted its importance in sustainable development, conservation and sustainable use of resources. The agreement highlights green managed forests' contribution to global environmental security as well as the critical role of forests in providing essential ecosystem services, job creation and alleviating poverty. Significantly, the agreement has provisions to combat the illegal trade in timber and also, quite importantly, includes support for SFM and legal trade.

But, not many final users are aware of the positive carbon effects of using tropical timber when compared to other materials even though ITTO has started some preliminary work on LCA studies. While ITTO should be supporting more work on LCAs, the Netherlands Timber Trade Association (NTTA) commissioned a LCA study on pile sheeting and found that tropical timber supersedes all competing material like steel and PVC in terms of carbon dioxide emissions. In the *Centrum Hout* of NTTA, there is an online CO<sub>2</sub> calculation tool, supported by factsheets on environmental scores, LCA, CO<sub>2</sub>, etc.

However, buyers and users of our wood products are not only looking at sustainability. They also want product reliability and quality. These are important considerations especially in the construction industry. Sadly, there are no universally accepted quality standards for in the international trade. There is a need for a process of certifying that a certain product has passed performance and quality assurance tests and meets qualification criteria stipulated in regulations or specifications.

In recent years, the CITES requirements have become a growing concern in some sectors of the market. The mechanics of administrating the certificates which are required under the different Appendices of CITES is proving to be challenging as some management authorities struggle with the paper work. TAG members feel that efficiencies could be gained if there was a system of e-permitting which was acceptable by all parties. TAG calls upon ITTO and CITES to work on an e-permitting system to enhance trade in CITES certified timber products.

ITTO seems to have lost the initiative gained from its early ground-breaking work on SFM. Today we have different definitions and expectations of sustainable forestry. Indeed the very prerequisite of SFM, "legality" is creating much confusion around the world. Today, the EU-TR, US Lacey Act and the Australian Illegal Logging Prohibition Act all have different definitions of "legality". Worse still, the definitions used by the world's leading timber certification schemes, FSC and PEFC, are not recognized in EU, USA and Australia and therefore do not provide a 'Green Lane' entry into the country. Producers have to consider at least five different approaches to basically the same concept --- legality. This is no joke for tropical timber producers and buyers who say they spend so much time and effort verifying legality that they do not have time to enhance their production or end uses of tropical timber.

In past years, TAG has called upon ITTO to work on a homogeneous definition of both legality and sustainability which everyone can use as this would add sorely needed clarity in the trade. It is time to re-visit this vexing issue.

The tropical timber trade in consumer countries is struggling because of declining market share, in part due to competition from engineered products and other substitutes. This is especially so in the EU.

Indeed the news is grim. In early 2018, a few European companies operating in Africa were badly hit. The French Group Rougier recently filed for bankruptcy blaming persistent difficulties in Cameroon, especially logistical problems in the port of Doula and a taxation system which undermined competitiveness.

Other European companies have scaled back or sold their operations in Africa. The Dutch firm Wijma had to sell several forest concessions in Cameroon to Vicwood, a Hong Kong-based company. Italian-owned Cora Wood, a renowned plywood manufacturer in Gabon, had to sell one of its concessions to a Chinese company. There are rumours that other European companies may soon exit Gabon and Congo. Certification cannot solve all our trade problems.

This is a big 'red flag' which our Organization should sit up and take careful note of. We should take time to work out what went wrong. We have to admit that business as usual is not good enough to save our industry and the forests. We have no choice but to be bold and look for answers outside our comfort zone. But the issues facing the tropical timber sector are huge and we are running out of time. At present ITTO has so few financial resources that our collective technical expertise cannot be deployed.

TAG was very encouraged to hear the Director General of the Japan Forestry Agency say that Japan is working to resume its voluntary contributions to ITTO. This is a very positive message. Meanwhile, all donors please consult among yourselves and take a brave step forward so ITTO can fulfil its mandate.

In conclusion:

ITTO has worked for 40 years on sustainability and trade promotion, yet tropical timber consumption in traditional markets has been declining for years. The TAG recognizes there seems to be a disconnect between ITTC and the timber industry which has allowed this to happen.

We propose a study be undertaken to uncover why SFM has not delivered the promise of an expanding market for tropical timber. From such a study, the ITTC could then decide upon a strategy to reverse this decline. If we do not act urgently, the conversion of tropical forest land will continue.

You, the Council members, have the answers. Let your actions in Yokohama demonstrate your collective commitment to the tropical forests of the world.

Thank you.

## APPENDIX C

### MARKET ACCESS

#### EUTR

In 2017, a number of European Commission Member States have stepped up enforcement efforts against noncompliant operators, including Sweden, UK, Germany, Netherlands and Denmark, showing that EUTR enforcement is being more effective in Member States. In addition, the EC launched legal proceedings in October 2017 for the first time against Member States for not enforcing the EUTR, sending a clear signal to all Member States to step up EUTR enforcement efforts.

In 2017 and early 2018, the Commission hosted 5 Expert Group meetings on the EUTR to share information and resources amongst Member States. A draft FLEGT Action Plan Work Plan document and new guidance documents on substantiated concerns and risk mitigation measures were adopted. The latest Timber Regulation Enforcement Exchange (TREE) meeting was held in October 2017, bringing together enforcement officials from EU, Australia and the US to support coordinated efforts to address the trade in illegal timber.

In addition, in early 2018, the EC launched and ran a public consultation on the EUTR product scope to gather evidence and views on whether the current product scope of the EUTR should be amended to a wider coverage for due diligence.

#### Lacey Act

Since 2008, the Lacey Act has set requirements for legality and declaration of a broader range of plants and plant products. To facilitate import declaration, USDA Animal and Plant Health Inspection Service (APHIS) has enforced ACE (Automated Commercial Environment) business rules since November 2016. In October 2017, USDA/APHIS announced an end to the blanket declaration pilot program in April 2018 which had been implemented since 2009, as importers move to the new ACE system.

In early 2018, USDA added two items to its regulatory agenda to address Lacey Act plant provisions, both of which are of substantial interest to wood products importers. USDA announced to solicit public comment on aspects of the Lacey Act declaration requirement for composite plant materials. USDA also announced to propose an exception to the declaration requirement for products that contain a minimal amount of plant material.

#### Australia Illegal Logging Prohibition Act

In early 2017, the 'soft start' period of the law, which was limiting enforcement action to serious or deliberate breaches of the law, came to an end so that it can now be fully enforced. In October 2017, the Australian government announced the introduction of a new 'deemed to comply' arrangement for FSC and PEFC certified products, which would exempt these products from the due diligence obligations. However, this exemption was blocked by Australian Senate in February 2018.

#### Japan Clean Wood Act

As a major timber importer, Japan developed a law to address illegal timber in the Japanese market. In May 2017, the Japanese "Clean Wood Act" entered into force, which requires all relevant businesses ("Wood-related Business Entities") to check the legality of the timber they import or trade. The Act also introduces a voluntary registration system for those Wood-related Business Entities that appropriately meet the requirements of the Act. With this law, Japan is joining the efforts of the EU, US and Australia in developing laws to stop illegally harvested timber from entering their markets, but there are some differences between the various approaches.

#### CITES

In July 2017, the EU announced funding of 7 million euro to support the CITES tree species programme, which includes 25 main exporting range States of CITES-listed tree species in Africa, Asia and Latin America. CITES Parties agreed to bring a further 300-plus tree species under CITES trade regulations at CITES CoP17 in 2016. As this programme used to be implemented by ITTO, CITES will continue to collaborate closely with ITTO in the implementation of this programme.

#### Regional Trade Agreements (RTAs)

In accordance with the facts and figures of WTO, as of December 2017, there were 290 RTAs that were in force and notified to the WTO, 18 agreements more than that in 2016. Among them, 13 RTAs involve ITTO producer members and more are under negotiation.

## APPENDIX D

### FOREST AND TIMBER CERTIFICATION

Two international certification systems, namely FSC and PEFC, continued to be the main schemes being implemented in ITTO producer member countries. The situation in 2017 for ITTO producer member countries in FSC and PEFC was as follows:

**FSC:** The FSC certified forest area reached 19.7 million hectares in ITTO producer countries by the end of 2017, which accounted for about 9.9% of global FSC certified forest area, a 3.7% increase on the previous year. Meanwhile, the number of CoC certificates reached 2,907 in ITTO producer countries, accounting for 8.6% of the world total. The top three countries with the highest FSC certified forest area in ITTO producer member countries are Brazil, Indonesia and the Republic of Congo. Brazil remained the most important with 6.4 million hectares of FSC-certified forest, while Indonesia reached 3.1 million ha with an increase of 11%, followed by 2.4 million ha in the Republic of Congo. For FSC-CoC certificates, Brazil tops the list with 1,016 certificates, followed by Vietnam (588 certificates) and India (409 certificates).

**PEFC:** The PEFC-certified forest area in ITTO producer countries reached 11.4 million hectares by the end of 2017, accounting for about 3.6% of the global area of PEFC-certified forest. Among three countries that had PEFC-certified forest area in ITTO producer member countries, Malaysia remained the most important, with 4.1 million hectares, a slight increase on the previous year. Indonesia replaced Brazil, increasing 98%, from 1.9 to 3.7 million ha., although Brazil's PEFC-certified forest area had increased by one-third to 3.6 million ha. Regarding PEFC-CoC certification, the number of CoCs reached 498 in ITTO producer countries, accounting for 4.3% of the world total. Malaysia remained in number one position with 356 (CoCs) Certificates.

As in previous years, PEFC continues to be the largest certification scheme in the world, with more than 60% of all certified forests globally. However, the share of FSC-certified forests was more than PEFC in ITTO producer member countries in 2017.

#### **National Schemes:**

In addition, three national certification systems, CERFLOR of Brazil, MTCC of Malaysia and IFCC of Indonesia had been endorsed by PEFC, and their certification statistics were included in PEFC statistics. The number of IFCC and CERFLOR certificates have increased rapidly and has been the main driver for the growth of certified forest area in ITTO producer member countries in 2017.

The other two national schemes of Indonesia remained at a similar level. The Indonesian Timber Legality Assurance System (the SVLK) had certified 22.9 million hectares of forest in 2017, a slight increase on 2016. The Indonesian Ecolabelling Institute (LEI) has 2.4 million hectares of certified forest, similar to the previous year.

\* \* \*