

Trade Statement. ITTC 57. 30 November 2021

Chairman,
Ladies and Gentlemen.

No, it is not business as usual.

The world-wide COVID-19 pandemic hit the timber trade badly in both ITTO Consumer and Producer countries. As the virus cases escalated from early 2020, many countries went into various levels of lockdowns which created very different challenges for Consumers and Producers.

The worst of the pandemic is over in the consumer countries and business is roaring. Members of the European Timber Trade Federation (ETTF) report strong business, in both the northern and southern European countries.

As business activity improved, prices and turnover rose strongly until markets suffered a shortage of products. Demand in the home improvement and DIY sectors were good in 2020, though not as good so far this year. However, wholesale was strong in both 2020 and 2021. Imports were quite good but suffered from severe disruptions in the supply chain.

In contrast to the recovery in the consumer countries, most tropical timber producer countries are still battling the virus. Manufacturers suffer from a lack of raw material, not only raw timber because no logging was taking place, but also a lack of imported materials. Manufacturing was badly hit when workers were laid off and driving many to go back to their rural homes thus creating labour shortage for the manufacturers. Moreover, in some countries, foreign workers are kept away because of closed borders.

Shipping continues to be a major problem. Even as demand picked up exports of finished products faced problems of shipping, both in terms of availability of containers and the high ocean freight charges. Shipping containers are still scarce in some regions. Some ports, like Los Angeles in the US, have ships in long queues waiting to berth, discharge or pick up. All these disruptions added up and resulted in higher production costs which have fed into prices for the buying public.

Allow me to illustrate these problems by looking at the example presented by Vietnam, one of the top players in timber trading. Vietnam imports timber raw material from 110 countries and exports wood products to 140 countries. As one example of increasing production costs, prices of timber from the US alone have gone up 20 - 30%. Container sea freight from Vietnam to North American and some European ports went from US\$ 2400 - 4000 per box in pre-COVID times to US\$ 15,000 - 18,000 per box, some even as high as \$20,000 in late 2021. Such outrageous increases understandably boosted speculation of price abuses by shipping companies. This is the reality faced by Vietnam and it is by no means unique to that country. ITTO producers face the same scenario in varying degrees.

However, these severe disruptions to our supply chain also present opportunities for us all, including our Organisation, to re-think about utilisation of recycled timber, timber from rehabilitated forests, young timber from plantations: all these material need significant R & D to come up with new engineered products which are acceptable to the markets.

Ladies and Gentlemen, there is a proposal for a new Regulation in EU concerning certain commodities and products associated with deforestation and forest degradation. We understand this is an enhancement of the existing EUTR, seemingly moving away from legality to sustainability in an effort to reduce the EU consumption footprint and to stop deforestation.

In general terms, TAG supports such a proactive move if it does not limit market access. However, there is serious apprehension over this proposal and TAG wants to draw the Council's attention to a few important points in this Proposal.

The proposed Regulation will only allow the import into the EU of commodities and products which are deemed to be "deforestation free" and it seems, "forest degradation free". Everyone knows that timber harvests from sustainably managed forests do not cause deforestation. We urge the EU to clearly articulate this in the proposed Regulation.

Another point of concern is "plantation products" since these appear unacceptable in the proposed Regulation. The EU draft has defined plantation as follows, and I quote:

'plantation' means trees established through planting and/or deliberate seeding of native or introduced species that is intensively managed and that at maturity is composed of one or two species, has one age class, and has regular tree spacing'.

This appears to suggest products from planted forests will be ruled out of the EU market. Every ITTO member country with forest plantations needs to take a close look at the proposed EU Regulation.

There are also other elements in the proposed Regulation which make us in the TAG feel uncomfortable. For example: The EU has introduced the conceptual label 'low risk country', even though this has yet to be defined. One can imagine the controversy for any country which is not labelled low risk. If not low risk, what does this imply?

More striking is the lack of recognition of both FSC and PEFC by EU. Certificates from FSC and PEFC must also play an important role in the new Regulation. They can prove that certified products originated from sustainable forestry and have nothing to do with deforestation.

EU recognises there are many drivers of deforestation. This new Regulation will also cover meat of bovine animals, cocoa, coffee, palm oil and soya beans.

EU is part of the ITTO family, so TAG calls on EU to engage with ITTO members, the Secretariat and national and international timber trade organisations, both inside and outside EU, to ensure any proposal is practical and workable on the ground. TAG also calls on ITTO to work with EU on this proposed Regulation, more so since the proposal referenced FAO but not ITTO.

Ladies and Gentlemen, over the years TAG has pointed out the apparent lack of interest shown by the Council to our Trade Statements. This has been disappointing since members of TAG are keen to share their vast experience and deep expertise in the timber trade with the Council.

Lately, some TAG members have been talking about a closer working relation with the Council. Indeed, there is also a sense that some Member Countries are also looking for a similar closer relationship. This trend seems clear in the Proposed ITTO Strategic

Action Plan (2022-2026) where there are many mentions of TAG and working with TAG. We look forward to the Council adopting this Proposed SAP. The sentiments in the proposed SAP have encouraged TAG to make a proposal of our own to Council on how to improve communications and engagements between the Council and the trade experts.

We propose sharing our document, TAG Alerts, with the Council in March and September, well in advance of our Council Sessions in November. TAG Alerts is a brief document of two pages containing not more than five points. These are pertinent points --- good or bad --- which TAG feel useful for ITTO Members to know, well in advance of our usual November meetings so that they can, if needed, be taken up in discussions in Council or Committees. This will be a more efficient way of keeping the Members updated on the latest development affecting the trade and industry. In addition to the TAG Alerts we are, of course, on standby should any request come during the year for trade related information.

Finally, Ladies and Gentlemen, Climate Change is very much in the news lately, especially with the Conference of Parties COP 26 in Glasgow. At least two initiatives directly related to forests and timber were launched in conjunction with COP 26. A coalition of timber industry associations is collectively hosting the 'World of Wood Festival' in London, online, and virtually for six weeks. The Tropical Timber Accord called for a global solution, not only by FLEGT, to incentivising international legal trade framework for tropical forest and forest product supply chain governance and management.

Headlines flashed around the world saying "More than 100 countries agree to end and reverse deforestation by 2030 at COP 26"(CNN). Such a clarion call may mislead the already confused people about the role of timber trade and deforestation. We call upon ITTO, as the global leader working with the tropical forests and trade, to stand up and state very clearly that HARVESTING TIMBER IS NOT DEFORESTATION.

We do not want the general public to take away the call for action in COP 26 as to mean avoiding the use of tropical timber products. On the contrary, we want COP 26 to galvanise more demand of sustainably produced tropical timber products as our contribution to Climate Change mitigations.

We want ITTO to make this call loud and clear.

Thank you.

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