



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

**COMMITTEE ON ECONOMICS,
STATISTICS AND MARKETS**

COMMITTEE ON FOREST INDUSTRY

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Virtual Session

REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

FIFTY-FIFTH SESSION OF THE

COMMITTEE ON ECONOMICS, STATISTICS AND MARKETS

AND THE COMMITTEE ON FOREST INDUSTRY

REPORT

1. Opening of the Session

The Fifty-fifth Session of the Committees was opened on 30 November 2021 at the Joint Session of the Committee on Economics, Statistics and Markets (CEM) and the Committee on Forest Industry (CFI), chaired by Mr. Zahrul Muttaqin (Indonesia), Chairperson of the Committee on Economics, Statistics and Markets (CEM) and the Committee on Forest Industry (CFI). The list of participants is presented in document ITTC(LVII)/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(LV)/1 was duly adopted. The CEM and the CFI met on 30 November 2021 to consider items 1, 2, 3, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15 of the Agenda. Items 4 and 5 of the Agenda were covered under the Council Agenda.

3. Admission of Observers

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

4. ITTO Annual Market Discussion – 2021

The Committees noted the summary of the ITTO Annual Market Discussion – 2021, held in the Joint Session of All Committees on 30 November 2021, as contained in Appendix A. The theme of the Market Discussion was “Challenges in Manufacturing and Trade during the COVID-19 Pandemic”. Mr. Barney Chan (TAG Co-coordinator) chaired the Market Discussion.

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

Mr. Ivan Tomaselli, President, STCP Brazil	<i>Impact of COVID-19 on the Latin American Forest Sector and Recovery</i>
Mr. Wu Shengfu, General Manager Beijing Greenwood Certification Co., Ltd.	<i>Challenges in Manufacturing and Trade during the COVID-19 Pandemic</i>
Mr. Bradley A. McKinney, Executive Director International Wood Products Association (IWPA)	<i>Challenges and Opportunities in International Wood Products Trade</i>
Mr. Benoît Jobbé-Duval, Managing Director Association Technique Internationale des Bois Tropicaux	<i>Major Challenges in Sustainable Tropical Timber Management and the Future of Tropical Forests</i>
Mr. Ernie Koh Jyh Eng, Executive Director, Koda Secretary General, ASEAN Furniture Industries Council	<i>ASEAN Furniture Production and Exports during this Pandemic – Multiple Challenges and Diverse Response</i>
Mr. Sigit Pramono, Senior Policy Analyst Ministry of Environment and Forestry, Indonesia	<i>Update on the Implementation of Indonesian TLAS (SVLK), FLEGT VPA, and Impact of COVID-19 Pandemic on Timber Exports from Indonesia</i>
Mr. Jan Hoffmann, Chief, Trade Logistics Branch Division on Technology and Logistics UNCTAD	<i>Presentation of the Review of Maritime Transport 2021</i>

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 Council considered the report of the Fifty-sixth Virtual Expert Panel for Technical Appraisal of Project Proposals presented by the Secretariat, as contained in document ITTC(LVII)/5.

The Fifty-sixth Panel appraised 14 proposals (9 projects and 5 pre-projects), including one proposal, i.e., PD 922/21 Rev.1 (I) 'Promotion of Sustainable Domestic Wood Consumption in Vietnam', resulting from a concept note submitted under the first call for concept notes under ITTO's new financing architecture – phase II in accordance with Decision 4(LVI). The Panel noted that:

- Five (5) Project Proposals: 3 Pre-projects and 2 Project Proposals (36 percent of the total) were commended to the Committee for final appraisal with minor modifications required (category 1);
- Seven (7) Project Proposals (50 percent of the total) will be sent back to proponents for essential revisions, rated as category 2;
- Zero (0) Project Proposal (0 percent of the total) received a category 3, indicating that the project requires a pre-project to better formulate a new proposal; and
- Two (2) Project Proposals: 1 Pre-project and 1 Project (14 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.

6. New Projects and Pre-projects

The Committees noted the project and pre-project that were approved in September 2021 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-sixth Meeting as follows:

Committee on Forest Industry		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 922/21 Rev.1 (I)	Promotion of Sustainable Domestic Wood Consumption in Vietnam	Vietnam
PPD 200/21 Rev.1 (I)	Capacity-Building of Woodworking Artisans in Southern Benin	Benin

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(LV)/2 and took note of progress in the implementation of the following projects and pre-projects. There was no discussion on them as there were no projects and pre-projects in progress that had implementation issues that required reporting to the Committees.

(A) Projects under implementation

Committee on Economics, Statistics and Markets

1. PD 732/14 Rev.2 (M) Improve Forest Governance in Mozambique
2. PD 832/16 Rev.2 (M) Implementing Mechanisms to Improve Traceability in the Forest Production Chain in Guatemala
3. PD 845/17 Rev.3 (M) Enhancing the Capacity of Forest Communities in Forest Governance, Monitoring and Community Development Projects in Mankraso Forest District Ghana

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
4. PD 922/21 Rev.1 (I) Promotion of Sustainable Domestic Wood Consumption in Vietnam

The Committees held discussions on the following projects:

Committee on Forest Industry

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

The Secretariat informed the members that the project activities have been successfully executed and the Executing Agency had submitted a satisfactory completion report and audited financial reports. The Committee duly declared the project complete.

- PD 922/21 Rev.1 (I) Promotion of Sustainable Domestic Wood Consumption in Vietnam

The Committees were informed that this project, previously listed under Projects and Pre-projects pending financing in the Agenda, arose from a concept note submitted under the call for proposals mandated by Decision 4(LVI). Following its approval in September 2021, the Japan Forestry Agency pledged funding to this project. The project agreement was signed on 14 October 2021 and first disbursement to the project was sent on 26 November 2021.

The representative of the Japan welcomed the start-up of this project and noted that his government is ready to support projects/concept notes with similar objectives submitted by member countries.

(B) Projects and Pre-projects pending financing

Committee on Economics, Statistics and Markets

1. PD 878/18 Rev.2 (M) Support for the Certification of National Teak Plantations of the National Timber Board (ONAB), Benin
2. PD 879/18 Rev.2 (M) Building the Capacity of the National Forest Information and Statistics System (Benin)
3. PD 913/20 Rev.1 (M) Strengthening Forest Monitoring and Extending the Coverage of the Traceability System in Panama

Committee on Forest Industry

1. PD 900/19 Rev.2 (I) Developing Gender Sensitive, Community-based Bamboo Industry Development to Support Sustainable Bamboo Resource Management and Conservation in Lake Toba Catchment Area (LTCA) of the North Sumatra Province of Indonesia
2. PD 912/20 Rev.1 (I) Strengthening Technical and Business Management in the Timber Forest Industry of Peru

3. PPD 195/19 Rev.2 (I) Pre-project for a Feasibility Study on Processing and Valorizing Timber in Togo
4. PPD 200/21 Rev.1 (I) Capacity-building of Woodworking Artisans in Southern Benin

The Committees noted that projects PD 878/18 Rev.2 (M), PD 913/20 Rev.1 (M), PD 912/20 Rev.1 (I) and PPD 195/19 Rev.2 (I) would lose their approved status under the sunset provision of Decision 2(X) before the next session of the Committees. The Committees decided to recommend all of the above projects for immediate funding.

8. Report on Completed Projects and Pre-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 Chairperson recalled that, after a long delay, the above project was declared complete at its Fifty-fourth Session in November 2020, with the financial account still containing an unspent balance of US\$61,045. The Secretariat informed the Committee that in Feb 2021, the Executing Agency (EA) submitted a request with detailed workplan for using these funds for implementing the “Additional Technical Functionalities of the National Forest Stocks Monitoring System (NFSMS)”. The EA committed to complete this work by September 2021 to allow a report to be presented to the Committee. Based on this workplan, it was agreed with the EA and ITTO’s auditors that if a satisfactory report on the use of the additional funds along with a detailed financial statement was not submitted to the Secretariat prior to ITTC 57, the agreement would be terminated and a refund would be requested. Unfortunately, due to various reasons including the COVID-19 pandemic, no reports have been received from the EA. The Secretariat will therefore terminate the agreement on the use of remaining funds and request the EA for a refund of the unspent balance. Unless there are problems in obtaining the refund from the EA, this project will not be brought back to the attention of the Committee.

The representative of the project donor (Japan) agreed with the termination procedure and urged the Executing Agency to submit a report and a detailed financial statement for the use of any of the remaining funds to the Secretariat as soon as possible. The Secretariat confirmed that the main part of this project was successfully completed with completion report and audited financial statement and the Secretariat will continue to work with the EA for refunding the unspent balance.

9. Ex-post Evaluation

(A) Ex-post Evaluation Reports

There were no ex-post evaluation reports on projects under CEM and CFI at this Session.

(B) Selection of Projects for Ex-post Evaluation

The Secretariat informed the Committees that the current balance available following consultation with donors on remaining monitoring and evaluation funds from completed projects for CEM is US\$57,930.26 and for CFI US\$15,000. It recommended that members review the table of recently completed projects contained in document CEM-CFI(LV)/1 with a view to making recommendation(s) for ex-post evaluation(s) at their next meeting when it will hopefully be possible to recruit consultants able to travel to project locations to undertake the evaluations.

The Committees agreed to defer selection of projects for ex-post evaluation to their next sessions.

The Secretariat informed the Committees of a proposal from Japan to fund an evaluation of ITTO projects completed in Africa under the current Strategic Action Plan as a contribution for TICAD 8 in July 2022.

10. Policy Work

Five issues/activities under the CEM and two issues under the CFI were considered by the Committees. Presentations on items (i), (ii), and (iv) are included in document CEM-CFI(LV)/Info. 1.

Committee on Economics, Statistics and Markets

(i) Market Access

The Secretariat reported on developments relating to market access for tropical timber in 2020, including on four major legislative instruments: the EU Timber Regulation, the U.S. Lacey Act Amendments, the Illegal Logging Prohibition Act of Australia and the Clean Wood Act of Japan, which are regulating timber entering into these markets. In addition, the update also covered legislative developments in other important timber markets, such as the Korean Revised Sustainable Use of Timber Act, Chinese Forest Law Amendment and Viet Nam – EU VPA/FLEGT Agreement, as well as the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

The representative of Peru recommended that all countries should try to develop due diligence protocols to verify timber from legal sources.

(ii) Forest and Timber Certification

The Secretariat reported on recent developments in forest certification in ITTO producer member countries. In 2020, the total area of certified forests in ITTO producing members was 35.9 million hectares, an increase of 11.4% from 2019, accounting for 6.6% of the world total. The number of chain of custody certificates in ITTO producer countries increased 20% to 4,990 in 2020 which accounted for 8.7% of the total in the world. The FSC certified forest area in ITTO producer countries reached 21.3 million hectares which was 9.6% of global FSC certified area, while the PEFC certified area reached 14.6 million hectares, accounting for about 4.5% of the world total of PEFC. The certification statistics of five national schemes, CERFLOR of Brazil, MTCC of Malaysia, IFCC of Indonesia, PAFC of Gabon and NCCF of India, had previously been endorsed by PEFC. Vietnam achieved the PEFC endorsement of its national systems (VFCO) in 2020, and Gabon, Cameroon and Congo submitted the regional system 'PAFC Congo Basin' for endorsement.

(iii) APEC EGILAT and ITTO collaboration

The Committee took note of the brief report contained on document CEM-CFI (LV)/1.

(iv) Progress report on Independent Market Monitoring of FLEGT-licensed timber in 2021

The consultants (Sarah Storck and Rupert Oliver) delivered a presentation on IMM informing the latest developments on Voluntary Partnership Agreement (VPA) and EU Timber Regulation (EUTR) related issues as contained in the detailed presentations in document CEM-CFI(LV)/Info. 1.

(v) Items for CEM Policy Work for 2022

The Committee considered and agreed on the following items for discussion under its policy work agenda in 2022:

- Market access;
- Forest and timber certification;
- APEC EGILAT and ITTO collaboration; and
- IMM progress report.

Committee on Forest Industry

(i) Enhancing conservation and sustainable management of teak forests in Greater Mekong Sub-region

The Committee took note of the brief report on this activity as contained in document ITTC(LVII)/11.

(ii) Items for CFI Policy Work for 2022

The Committee considered and agreed on the following items for discussion under its policy work agenda in 2022:

- Enhancing conservation and sustainable management of teak forests in Greater Mekong Sub-region

11. Election of Chairpersons and Vice-Chairpersons for 2022

Following the usual consultations undertaken by the producer and consumer groups, Ms. Ana Tyler (New Zealand) was elected as the Chairperson of the CEM and CFI for 2022. The name(s) of the Vice-Chair(s) will be communicated prior to the next Session by the producer group and will be announced to the Committees at their next Session for their adoption.

12. Dates and Venues of the Fifty-sixth and Fifty-seventh Sessions of the Committees

The Fifty-sixth Session of the Committees will be held in conjunction with the Fifty-eighth Session of the International Tropical Timber Council in 2022.

The Fifty-seventh Session of the Committees will be held in conjunction with the Fifty-ninth Session of the International Tropical Timber Council in 2023.

13. Other Business

None.

14. Recommendations to the International Tropical Timber Council

- (i) The Committees recommended that funding be made immediately available for the following pre-project approved under the time-bound electronic no-objection procedure for the project cycle 2021:

Committee on Forest Industry

PPD 200/21 Rev.1 (I) Capacity-Building of Woodworking Artisans in Southern Benin [US\$88,704]

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

Committee on Economics, Statistics and Markets

PD 878/18 Rev.2 (M) Support for the Certification of National Teak Plantations of the National Timber Board (ONAB), Benin [US\$444,752]

PD 879/18 Rev.2 (M) Building the Capacity of the National Forest Information and Statistics System (Benin)[US\$347,088]

PD 913/20 Rev.1 (M) Strengthening Forest Monitoring and Extending the Coverage of the Traceability System in Panama [US\$856,352]

Committee on Forest Industry

PD 900/19 Rev.2 (I) Developing Gender Sensitive, Community-based Bamboo Industry Development to Support Sustainable Bamboo Resource Management and Conservation in Lake Toba Catchment Area (LTCA) of the North Sumatra Province of Indonesia (Indonesia)[US\$499,184]

PD 912/20 Rev.1 (I) Strengthening Technical and Business Management in the Timber Forest Industry of Peru [US\$385,706]

PPD 195/19 Rev.2 (I)

Pre-project for a Feasibility Study on Processing and Valorizing
Timber in Togo [US\$93,632]

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 – 2021 “Challenges in Manufacturing and Trade during the COVID-19 Pandemic” 30 November 2021, Virtual Session

The theme of the 2021 Annual Market Discussion organized by the ITTO Trade Advisory Group (TAG) was: “Challenges in Manufacturing and Trade during the COVID-19 Pandemic”.

The speakers, and the titles of their presentations, were as follows:

Mr. Ivan Tomaselli President, STCP Brazil	<i>Impact of COVID-19 on the Latin American Forest Sector and Recovery</i>
Mr. Wu Shengfu General Manager Beijing Greenwood Certification Co., Ltd.	<i>Challenges in Manufacturing and Trade during the COVID-19 Pandemic</i>
Mr. Bradley A. McKinney, Executive Director International Wood Products Association (IWPA)	<i>Challenges and Opportunities in International Wood Products Trade</i>
Mr. Benoît Jobbé-Duval Managing Director Association Technique Internationale des Bois Tropicaux	<i>Major Challenges in Sustainable Tropical Timber Management and the Future of Tropical Forests</i>
Mr. Ernie Koh Jyh Eng Executive Director, Koda Secretary General, ASEAN Furniture Industries Council	<i>ASEAN Furniture Production and Exports during this Pandemic – Multiple Challenges and Diverse Response</i>
Mr. Sigit Pramono Senior Policy Analyst Ministry of Environment and Forestry, Indonesia	<i>Update on the Implementation of Indonesian TLAS (SVLK), FLEGT VPA, and Impact of COVID-19 Pandemic on Timber Exports from Indonesia</i>
Mr. Jan Hoffmann Chief, Trade Logistics Branch Division on Technology and Logistics UNCTAD	<i>Presentation of the Review of Maritime Transport 2021</i>

The presentations were followed by a question and answer session with members of the Council. Mr. Barney Chan (Trade Advisory Group co-Coordinator, Malaysia) presented the TAG Market Statement (Appendix B). Presentations made during the 2021 ITTO Annual Market Discussion and the TAG statement are available at <http://www.itto.int/ittc-57/presentations>.

Summary of Presentations

Ivan Tomaselli

Impact of COVID-19 on the Latin American Forest sector and Recovery

Dr. Tomaselli reported that COVID-19 created a global health, economic and social crisis and that Latin America was seriously affected. Brazil had almost 20% of global cases and Colombia, Mexico and Peru reported 2-5 million cases between them. The impact on GDP and manufacturing was severe.

In most Latin American the forest sector was considered an essential sector but, while companies were still operating, production suffered from the impact of control measures. Across the region the impact on industrial output varied between countries, industry sector and product. Domestic consumption of wood products in the region fell in the first half of 2020 but export demand was maintained however there were cases where prices for some solid wood products declined.

The timber industry was able to recover due to strong international demand and production increased in 2021. Commodity prices increased which had a positive impact on regional economies and job security. Tomaselli suggested for the next 3-4 years COVID-19 is expected to remain a problem exacerbated by the slow roll-out of vaccinations in some countries in the region. He anticipated that prices in international markets are likely to decline and persistent political and structural issues in the region will hold back a quick recovery.

Wu Shengfu

Challenges in Manufacturing and Trade during the COVID-19 Pandemic

Dr. Wu began saying the pandemic changed the World, it changed our lives and it required companies to change their business models. The main challenges were, and remain, rising costs. Labor cost in China increased, the cost of raw material including wood, glue, lacquers and film rose as did energy and fuel costs. Worst of all, shipping costs rose by more than 10 times. The rising cost of imported raw material has been exacerbated by exchange rate volatility.

Sourcing wood raw material is a challenge for all manufacturers in China, especially as so many countries have banned or restricted round wood exports however; this has prompted enterprises in China to embrace residue utilization and recycling to a greater degree. Where timber imports can be secured the priority is ensuring the products are certified or the legality can be verified.

The pandemic drove development of 'green' products for the domestic market and drove technology innovation aimed especially at reducing energy consumption and use of natural resources. To conclude Wu mentioned the Belt & Road Initiative, specifically the Yiyu China-Europe train service which ran 1,200 trains with 65,000 containers in 2020. Wood products travel in both directions.

Bradley A. McKinney

Challenges and Opportunities in International Wood Products Trade

Dr. McKinney informed that IWPA is the leading international trade association for the North American international wood products industry and members include North American importers, overseas suppliers and producers and Service providers. The IWPA mission is "To build acceptance and demand in North America for globally sourced wood products from sustainably managed forests".

After outline growth trends in the US, McKinney focused on trade and production issues in the US saying supply chains have become more complex and a challenge for importers. He pointed out that sales of tropical hardwood lumber in North American are currently limited mostly by supply chain constraints and the low level of supply of tropical hardwoods makes it difficult to meet the high demand in the US. As a result of the disruptions to supply inventories are low. In conclusion McKinney said demand is high, but supply chain disruptions complicate meeting that demand, inflation is eating into consumer purchasing power and company profitability.

Benoît Jobbé-Duval

Major Challenges in Sustainable Tropical Timber Management and Future of Tropical Forests

The focus of the presentation by Mr. Jobbé-Duval was on the markets' perception of sustainable tropical timber when it comes to timber from the Congo Basin forests. For various reasons, he said, European markets are turning away from tropical timber even if it is sustainable. He said in some major consuming countries the concept of sustainability is given scant recognition and within African domestic markets a variety of structural and fiscal reasons make this market virtually inaccessible to local producers of certified products.

As Director General of ATIBT he reminded that the organization aims to ensure that markets understand the sustainable management of the Congo Basin forests warning that certification in the management of forest concessions in Congo Basin is stagnating and needs to be revived. He continued with statistics on demand and production and the low level of species utilization in the Congo Basin and welcomed the new Forestry Codes released in Gabon and being readied in the Republic of Congo. He mentioned that in the Congo Basin countries discussion are being held on the concept of shared production, linking export oriented enterprises with domestic companies so legal and certified raw materials can be provided for domestic processing to meet local demand.

In calling for action he said the number one challenge is to create a good image for tropical timber and conduct lobbying with powerful messages to counter, for example, the spectacle of the exclusion of tropical timber from construction of the Paris 2024 Olympic village. In conclusion Jobbé-Duval urged continued dialogue and cooperation with the Chinese Global Green Supply initiative.

Ernie Koh Jyh Eng

ASEAN Furniture Production and Exports during this Pandemic - Multiple Challenges and Diverse Response

Mr. Koh provided a background on the establishment membership and aims of the ASEAN Furniture Industries Council (AFIC) for which he is, as of November this year, the President.

Of the ASEAN countries, Vietnam, Malaysia, Indonesia, Thailand and the Philippines are the fastest growing South East Asian furniture suppliers where around two thirds of production is exported.

ASEAN exports accounted for around 10% of global furniture demand in 2019 however, within ASEAN, demand for furniture has risen due to rapid urbanization, rising affluence, ease of shopping (e-commerce) and regional mobility he said.

ASEAN furniture manufacturers continue to be impacted by the pandemic and control measures to slow the rate of infections. The first lockdown was a nightmare said Koh, mills reduced production and some closed, prices for factory inputs rose and there were severe logistic problems. The second series of lockdowns in ASEAN countries came at a time when demand in export markets had started to rise which was a major challenge for enterprises; this was an uncertain time for companies. In early 2021 there were signs of a recovery in production and the switch from lockdowns to 'living with COVID' provided some relief even though the prices of raw material inputs and the cost of export shipping remained significant issues.

Looking ahead Koh commented that logistic problems remain , production has increased but this only means warehouse are filling up as shipping containers are not available and that overseas customers are frustrated by the slow deliveries. Koh's assessment is that freight costs will continue to increase as will raw material inputs and at some point customers will have to increase the prices offered to manufacturers in the ASEAN countries.

Sigit Pramono

Update on the Implementation of Indonesian TLAS (SVLK), FLEGT VPA and Impact of COVID-19 Pandemic on Timber Exports from Indonesia

Sigit Pramono outlined the history of SVLK which spanned 20 Years of working with international partners to develop and implement SVLK and FLEGT VPA. As of October 2021 more than 5,600 forest based enterprises had been SVLK-certified. Since 2013 more than 1.5 million V-Legal export documents (including FLEGT licenses for EU and UK destinations) had been issued with total value of US\$77.48 billion.

The number of importing countries has also increased from 155 countries in 2013 to 196 in 2020 reflecting buyer's confidence in Indonesian timber products.

On the impact of COVID-19 on exports Pramono reported that demand in China, the USA and EU remained strong throughout but exporters faced problems in securing shipping containers but production continued, supported by the various government policy interventions to assist manufacturers.

Pramono then offered some lessons learned and challenges ahead in getting the full benefit of the country's investment in the VPA and its SVLK. He commented that the SVLK has helped Indonesia to cope with illegal logging issue and regain confidence of global markets for its wood products but challenges remain. These include the costs of the certification process which is an issue especially for SMEs and there are inadequate incentives from the demand side to share burden of the certification process. Pramono is of the

view that importers impression of Indonesian timber products has not improved significantly despite the SVLK and VPA.

The Indonesian authorities plan to make implementation of SVLK certification simpler for companies and plans to work with its VPA partners to develop and implement effective promotion strategies emphasizing sustainability.

Jan Hoffmann

Presentation of the Review of Maritime Transport 2021

Dr. Hoffmann discussed the 'UNCTAD Review of Maritime Transport 2021' which offers some explanation for why freight rates are so high and are likely to remain so. UNCTAD expects world maritime trade to have recovered by around 4% in 2021. However, problems remain; Intra-African freight rates are 2.4 times higher than intra-Asian freight rates, it costs 2.6 times more to import goods from Asia to Africa than what it costs to ship goods from Africa to Asia and a container from North America to Oceania is 50% higher than from Asia to Oceania.

Other factors that will impact the shipping sector in the coming years will be the need to effectively protect vessels and the technology used on board from cyber threats and climate change adaptation. Another issue is the need for investment in seaport infrastructure and technologies which are an increasingly urgent challenge particularly for developing countries.

The UNCTAD report simulated the impact of container freight rate surges. Assuming container freight rates continue at current rates UNCTAD is of the view that there will be an 11% increase in global import price levels. The Hardest hit will be Small Island Developing States which the simulation suggests could see a 7.5% increase in import costs. Least Developed Countries it is forecast would experience a rise of over 2% while the impact of rising shipping costs for Land-locked Developing Countries (LLDCs) would be minimal.

Looking ahead Hoffmann discussed six issues that will impact how freight costs evolve in the short-term: COVID-19, shipping cycles, consolidation in the shipping sector, how to address decarbonisation, the shortage of shipping capacity and the insurance risk premiums,

Discussion and interventions

As is often the case with the Annual Market Discussion the duration of the event was shortened such that the time for the Questions and Comments was limited; only 3 interventions were possible. There were two interventions from the Delegation of Peru and one from the Delegation of the USA.

The first Delegate from Peru said the presentations provided information on the problems faced by the timber manufacturing sector in tropical countries and provide valuable lessons should a similar situation such as the COVID-19 pandemic occur again. He noted the emphasis by speakers on the issue of high ocean transportation costs and the impact of rising cost of raw material input for manufacturers. He raised the point that there is a need to consider how these developments could affect efforts in sustainable forest management and the profitability and commercial viability of companies.

He noted the comments by some speakers on the growing interest and desire of manufacturers to expand sales in domestic/regional markets. He commented that greater added value production and sales in domestic markets could create jobs and contribute to domestic growth. In conclusion he commented that the timber sector is facing a lot of unknowns but some lessons have been learned from meeting the challenges posed by the current pandemic.

The second intervention, also from a Delegate from Peru, suggested it would be informative to know what export products are being most impacted by the current lack of shipping containers and the high freight rates. He suggested this issue could be included in the work of ITTO in 2022.

The Delegate from the USA commented that the Delegation recognises the important contribution the Annual Market Discussion has in allowing Council to engage with the private sector. On the issue of supply chain disruptions raised by speakers she said these are critical to all economies and that the USA is also experiencing problems with clearance of imported goods at ports and a shortage of domestic trucking capacity. She mentioned the US White House Supply Chain Disruptions Task Force, the USA government's effort to address the disruption of domestic transport capacities.

She commented that the U.S. Delegation is impressed by the resilience of the private sector in being able to continue operations in the face of the many challenges they faced due to the pandemic and the control

measures implemented. She noted reference by speakers to the variety of support offered to the private sector and suggested it would be useful if ITTO could, with the TAG, determine what were the most helpful measures offered to manufacturers by their governments.

Trade statement

The TAG coordinator read out a prepared statement to participants attending the Market Discussion. This statement is appended as it was presented in Appendix B.

Theme for 2022 Annual market discussion

The Trade Advisory Group (TAG) decided to defer its decision on the theme for the 2022 Annual Market Discussion. A theme will be conveyed to the ITTO Secretariat in advance of the next ITTC.

The 2021 Market Discussion was live-streamed on YouTube and is available at <https://ittc57.page.link/live>.

APPENDIX B

STATEMENT OF THE TRADE ADVISORY GROUP (TAG)

Presented at the 2021 Annual Market Discussion by
Barney Chan (TAG Coordinator)
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 materials 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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