



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

**COMMITTEE ON ECONOMICS,
STATISTICS AND MARKETS**

COMMITTEE ON FOREST INDUSTRY

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REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

**FIFTY-SIXTH 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-sixth Session of the Committees was opened on 7 November 2022 at the Joint Session of the Committee on Economics, Statistics and Markets (CEM) and the Committee on Forest Industry (CFI), chaired by Ms. Anna Tyler (New Zealand), 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(LVIII)/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(LVI)/1 was duly adopted. The CEM and the CFI met on 7 and 11 November 2022 to consider items 1, 2, 3, 6, 7, 8, 9B, 10, 11, 12, 13, 14, 15 and 16 of the Agenda. The Joint Session of All Committees met on 8 and 9 November 2022 to consider items 4, 5, 9A and 10 (i), (ii) and (iv) of the Agenda. The Joint Session of all Committees was co-chaired by Ms. Anna Tyler (agenda items 4 and 10 (i), (ii) and (iv)) and Ms. Siti Syaliza Mustapha (Chair of CRF, agenda items 5 and 9A).

3. Admission of Observers

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

4. ITTO Annual Market Discussion – 2022

The Committees noted the summary of the ITTO Annual Market Discussion – 2022, held in the Joint Session of All Committees on 8 November 2022, as contained in Appendix A. The theme of the Market Discussion was “Carbon markets and the timber industry: an opportunity for a paradigm shift?”. Mr. Barney Chan (TAG Co-coordinator) moderated the Market Discussion.

The following feature presentations were made during the Market Discussion (available at <https://www.itto.int/ittc-58/presentations/>):

Ms. Celina (Kin-Yii) Yong, UNDP	<i>Overview of Forest Carbon Market in the context of Nationally Determined Contributions Implementation in Asia Pacific</i>
Mr. Ivan Tomaselli, ABIMCI, Brazil	<i>Is Managing Tropical Forests for Timber and Carbon a Fate or a Fake?</i>
Mr. Pierre Schueller, TEREА Consultants, France	<i>Feasibility of Carbon Projects in Africa: Examples and Challenges</i>
Mr. William Augusto Llactayo León GIS Specialist, Peru	<i>LIDAR Technology and Carbon Inventory in Peru</i>
Mr. Nicholas Butcher, CarbonCrop, New Zealand	<i>Scaling New Zealand Native Forest Restoration with Carbon Credits and AI</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 Joint Session of All Committees considered the report of the Fifty-seventh Virtual Expert Panel for Technical Appraisal of Project Proposals presented by panel member Mr. John Leigh (Peru), as contained in document ITTC/EP-57 (presentation available at <https://www.itto.int/ittc-58/presentations/>).

The Fifty-seventh Panel appraised 11 proposals, including three proposals i.e., PD 926/22 (I) ‘Promotion of Sustainable Domestic Consumption of Wood Products in Thailand’, PD 927/22 (F) ‘Development of an Information System on the Potential for Wood and Carbon to Support Sustainable Forest

Management in South Kalimantan, Indonesia', and PD 928/22 (I) 'Development of Sustainable Domestic Market for Wood Products', resulting from concept notes submitted under calls for concept notes under ITTO's new financing architecture in accordance with Decision 4(LVI). The Panel noted that:

- Five (5) project proposals (45 percent of the total) were commended to the Committee for final appraisal with minor modifications required (category 1);
- Five (5) project proposals (45 percent of the total) will be sent back to proponents for essential revisions, rated as category 2; and
- One (1) project proposal (10 percent of the total) received a category 4, indicating that the Expert Panel does not commend it to the Committee for approval as it requires complete reformulation.

The delegate of Australia expressed appreciation for the comprehensive and clear presentation delivered by the Chair of the 57th Expert Panel for Technical Appraisal of Project Proposals. He noted the intention of Australia to propose an expert for the Expert Panel in 2023 to fill one of the positions to be filled by the consumer caucus.

6. New Projects

The Committees noted the projects that were approved in September 2022 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-seventh Meeting as follows:

Committee on Forest Industry		
PD NUMBER	TITLE	SUBMITTED BY
PD 926/22 Rev.1 (I)	Promotion of Sustainable Domestic Consumption of Wood Products in Thailand	Thailand
PD 928/22 Rev.1 (I)	Development of Sustainable Domestic Market for Wood Products	Indonesia

The delegate of Japan recognized the approval of the two new projects which will contribute toward a decarbonized society and help improve the contribution of the forestry sector to national economies. The delegate of Japan acknowledged the ITTO Secretariat for efficiently overseeing the development of the proposals that arose from concept notes and the Government of Japan confirmed that it would pledge funds at this Session to allow implementation of the projects. The delegate of Indonesia thanked the Government of Japan for its pledge of funding for PD 928/22 Rev. 1 (I). The Committees decided to recommend both of the above projects for immediate funding.

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(LVI)/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 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
4. PD 913/20 Rev.3 (M) Strengthening Forest Monitoring and Extending the Coverage of the Traceability System in Panama

Committee on Forest Industry

1. PD 770/15 Rev.1 (I) Promotion and Sustainable Management of Lesser-Used Timber Species (LUTS) in the Moist Forests of the Departments of Atlantida, Colon and Northern Olancho in Honduras
2. PD 815/16 Rev.2 (I) Increasing Efficiency of Acacia Plantation and Timber Processing Industry in Vietnam
3. PD 922/21 Rev.1 (I) Promotion of Sustainable Domestic Wood Consumption in Vietnam

The Committees took note of the updates provided by the Secretariat on satisfactory progress in all the above projects and held discussions on the following project:

Committee on Economics, Statistics and Markets

1. PD 913/20 Rev.3 (M) Strengthening Forest Monitoring and Extending the Coverage of the Traceability System in Panama

The Committees were informed that this project, previously listed under “Project pending agreement” in the Agenda, was now under implementation since the Government of Panama had signed the project agreement on 7 October 2022 and the first disbursement of funds had been sent on 21 October 2022. A full progress report on the project will be provided to the next Session.

(B) Projects pending agreement

Committee on Forest Industry

1. PD 926/22 Rev.1 (I) Promotion of Sustainable Domestic Wood Consumption of Wood Products in Thailand

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 through the no-objection process in September 2022, the Japan Forestry Agency committed to provide funding. Preparation of the project agreement will commence as soon as the pledge from Japan is formalized 1 at this Session.

2. PD 928/22 Rev.1 (I) Development of Sustainable Domestic Market for Wood Products (Indonesia)

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 2022, the Japan Forestry Agency committed to provide funding. Preparation of the project agreement will commence as soon as the pledge from Japan is formalized at this Session.

(C) Projects and Pre-projects pending financing

Committee on Economics, Statistics and Markets

1. PD 879/18 Rev.2 (M) Building the Capacity of the National Forest Information and Statistics System (Benin)

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.2 (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 879/18 Rev.2 (M), PD 900/19 Rev.2 (I) and PPD 200/21 Rev.1 (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

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

Committee on Forest Industry

- 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

The representative of the project executing agency made a presentation to inform the Committee that all planned project activities were completed within the approved time and budget. While all planned activities were fully executed, planned outputs were only partially delivered, and the specific objective was achieved only partly due to partial delivery of Output 2 covering involvement and investment of the private sector in regional bioenergy development. The partial delivery of project outputs/objective was due to a lower than anticipated degree of interest in bioenergy by private sector interests in the project area.

This project aimed to increase the contribution of the forest sector to renewable energy supply and regional economic development through increased supply of wood-based biomass energy. Its specific objective was to improve enabling conditions for building up supply capacity of wood-based biomass energy in North Sumatra region by efficiently utilizing existing forest resources through development of energy forests on degraded lands involving local communities.

At project completion, activities implemented had contributed to improved enabling conditions for development of wood-based energy industry to support achievement of national policy objectives of green energy development through efficient utilization of available forest resources. Development of energy forests on degraded lands has led to reduced carbon emissions and at the same time opened up larger employment opportunities that augment incomes of local communities. In addition, operation of power plants for manufacturing of wood pellets or generation of electricity created employment, thus increasing income of local communities and reducing carbon emissions through reduced use of coal and fossil fuels. By achieving the specific objective and realizing investment in wood-based biomass energy, the project significantly contributed to acceleration of economic growth, creation of employment and reduction of carbon emissions consistent with the basic principles of national economic development adopted by the government.

The US delegation commented on the partial achievement of the project's outputs and noted that a pre-project feasibility study would have been advisable to help achieve the forest energy investment targets of the project. The Secretariat provided an overview on the economic situation in the project area (North Sumatra Province) that was heavily impacted by the Covid-19 pandemic which resulted in reduced interest and capacity of the local private sector to invest in the forestry sector, including bioenergy.

9. Ex-post Evaluation**(A) Ex-post Evaluation Reports**

The Joint Session of All Committees considered this item. The Committees recalled the Secretariat's report at their last Session about a proposal from the Government of Japan to fund an ex-post evaluation of ITTO projects recently implemented and completed in Africa under the ITTO Strategic Action Plan 2013-2018 (extended to 2021), as a contribution for the Eighth Tokyo International Conference for African Development (TICAD-8) held in July 2022. A regional ex-post evaluation of 10 ITTO projects was accordingly carried out to assess achievements of completed ITTO projects in Africa with the aim to synthesize main relevant findings and outcomes for future forestry-related interventions by Japan and other donor countries in Africa. The following projects under the oversight of CEM-CFI were included in the regional ex-post evaluation:

Submitted by	Project ID	Title
Côte d'Ivoire	PD 692/13 Rev.1 (M)	Implementation and Operationalization of a National Information System for the Sustainable Management of Forest Resources
ITTO	PD 124/01 Rev.4 (M) Phase III Stages 1 and 2	Promotion of Sustainable Management of African Forests (ITTO/ATO)
Germany	PD 620/11 Rev.1 (M)	Development and Implementation of a Species Identification and Timber Tracking System in Africa with DNA Fingerprints and Stable Isotopes
Benin	PD 678/12 Rev.1 (M)	Establishment of a National Forest Statistics Information Management System in Benin
ITTO	PD 700/13 Rev.2 (M) Phase I Stage 1	Development of Intra-African Trade and Further Processing in Tropical Timber and Timber Products – Phase I Stage 1 (ITTO)

The Committees took note of the report of the ex-post evaluation of these projects contained in in document ITTC/JC-02, as presented by the consultant Prof. Jurgen Blaser (presentation available at <https://www.itto.int/itc-58/presentations/>). The impact of ITTO's relatively small projects (compared to much larger projects funded by bodies like the GEF) was highlighted.

(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\$61,531 and for CFI US\$15,000. It recommended that members review the table of recently completed projects contained in document CEM-CFI(LVI)/1 with a view to making recommendation(s) for ex-post evaluation(s).

The Committees duly selected the following projects for ex-post evaluation:

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
2. TFL-PD 037/13 Rev.2 (M) Implementing a DNA timber tracking system in Indonesia
3. TFL-PD 044/13 Rev.2 (M) Strengthening of ANAM's management capacity to reduce illegal logging and trade in the eastern region of Panama (Bayano and Darien) through monitoring and control mechanisms
4. PD 600/11 Rev.1 (I) Model Capacity Building for Efficient and Sustainable Utilization of Bamboo Resources in Indonesia
5. 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

10. Policy Work

Four issues/activities under the CEM and two issues under the CFI were considered by the Committees.

Committee on Economics, Statistics and Markets

(i) Market Access

The Joint Session of All Committees considered this item. The Secretariat reported on developments relating to market access for tropical timber in 2021, including on the following major legislative instruments: the EU Timber Regulation, the proposed regulation to curb EU-driven deforestation and forest degradation, the U.S. Lacey Act Amendments, the draft U.S. Legislation of 'Fostering Overseas Rule of Law and Environmentally Sound Trade' (FOREST) Act, 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 relevant developments from the 73rd session of the Standing Committee of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). The presentation made by the Secretariat is available at <https://www.ito.int/ittc-58/presentations/>.

(ii) Forest and Timber Certification

The Joint Session of All Committees considered this item. The Secretariat reported on recent developments in forest certification in ITTO producer member countries. In 2021, the total area of certified forests in ITTO producing members was 36.4 million hectares, slightly increased from 2020, accounting for 6.5% of the world total. The number of chain of custody certificates in ITTO producer countries increased 10% to 5,484 in 2021 which accounted for 8.4% of the total in the world. The FSC certified forest area in ITTO producer countries reached 21.3 million hectares which was 9% of global FSC certified area, while the PEFC certified area reached 15.1 million hectares, accounting for about 4.6% of the world total of PEFC.

As Vietnam achieved its first certified forest area with PEFC in 2021, the certification statistics covered six national schemes: CERFLOR of Brazil, MTCS of Malaysia, IFCC of Indonesia, PAFC of Gabon, NCCF of India, and VFCO of Vietnam. The Pan African Forest Certification (PAFC) Congo Basin regional system, which includes PAFC-Gabon, PAFC-Congo and Cameroonian Association of PAFC, achieved PEFC endorsement and became the world's first PEFC-endorsed regional forest certification system. The presentation made by the Secretariat is available at <https://www.ito.int/ittc-58/presentations/>.

(iii) APEC EGILAT and ITTO collaboration

The Secretariat reported on the participation of ITTO's Executive Director at the 21st APEC EGILAT meeting, the 5th APEC Meeting of Ministers Responsible for Forestry (MMRF), and the 22nd APEC EGILAT meeting. At the 21st APEC EGILAT meeting, the ITTO Executive Director reported on the impacts of the Covid-19 pandemic in tropical regions and major markets for tropical timber. She also made presentation on ITTO's ongoing work to strengthen collaboration and information-sharing with its member countries and partners. ITTO's Executive Director delivered a keynote speech at the 5th APEC MMRF focusing on the importance of trade in ensuring that the true value of SFM in tropical forests is reflected along with the role of tropical forests in climate change mitigation and adaptation. The Executive Director made two presentations at APEC-EGILAT 22 on cross-organizational information exchange and an update on impacts of the pandemic on tropical timber trade.

(iv) Progress report on Independent Market Monitoring of FLEGT-licensed timber in 2022

The Joint Session of All Committees considered this item. The IMM consultants (Sarah Storck and George White) delivered a presentation on IMM work, informing the latest developments on Voluntary Partnership Agreements (VPAs), EU Timber Regulation (EUTR) related issues, trade perceptions and tropical timber trade flows to the EU. The presentation made by the consultants is available at <https://www.ito.int/ittc-58/presentations/>.

Delegates of Ghana, Indonesia and the European Commission (EC) expressed their appreciation for the work of the IMM following the presentation. The delegate of Ghana asked if there is any evidence of a price premium for FLEGT-licensed timber so far, noting that this could be an incentive for other countries in the FLEGT process to complete implementation. He further noted that from his own country's experience, not only is there no price premium but importers in the EU now tend to pay less than importers in other markets such as the US, further undermining the incentive to engage in FLEGT licensing. The IMM consultant agreed that there was no evidence of price premiums being paid for FLEGT licensed timber to date, and the benefits were more in terms of continued market access and simplified regulatory compliance, not only in the EU but also in other regulated markets which account for a growing share of world trade. The delegate of Ghana followed up by asking how VPA partner countries should address the "myth" that FLEGT is only about legality. The IMM consultant noted that many additional benefits have accrued to countries engaging in the VPA/FLEGT licencing process, including the development or improvement of timber legality assurance systems (TLASs), improved forest governance procedures, and improved forest management.

The delegate of Indonesia pointed out that their involvement in the VPA/FLEGT licencing process had led to twenty years of work on forest governance improvements but little reward so far in terms of increased share of trade, especially in EU markets. The VPA article committing the EU to creating a favorable market in the EU for FLEGT licensed timber has not been addressed very clearly in Indonesia's opinion. However, Indonesia believes that there have been intangible benefits, and that the VPA process has begun to improve the country's image from one with lots of irregular timber to one with good forest governance. Indonesia hopes its experiences will help more tropical countries to develop internationally respected TLAS systems.

The delegate of the EC noted that the IMM has undertaken very important work that the Commission and EU member states (the IMM project donors) find useful. He commented that reporting on perceptions from the market on the draft EUDR (as reported from the IMM trade survey) is speculative at this stage and not helpful. The EC looks forward to the final project steering committee to be convened in late November in Brussels.

The IMM presentation followed immediately after the update on Market Access provided under item (i) above, and shortly after the presentation of the TAG Statement (Appendix B) at the end of the Market Discussion. Since all these items touched on issues related to the proposed EU Deforestation Regulation (EUDR), a discussion ensued on this topic.

The delegate of Ghana suggested that due to its importance to the tropical timber trade, ITTC59 should devote an entire day to the subject of the EUDR and market access. The delegate of Indonesia stated that the EUDR is still unclear for his country, with particular concern about the proposed deforestation definition and how (and by whom) proposed country benchmarking would be carried out. Indonesia requested guidance from the EC/EU on how to comply with the draft regulation. Indonesia is also concerned whether the FLEGT VPA framework will continue to exist or whether VPAs will be transformed to Forest Partnerships or some other mechanism.

The delegate of the EC noted that deforestation is still an ongoing problem, and that international action so far has not been sufficient to address it. He noted that the world is witnessing a climate crisis and more urgent measures are required. The proposed EUDR is part of a wider package of EU Green Deal measures which aim to ensure EU consumption does not contribute to climate change. The EC delegate stated that there had been significant bilateral consultations with both producer and consumer countries during development of the EUDR proposal. A key consideration in drafting the law is to ensure it is non-discriminatory and compliant with international law. He stressed that as yet there is no 'new law' as referred to by some speakers – the proposed law is still being negotiated between the European Council and Parliament and has yet to be finalized, although this process is expected to be completed soon. He felt that speculation on the proposed EUDR before it is finalised is not productive or helpful.

In response to the concerns expressed by Indonesia and in the TAG statement, the delegate of the EC stressed that the EU are not walking away from FLEGT and are still signing VPAs and will honor existing commitments. The EU is building upon experience gained in implementing FLEGT to expand the focus from illegal logging to address the main drivers of deforestation more broadly. Although FLEGT has not been delivering at the speed that the EU would like, they are still committed to and engaging with the process. The delegate of the EC concluded his remarks by stressing that support for producer countries is a major component of EU policy, noting that the President of the EU Commission had just signed five

forest partnership agreements involving significant support packages at UNFCCC COP28. He noted that deforestation and its impacts on climate change is a global issue that needs to be addressed globally.

The delegate of Brazil, in response to the statement from the delegate of the EC, noted that his country was not convinced by trade restricting measures that go against the principles of the ITTA. He reported that Brazil had made numerous comments to the EC/EU on the proposed EUDR, but that these had not been taken into account. He stated that the proposed EUDR must be consistent with multilateral agreements.

The delegate of Australia noted that based on his country's experience as both a commodity importer and exporter, complex elements of the proposed EUDR such as geolocation need to be introduced very early into a multilateral conversation. He suggested that ITTO is a good platform to discuss these issues. The delegate of New Zealand concurred and proposed that all countries should find ways to cooperate in multilateral fora such as ITTO, while recognizing national legislation and not acting unilaterally.

(v) Items for CEM Policy Work for 2023

The Committee considered and agreed on the following items for discussion under its policy work agenda in 2023:

- Market access;
- Forest and timber certification;
- APEC EGILAT and ITTO collaboration;
- IMM progress report; and
- Selected ongoing activities under the Legal and Sustainable Supply Chain (LSSC) programme.

Committee on Forest Industry

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

The Secretariat made a presentation on the progress of BWP activity PP-A/54-331 'Enhancing Conservation and Sustainable Management of Teak Forests and Legality of Wood Supply in Greater Mekong Sub-Region'. The Project, funded by the Federal Ministry of Food and Agriculture of the Government of the Federal Republic of Germany (BMEL), is being implemented in five participating countries in the Mekong Sub-Region. The participating countries are Cambodia, Lao PDR, Myanmar, Thailand and Vietnam. The project has completed all of its activities and the project completion report and final financial report are being prepared. One of the project's outputs is a book entitled 'Teak in Mekong for a Sustainable Future'. The book contains 27 chapters written by 41 authors. The Committees welcomed the successful completion of this activity.

(ii) Analysis of TLAS and good forestry practices in China and Vietnam

The Secretariat reported the progress of BWP activity PP-A/56-342B 'Analysis of timber legality assurance systems and good practices in China, Myanmar, and Viet Nam for sustainable timber trade' implemented by the Institute for Global Environmental Strategies (IGES). The scope of the project has been refocused on case studies in China and Vietnam. To determine importers' interests, needs and challenges of dealing with these countries, 18 Japanese companies whose business types cover traders of timber and timber products, home builders, manufacturers of joinery and furniture, and retailers were interviewed. The interviewed companies import/use products from China and Viet Nam, including sawn timber, plywood, laminated veneer lumber (LVL), wood pellets, woodchips, wood joinery, flooring, paneling, and furniture (e.g. bed frames), using planted species or imported ones. IGES has reviewed available statistical data to understand timber production and trade and analyzed the legal frameworks of China and Vietnam. More specifically, the project team has studied the amended Chinese Forest Law via desk review and conducted an interview survey with China's research organizations and industry associations. In collaboration with the local consultant in China, the project team has undertaken an interview survey with 35 Chinese companies. In the Vietnam component, in collaboration with the local consultant, the project team has studied the risk-associated timber products exported to Japan and the legal framework focusing on the Decree 102/ND-CP/2020 on Vietnam Timber Legality Assurance System. Currently the project team is preparing technical reports on these topics. The project team has been developing a research plan for the field survey (planned in November 2022) in collaboration with the consultants in Vietnam.

(iii) Items for CFI Policy Work for 2023

The Committee considered and agreed on the following items for discussion under its policy work agenda in 2023:

- Analysis of TLAS and good forestry practices in China and Vietnam; and
- Promotion of sustainable wood use in domestic markets.

11. Biennial Work Programme of the Committees for 2023-2024

The Committees noted that in order to align the BWP with the biennial administrative budget approval process, the Secretariat had proposed a one-year extension of the 2021-22 BWP. If this proposal is approved by Council, a new BWP for 2024-25 (coinciding with the 2024-25 administrative budget) will be presented for the consideration and approval of Council at its next Session in 2023.

12. Election of Chairpersons and Vice-Chairpersons for 2023

Following the usual consultations undertaken by the producer and consumer groups, Mr. Samuel Doe (Ghana) was elected as the Chairperson of the CEM and CFI for 2023. Dr. Catherine Karr-Colque (USA) was elected as Vice-Chairperson of the CEM and CFI for 2023.

13. Dates and Venues of the Fifty-seventh and Fifty-eighth Sessions of the Committees

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.

The Fifty-eighth Session of the Committees will be held in conjunction with the Sixtieth Session of the International Tropical Timber Council in 2024.

14. Other Business

None.

15. Recommendations to the International Tropical Timber Council

- (i) The Committees recommended that funding be made immediately available for the following projects approved under the time-bound electronic no-objection procedure for the project cycle 2022:

Committee on Forest Industry

PD 926/22 Rev.1 (I)	Promotion of Sustainable Domestic Consumption of Wood Products in Thailand [US\$320,000]
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PD 928/22 Rev.1 (I)	Development of Sustainable Domestic Market for Wood Products (Indonesia) [US\$261,811]
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- (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 879/18 Rev.2 (M)	Building the Capacity of the National Forest Information and Statistics System (Benin)[US\$347,088]
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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.2 (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]
PPD 200/21 Rev.1 (I)	Capacity-Building of Woodworking Artisans in Southern Benin [US\$88,704]

16. Report of the Session

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

APPENDIX A

REPORT ON THE ITTO ANNUAL MARKET DISCUSSION – 2022 “Carbon markets and the timber industry: an opportunity for a paradigm shift?” 8 November 2022, Yokohama, Japan

The theme of the 2022 Annual Market Discussion organized by the ITTO Trade Advisory Group (TAG) was: “Carbon markets and the timber industry: an opportunity for a paradigm shift?”.

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

Ms. Celina (Kin-Yii) Yong, UNDP	<i>Overview of Forest Carbon Market in the Context of Nationally Determined Contributions Implementation in Asia-Pacific</i>
Mr. Ivan Tomaselli, ABIMCI, Brazil	<i>Is Managing Tropical Forests for Timber and Carbon a Fate or a Fake?</i>
Mr. Pierre Schueller, TERA Consultants, France	<i>Feasibility of Carbon Projects in Africa: Examples and Challenges</i>
Mr. William Augusto Llactayo León GIS Specialist, Peru	<i>LIDAR Technology and Carbon Inventory in Peru</i>
Mr. Nicholas Butcher, CarbonCrop, New Zealand	<i>Scaling New Zealand Native Forest Restoration with Carbon Credits and AI</i>

The presentations were followed by a question and answer session with members of the Council. Following the event, Mr. Robert Tate (TAG) presented the TAG Market Statement (Appendix B). Presentations made during the 2022 ITTO Annual Market Discussion and the TAG Market Statement are available at <http://www.itto.int/itc-58/presentations>.

Summary of Presentations

Celina (Kin-Yii) Yong

Overview of Forest Carbon Market in the Context of Nationally Determined Contributions Implementation in Asia-Pacific

At COP26, details were agreed on the processes and procedures that countries need to follow if they intend to access the carbon markets regulated by Article 6 of the Paris Agreement. The opportunities are many and this regulated market has great potential. However, countries must commit to meeting the guidance/rules of Article 6 and putting in place the necessary regulatory and institutional arrangements.

Government decision makers, particularly in developing countries, are often overwhelmed by the complexities of carbon markets. The increasing interest in carbon markets goes hand-in-hand with an explosion of actors and initiatives that seek to promote, regulate, or otherwise influence carbon markets in developing countries.

Depending on their interests and convictions, such actors seek support for investment proposals, represent carbon crediting programs, or promote bilateral and multilateral initiatives that are linked to voluntary carbon markets (VCMs), domestic crediting programs, or pilot transactions under Article 6 of the Paris Agreement. This proliferation of activities and interests exposes governments to requests and demands, with implications that are often poorly understood.

Ms. Yong outlined what the UNDP Climate and Forests does to assist countries to understand and implement the Paris Agreement under which each party to the Agreement is required to establish their nationally determined contribution (NDC). Eighty-five per cent of countries with NDCs now indicate they may use international market mechanisms to reduce greenhouse gas emissions.

Ivan Tomaselli

Is Managing Tropical Forests for Timber and Carbon a Fate or a Fake?

Latin America accounts for around 25% of the total global credits issued to date and 80% are related to REDD+ and forestry credits traded in the voluntary market. Carbon credits from areas managed for timber production offer an important additional source of revenue as demand for carbon credits is growing but forest owners and the timber industry are struggling to develop and register projects to create carbon credits.

In Latin American countries there is a growing interest in carbon credits across different economic sectors as well as transactions between countries aimed at emission reduction and achieving net zero emissions. For the forest sector in Latin America, REDD+ and other forestry-related projects are the main schemes offering access to the carbon market.

Latin American countries are expanding participation in both compliance and voluntary carbon markets with Colombia, Mexico, Chile and Argentina the front-runners in compliance with carbon pricing instruments (CPIs). In Brazil there are mainly voluntary carbon projects in forests managed for timber production.

The estimated potential annual carbon credit generation in Latin America, considering the existing managed forest areas for timber production, is around USD2 billion per year. Carbon prices are increasing due to increasing demand and revenues are expected to be even higher.

Pierre Shueller

Feasibility of Carbon Projects in Africa: Examples and Challenges

The Congo Basin forest area extends over 6 countries and covers about 240 million ha. of which 89 million ha. is primary forest. There is a growing interest among companies operating in the Congo Basin for business diversification through carbon trading, but most players are not well informed of the mechanisms in carbon markets or the rules and criteria for the realization of a carbon trade.

REDD+ has attracted significant funding opportunities in many African countries and examples of forest carbon project initiatives are seen in the Rep. of Congo and DRC. The main challenge is removing the technical barriers to carrying out carbon projects in Africa and determining ownership of carbon credits. This is a very sensitive issue and governments generally define how and what proportion of the share of credits generated is distributed. There is a need for dialogue with governments on ownership of carbon credits, revenue sharing mechanisms and taxation.

The forestry sector in Africa needs to better understand the functioning of carbon market mechanisms and the setting up of projects which are complex with many procedures, long completion times and high initial costs. It is the objective of the ATIBT Carbon and Biodiversity Commission to support and raise awareness among forestry companies on developing carbon markets.

William Augusto Llactayo León

LIDAR Technology and Carbon Inventory in Peru

Remote sensing technologies are widely used to provide solutions on mapping and monitoring above-ground carbon. In Peru, new research is being utilized, including machine learning and Light Detection and Ranging (LiDAR, a remote sensing method) combined with high spatial and temporal resolution satellite imagery.

Data from the Peru Flight Surveys (GAO), Planet satellite imagery and other ancillary data were compiled to provide an estimate for above-ground carbon for each hectare of forest in Peru. Using a strategic and cost-effective combination of LiDAR sampling, tactically placed field calibration plots, freely available satellite data, and a new geostatistical modeling approach, it has been shown that a high-resolution geography of above-ground carbon stocks can be revealed for a large and environmentally complex country such as Peru. This new carbon-geography also includes spatially explicit maps of uncertainty, which are essential in decision-making for conservation, management and policy development efforts associated with ecosystems and societal use of lands.

Tropical forests are an important asset in mitigating climate change by limiting carbon dioxide concentrations in the atmosphere, but the tropics are hotspots of global land-use change, deforestation and forest degradation and this is estimated to contribute up to 10% of the world's total annual emissions.

Nicholas Butcher

Scaling New Zealand Native Forest Restoration with Carbon Credits and AI

Integrated solutions using Artificial Intelligence, remote sensing and automation are driving the NZ Emissions Trading System (ETS) and creating progress towards Nationally Determined Contributions (NDCs), the heart of the Paris Agreement, through increased forest carbon sequestration. For purposes of the United Nations Framework Convention on Climate Change (UNFCCC), 100% of the New Zealand (NZ) forest estate is 'managed forest' and monitored nationally.

To be credible, solutions through remote sensing, artificial intelligence and automation require integrity, transparency, traceability and auditability. Technology applied in NZ has had a positive impact and was reported as delivering over NZD20 million for carbon to landholders from an area of under 500,000 ha.

It was further reported that around 13 million tonnes of CO₂ sequestration was achieved in 2022, worth an estimated USD600 million at current prices. However, Mr. Butcher noted that this represents both a success and a failure because only 55% of estimated eligible forest is enrolled in the scheme, mixed land use participants have the lowest engagement, and indigenous biodiverse forests (a high policy priority) have the lowest registration rates. The reason for the slow uptake is due to the complexity of registration and compliance processes along with uncertainty on carbon yields and monitoring processes.

Discussion and interventions

The delegate from Peru congratulated speakers for their presentations on a very complex topic and pointed out that more time should be provided during the ITTC for such trade issues. He added there is a clear need to expand communication on carbon market development and it is not only policy makers that need to better understand the issue but also landowners. He suggested that the ITTC consider activities to build national capacity and understanding of carbon market opportunities.

The delegate from Malaysia supported the suggestion from Peru that the ITTC consider action on building national understanding and capacity on opportunities in carbon markets. The delegate raised the issue of the definition of 'forests' and asked whether there is a need for a common definition to advance carbon market development. In response Nicholas Butcher said that in New Zealand the Kyoto Protocol definition of forests has been adopted and acknowledged this may be different from the definition in the Paris Agreement.

The delegate from Togo returned to the issue of legal definitions pointing out that each country has its own forestry laws and regulations and asked if carbon markets can be developed within the framework of national legislation. Pierre Schueller responded that carbon market development in West Africa has been based on national legislation. He added that having a common definition could encourage more investment in forests for carbon sequestration.

Nicholas Butcher added that landowners can register to participate in the NZ Emissions Trading Scheme. Land ownership is well defined in New Zealand but in countries where this is not the case, carbon trading will be a challenge.

Celina Yong commented that one major issue in developing carbon markets is a requirement for legislation on benefit-sharing mechanisms and that this is a requirement for enjoying opportunities in the voluntary carbon market.

The delegate from the United States supported the suggestion that ITTO should include work on national capacity building on carbon markets so countries can better understand the opportunities and how they can prepare themselves. She suggested this could be achieved by including an activity in the Biennial Work Program. There are opportunities for ITTO to work with other international agencies to avoid duplication and ensure alignment with UNFCCC to advance understanding of carbon market opportunities in member countries.

The delegate from Germany asked why New Zealand opted for a national rather than voluntary carbon market approach. In response the delegate from New Zealand said the government found the national market was the best option at the time the Climate Change Response Act was adopted, which was some time ago in 2008, and was considered to attract most participants. She also added that when the Climate Change Response Act was adopted the voluntary market mechanism was not well developed.

The TAG Coordinator asked for an update on the New Zealand Farm Emission Policy. The delegate from New Zealand said that this aims to bring together the forestry and agricultural sectors on climate action. She said nearly half of New Zealand's greenhouse gas emissions come from agriculture with the main source

being digestive emission of methane. Through the Farm Emission Policy farmers will be required to pay for their agricultural greenhouse gas emissions and payments collected will be funneled back to support climate action by the sector.

The delegate from Myanmar complimented the speakers on their presentations and said there is a clear need for action to inform member countries on carbon market mechanisms and how they can seize the opportunities this market offers. He asked specifically on how New Zealand negotiates with landholders on benefit sharing. In response, Nicholas Butcher said that in New Zealand carbon projects are specific to each landowner so there is no requirement to negotiate because the benefits are paid to the individual landowners.

Trade statement

Mr. Robert Tate (TAG) read out a prepared statement to participants attending the Market Discussion. This statement is appended as it was presented in Appendix B.

Theme for 2023 Annual market discussion

The Trade Advisory Group (TAG) decided to defer its decision on the theme for the 2023 Annual Market Discussion. A theme will be conveyed to the ITTO Secretariat in advance of the next ITTC.

The 2022 Market Discussion was live-streamed on YouTube and is available at <https://youtu.be/YPs67tzAwI>.

APPENDIX B

STATEMENT OF THE TRADE ADVISORY GROUP (TAG)

Presented at the 2022 Annual Market Discussion by
Robert Tate (TAG)
8 November 2022

Chairman,
Ladies and Gentlemen.

The US dollar has appreciated 13% against the Euro and 6% since the start of this year. The Indian rupee has dropped nearly 10% this year against the dollar. The Vietnam dong has gone down 6% and Indonesian rupiah down 3%. South Korea won and Thailand baht are down more than 10%. China renminbi is trading near 14 year lows. The Malaysian ringgit is at its lowest in 24 years while the Japanese Yen is at its 32 years low.

The soaring dollar in 2022 is especially painful as it comes at a time of global inflationary pressures when prices were already soaring. Disruptions to energy and commodities caused by the Ukraine war made worse the COVID-19 recession and recovery. Inflation is at record highs in many countries.

It is against this dark backdrop that the tropical timber trade is bracing for what may lie ahead --- an economic recession.

(1) Europe

The tropical timber trade has every reason to support the objectives of the so-called EU Deforestation Law currently being considered by the European Council and Parliament. However, we are concerned that in the absence of any meaningful consultation with producer countries or trading partners, including those with which the EU has legally-binding partnership agreements, the law as currently drafted risks creating unnecessary technical barriers to trade, particularly for tropical countries. We note that even European forest and trade associations, have raised many questions on the how this law can be implemented in practice.

Our key concerns for the tropical timber trade and industry include the following:

1. Unlike the EUTR, the proposed deforestation law is not based on a legality standard that respects tropical countries laws, but prohibits products from legal as well as illegal deforestation. In other words, it is a unilateral approach rather than a cooperative one.
2. As such, it seems contrary to the principles of international law, as referenced in the ITTA, that States have "the sovereign right to exploit their own resources pursuant to their own environmental policies"
3. The new law would impose binding definitions of terms such as "deforestation" and "forest degradation". These terms are as yet not defined in an acceptable international arena. Depending on the definitions imposed by the EU, the new law could place significant constraints on tropical countries' ability to develop new forest plantations even on degraded forest lands.
4. The new law would impose an untested requirement for geolocation to be identified for all consignments of regulated products placed on the EU market, irrespective of the level of country risk, with significant potential to raise trade barriers, particularly for smallholders and composite products.

We believe the EU should avoid using these new regulations to curb free and fair trade, and improve on its communication with the stakeholders, including from outside of the EU, to assess the challenges faced by businesses towards compliance.

We urge Council to seek clarity. Is the EU walking away from its FLEGT by stealth? Producers have already invested heavily into FLEGT commitments and are shocked that EU is now shifting the goalposts.

(2) Plantations

Industrial tree plantations are needed to augment supply of raw material to the timber industry as well as planned climate change mitigation efforts by some countries.

It is believed that the rate of establishment in the tropics has been hampered by a lack of readily available and reliable information. And it seems in the lack of such information, investors turn to planting agriculture

commodities instead of trees for a more assured financial return. Tree plantations need investment, training of personnel and establishment of nurseries.

ITTO can show leadership to champion tree plantations, by taking the following actions:

- Survey existing tree plantations in ITTO members of the three tropical regions, collecting real-time data on species, planting spacing, growth rates, soil specifics, production volumes, utilisation volumes, cost analysis, and so on.
- Using the data collected, design a database with appropriate menus for users to access data from actual plantations (good or bad) so as to make optimal commercial decisions in choice of species, sites, expected returns, planting plans, etc.

We urge ITTO to publish a Plantation Handbook containing all relevant technical and financial information specifically aimed at those investors who are going to plant trees.

(3) Carbon trade.

There are various estimates of the global Voluntary Carbon Offsets market, ranging from one to two billion US dollars a year. Reportedly, nearly 500 million credits, or tons of carbon, were traded in 2021 at an average price of US\$ 4 per ton. Whatever the actual figures are, these are indeed huge numbers! The question is, how much of the offsets money are going into our Members?

As we have just heard, from the experts in the Market Discussion, there are relatively very few carbon related projects in ITTO Producing Countries, in all the three global tropical regions.

The mechanisms in carbon markets are complex and not readily understood. Even the basics of Carbon Credits and Carbon Offsets are not understood by government officials who are not familiar with developments in the UNFCCC. Many, if not most officials, in Producing Members do not know how to set up such projects

There is a desperate need to disseminate information and guidance on the opportunities to Producing Members, and at the same time provide strategic advice and technical assistance. A specific challenge is to orient companies towards carbon projects without losing sight of SFM. National institutions need to be strengthened and different stakeholders engaged in the process.

We urge ITTO to organise a Technical Training Workshop to address the weakness and shortcomings of Members so that they can participate in Climate Change mitigation while adding to their national revenue.

As the likelihood of a global recession looms, there is a risk that financial support for development projects in member countries will be reduced. This would be unfortunate as it is in difficult times that emerging economies need extra help, not less. If a recession comes and is prolonged, resource rich countries will be tempted to liquidate more of their natural resources to raise money and this spells danger for tropical forests. Not only do we need to tighten our belts, we need to make sure we get the most out of whatever financial resources we have. And this means to invest in ITTO projects wisely for the good of all members.

TAG, as always, stands ready to work with Members and the Secretariat to formulate Concept Notes for our two suggested projects which will impact many Producer Members: a Plantation Handbook and a technical training workshop for Carbon Offsets.

Thank you.

Note: TAG can be contacted at ti@itto.int

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