



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

**COMMITTEE ON ECONOMICS,
STATISTICS AND MARKETS**

COMMITTEE ON FOREST INDUSTRY

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13-17 November 2023
Pattaya, Thailand

REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

**FIFTY-SEVENTH 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-seventh Session of the Committees was opened on 13 November 2023 at the Joint Session of the Committee on Economics, Statistics and Markets (CEM) and the Committee on Forest Industry (CFI), chaired by Mr. Samuel Doe (Ghana), 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(LIX)/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(LVII)/1 Rev.1 was duly adopted. The CEM and the CFI met on 13, 15 and 17 November 2023 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 14 November 2023 to consider items 4, 5, 9A and the first four policy work items of the CEM under item 10 of the Agenda. Ms. Anna Tyler (New Zealand), Vice-Chairperson of Council, chaired the Joint Session of all Committees.

3. Admission of Observers

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

4. ITTO Annual Market Discussion – 2023

The Committees noted the summary of the ITTO Annual Market Discussion – 2023, held in the Joint Session of All Committees as part of the Trade and Markets Day on 14 November 2023, as contained in Appendix A. The theme of the Market Discussion was “Tropical Timber Industry: Challenges and Opportunities from Changing Priorities”. Mr. Rupert Oliver (TAG Co-coordinator) moderated the Market Discussion.

The following feature presentations were made during the Market Discussion (available at <https://www.itto.int/ittc-59/presentations/>):

Dr. Preecha Ongprasert
Royal Forest Department, Thailand

Thailand Timber Industry: Challenges and Opportunities from Changing Priorities

Dr. Lyndall Bull
Food and Agriculture Organization of the
United Nations (FAO), Italy

The Role of Forests and Forest Products in a Bioeconomy Transition – Supply and Demand Perspectives

Mr. Stephen Midgley
Salwood Asia Pacific, Australia

Community Engagement and Smallholders as Pillars for Southeast Asian Forest Investment and Regional Wood Supplies

Mr. Nobutaka Isoda, Tsukuba Research Institute
Sumitomo Forestry Co., Ltd., Japan

Mass Timber in the Building industry

Dr. Richard Eba'a Atyi
CIFOR-ICRAF, Cameroon

Smallholder Timber Supply for Domestic and Regional Markets in Central Africa: Importance and Challenges

Mr. Franz-Xaver Kraft
GD Holz Service GmbH, Germany

EU Deforestation Regulation: Implications for Producers and Importers

Mr. Nils Olaf Petersen
European Timber Trade Federation (ETTF)
Germany

EUDR and Actions Taken by ETTF

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-eighth Virtual Expert Panel for Technical Appraisal of Project Proposals presented by panel member Ms. Akiko Tabata (Japan), as contained in document ITTC/EP-58 (presentation available at <https://www.itto.int/ittc-59/presentations/>).

The Fifty-eighth Panel appraised seven (7) proposals, including one proposal (PD 934/23 (F) 'Strengthening the conservation of the critically endangered Rosewood (*Dalbergia* spp.) in Dakrong Nature Reserve and Dong Nai Conservation Landscape, Viet Nam') resulting from a concept note submitted under previous calls 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 (72 percent of the total) were commended to the Committee for final appraisal with minor modifications required (category 1);
- One (1) project proposal (14 percent of the total) will be sent back to proponents for essential revisions, rated as category 2;
- One (1) project proposal (14 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.

6. New Projects

The Committees noted the project that was approved in October 2023 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-eighth Meeting as follows:

Committee on Economics, Statistics and Markets		
PD NUMBER	TITLE	SUBMITTED BY
PD 922/23 Rev.1 (M)	5th World Teak Conference: Sustainable Development of the Global Teak Sector – Adapting to Future Markets and Environments	India

The Committees was also informed that in compliance with the new financing architecture (approved by the 56th ITTC under Decision 4(LVI)), a donor has expressed interest in funding the Concept Note CN-23025-Malaysia. Subsequent to that, the following proposal has been developed (without review by the Expert Panel as per the provisions of Decision 4(LVI)) by the Executing Agency in collaboration with the ITTO Secretariat and donor and taking into account comments received during the time-bound electronic no objection procedure that was completed on 18 October 2023:

Committee on Forest Industry		
PD NUMBER	TITLE	SUBMITTED BY
PD 935/23 Rev.1 (I)	Promoting Sustainable Wood Use for the Domestic Market in Malaysia	Malaysia

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(LVII)/2 Rev.1 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 913/20 Rev.4 (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 922/21 Rev.1 (I) Promotion of Sustainable Domestic Wood Consumption in Vietnam
3. PD 926/22 Rev.1 (I) Promotion of Sustainable Domestic Wood Consumption of Wood Products in Thailand
4. PD 928/22 Rev.1 (I) Development of Sustainable Domestic Market for Wood Products (Indonesia)

The Committees took note of the updates provided by the Secretariat on satisfactory progress in all the above projects and were informed that PD 732/14 Rev.2 (M) and PD 770/15 Rev.1 (I) will be reported under agenda item 8 since the Executing Agencies of both projects had recently submitted satisfactory completion reports.

(B) Projects pending financing

Committee on Economics, Statistics and Markets

1. PD 922/23 Rev.1 (M) 5th World Teak Conference: Sustainable Development of the Global Teak Sector – Adapting to Future Markets and Environments (India)

Committee on Forest Industry

1. PD 912/20 Rev.2 (I) Strengthening Technical and Business Management in the Timber Forest Industry of Peru
2. PD 935/23 Rev.1 (I) Promoting Sustainable Wood Use for the Domestic Market in Malaysia

The Committees noted that project PD 912/20 Rev.2 (I) would lose its approved status under the sunset provision of Decision 2(X) before the next session of the Committees. The Committees decided to recommend all three 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(LVII)/3 and additional information presented during this Session as follows:

Committee on Economics, Statistics and Markets

- 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

The Committees took note of the completion report contained in document CEM-CFI (VLII)/3.

The Secretariat informed the Committees that all activities of the project have been carried out and outputs achieved satisfactorily. The project has contributed to improve the knowledge and capacity of 20 forest communities in the Mankraso Forest District in forest governance and forest management practices. The delegate of Ghana took the floor to brief the Committees on the project's outcomes and thanked the donor country, USA and ITTO.

The US delegate congratulated Ghana on a successful project and inquired whether the monitoring guidebook developed by the project could serve as a model for community-based participatory monitoring strategies that can be replicated across the country.

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

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

The Committee took note of the summary of the completion report provided by the Secretariat.

The Secretariat informed the Committees that all activities of the project have been carried out and outputs achieved satisfactorily after lengthy delays due to Cyclone Idai and the Covid pandemic. The project has contributed to improve forest governance by implementing a bar-code based log tracking system in Sofala Province in the north of Mozambique which is a hub for log exports to Asia. The Secretariat thanked the government of Japan for its support to this project and for its assistance in securing the final report.

The delegate of Japan acknowledged the project's results and expressed satisfaction that an acceptable final report had been received by the Secretariat. The delegate of Japan stressed the need for all projects to comply with reporting requirements (both technical and financial) in a timely manner.

The Secretariat informed the Committees that the completion report (in English) has been delivered by the executing agency in accordance with the project agreement. Additional project technical outputs are also available, but only in Portuguese. The final audit of project funds is currently underway, with the audit report expected by the end of 2023. The Secretariat recommended that the Committees declare the project complete pending the receipt of a satisfactory audit. The Committees duly declared the project complete.

Committee on Forest Industry

PD 770/15 Rev.1 (I) Promotion and Sustainable Management of Lesser-Used Timber Species (LUTS) in the Moist Forests of the Departments of Atlantida, Colon and Northern Olancho in Honduras

The Committees took note of the summary of the completion report provided by the Secretariat.

The Secretariat informed the Committees that all activities of the project have been carried out and outputs achieved satisfactorily after lengthy delays due to changes in government (including the project team) and the Covid pandemic. The project has developed management/marketing plans and technical studies to promote the sustainable use of 12 lesser-known tropical timber species in Honduras. The Secretariat thanked the government of Japan for its support to this project and for its assistance in securing the final report.

The delegate of Japan acknowledged the project's results and expressed satisfaction that an acceptable final report had been received by the Secretariat. The delegate of Japan stressed the need for all projects to comply with reporting requirements (both technical and financial) in a timely manner.

The Secretariat informed the Committees that the completion report (in Spanish) has been delivered by the executing agency in accordance with the project agreement. The final audit of project funds is currently underway, with the audit report expected by the end of 2023. The Secretariat recommended that the Committees declare the project complete pending the receipt of a satisfactory audit. The Committees duly declared the project complete.

9. Ex-post Evaluation

(A) Ex-post Evaluation Reports

The Joint Session of All Committees considered the executive summary of the following ex-post evaluation reports as contained in document CEM-CFI(LVII)/4 (all presentations available at <https://www.itto.int/ittc-59/presentations/>).

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

A presentation was made by the consultant, Mr. Patrick Durst, on the results of his ex-post evaluation of the project PD 599/11 Rev.1 (M). The evaluation found that changes in government policies and staff had made the system developed by the project less useful than anticipated, and made several recommendations (including more rigorous review and possible revision of projects subject to delays in implementation) for both the Philippines and ITTO.

The US delegate took the floor to thank Mr. Durst for his presentation and for highlighting the challenges and lessons learned, including those highlighted in his report on the need for due diligence in terms of the legal and regulatory framework in countries, and the potential for staff turnover to impact project outcomes. The delegate asked how project developers and the ITTO can take these kinds of factors into account in their development and evaluation of the project.

The consultant in responding emphasized the importance of formulating practical assumptions based on an understanding of specific issues within individual countries. This would include ensuring that there was a realistic project timeframe taking into account existing bureaucratic hurdles in the country.

TFL-PD 037/13 Rev.2 (M) Implementing a DNA Timber Tracking System in Indonesia

A presentation was made by the consultant, Dr. Gan Kee Seng, on the results of his ex-post evaluation of the project TFL-PD 037/13 Rev.2 (M), which had successfully achieved most of its objectives and outputs.

The Indonesian delegate expressed gratitude to the Government of Australia for its financial support to implement the strategic activities of the project related to DNA timber tracking. The delegate elaborated that further work would be undertaken in collaboration with other stakeholders to integrate the DNA database for target species into the existing Indonesia SVLK system to ensure timber legality.

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

A presentation was made by the consultant, Mr. Jorge Malleux, on the results of his ex-post evaluation of the project TFL-PD 044/13 Rev.2 (M). The evaluation showed that the project had successfully attained its objectives and outputs, resulting in the development and funding of a follow-up ITTO project (currently ongoing with support from the government of Japan) to extend the pilot log tracking system from the pilot regions covered in this project to the rest of the country.

Committee on Forest Industry

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

A presentation was made by the consultant, Dr. Gan Kee Seng, on the results of his ex-post evaluation of the project PD 600/11 Rev.1 (I), which had successfully achieved all of its objectives and outputs.

The Indonesian delegate thanked the donor countries (Japan, Switzerland and Australia) of the project and provided an update on further work on bamboo development in Indonesia. Activities supported by the project have continued with the support of different donor institutions such as INBAR, ACIAR, ICRAF, other ministries and local government. The delegate informed the Committees that the Government of Indonesia intends to fully realize the potential of bamboo resources to help fulfil its climate targets.

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

A presentation was made by the consultant, Dr. Gan Kee Seng, on the results of his ex-post evaluation of the project PD 737/14 Rev.2 (I), which had successfully achieved all of its objectives and outputs.

The delegate of Indonesia expressed gratitude to the Government of Japan as the donor country and assured the Committees that policy related issues raised by the project on the development of biomass energy will be further coordinated with relevant ministries.

(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 approximately US\$55,000, while all CFI pooled funds have been depleted. It recommended that members review the table of recently completed projects contained in document CEM-CFI(LVII)/1 Rev.1 with a view to making recommendation(s) for ex-post evaluation(s). In reviewing the table, the Secretariat noted that several of the older projects had been included because of the cessation of ex-post evaluations from 2016-2021 due to the impairment of funds and the Covid pandemic. However, logistical difficulties (including staff movements, changes in or dissolution of Executing Agencies, etc.) make it quite difficult to undertake ex-post evaluations for projects that have been complete for more than a few years. The Committees agreed that in future it would restrict its consideration of projects to be selected for ex-post evaluation to those completed in the past two years. The Committees further agreed to defer selecting any projects for ex-post evaluation at this Session, reserving available funds for a possible themed evaluation in the future.

10. Policy Work

Four issues/activities under the CEM were considered by the Joint Session of All Committees. Two issues/activities under the CEM and three issues under the CFI were considered by the Joint Session.

Committee on Economics, Statistics and Markets

(i) Market Access

The Secretariat reported on developments relating to market access for tropical timber in 2022, including on four major legislative instruments: the EU Timber Regulation/EU Deforestation 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, namely: 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).

(ii) Forest and Timber Certification

The Secretariat reported on recent developments in forest certification in ITTO producer member countries. In 2022, the total area of certified forests (FSC + PEFC) in ITTO producing members was 38.1 million hectares, an increase of 2% from 2021, accounting for 8.5% of the world total. The number of chain of custody (CoC) certificates in ITTO producer countries increased 8.8% to 5,484 in 2022 which accounted for 8.6% of the total in the world. The FSC certified forest area in ITTO producer countries reached 22.4 million hectares which was 14% of global FSC certified area, while the PEFC certified area reached 15.7 million hectares, accounting for about 5.4% of the world total of PEFC. 9 national certification schemes endorsed by PEFC as of 2022 were: CERFLOR of Brazil, MTCC of Malaysia, IFCC of Indonesia, PAFC of Gabon and NCCF of India, VFCO of Vietnam, PAFC of Cameroon, PAFC Congo Basin of Republic of Congo, and F.T.I. of Thailand.

The delegate of India informed the Committees of its efforts towards sustainable forest management, noting that international organizations such as ITTO are the best platforms to promote global standards for certification and bring national certification schemes more recognition.

(iii) APEC EGILAT and ITTO collaboration

The Secretariat reported the participation of ITTO at the 23rd and 24th APEC EGILAT meetings and the Capacity Building Workshop on Tools and Technology for Timber Legality convened back to back with the EGILAT 24th Plenary Meeting. At the APEC EGILAT 23rd plenary meeting, ITTO delivered a presentation entitled 'Strengthening Community Forest Enterprises for Sustainable Tropical Wood Use' through a video presentation. At the APEC EGILAT 24th plenary meeting, ITTO made a presentation to discuss the promotion of sustainable wood use (SWU) in domestic markets of ITTO member economies. ITTO briefed the experts on the progress of SWU projects implemented in Viet Nam [PD 922/21 Rev.1 (I)], Thailand [PD 926/22 Rev.1 (I)], Indonesia [PD 928/22 Rev.1 (I)], and the preparation of a new similar project in Malaysia. At the capacity building workshop, ITTO shared information with the workshop's participants on the findings of ITTO activity (PP-A/56-342B) on analysis of timber legality assurance systems in China and Viet Nam.

The delegate of USA welcomed ITTO's participation and valuable contributions to the APEC Expert Group on illegal logging and associated trade over the past several years, particularly the presentations of ITTO at the 23rd and 24th APEC-EGILAT Plenary meetings and its associated workshop on tools and technologies for timber legality.

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

The Secretariat noted that this long-running EU-funded project was now complete. Several challenges were faced by the project over its nine-year duration, including the slower than expected pace of FLEGT licensing, delays due to the ITTO impairment and Covid, and difficulties in discerning impacts of FLEGT licensing from other global macro-economic trends on EU timber markets. Despite these challenges, the project had successfully attained all of its objectives and outputs. The Secretariat thanked the EU for their support for the project, and for selecting ITTO to implement it. The lead consultants (Sarah Storck and Rupert Oliver) were then invited to make a presentation (available at <https://www.ito.int/itc-59/presentations/>) on key project outcomes, lessons learned and recommendations.

(v) Selected ongoing activities under the Legal and Sustainable Supply Chain (LSSC) programme

The Secretariat noted that a report on the LSSC programme, along with other relevant programme areas under ITTO's new financing architecture, would be provided to Council regularly under the relevant Council agenda item.

(vi) Items for CEM Policy Work for 2024

The Committee considered and agreed on the following items for discussion under its policy work agenda in 2024:

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

Committee on Forest Industry

(i) Analysis of TLAS and Good Forestry Practices in China and Vietnam

The Secretariat reported the completion 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), funded by the Government of Japan. The scope of the project was refocused on case studies in China and Vietnam due to problems with undertaking activities in Myanmar. The project completed studies in China and Vietnam and produced four technical reports: i) Legislation and other initiatives for legal timber trade in China; ii) Status of Timber Legality Verification by Business Entities in China; iii) Viet Nam's timber exports to Japan during 2018–2021 with a focus on products made using imported high-risk species; and iv) Viet Nam's plantation timber supply chain: good practices to promote legal and sustainable timber products. Two summaries of technical reports for business entities were also produced. An online public seminar, with 210 participants from 15 countries, was held on 31 March to disseminate the project results.

The delegate of Japan thanked ITTO for coordinating the successful implementation of the project that contributed to enhancing international stakeholders' understanding of the legal and sustainable timber trade. In close collaboration with ITTO, Japan's Forestry Agency is actively sharing the project's results through different events and media.

(ii) Promotion of Sustainable Wood Use in Domestic Markets

The progress of the sustainable wood use (SWU) projects, funded by the Government of Japan, implemented in Vietnam [PD 922/21 Rev. 1 (I)], Thailand [PD 926/22 Rev. 1 (I)]; and Indonesia [PD 928/22 Rev.1 (i)] were reported to the Committees by the respective project coordinators. The Secretariat reported that a new SWU project, also to be funded by the Government of Japan, will begin implementation soon in Malaysia, following its funding at this session.

The ITTO Secretariat also reported on the completion of BWP activity PP-A/53-323H on the development of a policy brief on sustainable wood use in selected countries of Southeast Asia Region, namely Vietnam, Thailand and Indonesia, based on the work of the sustainable wood use projects currently being implemented.

Mr. Rupert Oliver (Co-coordinator, Trade Advisory Group) took the floor to emphasize the need for more data on consumption and use of tropical wood in domestic markets of tropical countries. He explained that if the said data is not available, the development of efficient policy measures to ensure the efficient use of forest resources to maximize value is impaired. There is a need for targeted research on products that have direct applications in domestic markets, particularly for lower value material. The TAG recommended that ITTO continue to develop capacity for regular research into domestic markets in tropical countries.

(iii) Items for CFI Policy Work for 2024

The Committee considered and agreed on the following item for discussion under its policy work agenda in 2024:

- Promotion of sustainable wood use in domestic markets.

11. Biennial Work Programme of the Committees for 2024-2025

The Committees took note of the activities of relevance to them in the BWP and noted that the 2024-25 BWP would be taken up for approval under agenda item 12(b) of Council.

12. Election of Chairpersons and Vice-Chairpersons for 2024

Following the usual consultations undertaken by the producer and consumer groups, Dr. Catherine Karr-Colque (USA) was elected as the Chairperson of the CEM and CFI for 2024. The name of the Vice-Chairperson 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.

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

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

The Fifty-ninth Session of the Committees will be held in conjunction with the Sixty-first Session of the International Tropical Timber Council in 2025.

14. Other Business

The representative of the European Union (EC) requested clarification on where the CSAG event which took place during the Trade and Markets Day would be reported. The Secretariat informed that the report of the CSAG event was not part of the CEM-CFI Agenda and would be reported in the Report of Council.

The representative of the USA expressed appreciation to the Secretariat's Dr. Johnson for his long service to the Committees and to the Council.

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 2023:

Committee on Economics, Statistics and Markets

PD 933/23 Rev.1 (M) 5th World Teak Conference: Sustainable Development of the Global Teak Sector – Adapting to Future Markets and Environments (India) [US\$188,238]

Committee on Forest Industry

PD 935/23 Rev.1 (I) Promoting Sustainable Wood Use for the Domestic Market in Malaysia [US\$212,088]

- (ii) The Committees recommended that funding be made immediately available for the following project approved at an earlier Session:

Committee on Forest Industry

PD 912/20 Rev.2 (I) Strengthening Technical and Business Management in the Timber Forest Industry of Peru [US\$385,706]

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 – 2023 “Tropical Timber Industry: Challenges and Opportunities from Changing Priorities” 14 November 2023, Pattaya, Thailand

The theme of the 2023 Annual Market Discussion organized by the ITTO Trade Advisory Group (TAG) was: “Tropical Timber Industry: Challenges and Opportunities from Changing Priorities”. The Market Discussion was chaired by Mr. Rupert Oliver (TAG Co-coordinator).

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

Dr. Preecha Ongprasert Royal Forest Department, Thailand	<i>Thailand Timber Industry: Challenges and Opportunities from Changing Priorities</i>
Dr. Lyndall Bull Food and Agriculture Organization of the United Nations (FAO), Italy	<i>The Role of Forests and Forest Products in a Bioeconomy Transition – Supply and Demand Perspectives</i>
Mr. Stephen Midgley Salwood Asia-Pacific, Australia	<i>Community Engagement and Smallholders as Pillars for Southeast Asian Forest Investment and Regional Wood Supplies</i>
Mr. Nobutaka Isoda, Tsukuba Research Institute Sumitomo Forestry Co., Ltd., Japan	<i>Mass Timber in the Building Industry</i>
Dr. Richard Eba’a Atyi CIFOR-ICRAF, Cameroon	<i>Smallholder Timber Supply for Domestic and Regional Markets in Central Africa: Importance and Challenges</i>
Mr. Franz-Xaver Kraft GD Holz Service GmbH, Germany	<i>EU Deforestation Regulation: Implications for Producers and Importers</i>
Mr. Nils Olaf Petersen European Timber Trade Federation (ETTF) Germany	<i>EUDR and Actions Taken by ETTF</i>

The presentations were followed by a question-and-answer session with members of the Council. Following the event, Mr. Barney Chan (TAG Co-coordinator) presented the TAG Statement (Appendix B). Presentations made during the 2023 ITTO Annual Market Discussion and the TAG Statement are available at <http://www.itto.int/ittc-59/presentations>.

Summary of Presentations

Preecha Ongprasert, Royal Forestry Department, Thailand

Thailand timber industry: Challenges and opportunities from changing priorities

In 1989 Thailand became the first nation to ban forest logging. This ban altered the structure of the wood processing sector and while slowing the rate of deforestation did little to preserve the kingdom's forests. Income growth in the wood-related industries after the ban was not significantly affected and beginning in the 1990s Thailand has increasingly developed its higher value-added processed wood products. As a consequence, the total income generated by wood-based industries continues to grow based on domestic plantation raw material, especially rubberwood and imported timber. Thailand is a net importer of both logs and sawnwood.

Preecha Ongprasert provided a detailed account of the forest resources in the Kingdom, explaining natural forests extend over an area of over 16 million ha., teak plantations cover an area of 329,600 ha., eucalyptus plantation 670,400 ha. and rubber plantations a massive 5 million ha. In addition to domestic timber resources imports are significant.

Ongprasert provided an outline of the laws and regulations on forestry along with an overview of the Thailand National Strategy to enhance marketing and competitive capacity in the domestic and international market.

The key challenges identified by Ongprasert include capacity building on SFM, the high cost of certification, the need to adapt to the EUDR and how to improve the livelihoods of smaller holders.

Lyndall Bull, FAO, Rome, Italy

The role of forests and forest products in a bioeconomy transition – supply and demand perspectives.

In this presentation Dr Bull provided an understanding of the environmental imperative to transition to a sustainable bio-economy and outlined the importance of forest products in that transition. She then outlined the major global forest trends related to forest cover, deforestation rates and restoration.

Following this, Dr. Bull outlined the demand drivers influencing global wood demand with a focus on the building and construction sector. Finally, she presented some results from the recently published Global Forest Sector Outlook 2050. This included discussion of the projected increases in demand for wood, including increased use in construction sectors and the likely increase in resource requirements that this will trigger.

Stephen Midgley, Salwood Asia Pacific Pty Ltd

Community engagement and smallholders as pillars for Southeast Asian forest investment and regional wood supplies

Global demand for wood is increasing and fast-growing plantations will remain the major source of industrial round wood. Land for extensive plantations is limited in SE Asia and access to land is a major challenge for plantation expansion in the region: communities and households have land and smallholders have emerged as a vital source of wood and wood fiber.

In aggregate, Asian smallholders are now providing more commercial wood than many of the global “giants” such as British Columbia, Finland and Sweden. Community and smallholder engagement are a normal part of business in the region. Examples were offered from China, India, Vietnam and Thailand and suggestions provided for future ITTO engagement.

Nobutaka Isoda, Tsukuba Research Institute, Sumitomo Forestry, Japan

Mass timber in the building industry

Mass timber is a category of wood product made by fastening or bonding smaller wood components with nails, dowels or adhesives, and mainly used for structural members. Mass timber is currently mostly made out of softwood.

Mass timber can be larger dimension timber products than conventional sawn timber and lends itself to mid-to large-scale buildings such as multi-family residences, schools, and office buildings. Mass timber is engineered for high strength ratings like concrete and steel but is significantly lighter in weight.

The global production of mass timber panels (primarily CLT) in 2019 was estimated at 1.44 million cubic meters (valued at US\$773 million). Global CLT production capacity was estimated at 2.8 million cubic meters in 2020, expanding rapidly and projected to reach 4 million cubic meters by 2025.

Mass timber construction is a ‘big wave’ to change cities into forests. By increasing mass timber buildings in cities, they become carbon stores just like forests. Isoda said mass timber in the building industry has a very important role towards the realization of a decarbonized society, and he expressed hope that tropical countries would begin to explore its potential.

Richard Eba’a Atyi, CIFOR – ICRAF, Cameroon

Smallholder timber supply for domestic and regional markets in central Africa: importance and challenges

Central Africa’s national and regional timber markets are booming. Across the region, rapid population growth, urbanization and economic development are driving an increase in domestic demand for sawn timber, which in many countries is already more significant in volume than demand for industrial timber for export.

However, consumers’ purchasing power remains weak, and in general they lack interest in the origin of the timber they buy – two important considerations that contribute to the prevailing informality of local markets. Domestic demand is mostly met by artisanal loggers, who are quite well organized, yet operate outside of existing legal frameworks.

These people operate outside of existing legal frameworks because in most countries the procedures to produce legally are complex and expensive and in some the issuance of permits to small scale operators has been suspended.

The informal logging sector creates many jobs and generates significant revenues in both rural and urban areas. In Cameroon, for instance, chainsaw milling provides 45,000 direct jobs and generates more than 20 billion FCFA (\$33 million) in revenues, according to a study led by the Center for International Forestry Research (CIFOR). But these jobs are precarious. Because small-scale timber producers lack legal protection, they have irregular incomes, and their activities are vulnerable to corruption and authorities' abuse.

Small-scale timber production is largely neglected by existing forest governance regimes, which are designed to meet the needs of the industrial sector. This situation makes it difficult to adopt policies that can seriously reduce the environmental impact of artisanal logging. The biggest challenge is to overcome the inability of governments to stimulate legal trade.

Franz-Xaver Kraft, GD Holz Service GmbH, Germany

EU Deforestation Regulation (EUDR): Implications for producers and importers

Kraft introduced the timeline for implementation of the EUDR and immediately identified an issue of concern. The EUDR applies to wood harvested after 29 June 2023 and placed on the EU market after 30 December 2024. It was emphasized that exporters need to start collecting information now so that wood can be imported into the EU after the cutoff date.

The obligations of importers include having to apply a due diligence system (DDS) prior to placing imported wood on the market. The DDS must cover issues such as deforestation, forest degradation and harvesting in accordance with local laws.

Importers must prove that products do not originate from land where deforestation or forest degradation occurred after 31 December 2020. Satellite images, official documents, certification or audits could serve as evidence, among others. It was stated that there is no exemption for wood covered by FLEGT or CITES. FLEGT can serve as evidence of legality but evidence of no deforestation or forest degradation still needs to be proven.

Turning to information required to successfully fulfil the EUDR, it was pointed out that importers will have to heavily rely on the assistance of producers. These need to provide geo-coordinates of all plots of land where wood was harvested, date of harvest, scientific name of the timber, evidence that the wood was harvested legally and evidence that the wood doesn't originate from a plot of land where deforestation or forest degradation have occurred after 31 December 2020. For so called 'high-risk-countries', additional information and risk mitigation measures may be necessary. If this information is not available, EU customs authorities will not allow the wood to enter the EU.

To conclude, Kraft said: "Nobody is better prepared for this regulation than [large] forestry enterprises in the tropics as they already use GIS systems, have documents proving compliance and have experience with the EUTR".

Nils Olaf Petersen, ETTF, Germany.

EUDR and actions taken by the European Timber Trade Federation (ETTF)

The European Timber Trade Federation (ETTF) represents timber product importers' interests across Europe, as well as non-importing merchants, distributors and traders. The ETTF operates on a united base representing and lobbying on behalf of the entire industry to national and EU authorities and key decision makers in the marketplace. The ETTF comprises 15 member EU timber associations and federations. The ETTF has been active providing information on the EUDR to its members and supplier countries through webinars, newsletters and workshops and has regularly conducted stakeholder consultations and communicated with stakeholders in other commodity sectors.

Petersen emphasised that, for timber harvested after June 2023 and placed on the EU markets after 2024, the EUDR applies so that it is important that suppliers and importers work together to gather the required information. The ETTF is of the opinion that the timber industry needs a much longer transition period to allow suppliers and importers to be confident in satisfying the requirements of the EUDR to avoid timber shipments being seized and companies being penalised and/or blacklisted. On implementation, the ETTF has called for a harmonized system within the EU that supports fair competition.

The process of implementation and enforcement by EU member countries is still evolving but what is clear in the EUDR is that any person can declare a concern and that the authorities are obliged to investigate immediately, which may lead to uneven application (eg some countries have more active NGOs). Petersen noted there is no exemption from the EUDR for wood products shipped with FLEGT licenses or CITES certificates.

The European Commission has indicated that the conditions for satisfying the EUDR will vary according to a ranking system for different countries under three categories, Low risk, standard risk and high risk. Depending on the ranking decided by the European Commission, differing standards in fulfilling due diligence requirements will be applied. When the EUDR entered into force in June 2023 all countries were classified as standard risk. At the end of 18 months the Commission will classify countries and parts thereof as low or high risk and publish this list.

Petersen concluded “No sector is better prepared than the forestry sector but currently no-one is well prepared” adding “it will be extremely difficult for many supplier countries and EU importers to comply with the EUDR especially the smaller companies”. Especially transferring the regulation into practice remains a challenge as many practical questions are still unanswered. During the presentation it was pointed out that trade federations were only involved in the development of the EUDR at a quite late stage.

The aim of the regulation, to avoid deforestation and forest degradation, is undebatable and welcomed by ETTTF stakeholders. Regarding its implementation there are some serious challenges and now trade federations need to collaborate closely to prevent further damage to their members.

Discussion and interventions

A delegate from Ghana stated that mass timber in construction is the future but that mass timber products are not popular in Ghana for house building because they are perceived as being susceptible to fire. He asked Nobutaka Isoda, who spoke on mass timber in the building industry, if mass timber products can be made fire resistant. Isoda responded saying most countries have fire regulations for building products and suggested that Ghana could import mass timber products. He also said that timber can be treated to offer fire resistance but most of the fire resistance comes from the ability of large pieces of engineered wood to resist all but the hottest fires, usually with only charring of the surface of the wood.

The delegate from Ghana further commented that the EUDR appears to be an attempt to influence governance in producer countries. The delegate asked for clarification on how timber harvested from trees planted on land on which the forest cover was destroyed by fire would be dealt with under the EUDR and (given the implications of the EUDR) if countries should continue efforts to meet the requirements of the EUTR.

Responding to the first question on marketing of wood from plantations grown on land where there was fire damage of the natural forest a speaker from the ETTTF said the EUDR is not flexible and as it stands now, timber from trees planted on land which was once forest but was destroyed by fire would not meet the requirements of the EUDR.

Regarding whether countries with VPAs should continue pursuing FLEGT licensing a speaker from the ETTTF said emphatically, yes, it would be advisable to complete the process adding that he has observed improvement in monitoring capacity, governance and sustainability as countries move to FLEGT licensing and this will help in meeting the requirements of the EUDR. Also, the legality requirements of the EUDR can be addressed through the FLEGT process. He added that no country pursuing FLEGT should forget that it will help reduce the burden of information requirements under the EUDR.

A delegate from Vietnam commented on the lack of linkage between the EUTR and the EUDR. He pointed out that Vietnam has committed considerable resources preparing for the VPA but now the focus in Vietnam is the EUDR. He requested that preference should be given to those countries that are trying to conclude VPAs and are still actively preparing for their implementation.

On the enforcement of the EUDR, the delegate from Vietnam pointed out that timber supply chains can be very complicated. He said that Vietnam uses domestic acacia and rubberwood and imported timber from over 100 countries for the manufacture of wood products for export to the EU. The domestic timber is supplied by small landowners, many of whom cannot read or write. He wondered how can they be expected to understand the requirements of the EUDR and provide geo-coordinates for the harvested wood and how can Vietnamese importers obtain geo-coordinates for the vast number of species imported from around the world to prove they are deforestation free? He commented that there is not enough time to prepare for the EUDR given the complexity of the sector.

The Market Discussion Chair commented that many in the timber trade were startled by the time scale for implementation of the EUDR. For large companies which have the financial and manpower resources it may be possible but for small operators it will be very difficult, especially where there are complex supply chains.

Both speakers from the ETTF shared the concerns of the delegate from Vietnam but did not have a solution. One indicated that he is aware the EC has some initiatives to work with smallholders but has no details, adding that it is important for domestic timber associations to aid small scale suppliers. He added that support for small scale suppliers is also a challenge in Germany where forest ownership is very scattered with thousands of forest owners with just one or two hectares, a problem shared by other European countries. He added that the EC needs to be aware of this and provide a precise guidance document.

On Vietnamese overseas suppliers the speaker from the ETTF recommended that all overseas suppliers be advised on what information and documentation they will need to provide so the requirements of the EUDR can be satisfied.

The representative from the IWPA asked if any studies existed on the potential economic impact of the EUDR or impact on consumer demand and also whether studies have been done on the potential impact of the EUDR on small and medium-sized enterprises.

The Market Discussion Chair said he was unaware of any economic analyses except for the fitness test conducted by the EC. This, he said, indicated that the costs of implementation were believed to be quite low but it was unclear if the private sector was consulted.

The speaker from the ETTF considered the work done by the EC insufficient and fears that some products may disappear from the EU market because the supply chains are too complex making it impossible to gather the required information to satisfy the EUDR.

To give an example on costs he quoted an example from Germany where creating an IT-based due diligence system for the EUDR was estimated to cost up to 400,000 euros, and this was only the development cost. He added an SME could not afford such a system and it would also be very difficult for them to afford the extra staff to maintain a robust system. He informed the meeting that he understands the EC is planning an impact assessment at some time in the future.

The delegate from Australia thanked the speakers for drawing attention to the supply and demand challenges presented by the EUDR as this issue is under-appreciated. He added that efforts to change negative perceptions of tropical wood need to be undertaken and that Australia appreciates the international efforts of ITTO and FAO in this regard.

A delegate from Ghana made an intervention saying Ghana is on the brink of issuing the first FLEGT license in Africa which should be a reason to celebrate but satisfaction has been replaced by frustration as achieving FLEGT licensing has been diminished by the EUDR which does not recognize FLEGT licenses, CITES or certification.

He added that Ghana was convinced there were synergies between FLEGT and certification and first thought FLEGT would be simple but eventually realized it involved considerable domestic reforms, not just on legality but also on SFM. He commented that the EC has adopted the EUDR and relegated the VPA and asked what reason Ghana now has to celebrate. He next turned to the risk ranking of countries to be determined by the EC and asked what benchmark will be used and whose law and/or judgement will be applied.

On development of plantations, he agreed that this is the future but there is an issue of finding enough land to plant trees on. In Ghana there are degraded forests but future plantation timber from such land will not be accepted under the EUDR, so the country is in a quandary. As a final comment he reminded delegates that the extractive industries (e.g. mining, oil/gas, etc.) are a major source of deforestation, but the EUDR does not cover these industries. He requested clarification as to why are these sectors not included in the EUDR.

At the end of the discussion a delegate from the EC intervened reminding everyone of the international commitment to end deforestation by 2030, adding that the EUDR is an environmental measure designed to help achieve this objective. He said that he had taken note of concerns regarding smallholders, stating that this issue has been raised by some authorities but when the EC held discussions with smallholders (notably within the multistakeholder forum), they were usually positive and claimed they could see the benefits from the EUDR.

He commented that FLEGT negotiations are ongoing with many partners and with some the EC is far from reaching the license stage; therefore, it is not possible to say countries should continue pursuing FLEGT as it is not appropriate for all countries.

On the issue of guidance documents raised by speakers from the ETTF the delegate from the EC indicated the Commission was ready to address this, adding that FAQ are readily available and regularly updated. He confirmed that there will be an impact assessment of the EUDR at some point in the future.

On the potential impact of the EUDR, the delegate from the EC stated that assessments have been undertaken in Thailand, Laos and Malaysia and the conclusions for some were quite positive. In Thailand, for example, where rubber is a major commodity under the EUDR, the impact assessment showed that the Thai authorities are already well prepared.

He added we should not overestimate the difficulties. We know there will be some but through cooperation with the EC/EU, they should be manageable. He concluded that the regulation has now been passed so we should all work together to make sure the timber trade is not negatively impacted.

Trade statement

Mr. Barney Chan (TAG Co-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 2024 Annual market discussion

The Trade Advisory Group (TAG) decided to defer its decision on the theme for the 2024 Annual Market Discussion. A theme will be conveyed to the ITTO Secretariat in advance of the next ITTC.

APPENDIX B

STATEMENT OF THE TRADE ADVISORY GROUP (TAG)

Presented at the 2023 Annual Market Discussion by
Barney Chan (TAG)
14 November 2023

Chairman
Ladies and Gentlemen

Our Trade Statement focuses on the “EU Regulation 2023/1115 Of the European Parliament and of the Council”, or EUDR for short. This regulation will have a significant impact on the tropical timber trade in EU, and it also has serious implications in tropical timber producing countries.

The principle behind the EUDR is one that the tropical timber trade supports. Deforestation is anathema to an industry built on sustainable use of tropical forests.

TAG welcomes the acknowledgement in the preamble to EUDR that the major driver of deforestation is not demand for wood products, but that, in the words of EU, “agricultural expansion drives 90% of global deforestation”.

However, TAG is deeply concerned that the law fails to acknowledge, either explicitly in the text or by implication in the measures it imposes, that the sustainable production and consumption of timber promotes forest conservation and mitigates climate change.

Timber is the only commodity within the scope of EUDR for which an increase in demand can enhance the value of forests, actively discourage deforestation, and promote increased investment in sustainable forest management, as well as help address climate change.

And, as stated in the Ministerial Call on Sustainable Wood issued at the 15th World Forestry Congress held in Seoul in May 2022, “scaling-up bio-economies by using sustainable wood replacing carbon-intensive materials has high potential to become a cost-effective and innovative contribution at scale to achieve carbon neutrality and build more resilient economies”.

In light of this, there is a significant responsibility on the part of EU and the architects of similar regulations in other consumer markets to ensure that laws developed with the best of intentions to help reduce deforestation, do not inadvertently increase barriers to the trade in legally sourced wood products as such regulations are more likely to undermine than enhance the value of standing forests.

TAG is somewhat reassured that the definitions of “deforestation” and “degradation” in the EUDR do, by implication, recognise the continuing role for selection harvesting in natural tropical forest. However, TAG believes that some aspects of EUDR have the potential to create unnecessary barriers to the sustainable development of tropical forest resources and trade in tropical timber products:

First, the regulation does not differentiate between illegal deforestation and legal forest conversion, thereby undermining the ability of tropical countries to make their rational decisions as to the appropriate balance between forest land and agricultural land within their own borders. The regulation seems to conflict with the Charter of the United Nations and 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.”

Second, the lack of adequate consultation with trade partners before the regulation was passed, and the continuing apparent unwillingness of the EU to engage in dialogue on the regulation through a multilateral organisation like the ITTO.

TAG decided to focus this trade statement on the EUDR only after we learned that there would be no separate agenda item on EUDR during this Council session. TAG believes this lack of dialogue has been a major factor contributing both to the inclusion of inappropriate technical requirements in EUDR and to unfortunate misunderstandings surrounding the scope and objectives of the regulation.

Third, the definition of “forest degradation” contained in the EUDR, which is not internationally recognised, prohibits EU trade in timber products from plantations established after 2020 on land converted from natural forests. This seems particularly perverse when it is considered that the development of globally competitive

forest products industries in the EU during the course of the last century has been heavily dependent on conversion of degraded natural forest into more intensively managed plantations.

Fourth is the requirement that scientific names be used to identify all tree species contained in products placed on the EU market. This requirement could have a negative impact on a trade which historically has been based on the genus of the tree rather than the very specific species. In fact, trade names are more commonly used and well understood by both producers and consumers. This requirement for scientific names begs the question: are there enough tropical dendrology experts to do this?

Fifth, the obligation to provide geolocation data for all individual plots of land, defined as “within a single real estate property”, from which all timber contained in a consignment may have derived will be particularly challenging for all products derived from smallholders, for composite products such as furniture, and for products such as panels where there may be widespread use of mill co-products and other waste material.

The EUDR requirements have potential to discriminate against small and medium sized enterprises, of which there are many tens of thousands, and in some cases, hundreds of thousands in the tropical timber sector. It threatens to roll back years of work, in the interests of sustainability, to add value to timber products prior to export from tropical countries, and to ensure the most efficient utilisation of all wood material.

TAG recognises the importance of demonstrating the legal and sustainable provenance of all products placed on the international market, and as such has long advocated for the development and promotion of timber legality assurance and forest certification systems in tropical countries. However, the successful implementation of these systems is critically dependent on dialogue and the active engagement of stakeholders. Attempts to impose systems by outside agencies without adequate engagement have failed in the past.

In view of this, TAG welcomes the EU commitment in Article 30 of EUDR to evolve Forest Partnerships with tropical countries that “allow the full participation of all stakeholders”, alongside the recent announcement of “Team Europe Initiative on Deforestation-free Value Chains” which aims to “facilitate an inclusive transition to deforestation free and legal supply chains to the EU.” In developing these forest partnerships, TAG would urge that the EU takes full and proper account of the concerns raised in this statement, and of the significant positive contribution of the legal trade in tropical forest products to mitigate the risks of deforestation.

Members of TAG stand ready to work with EU so as to ensure a smooth implementation of a simple and practical system to address the aims of the EUDR.

Would the EU accept our hand of cooperation?

Thank you.

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

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