

APPENDIX A

REPORT ON THE ITTO ANNUAL MARKET DISCUSSION - 2008 5 November 2008, Yokohama, Japan

The ITTO Annual Market Discussion 2008 was held on 5 November 2008 with the theme "Intra-regional Trade in Challenging Times". The discussion featured three speakers: Mr. Brent McClendon (International Wood Products Association, USA); Mr. Alhassan Attah (Ghana Forestry Commission, Ghana); and Mr. Bob Tate (PNG Forest Industries Association, PNG). The presentations were followed by a question and answer session with members of the Joint Committees. The Chairperson for the session was Ms. Michele Mire (CEM Chair, USA) and Mr. Barney Chan (TAG Coordinator) moderated the session.

Mr. Brent McClendon (IWPA) presented an overview of changing global trends in the wood products trade in light of the global economic downturn. Mr. McClendon drew attention to many problems in the global economy, including that consumer confidence is low and companies have shed jobs, particularly in the timber industry. He noted that since August, the price of oil was down 32% and markets were down 30% for the year. He mentioned other trends particular to the US, such as falling housing starts and remodeling applications. He noted that current economic conditions had impacted US businesses, especially medium-sized businesses, and had observed many distribution yards go out of business. He explained the new US Lacey Act from a US importer's perspective, saying it was designed to limit illegal logging and that a declaration, which was still under development, would need to be provided at the time of importation. In response to the new Act, he said that the importers celebrate what the Lacey Act can do for the US trade, but noted that US traders had concerns about the unintended consequences of the Act. McClendon also mentioned other US regulations that had an impact on the trade such as limits set on formaldehyde emissions by the US state of California, which requires third party certification of all composite wood products sold in California. He explained that this regulation was slowly becoming the national standard. On the role of ITTO, Mr. McClendon suggested that ITTO should strengthen its promotion of the forest products sector. He said that the Organization should: facilitate events and bring groups together for discussion on tropical timber issues; continue to work on the consolidation of forest inventory/trade data; and assist in identifying common elements of legality. He also encouraged the ITTO to conduct further research on forest industry and trade and marketing of tropical timber.

Mr. Alhassan Attah (Ghana Forestry Commission) presented on intra-regional trade in Africa. He noted there is a limited amount of official data to draw from on intra-regional trade as most of the trade in Africa is informal. Mr. Attah explained that intra-regional trade is only 7% of total trade in Africa and identified the key importing countries of logs (Egypt, South Africa and Morocco), sawn timber (Nigeria, Senegal, Morocco, Egypt, Algeria, South Africa, Ghana and Tunisia), veneer (Morocco, Nigeria, South Africa and Ghana) and plywood (Nigeria, Burkina Faso, Mali and Gambia) in Africa, noting that there was a general increase in regional trade of wood products. He noted an example, saying that wood trade from Ghana to Nigeria was much higher than what is exported to Europe. On the challenges to intra-regional trade, he said that poor infrastructure, road networks and tariffs were some of the obstacles facing the region. On opportunities, Mr. Attah noted the significance of increasing trade in Central Africa. He explained that South Africa, Algeria, Nigeria and Egypt were important markets for the region and that Africa in troubling economic times could further expand into these markets as well as domestic markets. However, he said that the high reliance on European markets for exports would slow African economies and make access to finance difficult. He suggested that further capacity should be developed on statistics. He recommended that ITTO could help promote regional trade, particularly in legally sourced timber, encourage harmonization of grading rules and support member countries in developing their value added sector. He also suggested governments eliminate bureaucratic inefficiencies for the forest sector and encouraged the private sector to promote purchases from the region and create strong linkages between trade organizations and member countries.

Mr. Bob Tate (PNG FIA) mentioned that PNG would be affected by a downturn in forest production and exports, which particularly impact rural areas where economic alternatives may not exist. Rising costs and supply delays for equipment and parts would make it more difficult on the industry. Due to the slowing demand from markets in Australia and New Zealand, PNG markets were weakening as buyers were becoming more cautious and may further impact the building and construction sectors. Regarding prices, Mr. Tate explained that prices were already beginning to drop as a result of the US and EU economic slowdown and the strengthening of the PNG currency against the US dollar. In 2008, he noted that the forecast for log exports could be between 2.4 to 2.7 million m³. Mr. Tate explained that some claims were made that the many companies in PNG were operating 'illegally', which were often proven false although these claims were highly supported by NGOs. He said that the FIA has helped to introduce market driven, voluntary actions to ensure legality certification systems are available when required. He explained that a

pilot project on chain of custody and implementation and a timber legality standard under SGS, the Timber Legality and Traceability Verification (TLTV) Program, was successfully completed. He hoped that a new project supported by the Australian government would help to extend this work on legality to two additional project sites, which eventually could be applied as a legality standard to all types of forest operations in PNG. He noted that allegations of illegality, whether accurate or false, created consumer concern and product aversion in consuming countries. Saying that the costs of compliance were rising in a more restrictive trading environment, Mr. Tate indicated this may reward those who are already 'cutting corners'. On recommendations for ITTO, he suggested: further action on illegal logging; the design of a common approach and response to trade restrictions; and the promotion of standards on legality, including to help member countries recognize the standards; and the encouragement of trade in tropical forest products where those standards have been met.

Barney Chan (TAG Coordinator) noted there were two common themes of the presentations: legality and promoting the use of tropical timber products. Particularly on legality, he explained that producers were looking to ITTO for guidance, as countries were struggling with the various legal guidelines of importers and how to work within various processes, including those created by the EU, Japan and the US.

In the ensuing discussion, a variety of delegations thanked the TAG for their coordination of the event and highlighted the usefulness of the Annual Market Discussions to the ITTC. The Philippines suggested that an action plan for timber be created and designed by the TAG to assess the long-term outlook for the timber trade. Yati Bun (CSAG) asked what could be done to address Africa's trade in the informal sector and Mr. Attah responded that engaging communities, creating awareness and designing a system for further stakeholder participation would help address this issue.

The delegate from Indonesia asked Mr. Tate to clarify his source of information that indicated 70% of logging in PNG is illegal. Mr. Tate said that it was from the authors of an NGO report, which picked up on isolated incidents. Japan asked for clarification on the underestimation of intra-regional trade and cross-boarder trade statistics.

The delegate of Guatemala noted that importers were requesting a greater amount of legal products and that more work should be done to create better perceptions of tropical timber. He also said there should be further work to determine the actual contribution of the forest sector to national accounts. Mexico highlighted the steps it was taking to promote the use of wood, including by encouraging the certification of wood products in Mexico and other steps to counteract the trends due to the recession. Malaysia also noted that further work needed to be done to promote tropical timber in the international market. The Congo said that although the issue of legality is difficult to explain, ITTO should continue to work with governments to improve their forestry governance and marketing. The delegate of Cameroon encouraged rebuilding organizations similar to the ATO to assist with timber issues in the region.

The EU explained that they hoped to harmonize the various definitions of legality and components of the FLEGT Voluntary Partnership Agreements. He said the EU was trying to create a level playing field on the minimum definition of legality. The delegate of the US hoped that the issue of intra-Africa trade would be an increasing focus in the ITTO. He also further explained the details of the Lacey Act, indicating that it is a trafficking statute that has a particular focus on trade in trees and wood products. He said it would not be in force until 15 April 2009 and that it is not meant to impose legality standards on importers or on traders.