



ITTC-36 HIGHLIGHTS: THURSDAY, 22 JULY 2004

On Thursday morning, delegates convened in the Annual Market Discussion. In the afternoon, delegates heard the results of the Civil Society Advisory Group/Trade Advisory Group Workshop on illegal logging and associated trade, and addressed forest-related developments in the UN Framework Convention on Climate Change (UNFCCC) and phased approaches to certification.

COUNCIL SESSION

ANNUAL MARKET DISCUSSION: Ed Pepke, UN Economic Commission for Europe (UNECE), discussed developments and challenges in the European timber market, noting the effect that EU enlargement has had on forest products markets, forest resources and tropical timber markets in Europe. He noted that wood supply has outpaced demand in Europe, and that issues such as tariffs and illegal logging affect European forest markets.

Lau Nygaard, DLH Nordisk, spoke about challenges to the timber industry from certification and illegal logging. He predicted that demand would not just be dependent on price but would shift towards softer values, such as legality, sustainable forest management (SFM) and certification. He lamented that increasing demand for these values does not yet translate into willingness to pay, and noted diversity in demand for certified timber products across Europe. He advocated EU, US, and global laws requiring disclosure of the origin of imported timber in order to create conditions of fairness in the trade.

Jean-Jacques Landrot, Interafrican Forest Industries Association (IFIA), noted that ethics could have either a positive or negative effect on African exports to European markets, and said that implementing forest law enforcement and governance (FLEG) and certification has been difficult. Landrot urged donors to facilitate investment in African production by helping to minimize risks, such as infrastructure failure. He concluded by condemning efforts to reduce demand without commensurate efforts to improve supply-side conditions, and encouraged the full valuation of environmental services.

On legality, Nygaard suggested clarifying the definitions of "legal" and "illegal" before certification schemes testifying legality are established. The US asked how disclosure laws contributed to a level playing field in the tropical timber trade. Landrot provided an example of a steering committee that facilitated the issuing of legality certificates in Africa. CAMEROON called for further understanding of the legal framework for SFM to assure consumers that timber is being harvested from sustainable sources.

On FLEG, PAPUA NEW GUINEA cautioned that FLEG could impede entry of tropical timber into the market. Pepke announced that a conference would be held in Geneva in September 2004 to discuss the effects of FLEG on European markets.

On certification, Pepke hoped that the cost burden of certification would shift from producer to consumer countries. In response to China's question on mutual recognition, Pepke said that certification schemes were currently not mutually recognized. PAPUA NEW GUINEA said that producer countries are struggling to certify their exports because the market is not prepared to pay the premium.

On trade, NORWAY complemented Nygaard's call for more regulation to correct skewed timber markets. The EC said that it is determined to ensure that imports fulfill certain criteria while focusing on what is required to enhance the development of producer countries. In response to New Zealand's statement that forest plantations reduce pressure on natural forests, Landrot, supported by CAMEROON and CONGO, specified that promoting the demand for timber from plantations may hinder timber markets in natural forest timber-producing countries.

CIVIL SOCIETY ADVISORY GROUP/TRADE ADVISORY GROUP WORKSHOP: Civil Society Advisory Group/Trade Advisory Group (CSAG/TAG) Workshop Co-Chairs Barney Chan, Sawarak Timber Association, and Andy White, Forest Trends, presented the results of the CSAG/TAG Workshop held from 19-20 July 2004, in Interlaken, Switzerland. CSAG/TAG Workshop participants mutually agreed, *inter alia*, that: producers and consumers have roles to play in eliminating illegal logging and associated trade; illegality encompasses a range of issues, such as worker rights, gender and trade, and money laundering; and capacity building is critical and needs to be applied not only to the timber sector but also to other sectors. CSAG/TAG recommended that the ITTO: take aggressive steps to address illegal logging and illegal trade; improve data and understanding of timber production and trade, including the extent of illegal logging and trade; encourage transparency, access to information and quality of published data; support countries to review and/or revise laws and regulations to ensure that they are efficient, enforceable and equitable; address underlying governance problems and improve implementation; encourage national, regional and international trade regimes to promote legal trade; promote systems to assess and verify the legality of forest products; and promote involvement of local communities in forest management and trade. The Co-Chairs also identified four action items that could be undertaken immediately: conduct an international conference on the transportation of timber products, involving financial institutions, customs officials, and the transport sector, to identify weaknesses that contribute to illegal trade; conduct international conferences on indigenous and community forestry, forest tenure, policy and other regulatory barriers to management and trade with a view to understanding their relationships to illegal logging and illegal trade; strengthen and expand the ITTO project window to finance private sector/civil society partnerships to advance sustainable and legal forest management and trade; and provide further opportunities for CSAG/TAG to advise the Council.



In the ensuing discussion, Chair McAlpine stressed the need for gender equity and transparency within CSAG/TAG. SWITZERLAND advocated more stakeholder consultations, urged arrangements for near-term actions, and inquired about funding needs for CSAG/TAG's work. PERU, supported by INDONESIA, lamented that illegal logging distorts legally logged timber prices, and noted a recent national stakeholder forum it had convened. BRAZIL, supported by CAMEROON, called for international cooperation to strengthen national law enforcement institutions.

The NETHERLANDS warned of recent calls from national civil society, parliamentary, and trade groups to ban illegally harvested imports into the EU. COLOMBIA, with the EC, emphasized simplification of unnecessary or difficult regulations. The EC asked for more elaboration on the recommendation for studies on the transportation of timber products. Chair McAlpine invited EC financial support for this study. CHINA welcomed the inter-party dialogue as an alternative to finger pointing. SWITZERLAND, the US and JAPAN expressed readiness to fund CSAG/TAG-recommended activities.

Responding to a question from the EC, workshop Co-Chair Chan stressed the importance of statistical information for clearly identifying the scope of the illegal trade in timber, noting discrepancies in import-export trade statistics in Asia. MALAYSIA and CHINA expressed concern that they had been singled out in the Co-Chair's remarks on discrepancies in trade statistics. IFIA said the problem extends beyond Southeast Asia and involves both importers and exporters. Manoel Sobral Filho, ITTO Executive Director, proposed, and delegates agreed, that the short-term CSAG/TAG action items be folded into existing decisions and activities in the Biennial Work Programme.

PHASED APPROACHES TO CERTIFICATION: Markku Simula, Indufor, presented preliminary reports on procedures for the implementation of phased approaches (PAs) to certification in tropical timber-producing countries (ITTC (XXXVI)/12) and on the cost-benefit analysis (CBA) of forest certification and implementation of PAs (ITTC (XXXVI)/13). Simula explained, *inter alia*, the strengths and weaknesses of three PA options: a baseline and action plan approach; cumulative PAs; and predefined PAs. Simula also presented the results of CBA case studies in five forest management units (FMUs) in Latin America and Asia. He asked delegates to consider, *inter alia*, how to: decide which PA to implement; define baseline requirements; treat legality; assist weakly managed and small FMUs in overcoming cost barriers of certification; and ascertain whether there are means for FMUs to capitalize on the environmental and social benefits generated by certification.

The PHILIPPINES suggested integrating the options into one system and asked for examples from countries that have undergone CBA exercises. GHANA, supported by TOGO, favored the baseline and action plan approach if it includes an effective communication system showing compliance and progress and is time-bound. INDONESIA favored using the three PA options in sequence. He bemoaned the PA report's conclusion that less than 10 percent of certified forest is found in ITTO producer countries. GHANA favored legal compliance as a baseline. He called on the ITTO to facilitate the harmonization of standards through dialogue.

IFIA highlighted that certification is a market access issue. SWITZERLAND noted the potential of PAs to secure international markets. BRAZIL warned that certification must comply with WTO rules. PAPUA NEW GUINEA differentiated between the benefits of certification in the marketplace and the broader benefits of SFM for FMUs. The EC questioned whether governments should take a position on options within the phased approaches to forest certification. COLOMBIA said the valuation of environmental services could facilitate certification. SWITZERLAND asked for CBAs on whether FMUs can internalize externalities, such as environmental services, through PAs.

The US disputed the report's conclusion on a price premium for certified timber. CAMEROON said if consumers are unwilling to pay a premium, certification will burden producers unfairly. TOGO

emphasized simplicity in PAs. INDIA noted certification is complicated and linked to land-use zoning. MALAYSIA asked ITTO to fund certification-training workshops. NEW ZEALAND requested ITTO support for a World Business Council on Sustainable Development certification initiative.

FOREST-RELATED DEVELOPMENTS IN UNFCCC/IPCC: Carmenza Robledo, UNFCCC, discussed the implications of UNFCCC/Intergovernmental Panel on Climate Change (IPCC) discussions on tropical forest and tropical timber producers (ITTC(XXXVI)/14). She said that activities related to land use changes, primarily tropical deforestation and forest fires, are important sources of greenhouse gases (GHG) and that forest ecosystems are suffering from climate change. She discussed potential impacts of climate change on tropical forests, such as decreased timber production, reduced forest ecosystem services and increased demand for agricultural land. Robledo identified the Clean Development Mechanism (CDM) as one instrument to mitigate GHG. She explained the distinct UNFCCC definitions for reforestation and afforestation. She proposed that ITTO promote the integration of knowledge on tropical forestry in the UNFCCC process and include climate change in the successor agreement to the ITTA, 1994.

In the ensuing discussion, BRAZIL, supported by the EC and SWITZERLAND, cautioned against fragmenting climate change discussions into various fora. BRAZIL noted that climate change is not only human-induced but also a natural phenomenon. MALAYSIA said the CDM is not the key to climate change mitigation. The EC noted that the Collaborative Partnership on Forests could explore how ITTO and Food and Agriculture Organization expertise can support the work of the UNFCCC. SWITZERLAND said ITTO could help build producer countries' capacity to assess their socio-economic vulnerability to climate change and their possible adaptation.

IN THE CORRIDORS

Support was expressed for "leveling the playing field" for traders that deal only in legally harvested and traded timber by requiring disclosure of origin for imported timber. Other delegates, however, wondered whether such a requirement aimed only at imported timber might constitute an unfair trade restriction. Indeed, it was noted that traders in one country are calling for outright bans on illegally harvested timber imports. Associating these two types of demand-side measures, one representative noted a preference for assisting with supply-side measures to curb illegal logging and trade.

THINGS TO LOOK FOR TODAY

COMMITTEE ON ECONOMIC INFORMATION AND MARKET INTELLIGENCE AND ON FOREST INDUSTRY:

Delegates will convene in the CEM/CFI from 9:00 – 10:00 am in Ballsaal to approve the final report.

COMMITTEE ON REFORESTATION AND FOREST MANAGEMENT: Delegates will convene in the CRF from 9:00 – 10:00 am in Theater-Saal to approve the final report.

COMMITTEE ON FINANCE AND ADMINISTRATION: Delegates will convene in the CFA from 10:00 – 11:00 am in Ballsaal to approve the final report.

COUNCIL: Delegates will convene in Council from 11:00 am – 1:00 pm and from 2:30 – 5:00 pm in Theater-Saal to address: forest law enforcement; ITTO Objective 2000; criteria and indicators for SFM; public relations, education and outreach; SFM in the Congo Basin; CITES listing proposals; and the dates and venues of future Council sessions.