



ITTO's update on tropical timber markets

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Sheam Satkuru
Executive Director, ITTO



INTERNATIONAL TROPICAL TIMBER ORGANIZATION (ITTO)

We are living unprecedented times ...



- The Ukraine – Russia war
- COVID-19
- Shanghai's lockdown
- Soaring shipping costs
- "Deforestation-free" market initiatives



ITTO's mission



- Promote the sustainable management and conservation of tropical forests.
- Promote the expansion and diversification of trade in tropical timber from sustainably managed and legally harvested forests.

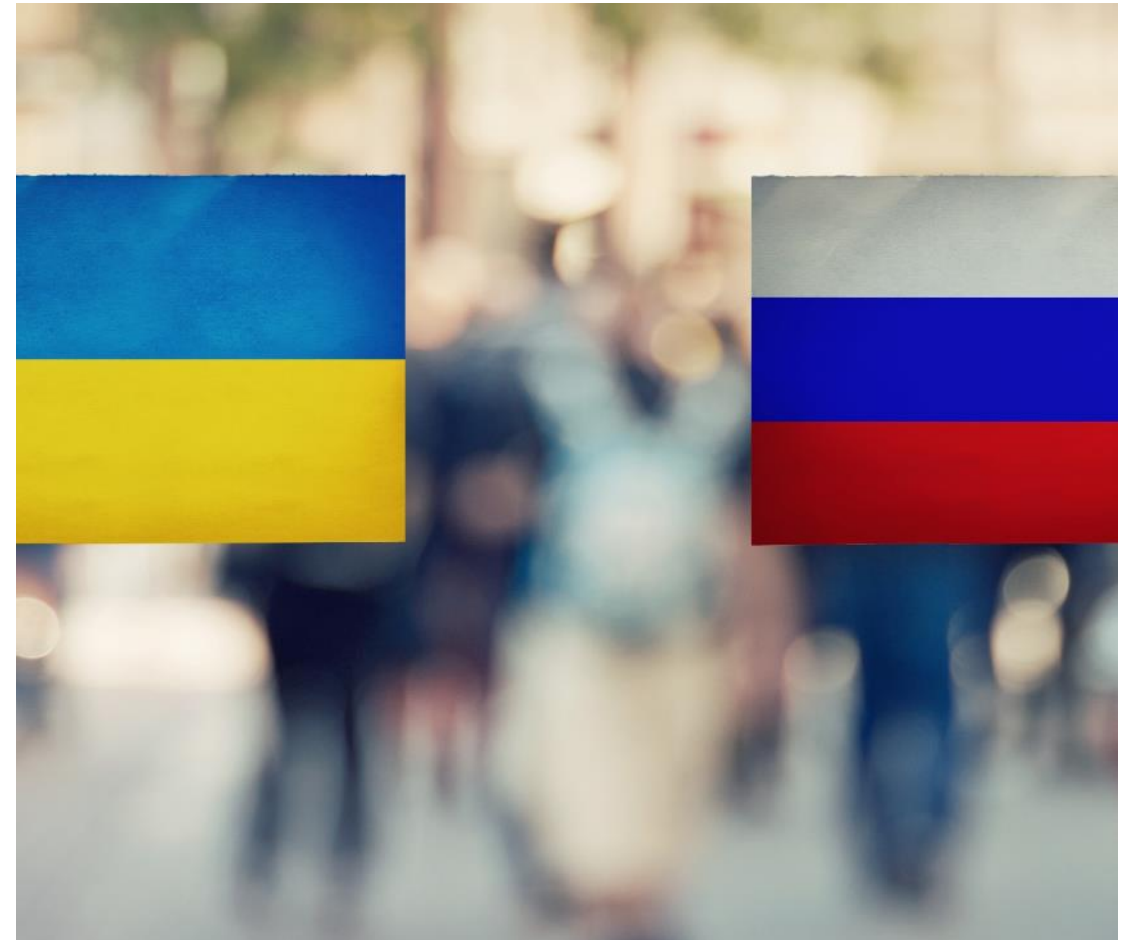
ITTO—THE SOLE inter-governmental organization focused entirely on tropical forest resources.

ITTO members cover over 80% of global tropical forests and account for 90% of trade in tropical forest products!

The Ukraine – Russia war



- Many countries have blocked financial transactions with Russia—retaliation from Russia.
- Disruption to supply chains.
- Russia — the largest sawnwood exporter and the 7th biggest exporter of wood products.
- FSC and PEFC suspended certification in Russia and Belarus—“conflict timber”.
- Major container shipping companies have stopped taking orders for Russia.



Sanctions on Russia and Belarus



- 2 March 2022: EU imposed trade sanctions on Belarus covering timber and other commodities.
- 10 March 2022: Russia's Industry and Trade Ministry said that a ban on all wood and timber-related exports to "unfriendly countries", would be introduced.
- 8 April 2022: EU adopted a fifth set of sanctions against Russia.

EU economic sanctions now directly target exchanges with Russia in a wide range of economic sectors — including the wood sector.

Sanctions – impacts on EU markets



- Volatility and shortage of supply expected (wood supply deficit of 45% of wood imports, by tonnage formerly derived from Russia and Belarus)
- Upward trend in hardwood prices.
- The EU economy continues to be influenced by the pandemic – existing trends like to worsen: logistics, supply bottlenecks, energy price rises, and inflationary pressures.
- Positive news? Activity in the EU construction sector, a key driver of timber demand, was growing in early 2022 but uncertain.....

Ukraine – Russia war: impacts in other regions



- Confusion expected in wood products trade (new experience, like with COVID-19):
 - If payment systems stop, the supply of wood stops.
- Wins and losses in trade (examples):
 - Philippines' sawnwood exports to China surged (at a decline of Russian imports).
 - Ghana lost around USD 50 million in exports with another USD 48 million of imports.

More:

- 1-15 March MIS: www.itto.int/mis/id=7033
- 1-15 May MIS: www.itto.int/mis/id=7074



Shanghai's lockdown



- Shanghai's port capacity exceeded 47 million 20-foot equivalent units (TEUs) in 2021, ranking 1st globally for 12 consecutive years.
- 20% of China's exports pass through the port.
- The port is operating half of its capacity:
 - Incoming containers wait for 12 days VS with 4-5 days before the lockdown.
 - Ships waiting for a berth at the port has risen to 48 hours VS 12 hours.
- Serious cargo accumulation at the port since April 2022 - logistic crisis in China with global ramifications?

More:

- 16-30 April MIS: www.itto.int/mis/id=7063

Soaring cost in seaborne trade



Freight rates to remain high for some time:

- Social distancing and other controls—ships held longer at ports.
- Fewer ships (& crew)- affecting shipping cycle.
- Consolidation among shipping lines = reduced competition.
- Decarbonized shipping = increased costs during the transition phase.
- The need for more ships (& crew) if they move more slowly (to reduce greenhouse-gas emissions).
- Risk premiums increased given uncertainties in the global regulatory environment, especially around emissions and the price of carbon.

Source: UNCTAD—Review of Maritime Transport 2021

“Deforestation free” market legislations



- There are similarities and differences between legislation introduced by the EU, UK and USA.
- All recognize the effects of deforestation on climate change and seek to address those by prohibiting certain commodities produced on (illegally) deforested land from being placed on their respective markets.
- All three measures implement a risk-based system/due diligence.

“Deforestation free” – products & prohibitions



Table 1: Scope of products covered under each measure

EU	UK	US
<p>“Relevant commodities”: oil palm, soya, cocoa, cattle, wood and coffee</p> <p>“Relevant products”: products that contain, have been fed with or made with relevant commodities, including palm oil, soya-bean oil, leather, chocolate and furniture</p>	<p>“Forest risk commodities”: to be determined by the Secretary of State. Current consultation proposes cattle (e.g. beef and leather), cocoa, coffee, maize, palm oil, rubber and soy</p>	<p>“Covered commodities”: palm oil, soy, cocoa, cattle, rubber and wood pulp</p> <p>“Covered products”: products made wholly or in part of a covered commodity</p>

Table 2: Prohibition of entry

EU	UK	US
<p>No relevant commodities and products can be placed, made available on or be exported from the EU market, unless the following conditions are met:</p> <ul style="list-style-type: none"> • deforestation-free • produced in accordance with relevant legislation of the country of production • covered by a due-diligence statement (12-month grace period after entry into force) 	<p>No use of forest-risk commodities or products derived from that commodity in UK commercial activities unless “local laws were complied with in relation to that commodity” in the country of production</p>	<p>No covered commodities or products that are produced from illegally deforested land (i.e. deforestation in violation of the law of the country where deforestation is occurring) can enter the US market</p> <p>No covered product from countries with action plans can enter the US market, unless the importer files a declaration upon entry certifying that certain due-diligence measures were taken to assess and mitigate risks of illegal deforestation in the supply chain</p> <p>(Effective 1 year after enactment)</p>

“Deforestation free” – due diligence



- The FOREST Act (US) and the EU Proposed Regulation require additional due diligence for commodities/products produced in countries with higher risk of deforestation:
 - EU Proposed Regulation will create a benchmarking system that classifies countries as low, standard, or high risk.
 - Concerns as to whether such a system conflicts with EU Member States’ ITTA 2006 and World Trade Organization obligations.



“Deforestation free” – timing & impacts



- The UK Environment Act was enacted in November 2021), the EU Proposed Regulation is expected to be adopted by 2023. Passage and timing of the FOREST Act is uncertain.
- All three measures likely to impact on market access + increased costs for producers and buyers.
- For businesses: closely follow development of these measures, examine supply chains, evaluate options to mitigate risks, take advantage of opportunities, etc etc.

More:

- TFU issue No. 31/1 (page 15) www.itto.int/tfu/2022/05/19/itto_s_next_five_years/
- 16-30 April MIS: www.itto.int/mis/id=7063
- 16-28 Feb MIS: www.itto.int/mis/id=7024
- LexBlog: www.lexblog.com/2022/01/21/comparing-recent-deforestation-measures-of-the-united-states-european-union-and-united-kingdom/

FLEGT process – IMM Stakeholder Consultation, Jakarta, May 2022



■ Positives:

- The green lane for FLEGT-licensed timber is making importing from Indonesia easier for EU operators.
- EU operators value the “zero risk” status of FLEGT-licensed timber and give preference where other commercial product criteria are equal.
- While the trade data does not reveal any significant FLEGT-licensing related growth in market share, the positive attitude of traders implies that FLEGT-licensing may have contributed to stabilizing this share in a difficult and competitive environment after a long period of decline.
- Indonesian private sector considers FLEGT to improve forest management and governance.
- Indonesian private sector sees an increasing role for SVLK/FLEGT licensing at a global level due to the growing number of regulated markets.

FLEGT process – IMM Stakeholder Consultation, Jakarta, May 2022



■ Negatives:

- Inconsistent messaging, lack of endorsement, marketing and promotion created confusion about the value of FLEGT licensing and affected market development.
- Inconsistencies in EUTR enforcement may have created loopholes that may have weaken the green lane advantage.
- FLEGT licensing so far being limited to just one country and a limited number of products has affected market development at various levels (e.g. uptake in procurement policies, green building codes etc., relevance for buyers, general level of awareness).

COVI-19 and timber markets – EU27



Data for the first ten months of 2021 VS same period in 2020:

- The value of imports for all wood products was 40% higher than in the same period in 2020:
 - Import value up by 23% for all tropical wood products (not mirrored in import volumes);
 - Gain in the value was driven partly by rising freight rates.
- Imports of tropical logs (value) was up by 30%.
- Imports of tropical plywood (value) was up by 11%.
- Imports of wooden furniture (value) from tropical countries was 35% higher.

More:

- TFU issue No. 31/1 (page 22)
www.itto.int/tfu/2022/05/19/itto_s_next_five_years
- MIS www.itto.int/mis



COVI-19 and timber markets – USA



- United States imports made gains in 2021:
 - Imports of tropical sawn hardwood (value) grew by 25% in 2021 BUT still well below 2019.
 - Hardwood plywood imports increased in 2021 by 32% VS 2020.
 - US imported nearly USD 24 billion of wooden furniture in 2021, an average of just under USD 2 billion per month and 27% higher than in 2020.

More:

- TFU issue No. 31/1 (page 22)
www.itto.int/tfu/2022/05/19/itto_s_next_five_years
- MIS www.itto.int/mis

COVI-19 and timber markets – China and Viet Nam



- China imported 63.6 million m³ of logs in 2021, up by 6% over 2020:
 - 5.42 million m³ was tropical logs in 2021 (9% of the country's total log import volume).
- Pine accounted for 21% of Viet Nam's total log and sawnwood imports in 2021, at a volume of 1.31 million m³ and a value of USD 325 million:
 - Increase of 34% in volume and 54% in value compared with 2020.

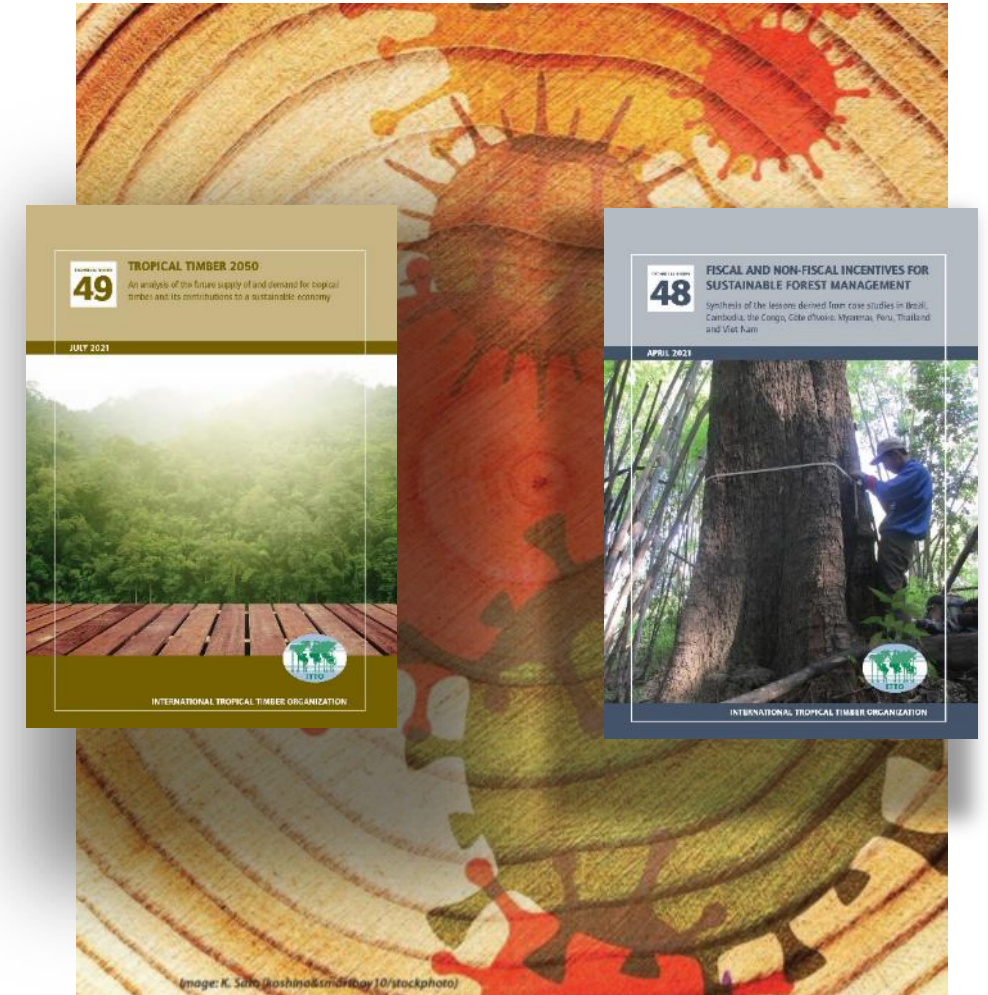
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ITTO's response to COVID-19



- ITTO's studies on incentives and modelling the recovery of the tropical timber sector (www.itto.int/technical_report/):
 - *"Fiscal and Non-fiscal Incentives for Sustainable Forest Management"*;
 - *"Tropical Timber 2050"*—analyzes potential scenarios, examines previous economic/non-economic shocks to estimate the likely time required for the sector to recover to pre-pandemic levels.
- Survey on the impact of the pandemic in tropical timber sector:
www.itto.int/news/2020/05/08/survey_shines_light_on_covid_19_impacts_on_tropical_timber_sector.



ITTO's response to COVID-19 and others



- Bi-monthly market updates – ITTO's *Tropical Timber Market Report* : www.itto.int/mis/.
- ITTO Annual Market Discussion “Challenges in manufacturing and trade during the COVID-19 pandemic” at ITTC57 (Nov. 2021): www.itto.int/ittc-57/market_discussion/.
- Success stories on SFM, landscape restoration, legal, sustainable supply chains and more on ITTO's website and *Tropical Forest Update* www.itto.int/top_stories/ www.itto.int/tropical_forest_update.
- Increased virtual/physical presence – active participation at FAO/UN/CPF/international meetings - advocacy on central role of SFM in tropics to climate challenges & SDGs 2030



ITTO Pilot Programme Lines



- Legal & Sustainable Supply Chains (LSSC)
- Conservation of Biodiversity and Ecosystem Services
- Forest Landscape Restoration and Resilient Livelihoods
- Emerging Issues and Innovation

ITTO's LSSC Programme



- Enhance tropical timber supply and value chains, from the forests to the market, to achieve legality and sustainability.
- Capacities of legal and sustainable supply chain enhanced, business collaboration and networking facilitated:
 - International Forum: Together towards Global Green Supply Chains—A Forest Products Industry Initiative - how to improve the legality and sustainability of tropical timber supply chains.
 - The establishment of the Global Green Supply Chain Network. (www.itto-ggsc.org)
 - E-course on LSSC developed (<https://lsscource.com/>) – applies globally
 - Training for legal and sustainable timber supply chains in the Congo Basin.

Moving forward: Sustainable investments



- **Sustainable strategic investments** critical for transformative changes and inclusive solutions that steer restoration and conservation, forest management, viable forest-based industries and a sustainable timber trade towards a circular bioeconomy.
- **Tropical timber industry** needs transformative public and private investments to promote **sustainable production and consumption** with enabling environments for private investments aimed at sustainable profits.
- **Sustainable business development on** timber, non-timber forest products + a wide range of ecosystem services = enable local communities/Indigenous Peoples/smallholders to improve their livelihoods.



Moving forward: Key elements



- The role and contribution of tropical forests supported by landscape restoration in the tropics to overcome climate challenges - must be recognized and fully supported.
- Increased governance & enforcement are essential for SFM-contribution to LSSC (enriched livelihoods and empowerment).
- Multi-stakeholder involvement & gender parity-critical-empowerment in decision-making = social, environmental and economic benefits = contributions to GFGs and SDGs.
- Increase public awareness that harvesting timber sustainably is **not** deforestation while also stimulating legal and sustainable timber supply chains = contribute to the SDGs 2030.

PLEASE WORK WITH US!



**LSSC online
course**



**ITTO Policy
Series**



**ITTO Technical
Series**



Other reports



<http://www.youtube.com/user/ittosfm>



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International Tropical Timber Organization

www.itto.int
satkuru@itto.int