UNECE/FAO Timber Committee Market Discussion 2005

Policy issues influencing forest products markets in 2004 and 2005

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Policy issues

1. Forest law enforcement, governance & trade
2. Initiatives to encourage the use of sustainably produced timber products
3. Forest sector development policies
4. Climate change policy
5. Wood energy policies
6. Trade policy and tariff and non-tariff barriers, including phytosanitary measures
7. The emergence of China as a major player in the wood products manufacturing arena

➊ Forest law enforcement, governance & trade

IN A NUTSHELL:

- Political pressure to curtail illegal logging is strong & growing

- More studies become available on the extent of illegal logging and trade, and consequences

- More governmental and non-governmental initiatives address the issue (with slow progress)

- Awareness of the importance of proper law design is rising, (in addition to proper enforcement and stopping criminal activities)

❶ Extent

Illegal logging:
- 8-10% of global wood products production, $23bn products
- Brazil 80%, Gabon 70%, Indonesia 73%, Cameroon 50%, Malaysia 35%, 25-30% NW-Russia
- CiTs: up to 35%
- UNECE region: < 1% in most countries

e-NGOs use different definitions & usually find higher extent of illegal logging

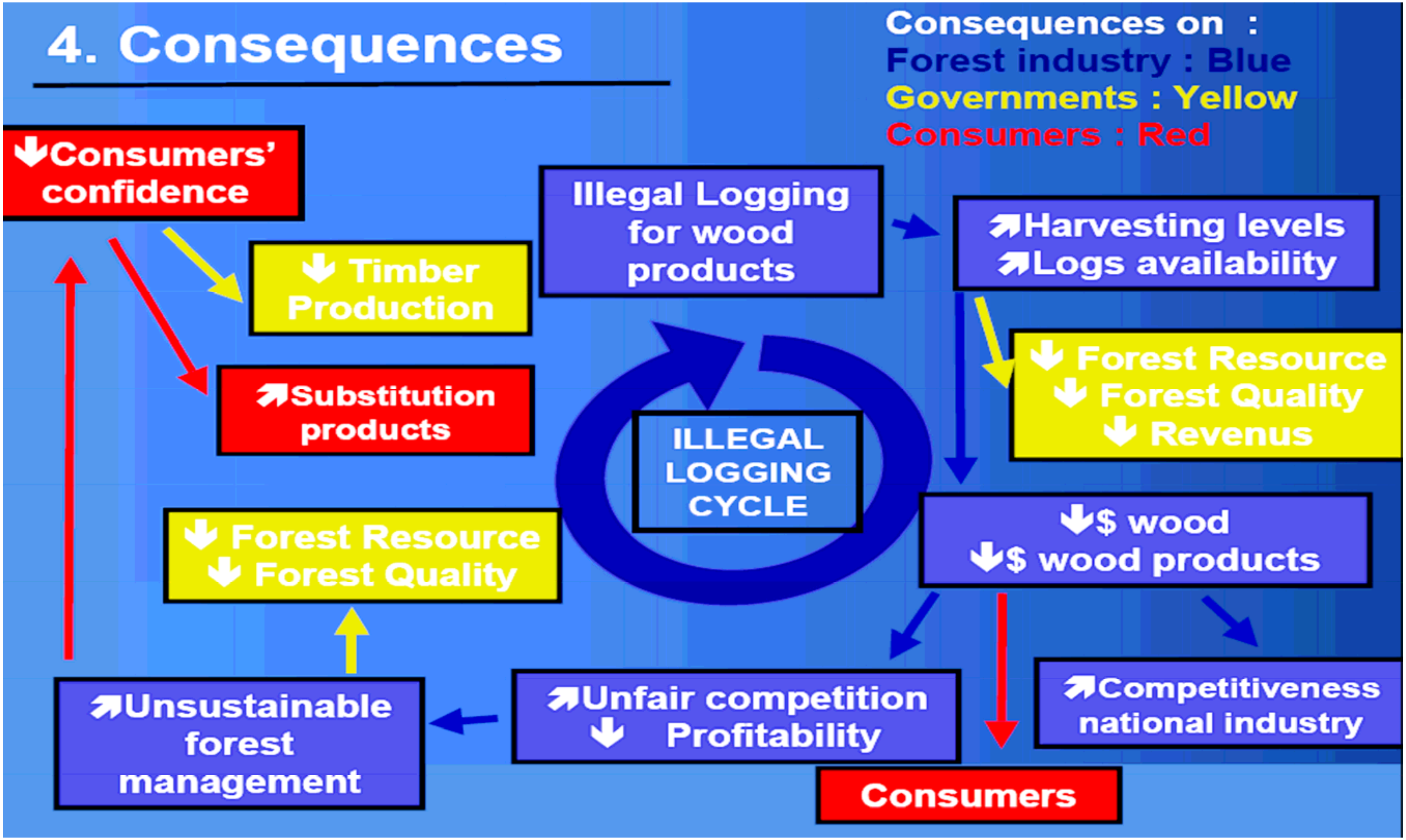
Trade in illegal timber:

-8-10% of global wood products trade

-14% of global industrial round wood, 23% of global plywood exports "suspicious",

-UNECE region: < 5% of trade

Consequences



Source: Guertin, 2004

➊ Consequences

Loss:

- $ 10 bn loss to producing countries (WB 2001)
- $ 5 bn govt. revenue loss (WB 2001)

- US: 2-4% domestic price rise without illegal roundwood, US wood products value increase $500-700 mil/yr., opportunity costs for US exporters: $460 mil. (real $ terms)

➊ Government & NGO initiatives & progress

World Bank FLEG process:

- Asia 2001, Africa 2003, Russia 2005

> impact beyond awareness raising?

EU FLEGT process:

- Action Plan, EU Proposal for a licensing regulation, mandate for negotiating agreements, review of legislation & further options under way

> effectiveness of regulation approach?

G8 Environment and Development Minister statement
CITES: first commercial species in Appendix II (Ramin)
ITTA negotiation: discussion of ITTO role

UK Royal Institute: www.illegal-logging.info
European Trade Federations & Tropical Forest Trust

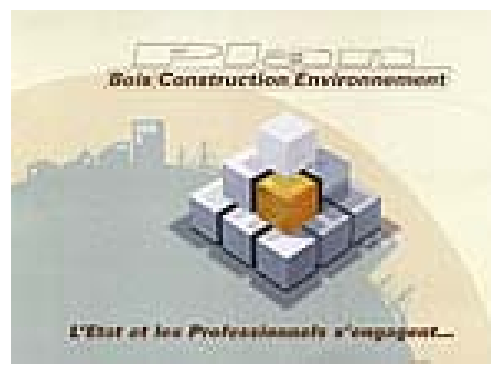
❶ Comments & observations

Propositions:

- **Illegal logging is an economic & reputation burden for the forest industry (nationally & globally)**
- **it will remain a global issue for quite some time**
- **governments and the private sector have not yet done enough**

Are country experiences of affected countries supporting these statements?

❷ Encourage use of sustainable timber products



❷ Encourage use of sustainable timber products

IN A NUTSHELL:

- Initiatives to encourage use of sustainably produced wood still strong & growing (governmental and NGO initiatives)

- Background: exploiting comparative advantage “green” & “renewable” material wood; illegal logging, forest certification,

- Issue: which strategies & tools to use; development of different tools to address legality & sustainability?

- Rising: green building initiatives in North America, increasing attention in EU

- Important: streamlining & strengthening communication, PR

❷ Wood from verifiably legal and sustainable sources

Initiatives (examples):

- **DK:** voluntary guidelines for purchasing tropical timber:
  - no compliance checks
  - intermediate step between legality and sustainability
  - support for phased approaches to sustainability

- **UK:** Central Point of Expertise on Timber (CPET) standard
  - govt. purchasing policies that require 100% legality and
  - high level of sustainability (70% of raw material in imported wood to be certified)

    >changes induced by evaluation of certification schemes

> Most countries address legality and sustainability by different instruments but in practice it often needs similar procedures

> Experiences with specifying purchasing guidelines (UK, DK, Ger, Japan,...)?

❷ Green building standards & green building certification

Initiatives:

- **US:** Green Building Council – LEED initiative:
  - LEED: Leadership in Energy and Environmental Design
  - 1700 buildings and 7800 professionals certified
  - former focus on new buildings now expanded
  - World Green Building Council founded in 1999
  - US Natl. Assoc. of Home Builders Guidelines
- **Canada:** Green Globes Program
- **UK:** BREEAM (Building Research Establishment's Environmental Assessment Method)

➢ schemes promote use of certified forest products

➢ North America seems to be ahead of Europe

-**EU:** Directive on Energy Performance of Buildings
  - to be implemented by January 2006
  - difficult: harmonize methods to calculate energy efficiency

❷ Comments and questions

- What are experiences of national initiatives using different promotional instruments to encourage the use of wood (France, UK,..)?
- How powerful will/can green building certification become?
- How can different initiatives be better co-ordinated?

③ Forest sector development policies

Source: Ontario Ministry of Natural Resources

③

Forest sector development policies

IN A NUTSHELL:

- A range of strategic studies and initiatives have recently started, especially in the EU, encompassing the whole forest sector

- Taken together, these are expected to help transform the sector(s) from segmented & low-profile to a visible, large and politically more powerful player

- Key aspects are: competitiveness through cross-sectoral co-ordination, value chain co-operation, innovation and research for growth

- Meanwhile, the importance of the sectors and its knowledge capital seems to shrink further compared to other sectors (words & plans are not enough)

❸ EU developments and initiatives

EU Forestry Strategy:

- main recommendation: EU Action Plan for Sustainable Forest Management

> Expectations? Future "constitution" negotiation?

EU Rural Development Regulation:

-strengthened "rural development" funding

-provides basis for better integration of forestry into rural dev.

> is forest policy powerful enough? Are forest policy strategies for rural development existing? Are they sound?

EU FP7 for Research & Development:

-proposal to almost double research budget to 67 bn€

-Current proposals seem more favourable to forest sector funding than FP6, although "big boys" and strategic issues have kept their big shares.

❸ Key international and national initiatives

EU Forest Sector Technology Platform:
- Industry-led initiative (CEI-Bois, CEPI, CEPF,..)
- Financially supported by EU
- Objective: establish a platform, develop a vision for the sector for 2030 (Feb. 2005) and a strategic research agenda (Dec. 2005)

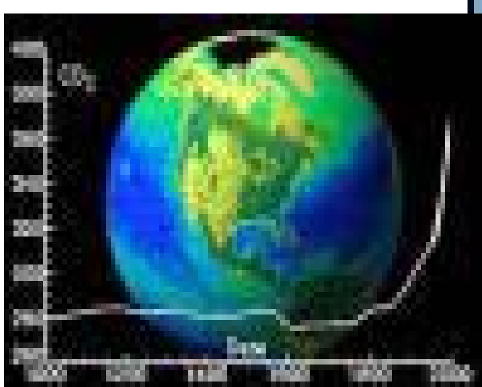
UNECE EFSOS:
- European Forest Sector Outlook Study is published
- Its findings and recommendations seem to be reflected in many other initiatives, programmes and strategies.

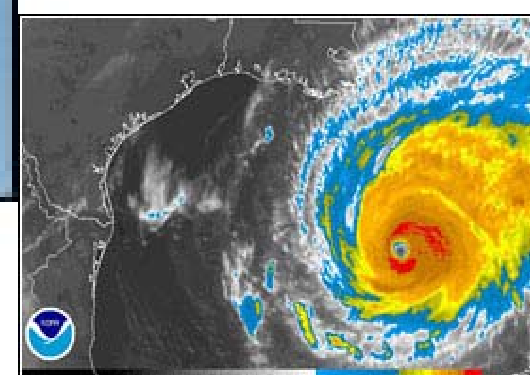
National:
- US initiatives on State-level to evaluate global competitiveness of forest-based industries
- Finland's Future Forum, "France Bois Foret",..

❸ Comments and questions

- Stronger direct industry involvement is higly welcome
- The knowledge capital seems to be shrinking instead of growing as private investment into R&D, innovation, education is far too low for sound forest sector development.
- How to get the industry out of the “mature & simple raw material industry” corner?

4 Climate change policy





4 Climate change policy

IN A NUTSHELL:

- The Kyoto Protocol went into effect in 2005. Parties have to make decisions on definitions, activities, monitoring systems. The US has switched to a more active policy outside the KP.
- Discussion on post-2012 commitments & LULUCF have started.
- Carbon markets have become operational. Regulatory frameworks have soldified, volumes of emission reductions and values of allowances traded have increased dramatically.
- Forest carbon trading has become more frequent, with better financial infrastructure, and more CDM projects funded. This gradually changes how forest land is perceived by powerful players.

④ Kyoto Protocol decisions and negotiations

- Parties to the Kyoto Protocol have to make decisions on LULUCF definitions and Art. 3.4 activities by end 2006, and monitoring systems by end 2007.

- Afforestation & reforestation projects are eligible for the Clean Development Mechanism (CDM), for the commitment period 2008-2012 credits from LULUCF CDM are limited to 1% of Annex I base year emissions/yr (= ~ 33 mil tCO2E)

- No CDM methodology for afforestation & reforestation projects has so far been approved

- Parties to the KP have to start negotiations about post-2012 commitments (Art. 3.9). First discussions have already started, incl. how to include “avoided deforestation”, and how to close holes in current LULUCF monitoring arrangements.

4 Carbon Markets

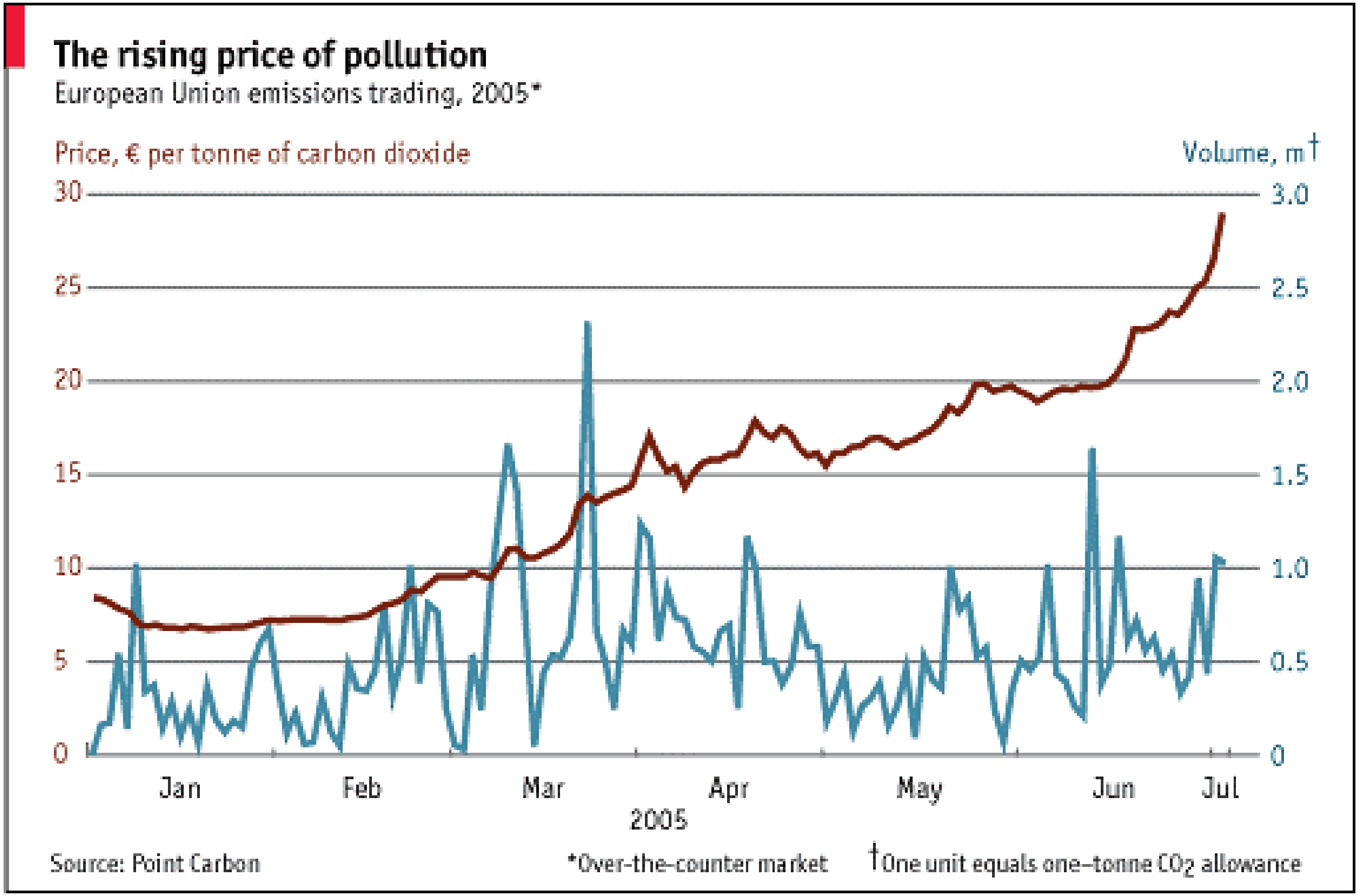
- Market volume:
    - Project-based emission reductions (2004): 107 mil tCO_2e (+38% since 2003)
    - Emission allowance certificates (-May05): 56 mil tCO_2e
    - Estimates for Europe: by 2006: 60 bn €, by 2012: 200 bn €

- 4 Greenhouse Gas Allowance Markets active by May05
    - EU ETS is the by far largest market. It does not allow trading of project-based sink credits, review in 2006.
    - Australia NSW: first forestry accreditation in Oct. 2004
    - CCX: incl. major forest companies, 2.5 mil tCO_2e traded
    - several new ones active by now (Sept 05)

- World Bank Bio-carbon Fund and others provide more and better financial infrastructure for CDM projects. This gradually changes how forest land is perceived by powerful players.

- Cost estimates for sequestering carbon vary from \$3.42/tCO_2 to \$71/tCO_2

Carbon Markets: ETS 2005



The Economist July 5th 2005

4 Comments and questions

- Is this a foreign language for forest policy and forest products market analysts?
- Are we prepared and equipped to act in this field? (knowledge? attitude? strategic investment into capacity building?)
- Is it really relevant for European forestry and forest industries other than pulp&paper? What are country experiences?

5 Wood energy policies

Photo courtesy of DOE / NREL, credit Warren Gretz

5 Wood energy policies

IN A NUTSHELL:

- Biomass as an energy source continues to gain considerable interest (incl. due to recent oil price rise, carbon neutrality)

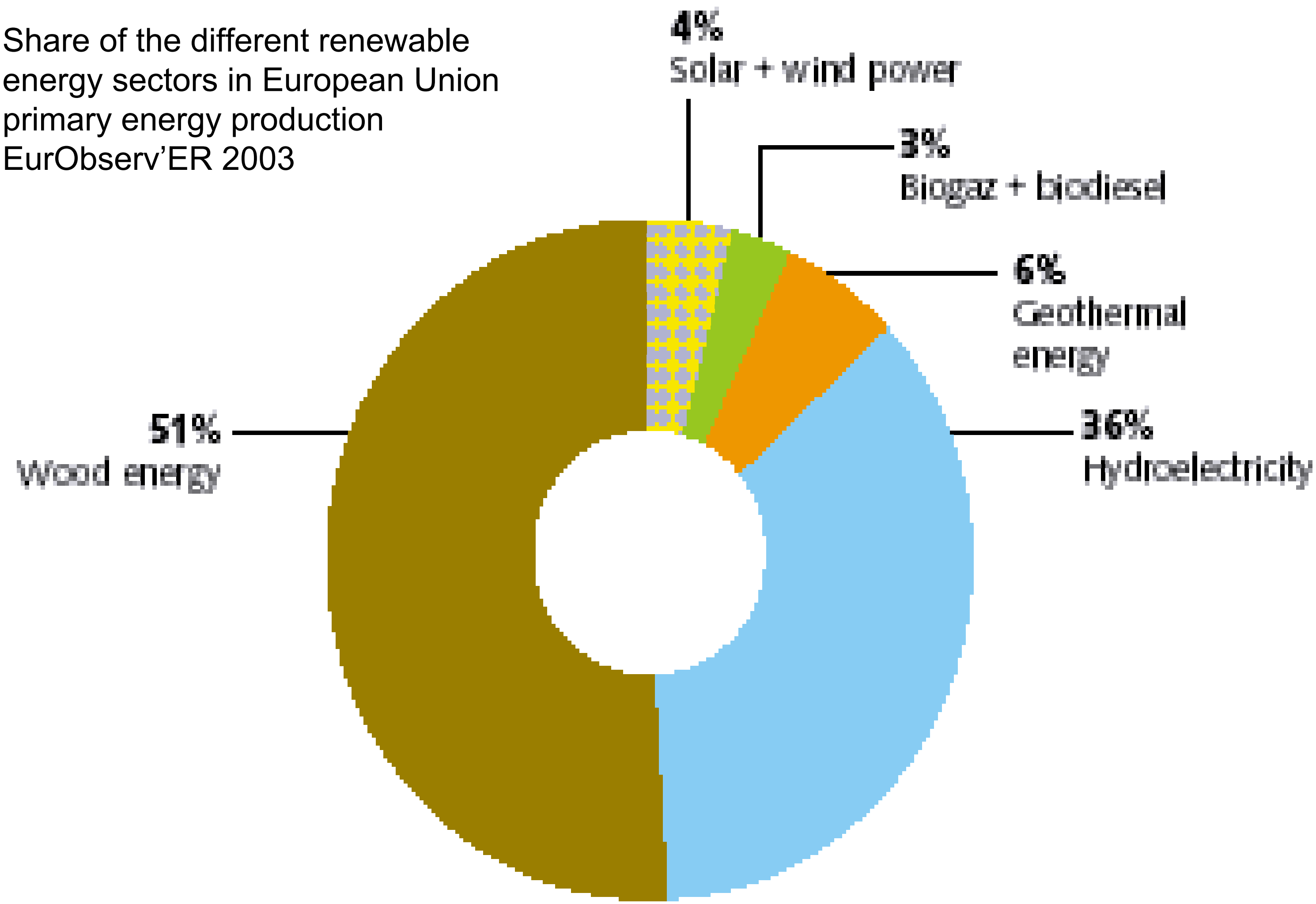
- Biomass is used to produce energy in the form of heat, electricity and liquid fuel. In the EU 15 in 2003 2.9% of primary energy consumption was from wood (the most important biomass as well as renewable resource for energy production)

- The potential contribution of biomass to energy production is far greater (thinning material, energy wood plantation).
- Bio-fuel from wood is seen as a promising future area for R&D, especially in the US

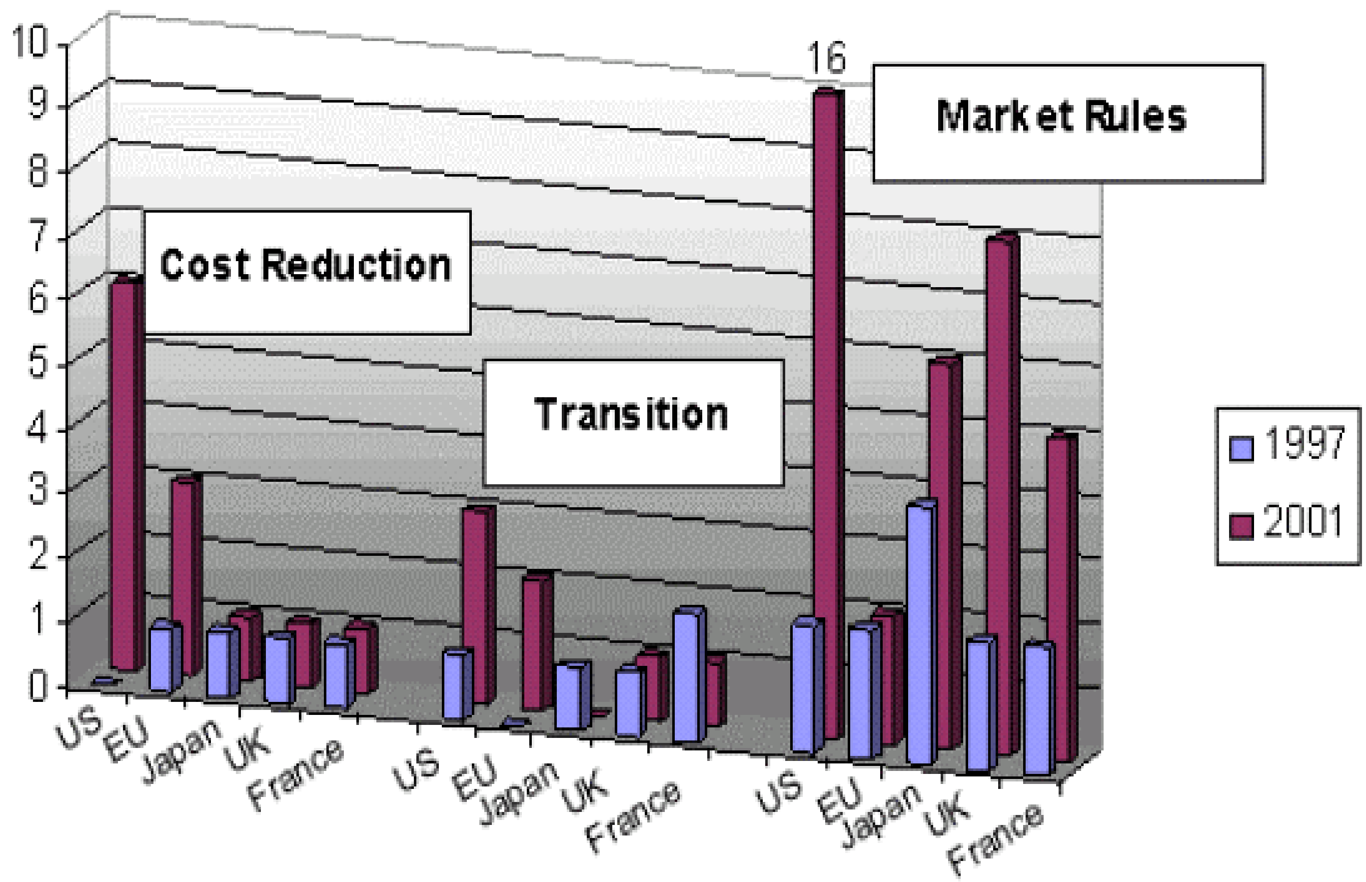
- Sound overall policies for renewable energy need coherent strategies and policies from the forest sector.

Primary energy from wood

Share of the different renewable energy sectors in European Union primary energy production
EurObserv'ER 2003



5 Trends in green power policies



Source: Sellers, IEA, 2002

5 Wood energy policies

EU Policies:

- EU Community Action Plan: doubling by 2010 of share of total energy consumption provided by renewable energy, from 6% to 12%

- EU RES-Electricity Directive 2001: 2010 target of about 22% of electricity from renewable energy sources

- EU Biofuels Directive 2003: replacement of 2% of transportation fuel by bio-fuels by 2005, and 5.75% by2010.

- No EU RES Directive on heat/cooling

- Developments so far would not allow to achieve EU targets

5 Future expectations

	2001	2010	2020	2030	2040
Total Consumption in Mtoe (IIASA)	10038,3	10549	11425	12352	13310
Biomass	1080	1313	1791	2483	3271
Large hydro	222,7	266	309	341	358
Small hydro	9,5	19	49	106	189
Wind	4,7	44	266	542	688
PV	0,2	2	24	221	784
Solar thermal	4,1	15	66	244	480
Solar thermal electricity	0,1	0,4	3	16	68
Geothermal	43,2	86	186	333	493
Marine (tidal/wave/ocean)	0,05	0,1	0,4	3	20
Total RES	1364,5	1745,5	2694,4	4289	6351
RES Contribution	13,6%	16,6%	23,6%	34,7%	47,7%

Source EREC2004: The contribution of Renewable Energy Sources to the world energy supply in 2040 - Projections Mtoe – Advanced International Policy Scenario

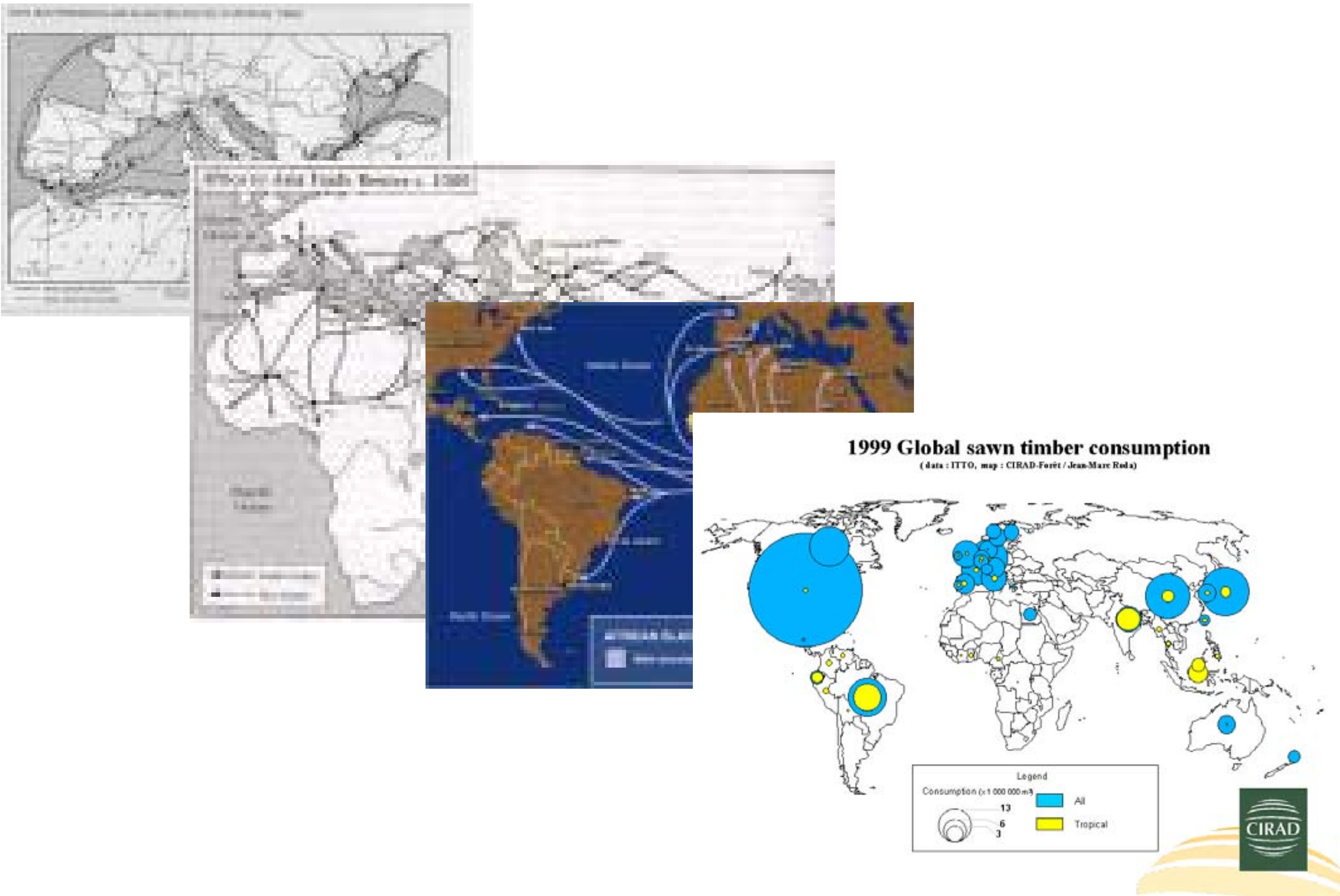
4 Comments and questions

- Is this (again) foreign territory for forest policy and forest products market analysts? Is it enough for policy makers to focus & defend the “home turf” of the traditional forest sector? (lacking policy entrepreneurial spirit?)

- A European study concluded that the development of renewable energy should lead to the creation of about 900,000 new jobs by 2020, about 400,000 jobs from the renewable energy industry and 500,000 jobs in the agriculture and forestry areas to supply the primary fuels.

- Re-brand: Green Power = Growth (not just sustainable, not just environment)

❻ Trade policy (tariff&non-tariff, phytosanitary)



❻ Trade policy (tariff&non-tariff, phytosanitary)

IN A NUTSHELL:

- Tariffs are a minor barrier overall, small aggregate impacts expected in case of full liberalization (WTO Doha)

- Non-tariff measures (NTMs) promoting environmental objectives are increasing, but seem not to be a major constraint. Technical barriers to trade are increasing,incl. e.g. ISPM15

- Trade disputes & duties: US-Canada on softwood lumber (45 mil m3, 6.8 CAD (4.7 mrd €, 5.8 bn$)), US-China on bedroom furniture, US-China on tissue and crepe paper, EU-US (lifted early 2005), EU-China on Okoume plywood

- ASEAN&China Free Trade Agreement in effect since June05, “sensitive” products include plywood, fibre-, particle board,

- Measures against pests, esp. ISPM 15 on wood packaging from unprocessed wood

⑥

ISPM 15

Guidelines for Regulating Wood Packaging Material in International Trade

- UN FAO International Standard for Phytosanitary Measures (ISPM) adopted in 2002

- Applies for untreated wood, not for processed manufactured wood (plywood, OSB,..) or engineered wood

- Implemented in North American since 2004, in effect in the EU since March 2005, increasingly adopted as standard world-wide

- Pallets must be marked with the IPPC logo and type of treatment

- Ways and means of inspection and verification are not yet fully clear

> Neither are market implications

7 China as a major player in wood products manufacturing

Source: FAO/Hofer

Source: IFR 2005

7 China as a major player in wood products manufacturing

IN A NUTSHELL:

- China has the world’s most rapidly growing economy, and so far a prime example that autocratic regimes and economic liberalization are not contradictory

- China’s wood & wood products sector has emerged as one of the largest in production, consumption and import

- Data situation on China markets is/was largely confined to proprietary analyses, based on often weak official and other data.

- Similarly, systematic analyses of forest sector policies and their effects are not existing or difficult to obtain.

7 China's apparent domestic consumption

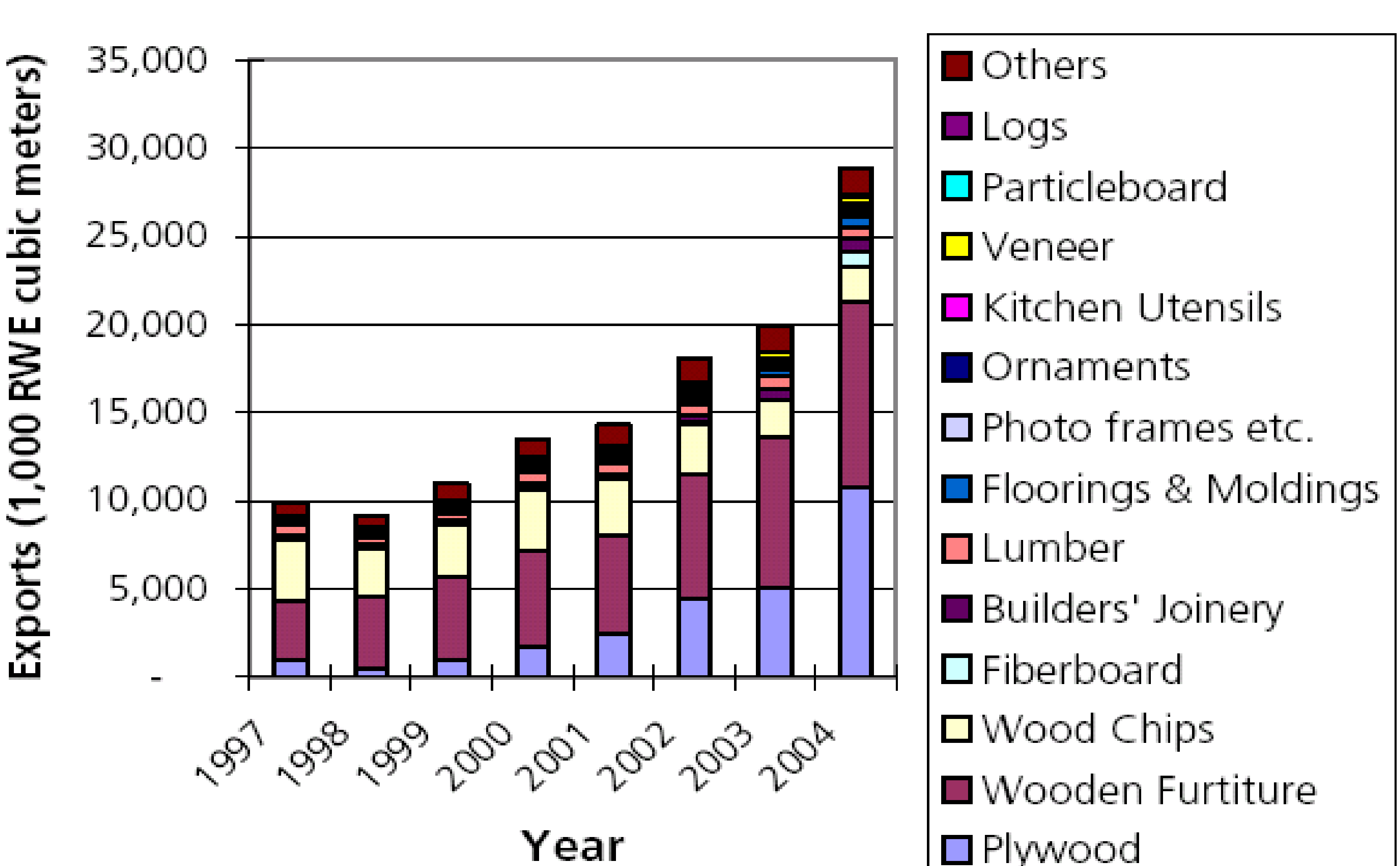
- Data on domestic supply shows considerable differences. Due to limited domestic supply, imports to China have markedly increased since the mid 90s.

- The gap between consumption and domestically produced forest products was estimated at 106 mil m^3 RWE in 2002 and estimated to reach 150-175 mil. RWE in 2010.

- Numerous reports suggest substantial international trade in illegally-sourced wood between Indonesia, Russia, Malaysia and China, and other nations.

- China is now a major producer and exporter of furniture and plywood, amongst other wood products. Domestic consumption in China is growing.

7 China as exporter of wood products



Source: Sun, Cheng, Canby 2005

7 China and forest sector policy

Recommendations from IFR – Nilsson et al. 2005:

- Establish a new and transparent forest inventory (domestic supply!). Review causes of gaps between official figures and expert judgements on forest products and industries

- Revisit the planned plantation program (is this a sound way for satisfying the future demand of pulp in China?)

- Revisit the current policy of shifting production from natural to plantation forests; assess future fuelwood demand, supply and related policy reform.

- Remove the logging ban and reform broader forest regulatory framework, taking collective forest owners into account

- Reassess the justification for public subsidies for industrial investments, develop new investment criteria and procedures for public banks

7 Comments and questions

- Have policy makers sufficiently considered the medium- to longer term implications for the different segments of the industry, and adequate responses (industry relocation effects and counter-measures,..)?
- ..or is this something that should be left to the market?
- What are experiences of countries more directly/strongly affected by the developments (furniture industry in Italy, Denmark, Romania,..)?


StoraEnso

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