

Postscript – challenges and opportunities in turbulent times

As *State of the World's Forests 2009* goes to press (late 2008), the world is experiencing a steep economic decline. The contraction of the housing sector and the subprime mortgage crisis in the United States of America have severely affected financial markets, triggering a global economic slowdown and recession in several countries. Confidence in financial institutions has eroded significantly. Stock market declines have reduced asset values by hundreds of billions of dollars. Deleveraging by banks seeking to secure their capital base has resulted in a credit squeeze that has affected all economic activities. A downward spiral has ensued, with decreases in production, employment, incomes and consumer demand causing further curtailment of production and further economic decline.

This downturn has affected almost all countries and transformed previously upbeat economic forecasts (IMF, 2008; UN, 2009). Global unemployment is expected to increase by 20 million in 2008 and 2009, potentially reversing recent success in poverty reduction (ILO, 2008a). Wages are expected to decline significantly (ILO, 2008b). Economic slowdown in most developed economies has already had consequences for emerging and developing economies, especially those dependent on exports and foreign direct investment. Official development assistance and remittances by migrant workers are expected to drop substantially (Cali, Massa and te Velde, 2008).

As an integral part of the larger economy, the forest sector will be affected by the overall economic slump. The severity of impacts will vary across the sector depending on linkages with sectors directly affected by the crisis.

DECLINING DEMAND FOR WOOD PRODUCTS AND SCALING DOWN OF PRODUCTION

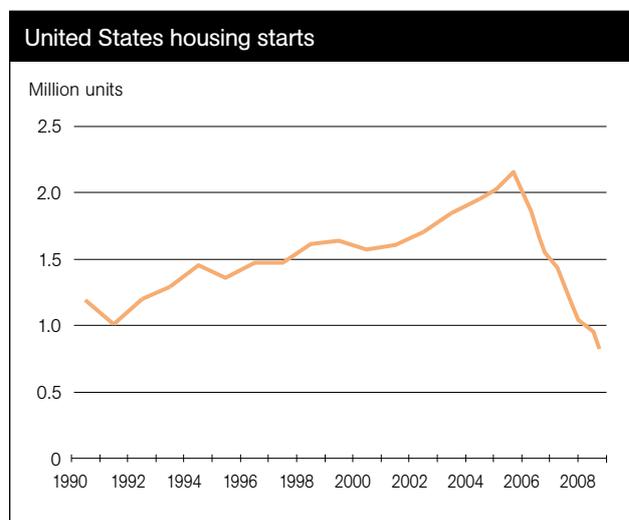
The collapse of the housing sector, which has been at the epicentre of the current crisis, is a major blow to wood industries. The annual rate of new housing starts in the United States of America declined from about 2.1 million in early 2006 to less than 0.8 million in October 2008 (see figure on right). Several other countries, especially in Western Europe, have witnessed similar declines in

the housing sector, although not of the same magnitude. The housing decline has led to decreases in wood demand (UNECE and FAO, 2008; WWPA, 2008). Wood fibre demand in North America alone is expected to fall by more than 20 million tonnes in 2009 (RISI, 2008). Consequently, scaling down of production is widespread in almost all countries and all forest industries, from logging to sawmilling to production of wood panels, pulp, paper and furniture. Countries that are highly dependent on United States markets, for example Brazil and Canada, have already been severely affected.

Declining demand for forest products and the credit crunch together are having a severe negative impact on new investments, affecting all wood industries. As existing facilities remain underused or close down, investments in new capacities are being deferred or dropped.

REDUCED WILLINGNESS TO PAY FOR ENVIRONMENTAL SERVICES

The economic crisis could affect the demand for environmental services, especially as society becomes less able to pay. National and international policies coupled with a nascent market mechanism form the foundation for the growth in demand and supply of environmental services.



SOURCE: NAHB, 2008.

Prolonged economic stagnation could have a negative impact on a number of environmental services unless the building up of a “green economy” is seen as a way out of the crisis.

Despite an initial appearance of stability, carbon markets have also been hit by the financial crisis as it has led to the collapse of some of the major investment banks involved in carbon trading. Carbon prices have plummeted in line with the prices of oil and other commodities. On the European Climate Exchange, carbon prices dropped from about €29 per tonne in early July 2008 to about €15 per tonne in mid-November 2008. An economic slowdown implies a decline in emissions from industries and power utilities, reducing the demand for emission allowances. Unless the price of carbon increases significantly and remains stable, the market approach to combating climate change could become ineffective. Its viability will largely depend on economic recovery and strong political commitment to conclude the post-Kyoto climate change agreement.

A more general concern is that some governments may dilute previously ambitious green goals or defer key policy decisions related to future climate change mitigation and adaptation as they focus on reversing the economic downturn (Egenhofer, 2008; Rice-Oxley, 2008). For example, commitment to European legislation on climate change, especially on auctioning emission allowances, is meeting obstacles, although some countries (e.g. the United Kingdom) have moved ahead with partial auctioning. Initiatives such as those for reducing emissions from deforestation and forest degradation (REDD) that are dependent on international financial transfers could face similar problems.

The unprecedented investment boom in biofuel production of the past few years is also fading. The slowdown could particularly affect investment in the more efficient second- and third-generation technologies, including lignocellulosic biofuel production.

Travel and tourism, including ecotourism, is another sector already affected by the economic slump. Since mid-2008, the expansion of international tourism has decelerated, initially because of high fuel prices and subsequently because of slowed economic growth and consequent lower consumer

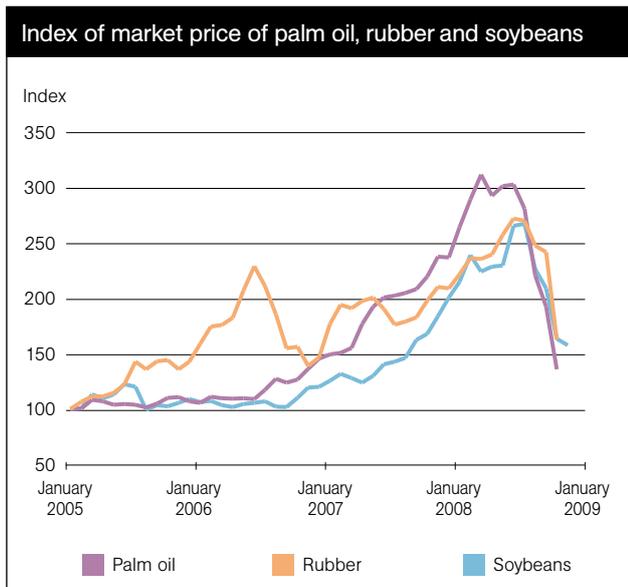
expenditure on travel and tourism (WTO, 2008). An already visible decline in international tourist arrivals in Kenya, South Africa and the United Republic of Tanzania, for example, heralds coming difficulties for wildlife tourism.

IMPACTS ON FORESTS AND FOREST MANAGEMENT: BAD NEWS AND GOOD

Reduced wood demand could have positive effects on forest resources, but the economic crisis could also reduce investment in sustainable forest management and favour illegal logging. Contraction of formal economic sectors often opens opportunities for expansion of the informal sector, including illegal logging. For example, a number of countries in Southeast Asia witnessed an increase in illegal logging following the 1997/98 economic crisis (Pagiola, 2004). Declining demand for high-priced wood from legal operations, reduced institutional capacity to protect forests as a result of lower budgets and increasing unemployment in the formal sector could increase illegal logging.

As outlined in the preceding chapters, rapid economic growth and reduced land dependence have helped to slow forest clearance and even reverse deforestation in many countries in the past decade. In several countries, remittances from migrant workers have helped to diminish the pressure on land. A continuing economic crisis could reverse the decline in dependence on agriculture, especially as industrial and services sectors decline and remittances drop. Increasing unemployment in the latter sectors could result in the return of workers to rural areas with attendant impacts on land use, including expansion of cultivation on to forest land.

Although smallholder cultivation may expand, large-scale cultivation of commercial crops, which has been a key driver of deforestation in the tropics, could decline substantially with the credit squeeze and the reduction in demand caused by the economic slowdown. Prices of palm oil, rubber and soybeans have dropped dramatically in the second half of 2008 (see figure on next page). While this is bad news for the producers of these commodities, it could be good news for forests. For example, the price of soybeans has a direct correlation with forest clearance in the Amazon basin (Nepstad *et al.*, 2008).



NOTE: January 2005 = 100.
SOURCES: FAO, 2008; Index Mundi, 2008.

WEATHERING THE ECONOMIC STORM

Governments and central banks have acted rapidly to counter the crisis in a coordinated manner. However, nobody can be certain when the decline will bottom or how long it will take for markets and consumer confidence to turn around again. A recovery within a couple of years is a highly optimistic scenario. Many economists visualize further decline before a prolonged period of slow recovery. Wood demand is unlikely to reach the peak of 2005–2006 again in the foreseeable future.

Almost all countries are currently implementing monetary and fiscal policies to boost credit availability, growth and consumer demand. The forest sector could seize the opportunity to play a part in these fiscal stimulus measures – through the building up of natural resource capital (e.g. through afforestation and reforestation and increased investment in sustainable forest management), generation of rural employment and active promotion of wood in green building practices and renewable energy.

Economic cycles also always present opportunities for industry restructuring. Large-scale enterprises frequently rationalize production capacity by closing down old and inefficient units and focusing on the more productive part of the business. Large enterprises often face the greatest problems in an economic downturn; small and medium-sized enterprises may even find that the crisis offers them some opportunities.

The forest sector's ability to take advantage of the windows of opportunity provided by the current economic crisis will largely depend on institutional reinvention (see the chapter "Changing institutions" beginning on page 80). Difficult as this is, the crisis may stimulate acceptance and implementation of long-overdue reforms.

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