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CLIMATE-SMART AGRICULTURE

Reducing export restrictions on timber to sustain commercial forestry investments in Uganda

In 2003, the Government of Uganda began implementing policies to promote investments in commercial forest plantations, including opening 150 000 ha of land to plantation investments by individuals, firms, and communities. This was done to reduce pressure on natural forests, which were rapidly disappearing, and to stimulate new economic growth opportunities in rural areas, including for small and medium scale plantation owners and processors. These efforts were bolstered by the Sawlog Production Grant Scheme (SPGS), which provides production grants to plantation owners, conditional on following sustainable management guidelines.

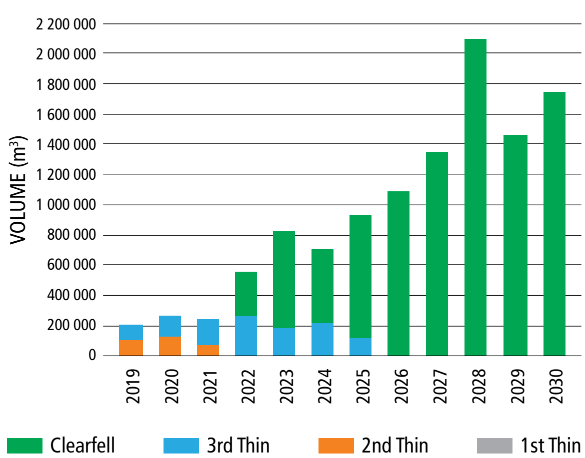
As a result of these efforts, over 80 000 ha of commercial forest plantations, mostly of pine, have been established since 2005. Because pine plantations require 18 years to reach full maturity, Uganda is on the verge of a significant jump in pine supply entering the market. As shown in Figure 1, about 200 000 m^3 of pine currently enters the Uganda market each year. By 2023, supplies will increase to 800 000 m^3 and exceed more than a 1 million m^3 per year by 2026. While there is no official data on forest product consumption in Uganda, several sources of data suggest that current production levels of around 200 000 m^3 are close to meeting domestic demand for pine.

Uganda's nascent commercial pine sector is, therefore, on the cusp of a substantial shift in pine supplies. How policy makers respond to this impeding supply glut will determine the future of the commercial forestry sector in Uganda. If poorly managed, domestic prices will drop and incentives for plantation owners to invest in replanting will be reduced. Yet, given the ideal growing conditions for pine in Uganda, the significant investments already made in the sector, and the huge regional demand for pine and other soft-wood timber in neighboring countries, policies that support continued investment in the sector will position Uganda as the regional leader in sustainably managed wood products for years to come.

KEY MESSAGES

- Commercial pine production in Uganda will increase from 200 000 m^3 to 800 000 m^3 by 2023.
- Timber export restrictions make commercial pine plantation investment unprofitable.
- Reducing export restrictions on timber can make Uganda a regional leader in sustainable commercial forestry.

FIGURE 1. Pine supplies will rapidly increase in Uganda in the coming years



Source: FAO. 2020. *Unlocking future investments in Uganda's commercial forest sector.* Rome.

De-facto export restrictions on timber exists

A major constraint in the commercial forestry sector is the challenge associated with exporting timber. Article 44 of the National Forestry and Tree Planting Act stipulates that

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"No person can export timber without an export license that is issued by a licensing authority" and "An export permit can be issued only for graded timber." While seemingly straightforward, these regulations act to significantly restrict timber trade, because Uganda does not yet have a set of approved grading standards for timber, and the process of acquiring a license from a licensing authority involves approvals from four different government agencies, each of which can delay or reject the application for exports. As a result of the current export restrictions on timber, prices of timber in Uganda are 25–30 percent lower than in neighboring Kenya.

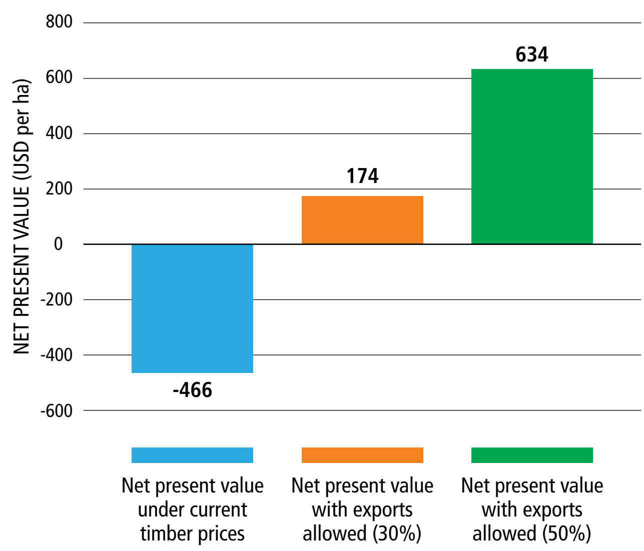
Addressing export restrictions in timber is essential to profitability

Given the cost of establishing and maintaining a commercial pine plantation, and the alternative investment options available to plantation owners, does investment in pine plantations make financial sense under current market prices? To answer this question the financial Net Present Value (NPV) and Internal Rate of Return (IRR) of investing in pine plantations in Uganda is computed under current market conditions, where timber exports are restricted, and are compared to two different scenarios where export restrictions are removed (30 percent and 50 percent of production is exported) and Kenya Freight on Board Prices (Nairobi) are used to estimate export prices.

For this analysis, it is assumed that the average pine plantation in Uganda, following SPGS management guidelines, can produce 250 m^3 of sawn logs per hectare of forest plantation over an 18-year production cycle, plus marketable thinnings. To achieve this production, a wide range of establishment and maintenances costs are incurred during different years in the production cycle, as well as costs associated with land lease and administration. These costs are offset partially with support from the SPGS project. Income from the pine plantation is mostly earned once the trees mature, although some income is earned from the selling of second and third thinnings. When the trees are mature, they are processed into timber of at recovery rate of 35 percent, while by-products such as chips and shavings can be marketed.

Based on these assumed costs and benefits, the findings show that under current export restrictions investments in pine plantations are unprofitable, with an NPV of -466 USD/ha and an IRR of 5.5 percent (Figure 2). However, when exports are allowed pine plantation investments become profitable endeavors. If plantation owners exports 30 percent of their production as timber to Kenya the NPV of their investment is USD 174/ha. This increases to USD 634/ha if exports reach 50 percent.

FIGURE 2. Removal of export restrictions makes plantation investments profitable



Source: Authors' own elaboration.

Addressing export constraints is essential for the future of Uganda's commercial forestry sector

As a result of the Government of Uganda's forward thinking policies to create a commercial forestry sector in the early 2000's, it is 20 years ahead of its neighbors in terms of the sector's development. It now must implement policies to sustain the sector. This depends fundamentally on enabling producers and processors to easily access to local and to external timber markets. Some key steps to be considered are:

1. Finalize and gazette standards and guidelines for grading timber, while ensuring that these are consistent with regional and global market and standards, can be met by local producers/processors, and do not require expensive equipment and extensive training to assess.
2. Harmonize the export permit process to allow exporters to acquire all necessary approvals in a reasonable short time, using an internet-based approval system to allow traceability and transparency.

Supporting exports is essential to sustain the sector and to position Uganda as the regional leader in sustainable commercial forestry.

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The findings in this brief have been adapted from the FAO country guidance note *"Unlocking future investments in Uganda's commercial forest sector: Understanding the impacts of timber trade restrictions on the profitability of pine plantations and sawmill investments"* available at www.fao.org/3/ca7721en/CA7721EN.pdf