Private Sector Involvement in the FLEGT-VPA NEGOTIATION

By Mr.THONGSAVANH SOULIGNAMAT

President of Lao Wood Processing Industry Association, LAO PDR)

(23rd February 2016)

Why do we talk about FLEGT/VPA in Lao

* The EU Timber Regulation:
  - Prohibits placing on the market illegally-harvested timber.
  - Assures consumers the products they buy are legal.
  - Provides a level playing field for timber traders on the EU market.

* FLEGT-VPA aims not simply to reduce illegal deforestation, but in promoting good forest governance, aims to contribute to poverty eradication and sustainable management of natural resources.

Lao Government's Policies

- To achieve MDGs and integrate globally;
- To promote sustainable development and eradicate poverty for people;
- To pursue the Forest Strategy till 2020 and reach 70% of forest coverage;
- To promote production based businesses with environmental protection and constant increase of forest resources, boosting the national socio-economic growth; to strengthen local entrepreneurships for negotiation power with other overseas partners; and to support direct international orders to local producers

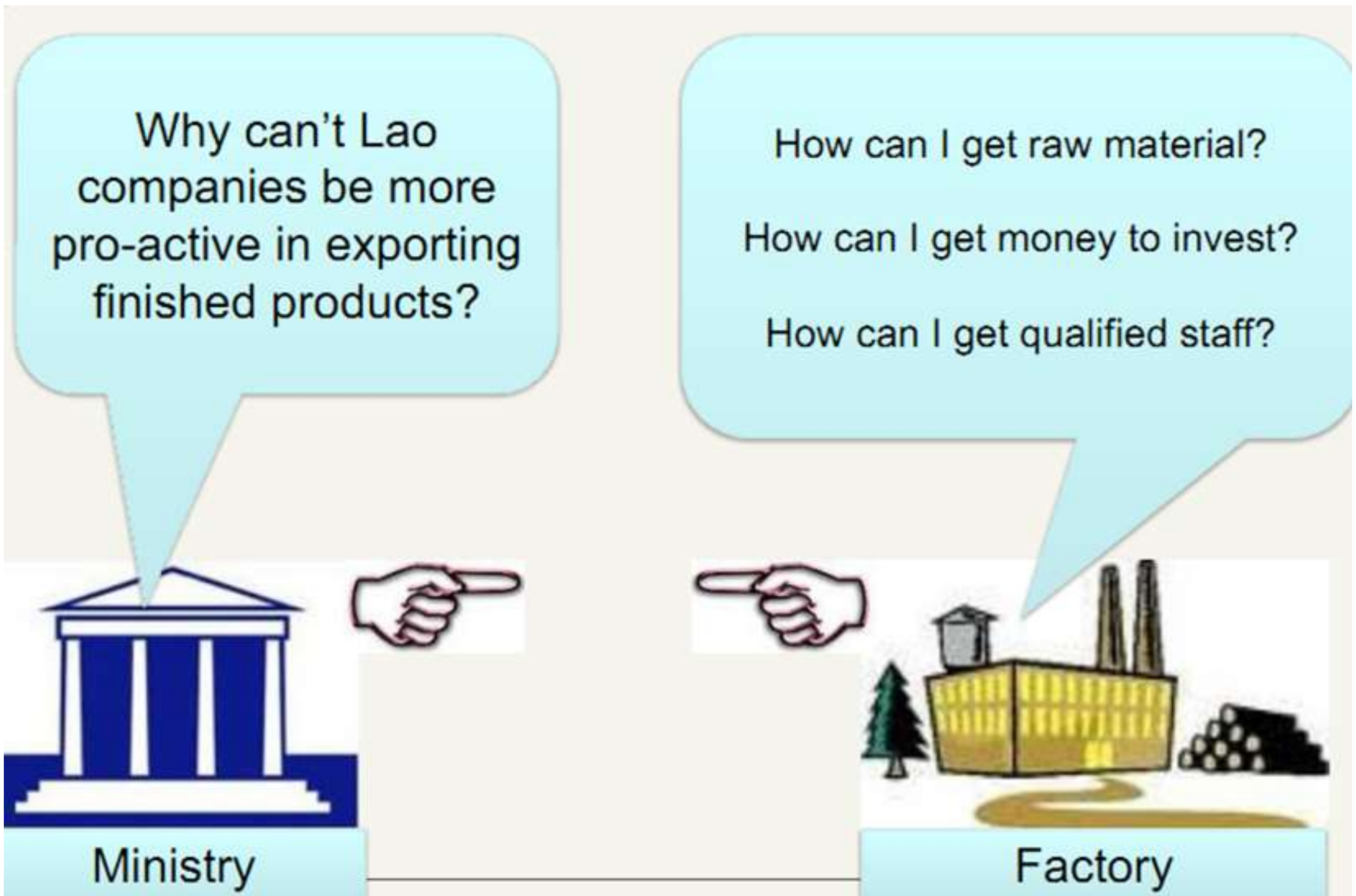
TIMBER TRADE: LAO PDR and The EU

- Lao PDR is an important timber producing country, whose main export destinations include China, Thailand and Vietnam.

- These countries are manufacturing hubs, who export a large part of their products to the EU.

- FLEGT/VPA Negotiation – Burden or Opportunity for LAO country ?

Export of timber products



Status of Lao Timber Industry SWOT Analysis

- Strengths:

  - Existence of a wood based industry that makes a significant contribution to the manufacturing sector economy.
  - Timber resources that are attractive to investors and buyers.
  - Low labour and electricity costs.
  - Preferential trade agreements.

SWOT Analysis

- Weaknesses:

  - Lack of a vision to guide longer term development of the wood processing industry.
  - Uncertainties in supply and availability of raw material.
  - Constraints in availability of and access to credit for operations and investment.
  - Rivalry rather than cooperation amongst the many small to medium sized companies in the industry.
  - Many small companies that are unable to realize economies of scale.

Weaknesses (continue)

- Limited information on and experience with markets beyond neighboring countries.
- Shortcomings in management, technical and marketing skills.
- Low productivity and waste due to technology and production management shortcomings.
- Lack of process and product quality standards.
- Lack of service providers to support upgrading of processes, skills and products.
- Poor governance in forestry sector.
- Poor health and safety conditions that hinder productivity and ability to compete for talented personnel.

SWOT Analysis

- Opportunities:

  - Government policy to support secondary processing and export provides opportunity to develop a modern industry capable of competing in world markets.

  - Increasing investment in plantations with potential to increase raw material supply for secondary processed wood products.

  - Certified wood from natural forests (and potentially plantations)

  - Potential of certified controlled wood from natural forests.

  - Under utilisation of lesser known species from infrastructure projects.

Opportunities (continue)

- Increasing demand for wood on domestic and regional markets.
- Increasing demand for certified and verified legal wood in Europe and US markets.
- Potential for products, process and technological innovations to increase value added and new market opportunities.
- Opportunity to build on support from former and current ODA and NGO projects.

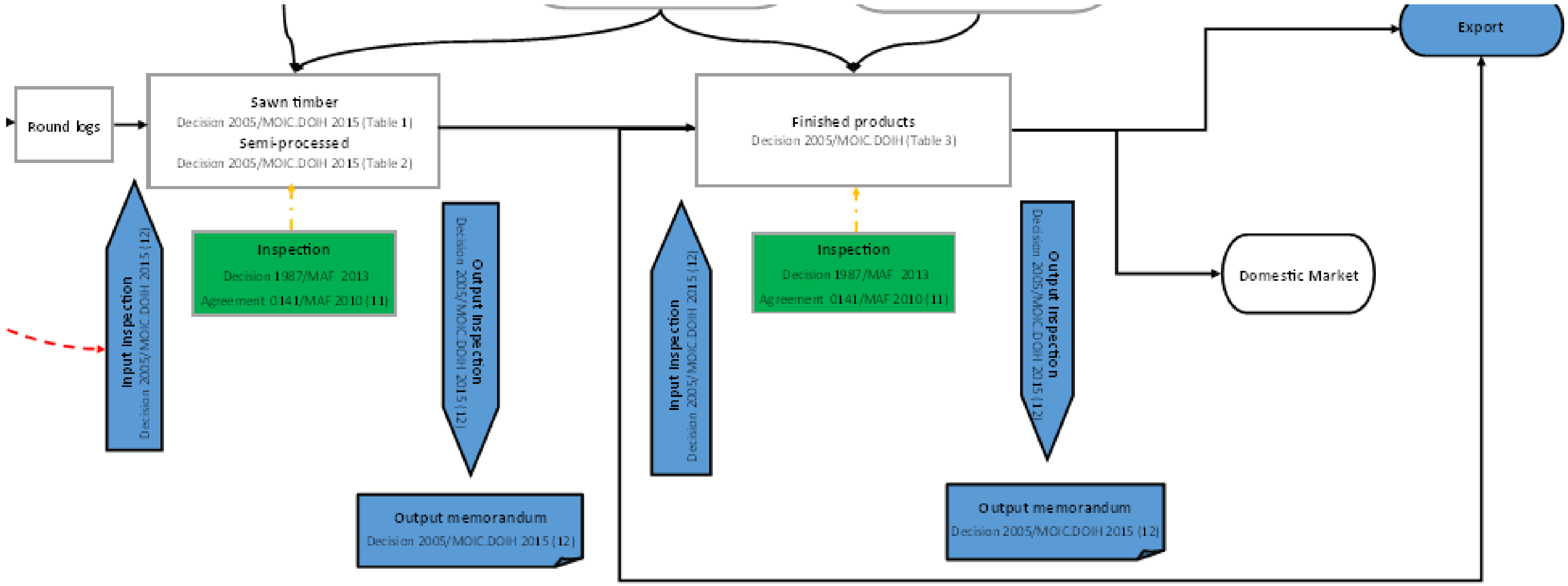
SWOT Analysis

- Threats:
  - Wood processing companies in neighboring countries that benefit from competitive advantages.
  - Competition in both wood supply and product markets from operators that do not comply with government regulations.
  - Administrative delays and facilitation costs related to exporting and inter-province transport.
  - Container haulage costs for exports prior to shipping ex-port.
  - Uncertain future as continuing overcapacity will result in business closure.
  - New legislation combating illegal wood imports in EU and USA will present an administrative and promotional hurdle for exporters.

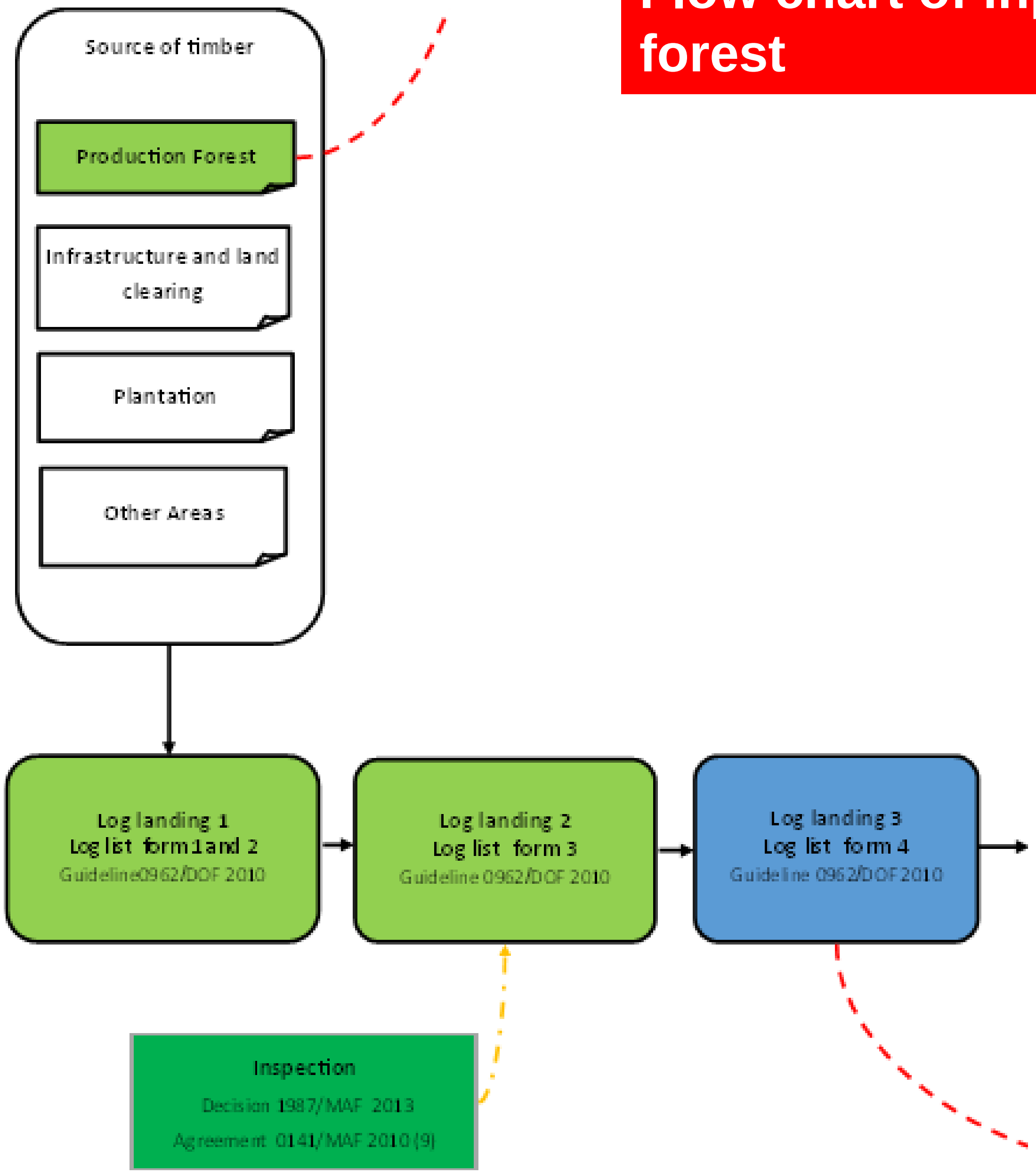
The role of the private sector in FLEGT/VPA Process

- Lao Government recognized the private sector as a main actor
- „Champion“ companies can play a leader role as pilot enterprises but also a „trophy“ for them is required
- Private sector platform to be established in the associations facilitates the consultation process for timber legality definition (TLD) using the forestry legality compendium as a baseline.

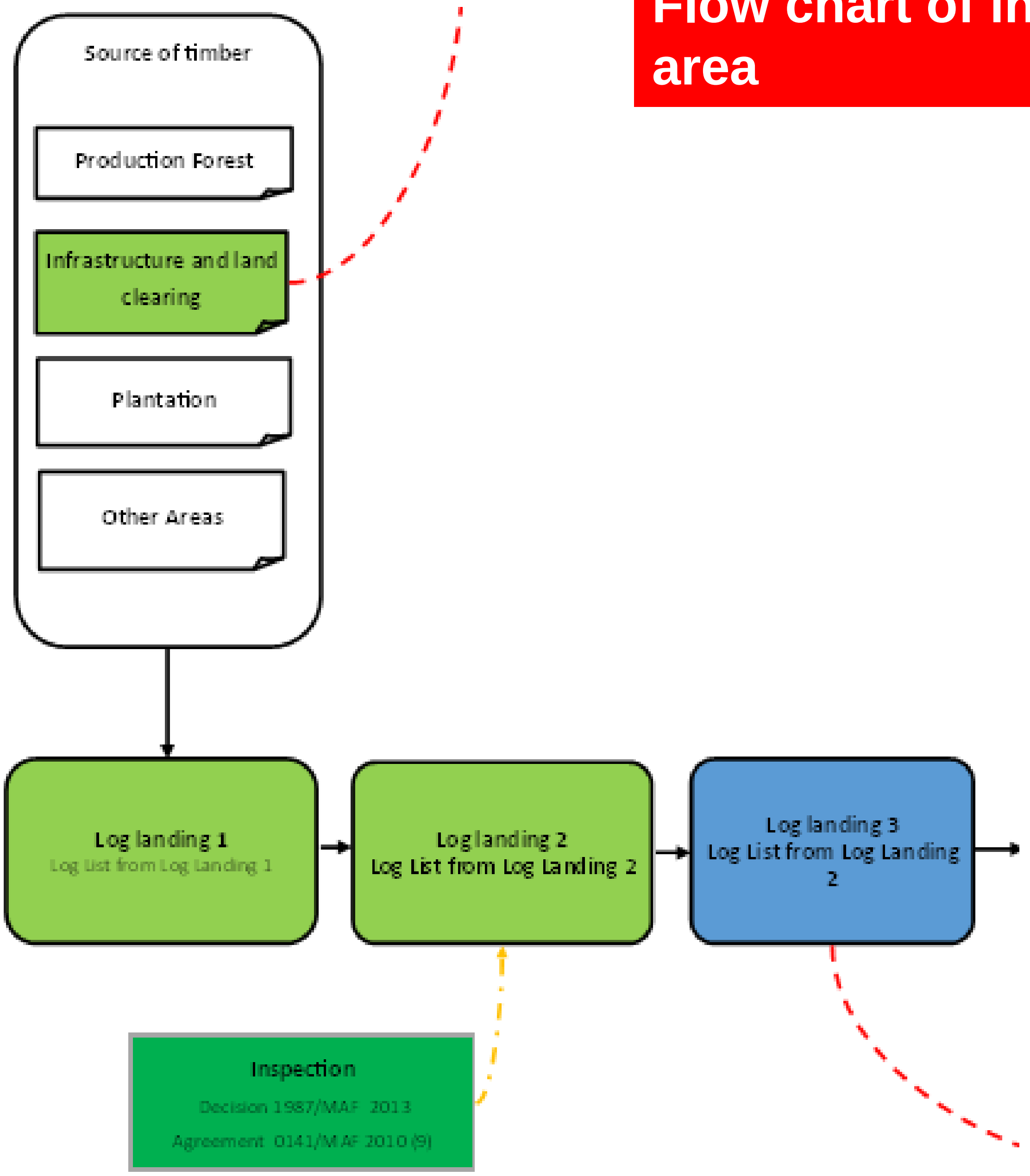
Flow chart of timber processing (general)



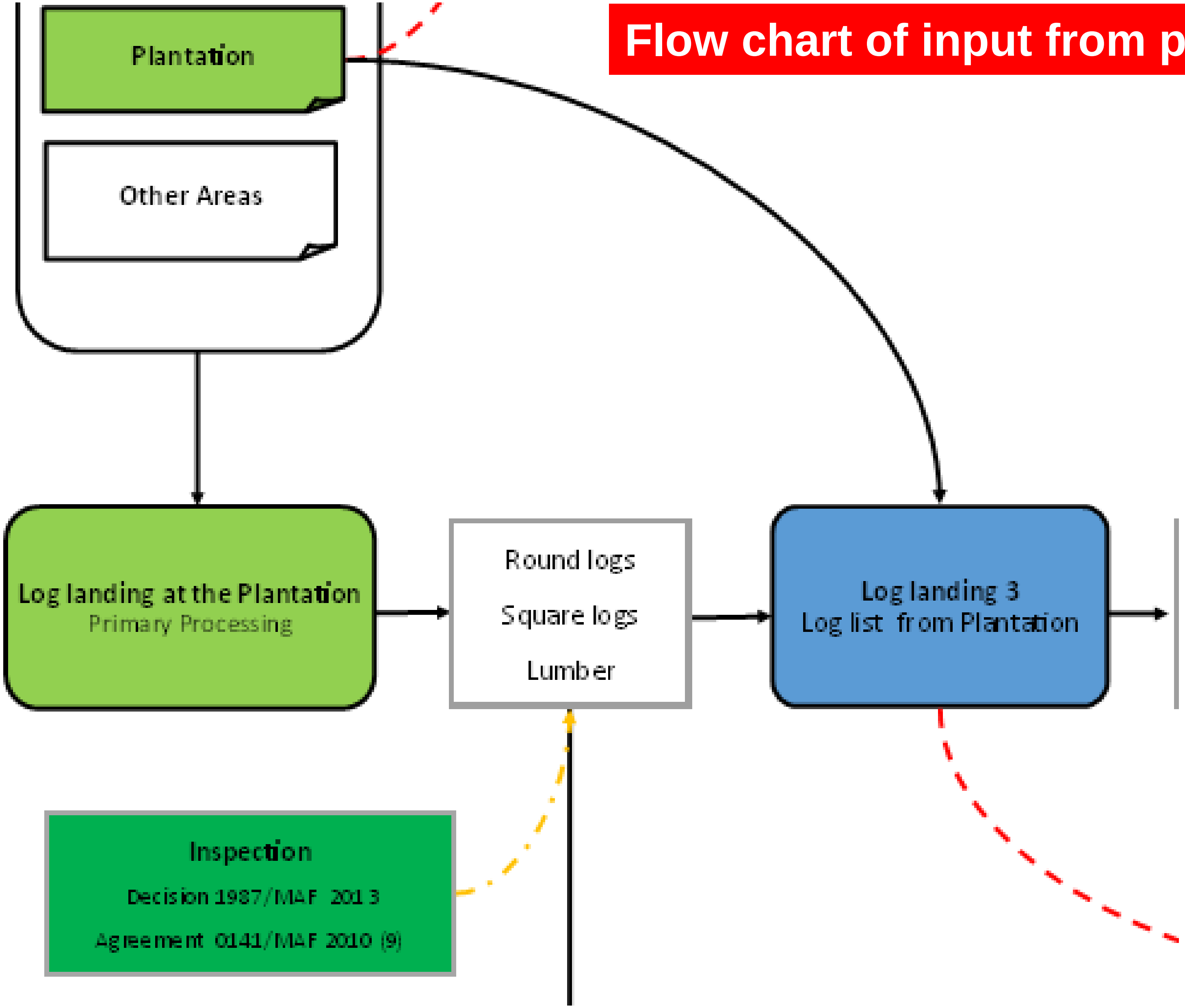
Flow chart of input from production forest



Flow chart of input from conversion area



Flow chart of input from plantation



What is next ?

Stepwise implementation of the newly developed Sector Strategy

- Ensure timber supply for companies
- Increase qualification of staff /workers
- Support increased value-added, competitiveness and performance of companies
- Develop chain of custody procedures and any supporting regulations to facilitate the full benefit of existing and future forest management and timber industry.
- Promote and support engineered products manufactures of lesser known species, small diameter logs, branches, waste wood

Challenges to ensure timber supply for companies from natural forests

- Large volumes of concession timber is not auctioned at log landing 2 and deals on who gets the timber are made often beforehand
- Figures on available timber are contradictive -> Lao export / Quota figures (2014) approx. 300,000 m^3, Vietnamese and Chinese import figures (2014) approx. 1,700,000m^3
- No proper or correct forest inventories from Laos for verifying timber quantities and species in concessions
- Large quantities of timber – lesser known species, small dimensioned wood, branches – which cannot be immediately used or sold are destroyed or remain unused
- Different regulations and interpretations in different provinces

Required Measures

- All concession timber must be auctioned at log landing 2, previous deals should be illegal
- Contracts with developers of infrastructure projects must include harvesting costs based on standard costs!
- Companies who have introduced CoC should automatically have preference in obtaining timber
- When CoC systems are introduced in companies, the collected data should not only be used for proving legality but also for a proper production management which is required for the increase of performance and competitiveness

Collaboration with MoIC § DOF

Set up a Pilot Project to use of small diameter logs and Lesser Known Species from infrastructure projects (conversion areas) to produce a wide range of products such as doors, door frames, flooring, solid wood panels, finger joint laminated boards and blockboard.

Lesser known timber species, small dimensioned logs, branches and waste wood

The common practice in **conversion areas of infrastructure projects** is to harvest only the internationally in demand and established species.

Lesser known species, small dimensioned logs, branches and waste wood remain unused and are left to waste.

Innovative Products

In this context, the production of the following types of panels are proposed:

Blockboards consisting of an edge-glued core layer of small wooden strips and two top layers from peeled veneer or thin MDF

3- (and 5-) layer solid wooden panels consisting of an edge-glued core layer of wooden strips and with two top layers from solid wooden planks / battens

Blockboard

Model plant for the sector

Besides processing unused resources into products of high value-added, such a "new" production plant could serve as a model for demonstrating:

- How the legality of processed wood can be proven by a functioning Chain of Custody system
- Modern efficient and environmentally friendly production technology
- State-of-the-art production management systems in connection with Chain of Custody systems

LAO FOREST, GLOBAL MARKET