

Changing International Markets for Timber – What Can African Producers Do

Producer Country Draft – Ghana

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Introduction

1.1 Ghana has a land area of 22.7 million hectares and a forest cover of 28 percent with a deforestation rate of 1.72 percent (FAO 1999).

1.2 Despite the rich endowment with natural resources, Ghana continues to rely largely on international financial assistance. The country depends mainly on gold, timber and cocoa as major foreign exchange earners.

1.3 Official figures suggest that forestry contributes 4% to national tax revenue. However this figure underestimates the wider contribution of forestry to the national economy, including the provision of livelihoods in rural areas, and environmental services.

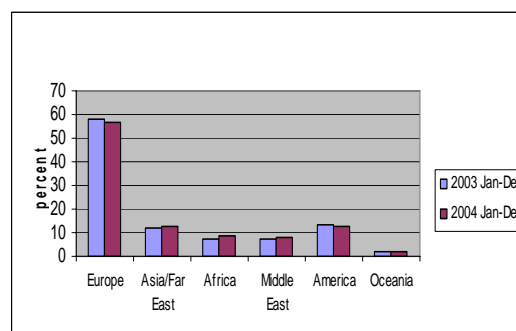
Overview of the Market & Trade

1.4 Ghana earned Euro 170.5 million from the export of 455,000 m³ of wood products during 2004 compared to Euro 163 million from 444,000 m³ of wood exports in 2003, thus registering increases of 4.6% and 2.4% in value and volume respectively during 2004.

1.5 Having banned the export of logs, and benefiting from relatively good transport links and a politically stable environment, Ghana has progressed further than many other African nations to develop value-added industries. Of the total value for 2004, tertiary products accounted for euro 27 million in 2004 (up from Euro 23 million in 2003). Tertiary products include mouldings, flooring,

furniture parts, profile boards, dowels, broomsticks, and sleepers. Secondary products fetched a total of Euro 143 million in 2004 (compared to Euro 140 million in 2003). Secondary products are taken to include sawn lumber, plywood and veneers.

Figure 1: % value of Ghana exports by region



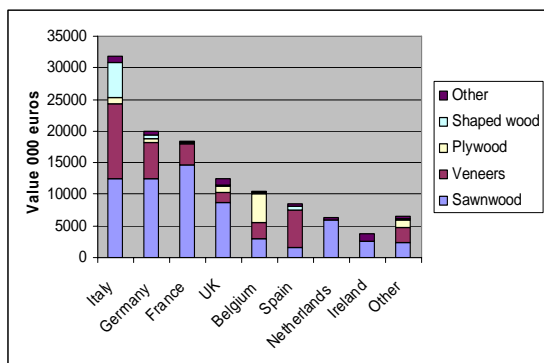
1.6 Wawa is now Ghana's dominant export species, earning Euro 29.6 million in 2004 (down 6% from Euro 31.5 in 2003). Ceiba is the second largest export species accounting for 124,600 m³ in 2004. Asanfina, Koto/Kyere, Ofram, Teak, Mahogany, Niangon, Papao/Apa and Odum head a pack of around 50 other species exported on a regular basis.

1.7 Plantation timber species such as teak, Cedrella, Gmelina and Rose Wood (Kpatro) have become more important to the export trade in recent years, supplementing timber from natural forest.

1.8 Countries in the EU continue to be Ghana's major wood trading partners (see figure 1). Europe accounted for 53% and 56% in volume and value respectively of total wood exports during 2004. Key markets include Italy, Germany, the United Kingdom, France, Belgium and Spain.

1.9 EU-25 import data (see figure 2) indicates that European trade with Ghana is dominated by sawn lumber and veneer. In value terms Italy was the leading market for Ghanaian wood products in Europe during 2004, mainly due to its role as the largest importer of veneer and mouldings from Ghana. France, Germany and the UK are the leading EU importers of sawn lumber from Ghana. Belgium is by far the largest EU market for Ghanaian plywood.

Figure 2: Imports of wood products into the EU-25 from Ghana



Regulation and Control

1.10 Ghana has 266 permanent forest reserves, 216 of which occupy 1,634,100 hectares in the high forest zone (Hawthorne and Abu-Juam 1995). The forest reserves were originally established to promote ecological stability while seeking to guarantee the flow of goods and services for socio-economic development. In 1993, it was estimated that there were 400,000 hectares of forest outside the reserves. These "off-reserve" forest areas have provided a significant source of timber in the past, but are now under intense deforestation pressure.

1.11 Based on the national forest inventory, undertaken since 1986, forest reserves have been classified into distinct areas depending on forest condition. (Ghartey, 1989; Wong, 1989). Around 32% of the area is in a degraded state and is subject to rehabilitation measures, either re-establishment through natural regeneration, or conversion to timber plantations.

1.12 Harvest levels in Ghana are regulated through an Annual Allowable Cut. This is set each year by the Forest Services Division of the Forestry

Commission as a target for national harvesting. It had a nominal value of 1,000,000m³ until 2002 when it was raised to 1,400,000 m³. The increase - which is entirely focused on the off-reserve areas - was in response to rising demand for logs from domestic processing facilities, particularly for conversion to lumber and plywood.

1.13 In 1996, the Government of Ghana launched a Forestry Development Master Plan (FDMP) spanning a period of fourteen years (1996 - 2020). The FDMP was to guide the implementation of an earlier launched (1994) document, the National Forest and Wildlife Policy. The Policy had the following key objectives: management and enhancement of Ghana's permanent estate of forest and wildlife resources; promotion of viable and efficient forest-based industries, particularly value-added processing; promotion of public awareness and involvement of rural people in forestry and wildlife conservation; promotion of research-based and technology-led forestry and wildlife management; and development of effective capacity for sustainable management of forest and wildlife resources.

1.14 Government efforts to implement the FDMP have been supported by a multi-donor programme called the Natural Resources Management Programme (NRMP). The second phase of this programme began in May 2000 and was scheduled to finish in April 2005. The major focus has been on institutional strengthening and capacity building.

1.15 The Ministry of Lands and Forestry is responsible for policy development, while the executive agency is the Forestry Commission (FC). The FC is mandated to regulate and manage the utilisation of forestry and wildlife resources. The Divisions of the Forestry Commission are funded largely by royalty payments and a 2% levy on the value of exports.

1.16 A major outcome of the FDMP was the 1998 Timber Resources Management Act (Act 547), now the main piece of legislation governing the use of forest resources. Act 547 provided for the introduction of "Timber Utilisation Contracts" (TUCs), a new auction process for concession allocation. It also provided for an amended stumpage fee system, the annual Timber Rights Fee (TRF). The new system ensures transparent allocation and increased payment of fees. Competitive bidding has replaced the old discretionary and administrative system of allocation.

1.17 Technical and political problems led to a delay in the introduction of TUCs. Public bidding for timber rights in plantations began in late 2003 and natural forests in 2004. In September 2004, FC

reported that 28 concessions, thirteen in Forest Reserves and fifteen outside forest reserves had so far been assigned under TUCs. Another 41 concessions have yet to be allocated under the system.

1.18 Introduction of TUCs has had a number of positive consequences. Bidding prices offered by the industry for TUCs have been well above prices elicited from the industry under previous arrangements. TUCs also provide a mechanism to impose a strict forest management regime on concessionaires. TUCs require professional forestry plans to be created for official approval. There are requirements for minimising impacts on forests and the environment, covering such aspects as conservation of wildlife, water courses and soils on steep slopes, and recognition of local community rights. To help ensure that forest operations contribute to poverty alleviation, TUCs require concessionaires to formalise their social responsibilities through Social Responsibility Agreements (SRA).

1.19 Another outcome of the FDMP has been a major revision of stumpage fees. Stumpage fees are being gradually revised from US\$3 per m³ in 2002 back to their 1997 level of US\$12 per m³. The rise in fees is designed to ensure long-term sustainable financing of the FC.

1.20 In recent years, the FC has implemented various measures with the aim of improving stakeholder participation in forest policy formulation and planning. In District offices, it has appointed Customer Service Officers responsible for coordinating and facilitating service delivery. It has established community forest committees (CFCs) and a Forest Fora Network at district and national level to strengthen civil society participation. A Civil Society Strengthening Facility (CSSF) was established in late 2003 to strengthen further this broad engagement.

1.21 FC is embarking on a comprehensive review of its timber flow audit systems – currently paper based. A “Validation Of Legal Timber Programme” (VLTP) programme has been developed to strengthen FC capacity to monitor logging and wood processing industries. The Government of Ghana is investing US\$4 million to develop the new system. The work program recognises the need to involve independent third parties. It includes development of a definition of legality; preparation of a set of principles for verification of origin and legality; and a full review of the existing regulatory framework.

1.22 Work on this program is already underway. The DFID funded GLFSPF (Ghana Land and Forestry Project Support Facility) commissioned CARE International in Ghana to study the feasibility

of a new “definition of legality”. A Final Draft Report titled “Moving Ghana to Legal Timber” was published in December 2004. It proposes Principles, Criteria and Indicators of Timber Legality. It also recommends legislative reform to be conducted as a parallel process to implementation of legality verification procedures.

1.23 Ghana is expected to volunteer (alongside Cameroon, Indonesia, Malaysia etc) to be one of the first countries to partner the EU in a Voluntary Partnership Agreement (VPA). Negotiations are set to begin in 2005.

The Forest Sector

1.24 Over-capacity is a daunting problem in the wood processing industry. A 2003 DFID report stated that “It is very clear that the resource base is insufficient to meet the present capacity in the wood sector. In fact, current exploitation is estimated at being four to five times the level of sustainable supply.” The government faces a difficult political challenge to balance the economic needs of mainly rural populations that rely on the wood processing industry, with the need to reduce capacity so that it better reflects long term sustainable supply.

1.25 Timber Utilization Contracts are a key tool in efforts to overcome the problem of over-capacity. Competitive bidding is providing an objective and politically less costly means of gradually rightsizing the industry. Competitive bidding means that the most efficient and competitive firms have the best of chance of surviving. The industry is responding to signs of tightening log supply and more stringent allocation of resources through introduction of measures to improve processing efficiency.

1.26 The wood industry is largely made up of sawmills whose numbers are presently consolidating from some 100 to about 70. There are 23 veneer and plywood producers, and around 150 tertiary manufacturers. The informal sector is thought to account for some 6,000 tertiary enterprises.

1.27 Wood processing companies that have integrated wood processing with logging activities now account for around 95% of the logs harvested in Ghana. Around 30% of wood processing companies also harvest logs. There are some 70 small-scale harvesters without processing facilities that now control only 5% of the domestic log market.

1.28 The wood trade is heavily concentrated in around 20 leading companies which account for about 60% of total export earnings. Their average export earnings amount to some US\$6,000,000 compared with the average of another 200 exporters of US\$680,000.

1.29 The size of tertiary producers varies from under US\$100,000 turnover to US\$12,000,000 in the case of one leading exporter.

Private sector initiatives

1.30 Ghana was an early mover in efforts to develop forest certification. A set of draft certification standards were field tested as early as 1996 with support from the UK's Natural Resources Institute. The work culminated into a "Draft of a field standard and checklist for forest certification in Ghana" containing over a hundred indicators of good forest practices (Ghana Gazette 2000a, b). Discussions in Ghana on the further development of certification have become closely tied to implementation of TUCs and the Validation of Legal Timber Programme.

1.31 In a separate initiative during early 2005, the WWF and Friends of the Earth (FoE) signed an agreement with Samartex Timber and Plywood Co. Ltd. to promote work towards eventual FSC certification of forest concessions managed by the company. Samartex has agreed to implement a moratorium on logging in primary forests; develop plans for providing benefits to the communities that own Samartex-managed concessions; and achieve certification to FSC standards in 2007. Samartex is a vertically-integrated company with timber harvesting and sawmill operations and which manages 159,000 hectares in western Ghana.

1.32 The agreement makes Samartex the inaugural participant of the Ghana Forest & Trade Network, a part of WWF's Global Forest & Trade Network (GFTN). The Ghana Network is managed by FoE in partnership with WWF and was established with, and receives support from DFID and US Agency for International Development (USAID). A number of other Ghanaian companies in addition to Samartex have applied to join.

Constraints and opportunities

1.33 Major institutional innovations have significantly improved Ghana's capacity to enforce regulations and implement sustainable forestry practices in the last three years. These include: introduction of competitive bidding for timber utilisation; increase in stumpage prices to improve funding for sustainable forestry; work to develop a new log-tracking system; improvement of benefit sharing mechanisms; and the establishment of forestry Customer Service Centres and Forest For a in many districts.

1.34 There are now good structures to enable dialogue and debate between stakeholders at many levels. Many of the gaps in the system are well known and being addressed.

1.35 However, there are continuing constraints to implementation of legality verification and certification including:

- At present TUCs still only apply to a proportion of the national forest area. It is anticipated that the government's commitment to convert timber leases to TUCs – recently announced in the 2005 Annual Budget - will overcome this constraint.
- Policy and institutional development are well catered for in Ghana. However, implementation of policy and the enforcement of regulations in the forest is problematic due in part to insufficient capacity and incentives of staff.
- Population pressure combined with over-capacity in the industry continues to drive deforestation and illegal logging activity. The latter may be in the form of: logs that are supplied illegally to industrial sawmills; or logs cut in the forest with chainsaws (contrary to the ban on chainsaw operations) and supplied directly to the domestic market for tertiary processing.
- Reports of widespread job losses in the wood industry raise questions over the financial capacity of large sections of the industry to participate in legality verification and certification.

Please note that this is draft factsheet. We welcome your comments and feedback. Please send comments to Emily Fripp at emily.fripp@btinternet.com