



Rome, 24th June 2011
Plenary Session

Present and future role of forest resources in the socio-economic development of rural areas

Parallel Session 4

Competitiveness of the forest production sector: wood & non-wood products, supply chains, and strategies for a forest-based local governance.

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Session 4 – the speakers

- *Keynote Speaker: **David JENKINS**, Director of Coed Cymru, NGO, Wales.*
- ***Christophe Arrondeau**, LAG Pays Adour Landes Océanes, Aquitaine (France).*
- ***Francesco Carbone**, University of Tuscia, Department of Ecology and Economic Sustainable Development (Italy).*
- ***Ilaria Goio**, University of Trento, Department of Economics, (Italy).*
- ***Marongiu Sonia**, National Institute of Agricultural Economics (INEA), Veneto Region, (Italy).*
- ***Mauro Masiero**, University of Padua, TESAF - Department of Land, Environment, Agriculture and Forestry, (Italy).*
- ***Liviu Nichiforel**, University "Stefan cel Mare" and EFICEEC, (Romania).*
- ***Alberto Sturla**, National Institute of Agricultural Economics (INEA), Liguria, Region (Italy).*
- ***Paolo Derchi**, Director, Forestry Consortium "Valli Stura e Orba", (Italy).*



Questions to the participants of the session

1. Wood and non-wood forest products supply: ideal or factual contribution to European economy and employment?
2. Which role can be played by efficient supply chains and by forest-based local governance strategies in empowering the forest production sector in a perspective of rural development?
3. Which contribution from Rural Development Programs?

Wood and non-wood forest products supply: ideal or factual contribution to European economy and employment?

- general description of papers
- *David Jenkins:*



Wales example

- Wales has a vibrant tradition of woodcraft and timber manufacturing but 90% of the timber used is imported.
- Re-establishing a link between woodlands and local processors has been difficult.



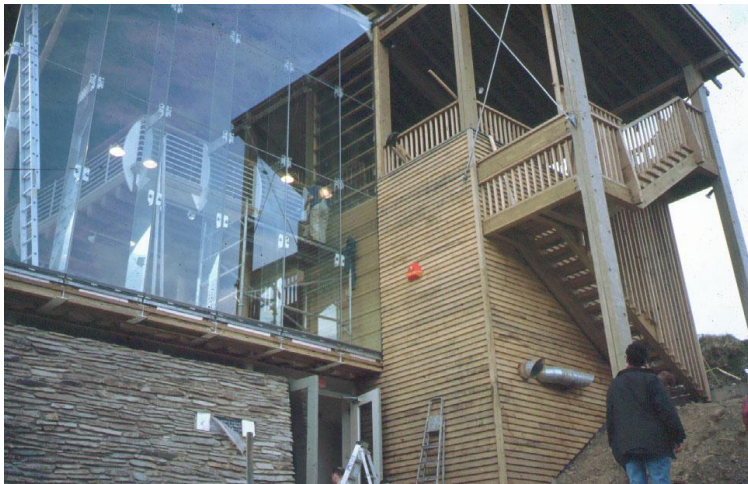
Wales example

- Initially all the emphasis was on hardwood products and there had been a great increase in the number of small sawmills. Many have been supported by grant aid from the Wales Rural Development Plan.
- the main driver has come from the purchasing choices of public bodies and private customers which has created a demand for local products.



Wales example

- Recently, they have focussed on the use of the local softwood resource in the construction of timber framed houses.



Wales example

- Coniferous timber grown on a 40 or 50 year rotation is softer and less stable than slow grown timber from colder and drier climates.
- It has required a very different engineering approach but the work is nearing completion and the results are very encouraging.



Wood and non-wood forest products supply: ideal or factual contribution to European economy and employment?

- **Rural Centre Of Excellence for Cork Oak Industry** Arrondeau C.,
Mathieu-Jenssonnie L. - LAG Pays Adour Landes Océanes, Landes (40)
Aquitaine, France



France example

Cork exploitation in the Landes in 1920 was highly flourishing sector, which had a thousand workers. The slump in prices in the 1950s led to the closure of a number of firms.

Local memory has preserved the tradition of cork and stripping. But the industry has been somewhat marginalized within the “Forestry-Wood” sector, and also by the development of other business sectors in the region.



France example

In 2000, out of a wish to use the locally available resource, six manufacturers initiated the resumption of cork harvesting. In 2005, they grouped together in an association – “Gascon Cork” – to discuss their raw material, act together and promote their know-how.

Despite these efforts on the part of local industry, the initiatives that were carried out were too specialized and lacked coherence, to the extent that the sector has developed in a very tenuous manner. Paradoxically, there is a growing interest in cork in some particularly innovative sectors (aerospace, sustainable construction, etc.).

It was therefore decided to respond to the Rural Centre of Excellence call for projects in order to introduce a global development strategy and give some clarity to this local industry.

France example



A working party made up of public and private organizations (private cork firms situated in the region, local authorities, forest organizations and training organizations) from the network put in place by the RFC, met to respond to the call for proposal.

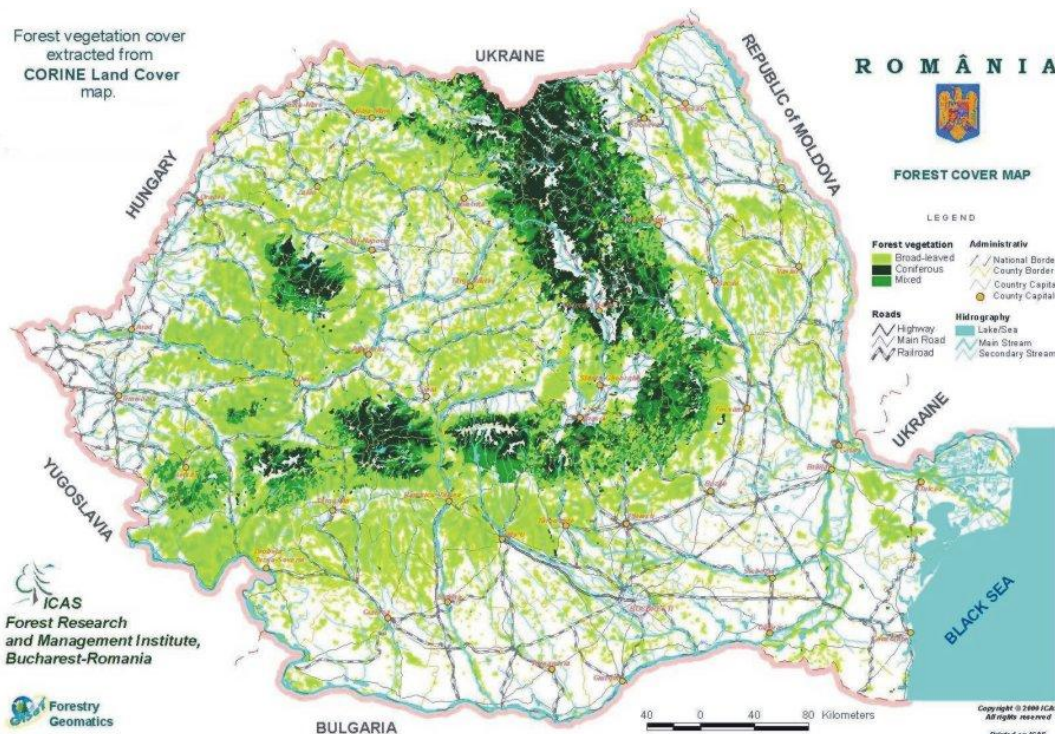
This group share diagnosis and action plan to develop cork industry on the south of Landes department.

The creation of a label - **a sign of recognition** and helps to provide **easier access to finance**



Wood and non-wood forest products supply: ideal or factual contribution to European economy and employment?

- **Rents transfer in the Romanian stumpage sale system: between state quasi- monopoly and firms' oligopsony.**
- *Presenting author: Liviu Nichiforel, University "Stefan cel Mare" and EFICEEC, (Romania).*



The analysis is located at the level of Suceava Forest Branch (SFB) of the Romanian National Forest Administration (NFA), a representative branch considering both the high amount of timber offered on the market and the high value of the timber demand.

Romania example

In the framework of a political economy approach, the paper intends to assess the impact of rent-seeking behaviours in the stumpage appraisal system used for Romanian public forests.

The results of the analysis reveal that the institutional mechanism created for stumpage appraisal is shaped by the efforts of market actors to capture more benefits out of it.

National Forest Administration captures rents resulting from its quasi-monopoly position reflected in the unilateral manner of establishing the selling procedures and the harvesting contracts.

On the other side, large wood processing enterprises (LWPE) capture monopsony rents, as an outcome of their efforts to set long-term contracts with the NFA, which considerably reduces the wood auctioned on the market in some areas.

Romania example

Facing these constraints, the local small and medium harvesting enterprises (SMHE) attempt to assure their financial stability either

- by establishing local alliances resulting in bidder collusions at stumpage auctions or
- by offering timber prices consistently above the residual value, thus divulging the premise for illegal activities that can assure their profitability.

The results of the analysis underline the need of the administrative established pricing policies to adapt to the reality of the local market conditions,

- “rules of the game” created for wood markets are important in rural development

Wood and non-wood forest products supply: ideal or factual contribution to European economy and employment?

critical analysis of the case-studies' contents and of the post-presentations debate

- It takes at least a generation before any forest management innovation can bring a forest resource to be economically and ecologically sustainable.
- Only “building capacity” measures, with long term vision, are successful.
- There is the need of the administrative established pricing policies to adapt to the reality of the local market conditions, in order to assure the financial sustainability of SMHE's and the long-term responsible timber harvest as essential elements in the socio-economical development of rural areas.

Wood and non-wood forest products supply: ideal or factual contribution to European economy and employment?

comments on the relationships between the presented experiences and (present and future) Rural Development Policies.

- The key factors are:

Innovation – if it's not working you have to change.

Partnership – rivalry can sap the energy from the best of causes.

Persistence – funding bodies need to take a long view, particularly to maintain continuity of skills and experience in the key personnel.

Which role can be played by efficient supply chains and by forest-based local governance strategies in empowering the forest production sector in a perspective of rural development?

- **Public – private partnership as a way to restore forest management. Some evidences from Liguria.** Sturla A. *Liguria, Region (Italy)*
- **Experiences of rural development in a LAG of the Ligurian Apennines: participatory forest management.** Paolo Derchi, *Liguria (Italy)*.
- **The role of alpine forest in the local development.** Goio I., *Trento (Italy)*.
- **The use of FADN accounting system to measure the profitability of forestry sector. A practical application.** Marongiu S. *Veneto Region, (Italy)*.



Which role can be played ... in a perspective of rural development?

- For centuries mountain forests have been a source of income and employment: an essential element for the maintenance of the local economic system. The gradual decline in the price of timber and the changes in the overall socio-economic context have caused a loss of importance of the economic role of forest resources and of their contribution to the equilibrium of the local development.
- **How forests can be again a key factor for fostering the local development ?**
- In Trentino area has been studied timber and on three different non market functions: the landscape, the hydro-geological protection and the carbon fixing.
- In Veneto has been studied a different measurement approach of the profitability of forestry sector
- In Liguria was tested public-private partnership to restore forest management and to create participatory forest management

Forests are defined multi-functional assets, providing in addition to the productive functions other two functions:

- environmental function;
- socio-economic function.

<i>Functions</i>	<i>Values</i>
Wood	100
Landscape	65 %
Hydro-geological protection	290 %
Carbon fixation	18 %

The cited functions, usually, produce benefits also for people living outside the local area. This circumstance leads to attempts of strict regulation in the use of forestry resources or of abandonment of cultivation.

In the first case, the result is the loss of the ability of forests to trigger local development processes. In the second one, in the long period, we will lose the possibility to use a renewable resource and the non market functions could be partially damaged.

As a consequence, **it is essential ensuring a fair distribution of costs and benefits related to forests resources**, among
the local population,
the economic actors living in border regions/areas,
the global society and the other actors.

In this regard, it is, therefore, necessary to identify techniques able to ensure the **internalization of the positive externalities provided by forest to the not local actors**.

The other side:

Neglected forest management brings to increase the forest fire occurrences, or landslide (with higher costs in fire fighting, in road and infrastructure maintenance, ...)

Accounting schemes to measure the profitability of forestry sector

Traditional accounting scheme

Value changes associated with growth and market conditions are recognised when **they are realized** (at the time of harvest). Only **realized revenues** coming from the harvested trees are taken into account.

In the proposed scheme the changes are treated as a combination of capital and income adjustments

Application of IAS/IFRS 41 principles (transformation of biological activities)

Forestry accounting scheme

Value changes associated with growth and market conditions are recognised when **they occur** (as tree grow and price change). **Unrealized revenues** of uncut trees (standing timber) are considered. With the final cutting the value of forestry asset decrease.

	2009_trad	2009_for	
Saleable Gross Production	32,129.9	48,733.5	
Timber	23,690.9	40,294.5	Unrealized revenues due to the growth of forest (increase in the value of forestry asset)
Other forest products	8,439.0	8,439.0	
Other revenues	0.0	0.0	
Current Costs	8,439.0	8,439.0	
Materials, consumption	0.0	0.0	
Services	8,439.0	8,439.0	Realized revenues = selling price in the market
Other costs	0.0	0.0	
Value Added	23,690.9	40,294.5	
Other costs	13,178.7	13,178.7	
Depreciation of fixed assets	12,847.0	12,847.0	
Allocation to Provisions	331.7	331.7	
Net Product	10,512.2	27,115.7	
Wages, salaries and social security	5,933.9	5,933.9	
Operating results	4,578.3	21,181.8	
Financial costs	0.0	0.0	
Extraordinary results	9,937.7	14,294.7	
Subsidies	9,937.7	9,937.7	
Capital gains	0.0	4,357.0	Selling price – Standing timber value = Capital gains/loss
Capital loss	0.0	0.0	
Net Profit	14,515.9	35,476.5	

Which role can be played ... in a perspective of rural development?

- In Liguria region it was developed a short chain forest-territories, with close collaborations of all local actors (public and private)
- EU financed activities were: energy implementation (district heating plants), forest planning and management (SFM and CoC certification - Natura 2000), timber valorizations (new manufactured products and green procurement GPP) land maintenance, forest mechanization improvement and forest service companies.
- integration between public and private initiative can be effective in revitalize forestry business in certain rural areas, but the “*condicio sine qua non*” remains the pre-existence of some kind of public support to ignite the supply chain;
- animation and capacity building among forest owners is necessary in order to drive their choices toward a sustainable supply chain for local wood products

Which role can be played by efficient supply chains and by forest-based local governance strategies in empowering the forest production sector in a perspective of rural development?

Comments (1)

- Forestry is a long term activity that must be translated in little and understandable actions to forest owners and/or managers
- the recognition of the non-market utility flows that forests provide, produce suitable forms of compensation for the local stakeholders.
- Necessity of finding mechanisms dealing with beneficial and detrimental activities of forest sectors on urban areas (recognition of responsibility!)
- The 7th of June European Parliament decision (Beyond the GDP + the new Regulation on Environmental Economic Accounts) should be taken in account in the future RDP!

Which role can be played by efficient supply chains and by forest-based local governance strategies in empowering the forest production sector in a perspective of rural development?

comments (2)

- Sustainable exploitation of timber and non wood forest products is possible and profitable if there is a lasting and satisfactory connection between the interests of forest owners, local communities and forest enterprises.
- An important aspect is to link local wood production with the mechanisms of green public procurement (GPP)
- It could be advisable to improve the capacity of communities and local authorities to make market dynamics commensurate to forest management, in order meet local demand for wooden products with local wood.
- Pilot projects often are innovative if transferred in a different territory, but cannot be financed by Leader – they are considered innovative only at one time!

Too many informations ...



Which contribution from Rural Development Programs?

Role of institutions in the implementation of forest measures of the Rural Development Plan: the case study of the Lazio Region.

*Presenting author: **Francesco Carbone**, University of Tuscia, Department of Ecology and Economic Sustainable Development (Italy).*

How to support the implementation of Due Diligence systems through the EU Rural Development Programme: Problems and Potentials. Masiero M., *et al.*

*Presenting author: **Mauro Masiero**, University of Padua, TESAF - Department of Land, Environment, Agriculture and Forestry, (Italy).*

Which contribution from Rural Development Programs?

critical analysis of the case-studies' contents and of the post-presentations debate

- **EU Timber Regulation** Reg. EU 995/2010
- *Obligations of operators who place timber and timber products on the market as well as the obligations of traders, to prevent illegally harvested timber to enter the EU market*
- Approved on **October 2010**, secondary legislation expected in **March/June 2012**
- Into force from **March 2013**
- **All timber based products**

EU-Timber Regulation (EU-TR) potential effects: some “hot questions”

- Will the EU-TR represent a **new non-tariff barrier**? How much will the import of timber and timber products in the EU be affected by the EU-TR implementation?
- Will the EU-TR increase the **supply costs** for the EU wood producers?
- Will the EU-TR contribute to establish **new professional activities and services** in the sector?
- Which effects may the Regulation have on the development of **forest certification**?
- How the **Rural Development Program (RDP)** should consider and adapt its measures to the EU-TR?

Which contribution from Rural Development Programs?

comments (1) on the relationships between the presented experiences and (present and future) Rural Development Policies.

- criticism of institutional organisation connected to RDP financing
- complexity of the procedures both in the update of the rules characterising each measure, and in the submission of applications for funding
- Refusal of small forest owners to deal with lengthy and bureaucratic RDP
- Continuity of funding (little but constant) is the key of success in rural areas

Which contribution from Rural Development Programs?

comments (2)

2007-2013 EU Rural Development Policy includes measures concerning CSR and marketing initiatives in forest management (e.g. forest certification)

- Suggested dedicated measures to be implemented for EU-TR
 - creation of Monitoring Organisations
 - training programs (operators, traders, MOs)
 - consultancy services on risk assessment and mitigation procedures
 - support in complying with “broad” legality (e.g. health and safety measures)
 - creation of Competent Authorities in Member States...

Let's try to find creative solutions to the challenges we face!

