

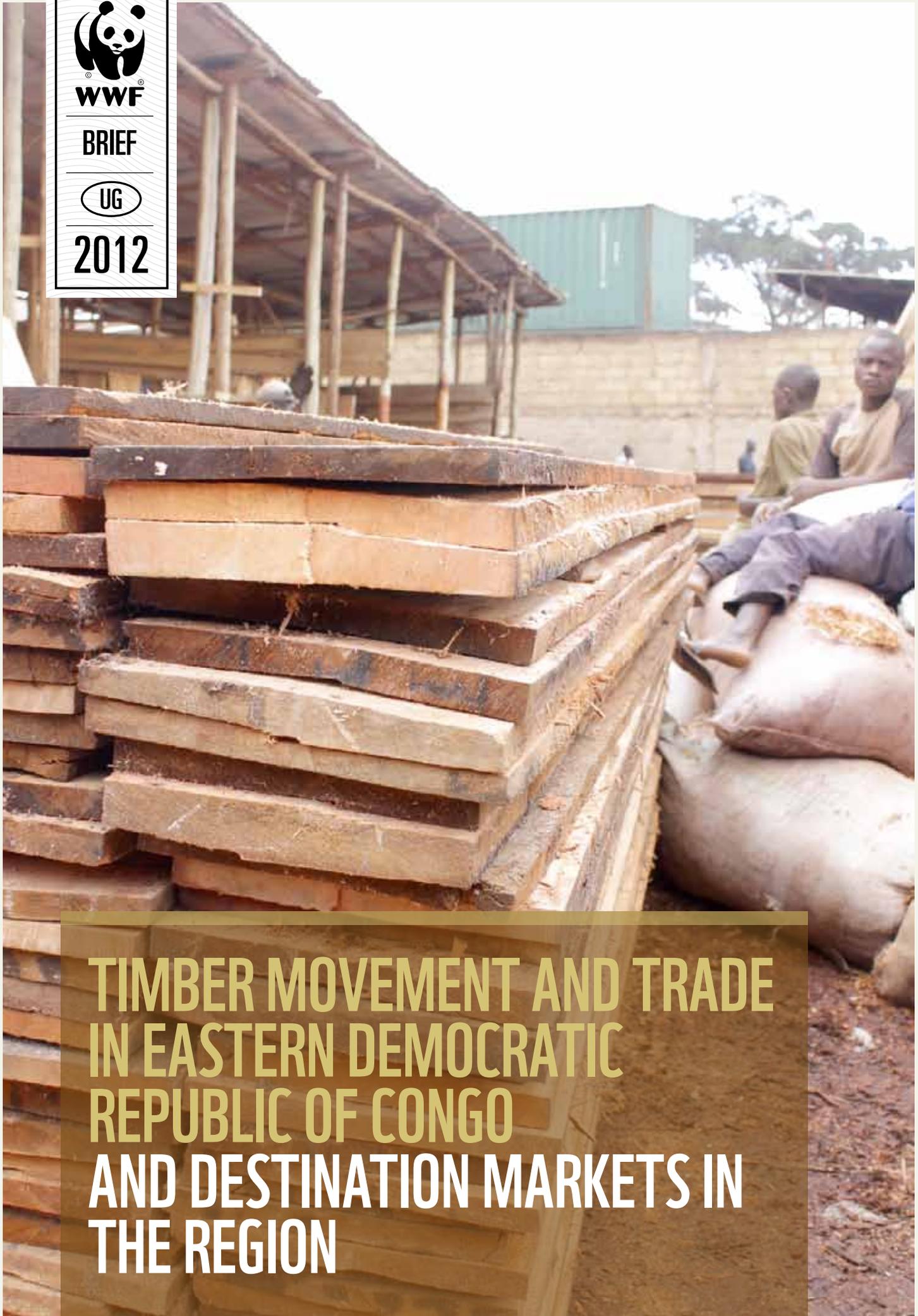


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2012



**TIMBER MOVEMENT AND TRADE
IN EASTERN DEMOCRATIC
REPUBLIC OF CONGO
AND DESTINATION MARKETS IN
THE REGION**

A SUMMARY REPORT

OF THE REGIONAL STUDY ON TIMBER MOVEMENT AND TRADE IN EASTERN DEMOCRATIC REPUBLIC OF CONGO AND DESTINATION MARKETS IN THE REGION

Cover photo: Timber panels arranged and ready for sale at one of the destination markets. Timber from Eastern Congo, since its majorly Mahogany, has higher demand than the timber from other regions - ©WWF UCO

Prepared by WWF Uganda

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LIST OF ABBREVIATIONS

ADARWA	Association des exploitants de bois du Rwanda /Association of timber dealers in Gakingiro timber market Kigali
COMESA	Common Market for Eastern and Southern Africa
CREF	Network for the Conservation et la Réhabilitation des Ecosystèmes Forestiers
DFO	District Forestry Office (Uganda)
DFS	District Forest Services
DRC	Democratic Republic of Congo
EAC	East African Community
ENRA	The Enzymes & Refineries Company
FAO	Food & Agriculture Organisation
FFN	Fond Forestier Nationale
FLEGT	Forest Law Enforcement and Governance
FSSD	Forest Sector Support Department
HS	Harmonised System (Customs Codes)
ITTO	International Timber Trade Organisation /
LRA	Lord's Resistance Army
MINITERE	Ministry of Lands, Environment, Forestry, Water, and Natural Resources(Rwanda)
NFA	National Forest Authority (Uganda)
OBR	Office Burundais Recette
OSBP	One Stop Border Post
OCC	Office Congolais de Contrôle / Congo Office of Law Enforcement
OFIDA	Office des Douanes et Accises / DRC Customs & Excise
RNRMA	Rwanda Natural Resources Management Authority
RRA	Rwanda Revenue Authority
SPLA	Sudan People's Liberation Army
SPLM	Sudan People's Liberation Movement
UPDF	Uganda Peoples Defence Forces
URA	Uganda Revenue Authority
VAT	Value Added Tax
VPA	Voluntary partnership agreement
WCS	Wildlife Conservation Society
WRI	World Resources Institute

FOREWORD

Robust developments in the region, giving rise to high urbanization and higher demands for building and construction materials, coupled with high population growth rates, have exerted enormous demands and pressure on timber and other forest products.

As a result, most countries in the Great Lakes Region and beyond are experiencing escalating trade in illegal timber and forest products movements to meet this demand. This problem is compounded by inadequate enforcement of timber trade regulations and the lack of forest products tracking systems within national borders and between neighbouring countries.

Notably, illegal and legal timber trade and forest products movements are traversing from eastern Democratic Republic of Congo to Uganda, Rwanda, Kenya, South Sudan, Burundi and other destination markets within the region and beyond.

WWF Uganda Country Office, in collaboration with WWF Eastern and Southern Africa Regional Office, commissioned the ***“Timber Movement and Trade in Eastern Republic of Congo and Destination Markets in the Region”*** study to:

1. Assess the quantities and species of timber traded,
2. Determine the volume of legal and illegal trade in timber and other forest products in the region,
3. Map out the major routes for the trade, and
4. Make policy recommendations for improved regulation and management of the trade and for mitigating the negative impacts of the trade.

We are proud to share with you the study, that among others establishes a baseline on timber trade, movements, volumes, species and destination markets. A number of recommendations are highlighted for possible impacts of the trade.

WWF believes that this report will be useful to governments in the region to develop and improve regional and country specific policies and legal frameworks on timber trade and movements in the region.

Timber from legal and sustainably managed sources is a prerequisite for sustainable development and biodiversity conservation, for which we stand for. WWF will follow the implementation of the recommendations of this study by consulting individual governments and other stakeholders in the region. We also call for country specific assessments of timber and forest products trade, in order to develop country action plans that can be integrated into regional systems and strategies.

WWF thanks Danida for its financial support towards the success of this study.



Nail O'Connor
Regional Representative



David Duli
Country Director

EXECUTIVE SUMMARY

In Eastern DRC, the primary forests are mainly located in Eastern Orientale and in North and South Kivu provinces and are being logged progressively to supply markets in East Africa. The total area of primary forest loss linked to logging in eastern DRC is estimated at 99,000 ha over the past five years or approximately 20,000 ha per year.

...DUTIES AND TAXES ON IMPORTED TIMBER WAS ESTIMATED AT 50% IN 2011 AND IS THE MAIN ISSUE IN THE ILLEGAL TRADE.

In contrast to western parts of DRC where logging is commercial scale dominated by industrial logging concessionaires, the timber trade in Eastern DRC is dominated by small scale logging operators and artisans using chainsaws to fell the trees and mill the roundwood into planks. Only the largest trees are felled and harvesting operations are inefficient and wasteful.

The timber harvested in Eastern DRC is destined mainly for markets within the East Africa region with relatively small quantities going to domestic markets within DRC or being exported to external markets outside the region.

By far the biggest market is Kenya with estimated imports of 32,100 m³ in 2011 followed by South Sudan at 10,700 m³. Uganda imports 8,300 m³, Rwanda 7,000 m³, and Burundi about 1,000 m³. The total volume amounts to just over 60,000 m³ annually.

Mahogany (*Entandophragma* spp and *Kaya anthotheca*) is the main species going to the Kenyan, Ugandan and Rwandan markets while the South Sudan market is dominated by “softwoods” such as White Nongo (*Albizia* spp) and Nkalati (*Aningeria* and *Chrysophylla* spp).

The administration capacity and regulatory systems in the forestry sector in Eastern DRC are weak and the timber trade is poorly regulated. Official procedures for acquiring permits for small scale logging are not clear in the 2002 Forest Code. The official procedures, as explained by the authorities in DRC, for acquiring permits to harvest, transport and export timber are rarely if ever followed, partly because they are cumbersome and difficult to comply with and partly because of the forest staff and other administration staff are too few to cover the vast areas involved. Generally, local procedures for procuring permits to harvest are followed, involving payments to local chiefs at various administrative levels. Because official procedures are not followed, almost all of the logging in eastern DRC can be classified as illegal. However as local procedures are generally followed, the logging would more accurately be described as “informal” rather than illegal.

In Uganda, under-payment of duties and taxes on imported timber was estimated at 50% in 2011 and is the main issue in the illegal trade. Illegal export of Ugandan timber mainly to South Sudan is also occurring, mainly by adding locally sourced timber to consignments in transit to South Sudan. Smuggling DRC timber into Uganda is not considered to be significant.

In Rwanda and Burundi, there are modest levels of smuggling amounting to about 1,000 m³ per year into each country. Once the timber crosses from DRC into Rwanda and Burundi the trade is well regulated there is no transit trade through those countries to other countries in the region.

The main drivers of the trade are poverty and limited alternative economic opportunities in DRC, combined with strong demand for quality hardwood timber in neighbouring countries. The trade is mainly illegal in DRC because of lack of capacity in public administration which is an economy-wide issue that goes beyond the forestry sector. Measures designed to improve the trade and mitigate the associated environmental, social and economic issues should focussed on capacity development in the DRC.

Transforming the trade in Eastern DRC from the artisanal level with large numbers of small scale operators logging informally to a properly regulated trade based on sustainability and equity is a major challenge. The goal of this transformation should be an improved forest administration which can effectively oversee and regulate sustainable exploitation of forests according to international standards of sustainable forest management which includes certification and implementation of chain of custody systems. Artisanal harvesting operations should be formalised and comply with legal procedures and should ultimately be replaced by more professional operations which are more efficient, less wasteful of the resource and have better capacity to comply with the requirements of sustainable forest management. Greater efficiency in resource

exploitation ultimately brings greater benefits to the economy and society at large as long as it is well regulated. Strategies that use market instruments to encourage self-regulation are more likely to succeed than law enforcement strategies.

The recommendations proposed to improve regulation and mitigate the negative aspects of the illegal timber trade are as follows:

- 1) Reform of the DRC administrative procedures and regulations for small scale logging.
- 2) Transition from informal artisanal logging operations to more formal and more professional standard operations.
- 3) Increase transparency as a strategy to improve governance.
- 4) Improve the quality of data being collected by URA Customs.
- 5) Harmonise customs procedures in the region.
- 6) Increase collaboration between Customs authorities and forest authorities.
- 7) Promote timber procurement standards for government and donor contracts to ensure that only sustainably harvested timber is used.
- 8) Adopt standards in the EAC to discourage and ultimately prohibit the use of illegal timber in the region

1. INTRODUCCION

Over the past two decades the illegal timber trade in Eastern DRC has helped to sustain political conflicts and prolong wars.

Numerous reports have referred to the role of “conflict timber” in financing procurement of arms and ammunition by rebels and in sustaining the conflict. Security has improved over the past five years in eastern DRC and this has provided an opportunity to initiate programmes to regulate the timber trade. There is an on-going forest sector reform programme which started in 2002 focussing on industrial logging concessions located mainly in the west, but this has not had an impact on the small scale logging operations which predominate in eastern DRC, or on the trade in timber from DRC to markets in the East Africa region.

The challenge for the immediate future is to improve regulation and management of the trade so that it maximizes benefits to local communities and society at large while remaining environmentally, economically and socially sustainable. This study analyses the timber trade from eastern DRC to markets in the region and makes recommendations on improving legality and governance of the trade.

Official information on the timber trade from DRC is unreliable as most of the trade is informal and is not captured in official records. The study findings are based mainly on information gathered during field visits to most of the border posts between DRC and the neighbouring countries of South Sudan, Uganda, Rwanda and Burundi, and on informal interviews with participants in the trade at various levels, including customs officers, clearing agents, forestry staff, transporters, timber dealers, and carpentry and joinery workshop owners.

The study also draws on information from a number of recent studies and reports¹ covering aspects of the timber trade from eastern DRC. An import resource that recently became available in 2010 is The World Resources Institute (WRI) on-line Forest Atlas of the DRC which provides good information on forest loss and degradation over the last decade². The WRI maps are particularly useful in visualising the location and extent of forest degradation and in cross checking information gathered through interviews on the origin of the timber.



Timber trade is a source of income to the many people involved in the business. But tax evasion costs governments millions of dollars in uncollected taxes

¹ The report on the State of Forests in Central Africa 2010 (FAO 2010), a study on timber markets in Uganda (SPGS 2010), timber supply and demand study in Rwanda carried out in 2010 (LTS 2010), a timber trade study in South Sudan (USAID 2008) and a study on timber trade in the great lakes region by Forests Monitor (Forests Monitor 2007).

² Downloadable at The atlas includes downloadable GIS data and is available at <http://www.wri.org/tools/atlas/map.php?maptheme=dreforest>

2. STATUS OF FORESTS IN EASTERN DRC

In Eastern DRC, the primary forests are mainly located in Eastern Orientale Province and in North and South Kivu provinces.



A MAJOR INCENTIVE TO IMPROVE GOVERNANCE OF THE TRADE AND ADHERENCE TO REGULATIONS HAS BEEN THE NEW EU TIMBER REGULATION THAT COMES INTO FORCE IN 2013.

These areas have been heavily exploited over the past 10 years. According to the WRI atlas, total forest area in DRC at present is almost 156 million ha and forest loss over the period 2005-2010 was almost 2 million ha which is a slight increase on the amount lost over the previous 5 years from 2000-2005.

Forest degradation and destruction are due to a combination of logging and clearance for agriculture. The process usually starts with logging along road routes followed by agricultural settlement in areas that have been logged over. Data from WRI indicates a loss of 180,000 ha of primary forest in Orientale Province, 26,000 ha in North Kivu and 28,000 ha in South Kivu since 2005. Assuming the primary forest loss over the past 5 years is due to logging for the East African markets, in North and South Kivu and in about 25% in Orientale (with the other 75% going westward to other markets), total area of primary forest loss amounts to 99,000 ha or approximately 20,000 ha per year due to logging for local and East African markets.

Public administration in general is weak in DRC and in the forest sector, with extensive resources to manage, poor roads and communications infrastructure, and occasional insecurity, the forest administration faces an enormous task in managing the forests and regulating logging. Currently about 12% of the primary forest area of DRC is under logging concession agreements. The regulation of concessions has undergone substantial reform over the past decade including a new forest code introduced in 2002 that provides for public participation, respect for user rights, reform of the concession system including review of the existing concessions, promotion of sustainable forest management and equitable sharing of benefits. A major incentive to improve governance of the trade and adherence to regulations has been the new EU Timber Regulation that comes into force in 2013. The EU is the main market for DRC timber exports and the EU Timber Regulation has had an impact in encouraging independent certification and self-regulation by the concessionaires themselves as they will be excluded from the EU market if they do not comply with the chain of custody and other standards required by the new regulation.

There is only one concession in the east that held by a Belgian company ENRA located near Beni and consists of two adjacent blocks, one of 52,192 ha that was allocated in 1992 and the other of 28,800 ha which were allocated in 2005. The second block was allocated following encroachment and illegal logging and settlement in the first block. ENRA is a small company compared with other industrial concessionaires. It harvests and processes timber from a wide range of species (50-60 species) and operates a sawmill and kiln drying facility in Beni. It produces parquet flooring from Iroko (*Khaya anthotheca*) for export to European markets and has a carpentry and joinery unit

Figure 1. DRC Provinces



producing high quality furniture, doors and window frames for local and export markets. ENRA does not export sawn wood. The sawmill production capacity is 23 m³ per day and annual production was between 3,800 m³ in 2005 and 4,300 m³ in 2006 and is currently estimated at 5,000 m³ per year (WRI, 2010)

Apart from the ENRA concession, there is little or no regulation of timber harvesting by the State authorities. The reforms in the forestry sector that began in 2002 have not had an impact in the east where almost all logging is carried out by small scale operators. The rules and procedures for small scale and artisanal logging operations of the type that predominate in Eastern DRC are not clear in the 2002 Code and are subject to local variations. Institutional capacity is constrained by inadequate staff, equipment, systems and financial resources and the forest authorities are not effective on the ground.

Artisanal logging in eastern DRC

All logging in eastern DRC, with the exception of the ENRA concession, is carried out by small scale logging operators or artisanal loggers who do not hold concessions but harvest trees in small areas by arrangement with local chiefs, landowners and local administrators. Chainsaws are used for felling and processing in the forest and timber is supplied to local markets or exported directly to neighbouring countries. Because the artisanal loggers use local informal procedures for acquiring harvesting rights and do not use official government procedures, they can be classed as informal or illegal loggers. But the forest code does not contain clear procedures for regulation of small scale artisanal logging and therefore it is difficult or impossible for artisanal loggers to operate according to official procedures at present. A study on artisanal logging in NE DRC in 2010 (Brown and Makana, 2010) describes the sector in detail and summarised the situations as follows: “the artisanal logging sector is characterized by: 1) A lack of clear regulations, 2) Corruption by political and military elite, 3) Low capacity of Forestry Department staff and loggers, 4) Logging does not contribute to community development, 5) Logging is opportunistic, unprofessional and illegal 6) Logging is not environmentally sound, and 7) there is a lack of reliable statistics concerning the volume of exploitation occurring.”

Logging hotspots in eastern DRC

The 2010 WRI Forest Atlas of DRC provides detailed map data on forest loss over the past decade. The main location of forest loss is the Ituri Forest area to the west of Beni and Butembo and north along the road from Beni to Mambasa (Annex 2). The timber from this area is mainly exported to Uganda through Mpondwe. Other important logging centres are located along the road from Beni to Komanda at Eringeti, Luna and Idohu (Brown and Makana 2010). Other important locations are along the road from Bukavu to Kisangani (through Walikale), and the areas south west of Bukavu. The detailed forest loss maps produced by WRI show the specific locations of forest loss in these areas.

The range of species traded

In contrast to industrial scale loggers who typically harvest a wide range of species, artisanal loggers harvest very few species. The main species traded were found to be mahogany (*Khaya* or *Entandophragma* spp), White Nongo (*Albizia* spp) and Nkalati (*Aningeria altissima*, and *Chrysophyllum albidum*) and small quantities of Mvule (*Milicia excelsa*). White Nongo is a white “softwood” and is the main species traded into the South Sudan market. Nkalati is another that has become popular in the Kampala market for furniture making. The mahogany accounted for about 70% of the trade and White Nongo accounted for about 15% with the other species making up the remaining 15%.

3. COUNTRY REPORTS



Uganda

There is a high demand in Uganda for mahogany from DRC as indigenous hardwood timber resources are becoming scarcer. The estimates made during field visits to border posts, of volumes imported to Uganda and in transit to other markets are compared with official data provided by URA Customs in table 1. The field assessment indicates imports at 8,300 m³ per year and volume in transit to other countries of 42,000 m³ (of which 8,400 m³ goes to South Sudan, 32,600 m³ goes to Kenya and 1,000 m³ goes on to external markets in china and elsewhere). The official data provided by URA Customs shows slightly lower volumes imported and in transit in 2011 of 5,461 metric tons (equivalent to 7,802 m³) and quantity in transit to other markets at 30,439 metric tons (equivalent to 35,215 m³). As the field estimate is not much different from the URA official data, It can be concluded that URA Customs is capturing the volume data accurately.

Table 1. Comparison of field estimates and URA Customs data on imports and transit timber

Source of data	2011 imports	2011 Transit
Estimates based on visits to border posts	8,300	42,000
URA Customs official data 2011	7,802	35,215

Three categories of illegal timber trade in Uganda were noted during the study a) smuggling across borders b) under-payment of import duties and taxes and c) illegally exporting Ugandan timber.

- a) **Timber smuggling** is limited to small quantities transported usually by bicycle and is not a significant problem as URA Customs has a comprehensive coverage of Customs posts along its borders and it has a good information management system using networked computers³, along with strategically placed internal checkpoints at Pakwach, Karuma, Bundibugyo backed up by mobile security units. These measures enable URA to prevent large-scale smuggling.
- b) **Under-payment of import duties and taxes** on the quantity of timber imported is a major issue as the rates are high (10% Duty and 18% VAT and 6% withholding tax) and provide a strong financial incentive to avoid or reduce the amount of tax paid. Taxes are based on timber volume but the present practice in URA is to express quantity in kilograms weight on the Customs forms. Inspection of several Customs forms, and analysis of data provided by URA Customs showed anomalies between quantities imported (when weight was converted to volume) and taxes and duties paid, indicating under-payment of 43% of taxes and duties in 2010 and 50% in 2011⁴, representing losses to URA of \$171,244 in 2010 and \$168,480 in 2011⁵. As the timber values on which taxes are based are outdated, URA also loses substantial revenue through under-valuation of the timber.

The practice of expressing the quantity in terms of weight on the Customs forms, while taxes are levied on the basis of volume, makes it difficult for law enforcement agencies to check if the correct taxes were paid and therefore facilitates collusion between Customs staff and traders in reducing the volumes on which taxes and duties paid. Interviews with timber dealers both in Kampala and at border posts indicated that under-payment of taxes is common practice and that it is done in collusion with Customs Officers.

- c) The third category of illegal trade is **export of Ugandan timber** or adding

³ Uganda Customs uses *Asycuda* which is networked to other EAC country's Customs services.

⁴ According to the data provided by URA Customs, the quantities of timber imported in 2010 and 2011 were 6,554 tonnes and 5,461 tonnes which is equivalent to 9,364 m³ and 7,802 m³ respectively (assuming 700 kgs per m³), but the amount of tax and duty revenue collected indicates underpayment of 43% in 2010 and 50% in 2011.

⁵ Note the timber values on which taxes are levied were last updated in 2009 and are now considerably lower than market values. Mahogany is valued at \$180 per m³ but the retail market value is now around \$595 per m³.

Ugandan timber to transit loads from DRC and passing it off as DRC timber. At Paidha, timber in transit from DRC to South Sudan is off-loaded at bonded yards and re-sawn into smaller dimensions before re-export to South Sudan. The bonded yard is not secure and local sources allege Ugandan timber is added and enters the supply chain for export to south Sudan. In addition, according to the local forestry sources in Masindi, there are quantities of timber originating in the Masindi and Hoima districts that are being exported to South Sudan via Nimule but the scale and extent of this trade could not be verified and needs to be further investigated.

Rwanda



Due to the general shortage of timber in Rwanda and in particular the shortage of hardwood timber resources, there is a significant level of trade in hardwood from DRC. The field assessments at the border posts in Goma-Gisenyi and Bukavu-Rusisi indicated total volume imported of approximately 7,000 m³ per year. Somewhat surprisingly there is also a significant trade in timber from Rwanda to Bukavu in the south east consisting of Pines, Eucalyptus and Grevillea to supply demand for softwoods that are in short supply in DRC.

The formal border crossing points are at the northern and southern ends of Lake Kivu at Goma-Gisenyi and Bukavu-Rusisi. There was no evidence of timber entering Rwanda illegally through the formal customs posts or of under-declaration of volumes, but local informants indicated a small informal trade across the lake from DRC to Rwanda (to Kibuye) and in the south west across the river Rusisi to Rwanda.

Burundi



A recent study⁶ estimated the commercial sawlog plantation area in Burundi is 65,977 ha and that there is a deficit in supply of sawn timber of about 2% per year, (estimated at 4,000 m³ per year) which is met by sawn wood imports, assumed to be from DRC. The field assessments undertaken at the border posts between DRC /Burundi and Rwanda/ Burundi, and in the timber markets in Bujumbura, indicated approximately 1,000 m³ is imported per year from DRC.

The only official border crossing point from DRC to Burundi is at Kavimvira-Gatumba and official Customs records there indicated under 100m³ per year is imported, but timber can also be smuggled into Burundi through an unofficial crossing point at Kiriba (15 km north of the official crossing point at Kavimvira) or across Lake Tanganyika. It is assumed the balance of 900 m³ is imported illegally through Kiriba and across the Lake.

As Burundi is a member of the EAC, the Common External Tariff rates apply (10% Duty and 18% VAT). The Burundi Customs service was reformed and modernised in 2009 and now has modern computer systems networked with other EAC countries.

South Sudan



South Sudan is a vast country with extensive natural forests including substantial hardwood resources, but there is a strong import trade in timber from DRC via Uganda and this is attributed to roading and other problems within Southern Sudan that constrain harvesting of indigenous timber resources. Demand for timber in Juba is high as there is a boom in building construction. Assessment of the markets in Juba indicated that the majority of wood in the market is white “softwood” which is mainly White Nongo (*Albizzia*) originating in DRC. This timber transits through Uganda via Goli and Paidha to the Oraba-Kaya and Bibia-Nimule border posts between Uganda and South Sudan. There is also Mahogany and Mvule present in the Juba market but in much smaller quantities. According to timber dealers in the Juba market, the origin of the timber is Uganda (53%), DRC 36% and South Sudan (11%). It is, however, likely that the timber described as from Uganda probably originated in the DRC.

It is estimated that 2,350 m³ is imported directly from DRC through the Laso/Udabi border region and a further 8,400 m³ is imported via Uganda through Kaya-Oraba and Bibia-Nimule.

⁶ Nduamundu 2011, *Forest plantations and wood lots in Burundi. African Forest Working Paper Series Volume 1.*

There is very little regulation of the timber trade in South Sudan as both the Customs services and the forestry authorities are just getting established. There are no Customs or government administration offices regulating the trade from DRC directly into South Sudan along the Aba-Leso and adjacent routes and the entire trade could be considered illegal. However there are local procedures involving Chiefs and local administrators that are generally followed and to that extent the process of procuring timber and harvesting does follow a standard procedure even if it is not officially recognised.

At the two border posts between Uganda and South Sudan (Kaya-Oraba and Bibia-Nimule), the Customs service is not yet computerised and record keeping is manual.

Kenya



Kenya has the largest industrial timber plantation resource in the region which is currently estimated at 107,000 ha of publicly owned industrial plantation forests and an estimated 90,000 ha of private sawlog and fuelwood plantations owned mainly by the tea industry. The plantation resource is more than enough to supply domestic industrial wood needs but harvesting in government plantations has been restricted by presidential ban and the timber industry has been depending on imported industrial wood (mainly pine and cypress) from Tanzania and Malawi and hardwoods from DRC.

Malaba and Busia are the only two border posts through which timber from DRC is imported into Kenya. Timber trucks have moved exclusively to the Busia route since a one-stop-border-post was introduced at Malaba. The volume of timber passing through from DRC was estimated at 33,100m³ per year. This includes approximately 1,000 m³ transiting to external markets.

In Kenya, timber importers pay VAT at 16% based on a valuation of \$220 per m³ but do not pay duty because both DRC and Kenya are members of COMESA and are subject to a free trade area agreement⁷. However Kenya is also a member of the EAC and DRC is not and therefore according to the EAC common external tariff, Kenya should charge 10% duty and 18% VAT on timber imports. Kenya chooses to use the COMESA free trade agreement instead of the EAC common external tariff in determining timber import taxes. These lower import charges give Kenya a market advantage over its EAC partners in the hardwood timber trade.



A timber panel in a workshop at one of the destination markets in the region

⁷ All of the countries covered in this study are members of COMESA (including South Sudan that has recently joined) and all except DRC and South Sudan are members of EAC. Kenya complies with the COMESA free trade agreement and does not charge duty on timber imports from other member states. Uganda, Rwanda and Burundi use the EAC common external tariff and charge 10% duty and 18% VAT on timber imports from non EAC countries.

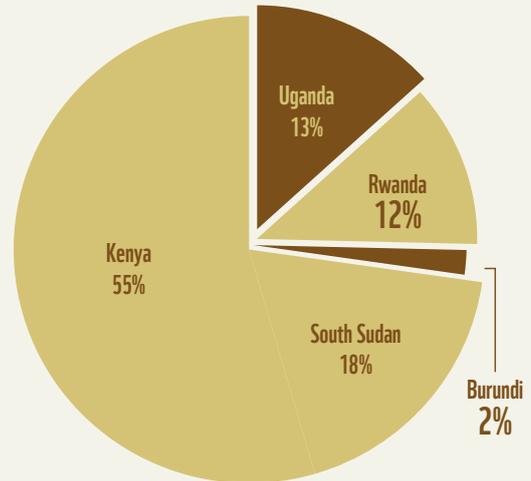
4. SUMMARY OF THE VOLUMES TRADED, TRADE ROUTES AND DESTINATION MARKETS

The estimates of volumes traded compiled during the field visits and discussed in the previous section are summarised in fig 1 and listed in detail by country and entry point in table 2. Kenya is by far the most important destination market at 55% of the volume exported from DRC, followed by South Sudan at 18% and Uganda at 13% and Rwanda at 12%. Burundi's share of the market is insignificant at 2%⁸. No data was collected for Tanzania although it is possible that small quantities cross Lake Tanganyika from DRC to markets in Kigoma.

Table 2. Summary of quantities exported from eastern DRC to destination markets in East Africa

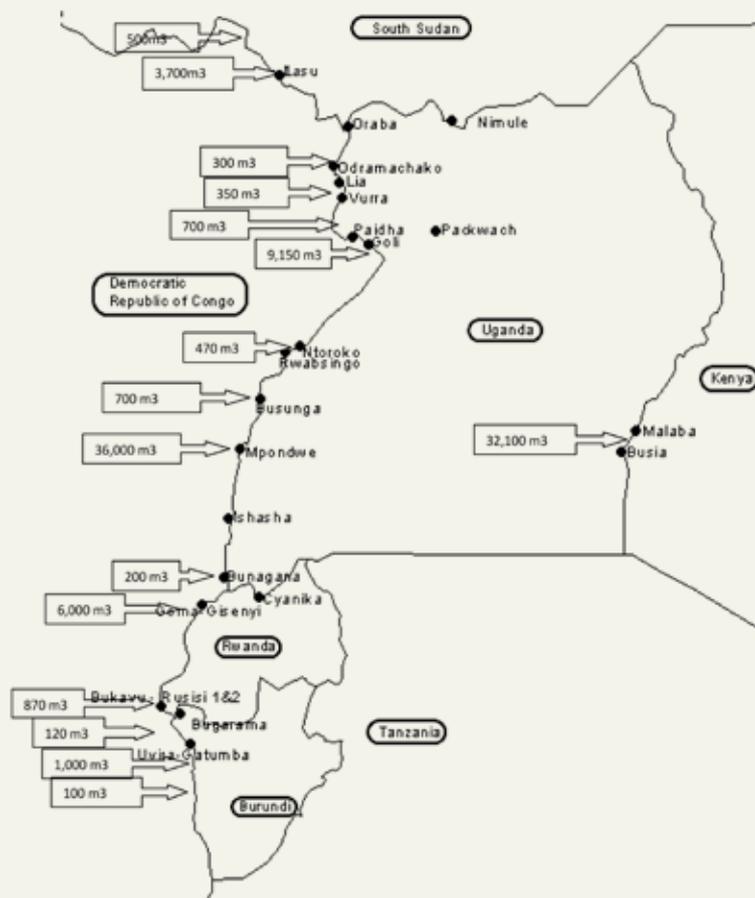
Destination markets for Eastern DRC timber in 2011	
Country	Volume m3
Uganda	8,320
Rwanda	7,000
Burundi	1,100
South Sudan	10,750
Kenya	32,100
Other	1,000
Total	60,270

Figure 2. Timber exports from eastern DRC to regional markets



The data show 42,000 m3 transiting through Uganda of which an estimated 8,400 m3 goes to South Sudan and 33,100 m3 goes to Kenya including approximately 1,000 m3 that is exported to external markets in India, France, Vietnam, UAE, China, Singapore.

Figure 3. Map showing volumes of timber exported from eastern DRC



⁸ It is also likely that some timber crosses Lake Tanganyika and enters the Tanzanian market but this was not assessed during this study

5. SUMMARY OF LEGAL AND ILLEGAL TIMBER TRADE

The EU defines illegal logging as: “Illegal harvesting of timber in contravention of the laws and regulations of the country of harvest”.

Using this definition, we could consider all logging in eastern DRC, apart from harvesting by ENRA, as illegal because DRC laws and regulations have not been followed. However, this is not a very fair or meaningful description of logging in eastern DRC as the laws and regulations are not clear and therefore difficult or impossible to follow. In practice, local procedures are followed which vary from place to place and it can be argued that following those local procedures is justifiable in the absence of formal procedures. It is more meaningful to describe logging operations in eastern DRC as “informal” rather than “illegal”.

The illegal trade is relatively small in Rwanda and Burundi amounting to an estimated 1,000 m³ in total consisting of smuggled timber. In Uganda smuggling is considered to be negligible at about 500 m³ per year but under payment of border taxes is estimated that 50% of timber. There was no evidence of illegal trade in timber transiting to Kenya. The trade from DRC via Uganda to South Sudan is substantial but entry taxes are very low and there is no evidence of avoiding taxes along this route. The trade directly across the border from NE of DRC to South Sudan is not regulated on the DRC side but once in South Sudan the traders tend to pay the taxes which are levied at a very low rate at various points along main roads.

The most obvious economic impact of the illegal trade is the reduction of legitimate tax revenue to the state but of potentially more significance is the distortion in the market resulting from tax avoidance. The dealer who avoids taxes gains a competitive advantage which forces other dealers to engage in the same practices in order to compete and survive. Illegally imported timber also affects the competitiveness of locally produced timber, lowers prices and ultimately acts as a disincentive to indigenous timber producers. Illegally traded timber also increases the risks for investors, reducing their willingness to invest in timber processing or timber production.

The environmental impacts of logging by small scale operators in Eastern DRC is probably less significant than those of commercial logging concessionaires who are logging legally. In eastern DRC, only the largest trees and those of the few favoured species are felled, a practice technically referred to as “high-grading”. This type of harvesting removes fewer trees per unit area and is less destructive than more intensive harvesting practiced by commercial loggers. In the natural forest the largest trees eventually die and fall and the low intensity harvesting practiced by artisanal loggers has a similar effect. However, loggers usually pave the way for others who clear the forest for agriculture and so are part of a part of a process that ultimately destroys the forest.

Combatting the illegal timber trade is one of the priority issues in forestry worldwide and there are many initiatives underway to address the issue and improve governance of the timber trade. Two important recent initiatives are the Lacey Act in the USA which was passed in 2008 and makes it illegal to deal in timber and timber products that are illegally sourced, and the EU Forest Law Enforcement, Governance and Trade (FLEGT) action plan in 2010 and the associated EU Timber Regulation which will come into force in 2013.

The most relevant for DRC is the EU FLEGT initiative as most of the industrial logging concessions in DRC are held by European companies and most logged timber is exported to Europe. One of the initiatives of the FLEGT is Voluntary Partnership Agreements between EU and producer countries. The overall aim is to improve governance, including transparency, civil society participation and local community participation. DRC is currently negotiating with EU on the VPA process aimed at developing a VPA agreement between DRC and EU. Another component of the EU-FLEGT is the EU Timber Regulation which is due to come into force in 2013 and which will prohibit imports and internal EU trade in illegally sourced timber and timber products.

Together, the Lacey Act and the new EU Timber Regulation provide a strong incentive for producer countries supplying US and European markets to improve governance of the timber trade and to reduce illegal logging. The FLEGT initiatives are already having a strong impact on improving governance of industrial logging concessions through voluntary compliance because the EU is their main market, but they will not have the same impact on production from eastern DRC where logging is mainly small scale and informal and production is destined for local or regional markets. The impact of the EU Timber regulation on improving voluntary regulation in the west indicates what could be achieved if the EAC implements a similar regulation.

6. DRIVERS OF THE TRADE AND IMPACTS

Economic opportunities and jobs are limited in eastern DRC but timber is plentiful and there is no shortage of traders willing to pay for the opportunity to harvest and supply lucrative markets all over East Africa where mahogany from DRC fetches high prices.

Typically, timber dealers bring the power-saws from Uganda and the locals benefit through various administrative fees and charges and through the employment that the trade creates. Compared to other economic opportunities such as mining, timber harvesting is a relatively easy enterprise for small scale operators to engage in.

The high demand for DRC timber in neighbouring countries is a major driver of the trade. Through their timber trading and procurement policies, neighbouring countries therefore have the ability to improve regulation and governance of the trade by imposing chain of custody requirement or through procurement policies and trading policies that exclude illegal timber.

If the procurement contract disregards the origin of the timber and specifies high quality hardwood in the design of a building or in a furniture contract, without also insisting that the timber is legally sourced, it can be a driver of illegal logging in DRC. Procurement policies that exclude illegal timber can have a very positive impact as can be seen with the EU timber law which is already having a positive impact on the activities of the industrial concessionaires in western DRC.



Indigenous tree species are the biggest victims of the illegal timber trade. But many of these take over 50 years to reach maturity

7. RECOMMENDATIONS FOR ADDRESSING THE ILLEGAL TRADE AND FROM EASTERN DRC AND IMPROVING GOVERNANCE

The conditions for achieving a transformation from informal to regulated trade are better now than they have been for decades, with improvements in security in Eastern DRC, coupled with donor support for on-going reform of the DRC forest administration, international initiatives to ban trade in illegally logged timber, and recent improvements in customs services and trade regulation in neighbouring countries.

The goal of this transformation should be an improved forest administration which can effectively oversee and regulate sustainable exploitation of forests according to international standards of sustainable forest management which includes certification and implementation of chain of custody systems. Artisanal harvesting operations can be formalised and comply with legal procedures and should ultimately transition to more professional operations which are more efficient, less wasteful of the resource and have better capacity to comply with the requirements of sustainable forest management. Greater efficiency in resource exploitation ultimately brings greater benefits to the economy and society at large as long as it is well regulated.

The following recommendations are aimed at bringing about this transformation.

1) Reform of the DRC administrative procedures and regulations for small scale logging.

The on-going reforms in the forestry sector in DRC that began in 2002 have focussed on improving the regulation of industrial scale logging concessions but have not provided the framework for improved regulation of artisanal level operations in eastern DRC. A high priority is to revise the procedures for regulation of small scale logging so that they are more practical and easier for logging operations to comply with and for the administration to implement. The procedures should include the sustainability and social equity principles already embedded in the 2002 Forest Code. They should be easy to implement and take account of the limitations of public administration, the existing entrenched patronage systems and local communities' priorities. The revision process has to be accompanied by capacity development measures for the forest administration to enable them to implement the reformed procedures⁹

2) Transition from informal artisanal logging operations to more formal and more professional standard operations.

The transition from the informal to the formal sector and from artisanal to more professional standard logging is aimed at improving efficiency and compliance with legal requirements. This will only be possible after the harvesting procedures are revised. It also requires improved capacity on the part of the forestry administration to monitor and regulate the trade.

Standardised procedures and better regulation and governance reduce risk for investors and help to create the conditions for smaller entrepreneurs to invest in improved technology. Currently, the technology is basic, consisting almost exclusively of chainsaws with no other harvesting or transport equipment. This form of harvesting is destructive and wasteful, because of "high-grading"¹⁰ and low the conversion rates achieved by chainsaw milling. The economic pressures which would be imposed by better regulation would favour more efficient harvesting and processing over chainsaw milling.

3) Increase transparency as a strategy to improve governance.

Improving the information available on the timber trade in the East Africa Region is strongly recommended as a means of improving governance and combatting illegal trade. Ideally this would be done collaboratively by all the countries involved, possibly using existing trade frameworks such as the EAC or COMESA. The lack of information

⁹ WCS has been supporting community based natural resources management in the Ituri area and has been working with local and Provincial authorities to address the issue of revision of the artisanal logging procedures (Brown and Makana, 2010)

¹⁰ The term "high grading" refers to the practice of only selecting the best trees for harvest and only converting the best sections of sawlogs, leaving the rest behind in the forest as waste

on the trade helps to disguise illegal practices and perpetuate illegal trade. There is a good case for regular regional timber trade reporting not just to improve transparency and combat the illegal trade, but as a basis for long term timber supply planning in the region. As the EAC has an aggressive agenda for facilitating regional trade and integrating trade between member countries, reducing barriers to trade, and improving trade regulation and reporting, it provides a good context/framework for such a market information service

The Customs data from the Customs authorities in each of the member states will be the main source of information on the trade. Some changes in the way customs data is recorded will be required to improve the data quality but with the on-going capacity development support to Customs authorities being provided by EAC and its partners, the quality of data has been steadily improving¹¹. It is recommended that a project proposal be developed for a regional timber trade information system.

4) Improve the quality of data being collected by URA Customs.

Most timber exported from eastern DRC passes through the DRC Uganda border posts, data collected by URA Customs can provide the basis for regular timber market reports. A major weakness in the URA Customs data at present is that quantity of timber is expressed in kilograms weight instead of in volume and this confuses law enforcement and facilitates evasion of taxes. It is recommended that the sawn wood dimensions, number of pieces and volume in m³ are described on the Customs clearance documents in place of kgs at present. According to the 2007 EAC Common External Tariff, taxes are paid on volume (m³) and quantity of timber should be expressed in m³. The standard measure of timber quantity used in trade statistics worldwide is m³ and this should also be used by the Customs authorities in the EAC countries.

5) Harmonise customs procedures in the region.

Uganda, Rwanda and Burundi use the EAC Common external tariff as the basis for charging 18% VAT and 10% duty on timber imported from DRC but Kenya only charges 16% VAT and does not charge duty on the grounds that both DRC and Kenya are both members of COMESA and are covered by a free trade agreement. South Sudan does not charge any duty or VAT. It is recommended that the customs charges should be harmonised within the region to prevent market distortions.¹²

Another issue that requires harmonisation is the valuation of the timber on which the duty and VAT is based. Uganda values DRC hardwoods at \$180 per m³ whereas Kenya values it at \$220, and Rwanda at \$200. This again causes distortions and should be harmonised.

6) Increase collaboration between Customs authorities and forest authorities.

Customs authorities within the EAC have improved their law enforcement activities to curb smuggling and illegal trade but require assistance from forest authorities in combating illegal timber trade and ensuring a harmonised approach. In Uganda, several Customs staff pointed out the need for assistance from forest staff in identification of timber species from DRC as timber sourced in Uganda is often passed off as DRC timber and exported to South Sudan or other destinations. Also in Uganda, there are opportunities for forestry staff to collaborate with Customs law enforcement staff at key check points such as Karuma Bridge and Pakwach to monitor timber movements.

Another potential area for cooperation between forestry and Customs authorities is in collection of forestry transit fees which are collected by district forest officers. In Uganda, Rwanda, Burundi and Kenya, a transporter is required to have a timber movement permit provided by the DFO office after clearing Customs. The process takes time and involves foresters counting timber pieces which have already been assessed and taxed by Customs staff. The adoption of a “one-stop-border post” strategy that

¹¹ The main partner supporting Customs authorities in the EAC is TradeMark East Africa which is providing capacity development support to all of the Customs Authorities (and to South Sudan Customs service) and helping to integrate customs information and data exchange throughout the region. Ref <http://www.trademarka.com/home/>

¹² Note that Timber from DRC transiting through Uganda is not charged taxes or duty on the Ugandan border but pays when it enters Kenya if it is destined for the Kenya market. If it is transiting through Kenya to markets abroad, no taxes or duty are paid.

incorporates forestry taxes would eliminate this barrier to trade. This procedure is already in use in Burundi where the tax is paid directly to the bank and has helped to reduce the potential for corruption.

There is an opportunity to introduce this system in Uganda in conjunction with the planned establishment of one-stop-border-posts (OSBPs). Businga border post is in the process of expansion and as a new transport corridor is under construction which will replace the road to Mpondwe as the main trade route to the DRC. As the OSBP is being set up, the Forest Authorities should take the opportunity to integrate this function into the OSBP.

In Uganda, the Customs and Forestry authorities use different valuations for the same timber. URA Customs updated the valuations in 2009 but the Forestry Department (FSSD) has not updated the timber evaluations since 2000. Clearly both bodies should harmonise the timber valuations.

7) Promote timber procurement standards for government and donor contracts to ensure that only sustainably harvested timber is used.

This measure could have a substantial impact considering the high level of government and donor funding for construction, furniture and other timber products in the region. If government and donor agencies in the region modified procurement policies to exclude illegal timber and require chain of custody documentation and verifiable compliance with regulatory procedures, the upstream effects on increasing compliance with Chain of custody and with official procedures and regulations could be dramatic.

8) Adopt standards in the EAC to discourage and ultimately prohibit the use of illegal timber in the region.

At present the demand for timber in East Africa is a driver of illegal logging in DRC. Destination countries are in a position to impose measures that will reduce the illegal trade if they collaborate. The Lacey Act in the US and the EU Timber Regulation demonstrate that producers (at least in industrial logging companies) respond positively and quickly to such pressures by implementing the standards required by the new laws to ensure continued access to those markets. In eastern DRC, the process of improving systems and standards of forest administration would be strengthened and supported if regional markets imposed measures to prohibit illegally logged timber entering the markets. Such requirements would support the authorities in DRC in their efforts to improve regulation of the trade and would provide an incentive for illegal operators to comply with regulations.

The EAC provides a good framework for countries in the region to cooperate in designing and implementing EAC-wide measures. This would require a long term effort which would complement other measures described above to strengthen governance in DRC and could be implemented as part of a trade facilitation programme through the EAC.

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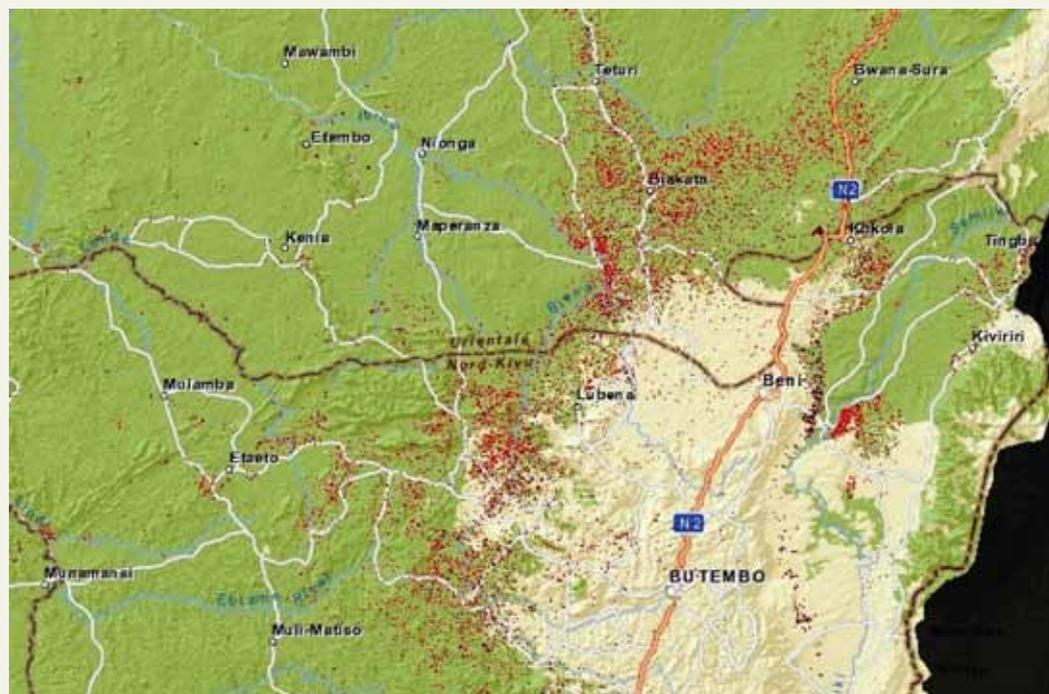
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9. ANNEXES

Annex 1. Timber species

Trade name	Species name	Timber
Mahogany, Libuyu, Sapele	Entandophragma cylindricum, E. candollei, E. utile), Khaya anthotheca	
Licece (Rw)	Acotea lisambromis	
Cedrella	Cedrella toona	
Grevillea	Grevillea robusta	
Cypress	Cupressus lusitanica	
Sirita (Bukavu)	Ekebergia capensis	
Musave (Cyangugu)	Markhamea lutea	White wood
Mvule, Mvule, Iroko	Milicia excelsa	
Linzo, Acajou	Khaya anthotheca	
Mulingati (Bundibugyo)	Cordia abyssinica	Favoured for boat making in Bundibugyo
Nkalati	Aningeria altissima, Chrysophyllum albidum	White wood used for furniture in Kampala and other locations
White Nongo	Albizzia spp	White wood, favoured in South Sudan market as a substitute for softwoods

Annex 2. Primary forest loss (red dots) in the Butembo-Beni area west of Mpondwe



BRIEF

FOREST LOSS

101,000 ha of natural forest or an equivalent of 20,000 ha per year lost in eastern Democratic Republic of Congo in the last 5 years.

SPECIES

Entandrophragma, Khaya anthotheca, Albizia spp, Aningeria spp.



DESTINATION

59,270 m3/year to market in Kenya, South Sudan, Uganda, Rwanda and Burundi. 1000m3/year to overseas markets.

WAY FORWARD

Strengthening Forest Law Enforcement, Governance and Trade (FLEGT) as well as best practices in sustainable forest management.



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