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NATIONAL TIMBER TRADE AND FLEGT SOLUTIONS FOR UGANDA

A SUMMARY REPORT ON NATIONAL TIMBER TRADE AND FLEGT SOLUTIONS FOR UGANDA

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

CFR	Central Forest Reserve
CoC	Chain of Custody
DFO	District Forestry Officer
DFS	District Forest Services
DRC	Democratic Republic of Congo
EAC	East African Community
FAO	Food & Agriculture Organisation
FD	Forest Department
FIEFOC	Farm Income Enhancement and Forest Conservation Project
FLEGT	Forest Law Enforcement, Governance and Trade
FSC	Forest Stewardship Council
FSSD	Forest Sector Support Department
GoU	Government of Uganda
ITTO	International Timber Trade Organisation
LFR	Local Forest Reserve
MWE	Ministry of Water and Environment
NFA	National Forest Authority (Uganda)
PPDA	Public Procurement and Disposal (Act)
SPGS	Sawlog Production Grant Scheme
URA	Uganda Revenue Authority (including Customs)
UWA	Uganda Wildlife Authority
VAT	Value Added Tax
VPA	Voluntary Partnership Agreement

FOREWORD



David Duli
Country Director

While Uganda celebrated 50 years of independence in 2012, WWF celebrated its silver jubilee last year 2011; there is therefore apparent match in terms of birth period for the two institutions. One can argue that both entities could have shared similar and contrasting experiences of earth surface in terms of resources management regimes, socio economic and political dynamics. One of the areas this study explores is the dynamics of timber trade. While WWF 51 years ago was established with the cardinal purpose to stop illegal wildlife hunting and trade, it evolved its portfolio to broader environmental matters in part with a mission that focuses to control degradation of natural environment and build a future in which human live in harmony with nature. This powerful mission is equated to the Uganda Constitutional provision where every Ugandan has a right to clean and safe environment. Illegal timber trade is therefore one of the drivers of deforestation which is not in consonance with the principles the two institutions stand for.

The study report you are about to read is a second in series which WWF UCO and WWF ESARPO commissioned. Firstly the regional study that established the origins and destinations of timber from eastern Democratic Republic of Congo in 2011 and now a detailed analysis of Uganda timber trade dynamics. The findings of the former study provided intriguing insights into the legalities of the trade, its regulation and also origins of the timber which inspired the commissioning of the national timber trade study to;

- 1) Assess the quantities and the species traded
- 2) Define legal and illegal trade and estimate losses through the illegal trade
- 3) Map out the major routes
- 4) Describe the drivers of the trade; and
- 5) Make policy recommendations for improved regulation and management of the trade and for mitigating the negative impacts of the trade.

The National Timber Trade Study established that:

- Timber trade is not consistently regulated,
- There is inadequate law enforcement,
- Systems of tracking of timber are not working
- There is massive tax evasions and
- Uncoordinated institutional responses.

Illegal timber trade stands at 80% causing an estimated annual financial loss of 23 billion Uganda Shillings through unpaid taxes. Much as these losses are mind-boggling, with concerted efforts a starting point is to improve and revitalize timber tracking mechanisms, promote accountability and transparency in the industry, update of databases to enable planning and forecasting of timber resources, influence the public and institutional procurement policies to shut out illegal timber procurement and strengthen mandated institutions to perform effectively.

WWF UCO is grateful to the European Union (EU) and the Food and Agricultural Organization (FAO) for providing the funds for the study. We are encouraged by the enthusiasm created by the results and recommendations of this study among Ugandan decision-makers in the ministry of water and environment, parliament and the wider conservation fraternity. This information we hope will lead to better planning and control of timber movement and trade as well as foster compliance, transparency and accountability in the forest sector.

WWF UCO commits to working in partnership with Government of Uganda to develop action plans aimed to combating illegal timber trade. Enjoy reading and put in practice legal and responsible trade in forest products as your contribution to the conservation of Uganda's forests.

EXECUTIVE SUMMARY

This study provides an assessment of the timber trade in Uganda and provides specific proposals for project interventions aimed at addressing illegal timber harvesting and trade and improving regulation of the trade.



THE PROPORTION OF THE MARKET SUPPLIED BY NFA FROM CENTRAL FOREST RESERVES IN 2011 WAS JUST 3.5% OF THE TOTAL SUPPLY.

The supply of timber from traditional sources in the Central Forest Reserves is declining and the timber trade is increasingly relying on production from trees and forests on private lands, supplemented by imports consisting mainly of mahogany from DRC. The plantations established since 2004 will begin to supply the sawlog market from 2025 onwards but until then, Uganda faces a shortage in timber supply.

The size of the timber market in Uganda at present is difficult to estimate as the trade is poorly regulated and much of the trade is illegal and undocumented. Based mainly on updated data from an assessment carried out in 2005 when the forest sector was better regulated and good quality information on the trade was available, the present market in Uganda is estimated at 369,000 m³ pa with a current retail market value of UGX 101 billion (USD 42 million). This includes domestic production of about 360,000 m³ per year and imported sawnwood estimated at around 9,000 m³ per year. The proportion of the market supplied by NFA from Central Forest Reserves in 2011 was just 3.5% of the total supply.

Prices have been rising in response to growing scarcity of traditional timbers (pines, cypress, mahogany and mvule) and traditional species are being replaced by substitutes. The most common species now found in the markets in Uganda are: Eucalyptus 43%; Kirundu (*Antiaris* spp) 33%; Pines and cypress (*Cupressus lusitanica*) 5%; Mahogany (*Khaya* spp) 3% mainly from DRC but also from South Sudan and small amounts from local sources in Uganda; and 16% consisting of other species.

The largest market is in Kampala and is supplied by the districts in the south west and west and the islands in Lake Victoria. The timber markets in the central and eastern districts are supplied from local resources. The timber resources in northern Uganda are inadequate to meet local demand and the markets there are supplied by timber from Kibaale, Hoima and Masindi. Markets in the south west are supplied from local resources.

It is estimated that over 80% of the timber in the market is illegal as it does not comply with official procedures and regulations in one way or another – either because it is chainsaw milled, it is harvested in private lands and does not pay the correct taxes, the participants in the supply chain do not follow the official chain of custody procedures, or because it is illegally logged in the Central Forest Reserves or harvested by NFA without approved management plans.

The weaknesses and gaps in the regulatory framework, and weak capacity of the regulatory institutions make it difficult to comply with regulations at present. Regulations are not clear and interpreted differently and there is no uniformity between districts in the fees and taxes charged. The official tax rate of 30% of the value is widely perceived to be excessive and is rarely charged. The official forms and marking hammers required as part of the regulatory procedures are not available in most districts. In the past, FSSD provided guidance on sustainable harvesting levels based on resource information but this is no longer provided. In most districts the role of the DFO in regulating the timber trade is now limited to collection of taxes and fees.

Regulation of harvesting in the Central Forest Reserves managed by NFA is more controlled than on private land but forest management plans and harvesting plans which are a legal requirement before harvesting is done, are out of date.

Illegal logging or poaching occurs in the reserves especially where the boundaries are not demarcated or are disputed and this is becoming more widespread as timber supplies from the traditional plantation sources become scarcer.

Chainsaw-milling was declared illegal in 2004 but is now the most common form of conversion from round logs to sawn timber.

The national and local governments lose revenue through low timber valuations (dating from year 2000) on which taxes are based, through evasion of taxes and fees, and through illegal and unauthorised logging in reserves. Using current timber valuations,

domestic timber production is valued at UGX 88 billion or USD 36.7 million per year (excluding imported mahogany). Assuming 80% of the taxes are currently avoided, the annual losses in uncollected taxes on domestically produced timber are estimated at UGX 23 billion (USD 9.8 million). The government also loses an estimated \$1m in import duties and taxes due to under-declaration of imported timber and due to outdated timber valuations being used by URA Customs. Total tax revenue forgone amounts to an estimated USD 9.8 million per year. However, both the timber valuations on which taxes are based and the tax rate of 30% need to be reviewed and revised. The current tax rate of 30% on domestic timber production is high and is an incentive to avoid tax and could discourage private plantation investment.

The quantity of timber produced domestically (excluding imports) was estimated at 360,000 m³ per year, equivalent to 1,440,000 m³ of round sawlogs at current sawing efficiency of 25%. This is equivalent to sawlog production from clearfelling around 7,000 ha of plantation or selective felling in 72,000 ha of natural forest. Assuming at least 80% or (288,000 m³) the trade is illegal, the area of forest harvested through illegal felling is therefore equivalent to 5,600 ha of plantation per year or 57,600 ha of natural forest per year at 25% recovery.

Drawing on lessons learned in addressing illegal logging and trade worldwide, and in countries with weak public administration and law enforcement, the proposed interventions focus more on market based incentives, and self-regulation, than on law enforcement.

Four models for addressing the illegal timber trade are proposed in order of importance as follows:

- 1) **Model 1:** Revise systems, processes and regulations for harvesting and trade in timber in Uganda
- 2) **Model 2:** Revise public procurement policies and regulations to exclude illegal timber
- 3) **Model 3:** Generate information on the timber resources and trade and increase transparency by making the information publicly available
- 4) **Model 4:** Incentivise and assist NFA, private forestry companies and timber using industries to become certified by bodies such as FSC

1. INTRODUCTION

The timber market in Uganda is an area of significant concern to Government, citizens and external stakeholders.

Public alarm at the high level of unregulated logging and trade led to a temporary suspension of the timber trade in March 2012 by The Minister for Water and Environment while responses were being formulated to combat the level of illegality in timber harvesting and trade.

The objective of this study was to provide a clear understanding of the current timber trade Uganda, with a view of improving legality, governance and traceability of timber in the market and proposing measures for more sustainable management of timber harvesting and trade. The study focused on the districts of Masindi, Arua, Gulu, Lira, Mbale, Tororo, Busia, Jinja, Mukono, Wakiso, Kampala, Mpigi, Masaka, Rakai, Mbarara, Kabale, Kasese, Kabarole, Kibaale and, Kalangala. During an inception workshop at the beginning of the study, it was noted that these districts have been subdivided recently and it was agreed that the study would cover the original district areas (before subdivision). The study provides a basis for designing interventions aimed at improving management and regulation of the trade and mitigating the negative impacts of illegal timber trade.

METHODOLOGY

...proportion of legal and illegal trade, species traded, trade routes, drivers of the trade and destination markets.



As both the legal and illegal timber trade in Uganda are poorly documented at present, the assessment team triangulated information from various sources and identified the production hotspots, proportion of legal and illegal trade, species traded, trade routes, drivers of the trade and destination markets. Estimates of the volumes traded are tentative and based on the findings from the markets in Kampala and from the districts visited, and from a number of recent studies and reports. The resulting data are informed estimates but are considered sufficient for designing mitigation measures and making recommendations on improved regulation and management of the trade which is the main purpose of the study.

The sources of information for the study included official bodies (FSSD, NFA, DFS, URA, Local Government officials), participants in the value chain (tree fellers, transporters, timber sellers, furniture factories, carpentry and joinery workshops, construction companies), and field observations by the study team.

THE CONTEXT OF THE STUDY

The Government of Uganda has identified Forestry as one of the primary growth sectors in the current five-year National Development Plan because of the important role it plays in economic development, livelihoods, and in provision of environment services. However, forest cover is reducing, forest sector institutions are weak, and Uganda faces a growing timber shortage over the coming decade despite a resumption of plantation establishment over the past decade.

Forests and woodlands cover an estimated 14% of the land area of Uganda. Of that area, about 15% is protected in Central Forest Reserves managed as productive forest by the National Forest Authority (NFA), 15% is conserved for its biodiversity value in National Parks and other protected areas by Uganda Wildlife Authority and is not available for timber harvesting, and the remaining 70% is owned by communities or is privately owned.

In the past, the main sources of timber supply were the government-owned forest plantations and natural forests in the Central Forest Reserves, but due to over-harvesting in the natural forests and lack of replanting after clearing the plantations, the supply of timber from these sources is declining rapidly and the timber trade is increasingly relying on production from trees and forests on private lands.

Since 2004, plantation establishment has resumed and an estimated 40,000 hectares had been established by 2010 by NFA and private sector forestry companies and individuals. Increasingly, the private sector is taking over the role of plantation

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establishment which was traditionally carried out by the Forestry Department and NFA. The plantations established since 2004 will begin to supply the sawlog market from 2025 onwards but until then, Uganda faces a shortage in timber supply.

Public forest administration is weak despite the institutional reforms of 1998-2003 that were designed to improve performance. The three new institutions that replaced the Forestry Department in 2003 are under performing - the National Forest Authority (NFA), the Forest Sector Support Department (FSSD) and the District Forestry Services (DFS). The FSSD in the Department in the Ministry of Water and Environment (MWE) is the institution responsible for regulating the timber trade and has other related functions including sector level policy development and planning and is also responsible for coordination of stakeholders in the forestry sector. The FSSD is under-staffed and under-funded and is not performing its regulatory functions effectively¹. NFA is responsible for timber production from the Central Forest Reserves and performed well for several years after its establishment, but has been weakened by declining standards of governance and integrity. The third key institution is the District Forest Services (DFS) which has responsibility for regulating exploitation of timber from private and community forests. DF is a weak underfunded institution and like FSSD, has not performed satisfactorily since it was established in 2004.

The Ministry faces a substantial challenge in revitalising the public forestry institutions and improving their capacity to regulate timber harvesting and trade so that it maximizes the benefits to local communities and the national economy while remaining environmentally, economically and socially sustainable. A well regulated and legal timber trade is necessary to create the market conditions for investment in the timber industry that are necessary to enable the economy to realise the full benefits of the substantial investments that have been made in commercial plantation establishment since 2004.

Public concern at the continuing loss of forest area and perceptions of illegal logging and rampant forest destruction led the Ministry of Water and Environment to impose a temporary ban on the trade in March 2012 and is still in place (August 2012). Since the ban was imposed, the Ministry has been assessing options to the high levels of illegality in the timber trade.



Illegal timber trade is a major threat to indigenous forest cover in the country

¹ LTS 2010

2. OFFICIAL PROCEDURES FOR LEGAL TIMBER HARVESTING AND TRADE IN UGANDA

Many countries have defined specific standards which must be complied with for timber to be considered legal.

“no forest produce should be moved from any area to any destination without having been marked with an appropriate stamp and issued with corresponding documents by an “authorized person”.

...A 15% TAX AND A FURTHER 15% “EQUALIZATION FEE” TO BE LEVIED ON TIMBER TRADERS WHO ARE BELOW THE VAT THRESHOLD.

Generally, the basic requirements for timber to be considered legal are that timber must be harvested, processed and traded in compliance with the laws and regulations, and that chain of custody procedures must be followed. The requirements can extend beyond forestry laws and regulations and include other national and local laws and regulations such as taxation laws, environmental regulations, labour laws, health and safety etc.

Uganda has not specified a standard for “legal timber” at present, so for the purposes of this study, “legal timber” is assumed to be timber that is harvested and traded in compliance with forestry laws and regulations in Uganda. The regulatory framework for timber harvesting and trade in Uganda is described below.

Laws and regulations governing timber harvest and trade in Uganda

Timber harvesting and trade is regulated by the 2003 Forestry Act and by regulations issued under the Act. The Act contains some specific provisions relating to timber harvest and trade but leaves the detailed descriptions of procedures, chain of custody system and guidelines to subsidiary rules and regulations to be developed by the forest authorities and periodically updated. There are several references in the Act² to timber harvesting in accordance with regulations and guidelines made under the Act, and to harvesting in line with approved management plans which is the key strategy in ensuring sustainability and adherence to best practices in timber harvesting and trade.

The Act makes provision for development of further subsidiary regulations and guidelines by the forest authorities including the following that specifically relate to the timber trade: procedures for timber sale; licensing and fees; the manner in which forest products are to be sold from reserves; the manner and circumstances in which a license may be granted; rules and guidelines for the sustainable management or utilization of forests; rules on grading of timber; registration of private forests; and many others. Many of these rules and guidelines have not yet been developed and this has been a constraint on operationalizing many of the provisions of the Act, but a revised system for regulation of timber harvesting and trade was introduced through Public Notice issued by the Ministry in 2004 and this is the system in use at present (annex 1).

The Public Notice describes new procedures for harvest and trade in sawlogs and timber and the chain of custody procedures to be followed. The procedures require documentation and log hammer marks and requires that “no forest produce should be moved from any area to any destination without having been marked with an appropriate stamp and issued with corresponding documents by an “authorized person””. The Notice includes a description of fees and levies to be charged, including a 15% tax and a further 15% “equalization fee” to be levied on timber traders who are below the VAT threshold.

The notice declared chainsaw milled timber is illegal and a significant change introduced through this notice was the delegation of responsibility for monitoring the timber trade and law enforcement to NFA.

Although the procedures were revised in 2004 and some of the charges were updated, the timber valuations on which taxes are charged and some of the fees were not updated and those dating from 2000 are still in use³ although the timber valuations are now very low compared to current market prices.

Quantities of timber traded

Statistics on the timber trade in Uganda are regularly provided in official reports and plans but they are not reliable as there is no functioning system in place to capture data

² National Forestry and Tree Planting Act 2003, Sections 21.2, 22.2, 28.3, 32.1 (a), 41.1

³ Described in Statutory Instrument Number 16. The Forest Produce Fees and License Order

on the trade. Official records of timber harvesting from NFA and timber tax revenues from DFS provide only a partial picture of the trade as much of the timber in the market avoids taxes or is illegally harvested and is not captured in official records. Records of timber tax revenues in the districts are not disaggregated from other revenues and cannot be used to determine volumes of timber harvested, and although NFA harvesting records may be more accurate, NFA harvesting now accounts for only a small proportion of timber trade and cannot be used as an indicator of the total size of the market.

The assessment of the current size of the market relies on updated data from 2005/6 when information on the forest resources, timber harvesting levels and the timber trade was more reliable. During that period NFA was responsible for monitoring the timber trade and law enforcement, timber tracking systems were in place and working, NFA was following harvesting plans based on up-to-date inventories, the level of compliance with the law was high, governance standards in the forestry were high, and illegal logging and trade were being effectively addressed for the first time in decades. For those reasons, the estimates of timber trade and consumption made at that time are more reliable than recent estimates.

In 2005, FAO using the information available from NFA and from other sources estimated the size of the sawn wood market at 240,000 m³ per year (Odokonyero, 2005) equivalent to 800,000 m³ of sawlogs, assuming 30% sawlog conversion efficiency. This is equivalent to a per capita consumption level in 2005 of 0.0089 m³ sawn timber as the population then was 28.8 million. Making allowance for population increase to 34.5 million in 2011 and assuming static per capita consumption levels would bring consumption up to 308,955 m³ in 2011.

While population has been increasing by 3.3% per year, the GDP growth is 6-7 % annually. The construction sector has been growing at an even higher rate and this is the main market for Ugandan timber. Therefore per capita consumption of timber is also likely to be increasing and allowance should also be made for this. Assuming a 3% per annum increase in per capita consumption from approximately 0.0089 m³ in 2005 to approximately 0.011 m³ in 2011, and taking account of the 2011 population size of 34.5 million, this brings total consumption of sawn wood up to approximately 369,000 m³ in 2011. This is an increase of almost 50% from the 2005/6 estimate and is accounted for by the increase in population of approximately 29% over the period and an increase in per capita consumption of approximately 19% over the period. Assuming a sawing conversion rate of about 25% at present (as most timber on the market in Uganda is now chainsaw milled), this is equivalent to approximately 1,475,000 m³ of roundwood sawlogs per year.

The estimate 369,000 m³ of sawn wood consumption per year includes both domestically produced and imported sawn wood. The main source of imported sawn wood is eastern DRC and the quantities imported were estimated by WWF⁴ in 2012 at approximately 8,500 m³ per year with smaller quantities imported from other countries. Making allowance imports, the volume of timber domestically produced annually is estimated at 360,000 m³ per year equivalent to 1,440,000 m³ of sawlogs assuming a 25% sawing recovery rate⁵.

NFAs contribution to sawn wood supply (from CFRs) is declining. As a proportion of total sawn wood supply, NFA's contribution had reduced to just 3.5% in 2011 and is set to continue reducing as mature plantations are cleared (Table 1).

Table 1. NFA records of sawlog (roundwood) volumes harvested from 2004 to 2011

Year	2004	2005	2006	2007	2008	2009	2010	2011
Vol m ³	77,456	65,072	84,385	96,445	179,687	106,713	49,686	51,668

During the study, the volumes traded in timber markets in Kampala and towns around the country were estimated. The largest markets are in Kampala where there are three main markets at Ndeeba, Bwaise and Nakiwogo (Entebbe). It was estimated that over 50,000 m³ of sawn wood is sold per year, but there are many smaller timber markets for which there are no data. In addition, much of the timber used in construction and by larger furniture companies is procured directly from the source and does not pass through markets.

⁴ White et al 2012.

⁵ The efficiency of conversion from round logs to sawn timber is currently very low as most is chainsaw milled and recovery rates can be as low as 20%. When planning for the long term supply, it should be assumed that prevalence of chainsaw milling will be reduced and be replaced by more efficient conversion methods including efficient sawmills which can achieve conversion rates of up to 70%. If the sawing efficiency is doubled the amount of sawlogs required to produce the same volume of sawn wood is halved.

3. DYNAMICS OF THE TIMBER TRADE, SPECIES TRADED AND TRADE ROUTES

TIMBER SUPPLY HOT SPOTS

The timber trade in northern Uganda

The forest resources in Lira, Gulu and Arua and other districts in northern Uganda are inadequate to supply local markets at present. Most timber marketed in the north originates from Kibaale and Hoima District and to a lesser extent Masindi. The prominent species on sale include mahogany (*K. senegalensis*), Albizzia and Kirundu (*Antiaris* spp)

Arua is a regional trading hub for timber from neighbouring districts. White wood (*Albizzia* spp) comes through from Congo both for re-export to South Sudan while mahogany from DRC goes to the Arua and to markets in Kampala and Kenya⁶. Mahogany and teak (*Tectona grandis*) from South Sudan passes through Arua to the Kampala market and to export markets in Kenya and to India and other external markets. Softwoods and Eucalyptus from Zomba and Nebbi districts goes to local markets and to Kampala.

Because of its proximity to Eastern DRC where timber supplies are plentiful, much of the timber in the market in Arua (estimated by the DFO at 80%) comes from DRC.

Timber trade in eastern Uganda

Timber in the markets in eastern Uganda is supplied locally from private lands in the areas of Bududa, Manafwa, Sironko, Butelega, Namutumba and Kaliro. There was no evidence of timber coming from other parts of Uganda into the markets in the east. The common species include Eucalyptus, Ficus and smaller quantities of Mvule, Nkalati (*Aningeria*) and cypress.

Timber trade in central Uganda

Markets in central Uganda are supplied from local resources. The islands in Lake Victoria in Kalangala district is an important source of timber for the Kampala market. The forests of Kalangala-Masaka, Kibaale and Mukono-Mabira area are an important source of Kirundu for the Kampala market. Other species are Mugavu (*Albizzia coriaria*), Celtis, Namagulu (*Uapaca guinense*), Nkuzanzana (*Blighia unijugata*), Mpewere (*Piptaniastrum africanum*) and some Eucalyptus.

Timber trade in the west and south west Uganda

The timber in the markets in towns in the west and south west is supplied from local sources. Kibaale, Hoima and Masindi are a major source of supply for both the northern region and the Kampala market. The far south west is an important source of pines for the Kampala market.

The origin of the timber traded in the Kampala market is shown in table 3

SPECIES TRADED

Assessment of the Kampala market indicated that the most common species traded were: Eucalyptus, Mahogany, Kirundu, Pine, Nkalati, and others consisting of Cyprus, Mvule, teak, Namukago (*Funtumia* spp), Nkuzanyana (*Blighia unijugata*), Mugavu (*Albizzia coriaria*) and Musambya (*Markhamia lutea*)

Species considered scarce or no longer available in the market were Mpewere (*Piptadeniastrum africana*), Lufugo (*Celtis* spp) and Musizi (*Maesopsis*)

In the market in Kampala, traders indicated that most timber was aimed at the roofing

⁶ LTS 2010

market (80%), followed by scaffolding (10%), and furniture and others (10%)

In markets outside Kampala most commonly traded species in the east and central areas are Eucalyptus (85%), Ficus (3%), Aningeria (2%), Cypress (2%) and others 7%.

Table 2. The origin of timber currently traded in the main timber markets in Kampala

Species	Origin
Eucalyptus	Both Central Forest Reserves and private forests in Kabale-Mbarara-Ibanda route(80%) and 20% from the Mubende-Fort Portal-Kasese route
Mahogany	DRC(95%) and locally (5%)-Masindi and Hoima area
Pine	Central Forest Reserves plantations and private forests (80%) Nakasongola-Masindi route; 20% other parts of Uganda especially Kabale and fortportal.
Nkalati	DRC (60%) and locally from Central Forest Reserves (40%)
Kirundu	Central Forest Reserves (80%) in local private forests (20%) in Kalangala-Masaka route and Mukono-Mabira area.
Others (Cyprus, Mvule, teak, Namukago, Nkuzannyana, Mugavu and Musambya)	Local private forest all over the country.



The demand for timber from indigenous trees is a major driver of illegal timber trade.

4. ILLEGAL LOGGING AND TRADE AND LOSSES FROM THE ILLEGAL TRADE

ILLEGAL LOGGING AND TRADE



Private and community trees and forests are now the main source of supply as harvesting in the CFRs has declined and therefore the DFS has the key role in regulating the timber trade in the country.

a) Illegal logging and trade from the private and community forests

The District Forest Services (DFS) are responsible for regulating the harvesting and trade in timber from private and community forests as well as from Local Forest Reserves (LFRs). Private and community trees and forests are now the main source of supply as harvesting in the CFRs has declined and therefore the DFS has the key role in regulating the timber trade in the country. The Ministry (through the Forest Sector Support Department) is required to provide back-up support to the districts including establishing sustainable harvesting levels, approving lists of licensees, providing guidance and training, standardising forms and chain of custody procedures, assisting with management planning, establishing sustainable harvesting levels, and providing overall leadership and guidance to the District Forest Services. These back-up support services have not been available to the DFS in recent years and the role FSSD in supporting the DFOs and as a coordinating and oversight institution has collapsed.

In practice, the DFOs do not exert any control over felling on private or community land at present and their activities are limited to collection of taxes and fees, licensing tree fellers and issuing transit permits for timber being transported to markets outside the district.

The following observations based on field assessments illustrate the low level of regulation in place at present:

- From 2004 to 2007 NFA advised FSSD on the number of harvesting licenses to be issued annually by each district based on the resources and estimates of sustainable harvesting levels. Using this information, FSSD regulated the number of licenses to be issued by each district annually. Since 2007, the FSSD has ceased its involvement in approving licenses in districts. Since then, the districts have been issuing their own harvesting licenses without reference to FSSD and have not been getting guidance on sustainable harvesting levels.
- District Forest Officers do not have inventories information on trees outside reserves and have no basis for determining the annual allowable cut for trees outside the reserves. Current harvesting levels are widely perceived to be unsustainable.
- The official forms in numbered form books originally supplied to districts by FSSD are exhausted and Districts are using photocopies or designing their own procedures for licensing of harvesting collection of taxes.
- Taxes and fees levied by Districts vary. Some charge 30% of the value, others charge a set fee per load, others do not charge any fees for timber harvested on private lands. Some DFOs charge the 1% movement permit fee and others do not. Many DFOs have stopped collecting the 1% transit fee as the permit forms and official receipt books are no longer available. Some districts have set their own levels of fees and charges.
- The DFOs are still using the Year 2000 valuations which are now about one third of the current timber values. URA Customs unilaterally updated the timber valuations in 2009 as a basis for charging duties and taxes on timber imports, and although the valuations are considerably higher than the year 2000 valuations being used for taxation by DFS, they are considerably lower than current market values. Clearly both URA and DFO should be using the same valuation and the valuations should be regularly updated to reflect current values.
- Revenue generation is a high priority for districts which are under-funded by government, creating pressures on DFOs to generate revenue from timber trade licencing and taxes to fund district administrations. Revenue generation takes precedence over issues of sustainability or the legal status of the timber.

- The original 39 districts have been sub-divided over the last decade creating 112 districts by 2011. This has created many problems for management of the timber trade and adherence to regulations. No new timber marking hammers were made for the new districts and some of the existing hammers were taken by NFA. At present most districts do not have hammers and marking is either done by field hammers instead of district seal hammers, or not done at all. Yet stamping with hammers is an official requirement as part of the current chain of custody procedures. Without the hammers, the official procedures for legal timber trade cannot be followed.
- Many forestry staff appointed to the DFS in the new districts are inexperienced and do not understand the official procedures for timber harvesting and trade, or interpret them differently.
- Since the role of coordination and law enforcement of the trade was delegated to the NFA through the Ministerial Notice in 2004, the institutional roles and responsibilities of DFS and NFA in relation to the trade in timber from private lands has become confused between the two institutions and needs to be clarified.
- Since 2007/8 NFAs authority and competence has declined and currently it is not able to fulfil the lead role it was assigned in 2004 in coordination of regulation of the timber trade and law enforcement. There is a vacuum at present that has enabled the level of illegality to rise.
- Chainsaw milling which was declared illegal in 2004 is now the standard form of conversion from round logs to sawn timber as there are no sawmills operating.
- The operating environment in which the timber trade takes place does not encourage investment as it is characterised by high levels of illegality, avoidance of taxes and levies, variation between districts in implementation of the procedures and taxes.
- Between 2004 and 2007, NFA facilitated institutional coordination between FSSD and the DFS including funding annual general meetings between FSSD, DFOs, and CAOs prior to the license period. These coordination meetings no longer take place.

b) Illegal logging and trade from the Central Forest Reserves

Illegal logging in the CFRs occurs in two ways: a) by unauthorised logging or theft of timber, particularly in natural forests where the CFR boundaries are not demarcated or where the reserve boundaries are contested and b) by NFA or its contractors who do not comply with the legal requirements for harvesting and trade in timber.

In the case of unauthorised logging, the scale of these illegal activities and their significance in terms of timber supply has not been determined but NFA range officers reported that quantities of timber sourced through this means are increasing.

In the case of harvesting in the CFRs by NFA directly or by contractors to whom NFA sells timber, NFA is obliged to abide by the rules and procedures set out in the 2003 Act aimed at sustainable utilisation, in particular the requirements to harvest according to approved management plans (section 32.1(a)). Most Central Forest Reserves do not have management plans and therefore any harvesting done in Central Forest Reserves without management plans is not in compliance with the Act. The most recent plantation inventory and associated harvesting plan was completed in 2005 and is now out of date. As approved management plans are a requirement under the Act, any timber harvested in the absence of an approved management plan can be regarded as illegal.

The key instruments regulating NFAs timber harvesting and trade activities have fallen into disuse and should be revived to ensure NFA is complying with the requirements of the act and that the timber harvested by NFA is legal i.e. the performance contract between NFA and the Ministry, the forest management plans for the Central Forest Reserves and the harvesting plans.

As the regulatory systems have collapsed and official procedures are rarely followed, a large majority of the timber trade at present is illegal as it does not comply in one way or another with legal requirements, either through not following the correct licensing procedures, not paying the full taxes and fees, not being in possession of the required documentation, not having the correct hammer marks, not harvesting in compliance

with a management plan (in the case of CFRs), using chainsaws for converting from roundwood to sawnwood, or other breaches of the regulations.

Many DFOs interviewed during the study put the level of illegal timber at over 80% but from the observations of the assessment team, the proportion of illegal timber in the market is likely to be even greater than this.

Estimating the losses due to illegal trade

The Government loses revenue from the timber trade in three ways a) through illegal and undocumented harvesting and trade b) through under-collection of taxes on timber which partially complies with regulations and c) through unrealistically low timber valuations on which the taxes are based.

The quantities traded at present (including imports) have been estimated 369,000 m³ of sawn wood per year and the current market value of this is UGX 103.3 billion (table 4) and is based on a crude estimate of the proportion of market share of each species and average current retail prices of each species. The total value amounts to UGX 103.3 billion.

The total volume of 369,000 m³ includes both imported and domestically produced sawn timber, which are subject to different taxes and charges. The timber produced within Uganda is subject to 30% tax⁷ (and other charges) and the imported timber is subject to 10% duty, 18% VAT and 6% withholding tax.

The estimated value of timber produced in Uganda on which 30% tax is due is UGX 88 billion or USD 36.7 million (table 4, excluding imported mahogany). If taxes were collected at the current rate of 30% and current market valuations were used, the tax revenue would amount to UGX 26.4 billion (or USD 11 m). The amount actually collected in taxes is unknown, as the taxes are levied at the district level and amounts collected are not reported at the central level. Assuming at least 80% taxes due on this amount are uncollected annually, and assuming current values rather than year 2000 values are used in calculating taxes due, the losses to the government through unpaid taxes amounts to UGX 21 billion (or USD 8.8 million) per year.

Table 3. The estimated retail value of the current market

Species	Estimated % of total market share ¹	Estimated Volume of sawn wood ²	Ave retail Price per m ³ in Kampala markets UGX ³	Current Retail value (UGX)
Euc	43	159,000	250,000	39,750,000,000
Kirundu	33	122,000	200,000	24,400,000,000
Pine/Cypress	5	18,000	500,000	9,000,000,000
Others	16	59,000	250,000	14,750,000,000
Imported mahogany and others	3	11,000	1,400,000	15,400,000,000
Total	100	369,000		103,300,000,000

1 The % market share of each species is based on findings in the timber markets in Kampala

2 Based on estimated total market size of 360,000 m³ and percentages found in the Kampala markets

3 Prices are Kampala prices in June 2012. Market prices in provincial markets are marginally lower.

There are losses also from under-collection of taxes and duty on the imported timber. The volume of mahogany and other hardwood imports is estimated at 11,000 m³ per year (of which 8,500 m³ is from DRC) with a value of approximately UGX 15.5 billion (USD 6.5 million) at present market prices. Imported timber is taxed at the border but a recent study by WWF⁸ found that about 50% of the volume imported was under-declared to avoid taxes. In addition, the timber valuations being used by URA for tax assessment are from 2009 and are now out of date⁹. The report found that total taxes

⁷ The 30% tax rate is for timber from outside the CFRs and assuming the buyer is below the VAT threshold. If he is the buyer is above the threshold, the tax is 15% plus VAT at 18%.

⁸ White et al, 2012

⁹ For example the URA valuation of a piece of mahogany of 12"x2"x14 ft is \$13.22. The current retail price in the Kampala market for this piece is UGX 80,000 or \$33

received by URA in 2011 for timber imported from DRC amounted to USD 251,459 on a quantity imported of 8,500 m3 of sawn timber. By updating the valuations and eliminating under declaration of volumes, the amount collected in taxes and duties would increase by 5 fold. Losses to URA Customs by under-declaration of volumes and by undervaluing the timber are therefore estimated at approximately USD 1 million annually. In summary, the total total losses in tax revenues amount to USD 9.8 million per year (Table 5).

To realise this revenue, the timber values on which taxation is based need to be updated urgently and revised annually to reflect current market prices. However, the tax rate of 30% also needs to be reviewed and updated as the 30% rate is considered too high and is likely to be a dis-incentive to investment in plantation establishment.

Table 4. Summary of estimated losses due to the illegal timber trade

Total retail value of the timber trade	\$43 million
Uganda production	\$36.7 million
Expected annual tax revenue	\$11 million
Estimated losses from under collection of taxes	\$8.8 million
Market value of imported sawn timber	\$6.4 million
Estimated annual losses from under collection of taxes on imports	\$1 million
Estimated total losses in under- collection of taxes	\$9.8 million

THE DRIVERS OF THE ILLEGAL TIMBER TRADE

The main drivers of the illegal trade can be summarised as:

- Weak institutions responsible for regulating the trade, particularly District Forest Services which is responsible for regulating timber harvesting from private lands and Forest Sector Support Department which has overall responsibility for regulating the forestry sector and should be providing back up support to the DFS. Currently, NFA does not have the capacity to implement the regulatory functions assigned to it in 2004.
- Outdated and confusing procedures and chain of custody systems that are difficult to follow at present and in urgent need of revision;
- Lack of understanding of the official procedures by DFS staff;
- Pressures from district administrations to maximise tax revenues from local forest resources and
- Weak law enforcement at district level.

5. DISCUSSION

In contrast to the recent past when most timber originated from the Central Forest Reserves under the control of the NFA, at present almost all (over 96%) of the timber produced in Uganda¹⁰ originates from forests on private lands.

¹⁰ The NFA harvested 48,000 m³ of sawlogs in 2010 and 51,668 m³ of sawlogs in 2011, down from 106,713 m³ in 2009 and 180,000 m³ in 2008. Assuming total production of 360,000 m³ sawn wood in 2011 and 25% sawing conversion efficiency, the NFA production amounts to just 3.6% of the total production in 2011.

Regulation of this trade in timber from private forests is the responsibility of the DFS with support and coordination and leadership from FSSD. The institutional weaknesses in both these institutions have resulted in increasing illegality in the trade, unsustainable levels of harvesting and continuing depletion of forest resources.

For the past five years, FSSD has increasingly withdrawn from its role in regulation of the timber trade as NFA has assumed this role but has also withdrawn from its role in supporting DFS on issues related to the timber trade. At present, each district is managing the trade in its own way with varying levels of adherence to official procedures, variations in taxes and fees from one district to another and various approaches to documentation and chain of custody. The most urgent priority is to revise systems and processes so that standard procedures are used throughout the country.

An essential step is strengthening the institutions responsible for regulating the trade i.e. FSSD and DFS. In particular FSSD as the institution with the mandate for policy development, regulation and coordination of stakeholders in the forestry sector, is the key institution to drive the reforms necessary to restore order in the timber trade and reduce illegality in the trade.

The mandates of the institutions involved in the subsector in relation to the timber trade are currently confusing to timber harvesters and traders and to officers in the institutions themselves and need to be reviewed and clarified i.e. FSSD, NFA, DFS, and UWA. NFA was assigned a coordinating and regulating role in 2004 which it is no longer fulfilling. The institutional mandates should be revised to clarify roles and responsibilities.

In designing responses to the current chaos in the trade, the focus should be on market instruments rather than on law enforcement instruments to reduce levels of illegality and to encourage higher levels of compliance with regulations and standards as well as encouraging efficiency and increased investment in the forestry sector. Market instruments such as procurement policies that exclude illegal timber and require compliance with chain of custody procedures can be more effective than law enforcement approaches.

Over the past decade there has been great progress worldwide in addressing illegal logging and trade. Uganda can draw on lessons learned in other countries in addressing the problem. One of the most effective strategies has been adopting procurement policies and market policies to exclude illegal timber and imposing requirements to prove legality through chain of custody documentation. Another successful strategy has been improving transparency in information as a means of addressing corruption in the timber trade. These and other successful strategies that are proving successful in other countries can be adopted and used in Uganda.

6. PROPOSALS FOR FLEGT INTERVENTIONS IN UGANDA

THE FOUR FLEGT MODELS PROPOSED ARE LISTED BELOW.

- **Model 1:** Revise systems, processes and regulations for harvesting and trade in timber in Uganda
- **Model 2:** Revise public procurement policies and regulations to exclude illegal timber
- **Model 3:** Generate information on the timber resources and trade and increase transparency by making the information publicly available
- **Model 4:** Incentivise and assist NFA, private forestry companies and timber industries to become certified

Models are listed in order of priority. The highest priority described in **Model 1** is to review and implement revised systems, processes and procedures for timber harvesting and trade and to establish a chain of custody system, with standardised forms and procedures that are understood at all levels in the supply chain, are not overly complicated and are practical to implement.

Law enforcement is an important element in achieving successful implementation of revised timber trade and harvesting procedures and compliments the incentive based and voluntary compliance elements described in models 2,3 and 4. In Uganda where law enforcement agencies are weak and open to corruption and manipulation, the incentive based approach is likely to be more successful and should be emphasised over law enforcement.

The agency responsible for revising procedures is the FSSD. The revised procedures should be developed in collaboration with stakeholders in the value chain and should draw on and harmonise with international best practices in chain of custody systems for timber trade, fully utilising information and communications technology. Ideally the chain of custody system should be developed in conjunction with forest authorities in the trading blocks of which Uganda is a member i.e. the East Africa Community and COMESA, as there is inter dependency and intra-block trade in timber between the member countries between these trading blocks.

The revision and establishment of updated systems and chain of custody for timber trade described in Model 1 must be completed before **Model 2** on revising public procurement policies is implemented, as the Chain of Custody system will confirm that the timber is legally sourced and in compliance with timber trade regulations. Public Procurement and Disposals Authority staff indicated during the study that measures can quickly be put in place in public procurement policy and practice to require compliance with the official Chain of Custody systems aimed at excluding illegal timber or timber products from public procurement contracts. This model is aimed at transforming public procurement from being a potential driver of illegal timber logging and trade to being an incentive for compliance with official procedures and systems. As an incentive for voluntary compliance, it is likely to be a more successful strategy for improved FLEGT than law enforcement measures which depend on the forest authorities (FSSD, NFA and DFS) and the police and judiciary.

Availability of legal timber in the market place is a pre-requisite for successful implementation of the revised public procurement policies that exclude illegal timber. The model will therefore include support to timber traders associations aimed at encouraging self-regulation, adherence to chain of custody systems and improvement of standards.

Model 3 on generating information on the forest resources aims to provide the information base for planning harvesting levels, planning investment in timber processing which is key to improving sawing conversion efficiency, and for monitoring the impact of the timber trade on the resource base. The existing database is out of date and there is an urgent need for more up to date information on the timber resources both in forest reserves and on private land. Resource information should be updated annually to remain relevant to the needs of the sub-sector.

The model includes harvest planning and providing regular timber trade reports based on functioning chain of custody systems developed in module one.

One of the most effective strategies for improving governance, not only in forestry and the timber trade but in public administration in general, is increasing transparency. The information generated in Model 3 will make information available to the public which in the past was restricted. This includes CFR inventory information, local government and

national planning and budget data, NFA's and DFS expenditure plans and outcomes, lists of licensees, prices and revenues achieved for sales of NFA and local government timber, and periodic timber trade reports generated by the FSSD. The objective in making this information publicly available is to enable the citizens to hold the relevant public bodies to account. Increasing transparency makes it more difficult to circumvent official procedures, evade taxes and engage in illegal timber trade.

Model 4 is aimed at encouraging and facilitating private forestry companies and timber using industries to become certified by independent international bodies such as FSC (Forest Stewardship Council). Certification is a means of industry self-regulation as it is done on a voluntary basis and involves adopting practices and procedures that comply with internationally accepted best practices using the standard criteria and indicators for sustainable forest management, including legality criteria requiring compliance with laws and regulations in the country of harvest and trade. As certification is done by an independent body such as FSC, law enforcement by the forest administration is less critical and is therefore a good strategy in Uganda where public forestry administration is weak.

The institutions responsible for governance of the timber trade are at present and public confidence in their ability to improve governance in the forestry sector is low. Although institutional capacity building is not listed among the FLEGT models recommended by this study, it is considered an essential step in improving FLEGT in Uganda as the institutions have a key role in implementing or supporting a number of the models listed. FSSD must take the lead in revising the systems and designing an improved Chain of Custody system. FSSD must also play a lead role in advising the Public Procurement and Disposal Authority on measures to exclude illegal timber in public procurement regulations. FSSD is also responsible for coordinating resource information collection and updating, even if the actual tasks involved are undertaken by the NFA Biomass Unit or by other agencies or contractors. FSSD also has a role in increasing transparency by making information more available on the timber trade and in facilitating and supporting the implementation of the other FLEGT models on support to timber traders associations, community and private forest owners associations, certification of timber producers and manufacturers and in law enforcement. As FSSD has a key role in implementation of all these models, capacity building of FSSD is essential to enable it to perform its functions in ensuring these models are implemented. Capacity development of FSSD could be supported as a separate model or could be implemented as a component of each of the models.

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8. ANNEXES

Annex 1. Ministerial Public Notice of 2004, describing procedures for harvesting and sale of timber

The system and procedure for marketing logs and timber as described in the Public Notice issued by the Ministry in 2004 are as follows:

- 1) The main instruments of the monitoring system are documentation accompanied by corresponding stamp marks on the forest produce. The documents and stamps shall enable the Forest produce Monitoring Unit (of NFA) to objectively certify chain of custody and legality of the source. The instruments shall be managed through a short chain procedure that has systemic drivers aiming to minimise the transaction costs.
- 2) One key feature of the system is that all harvesting of forest produce is to be carried out under license, issued by a respective responsible body, and volume, weight and length shall be the standard units of measure.
- 3) Three types of hammer stamps will be used namely:
 - a. The log hammer (numbered 0-9)
 - b. Timber hammer (0-9 but smaller)
 - c. The district “seal” (with district code number).
- 4) The basic principle is that no forest produce should be moved from any area to any destination without having been marked with an appropriate stamp and issued with corresponding documents by an “authorized person”
- 5) The following is required in the case of logs and timber:
 - i. All logs must be stamped with the same number appearing on the stump before leaving the stump and individual logs from one tree should in addition bear serial numbers which should all be recorded on the LOG VOLUME MEASUREMENT SHEET before being removed. This does not apply to CFR plantations except if logs are being transported.
 - ii. All timber shall be stamped with the relevant code area of origin before being transported. The stamp marks must face outward when loading for fast/easy checking. Any piece seen unmarked will be confiscated. Upon marking a forest produce declaration form (FPDF) shall be issued.
 - iii. All timber leaving a district shall have the district “seal” stamped on before leaving that district. A “forest produce movement Permit” shall be issued after stamping with the seal.
 - iv. Operators in CFRs do not need a Forest Produce Movement Permit except they will pay a UGX 10,000 “administration fee” for each load of produce to the Chief Finance Officer of the respective District
 - v. Any individual or organisation engaged in forest harvesting should have a licence issued by the responsible body, payment receipts of all statutory and other dues, and should acquire a FPDF before transporting the produce from area of conversion.
 - vi. All pit sawyers in LFRs, former public lands, and private forests, shall pay annual license fee of UGX 350,000 to the Chief Finance Officer of the District of operations. A 15% “equalisation” levy of the value of the finished produce shall also be paid in addition, unless the operator is a registered VAT collector
 - vii. Before timber is marked by the field staff all the relevant documents must be made available in their entirety
 - viii. Chain-sawn timber is contraband and will be confiscated at site, together with the power saw, and any vehicles used for transportation. This is in addition to heavy fines and prosecution.
 - ix. District forest officers at the nearest point of entry will clear all imported timber provided all the normal payments and documentary evidence relating thereto from the country of origin, URA and imported licenses are presented and copies deposited with the District Forest Office. A Forest Products Movement permit will be purchased for the timber.
- 6) All unmarked and undocumented forest produce shall be confiscated and forfeited by the “owner”. It is a primary responsibility of the “owner” to ensure that the produce is marked appropriately before it is moved

- 7) Copies of the relevant documents should always accompany any timber transiting through any part of Uganda

Other pertinent issues. All those intending to undertake forest harvesting in Local Forest Reserves should approach the respective CAO, FID (now FSSD) or NFA for guidance on how to acquire licenses.

Annex 2. Timber species

Trade name	Species name	Timber notes
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
Musizi	Maesopsis emenii	
Kirundu	Antiaris toxicaria, A.africana	
Mululu, White star apple, Muhambulya	Chrysophyllum albidum	Also known as Nkalati
Musanda, Namukago	Funtumia africana	
Musambya	Markhamia platycalyx	
Nkuzanyana	Blighia unijugata	
Mvule, Mvule, Iroko	Milicia excelsa	
Linzo, Acajou, Mahogany	Khaya anthotheca	
Mulingati	Cordia abyssinica	Favoured for boat making in Bundibugyo
Mpewere	Piptadeniastrum africanum	Newtonia buchananii is sometimes referred to as Mpewere but is also known as Muchenche
Lufugo	Celtis spp	

MARKET SIZE

369,000 m³ of sawn wood per year worth UGX 101 billion (or \$42 million). 360,000 m³ is produced in Uganda and the balance of 9,000m³ is imported.

EXTENT OF ILLEGAL TRADE

80% or an equivalent of 288,000m³ of sawn wood (timber) traded is illegal. The main commercial species are Eucalyptus and Kirundu (*Antiaris* spp)



LOSSES

- Revenue: Uganda loses UGX 23 billion (\$ 9.8 million) annually through uncollected fees and taxes on timber
- Acreage: Equivalent to felling 5,600 ha of plantations or 57,600 ha of natural forest annually.

RECOMMENDATIONS

- Revise systems, processes and regulations for harvesting and trade in timber
- Work through procurement systems to curb illegal timber trade
- Generate information on the timber resources and increase transparency.
- Encourage Government, private companies and timber industries to become certified



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