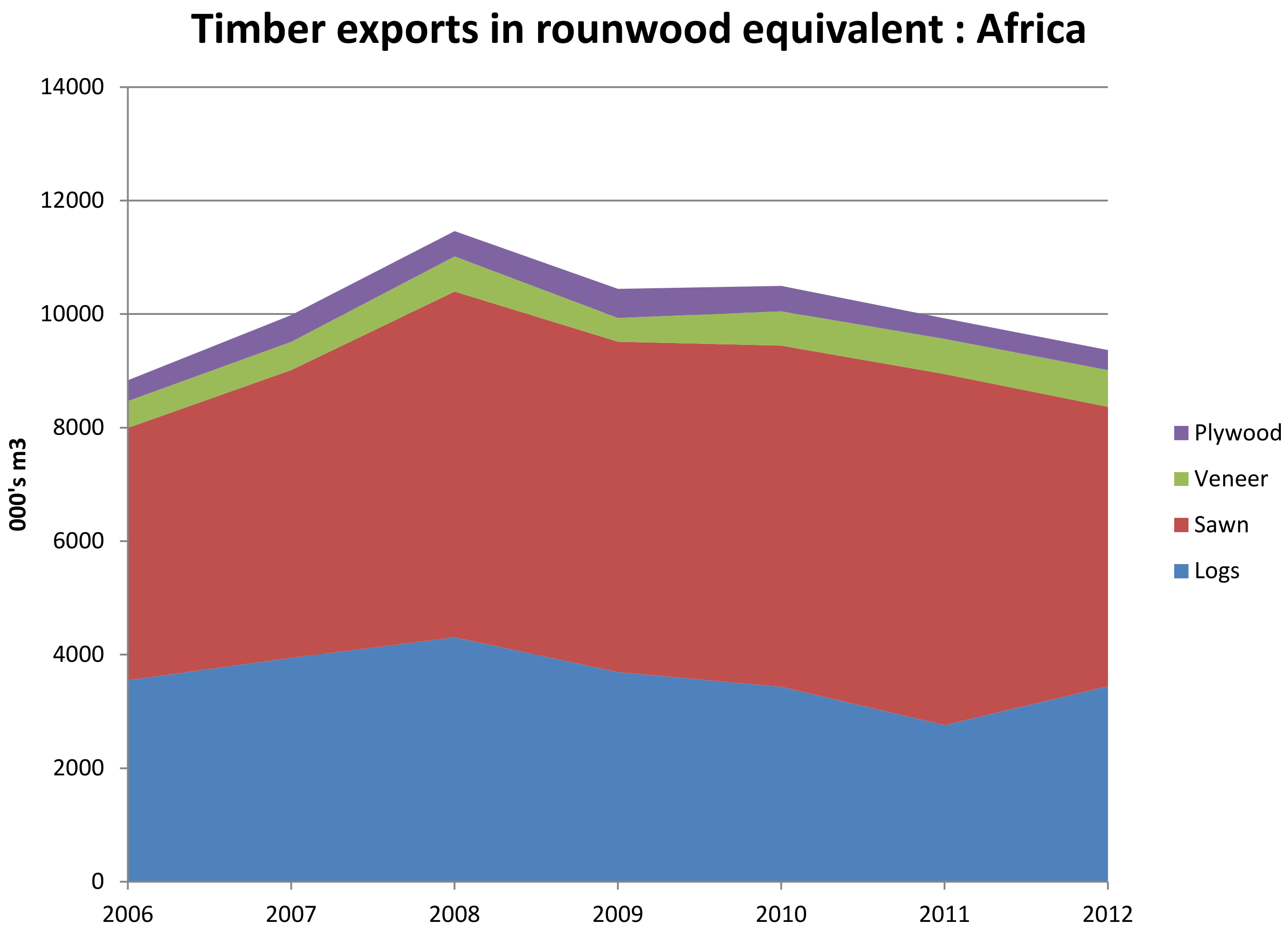
Trends for investments, industry and trade

Alain Karsenty

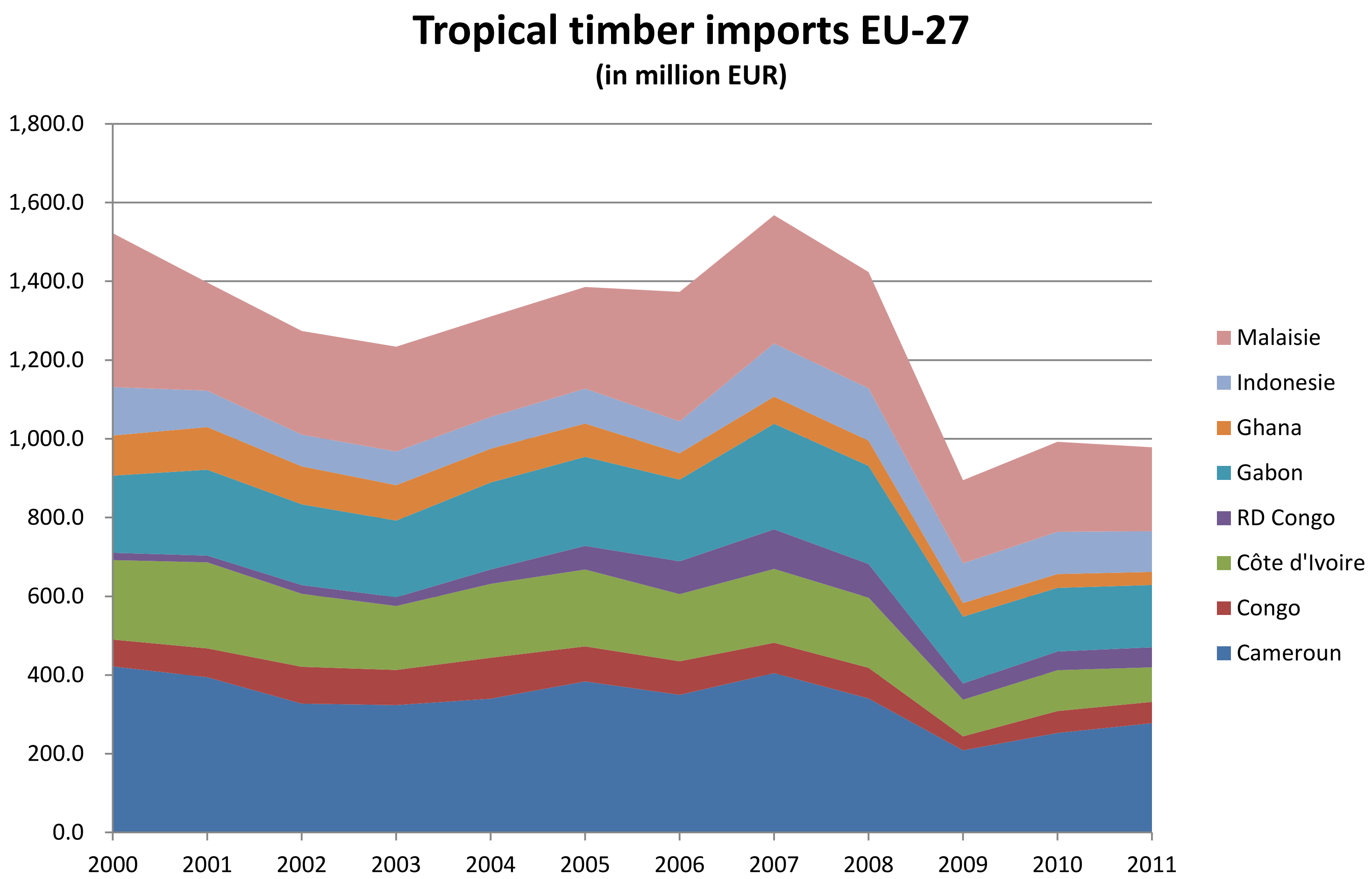
Key trends

- Continuous contraction of the formal timber sector
- Timber prices fairly good at the moment, but might reverse with languishing EU economy and signs of downturn in housing sector in China
- Rise of domestic, generally informal, timber activities
- Charcoal consumption increase with growing population, leading to deforestation crowns around cities – even in Central Africa
- New interest in land for palm oil, soybean, sugar cane, rubber, by foreign large-scale investors but also by national investors on medium-scale
- Small but significant investment in firewood plantations
- Extractive industries causing more acute pressure on forests

Timber contraction



New trend in international timber trade: Europe consume around 10% only of the timber trade against 25% in 2007

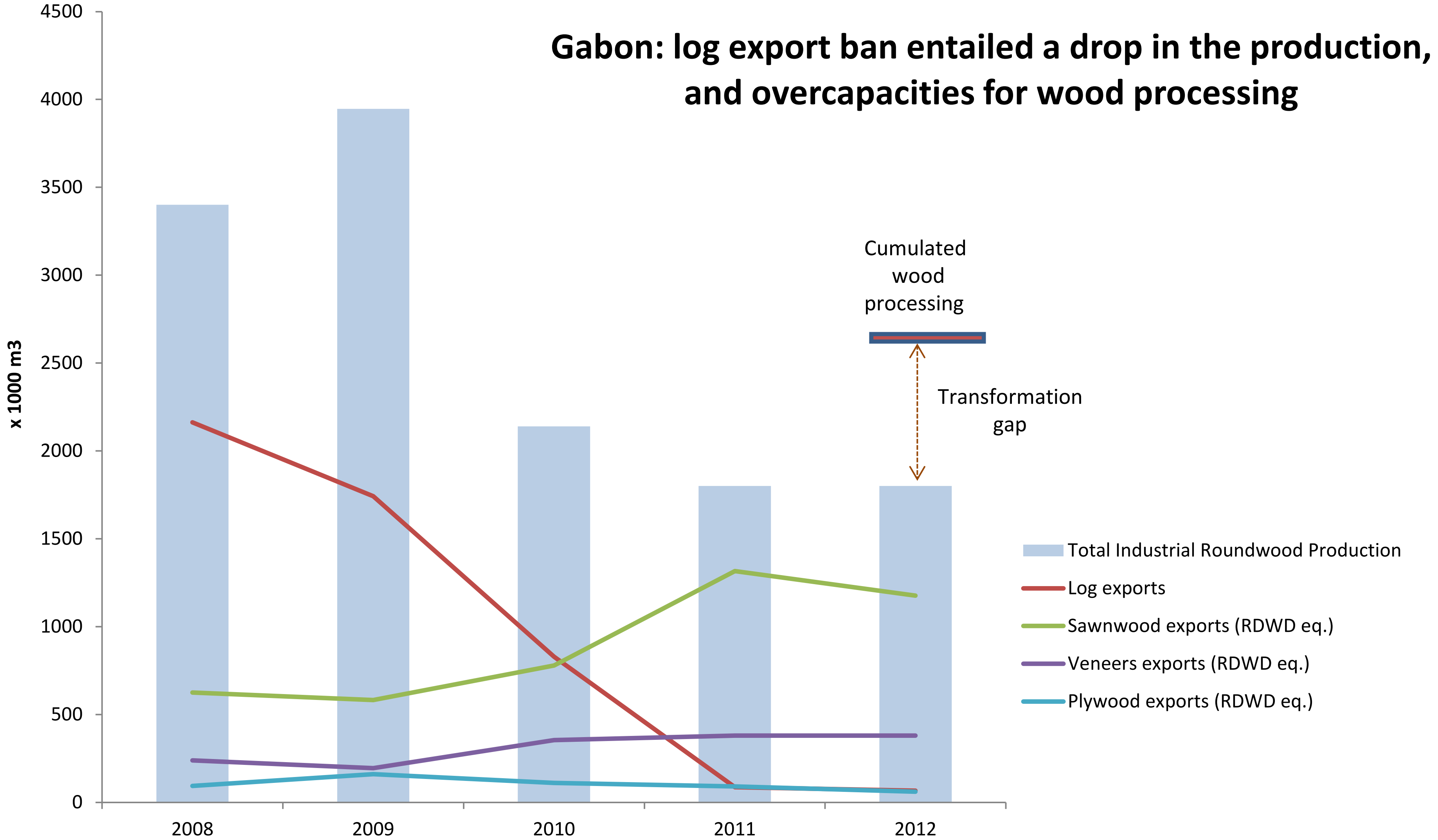


Decline likely to continue, due partly to EUTR

Changing actors in the timber sector

- Decline of the share of the EU companies
- FSC certification relatively important (4.5 million ha) but not progressing: insufficient premium prices, strengthening of FSC rules dissuading potential movers, decline of EU markets.
- Management plans implemented unevenly, with potential abandon of many players who have not respected the rotation constraints
- Decline in top quality logs availability in Central Africa
- Forest exploitation hardly a profitable activity for law compliers
  - Major players withdrew from timber sector (Olam in Gabon, Danzer in the DRC – who’s next?)

The impact of log export ban in Gabon



Concentration (center) and fragmentation (periphery)

- Contraction of the economic rents, “resource transition” and more demanding legal and commercial standards lead to restructuring and concentration
  - Such a shift favors companies positioned on emerging markets
  - Log export ban (Gabon) fosters concentration and disappearance of small and medium scale concessionaires/players.
- Evolution of the relative prices and the low purchase power of the local consumers discourages the industry to supply the domestic markets
- The informal sector (chainsaw lumber, small scale mobile enterprises) fills this gap, especially in most populated countries (Ghana, Côte d’Ivoire, DRC, Cameroon) and/or in post-crisis (Liberia)
- Development of a dualistic sector, yet with connections…

The progressive decline of the concession system

- The end of the “forest rent” linked to the completion of the first felling cycle is now tangible in Central Africa
- Prices long term perspective not really encouraging (change in technologies not favorable to tropical species, huge volume from plantations in temperate and emerging countries…)
- Escalating costs, reputational risks and growing land needs by rural populations will push companies to disengage from logging operations
  - Strategies of (vertical) “disintegration” already practiced by SE Asian companies with their myriad of “contractors”
  - “Community forests” and local African enterprises to be the contractors to supply the industry?

Lands in globalization

- Some countries looking for food security (Arabic Gulf, Korea, China, India, Egypt...) since they understand food markets are not sufficient to guarantee this (2008 crisis)
- Speculation: annual loss of arable lands of +0.5% per year at world level.
- Land is becoming a scarce resource in a context of growing food (and non food land production, such as fibres) demand
- Investors looking for « real assets » since the current period of growth is made of successive booms and busts
- Massive savings funds looking for inflation-protected and recurrent revenues
- Looking for lands suitable for biofuels (jatropha, oil palm, sugar can…)

Agrarian neo-colonialism or raise of domestic capitalism?

- **Most of the land acquisition are domestic-driven** (78% in Sudan, 53% in Mozambique, 49% in Ethiopia) (World Bank report 2009)
- However, the content of the rights actually transferred is often subject to different interpretations and claims…
  - **« Incomplete contracts » (all land uses not explicitly stated in the deal) lead to « incomplete commodification » of land, ending into insecure tenure (not only a matter of cadastre…)**

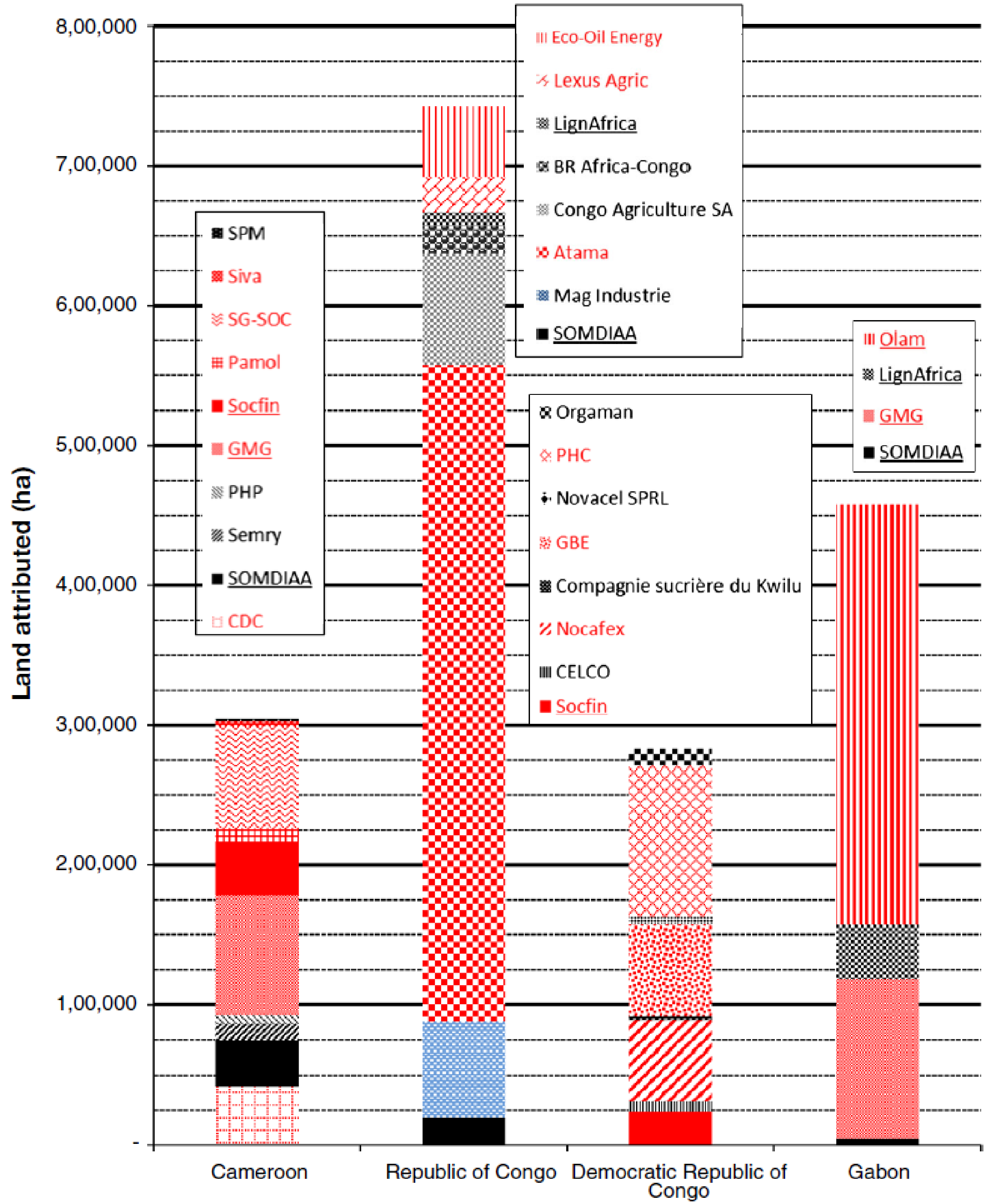
Specific risks related to forests

- **Relatively unlikely that commercial pressures on non forested lands end in large-scale displacement of farmers**
- Investors most likely **to use contractual farming solutions** (*out-growing schemes*)
  - May help investments into small-scale farming systems
  - But high transaction costs!
- The so-called « degraded forests » are attractive for investors. Two qualities :
  - Often scarcely populated, with farming practices often based on temporary tenure (shifting cultivation, hunting, gathering)
  - The presumption of public estate (« domanialité »), common in legislations, gives some leeway to governments to allocate lands to investors without consultations and constraints

Ecosystem services rendered by “degraded forests”

- Degraded forests are ecosystems in regeneration, meaning active carbon sinks and harbours more biodiversity than plantations
- Definition of “degraded forests” can be blurred and investors usually plays with it
- The Roundtable on Sustainable Palm Oil (RSPO), a body that sets environmental standards for palm oil production, has confirmed that secondary and degraded forests can classified as High Conservation Value (HCV) areas
- But not RSPO does not mean “zero deforestation” all companies goes for RSPO

State of new ago-industrial plantations in 4 countries of Central Africa
(L. Feintrenie, 2014 in *Biodiv. Cons.)*



Will large-scale plantations lead to an explosion of deforestation in Central Africa?

- Several observers expect a huge development of industrial plantations
- This is the scenario retained by McKinsey (REDD+ strategy), foreseeing up to 2 millions hectares of forests turned into oil palm before 2030
- Eric Tollens' scepticism:
  - Bad investment climate and very weak state of infrastructures are limiting factors that result in lack of competitiveness for these production in most of Congo Basin's countries, but perhaps Cameroon
  - The land tenure issue is also a compounding difficulty for developing large-scale plantations
  - "Dutch disease" phenomenon (growth under the dependence of extractive industries) which will lead to an increase of food imports and inflation hampering competitiveness.
  - The recent law passed in the DRC on the capital ownership of farming companies could hamper further investment in large-scale plantations

What REDD+ baseline reference scenario?

- Land tenure insecurity have ambiguous effects on agriculture investments
  - On one hand, it is preventing *some* agriculture investments and somehow protect forest cover (but not the fauna!)
  - On the other hand, without clear forest land rights recognition, removing forest cover is the only way to claim land rights
- Very difficult to foresee what will be the future of deforestation in Central Africa
  - Obvious difficulty for the setting of the “reference scenario” (baseline) of deforestation, which is requested for “performance-based” payments in REDD+

Corporate social responsibility or land tenure reform?

- FPIC requested by international principles and labels, such as RSPO or FSC
- Certainly a significant and positive step forward, but what about implementation?
  - **Consent is often confused with information**, especially when laws are not favouring local empowerment
  - Promises (e.g. employment) may not concretize as planned
  - Ecological impacts on livelihoods not foreseen
- Need for recognition of *exclusive rights* on specific lands and resources to farmers and communities

Uncertain REDD+ agenda

- REDD+ created initially a lot of expectations in Africa
- Relative disappointment:
  - Standing forests not remunerated: only reduced deforestation under a baseline scenario could be
  - Forest management plans not designed for carbon emission reduction, and “not additional” anyway
  - Money received for studies, carbon measurement and REDD+ projects. Many governments think they have not been supported adequately
  - Gabon stepped out of the formal REDD+ process (in favor of a climate change strategy), Cameroon’s decisions on land allocation are favoring agribusiness development, DRC’ National Commission REDD produced good documents but the rule of law still very limited in the country.

Towards the end of REDD+ projects?

- Bleak perspectives for global agreement on climate change: carbon credit prices very low
- Voluntary markets (one of the only outlet for REDD+ projects) already saturated (absorption capacity around 30 million t CO2/year, cumulated REDD+ projects expected to deliver up to 100 M/year…)
- The other outlet is the FCPF, who recently decided to harden its rule on the reference level (historical deforestation + 0.1% of the stock)
- Private investors stepping out from REDD+ projects
- REDD+ projects to follow CDM fate?

From forest to land agenda?

- Forest policies subsumed in “forest related-policies” (all the public and private policies that impact forests)
- “Landscape” or “territorial” approaches express this new perception of the issue
- In Africa, three inter-related issues to address in a systemic way:
  - Ecological intensification of agriculture
  - Exclusive land rights recognition for farmers and/or communities
  - A rule of law agenda, including transparency on contracts signed by investors with the governments for controlling lands – “Publish what you sign!”