The 2008-2009 timber sector crisis in Africa and some lessons for the forest taxation regime

A. KARSENTY, N. BAYOL, P. CERUTTI, D. EZZINE DE BLAS, AND E. FORNI

SUMMARY

The 2008-2009 economic crisis has hit severely the African timber sector, with a brutal collapse of the foreign demand. Overall, the impact has been of around the loss of one-third of export and production. Companies have been unable to pay the fixed costs represented by the area tax, and this last has been suspended in several countries, notably in Cameroon. The brutality of the crisis has highlighted the absence of automatic correctors embodied in the fiscal system itself. A first, even though insufficient, answer could be to index the area fee to a nation-representative bundle of timber species FOB values. The absence of organisations such as the World Bank in the dialogue between the governments and the private sector is striking, given their past involvement in the forests fiscal reforms in central Africa. The current focus given on REDD, seen by many as an instrument for entering in a post-logging time could explain this passivity. Large FSC-certified companies announced their intention to sell out their concessions in Congo and Gabon. This could prefigure a new picture with various types of small logging enterprises filling the vacuum left by formal industry and some FSC-certified concessionaires replaced by large but less environmentally responsible companies.

Keywords: forest taxation, concessions, economic crisis, REDD, tropical timber market

La crise du secteur forestier en Afrique en 2008-2009 et ses enseignements possibles pour le régime de fiscalité forestière

A. KARSENTY, N. BAYOL, P. CERUTTI, D. EZZINE DE BLAS, et E. FORNI

La crise économique de 2008-2009 a eu un impact sévère sur les filières de bois d’œuvre africaines, qui ont dû faire face à une chute brutale de la demande étrangère. Globalement, on peut en estimer l’impact à une perte d’environ un tiers de l’exportation et de la production. Les entreprises n’ont plus été en mesure de payer les charges fixes que représentent les redevances indexées sur la superficie, et ces dernières ont été suspendues dans plusieurs pays, comme le Cameroun. La brutalité de la crise a souligné l’absence de correcteurs automatiques au sein des systèmes de fiscalité forestière. Une première réponse, bien qu’insuffisante, serait d’indexer la redevance de superficie sur un « panier » de prix FOB des essences représentatives de la production et des exportations de chaque pays. L’absence d’institutions telles que la Banque Mondiale, dans le dialogue entre les gouvernements et le secteur privé sur les mesures à prendre a été saisissante, étant donné leur implication passée dans les réformes fiscales forestières en Afrique centrale. Le fait que, dans le monde forestier, l’accent soit mis actuellement sur la REDD, qui est perçue par beaucoup comme l’instrument d’une entrée dans une ère post-exploitation, pourrait expliquer cette passivité. De grandes compagnies certifiées FSC ont annoncé leur intention de vendre leurs concessions au Gabon et au Congo. Ceci pourrait préfigurer un nouveau paysage, avec le développement de différentes formes de petites entreprises venant remplir le vide laissé par l’industrie formelle, ainsi que le remplacement de concessionnaires certifiés FSC par de grandes compagnies moins responsables du point de vue environnemental.

La crisis del sector maderero africano de 2008-2009: lecciones en cuanto al régimen fiscal forestal

A. KARSENTY, N. BAYOL, P. CERUTTI, D. EZZINE DE BLAS y E. FORNI

La crisis económica de los años 2008-2009 ha afectado gravemente al sector maderero africano, ya que la demanda exterior ha caído de forma contundente. El impacto global ha significado la pérdida de la tercera parte de las exportaciones y de la producción. Las empresas no han podido pagar los costes fijos que representa el impuesto local (area fee, o AF), y este ha sido suspendido en varios países, en particular
From the second half of 2008, the African timber market, like those of other tropical timber-exporting countries, began experiencing a crisis of exceptional magnitude. Market players were hoping against hope until after the summer break, but from the last quarter of 2008 they realised the full extent of the crisis and stopped buying goods. The market all but vanished. First, prices were very difficult to ascertain, then plunged sharply, dropping between 15% and 30% over a few weeks. Sapele (Entandrophragma cylindricum) lumber price lost between 25% and 30% in a couple of weeks. The collapse of the housing market in Southern Europe and the United Kingdom and the marked drop in construction start-ups in France sent a red signal to timber buyers who stopped placing orders. The priority of buyers has been to de-stock, and such a situation lasted until the spring of 2009, when some European buyers gradually resumed their purchase of African timber.

Chinese consumption, which had seemed capable of propping up the market until mid-2008, gave way as well until April-May 2009 when the flow of orders from Asian buyers (including India) stabilized, although at an insufficient level to pull the sector out of its crisis. This downturn was caused by the slowdown of growth in China and the drop in Chinese re-exports of timber processed from raw timber and imported sawn timber. The crisis did not affect all types of wood and all markets in the same way. The price of timber intended for hydraulic use in the Netherlands has been more resilient and species such as ayous (Triplochiton scleroxylon) and okoumé (Aucoumea klaineana) are less affected than red timber species such as sapele (Entandrophragma cylindricum) and sipo (Entandrophragma utile). Some species sought by Asian markets, such as padouk (Pterocarpus soyauxii) and belli (Paraberlinia bifoliolata), have also shown good resistance. For countries such as Congo-Brazzaville or the Central African Republic which rely mostly on exports of few species of red wood, and which support high transportation costs, the situation has become critical.

The exports of wood products fell dramatically. In Cameroon, the difference in volume between the first quarter 2009 and the first quarter 2008 was -42%. In CAR between 2008 and 2009, the log production volume decreased by 40% and the sawn timber by 17%. According to observers, this figure of -30 to -40% of exported volume reflects roughly the situation in Central African countries which still export most of their timber to Europe, the exceptions being Gabon – which exports roughly 50% of its timber (roundwood equivalent) to Europe plus the USA – and Equatorial Guinea, which exports most of its log production toward China.

The impact is also important for the Central African governments, with a significant decrease in the forest tax revenues, by 48% for instance in CAR from 2008 to 2009.

Although most large industrial companies work primarily for export markets, some companies also have some market share in the domestic market, the latter acting as a buffer in this period of brutal contraction of foreign demand. One company in Congo has partially succeeded in reorienting its sales toward the urban market of Brazzaville and has thus been able to soften the impact on the crisis on its cash flow. Another one in DRC has compensated foregone markets in Europe by increasing sales in Angola. In both case, the development of a local market only slightly cushioned the impact of the crisis. Some companies in DRC (such as SOFORMA or SEDAF) traditionally earmark one part of their production for the local market, which enabled them to maintain a substantial volume of activity. Other companies tried, but without really succeeding, to develop new products resulting from further transformation timber processing.

According to some major operators, FSC certified products have better resisted the crisis but the price premium on some products of around 15% has disappeared.

**IMPACT ON EMPLOYMENT**

As a consequence of this brutal contraction of orders, logging companies have reduced their activities and, for some of them, closed down some of their logging sites and mills. In Cameroon, around 3,500 workers have been laid off, both temporary and full-time, about one third of the total employees of the formal sector. In CAR, out of 6 companies, 428 were fired and an additional 1,335 were laid off, with almost no salary. In DRC, the largest companies decided to focus only on few logging sites, the most profitable, and closing down the others. There is no information on the number of job losses in the sub-region of Central Africa; in addition to the announcements by large companies, jobs have been lost in subcontracting activities (small and medium African enterprises supplying the timber industry) and those lost in road transportation, a sector highly sensitive to the activity level in the timber sector. One can estimate roughly the total job losses due to the crisis in the timber sector around 25,000 - 30,000 at least for Central African
countries. One of the main questions is to know how many of these are lost only on a temporary basis and how many are lost permanently. In Cameroon, recovery seems faster compare to Congo, and many workers are now reemployed in the factories.

There is little news about the situation in West Africa. In Côte d’Ivoire, a country which exports 60% of its timber to Europe and 20% to the USA, the Ministry announced in April 2009 that 6,000 workers had been fired and an additional 6,000 were temporarily laid off, out of an estimated 15,600 workers in the formal sector.

Some companies operating in several countries decided to concentrate their operations in one country and to temporarily close their other sites. Rougier decided at the end of 2008 to stop one site in Congo (Mokabi) and another in southern Gabon, but kept the Cameroonian mills opened. Vicwood-Thany did the same, closing temporarily its CAR and Congo sites and concentrating on Cameroon. Compared to CAR and Congo, Cameroon enjoys a more diversified range of commercial species, especially species such as azobé (Lophira alata) and Okan (Cylicodiscus gabonensis) which have less suffered compared to sapele. Another reason given by the representatives of those industries in early 2009 was the relative cost of inactivity in the different countries: due to the legislation, the cost of the temporary lay-off of workers is higher in Cameroon than in CAR or Congo. And the last reason was the proportion of fixed costs embodied into the tax regime: since the area fee is set through a bidding process in Cameroon, this represents around 50% of the forest taxes to be paid per cubic meter of timber exploited and exported. The area fee should be paid whatever the activity level and is thus a hard burden for the company when markets slow down. In this respect, the current meltdown, the first of its type since the reshaping of the forests tax systems in Central Africa which have increased notably the weight of the area fee at the expense on “activity-based taxes” (felling and export taxes) could be considered has the first significant trial for the new forest tax systems in Central Africa which have never been reached at national level, and especially in the southern part of the country, and more than 50% of logs harvested in Congo are still exported). Other measures are related to payment facilities for taxes arrears and the decision to apply a rate of zero for sales of timber on the Congolese market. In DRC, the government has reduced the area tax from US$ 0.5 to 0.4 per hectare.

GOVERNMENT MEASURES

This crisis hit one the few sectors that provided industrial jobs in West and Central Africa, and especially in remote rural areas, such as Northern Congo. As the mining sector has been experiencing a similar downturn, with tens of thousands of jobs lost in the Katanga province of DRC, governments were urged to do something to sustain the forest industry and limit the destruction of jobs at a large scale. Since those governments are unable to inject cash directly in the industry, one of the few possibilities to support the companies was to lower or suspend taxes, on one hand, and adopt measures likely to limit export losses, such as being more flexible for log exports, on the other.

By the end of 2008, the industry prepared memoranda recalling both the usual requests regarding alleviation of tax burdens, but also other ones regarding area fees. The ministries in charge of finances were reluctant to allow for tax cuts in an already tense situation in terms of fiscal revenues after the cut on food imports tariffs decided on some months ago, in response to troubles in Cameroon subsequent to food price escalation. But it turned out rapidly that many companies unable to sell timber would simply be unable to pay the taxes too. Such a situation became clear in Cameroon when companies were requested in March 2009 to pay the first quarter of the annual area fee: they simply decided not to pay. The ministries in charge of forests have been pushing for temporary alleviation of the fiscal burden on companies, and this time they have been allied with the private sector representatives and proved to be somehow successful in their lobby, at least in some countries such as Cameroon.

- In February 2009, the Government of Congo (Brazzaville) passed a package of measures. Among others, the government has allowed the companies to pay a reduced rate of VAT for the gasoil imported from Cameroon by the companies operating in the North of the country. Another decision is the relaxation of the 15% quota of log exports which is imposed to every company: the new quota is 30%. (It should be noticed however that the 15% cap has never been reached at national level, and especially in the southern part of the country, and more than 50% of logs harvested in Congo are still exported). Other measures are related to payment facilities for taxes arrears and the decision to apply a rate of zero for sales of timber on the Congolese market. In DRC, the government has reduced the area tax from US$ 0.5 to 0.4 per hectare.
- In Gabon, the government lowered by 30 % the FOB price against which felling and export taxes are paid and take technical measures to shorten notably the refund of VAT to the exporting companies.
- In CAR, the government was considering lowering the export and felling taxes and have allowed for delays in the payment of the area tax.
- It is in Cameroon that measures have been most significant. In this country, the critical point was the annual area fee, which is set in average at € 4 to 4.5 per hectare. In June 2009, the government accepted to modify the area fee at least for 2009. In this country, the area fee revenues are shared between the Public Treasury (50%), the local councils on which the exploitation is taking place (40%) and the local communities surrounding the concessions (10%). The government decided to cut by half the Public Treasury’s share, by 40% that of the local councils and 10% that of local communities. Later in 2009, the Government also enacted a redistribution fund, further reducing the percent of area fee reaching local councils to 20%. It should also be mentioned, however, that the Government auctioned about 60 sales of standing volumes in 2009, trying to increase the amount of area fee collected. Some additional
measures such as allowing more log exports have been taken, even on so-called “traditional species” such as sapele which are normally prohibited for being exported as logs. Such an exception regime has been closed in 2010, with the return to a better market situation.

FIRST LESSONS FROM A SEVERE CRISIS

Taxation

The brutality of the crisis has highlighted the absence of automatic correctors embodied in the fiscal system itself. The fiscal FOB values (mercuriales) are supposed to be correlated to the international market trends. In fact, due to the weakness of the national administration and the absence of comprehensive international databases, the mercuriales are often disconnected from market prices changes and are mere administrative prices. When a crisis occurs, governments are slow to react, or they decide sudden cuts are mere administrative prices. When a crisis occurs, governments are slow to react, or they decide sudden cuts are mere administrative prices.

Gabon, the crisis and the log export ban

The crisis hit the Gabonese’s timber sector as well as in other countries. By the end of 2008, the country was expecting in 2009 a drop of log exports of 200,000 m3 compared to 2008 (which was already down from 2007). But the decision announced by the new government (Ali Bongo was elected after a contested ballot) in October 2008 to phase out all the log exports in 2010, has changed significantly the exporters’ behaviour. As far as it became clear through the end of the year that the government will effectively enforce the log export ban in 2010, it triggered an unprecedented rush to export the logs stored, whatever the price. As a result, December hit records of exports, with 360,000 m3 tentatively exported (the previous record for a single month was 250-280,000 m3) to be carried by 27 vessels. The SEPBG (the private company granted with logs carrying monopoly) loaded until December 31, then all log exports were been stopped. According to news gathered early in 2010, up to 150,000 m3 planned for being exported had been blocked in the port and some vessels returned back without their expected cargo.

are often disconnected from market prices changes and are mere administrative prices. When a crisis occurs, governments are slow to react, or they decide sudden cuts in the mercuriales which are not informed by objective and precise data. In recent years, the international community budgeted millions of euros on FLEG (Forest Law Enforcement and Governance) processes in Africa, in a bid to prevent the export of illegal timber. Most of that money will go for improving or establishing national traceability systems, as well as to monitor and verify the latter. Very few resources, however, have been allocated for countries to acquire precise and updated information on FOB prices of timber, which could as well improve transparency and the overall functioning of the sector.

As could be foreseen, the area fee, especially when it is high (because it was set up through competitive bidding), became an unbearable fixed charge when demand abruptly contracted and prices decreased. Since some countries beyond Cameroon (Gabon, DRC, and Congo) have decided or are considering introducing competitive bidding processes to set the area fee, it is necessary to fine-tune the way this royalty is administered. A first answer could be to index the area fee to a nation-representative bundle of timber species FOB values – which supposes precise and real-time information on FOB prices, as underlined above. Even without getting such comprehensive information, it would be easy for administrations to use the bi-monthly Market Information Service note of the ITTO which provides a price list of most popular commercial species used in West and Central Africa. Yet admittedly, with a crisis of high magnitude, such as the current one characterised by the abrupt disappearance of orders for timber, such “automatic stabilisers” would probably be not sufficient and exceptional political decisions would still be necessary. This supposes a better culture of dialogue between the government and the private sector, which could be facilitated by the institution of a kind of ombudsman.

The reactions of the governments have been national-based, delayed and probably insufficient to attenuate the negative effects of the crisis on the employment. The COMIFAC (Forestry Commission for Central Africa) did call a regional Ministerial meeting at the onset of the crisis to discuss its effects, but it does not yet have the power to cover a relevant role in promoting and harmonising a regional concerted effort to tackle the crisis. Yet COMIFAC has included among its major objectives a sub-regional “plan of convergence for forestry taxation” and several studies for implementing it have been funded by international partners. This weak regionally-concerted reaction confirms the fact that, in spite of the existence of several institutions which have the mandate to promote regional economic integration (such as UDEAC) and the presence of dedicated sectoral structures including COMIFAC, forest taxation, along with other fiscal issues, firmly remains in the hands of national governments, and will likely remain so for many years to come.

Seeing a “post-logging” time?

Also, international donors, notably the World Bank and other multi- and bi-lateral cooperation structures, have not been involved in negotiations between governments and national representations of the private sector. This is perhaps witness to the fact that donors have shifted away from “old topics” such as forest sector development and taxation to more appealing “new instruments” such as REDD (Reducing Emissions from Deforestation and forest Degradation) and Payments for Ecosystem Services, which are sometimes associated with “post-logging” times.

Several NGOs have also seen this crisis as an opportunity for the end of the forest concession model. The director of one Cameroonian NGO, for instance, declared that “Considering how the sector is managed, the end of the activity is unavoidable sooner or later. The sooner will
be the better as the forest is not depleted yet". However, recent data (beginning of 2010 which overlaps in several forested areas with the dry season, when forestry activities are more active) seem to indicate that, despite its gravity, the crisis did not spell the end of the tropical timber industry: although negatively affected, the international market has not disappeared, especially in non-Western countries, and recovery seems to be on its way. On the one hand, it will likely be a smaller industrial sector, with fewer formal players employing fewer workers, and with more informal business supplying domestic and regional markets. On the other hand, there will likely be an erosion of the position of Western companies in favour of Asian ones: for instance, in Gabon, Leroy-Gabon (once French, then Portuguese) has been taken over by Chinese interests during the first quarter of 2009. At the exception of those having invested in certification and added-value production for high-demanding foreign markets, several companies are desperately looking for selling their business to new investors and some others, such as ITBL in Congo, have already abandoned their concessions. The most striking case is the one of the CIB (Congolaise Industrielle du Bois) in Northern Congo. This large FSC-certified company (concession encompassing more than one million hectares) is well known for its social achievements. Initially French, than German (from 1968) and taken over by the Danish DLH in 2006, CIB is to be sold, after having fired 650 out of 1600 employees (and 50% of the foreign staff). DLH has faced large financial losses and wants to refocus its activity on trading. The other timber company controlled by DLH in the sub-region, GIB-CIB and CFA (Compagnie Forestière des Abeilles) in Gabon, are also for sale. Given the current difficult financial condition of other large Western companies, one can guess that the buyer is likely to be an actor from an emerging country. The duality of the sector, thus, will likely be accentuated, with a growing divide between companies with certified concessions or on the way to reach certification, and another group not interested in the improvements in forest management brought about by forest certification and oriented toward less-demanding markets (notably Asia). As a consequence, smaller structures engaged in forestry operations – such as “community forests”, whether genuinely community-driven or not – if decisively heading towards improved forest management and certification, will have more chances to get a larger share of the timber sector, especially by covering the vacuum left by formal companies which did not survive the crisis or that were unable to cope with new market requirements (certification, added-value productions). However, conditions enabling a real development of sustainable timber production by the local communities in most African countries remain to be achieved.

The crisis underlined the significant risk for forest sector

companies to rely on a reduced number of species, of markets, of products for their activity. Some tried, but probably too late and in difficult market conditions to diversify their activity and innovate. This emerging new course, still at preliminary stage, could (if confirmed), enhance the potential resistance of companies to new crises.

Good or bad news?

It is not clear whether all of this is good news for African forests. From crisis can emerge innovation and new paradigms, but it is hard to see how progress can emerge from impoverished, if not distressed economies. West and Central Africa have few formal industries able to provide stable salaries and careers to workers, and to generate fiscal revenues in countries with only a handful of tax payers, whether citizens or companies. It is hoped that a reversal to such a situation will happen soon, to increase the chances of sustainable development in the region. Will the REDD mechanism, if implemented, change inherently this picture? Whatever the response, the timber sector here is likely to stay for some time to come and will remain for the foreseeable future a driving economic force impacting the fate of forests. Reinforcing and improving its regulation is still a critical task and there is a bundle of legal and economic instruments that can help for orienting the industry toward the sustainability. Bypassing this task would be a risky bet.

1. « Vu comment le secteur est géré, l’arrêt de l’activité est inéluctable à terme. Autant que cela se produise aujourd’hui, que la forêt n’est pas épuisée », Samuel Nguiffo quoted in Jeune Afrique « Panique dans la filière bois » (by P. Sandouly and A. Labey, 20/04/2009, retrieved May 23, 2009 on www.jeuneafrique.com