

CHAPTER 9

2008-2009 ECONOMIC CRISIS AND ITS IMPACT ON THE FORESTRY SECTOR IN CENTRAL AFRICA

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Introduction: an unprecedented crisis

The profitability of the timber export industry in Central Africa varies in accordance with market conditions for international tropical timber, monetary parity, fuel prices and taxation. Tropical timber is not prone to the big price fluctuations that affect such raw materials as petrol or minerals. This is because there is the possibility for substitution between species, with temperate wood and with other building materials. The sector has undergone crises in the past because of

economic slowdown in consumer countries, but the 2008-2009 crisis was particularly severe and has left traces that will take time to heal. The crisis will undoubtedly have accelerated a movement for change in the forestry sector. It is still too early to judge whether it will stop or simply delay the slow but sure move towards improving management practices that has been seen in Central Africa over the last decade.

Impact of the crisis on Central Africa

Sharp decline in demand and fall in exports

Such a sharp decline in demand has not happened for a very long time. Since the last quarter of 2008, market players who held out hope until September 2008, realized the scale of the crisis and stopped buying. The market practically ran dry and prices then fell. The fall in prices did not however fully reflect the reality of the market.

The crisis probably caused global trade in tropical timber to decline by about a third.

This figure is just an average estimation, and some segments were more affected than others.

Photo 9.1: Meliaceae logs waiting to be shipped down the river



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Photo 9.2: Aerial view of the Mokabi S.A. logging company in the Republic of Congo

Impact on prices

Prices were first difficult to fix and then fell sharply, with 15-30 % decreases over the course of a few weeks in the second half of 2008. The price for African logs fell in December of the same year. There was a smaller decline in the price of sawnwood, although sapelli from Central Africa lost between 25-30 % of its value. The crisis did not affect all species and all markets in the same way: the price of timber used for hydraulic purposes in the Netherlands, such as azobé and tali, was more resistant, and white timber (such as ayous, limba and okoumé) was not as affected as red wood (i.e. *Meliaceae*). The collapse in the housing market in the south of Europe and in Great Britain and the significant decline in the number of new building projects in France explain the differences: fewer doors, windows, interior decoration for flats means less need for red-colored timber.

Chinese purchases, which appeared to be able to sustain the market until mid-2008, also receded due to slow growth in China and a decrease in re-exportations of processed timber from imported logs and sawnwood. EU countries registered a fall in tropical timber imports of over 40 % in one year (2008-2009) and log entries were five times less. China, the most important global buyer of tropical timber, saw imports fall by a relatively low 16 % in the first half-year of 2009, preventing an even worse decline in the global market. Collapse in European demand, led by Great Britain and Spain, affected all producing countries, but particularly Africa, where many operating sites and processing plants closed down, at least temporarily, resulting in millions of people being made redundant.

Prices continued to fall in 2009 although less than in 2008, when stocks had to be sold. Drops of between 5-15 % were registered depending upon the type of species and products. Reduced demand meant that loggers curbed their activities and trees remained intact. Offer and demand were consequently fairly balanced, but at very low prices. The prices of African sawnwood and plywood fell noticeably.

Okoumé logs, which are mostly exported by Gabon, are an exception to the generalities presented above. With no decline in demand from China, India and Vietnam, prices remained constant.

The reaction of companies and the impact on employment

Forest companies very quickly curbed their activities and some had to close down their operating sites and processing plants. Other companies, that had very little stock at the beginning of the crisis, continued their logging activities for a while to take advantage of the dry season. In Cameroon, up to 3,500 employees, which is a quarter of the staff in the timber sector (including transport), were laid off. In Central African Republic (CAR), of the six companies with concessions, 428 employees were made

redundant and 1,335 were temporarily laid off. In the Democratic Republic of Congo (DRC), the largest companies, which usually have several concessions, decided to concentrate on their most profitable sites and close the others. In the Republic of Congo, large companies affiliated to international groups with FSC certification, such as CIB (*Congolaise industrielle des Bois*) and IFO (*Industrie forestière de Ouesso*), made hundreds of employees redundant or dismissed them temporarily. According to the January 2010 edition

of “*Les Dépêches de Brazzaville*”, 665 of a total of 1,500 CIB staff were dismissed at the end of 2009 of whom 50 % were expatriates. In DRC, of the 9,365 employees working for the 15 companies belonging to the Industrial Professional Association 2,377 employees were dismissed. In addition, 1,300 employees were laid off temporarily. In 2010, PARCAFRIQUE, which was in a judicially parlous state before the crisis, closed its doors leaving 720 staff unemployed and bringing the total number of jobs terminated during the crisis to approximately 3,000.

Without a detailed study, there is no precise information on the number of people who were dismissed or laid off in the sub-region as a result of the 2008-2009 crisis (which continued till mid-2010). The rough estimation that exists holds the crisis directly responsible for the permanent or temporary loss of 25 to 30,000 jobs including dismissals of staff working in the transport sector, which was affected by reductions in timber transportation.

Potential effects on wildlife

Although exact studies are not available on this subject, it can be presumed that this crisis had an indirect impact on pressure exerted on wildlife in forest areas. Temporary unemployment measures or dismissals in the concessions inevitably lead workers who have been laid off and deprived

of all or part of their incomes, to seek other means of subsistence or exchange. Hunting, therefore, probably increased around concessions that had to resort to unemployment measures or dismiss their staff.

However, from mid-2010, orders started to come in again and some companies began to re-engage staff who had been dismissed. This was more pronounced in Cameroon which withstood the crisis better as it had a number of more stable commercial slots such as azobé (*Lophira alata*) and okan (*Cylicodiscus gabonensis*) timber that can be used for hydraulic purposes. Countries such as Congo and CAR, which depend more heavily on exporting sapelli, and DRC, whose log exports were halved between 2008 and 2009, suffered more (see table 2.6 and figure 2.4). Gabon also had the means to recover rapidly from the crisis, thanks to its okoumé exports, which were mostly destined for emerging nations’ markets, notably China. However, the total ban of log exports, announced on 1 January 2009 and effective from 15 May 2010, upset the sector slightly and curbed possibilities for re-employment.



Photo 9.3: A forest technician posing in front of a tali (*Erythrophleum suaveolens*)

Government response

In several countries, governments had to agree to provisional tax cuts in the timber industry. This was the case in Cameroon, Republic of Congo and CAR (box 9.1). In many African countries, most of the companies were unable to pay amounts owed and they became indebted to the fiscal administrations.

In **Cameroon**, the government decided to lower annual forestry levies (RFA) by 50 %. These levies are determined by auction and on average amount to € 4-4.5 per hectare per year. This measure, that was adopted in 2009 and tacitly extended in 2010, was taken after the government realized that most companies were unable to pay the RFA. It had important consequences for the municipalities of the forest zones that legally have the right to receive 40 % of RFA revenues, and for local communities that benefit, in principle,

from the equivalent of 10 % of these same revenues. The other important measure taken was the relaxation of the restrictive arrangements for log exports: higher quotas were accorded for ayous (*Triplochyton scleroxylon*) and authorization was given to export the so-called “traditional” species (i.e. sapelli, padouk...). Combined with the measure taken in Gabon at the beginning of 2009 to ban log exports, this led Cameroon to considerably increase its round wood exports. Between the first quarters of 2008 and 2009, there was a 20 % increase while over the same period the total amount of lumber exports dropped by 50 %. Tali (*Erythrophleum suaveolens*) and okan (*Cylicodiscus gabonensis*) constituted about half of the amount of round wood exported and 80 % of this amount was sent to Asia.

Photo 9.4: The first processing of logs (sawing) occurs either in close proximity to logging sites or near ports



In **Gabon**, the government lowered the FOB⁵⁶ price by 30 %. This price served as a basis to calculate the export tax and the tax of tree felling. The government also took a series of measures to accelerate VAT reimbursements for exporters. In addition, the government decided on a number of fiscal measures, notably with regard to reducing the area charge, but these measures were presented as compensation measures for the ban on log exports. On 4 March 2010, the Head of State announced the establishment of a “Support Fund of CFA 20 billion to Accelerate the Industrialization of the Timber Industry”.

In **DRC**, after lowering the area tax by \$ 0.1 per hectare per year (from \$ 0.5 to \$ 0.4 per ha), the government decided to postpone the payment of area taxes for 2009. For 2010, companies could make payments in installments for 50 % of the annual tax amounts. These relief measures followed the increased tax on exports that had been decided in 2008 (from 6 % to 10 % for the tax on log exports, and from 0 % to 5 % for sawnwood).

In February 2009, the government of **the Republic of Congo** adopted a series of measures, one of which was to authorize companies to pay a reduced VAT tax (about 5 %) on fuel imported from Cameroon by companies operating in the north of the country. The other decision was to raise the ceiling from 15 % to 30 % for logs each company could export (although it had never been possible to impose this ceiling at the national level). Other measures were to provide payment facilities for tax backlogs. In 2011, these measures were extended and supplemented by new ones:

- The decision to replace FOB price by FOT (Free On Truck) price (i.e. FOB price marked down to an average transport cost to be borne by the different companies to transport their timber);
- Payment of the area tax only for the exploitable area⁵⁷ - to be determined for all concessions before the end of 2010.

⁵⁶FOB: Free On Board. The FOB price does not include transport costs, taxes and other costs.

⁵⁷This measure originates from a request made several years ago, well before the crisis.

Box 9.1: Measures taken in the Central African Republic to offset the impact of the international economic crisis

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The Central African Republic has not been spared from the economic crisis which has affected countries all over the world. In the forestry sector, the crisis has caused a slow-down in the activities of forestry companies, which has led to some staff being temporarily laid off or losing their jobs altogether.

In order to prevent the crisis from having long-term effects, including the social consequences, the government has taken a certain number of measures to reduce the burden on forestry companies. These include:

- the signing of a joint inter-ministerial Decree to reduce the market value for certain species by 20-40 %, leading to taxes reduction;
- implementing a nine-month timeline to pay the rent tax (tax on the area covered by a permit), instead of requiring payment at the beginning of the year;
- providing increased flexibility with regards to technical unemployment, a solution that has been formulated jointly with the Ministry of Labor and Employment.

These measures should allow forestry companies to gradually resume their activities, take back staff who have been temporarily laid off or dismissed, and pay municipal and treasury taxes. With these measures, log exports increased to 34 % between 2009 and 2010, following a drop of 28 % between 2008 and 2009. In addition, the 37 % drop in production between 2008 and 2009 was reduced to 7 % between 2009 and 2010.

Impact of the crisis on exports

Preliminary note: some data on processed products collected by the author differ from those presented in the Annexes and given by the countries.

Gabon: The measure to ban log exports that came into effect on 15 May 2010 (only logs felled in 2009 and subsequently stocked could be exported until 15 May 2010) led to a spectacular fall in the production of industrial timber: maybe around 2 million m³ in 2010 against an average production of 3 to 3.3 million m³ in years prior to 2009 (the record figure of 3.9 million m³ in 2009 shows that operators rushed to export as many logs as possible before the ban. See chapter 2 and figure 9.1).

Final figures for 2010 were not available when this article was written but it is estimated that about 1.8 million m³ of round wood was taken to factory. This is an appreciable increase over previous years where estimates amounted to

about 1.2 million m³. However, it was not enough to compensate for the fact that many medium-sized specialist log exporting operators stopped their activities, neither did it solve the problem of finding comparable market shares by switching to another product. This will need to be looked at again in two or three years when returns from investments will have produced the desired results. This confirms the extent of the intrinsic link that is sometimes mentioned when referring to the expected outcomes of the measure to ban log exports.

As regards fiscal revenues, it can be presumed that they plummeted along with the decline in revenues from taxes on logs exported, which constituted the bulk of the sector's fiscal revenues. Preliminary indications given by the Ministry of Finance show a fall in 2010 of 30 % in revenues from the tree felling tax, which has never been properly recovered.

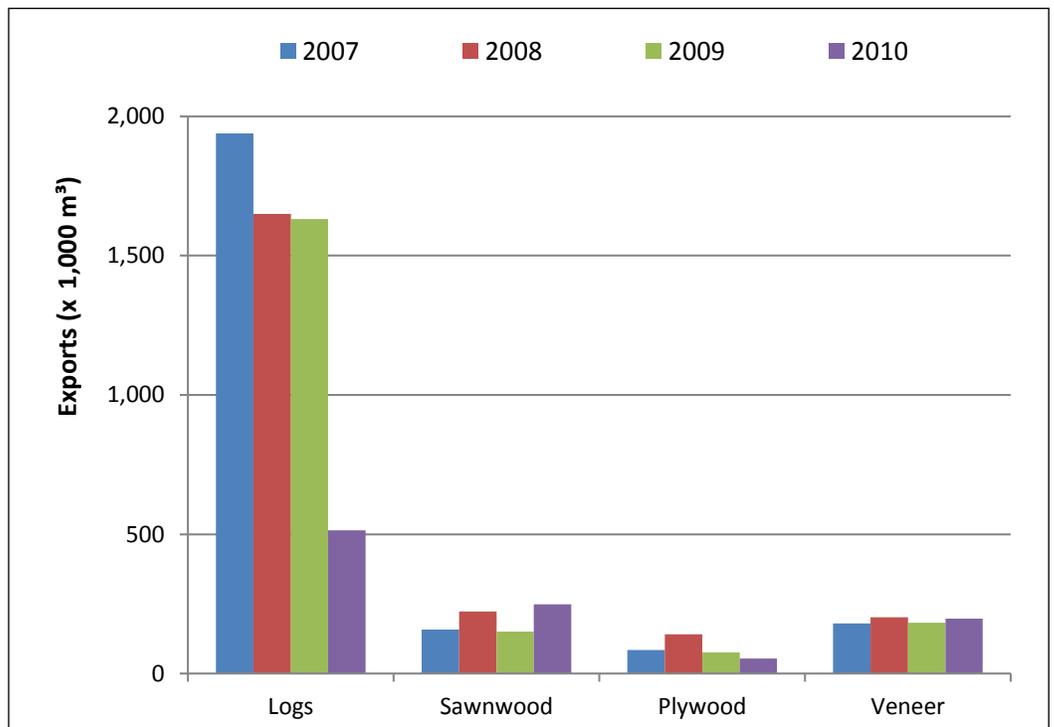


Figure 9.1: Exports of natural and processed timber from Gabon before and during the crisis

Cameroon: Cameroon softened the effects of the crisis by relaxing its restrictive log export policies. In 2010, this situation benefited from the entry into force in Gabon of the ban on log exports. But, sawnwood exports fell in 2009 and, despite a recovery in 2010, Cameroon did not re-

establish its pre-crisis export levels (figure 9.2). In 2011, the decision to return to stricter restrictive measures (i.e. quotas) for log exports in traditional species and to restore timber sales, should again benefit sawnwood exports.

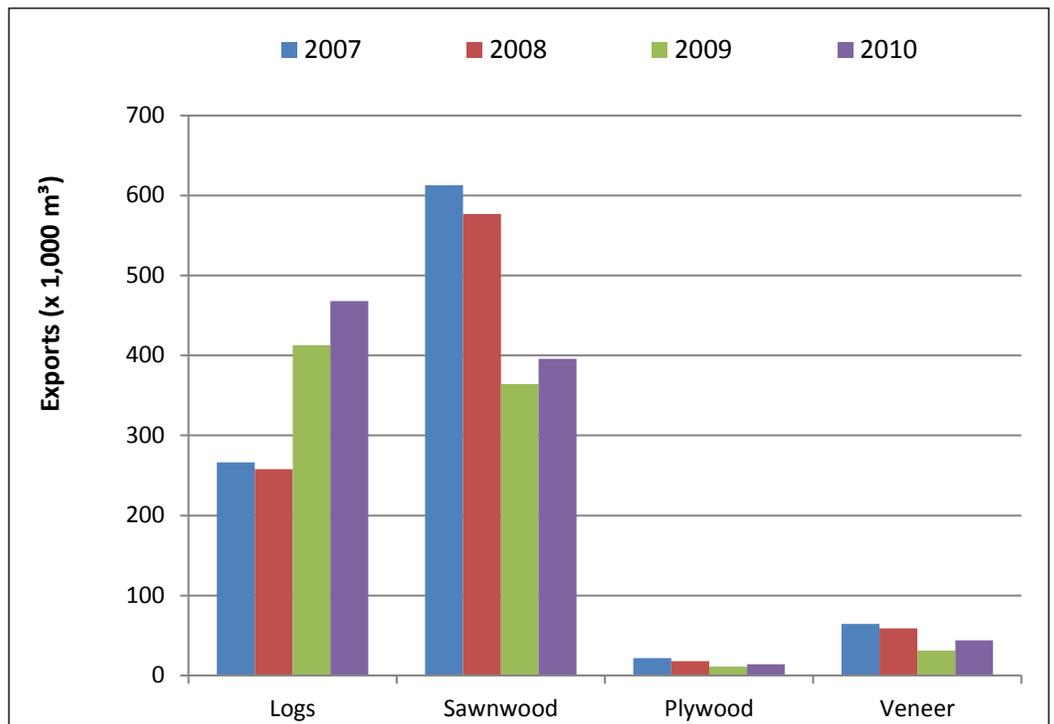


Figure 9.2: Exports of natural and processed timber from Cameroon before and during the crisis

The Republic of Congo: Congo adopted a policy that was somewhat similar to that of Cameroon, by relaxing restrictive measures on log

exports. In 2010, production and exports should have returned to levels that were comparable to pre-crisis levels.

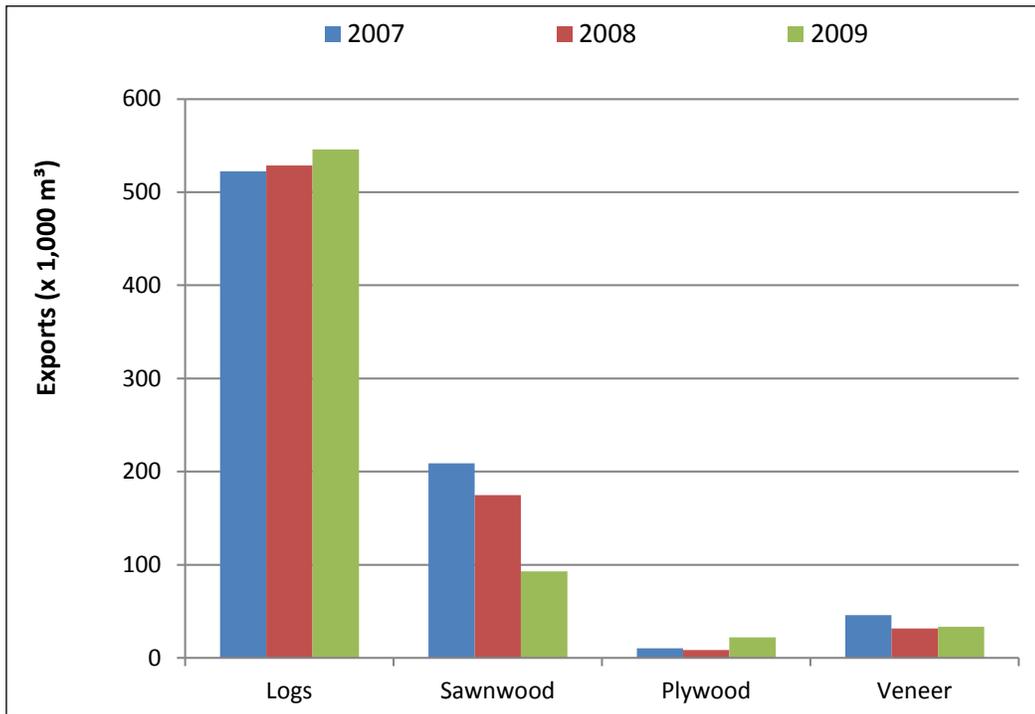


Figure 9.3: Exports of natural and processed timber from Congo before and during the crisis

Equatorial Guinea: Since 2007, log exports have officially been banned in Equatorial Guinea, but statistics show how ineffective this ban has been. It seems that log exports, principally okoumé logs, benefited from the Gabonese export ban.

Logging is still largely dominated by Shimmer International which left the country only to return in 2009 at the height of the crisis, perhaps in anticipation of the application of the Gabonese ban.

Long-term effects on the sector and perspectives

With the return of some European buyers at the end of 2009, it was noticeable that some market confidence had been restored. Log-exporting countries hoped to benefit from Gabon's withdrawal from the market. In 2010, most processing plants had resumed their activities and some companies expected that they would make a speedy come-back and even that they would exceed their pre-crisis production levels. Such was the case for companies in DRC and Congo that belonged to the German group, Danzer, which probably benefited from strong German growth from the end of 2009 until early 2010.

Even so, could this be called a return to "business as usual"? Probably not. One reason is because companies suffered significant financial losses during the period. Such was the case for the Danish group DLH which controlled CIB (*Congolaise industrielle des Bois*) in the Republic of Congo and the companies GIB-CIB and CFA (*Compagnie forestière des Abeilles*) in Gabon. DLH announced in 2010 that it was selling majority shares in its companies to concentrate on international trade, which was its main activity. At the end of 2010, Olam International bought these majority shares. Olam, which has its headquarters in Singapore, and is a conglomerate of Indian origin (it also invests in agro-industrial crops), already has a footing in Gabon. Olam announced that it would continue to pursue CIB's policies related to environmental and social issues, which had resulted in FSC certification.

The Swiss group, Precious Wood⁵⁸, which manages a total of nearly 5 million hectares (CEB, SODEFOR, SOFORMA), suffered significant losses: \$ 15.5 million in 2008 and \$ 28.1 million in 2009. Although no such statement has been made to this effect, it can be presumed that the group is studying the profitability of logging in Africa and that it will draw its own conclusions with regard to its extended losses.

CEB and CIB are both FSC-certified companies that are emblematic of the progress that has been made by the timber industry in the region over the last ten years in forest and social management.

With the unstable financial situation of many companies, overcoming the crisis meant resorting to amalgamations of timber companies which will undoubtedly change the face of the industry. There will be fewer companies exporting to the European markets and these are the markets that drive the demand for certified timber.

During the crisis, Asian companies continued to buy European companies: Leroy-Gabon, a company funded by Portuguese capital, was bought by a Chinese company and *Gabon Export Bois* (GEB), a company funded by French capital, which holds over 100,000 ha of concessions, was bought by another Chinese company (Shenyang). Olam International was entrusted with building a new industrial zone not far from Libreville for about fifty processing plants in Gabon and was granted two concessions with a total area of one million hectares to supply the factories to be built in the zone. In the Republic of Congo, the Chinese group Foma signed a joint venture agreement with the Christelle company, which since 2009 has had a 230,000 ha concession in the center of the country.

⁵⁸The Precious Wood group owns CEB in Gabon (*Compagnie Équatoriale des Bois*, 616,700 ha, formerly owned by the French family group, Thanry) and has invested over \$ 7 million in the Nordsüdtimber Company (a holding based in Liechtenstein) which has majority shares in several timber companies in DRC (notably, SODEFOR and SOFORMA).

The purchase of certified companies by companies in the emerging nations, notably China and India, that until now have not sought to obtain certified timber – even if this could change in the future – raises questions about the future of certification in the Congo Basin. This is particularly the case since several big environmental NGOs seem to be increasingly reticent to support FSC certification for industrial companies in Central Africa in the hope that the REDD mechanism will provide funding for new protected areas. In addition, in many developing countries, the concentration of companies working in the timber sector does not signify that less logging will take place or that there will be fewer operators. Instead, it means a transfer of activities from the formal to the informal sector. Governments have become aware of the disadvantages of an industry that is very “extraverted”, exporting most

of its production and hence becoming very open to crises that are inherent in the market, while the domestic market continues to be supplied by small scale sawmills. In Cameroon, production by small scale sawmills exceeds industrial production (see chapter 4). Implementation of Voluntary Partnership Agreements, in the framework of the FLEGT, includes monitoring the legality of the timber, not only for export purposes, but also for the domestic market (see chapter 2). However, it is unlikely that this will have any tangible effects for several years to come.

The 2008-2009 crisis did not mark the end of industrial logging in Central Africa but it did perhaps represent an important moment in the redistribution of economic power in the timber industry. But, it is difficult today to anticipate the effects this will have on forest management in the future.



Photo 9.5: Artisanal loggers increasingly use mechanized tools to process timber

Box 9.2: Prospective analysis of the Congo Basin Forest Ecosystems (outlook for 2040): What does the future hold?

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Recent developments in the Congo Basin forests, particularly those in the COMIFAC zone, have been impressive. The factors that have had a progressive and lasting effect on regional forests over the past decades are, notably, conservation, management, certification, land competition, anthropogenic pressure, timber markets, and the REDD process.

While it is easy to take note of and quantify past developments, it is more difficult to predict a possible future, or more precisely, possibilities for the future. Two tools are generally used for this:

- “Predictions” take past data into account and include them in future plans, e.g. by using modeling techniques;
- “Prospective analysis” also uses these tools, but further analyses qualitative factors in trying to pinpoint disruptive factors based on expert opinion that have not been identified by the predictions. The methodology chosen for this study includes regional specifics such as distancing. It has been endorsed and consists of several phases that are outlined in figure 9.4 below.

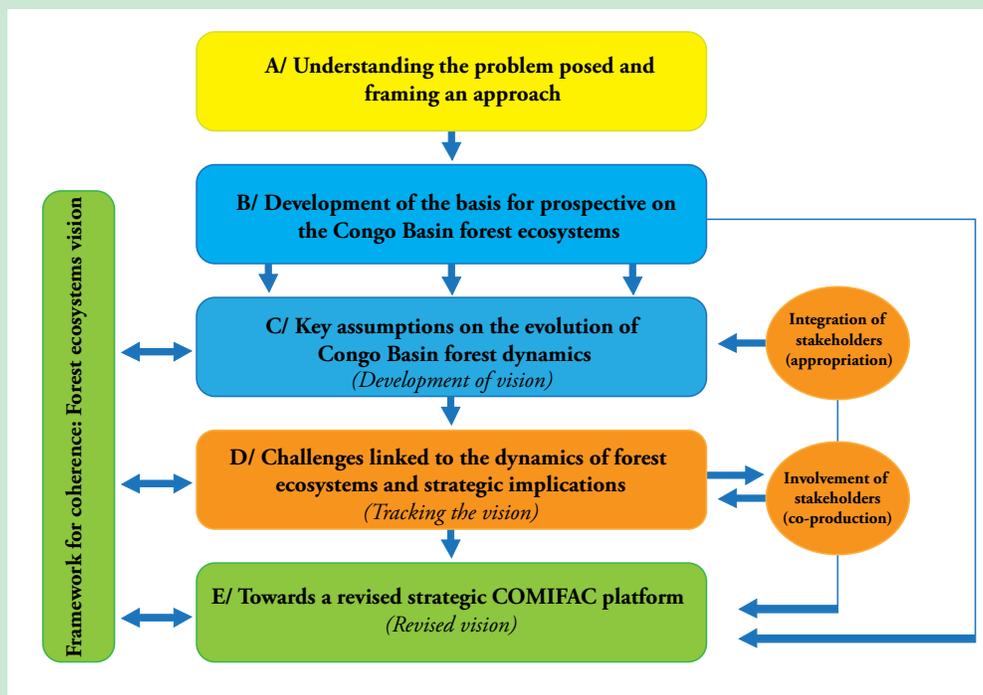


Figure 9.4: Synthesis of the methodology used for the 2040 Forest Ecosystems analysis
Source: Marien & Bassaler, 2010 and 2011

Under COMIFAC leadership, co-financed by France, USA and Germany, and with the technical support provided by Futuribles, CIRAD is currently undertaking a prospective analysis at the regional level to identify, by the end of 2040, future possibilities for the forest ecosystems. The study aims to enlighten policy-makers on the potential consequences of their choices, or lack thereof, with regard to forest ecosystems – in the broad sense of the term. That is to say as a component of a multi-faceted regional territory with a wide variety of resources that faces multiple challenges and their associated risks. The proposed time period for this study is equivalent to the time for a classical rotation on managed and production forest plots. Naturally, this analysis includes, but is not limited to, the most important current issues such as the problematic of climate change and its associated processes, for example the REDD.

Following the training of regional and international experts in the prospective methodology, the first phase of the analysis consisted of identifying a preliminary list of factors, based on expert opinion, which could have significant impact on forest ecosystems development. This list, which is still quite general and consists of over 100 elements, has been classified according to key potential factors which have been determined in accordance with their degree of relevance to the forest ecosystems (figure 9.5):

- Processes and dynamics that directly affect forest ecosystems;
- The intermediary context;
- The global environment.

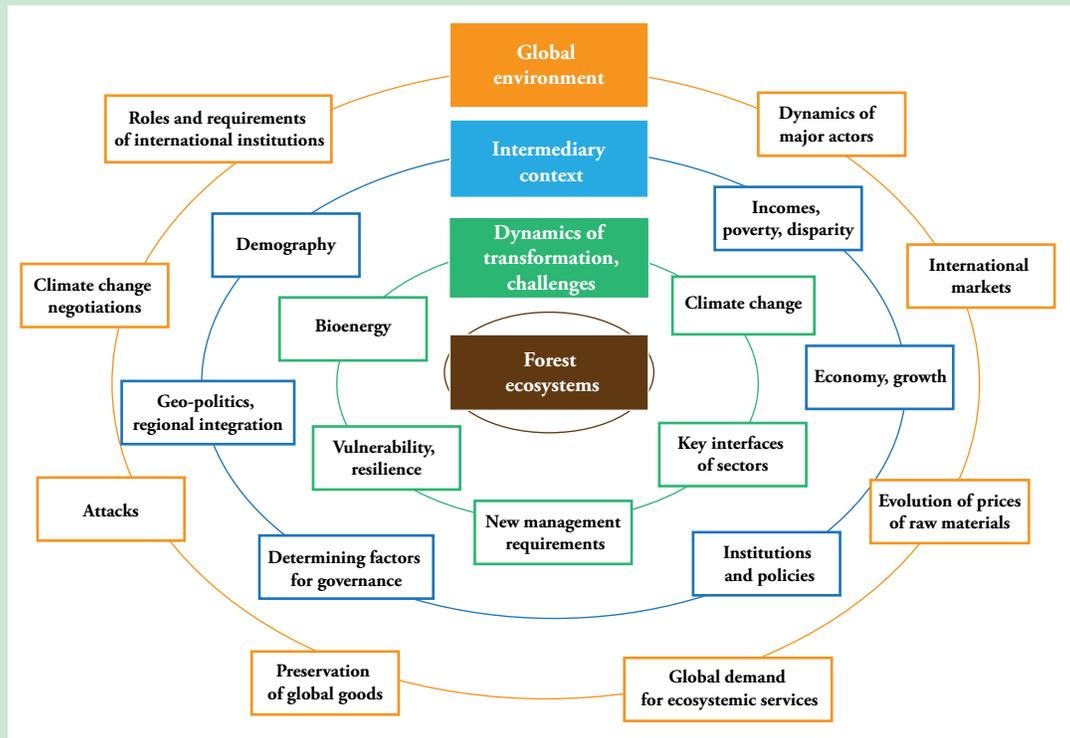


Figure 9.5: First set of factors potentially involved in the future development of the Congo Basin forest ecosystems

As a general rule, the greater the distance from the “driving force”, the more difficult it is to directly influence the factors.

The next step of the analysis will be to carry out a regional and international evaluation to document, study in greater depth and prioritize the contents of these key provisional factors. These will then be examined by a wide variety of actors, and in particular, regional experts. Work will also be undertaken with national organizations to allow them maximum involvement in the methodology and in the results. Finally, a consolidated report will be proposed and endorsed at the regional level.