

TRANS-BOUNDARY TIMBER MARKET PLAYERS IN THE EAST AFRICA REGION

Joshua K. Cheboiwo and David Langat



KEFRI - POLICY BRIEF NO. 3

FEBRUARY, 2015



Kenya Forestry Research Institute



EU FAO FLEGT Programme

KEFRI is ISO 14001:2004 Environmental Management Systems certified

Introduction

Several players are involved in trans-boundary timber trade in the East Africa region. These players are drawn from the general public, public agencies and business entities. Trans-boundary timber trade is faced with several challenges that require intervention measures to enable it perform legally and efficiently.

Key Players

Primary producers

Primary producers are players involved in production and support activities in the production regions. The primary producers include land owners/clan elders and public agencies who allocate forests and license to merchants/individuals, processors, power saw/mobile saw operators, loaders and transporters. The major operations at this level include; documentation in licensing, financing operations, logging, processing, loading, transportation and payment of various taxes and fees. The primary production activities constitute a large proportion of the costs incurred in timber trade due to; many operations, security challenges, and high costs of labour, fuel, machine maintenance and transport.

Timber importers/exporters

Various players are involved in timber importation and exportation within the region. The key players are merchants that finance and manage import and export of timber. These merchants acquire timber in eastern DRC or southern Tanzania and supply imported timber to wholesalers and retailers in Mombasa and Nairobi. The merchants travel to timber processing sites or bulking areas in both DRC and Tanzania where they; identify desired timber sizes, bargain prices, pay taxes and hire trucks to transport timber to Kenya.

Clearing agents

Clearing agents undertake clearing of imported consignments at gazetted border points. The agents are persons with long experience in clearing process and well acquainted with procedures for various commodities that include timber. Responsibility of the agents include ensuring all paper work is properly undertaken and all payments are done as per prevailing regulations. Timber importers always have their clearing agents at the timber entry points who in most cases handle all their border tasks in their absence and facilitate secure transfer of timber to various merchants.

Timber brokers

Timber brokers can be categorized into two groups, those who perform timber marketing on behalf of the importers in major urban outlets and those who undertake importation work on behalf of the timber importers by acquiring import permits and other required documentation. The urban based brokers facilitate offloading of consignments in urban markets outlets of Mombasa and Nairobi. The brokers have information on timber requirement in terms of specific timber categories, quantities and customers. The brokers are always in contact with both importers and timber yard owners and therefore facilitate the two in transacting business. In some cases, timber buyers may not come into contact with importers as brokers ensure delivery of consignments and payments to the importers. There are also cases where the import facilitating brokers engage urban based brokers on behalf of the importers. In some cases brokers are employees of importers and are paid according to the timber volumes transacted. In DRC brokers play a key players as intermediaries due to language barriers and protecting buyers from unscrupulous sellers.

Timber wholesalers and retailers

Wholesalers and retailers in the timber market value chain are the final players who play the role of enabling woodwork and construction sectors to access timber in Mombasa and Nairobi. The wholesalers and retailers have knowledge on specifications and demand of various buyers in the respective locations. Timber wholesalers and retailers in some cases engage in carpentry work. The high prices of imported hardwood timber have increased retail prices and final products such as furniture. In some cases price increases have reduced timber sales and restocking rates leading to reduction in business.

Public forest agencies

Public forest agencies allocate forests to be harvested, and approve timber export and import documentation. In Kenya KFS provides a 'no objection letter' for importers/exporters to enable them initiate timber acquisition process. KFS also facilitates movement of imported timber through issuance of movement permits. KFS enforcement and inspection units verify movement of all forest product including imported timber across the country.

Custom and revenue agencies

Custom and revenue agencies are located at all exit and entry border points such as Kasindi, Lunga Lungu, Busia and Malaba. The agencies process import documentation and collect taxes. Value Added Tax (VAT) for EAC is 16% and duty 10% but Kenya only charges 16% VAT on CIF on imported timber as timber is duty zero rated. However, Kenya also charges a Railway Development Levy (RDL) of 1.5% of the CIF value of imported timber.

Phytosanitary agencies

Phytosanitary agencies such as KEPHIS in Kenya have offices at all exit and entry points. These agencies inspect timber for any infections and pests. KEPHIS charges Ksh 600 (\$7) for Plant Importation Permit (PIP). They also ensure timber imported into the country has no bark and ensure the importer has a phytosanitary certificate from the country of origin.

National Bureau of Standards

In Kenya, Kenya Bureau of Standards requires timber importers to pay 15% of CIF for Certificate of Conformity on timber imported from non EAC countries such as Malawi.

Challenges

Major challenges faced by timber importers and exporters include:

- Inadequate knowledge on required documentation and taxation procedures that open room for well connected brokers and cartels to facilitate the process at high costs.
- Financial constraints to facilitate operations as most financial institutions do not support timber trade due to perceived high risks and illegalities.
- High transport costs of moving timber due to corruption and delays in verification as compared to other commodities such as cereals.
- Theft of timber while on transit and reluctance of insurance companies to insure the cargo.
- Government abrupt introduction of new fees without consultation. An example is the recent introduction of timber importation fees of \$ 235 by the Kenyan government without consultations resulting in escalated costs of timber.

- Inadequate consultations with stakeholders on policy and legislative process that govern timber business
- Competition from illegally imported and exported timber
- Corruption and harassment by enforcement agencies that force traders to pay bribes to avoid delays and penalties on transport charges.

Recommendations

There is need for comprehensive forest sector reforms in the region in order to attract well financed investors into the sector and promote efficient flow of legal timber between member countries like other trade commodities. Some key recommendations include the following:

- Simplification of documentation process and procedures and operationalization of single window border offices to facilitate clearance and payments
- Removal or easing of movement permit limitation on night and weekend travels to enable timber free movements like any other commodities
- Harmonization of customs and taxation procedures
- Streamlining production process at timber sources and movement procedures to ensure that only legal timber exit the country of origin and enter market outlets in the region
- Facilitation of bulk importation to minimize role of brokers and cartels to enable fair pricing and stabilization of prices
- Capacity building of key players in cross border market value chain through print and electronic media to create awareness on the need to embrace legal timber trade in the region

Conclusion

Key players in the trans-boundary timber trade are private sector operators who are involved in financing, harvesting, processing, transportation, purchase, documentation, wholesaling and retailing of timber. Most of the players have similar challenges and hence similar capacity needs. To facilitate evolution of legal cross border timber trade in the region there is need to engage and build the capacity of key players from the private and public sectors in respective countries and within the road corridors.