

Political uncertainty limits the success of small wood product businesses across LATAM

- New study shows fluctuating political administrations de-stabilise business environment
- SMEs facing vicious circle of declining profitability and inability to access finance
- Broad 'illegal' sector reputation restricts market opportunity for exporters

Lima, 5th March 2019: [Global Timber Forum](#) (GTF) today launches the results of a multi-country timber industry study highlighting the major challenges facing small and micro businesses, as reported by their associations in thirteen Central & South American countries.

Unfavourable Government policies are perceived by over half of the twenty-one associations to be the most significant factor affecting the success of small forest and wood product businesses. Respondents cited the instability of national policies regarding land tenure and access to raw materials, changing tax regimes and economic policies as well as wider market uncertainty making for a difficult business environment.

The research also shows that the forest and wood product industry is now estimated to source over sixty percent¹ of raw materials from plantations. The considerable investment required for managing plantations over the tree growing cycle as well as companies adapting to the harvesting and processing of different materials may also account for the emphasis on political stability. Specific issues cited by respondents include "political instability", 'over regulation', 'too much bureaucracy', 'uneven implementation of laws' and even a 'lack of capacity to implement the laws'.

Small and micro businesses are also reported to be challenged by low profitability due to high production and transportation costs. This is seen as having led to an inability to access finance to invest in more efficient and competitive operations, an increasingly fraught vicious circle. Financiers are perceived as viewing the sector as not able to deliver the returns they can achieve from investing in other land uses or industries such as agribusinesses and mining. Often these alternative businesses are now operating in the areas where the forest products businesses traditionally operated and are also perceived by respondents as driving significant deforestation for which the wood product industry is often blamed.

Whilst there is substantial domestic and inter-regional trade, for those companies exporting beyond Latin America, the reputation of the forest sector is a major challenge. Views that the products are illegal or unsustainable further restricts businesses ability to trade in markets with legality and sustainability requirements. Associations representing these businesses cite that the reputation of the market is a constant challenge, especially for those seeking to sell timber products against products made of less sustainable materials, such as plastic or concrete. Respondents cited that the demand for legal timber typically originate from the European and US markets although notably questions about legality were also mentioned by buyers from China, Vietnam, Japan and Brazil.

¹ The 60% figure was reported by the 21 associations interviewed. This is not a new finding and formal estimates by other organisations indicate similar numbers, for example, that in Brasil the volume of hardwood from plantations was even higher in 2012 at 70%. Oliver, R. 2015. *Europe's changing tropical timber trade: baseline report of the Independent Market Monitoring initiative*. ITTO Technical Series No.45. International Tropical Timber Organization, Yokohama, Japan. UN FAO also predicted a similar shift back in 2006 in the Forestry Sector Outlook Study for Latin America and the Caribbean which can be found [here](#).

George White, who led the research programme as a Director of Global Timber Forum stated:

“To continue to build the sustainable and legal practices of small and micro businesses it is paramount that we first understand their business landscape and this new research provides a window into their challenges. It is estimated that in just those markets surveyed the businesses represent over three hundred thousand employees and are responsible for over one million livelihoods. How we choose to support this industry can therefore have a dramatic wider impact.

Francisco Escobedo Grotewold, Director of the Guatemalan Forestry Association (Gremial Forestal de Guatemala) said:

“What is apparent from Global Timber Forum’s study is how many of our issues in Central and South America are shared across national borders. It is my hope that these findings will kick-start associations coming together across LATAM to engage better with Governments and our varied stakeholders. Together we can devise practical ways to improve the environment for sustainable forest and wood product businesses.

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Notes to editors

1. The GTF’s Association Survey for Knowledge (ASK) research programme seeks to better understand the challenges faced by forest and wood-based industry and trade associations around the world.
2. [The LATAM research](#) was undertaken with 21 associations in 13 countries.
3. All research was undertaken by interview. Interviews were conducted by April 2018.
4. The survey was made up of three complementary sections. Respondent associations were encouraged to answer all three sections. Associations were identified by local experts and in-person interviews arranged with the senior management of the associations.
5. For the purposes of this research the following definitions were used to identify company sizes: Large – a company with more than 250 employees, Medium – a company with 51 to 250 employees, Small – with 11 to 50 employees and Micro – with 10 or less employees.
6. Together, the LATAM associations represent a combined membership of approximately 1,500 members.
7. Almost 20% of the membership are micro enterprises, and over 85% are micro, small and medium size enterprises.
8. The survey was developed in collaboration with GTF’s project partners: UN FAO (Food and Agriculture Organisation of the United Nations) and WRI (World Resources Institute). The views expressed are only those of GTF.
9. The individual survey results are anonymised and non-attributable.

Further information

To receive a copy of the report or to find out further information please contact:

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Funders

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