MARKET PERFORMANCE OF CROSS BORDER TIMBER TRADE IN EAST AND CENTRAL AFRICA

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Kenya's Timber Trading Partners

Kenya consumes various forest products such as sawnwood, firewood, charcoal, construction and transmission poles. The construction and woodwork sectors have witnessed rapid growth over the last decade hence require large amounts of material inputs including timber. The woodwork sector that includes house fittings, joinery and furniture require both hardwood and softwood timber. The growing gap between local supply of timber and demand from the construction and woodwork sectors has forced Kenya to progressively increase imports of hardwood from DRC and softwood from Malawi and Tanzania.

Democratic Republic of Congo (DRC) with 156 million ha under rain forest has progressively become a major supplier of hardwood timber to Kenya. DRC exports approximately 1.5 million m^3 of timber of which 60,000 m^3 mostly sawnwood produced by artisanal loggers is exported to East Africa mostly to Uganda and Kenya. Tanzania is also endowed with forest resources covering 48 million ha an equivalent of 55% of total land area of which forest plantations occupy an estimated 150,000 ha for production of softwood timber and transmission poles. Between 2009 and 2013 Kenya imported: 83,729m^3 of hardwood timber from DRC; and 192,279m^3 of softwood timber, 348,139 treated transmission poles, 8,360 tonnes of wattle bark, 5,800m^3 of logs and 5.8 tonnes of charcoal from Tanzania.

Marketing Performance of Timber Flows into Kenya

The timber market value chain is characterized by high transaction costs that can be attributed to policy and legal constraints. Due to these constraints traders seek services of various players along the market value chains especially at border points increasing costs on the operations of trans-boundary timber trade. The constraints include: administrative overlaps, insecurity, poor infrastructure, language barriers, and high taxation. The transport costs and taxes/fees were the highest costs loaded onto sawnwood timber exported into the Kenyan markets. The high transaction costs can be reduced with favourable policy/legal environment, better technology deployment and improvement of road infrastructure within the region.

Marketing Performance of Timber on Transit in DRC

In eastern DRC there are various players in hardwood timber business that include; land owners, merchants, power saw operators, potters, truck owners and facilitating government agencies. In 2013 Kenya imported 38,507m^3 of hardwood timber at delivery price of Ksh 37,500/m^3 ($420/$m^3$) at border point of Kasindi generated an income of Ksh 1.4 billion ($16.2 million) that was paid to various players in the market value in eastern DRC. Distribution of gross incomes to each of the key timber market value chain players in eastern DRC varied from 1 to 30% (Figure 1). Logging and processing players received 30% of the income, local potters 30%, administrative charges 18%, and transporters 13%. Others beneficiaries included; merchants, land owners and loaders. The first three players accounted for 73% of the gross incomes from the timber business. The transaction costs can be reduced with improvement of road infrastructure and security condition in eastern DRC. Insecurity and poor road networks contributes to high inefficiency of cross border timber trade.

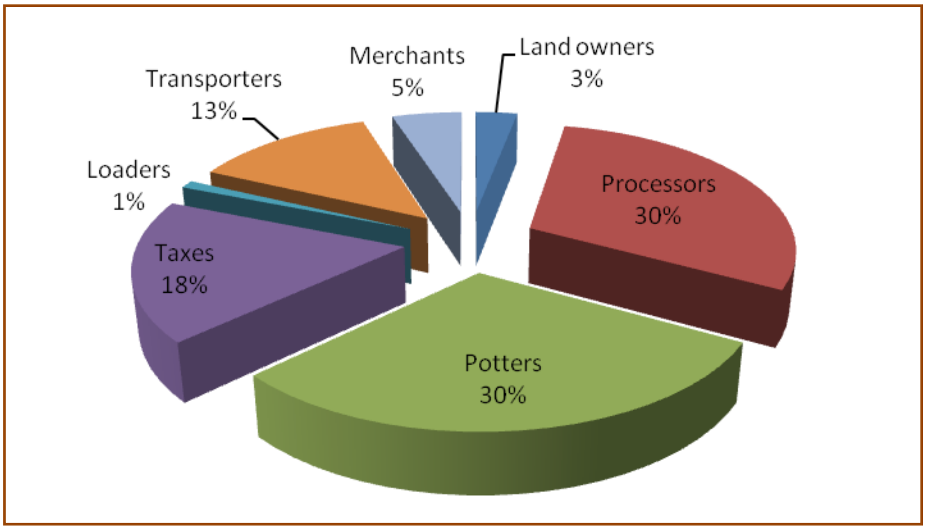

Figure 1. GMM by key timber players in DRC

Marketing Performance of Timber on Transit from DRC to Nairobi and Mombasa

Timber on transit to Kenya from Kasindi border attracts local taxes and clearance fees of up to $60/$m^3$ before as it crosses the DRC border. Other charges include; road taxes in Uganda, import taxes and fees in Kenya and transport costs. In 2013 Kenya imported 38,507 m^3 of timber that translated to retail gross income Ksh 2.5 billion in Nairobi and Ksh 2.8 billion in Mombasa. For timber sold in Nairobi, the share of gross income for players in Kenya indicated that government taxes and fees accounted for 18%, transport and importers each 12% and retailers 15%. For timber sold in Mombasa, importers received 21% of the income, government taxes and fees 16%, transporters 13% and retailers 15% (Figure 2). Most suppliers to Mombasa are also bulking merchants in Nairobi's industrial areas hence are able to leverage their pricing to earn higher incomes as the market is small and thus attracts few bulk suppliers.

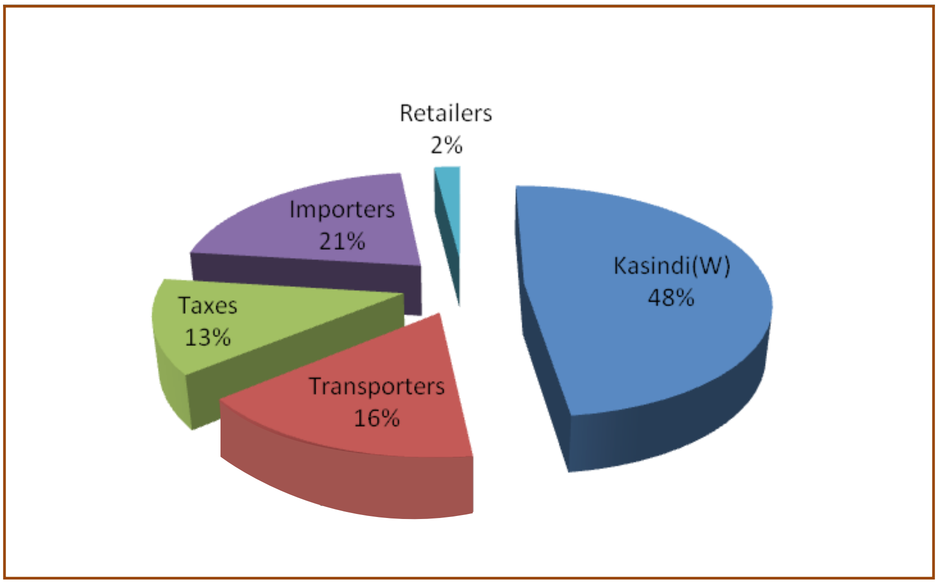

Figure 2. GMM shares by key timber players from Kasindi to Mombasa

Marketing Performance of Timber from Tanzania

For softwood timber imports from Tanzania the producer groups gross income share was 48%, Tanzanian taxes/fees (8.5%), Kenya taxes/fees (11.6%), transport costs from Iringa to Mombasa (20%), importers (8.1%) and retailers (3.8%) as shown in Figure 3. The producer groups share is higher because it includes royalties paid to the government, as well as logging and processing costs. Accordingly, transport costs and taxes/fees were the highest costs loaded onto sawnwood timber exported into Kenyan markets.

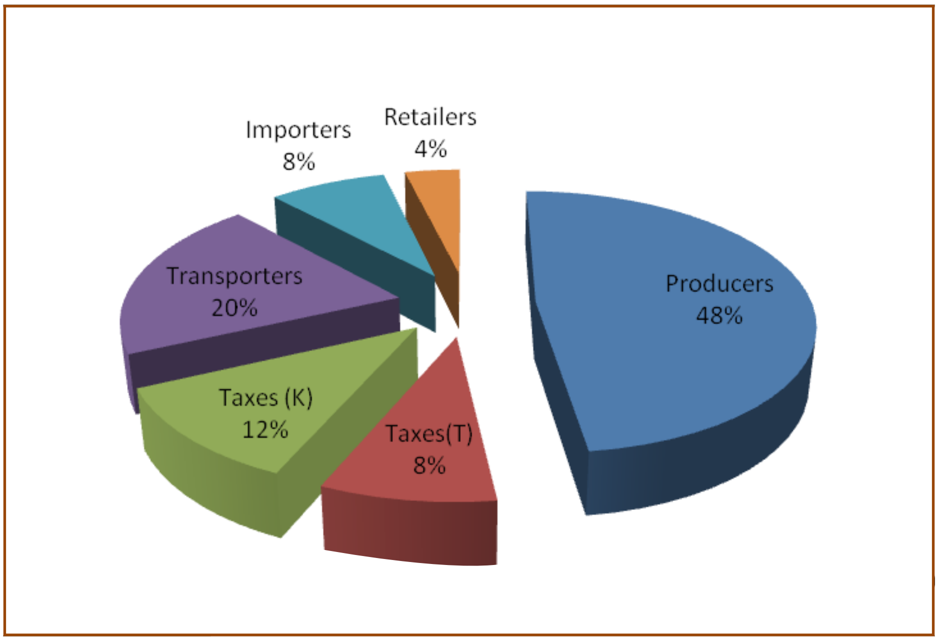

Figure 3. GMM shares by key timber players from Tanzania to Mombasa

Conclusion and Recommendations

Timber flows from DRC and Tanzania is characterized by high transaction costs including; operational costs, legal/illegal taxes and fees drawn by various players in the market value chain within the two corridors from the exporting countries to Kenya. There is urgent need to develop strategies to minimize operational costs through: enactment of favourable policies and legislations; deployment of advanced processing technologies; improvement of road infrastructure and security conditions; and lowering of taxes in order to promote efficient and legal regional timber trade. These strategies will enhance socio-economic development in timber producing and consuming countries in the region. Kenya should take the advantage of its strategic position to become the centre of woodwork manufacturing for local and regional markets through prudent investments in the sector in line with its strategic Vision 2030 policy.

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