



Improving the economic value of Suriname's rainforest

Suriname's land area is covered for 90 % with rainforest. Despite being such an abundant natural resource, the forest directly contributes only 0.6 % to the Gross Domestic Product (GDP) (unprocessed and roughly processed timber). The annual timber production stagnates around 200,000 m³, a fraction of the potential production which is estimated at around 1.275 million m³. All efforts of the government, the private sector and non-governmental organizations (NGO) to raise the timber production and processing have not succeeded. The vital question is: How can we increase the contribution of the forests to the GDP? TBI Suriname supported research by Vanessa Simson in completion of an MSc thesis in macro-economy education at the Institute for Graduate Studies and Research (IGSR) of the Anton de Kom University of Suriname. The research focused on possibilities to increase the contribution of the forest sector to the GDP.

To sustainably increase timber production on the long term, investments are needed in labor and capital, but also in the total factor productivity (TFP). TFP is a collection of variables which - besides labor and capital - contribute to improved production, among which particularly technological innovation and efficiency. Other variables are structural policies and institutional capacity (where knowledge, forest policy and - management and infrastructure are important), macro-economic and monetary policy (in particular inflation and exchange rate) and external factors (trade balance and ecological environment).

Current situation in the forest sector

Suriname is a net wood exporter with regard to wood volume. Still there is a negative trade balance for the forest sector. This is because the input (heavy equipment, fuel) of the forest sector which

accounts for 60 % of the total production value is mainly imported, while only 20 % of the round wood production is being exported.

The forest sector in Suriname faces low saw returns (15 up to 40 %), due to obsolete machinery, inefficient saw methods and a lack of product and process standards. Furthermore, the rest material is mostly burned, resulting in CO₂ emission, whereas this material can be processed to chipboard or to generate energy for own use. The inefficiency in the forest sector has trapped the industry in a vicious circle of waste and excessive and unwise use of a valuable natural resource.

Research findings

To stimulate the sector to raise the production efficiency the government has to increase the forest levies, to a level that does right to the value of this resource, on the basis of the so-called economic rent (ER). The ER is the surplus value created during the production of a good or service, due to the ownership of a factor of production that is in fixed or limited supply. This ER belongs to the government, who is the owner of all forest on domain land. The ER of round wood amounts on average USD 17/m³. The current contribution of the forest sector to the GDP and exports is, respectively, ± 0.6 % and 0.4 %, which can increase to 4 % and 9 % respectively, if the potential production of 1.275 million m³ is utilized and at least 50 % of this production is processed locally.

Furthermore, the net government income from forest levies can increase considerably to \pm SRD 127 millions (USD 39 millions), by adapting the forest levies on the basis of ER. The current net government income was about USD 200,000 in 2009. To eliminate the negative trade balance which will increase the inflow of foreign currency and to prevent that the local market is flooded with timber waste as a result, an increase of production must aim mainly on the export market. For this certification, marketing and cooperation are important to be able to meet scale requirements and to improve the competitive position. The intentions of the current government to build 18,000 houses can increase the demand for timber on the local market significantly.

To tackle the emission of CO₂ and climate change worldwide, the United Nations Framework Convention on Climate Change (UNFCCC) developed the Reduced Emissions from Deforestation and forest Degradation and REDD+ (compensation for forest conservation) mechanism. For climate mitigation objectives it is better to fully conserve forests, but the REDD+ mechanism is not functioning yet so conservation of forest does not bring in cash and Suriname needs to be developed further. According to Simson's research a carbon credit fee of USD 22/Mte (metric ton), under REDD, will be equivalent to the current added value of the forest sector. Since the current market value of a carbon credit, of sustainable forest management, lies around USD 15 on the free market, timber production could continue, but more sustainable and more efficiently, minimizing the negative environmental impacts.

Conclusions

There is a growing market for timber products and environmental services worldwide. Suriname's forests can generate additional value by simultaneously increasing the timber production in a sustainable manner and by making more efforts to get payments for environmental services (PES) through financial mechanisms such as REDD+. An optimal combination of both forest functions is necessary to optimize the economic value of the forest. By planning strategically and introducing an efficient scheme of forest charges, it is possible to bring about an increase of the public income flow and to realize a larger economic growth.

Preconditions for this strategy to succeed

To get support from the private sector there must be transparency and re-investment of the state income in the sector, for example by establishing a 'National Forest Fund'. This fund acts as a guarantee to stimulate financing of the forest sector by private banks, which in turn stimulates investments. Furthermore, the government must facilitate the sector: maintenance and expansion of the infrastructure, help identify consumer markets and attune the duration of the concession rights with the duration of investments. The government must also cooperate with other forest-rich countries, such as Guyana, to improve the negotiation position at international financing mechanisms such as REDD+ and must explore the possibilities on the free carbon market. Finally, the government has to assure a stable macro-economic and monetary climate to stimulate investments. From the side of the private sector the aim has to be to achieve sustainable long term profit by implementing sustainable forest management, technological innovation and efficiency with respect to the production processes and use of timber.

Source:

Vanessa Simson, 2011. *Een zoektocht naar een optimale benutting van het Surinaamse bos.*

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