

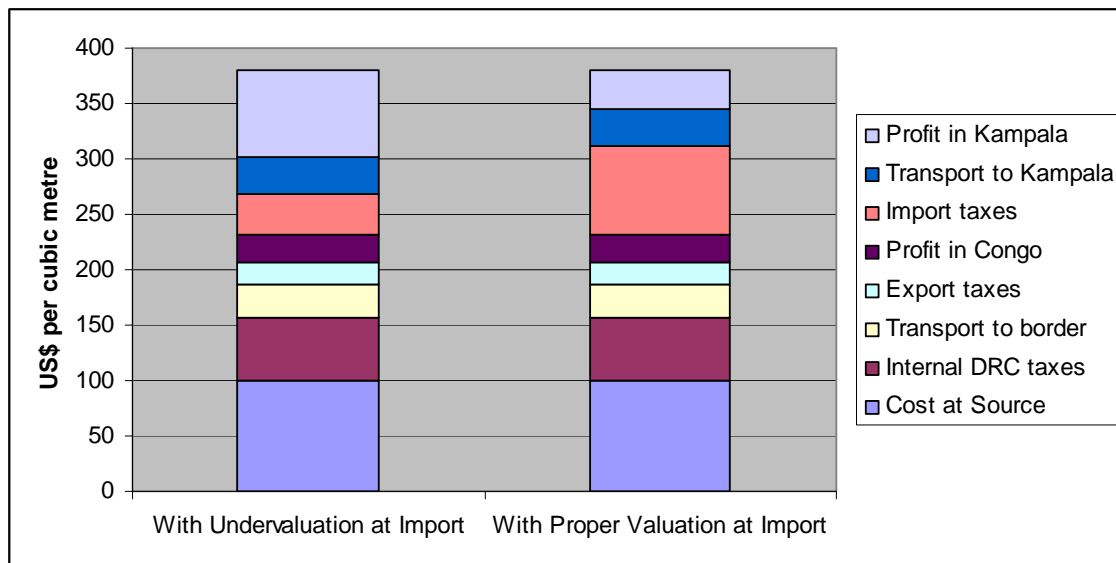
Value Chain for DRC Mahogany Sold in Kampala and in Nairobi

Value Chain for DRC Mahogany in Kampala (Uganda)

An estimated value chain for African mahogany (*Entandrophragma* sp., also known as sapele) sourced in the Democratic Republic of Congo (DRC) and sold in Kampala is US\$ 380/m³. The single largest expense in this figure is the cost of labour (cutting and transport to roadside) and purchasing raw materials (standing timber) the timber. Furthermore, whilst DRC export taxes are relatively low, and the main cutting permit is very cheap, the total tax burden - including official and unofficial payments to district officials, and at police and military roadblocks - is high, and represents a significant percentage of the overall cost. According to this analysis, profits obtainable by traders in Kampala are much higher than the profits accruing to traders in DRC.

The second column in Figure 1 is what the value chain would look like if URA¹ and DFOs² were to charge taxes on the true value of the timber when it reaches them at import, instead of undervaluing it as they do now. If this were to occur, the profit margins accruing to the Kampala traders would be more than halved (assuming the overall price remained the same), while Ugandan revenues would double.

Figure 1 Value chain for African mahogany from DRC sold in Kampala.



Source: Various interviews with URA & NFA staff and timber traders in Uganda.

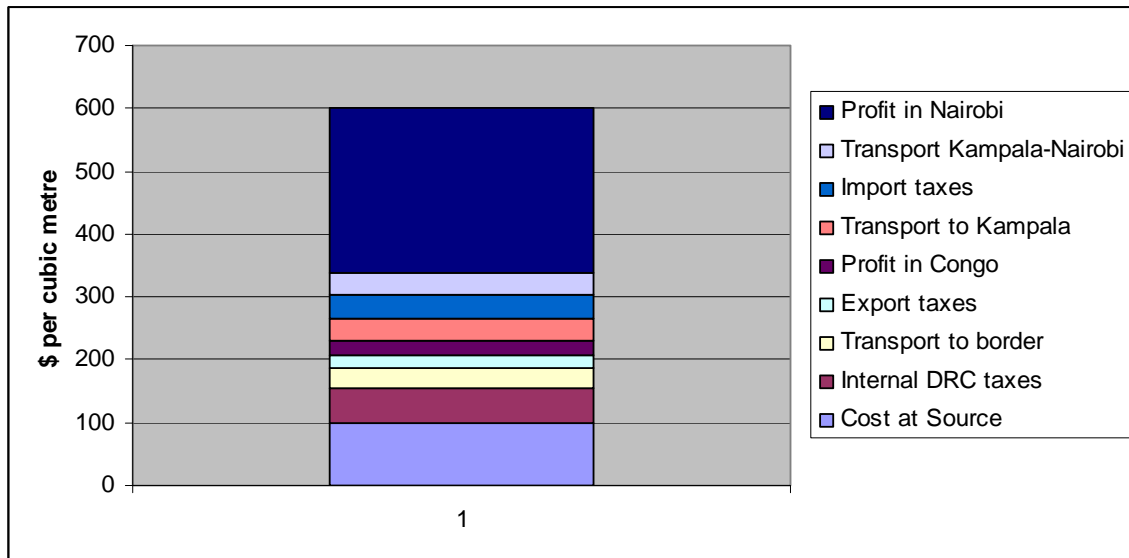
¹ URA: Uganda Revenue Authority.

² DFO: District Forestry Office (Uganda).

Value Chain for DRC Mahogany transiting Uganda and sold in Nairobi

The undried 12" × 2" mahogany planks, which represent the vast majority of DRC timber entering Kenya via Uganda, currently sell in Nairobi for up to US\$ 650 per m³. If true, this is a huge mark-up from the equivalent price in Kampala of US\$ 380 - 450 per m³. Under EAC³ rules, timber transiting to Kenya should pay the same tax rates as those paid for timber imported to Uganda. However, the real amounts paid will probably be higher, as the value of the timber will have increased as a result of having been transported a longer distance (taxes are levied on the value of the timber). The freight costs from Kampala to Nairobi may cost an extra US\$ 30 per m³. Additional work is needed to establish the actual duties paid on import to Kenya and the prices which the timber fetches in Nairobi.

Figure 2: Value chain analysis for mahogany from DRC transiting Uganda and sold in Nairobi.



Box 1 Legal status of harvesting and trading mahogany (*Entandrophragma* sp.) and Muvule (*Milicia excelsa*) within Uganda.

A ban on harvesting of both mahogany and Muvule (also known as Iroko, or African Teak) within Forest Reserves was imposed in the 1990s, due to over-harvesting and the rapid disappearance of these species within the Reserves. However, the legal weight of this ban is questionable, given that both mahogany and Muvule are harvested on private lands. In some Districts such as Gulu, the District Forest Officer has authorised the harvesting of mahogany on private lands, collected appropriate taxes, and issued Forest Produce Movement Permits. However, the National Forest Authority in Uganda (NFA) and other law enforcement staff who encounter such timber insist that it is illegal, and confiscate it. The confusion over the legality of harvesting mahogany and Muvule has fuelled much controversy between private land owners, timber traders and the NFA who are currently operating the Timber Monitoring Unit.

This is of particular relevance to Kapkwata who claim to be using around 550 m³ of locally harvested Muvule annually, including all the wood used to make doors for the CHOGM hotel on Entebbe road.

³ EAC: East African Community.

Note:

This document is part of a larger study undertaken by Forests Monitor and partners, within the context of the UK Department for International Development's (DFID) programme on the trade in natural resources from the DRC. This study uses a multidisciplinary approach - comprising socio-economics and politics - to analyse the timber trade in the Upper Great Lakes Region in central Africa, and recommends a set of integrated policies to increase the contribution of the timber trade to regional sustainable development. For the full report see 'The Timber Trade and Poverty Alleviation in the Upper Great Lakes Region', www.forestsmonitor.org