



"International Tropical Timber Organisation/European Commission"

FLEGT VPA Partners in EU Timber Trade 2014 to 2016

Summary Report

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**The views expressed herein are those of the consultant and do not necessarily reflect the
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Introduction

This report updates the data contained in the IMM Baseline Report¹ which considered VPA partner trade flow trends in the decade 2004 to 2013. As far as possible, this report does not duplicate analysis in the Baseline Report, but rather updates key forest resource and trade data and includes a commentary on market trends in the 2014 to 2016 period.

Only at the very end of the period reviewed in this report, in November 2016, were the first ever FLEGT licenses issued by Indonesia. Therefore, the report is limited in the extent to which it can assess actual market impact and acceptance. However, to better establish the baseline conditions for entry of FLEGT licenses into the EU market, the report includes a more detailed appraisal of the prospects for FLEGT licensed timber from Indonesia.

This report also provides information on the status of EU Timber Regulation (EUTR) implementation and the market position of FLEGT licensing in relation to private sector legality verification and certification initiatives. Drawing on scoping studies in Germany, Spain and the UK carried out in 2015, the report provides insights into the readiness for acceptance of FLEGT licensed timber in three countries which together account for over one-third of all timber imported into the EU from VPA partner countries.

Drawing on experience gained in the IMM scoping studies and review of market trends, this report concludes with recommendations for future monitoring by IMM and FLEGT-related communication.

Forest resource trends 2010-2015

Global forest resource data released during the review period highlights that, while there is considerable variation between countries, VPA partner forest resources overall are declining and investment in sustainable forest management and new plantations remains low. This implies a continuing need for on-going forest governance reform, and for innovative solutions to tackle intense and rising pressures on forests from rising population and demand for forest and agricultural products.

The existing pressures on forest resources, and the rising demand for commodities in emerging markets, are also impacting significantly on the forest products being exported from VPA partner countries into the EU and other international markets.

The Independent Market Monitoring Mechanism (IMM) was established under a project of the ITTO to support the implementation of bilateral voluntary partnership agreements (VPAs) between the EU and timber-supplying countries. VPAs are a key element of the EU's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan, which defines the EU's policy for promoting legal logging and the trade of legally licensed timber. A VPA specifies commitments and actions by both signatory parties with the aim of developing a legality assurance system to license timber and timber products for export to the EU. This report focuses on 17 tropical timber-supplying countries at various stages of the VPA process in March 2017 as follows: FLEGT licensing - Indonesia only; VPA implementing - Cameroon, the Central African Republic, the Congo, Ghana, and Liberia; VPA negotiating - Côte d'Ivoire, the Democratic Republic of the Congo (DRC), Gabon, Guyana, Honduras, the Lao People's Democratic Republic (Lao PDR), Malaysia, Thailand and Viet Nam; VPA preparing - Cambodia and Myanmar.

¹ Europe's changing tropical timber trade: Baseline report of the Independent Market Monitoring initiative, ITTO Technical Series #45, [http://www.itto.int/files/user/imm/TS%2045%20\(web\).pdf](http://www.itto.int/files/user/imm/TS%2045%20(web).pdf)

According to Global Forest Watch, annual tree cover loss was higher in all VPA partner countries between 2011 and 2015 than in the previous decade suggesting a generally greater intensity of land use and management in all VPA partner countries in recent years.

The FAO 2015 FRA indicates that between 2010 and 2015, forest area in the 17 VPA partner countries declined by 7 million hectares to 486 million hectares and share of total world forest area fell from 12.3% to 12.1%. VPA partner countries lost 1.49 million hectares of forest per year between 2010 and 2015, an increased rate of loss compared to the 2000 to 2010 period (1.29 million hectares per annum).

However, trends varied widely between countries with the rate of deforestation increasing in Indonesia, Guyana, Thailand, and Myanmar; continuing at the same level in Cameroon, CAR, Congo, DRC, Honduras, and Liberia; and slowing (but still high) in Cambodia. Between 2010 and 2015 forest area increased in Ghana, Gabon, Lao PDR, Malaysia, Thailand and Vietnam.

The FAO 2015 FRA indicates that rate of plantation establishment in the 17 VPA partner countries was not only very low compared to other regions between 2010 and 2015, but also declined sharply compared to the previous two decades. Between 2010 and 2015, only 85 000 hectares of new plantations were established per year in the 17 VPA partner countries compared to 480 000 hectares per year between 2000 and 2010. In 2015, VPA partner countries accounted for 6.0% of global plantation area compared to 6.1% in 2010.

While plantations are relatively insignificant to total timber supply in VPA partner countries, their role varies widely between countries. The recent decline in rate of plantation establishment was primarily due to the slowing pace in Indonesia following the Indonesian government's moratorium on new concessions to convert primary natural forests and peat lands to oil palm and timber plantations introduced in May 2011.

While the rate of plantation establishment has declined in Indonesia, plantations already provide a large and rising share of Indonesian wood supply. In 2016, 69% of Indonesian log production derived from plantations, up from 55% in 2009. The future of Indonesia's forest products sector is very dependent on adding value to wood fibre derived from plantations.

The situation in Indonesia contrasts with that in VPA implementing countries in Africa where plantation area is relatively small and most wood supply derives from managed natural forests. The FAO 2015 FRA shows that rate of plantation establishment in the African VPA partner countries was not only very low compared to other regions between 2010 and 2015, but also declined sharply compared to the previous two decades. Of VPA implementing countries, only Ghana significantly extended planted forest area between 2010 and 2015 at a rate of 13 000 hectares per year

While VPA implementing countries in Africa remain dependent on wood from natural forests, there were significant shifts in the type and quality of wood material available for export during the review period.

A scoping study on FLEGT-related developments in Ghana prepared by IMM in 2015 shows that in the last decade, availability of the more desirable species such as sapele and odum/iroko has fallen considerably due to past over-exploitation and species that were previously lesser-used now dominate both the domestic and export trade. Denser wood species such as denya and plantation timbers such as teak and gmelina are now exported in relatively large volumes.

Global competitiveness trends 2014-2016

The competitiveness of timber products from VPA partner countries is not only dependent on the extent and quality of forest resources and progress to implement legality assurance systems. Some VPA partner countries are exploiting other competitive advantages – such as low labour and other business costs, high processing efficiency, and good design and communication - to develop international markets for further-processed wood products.

VPA partner countries ranked highly in international competitiveness indices—Indonesia, Malaysia, Thailand and Viet Nam— tend to have the most developed wood-processing sectors and are significant exporters of value-added timber products to the EU. VPA partner countries that are poorly connected to international trade routes and are rated as challenging places in which to do business are more focused on the export of primary wood products.

A review of various comparative indices of national business competitiveness in VPA implementing countries during the review period reveals that Indonesia's business competitiveness declined slightly in relation to Vietnam but improved to some extent compared to Malaysia and Thailand. However, Indonesia's low level of connectivity to international trade networks compared to other South East Asian countries remains a challenge for Indonesia's global competitiveness.

In Africa, Ghana and Liberia slipped sharply down the competitiveness rankings during the review period. Congo's competitiveness improved slightly but the country is still ranked very low in global terms. There was no change in the very low level of competitiveness and connectivity exhibited by Cameroon and Central African Republic.

Global tropical wood trade trends 2014-2016

The combined share of the 17 VPA partner countries in global tropical wood products trade² remained stable at 81% in the three years between 2014 and 2016. However, this apparent stability obscures a highly volatile market situation during the review period, with considerable variation in the fortunes of VPA partner countries and their competitors.

The total value of global trade in tropical wood products increased 13% to peak at US\$35.0 billion in 2014 before sliding 9% to US\$31.9 billion in 2015 and a further 3% to US\$31.1 billion in 2016. The sharp rise and subsequent fall in trade was largely driven by market developments in China, particularly a short-lived speculative boom in imports of tropical logs during 2014, mainly rosewood species from the Mekong region and Africa. China's imports of tropical wood products increased by nearly 50% in the two years between 2012 and 2014 to peak at \$11.3 billion and then declined by 30% in the next two years to \$8.1 billion in 2016. The spike in exports to China was particularly pronounced for Lao PDR, Thailand, Myanmar, and Viet Nam.

Another key trend during the review period was a rise in Indonesia's share of global trade in tropical wood products. In 2016, Indonesia accounted for 18.2% of the total value of global tropical wood exports, a rise from a low of 17.2% in 2014. This increase was a reversal of a long-term trend of declining share in relation to countries of the Mekong region, particularly Thailand and Viet Nam. The rise in Indonesian trade between 2014 and 2016 was concentrated in wood furniture, together with mouldings (including decking), plywood, and joinery products such as doors and laminated window scantlings.

² Measured in US dollar value and includes all products in HS Chapter 44 (wood) and wood-based products in HS Chapter 94 (furniture).

In contrast, the five VPA-implementing countries in Africa accounted for 4.2% of global trade in tropical wood products in 2016, continuing a long-term slide in share from 5.1% in 2011. After a short-lived boom due to the rise in rosewood exports to China in 2014, tropical wood exports from West and Central Africa sunk to their second lowest level in the last decade in 2016, only marginally greater than exports in 2009 in the immediate aftermath of the global financial crises. VPA implementing countries in Africa were falling further behind Asian countries in efforts to develop internationally competitive export markets for high value wood products such as furniture.

Several non-VPA countries increased share in global tropical wood products trade in the decade to 2014, and maintained high levels of trade in 2015 and 2016, notably Mozambique in East Africa, and Papua New Guinea and the Solomon Islands in the Pacific region. Most exports from these countries comprise logs destined for China and India.

On the demand side, North American tropical wood imports continued to recover from the lows of the financial crises in 2014 and 2015 and stabilised at \$6.5 billion in 2016, mainly comprising wood furniture, plywood and other processed products. Meanwhile India's imports of tropical wood products declined from \$2.01 billion in 2013 to \$1.51 billion in 2016 mainly due to the ban on Myanmar log exports. Japan's imports of tropical wood, which now mainly comprise higher value products like furniture, joinery and good quality plywood, decreased from \$5.15 billion in 2013 to \$4.75 billion in 2016.

EU market trends 2014-2016

The economic background in the EU created challenging market conditions for timber products from VPA partner countries during the review period. VPA partner exporters had to contend with the relative weakness of the euro and other European currencies, the slow pace of EU economic recovery from the financial crises, the dominant position of European and Chinese manufacturers in many market segments, the strong fashion for temperate woods (particularly oak), intense and rising competition from a wide range of non-wood substitutes, and uncertainty created by the Brexit vote in June 2016.

Key economic sectors in the EU were recovering only slowly during the review period. Europe's construction sector was under-performing compared to other industrial sectors and becoming more focused on new build and Eastern Europe, sectors generally less attractive as markets for tropical wood than refurbishment in western Europe. Overall growth in the furniture sector was very slow; by the end of 2016, the total volume of furniture manufacturing in Europe was still down around 15% compared to the period before the global financial crises.

Measured in euros, the value of EU imports of tropical wood products increased 15% to €3.82 billion in 2015 before declining 1% to €3.79 billion in 2016. The euro value trend was influenced by exchange rate swings, particularly a 20% depreciation against the US dollar between July 2014 and March 2015. In US dollar terms, EU imports of tropical wood products were flat at a historically low level of around \$4 billion per year in the period 2014 to 2016.

The share of tropical countries in total EU wood product import value fell continuously from 35% in 2004 to a low of 21% in 2014. Tropical countries lost share initially to China in the period 2004 to 2010, and then to North American, Russian and non-EU European countries in the period 2011 to 2014.

However tropical countries regained a little share in import value mainly at the expense of Russia and non-EU European countries in 2015 and of China in 2016. The recovery in EU imports of tropical

wood products in 2015 and 2016 was particularly pronounced for furniture and sawn wood, although there were minor gains for all other product groups.

During the review period, the euro exchange rate was generally unfavourable to Asian suppliers, being low against the US dollar but strong against currencies in Eastern European countries including Russia and Ukraine which both significantly increased hardwood supply to the EU. African countries benefitted to some extent in the EU market, but main beneficiaries were domestic and Eastern European manufacturers.

EU imports of wood products from Indonesia, measured in euros, increased 16% to €796 million in 2015 and then declined 2% to €781 million in 2016. Indonesia's share of total EU tropical wood-product imports remained unchanged at 21% between 2013 and 2016.

EU imports of wood products from the five African VPA implementing countries increased 12% to €377 million in 2015 and then an additional 13% to €426 million in 2016. As a group, the share of African VPA implementing countries in total EU tropical wood import value declined from 11% to 10% between 2013 and 2015 but rebounded to 11% in 2016 due mainly to a surge in imports from Cameroon.

In most EU market segments, domestic producers are the major competitors to wood product suppliers in VPA partner countries. Of total supply into the EU market in 2015, domestic producers accounted for 97% of sawlogs and veneer logs, 82% of sawn hardwood, 88% of veneer, 53% of plywood, 99% of wood windows, 95% of wooden doors, 70% of real-wood flooring and 87% of wood furniture.

During the review period, the share of EU wood manufacturers in most market sectors was rising, boosted by the relative weakness of the euro and the market advantages of proximity to the consumer. One indicator of the improved global competitiveness of domestic manufacturers is the EU's trade surplus in wood products. After 6 years of continuous increase, the value of EU exports of wood products peaked at €20.51 billion in 2015, the highest level ever, and fell by only 0.5% to €20.40 billion in 2016. In 2016, the EU had a €3 billion trade surplus in wood products; this compares to a €3 billion deficit before the financial crises

Even in those wood sectors where European manufacturers have traditionally been weak and more dependent on imports, such as durable goods for outdoor use and in appearance grade wood, new innovative products are taking share from external suppliers. Key innovations include a wide range of new surface finishes to enhance the appearance and performance of temperate woods and panel products, and thermal and chemical modification processes to enhance the durability of domestic wood species.

A key trend in the EU creating significant challenges, and a few new opportunities, for wood products suppliers in VPA partner countries is growing demand for engineered wood products (EWPs) in a wide range of wood applications. The trend is closely linked to the move to rising quality and efficiency standards in the EU and to more modular forms of off-site, prefabricated construction.

EWPs tend to offer higher dimensional stability and greater strength than solid timber products, allowing more precise engineering which in turn improves product performance and longevity. They also help increase material efficiency, allowing lower grade and smaller dimension wood to be converted into high-performance components.

The move to EWPs has been challenging for external suppliers into the EU, particularly in the tropics, and EWP markets are heavily dominated by domestic manufacturers that are familiar with the required technical standards and well positioned to work closely with building engineers, architects and contractors.

Although VPA partners in South East Asia are supplying various forms of glulam into the EU market, and possibly also LVL, this is currently restricted to non-structural applications. However, there may be some limited new opportunities to supply tropical wood for specialist grades of EWP drawing on the high strength to weight ratio and durability of tropical wood.

Pulp and paper trends 2014-2016

Indonesia is the only country that exported significant volumes of pulp from wood harvested in the tropical zone during the review period. Pulp exports from Indonesia fell from 3.72 million tonnes in 2013 to 3.53 million tonnes in 2016 when they comprised 6% of global pulp trade. Around two thirds of Indonesia's pulp exports were destined for China, with most of the rest destined for South Korea, India and Bangladesh. Indonesia's pulp trade was negligible with the EU which sources most virgin wood pulp from domestic forests supplemented by imports from North America and sub-tropical regions of South America, particularly Brazil.

Paper product exports from tropical countries fell from a high of \$16.0 billion in 2011 to \$13.1 billion in 2016. Indonesia remains the world's largest tropical exporter of paper products despite a fall in trade in recent years. Indonesian paper exports peaked at \$4.61 billion in 2010, but fell in the next 6 years to \$3.41 billion in 2016. In tonnage terms, Indonesia paper exports fell from 4.5 million tonnes to 4.1 million tonnes during the same period. Export markets for Indonesian paper products during the review period were diverse but mainly concentrated in Asia.

EU paper product imports from tropical countries were static at 310 000 tonnes per year between 2013 and 2015 but then increased to 385 000 tonnes in 2016 when they accounted for 5% of total imports and less than 0.4% of supply. Indonesia exported 185 000 tonnes of paper products to the EU in 2013, rising to 254 000 tonnes in 2016, with most gains in the U.K., Croatia and Romania. While Indonesia's pulp and paper trade with the EU forms only a very small part of total trade in these commodities, such is the scale of the paper industry that this tonnage is comparable to Indonesia's trade in all other wood products with the EU.

EUTR implementation

The most immediate market advantage of FLEGT licensing should derive from implementation of the EUTR which gives licenses a green lane through the due diligence requirements. In 2015 and 2016, several reports were published and survey data made available by a variety of organisations, including the EC and IMM, which together allowed for a preliminary assessment of the extent and effectiveness of EUTR implementation.

Only a limited number of EUTR penalties in a few member countries were imposed on EU operators during the review period. This was partly because some member countries deliberately introduced a grace period after implementation of EUTR in March 2013 to provide time to build understanding of practical due diligence within government agencies and the timber trade.

However, some member countries were very slow to introduce enforcement and sanctions regimes in line with EUTR obligations after March 2013. In a few cases, regulatory checks on operators only began late in 2016 after the EC had imposed formal infringement proceedings on the member countries concerned. The reports also identified a need to update and extend the guidance for

implementation, and for efforts to improve coordination of EUTR implementation across EU member countries and to communicate more widely with the private sector, particularly smaller operators.

The reports revealed no step change in EU trade flows that could be readily attributed to EUTR implementation during the review period. There were some trends which seemed, superficially, to be at least partly driven by EUTR – such as a shift to rely more on internal EU suppliers and a rise in imports from high risk countries in the CIS region into EU member countries that were slow to introduce EUTR sanctions. However, on closer inspection it was clear that most of these changes were a continuation of long- term trends dating to before EUTR, or were otherwise more readily explained by other market factors.

In other respects, the reports were more encouraging. They suggested widespread support for EUTR in the private sector in the EU and recognition by the private sector and civil society that the regulation is an appropriate response to the challenges of illegal timber trade. There was also anecdotal evidence of changing behaviour by market participants to reduce exposure to risky supply chains in response to EUTR which would not necessarily show up in statistical trade analysis.

After a slow start, some EU member countries were stepping up EUTR enforcement checks in 2016. They were also being strict in their interpretation of EUTR requirements, creating challenges for procurement of wood products from countries with high levels of corruption without recourse to third party traceability systems.

Interviews with importing companies carried out in 2015 as part of IMM scoping studies in Germany, Spain and the UK revealed that the large majority were aware of the VPA process and what it means; were looking forward to FLEGT-licensed timber becoming available to reduce legality risk and costs of due diligence for that timber; expected to give preference to FLEGT licensed timber over unlicensed timber; and would be willing to pay a small price premium (ranging from 2% to 5%). Some larger influential companies also expressed very positive views about the potential of the FLEGT VPA process to help restore the image and market share of tropical timber.

FLEGT licensing in relation to other verification frameworks

IMM's analysis of EU trade flows alongside data on certified forest area highlights the sharp contrast between timber products sourced from within the EU, most of which are from forests independently certified by FSC or PEFC, and those sourced from outside the EU, mainly from uncertified forests. The analysis also highlights the extent to which FLEGT licensing, once fully implemented across partner countries, will fill the gap in verified wood supply into the EU.

In 2014, around 80% of internal EU trade in timber products was “exposed” to some form of certification or legality verification³. In contrast, the level of exposure to some form of certification or legality verification of all EU timber products imports from outside the EU was only around 25% in 2014. While low, this figure is heading in the right direction, rising from 19% in 2007. If all timber from the 17 countries engaged in the FLEGT process had been licensed in 2014, the level of exposure to legally verified timber in EU external trade would have been 8% higher, at 33%.

While the VPA process captures only a relatively small proportion of total EU imports of timber and timber products, it is very significant amongst tropical supplying countries in South East Asia and

³ In the absence of any actual data on volume of trade in certified or legally verified timber, the “level of exposure” is used as a surrogate. This is calculated by IMM from the % of forest area which is third party certified or otherwise legally verified at national level in timber supplying countries.

Africa. If all timber products imported by the EU from VPA countries were FLEGT licensed, the level of exposure to verified timber from South East Asia would rise from 25% to 95% and from Africa from 11% to 60%.

The market interaction between FLEGT licensing and other verification systems is not only dependent on their relative geographic coverage, but also on their perceived level of assurance, both with respect to the credibility of auditing procedures and the content of standards. Work undertaken and contacts made by IMM during the review period highlighted the lively debate on this issue which will only find resolution with practical experience and greater understanding of the respective roles of FLEGT licencing and certification.

Interviews with the private sector undertaken for IMM scoping studies emphasised that a large proportion of EU timber buying organisations, particularly larger private corporations and public institutions, have been implementing responsible procurement policies now for many years. These policies typically set out minimum criteria not only in terms of legality, but also in terms of sustainability and generally giving preference to FSC or PEFC certified products. The interviewees were seeking greater clarity on the scope and content of FLEGT licensing procedures in each partner country to better assess where licenses sit in relation to other forms of verification.

Interviewees also noted that FSC and PEFC were already ramping up legality assurance aspects to increase their value under the EUTR and were calling for these systems to be given equivalent 'green lane' status to FLEGT licenses. This call was becoming more urgent with rising impatience over delays in arrival of the first FLEGT licensed timber⁴.

The scoping studies also provided preliminary indications of market segmentation in attitudes to FLEGT licenses in relation to other forms of legality and environmental assurance, both across sectors and in different regions within the EU. This variation will need to be explored in much more detail in subsequent IMM surveys once FLEGT licences are more widely available.

For example, interviews with furniture industry representatives in the UK, the largest EU importer of furniture from outside the region, highlighted that FLEGT licenses are likely to be particularly valuable for small and medium sized importers and retailers in this sector. These companies, which have lacked resources for due diligence and have had less leverage than larger corporations to demand FSC or PEFC certification of suppliers, would particularly benefit from the green lane through EUTR offered by FLEGT licensed goods.

While some IMM interviewees were very concerned about the potential competition between FLEGT licenses and other forms of assurance, the overall impression from IMM preliminary surveys and contacts during the review period was of broad recognition and acceptance of their complementarity. Large campaigning environmental groups interviewed during IMM scoping studies in the EU, many of which are also active supporters of FSC, all expressed strong support for the concept of FLEGT licensing alongside the EUTR and other components of the wider FLEGT Action Plan.

⁴ The calls by interviewees for equivalent 'green lane' status for certification schemes should be considered in the light of the EC's stated policy on this issue. For example, the Summary Record of the FLEGT/EUTR Expert Group Meeting of 20 September 2017 notes: 'EC received inquiries from some [Member States] about the recognition of the FSC and PEFC certification schemes as part of the ongoing development of an ISO standard for the Chain of Custody. Developments under an ISO standard cannot and will not be given the same status as FLEGT licences and CITES permits which are the only exceptions under EUTR, accepted as automatic proof of legality'.

Immediate trade impact of FLEGT licensing in Indonesia

IMM carried out a preliminary review, necessarily speculative at this stage, of the effects of FLEGT licensing on Indonesian trade after November 2016. This concluded that, excepting a slight upturn in plywood trade, there was no immediate and obvious impact on trade flows into the EU in the first few weeks after licensing began.

Considering future prospects, the review observes that the competitive position of Indonesian timber products in the EU varies widely between product sectors. FLEGT licensing should offer an immediate opportunity for Indonesian suppliers to retake share in those sectors – such as decking, plywood and flooring - where Indonesian products are familiar to EU importers and already favoured for their strong technical performance, but where demand has been dampened by concerns over the legality of wood supply.

However, FLEGT licensing, in isolation, is less likely to generate immediate benefits in those high value sectors like furniture and joinery where the specific technical and environmental features of Indonesian wood products have been less significant barriers to competitiveness than wider issues such as labour costs, red tape, logistics, processing efficiency, innovation, and marketing.

In these sectors, increasing share is only likely to be achieved if FLEGT licensing is combined with market development initiatives to improve the international competitiveness of Indonesian wood manufacturers across a wider range of issues. However, the long-term benefits of investment in these initiatives, alongside FLEGT licensing, would be considerable given the sheer size of markets for consumer products like furniture, the relatively high proportion of Indonesian furniture exports already destined for the EU, and the greater potential to add value to wood fibre.

Recommendations for future IMM monitoring

Drawing on experience gained in the IMM scoping studies and analysis of trade statistics and other data, the following recommendations are made for future IMM monitoring:

- Considerable work is still required to improve the quality, regularity, accessibility and visualisation of trade flow and other relevant economic data, to allow effective and accurate assessment of FLEGT market impacts. This needs to be a significant focus of on-going IMM work and will also help better satisfy the growing demand for such data from other agencies engaged in FLEGT work.
- The FLEGT licensing system itself offers a potentially valuable additional source of trade flow data, providing more immediate and detailed information than national customs and statistical agencies. IMM would benefit from regular access to FLEGT license databases in both the EU and partner countries. There may also be a significant task to reconcile statistical data from the different information sources.
- There are significant gaps in existing statistical data limiting the ability of IMM to reliably assess the trade and competitiveness impact of FLEGT licensing. For example, there is no data on the actual volume of trade in timber which is independently certified or legally verified through non-VPA mechanisms, and a need for more reliable indices of forest governance risk in non-VPA supplying countries.
- There is on-going need for IMM to build and maintain strong links with other agencies engaged in FLEGT work – most notably EFI, FAO and WCMC (in their work on the EUTR biennial review), to reduce duplication and improve the flow of information.

- While important, analysis of trade statistics in isolation will be insufficient to assess impacts of FLEGT licensing and must be combined with surveys of operators to identify and assess the relative importance of different market drivers.
- The IMM scoping studies demonstrated the value of recruiting national correspondences with expert knowledge of the local forest products sector to undertake on-ground surveys for IMM and to act as a point of liaison between the IMM and national FLEGT agencies.
- Information on market conditions and on corporate and other organisation attitudes to FLEGT licensing is best acquired using semi-structured interviews undertaken by national correspondents using a standard, but flexible template, prepared centrally by IMM.
- On-line survey tools are useful for compiling and analysing data but emails requesting the trade to respond to on-line surveys will not illicit a positive response.
- Surveys can be effectively targeted to specific geographic areas and sectors using trade statistics. For example, survey work focusing on just seven EU member countries will capture 90% of all imports of wood products from VPA partner countries into the EU (Belgium, France, Germany, Italy, Netherlands, Spain and the UK).
- The IMM scoping studies in the EU during the review period focused heavily on the traditional timber importing sector and there is a need to significantly increase coverage in other sectors, notably furniture manufacturing and retailing, and joinery and engineered wood products.
- IMM surveys need to capture the full range of operators, both large and small. While large corporations are often major buyers and will significantly influence wider consumer behaviour and public policy, demand for FLEGT licensed timber products may be particularly strong amongst smaller operators that lack resources for due diligence.
- IMM needs to communicate widely, regularly and concisely, both on activities and market conditions. This is required not only to satisfy IMM's reporting mandate, but will also encourage greater input and support for IMM data collection in the private sector and make a significant contribution to raising trade awareness of the role of FLEGT licenses.

Recommendations for FLEGT license market development

Drawing on contacts and interviews with a wide range of interests in government, industry and civil society during IMM activities between 2014 and 2016, the following observations are made with respect to future strategies for market development of FLEGT licensed timber:

- EU efforts to ensure consistent and effective enforcement of EUTR provide the most immediate, and likely most effective, market advantage for FLEGT licensed timber in the EU and should continue to be prioritised.
- Market development for licensed timber would benefit from widespread acceptance of FLEGT licensed timber as appropriate evidence to demonstrate conformance to EU member state public procurement policies, recognising the wider governance reforms required for licensing. Public sector policies are important not only for their direct influence over government procurement but also for the signal they send out to the wider market.
- There is a critical need to improve communication and raise market awareness of the steps required to implement a FLEGT licensing system. Currently there is a gap between European timber trade perceptions of a "legality verification scheme" and the comprehensive forest sector reform measures of the FLEGT VPA process.
- Extending the assurance provided by FLEGT licenses to operators in the EU beyond the first placer requires consideration of chain of custody procedures for licensed timber within the EU. This may be best achieved through co-operation with existing private sector initiatives

with well established procedures and a large existing network of certified operators in the EU.

- There is a need to communicate the scope and content of FLEGT licensing procedures in each partner country more effectively to better assist timber procurement officials, specifiers and buyers in the EU to assess where licenses sit in relation to other forms of verification. A technical workshop in the EU engaging interested parties, including representatives of the EC and other FLEGT-related agencies, member state procurement officials, certifying organisations, and trade representatives, should be held as soon as possible to facilitate this process.
- The FLEGT licence is a credible endorsement and an essential underpinning for market development in the EU, but is unlikely to deliver significant or sustained increases in market share in isolation. Imported timber products, not just from the tropics, are struggling to compete with domestic suppliers and non-wood substitutes in the EU. All actors need to avoid raising expectations of immediate market gains in what is better presented as a long-term process of market transformation. FLEGT partners also need to consider how FLEGT licenses fit within their broader timber industry and export development strategy.
- The private sector needs to be actively engaged in the positive marketing of FLEGT licensed timber, and not treated as a passive actor responding to regulatory signals. This requires targeted communication so that individual businesses in VPA partner countries, the EU and other export markets fully appreciate the role of licensing and the marketing and investment opportunities it creates. Accurate messages about FLEGT licensing need to be introduced into business-to-business dialogue and considered within the context of real products and supply agreements.
- There is an opportunity to build on public statements of support for the FLEGT VPA process by influential civil society groups in the EU to overcome market prejudice against tropical timber. In a market where buyers are highly sensitive to environmental campaigns, maintaining the support of EU civil society will be necessary to build long-term market advantage. This in turn will require continued commitment to maintaining the integrity of auditing frameworks, transparency of licensing procedures and standards, and broad stakeholder participation.
- Equally, civil society groups in the EU need to be aware of the fragility of EU markets for timber products from VPA partner countries and that their leverage in VPA processes is significantly dependent on ensuring that FLEGT licenses deliver real market advantages.
- While the EU market environment is challenging for VPA partners, there are trends with potential to offer new opportunities for FLEGT licensed products. Sustainability, traceability, authenticity and “narrative” are strong themes running through design and the marketing of wood and other materials in the EU, all themes that can be turned to the advantage of suppliers offering FLEGT licensed products through creative communication strategies.
- For many VPA partner countries, the EU is currently declining in importance as a market for timber products relative to the domestic and emerging markets. Encouraging recognition for licensed timber in due diligence legislation and in public and corporate procurement in large markets outside the EU should be a priority.