



# IMM News

Spring 2018

Providing information on independent market monitoring of FLEGT-licensed timber

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Independent Market Monitoring (IMM) is a multi-year programme funded by the European Union (EU) and managed by the International Tropical Timber Organisation (ITTO). IMM's role is to use trade flow analysis and market research to independently assess trade and market impacts of FLEGT Voluntary Partnership Agreements (VPAs).

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[www.flegtimm.eu](http://www.flegtimm.eu)

## PROJECT News

### IMM launches ambitious 2018 work plan

The IMM project is launching a series of new activities this year, besides continuing its trade flow analysis, trade and other stakeholder surveys.

In March, IMM held its first Trade Consultation in the London Building Centre. Trade Consultations are an opportunity for timber businesses and other industry stakeholders, such as specifiers and retailers, to hear the latest findings of the IMM's trade flow monitoring and survey work. They are a forum for delegates to discuss key issues and share their opinions with VPA partner countries and the European Commission.

The London event attracted a 45-strong audience comprising timber importers and distributors, furniture suppliers, retailers, and trade association officers, including from the Netherlands, Belgium and Germany, besides the UK. A detailed event report, as well as brief reports on each of the afternoon workshops, can be found **in this newsletter**.

The next IMM Trade Consultation will be held in Nantes, France, on 31 May – taking place during the Carrefour International du Bois show at the Parc Beaujoire exhibition complex. Registration is now open on the **IMM website**, while **free registration for the show is open now at [www.timbershow.com/visiter](http://www.timbershow.com/visiter)**.

The present newsletter is IMM's second overall and the first in a series of four to be published this year. Our focus on Ghana takes a closer look at latest developments in its VPA **implementation**, including results from its **shipment test**, as well as an analysis of EU-Ghana tropical timber trade (**see p10**). Our update on Indonesia focuses on the so far little-publicised levels of **sustainable forest management certification in the country**.

As a part of its research, IMM will launch several studies this year. These include an in-depth scoping study of the **EU furniture sector**, which is now underway after its launch in March. There will also be a scoping study of FLEGT impact on forest sector investment and a study of EU wood promotion campaigns and their recognition of FLEGT.

The IMM 2017 Annual Report, covering results from our 2017 survey work and trade flow monitoring, will be published mid-year 2018.

### IMM undertakes furniture market scoping study

The IMM is undertaking a scoping study to assess trade and market impacts of FLEGT Voluntary Partnership Agreements (VPAs) in the furniture sectors of EU and VPA supplier countries.

Led by consultant George White, the study will provide a baseline and recommendations for long-term IMM monitoring of FLEGT VPA- and EU Timber Regulation (EUTR)-related trends in the wood furniture industry.

"It's needed because finished wood furniture consistently accounts for nearly 40% of the total value of EU imports of timber and timber products from VPA partner countries and they also supply EU furniture manufacture with a range of wood raw materials, including logs, sawnwood, mouldings, veneer and plywood," said Mr White. "The distribution channels and factors affecting competitiveness in this industry are also distinct from those in the traditional wood importing sector and would benefit from specialist knowledge and analysis."



**SME manufacturing in Indonesia**

He added that the furniture sector is particularly interesting for EUTR impact assessment as it is divided between products which are exempt the regulation legislation (seating) and those which are covered (all other types of wood furniture).

With research undertaken by IMM's national correspondents, the study will primarily focus on seven countries, which between them account for 83%

of all EU wood furniture imports and 86% of wood and wood product imports from VPA partners. These are the UK, Germany, France, Netherlands, Belgium, Italy and Spain .

Initially key companies involved in the furniture trade in each of these states will be identified, including retailers, importers, wholesalers and agents. Using information and opinion from them, the study will then determine and describe current market conditions and distribution channels in their countries, both for finished wood furniture and for timber and wood products for furniture manufacture supplied by VPA partner countries.

The final report will also help:

- better identify types of wood furniture imported by the EU from VPA partner countries;
- assess factors determining the relative competitiveness of VPA partner countries in relevant EU furniture market segments;
- provide preliminary assessment of the current and potential role of FLEGT Licensing to improve EU market access for wood furniture from VPA countries.



### The furniture sector survey covers seven key EU importing countries

The VPA partner countries engaged in wood furniture supply to the EU are primarily Vietnam, Indonesia, Malaysia and Thailand.

The IMM correspondents network will be collating data for the study through March and

April 2018 and the final report is due to be published late June.

EU-based furniture sector companies willing to be interviewed for the study can contact George White at [georgecwhite@btinternet.com](mailto:georgecwhite@btinternet.com).

## Inviting frank feedback on FLEGT licensing

The IMM EU FLEGT VPA Trade Consultation at the London Building centre underlined the range of timber sector stakeholders interested in learning more about the VPA initiative – and where it's headed in the future.

The 45-strong audience at the March 8 event included timber importers and distributors, furniture suppliers, major retailers, and officers of timber, woodworking and furniture trade associations, including from Belgium and Germany besides the UK. Representatives of UK government, the Indonesian embassy and Ghana Forestry Commission also participated.

The Consultation began with a tour of the UK Timber Trade Federation's (TTF) **Timber Transformer public exhibition**, which relates Indonesia's FLEGT VPA journey and start of licensing. The two, as TTF managing director David Hopkins explained, shared goals, with the exhibition highlighting what lies behind a FLEGT licence in terms of improved forest governance, stakeholder engagement and industry transparency.

But as facilitator Andrew Escott of the Global Timber Forum explained, Consultation and exhibition also had a point of difference. Besides informing them about latest FLEGT VPA developments, plus findings from IMM VPA country trade analysis, the Consultation was also a forum for participants to ask questions and "voice opinions positive and negative about the FLEGT VPA project".

"Today is about adding a qualitative aspect to IMM's core work, monitoring trade flows from FLEGT VPA countries and analysing FLEGT-licensed timber's EU market impacts," he said.

IMM lead consultant Sarah Storck reinforced the message. "IMM's intended outputs include improving quality of international timber trade data, especially for the tropical trade, to assess how it competes on the EU market and background factors involved," she said. "For this, we need trade feedback on current market trends and particularly your opinion on where FLEGT licensing fits in future development of tropical timber markets."

In her welcome address, ITTO assistant director operations Sheam Satkuru also stressed the importance of industry stakeholders' views to the evolution of the FLEGT VPA initiative.

"Outcomes of IMM events like today's will be communicated to such bodies as the UN Forum on Forests, FAO Committee on Forestry and International Tropical Timber Council," she said.

## IMM trade analyst puts tropical timber import trends into context

The presentations began with IMM trade analyst Rupert Oliver examining recent EU tropical timber trade shifts, notably its loss of leading importer status to China, and FLEGT licensing's potential to reverse them.

He attributed the EU's slide in global tropical market share since the 2000s from 35% to 21%, against a backdrop of overall international tropical trade growth, to various reasons. These included tropical timber diversion to other markets and the international economic crisis, which saw 'erosion of the EU's tropical market infrastructure'. Also implicated were competition from other wood products suppliers and tropical timber alternatives and the combination of 'uncoordinated marketing and environmental prejudice' due to perceptions of tropical wood's legality and sustainability credentials.



Sheam Satkuru



Rupert Oliver



**The Trade Consultation drew an audience from across private and public sectors**

“The question, against this background, is whether FLEGT VPAs can provide the platform to rebuild EU tropical timber market share,” said Mr Oliver.

One strength of the VPA initiative, he said, was the range and availability of product offered by Indonesia and the other 14 countries at various stages of VPA engagement. While the spectrum of market obstacles to tropical timber needed to be tackled, this created potential to deliver significant commercial impact.

“21% of EU tropical imports are Indonesian, while African VPA countries account for 9% and others negotiating a VPA 45%,” said Mr Oliver.

### **Can FLEGT-licensing help rebuild tropical timber market share?**

It was too soon, he maintained, to judge whether FLEGT licensing was yet impacting the EU’s Indonesian imports. “However, while it was unrealistic to expect the start of licensing would be a major market inflection point, 2017’s rise in EU Indonesian plywood imports [up 24% to 88,000 tonnes] may in part be a positive story for FLEGT.”

Early conclusions from IMM monitoring of trade trends and gauging of FLEGT licensing and VPA EU trade perceptions, he said, were that FLEGT licences “can underpin tropical product market development over time”. However various steps needed to be taken to ensure this happened. Initial IMM recommendations included ensuring ‘consistent enforcement of the EU Timber Regulation’, to which FLEGT licences grant due diligence exemption, plus

‘appropriate recognition of FLEGT in EU public procurement’. Improved communication about FLEGT licensing was also vital.

The last point was stressed by IMM lead consultant Sarah Storck, who said its initial market surveys had revealed concerning levels of timber trade awareness of the FLEGT VPA initiative and licensing in some EU countries.

“Around 90% of 126 EU survey respondents were operator importers, but still just 59% considered themselves well aware of the FLEGT VPA process, 40% only fairly aware, and 2% totally unaware,” she said.

She said IMM would continue to track this area, and that it was now also assessing market perceptions in the furniture industry and the financial sector in a forest sector investment study.

### **DEFRA accepts FLEGT as evidence of legality and sustainability**

IMM German correspondent Gunther Hentschel addressed the sustainability credentials of Indonesia’s FLEGT VPA and licensing, focusing particularly on its PHPL sustainable forest management (SFM) standard. While little known outside the country, he said, nearly 17m ha of Indonesian concession forest and plantations are certified to the standard and it stands behind a significant proportion of FLEGT-licensed timber and wood products (see panel).

On FLEGT and government procurement, a Department for Environment (Defra official) said FLEGT-licensed timber was considered evidence of compliance with UK government timber procurement policy (TPP) [which requires proof of legality and sustainability] due to the SFM verifications that lie behind Indonesian FLEGT licences.

David Hopkins echoed the view that greater awareness of FLEGT and FLEGT licensing was needed and said his organisation was informing the market that licences were effectively ‘category A’ evidence of UK government TPP compliance, together with FSC and PEFC certification.

“Until now we’ve only had the voluntary FSC and PEFC certification schemes as mainstream assurance that timber products meet ethical standards. Now we have the regulatory framework behind FLEGT licensing,” he said. “That has to be an advance and we should promote it.”

The three main topics of the morning session – Trends in EU tropical timber trade; sustainability credentials and marketing potential of FLEGT-licensed timber; and FLEGT in public procurement – **were discussed in detail during separate workshops in the afternoon.**

The next Trade Consultation will take place at France’s Carrefour International du Bois in the Parc Beaujoire exhibition complex in Nantes on May 31. You can register for this event [here](#).

### **Links to the IMM presentations**

- **FLEGT VPA Independent Market Monitoring (IMM) Background, Activities, Plans, and Insights from Survey Work in Europe, Sarah Stork, IMM Lead Consultant**
- **The EU market for tropical timber products, Rupert Oliver, IMM Trade Analyst**
- **Status of forest certification in Indonesia, Gunther Hentschel, IMM Germany Correspondent**
- **FLEGT & UK Procurement, David Hopkins, Managing Director, TTF**
- **EUTR/FLEGT Update, Deanne Hughes, Enforcement Team Leader Timber, Office of Product Safety and Standards, UK Department for Business, Energy & Industrial Strategy.**
- **FLEGT and Government Procurement, Bernadette Chapman, International Forestry, UK Department for Environment, Food and Rural Affairs**

## IMM Trade Consultation discussion groups

*In part two of the IMM Trade Consultation, participants divided into groups to address key topics for the forward development and market awareness and acceptance of the FLEGT VPA initiative and FLEGT licensing.*

### Session 1: Market trends for tropical timber in Europe

This session focused on reasons for the 15-year decline in tropical wood import volume and share in the EU, future market prospects and the role FLEGT licensing could play in reversing the market trend.

Participants had experience of UK, Netherlands, German, and Belgian markets. They were asked to consider nine potential reasons for falling EU tropical timber demand:

1. Economic downturn 2008 to 2013
2. Diversion of supply to other markets
3. Erosion of infrastructure for EU supply
4. Import and financial sectors aversion to commercial risk
5. Just-in-time favouring more regular less volatile supply
6. Substitution by temperate, chemically and thermally modified wood, composites and non-wood materials.
7. Prefabrication and the switch from adaptable utility woods to tightly specified materials
8. Competition from China for material access and in markets for finished goods
9. Environmental prejudices and uncoordinated marketing

There was group consensus that all the factors are relevant, but that fashion changes should be added, notably the EU trend towards the oak look and shrinking demand for redwood finishes in interiors. It was also noted that EUTR has been an important driver to increased aversion to commercial risk.

Participants agreed that the key factors in the decline in EU tropical wood imports have been “environmental prejudice and un-coordinated marketing”, combined with “substitution by temperate and modified woods, wood composites, and non-wood materials”. They also highlighted the link between these factors, suggesting that other material sectors have exploited environmental prejudices and lack of effective marketing from the tropical industry to take its market share.

On the potential role of FLEGT licensing in reversing tropical timber imports, the view was that it was likely limited.

It was felt that licensing currently was not well suited to overcoming environmental prejudices as ‘sensitive’ sections of the EU market are already



The breakout sessions were a chance for delegates to ask questions and air opinions

conditioned to favour FSC and/or PEFC certified forest products. There is also no consumer awareness of FLEGT licensing. Even in the timber trade it was thought there is widespread belief that licensing is “legality verification” only and there is little understanding of wider governance reforms it entails.

Licensing was also perceived by the group only to address factors related to environmental prejudice and, to some extent, commercial risks, not various other technical factors contributing to tropical wood's decline in Europe; including other materials sectors' innovation and superior marketing, the shift to prefabrication, rise of engineered wood products, and volatility in tropical supply.

The fact that only one country is currently FLEGT licensing was also seen to limit its value, at least to the importing industry represented in this group, as a tool for building a market development strategy.

Although the overall view of the group was negative on future EU market prospects for tropical wood and the role of licensing, they suggested ways to improve the situation:

- Extending FLEGT licensing to a wider range of countries to enhance its visibility and value as a tool for regulatory compliance and a market development platform, and bringing on board a large Asian supplier like Vietnam and a large African supplier like Cameroon to give the whole framework a boost.
- Promoting wider awareness and deeper consumer understanding of the role of FLEGT licensing/FLEGT VPAs in enhancing national forest governance and reducing the risk of bad forestry. Given environmental prejudice is reckoned to be a key reason for the decline of tropical timber in the EU market, this would have potential to play a significant role in removing barriers.
- Creating opportunities to overcome environmental prejudices and improve competitiveness in relation to substitute products through linkage of the licensing system to LCA-based systems of environmental

assurance. These could include Environmental Product Declarations (EPDs) and Product Environmental Footprints (PEFs), currently being developed to promote a EU market for environmentally friendly products.

- Putting much stronger emphasis on targeted promotion that matches specific tropical products with technical demands of specific EU market niches, given that, while important, market development strategies focusing only on generic legality and environmental issues can go only so far to remove barriers.

### Session 2: Sustainability credentials and marketing potential of FLEGT-licensed timber

Participants in session two represented large retail companies, furniture importers, agents and furniture associations.

The group looked into purchasing dynamics, i.e. main factors determining purchasing decisions, information flows, including information presented during the Trade Consultation, and the competitive situation of Indonesia.

Regarding purchasing dynamics, participants stated that priorities had changed in recent years. Traditionally, purchasing decisions were primarily taken on the basis of a combination of price and “fitness for purpose”, i.e. technical properties and quality of a product and its suitability for intended applications. This was followed by other criteria such as logistics and quality of service, for example.

Today, priorities depend more strongly on the type of customer to be served. While for certain clientele, price still remains the predominant factor, a large proportion of customers, especially large retailers, focus strongly on legality and sustainability and only where these can be guaranteed, do they look into other criteria. Companies wishing to supply the retail sector thus always have to provide proof of legality or preferably legality and sustainability as a precondition. However, the question was raised whether this was a UK specific

situation/preference. This will be something future Trade Consultations on the Continent will look into.

Participants unanimously agreed that FLEGT licensing had made purchasing in Indonesia easier compared to exercising due diligence. However, they also unanimously voiced criticism of the flow of information and product marketing, especially in the light of what they had heard about the definition of "legality" under VPAs, for instance, that it also means compliance with social, environmental and labour laws, as well as sustainable forest management and PHPL certification in Indonesia.

All participants found that information provided during the morning session had changed their perception of FLEGT licensing and representatives of retailers said they would have to reconsider the status of licensed timber in their procurement policy.

In the light of this new information, participants also found that a "FLEGT certified" logo would make sense. While participants saw little point in marketing wood products as "legal", they felt that there would be potential for marketing FLEGT by highlighting such aspects as its contributions to sustainability, improved governance, improved living conditions and climate change mitigation. This is also reflected in a short survey conducted among all participants during the trade consultation. For this approach participants said they'd require more and better information about the FLEGT process, as well as background/human interest stories. Providing such information and stepping up targeted promotion of FLEGT licensing timber was the primary recommendation of the group.

### Session 3: FLEGT-licensed timber and EU public procurement

This multi-national discussion addressed the current status of FLEGT licensing as a criteria in government timber procurement policy (TPP). It also looked at prospects and methods for it achieving greater and more widespread recognition in TPP in the future.

The participants, representing the UK, Belgium, Italy, Germany and the Netherlands, were drawn from timber and related sector consultancy, retail, academia, forest and sustainability services and government.

Of the countries present, only in the UK is FLEGT licensing given any recognition in government TPP (and the only other country that does is Luxembourg). It is, like FSC and PEFC, considered evidence of legality and sustainability, with the latter due to the SFM credentials of the Indonesian FLEGT VPA timber legality assurance system. Its TPP status is detailed on the Department of Environment website, but more active communication to suppliers/contractors is currently being 'scoped'.

In private (retail) sector procurement, bigger businesses tend to opt for sustainability certification only. The EUTR has focused companies on timber legality issues, but most seem to have little awareness of FLEGT licensing.

In Italy FLEGT licensing is not referenced at all in Ministry of Environment Minimum Environmental Criteria (MEC) for public procurement, which lists only FSC and PEFC as evidence of sustainable sourcing. The key factor seems to be lack of chain of custody (CoC) behind FLEGT-licensed timber to track it once it has been placed on the EU market.

In Belgium there is reported to be little reflection on whether FLEGT licensed timber goods should be accepted under public procurement criteria. The timber industry, it's reported, seems to be satisfied that a licence grants EUTR due diligence exemption.

In Germany, only FSC and PEFC, or 'comparable' certificates are currently accepted as proof of legality and sustainability in federal TPP. However, independent assessment of some FLEGT VPAs has been undertaken in terms of compliance with international sustainability requirements, with the conclusion that they meet a 'significant proportion'. NGO opposition and lack of chain of custody are seen as potential obstacles to altering the position, but there will now be discussion on the topic with a view to also recognising FLEGT as proof of sustainability in TPP.

In the Netherlands, there is some debate among government agencies on inclusion of FLEGT licensing in TPP and currently it is not. Given the timber market is estimated to be 85% certified sustainable, and the public and private sector debate is moving on from sustainable sourcing to such topics as low carbon and the circular economy, there also seems to be little industry appetite to address the issue, with major efforts to press for change regarded as disproportionate to the potential benefit.

One solution suggested by the group was communicating the extent to which FLEGT VPAs timber legality assurance systems extend beyond legality and meet key sustainability criteria. There was a recommendation too to establish a European-wide procurement monitoring group looking at uptake of sustainably certified and FLEGT-licensed timber in the public sector.

Backing FLEGT licensed products with CoC, for example, based on the ISO standard, and introducing a FLEGT licence brand were also discussed as options.

Other ideas included undertaking 'reduced scope' procurement monitoring case studies centred on procurement and use of FLEGT-licensed timber and wood products. These, it was suggested could be; product level, focused on a particular product category, such as timber for marine work; project level, involving, for instance, a specific construction project; or company level, working with a specific retailer, architect or other business on procurement.

Such initiatives, it was thought, could also secure VPA producer country support as a means of showcasing FLEGT-licensed products and their commitment to responsible trade.

Another route forward would be for the EU to advise member states to include FLEGT licensing in their TPP in some capacity.

## Comments and queries

Delegates at the IMM London Trade Consultation had the opportunity to ask the panel of speakers questions. Several also shared their thoughts on the event afterwards. Below are featured several of each (*the Consultation was held under the Chatham House Rule, which states that, while participants are free to use information received, neither the identity nor affiliation of the speaker can be revealed. All persons quoted below agreed to exemption from the Rule.*)

### Questions and answers

In the Q&A session that closed the Consultation's first half, David Hartley of importers Ubangi Timber asked when other VPA-engaged countries might start FLEGT licensing.

Clare Brogan, Ghana FLEGT VPA facilitator, said precise predictions were difficult given the scope of the VPA process and the fact countries did not want to go to market with systems that weren't robust.

"But Ghana, which, among other VPA achievements, has established an electronic wood tracking system, is preparing to tender for consultants to carry out a final assessment of its FLEGT licensing system. In that regard, it's on the final straight."

Mark van Benthem of Dutch-based forest products and sustainability institute Probos raised as an issue the lack of a chain of custody (CoC) system to track FLEGT licensed products once in the EU and to transmit their value down the supply chain.

UK Timber Trade Federation managing director David Hopkins said a FLEGT CoC system would be valuable, especially since FSC and PEFC had accustomed the trade to verification systems having one, and suggested a system following the ISO standard.

Asked if UK government actively advised contractors that FLEGT licensed timber was compliant with its timber procurement policy, a Department for Environment (Defra) official said: "not currently, but the information is on the Defra [website](#) and any effort by UK Government would have to be proportionate to volumes [of timber] involved".

Steve Moore of British Furniture Manufacturers asked about prospects for increased FLEGT licensing marketing, particularly addressing its public procurement status relative to PEFC and FSC certification.

While the EU and EU trade had a role here, IMM trade analyst Rupert Oliver said VPA partner countries also had a responsibility. "Their private sectors have to take ownership and engage in selling the FLEGT process," he said.

Andy Duffin, operations director of importer distributor Lathams Ltd questioned the wisdom of only promoting FLEGT licensing's legality verification, describing this as 'low level assurance'.

IMM Lead Consultant Sarah Storck replied that a FLEGT licence was about more than legality and had clear sustainability credentials and Mr Hopkins agreed. "There are a range of social, environmental and other criteria in the background. Perhaps communication should focus more on improving forest governance"

## Delegates share views on IMM Consultation

**Kate Towler**, Assistant Manager, Sustainability and Responsible Sourcing, John Lewis:

*"I found the day insightful and it provided me with knowledge of the further capabilities of FLEGT beyond just legality and this will be something I will be looking into further with the possibility of positioning FLEGT within our internal timber sourcing policy."*

*"It would be great to hear more information on the status of FLEGT in the countries next in line and further sustainability stories beyond legality for each country which has adopted this scheme."*

**Steve Moore**, Consultant, British Furniture Manufacturers:

*"The event delivered a very well structured, highly informative insight into the FLEGT licensing journey, as pioneered by Indonesia, and the progress of the EU VPA initiative to assure legal and sustainable timber and timber-based product supplies to the European market."*

*"It also provided a very open platform for debate on the perceived effectiveness of FLEGT licensing/VPA and their benefits to forest and timber-based industries and markets."*

*"Clearly there was insufficient time to look at some of the detail behind the FLEGT licence/VPA requirements and how they compare to forest certification schemes, such as the PEFC and FSC. This may be of interest at a future event."*

**Andy Duffin**, Operations Director, Lathams Ltd:

*"It was an informative day that enabled me to update my colleagues."*

*"But I tend to believe that the real issue behind tropical timber's loss of EU volume market share is lack of promotion of products before schemes. I tried to make the point that no one sells FLEGT. We need to sell balau, for instance, that is also FLEGT-licensed. Similarly I am a firm believer in organic farming and will 90% of the time buy only that. But in reality I buy chicken or other products, which happen to be organic."*

*"So the producing countries need to change emphasis. Yes environmental issues are key. But they are sidelined if no one wants to the buy the product."*

## SFM makes unpublicised progress in Indonesia

### Almost 17m ha of forest is certified under the PHPL SFM scheme.

It may be little known outside Indonesia, but the country's PHPL scheme is its largest sustainable forest management (SFM) programme and it stands behind and further underpins the sustainability credentials of a significant proportion of Indonesian FLEGT-licensed exports.

Auditor and IMM German correspondent Gunther Hentschel assessed the scheme in his presentation to the IMM London Trade Consultation. Widely unnoticed, he said, Indonesia has gone 'a significant step beyond verifying legality under its FLEGT VPA and SVLK timber legality assurance system' – and the PHPL has been a leading instrument in achieving this.

Launched in 1998 the PHPL, which stands for sustainable forestry management system, was made mandatory for commercial logging concessions, industrial timber plantations, state-owned community forests and private community forest in 2003.

The scheme also became an integral element of Indonesia's SVLK timber legality assurance system and all commercial forest must now be audited under it, or the latter's own forestry legality standard, with all subsequent supply chain participants SVLK audited, to be FLEGT-licensed.

Both the PHPL and the SVLK's forest legality standard have sets of standards for different forest types and are subject to annual audit by an accredited independent certification body.

Currently 10.9 million ha of natural forest concessions, out of Indonesia's total of 19.2 million ha, and 5.7 million ha of its 10.8 million ha of plantation forest, are covered by the PHPL. From this it is estimated that up to two thirds of FLEGT-licensed timber and wood products may currently be sourced from PHPL-certified forest.

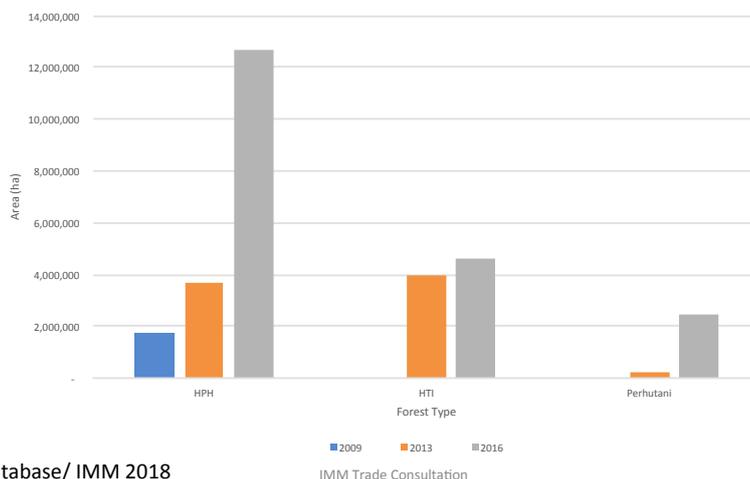
"And the Ministry of Environment's aim is to increase the PHPL area to a total of 22-23 million ha, or around 70% of these forest types," said Mr Hentschel.

### Comparison of SFM schemes in Indonesia

| Main aspects                            | PHPL                            | FSC                         | IFCC/PEFC                           | LEI                           |
|---|---------------------------------|-----------------------------|-------------------------------------|-------------------------------|
| Legal/ SVLK compliance                  | ✓                               | ✓                           | ✓                                   | ✓                             |
| Continuous improvement                  | -                               | ✓                           | ✓                                   | -                             |
| Environmental impact assessment         | -                               | ✓                           | ✓                                   | -                             |
| Conservation of Biodiversity            | ✓                               | ✓ *                         | ✓                                   | ✓                             |
| Reduced impact logging (RIL)            | ✓                               | ✓                           | ✓                                   | ✓                             |
| Wood traceability                       | -                               | ✓                           | ✓                                   | ✓                             |
| Conflict resolution                     | ✓                               | ✓                           | ✓                                   | ✓                             |
| Workers rights + Health & Safety        | ✓                               | ✓                           | ✓                                   | ✓                             |
| Respect of Community Rights             | ✓                               | ✓                           | ✓                                   | ✓                             |
| Certificate prohibits forest conversion | -, within HTI annual work plans | ✓ for conversion after 1994 | -, very strict criteria and max. 5% | -, depends on forest typology |

Source: IMM 2018

## PHPL Certified Forest Area



(HPH = plantation forest, HTI = natural forest concession, Perhutani = state forest)

In addition, three other certification schemes are active in Indonesia. The FSC issued its first certificate in Indonesia in 2001 and now has 3m ha of natural forest concessions certified to its principles and criteria, with a further 2.8 million accredited under its controlled-wood scheme.

The LEI standard was launched under the auspices of the Ministry of Forestry in 1998, based on the ITTO criteria and indicators for SFM. Today the scheme covers 2.6 million ha of various forest types, the majority (1.6 million ha) forest plantation.

Finally, the Indonesian Forest Certification Cooperation scheme was set up in 2011. It was endorsed by the PEFC in 2014 and now covers 3.6 million ha of forest plantation.

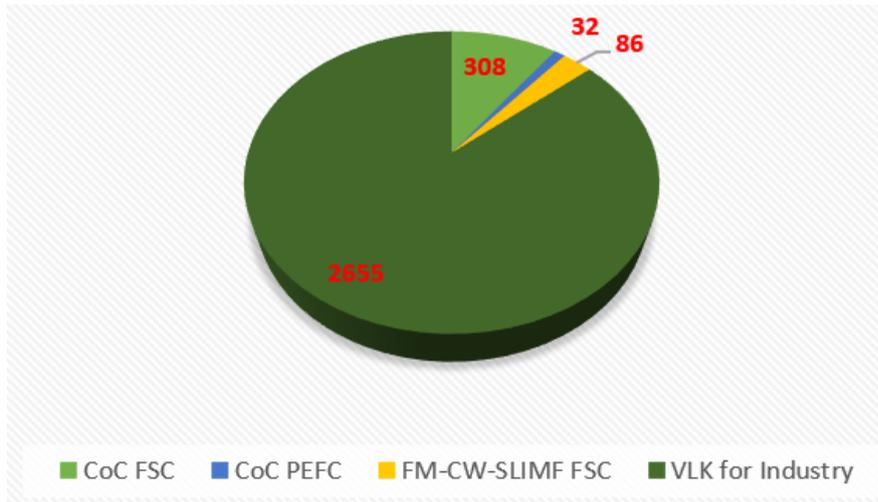
Combined the various schemes encompass 76% of all Indonesian natural forest and, due to dual certification, 130% of plantation forest.

"In summary, more of Indonesia is covered by SFM certification than one would have thought," said Mr Hentschel.

He added that all the schemes, voluntary and state-backed alike, also continue to increase their forest coverage and their growth does not appear to have been adversely affected by the start of FLEGT licensing.

Going forward, what may limit acceptance of PHPL certification as being on a level with PEFC or FSC, particularly by NGOs, is the issue of conversion forest.

**Indonesian timber industry certification status**



Source: IMM 2018

IMM Trade Consultation

"While the dates may be subject to review, the FSC currently has a cut off point for certifying plantations converted from natural forest of 1994, and PEFC 2010," said Mr Hentschel. "PHPL, like the LEI, has no such time-related restriction."

Given its current low profile, combined with general lack of recognition of SFM certificates other than those of the FSC and PEFC schemes, there is also a clear requirement for more communication and promotion of the PHPL scheme in the international market place, he added.

"And, in addition, there's need for gap analysis On the positive side for the PHPL scheme, Mr Hentschel maintained, it does seem to be strictly monitored and policed, with certificates suspended where standards have not been maintained. And despite the above qualifications about it, he concluded, wider understanding and awareness of the level and extent of SFM in Indonesia overall could have the potential to prompt a reappraisal of the country's forestry and timber sustainability profile, and of the sustainability credentials of its FLEGT licensing scheme.



Ghana's VPA is set for Final Joint Assessment (see next article). Picture shows training on its TLAS wood tracking system

## Final Joint Assessment of Ghana VPA to start in May

Ghana and the European Union are currently bringing final steps underway for completing VPA implementation in the country. The latest meeting of the Joint Monitoring and Review Mechanism (JMRRM) at the end of February decided the tender process for the Final Joint Assessment of Ghana's Legality Assurance System (GhLAS) should be completed no later than 1 May; at that time, consultants should begin evaluating the system.

The Final Joint Assessment is the last hurdle the Ghana VPA will have to pass before licensing begins. As such, the process will only close once Ghana has achieved readiness for FLEGT licensing and it may therefore be carried out in several stages.

Duration of the assessment process will depend on the kind of issues potentially highlighted by the assessment team and Ghana's ability to address them. Against this background, while Ghana is obviously in the final stages of VPA implementation, it remains difficult to determine a definite date for the start of licensing.

### Implementation of Timber Resource Management and Legality Licensing (LI 2254)

In November 2017, Ghanaian Parliament passed new Timber Resource Management and Legality Licensing (LI 2254) legislation, which regulates the conversion of timber harvesting concessions to Timber Utilisation Contracts (TUC). Conversion entails longer lease periods and payment of a fee by concession/TUC holders.



The third independent monitoring of Ghana's TLAS took place late last year

The FC is currently consulting with the private sector about the process of application for and managing of conversion and a formula for calculating fees. This consultation process is expected to be completed in the next few weeks, due to the ambitious timeframe for implementation of LI 2254. The law foresees an implementation period of six months, meaning that companies should submit their applications no later than May 2018.

### Monitoring and progress reports to be published in April

FLEGT VPAs under implementation or in the licensing stage undergo independent third-party monitoring at regular intervals, with monitors looking into impacts and progress of VPAs, among other things.

A third Independent Monitoring of the GhLAS has been carried out in the fourth quarter of 2017. Summary reports of this round of Independent Monitoring as well as the two previous processes will be made available to the public on both the FC and the EU Delegation websites by the end of April 2018. IMM will also publish further information on its website.

At the same time, Ghana and the EU have also prepared a consolidated progress report of the VPA implementation process covering the period

2013-2017. This report is in the stage of being finalised and also scheduled to be publicly available by the end of April.

### FLEGT License shipment test completed

As announced in the previous edition of the IMM newsletter, Ghana has carried out a cargo shipment test to evaluate export and import procedures in preparation for the transport of Ghanaian FLEGT licensed wood products to various EU destinations in autumn 2017.

The shipment test involved two Ghanaian timber exporters and the Forestry Commission of Ghana, as well as Competent Authorities in Germany, the Netherlands and Spain.

Ghanaian authorities have since analysed the test report and developed an action plan to respond to issues raised by all parties involved.

More information on the outcome of the shipment tests and the subsequent action taken can be found [here](#).

All recent developments related to VPA implementation in Ghana and discussed by the JMRRM have also been summarised in an official Aide Memoire, which is available for download at [www.euflegt.efi.int](http://www.euflegt.efi.int).



Ghana has undertaken cargo shipment tests to evaluate export and import procedures preparatory to shipping FLEGT-licensed goods

## “Ghana demonstrated an impressive technical capacity”, says shipment test report

The cargo shipment test evaluating export and import procedures in preparation for the transport of Ghanaian FLEGT-licensed timber to Europe showed that, while some administrative issues need addressing and some procedures fine-tuning, the Ghanaian system works well in principle.

The tests involved a Ghanaian timber exporter, the Forestry Commission of Ghana, timber importers in Germany and Spain as well as Competent Authorities (CAs) in Germany, the Netherlands and Spain.

Step by step, the tests comprised:

- Verification of shipment departure.
- Ghanaian exporter sending copies of licences to EU importers or in the case of the Netherlands directly to the CA.
- European importers' submission of licences to their respective CA through **FLEGIT** (Germany) or national system (Spain).
- EU CAs' assessment of licences for authenticity, validity and accurate coverage of shipments.
- Discussions between CAs and the Forestry Commission of Ghana of any issues.
- Assessment of results.

The shipment test report identifies four major issues that need addressing, two of which refer to private sector business practice and two to technical capacities.

On the private sector side, the report found that delays in exporters' posting shipment documents led to buyers' receiving the documents as late as three to four days prior to arrival of the goods. This means that authorities would not have time to resolve potential issues concerning the consignment or license, which would then result in delays in custom clearance.

Moreover, a lack of communication regarding HS Codes used in export and import declarations was identified. Deviations between HS Codes used in the respective documents would again trigger interactions between licensing authorities and could also result in delays in customs clearance. This has been seen especially in the early days of **FLEGT licensing in Indonesia**, too.

In terms of technical/administrative capacities and procedures, the report revealed a number of inconsistencies concerning format and content of the test licenses. Furthermore, resultant communication between CAs and the Forestry Commission would have been slow and responses inconsistent.

### Licenses issued after containers were sealed

While the HS Code issue needs addressing on a bilateral basis – and in the meantime requires communication between exporters and importers to agree on an HS Code – the overall number of

license mismatches are expected to be much lower in Ghana, once it starts licensing, than it was the case when FLEGT licensing in Indonesia first started.

This is due to a combination of factors: Firstly, compared to Indonesia, the Ghana VPA is set in a far less complex environment. According to the shipment test report, there are only 20-30 regular exporters, the number of export products and HS Codes respectively is small – the product scope of Ghanaian exporters is mostly limited to lumber (4407), mouldings (4409), flooring (4418), veneer (4412), and panels (4412/4418) – and supply chains are straightforward. Secondly a fundamental difference between Indonesia and Ghana is Ghana issuing the licenses after containers were sealed by customs. As a result, the supplier will know the exact quantity of product in each container at the time the license is issued. In Indonesia, there is a time-lag between application and issuance of license and the actual shipment date, during which time the size of an order can change; this would normally mean the exporter has to apply for a new license, but not all companies have consistently been doing this, especially immediately after the start of licensing. Moreover, Indonesia delivers complex products, such as furniture, to Europe and especially smaller and less experienced companies do not always find it easy to determine the exact number of furniture pieces that can be fitted into a container beforehand.

The Ghanaian Wood Tracking System (WTS), which is the technical core element of GhLAS, was found to be working well overall by the test report. Unlike in Indonesia, the Ghanaian system is not based on certification, but on online wood tracking, verification of sales contracts and controls of mills' related inputs and outputs. By the time the shipment tests were conducted the roll-out of the electronic version of the WTS to the offices across the country was not yet complete. However, the system is now fully rolled out and has been up and running since February 2018. Online, real time wood tracking is now enabled.

### Other key findings of the shipment test report included:

- Participating exporters showed a good understanding and support of the VPA process and the shipment test.
- The FC is closely linked to exporting companies and permanent staff at all major plants ensures effective communication on FLEGT-related issues between government and private sector.
- The FC showed a high level of commitment to the FLEGT process.
- The GhLAS would easily allow for fully electronic processing of FLEGT licenses, including data transmission into the EU's central and Member States national IT systems. Both the involved CAs and the FC would support electronic licensing and do not see need for the issuance of paper-based copies.
- European CAs were not satisfied with the response time to questions concerning the license format and content. There is a need for clarifying procedures and protocols.

- The licenses issued for the shipment test had a series of formatting and content issues, e.g. the watermark was missing or HS Codes were only to be provided at a 4-digit instead of 6-digit level. The formatting discrepancies need to be adapted to fully reflect VPA provisions.
- Due to the formatting issues and inconsistencies, the German and Dutch CAs would have rejected the test licenses. The Spanish CA communicated no decision.
- The Spanish IT system required a particular number format to be given to the license. The FC changed the respective test license accordingly. The Spanish system will need to be adapted for processing other number formats – it works for licenses from Indonesia though.
- Shipments from Ghana to EU ports take 3-4 weeks, which leaves limited time for licensing authorities to carry out investigations or corrective measures. By way of comparison, shipments from Indonesia take around 6 weeks.

According to the report, “the shipment test has initiated increased dialogue between Ghana and the participating CAs”. “Effective communication between the involved authorities” is considered crucial “for a functioning licensing scheme and especially the avoidance of delays at customs clearance in the EU”.

Taking feedback from the report and CAs into account, the FC has developed an action plan to address the issues mentioned above. Planned actions include:

- Working through the private sector trade associations to communicate the need for prompt transmission of shipment documents to their importers
- Training of exporters to exchange information on HS codes with their importers to ensure harmonisation prior to completion of export documentation
- Developing a clear communication protocol, setting out response times, for dealing with queries from CAs and assigning staff of TIDD to a designated desk for this purpose
- Ensuring continuous issuance of 'mock licenses' with every export permit issued as from May 1 2018 to ensure that all data gaps are closed and also that users of the system are thoroughly familiar with the requisite procedures
- Working with the software service provider for the electronic wood tracking system to ensure that the necessary system upgrades are actioned at the earliest opportunity

The plan is to be implemented from March 2018 onwards.

### Background

Ghana and the EU FLEGT Facility launched the shipment test procedures in autumn 2017, in preparation for the Final Joint Assessment of the GhLAS, which is to begin in May 2018. The shipment test does not mean that FLEGT licensing is imminent, although it indicates the country is getting close. The rationale behind carrying out the shipment test before the Final Joint Assessment was that potential issues could be addressed at an early stage rather than being raised during the Assessment.

## Supply side factors hit Ghana exports

In 2017, Ghana's timber product export value fell 16% to €190 million, while volume dropped 15% to 397 million m<sup>3</sup>.

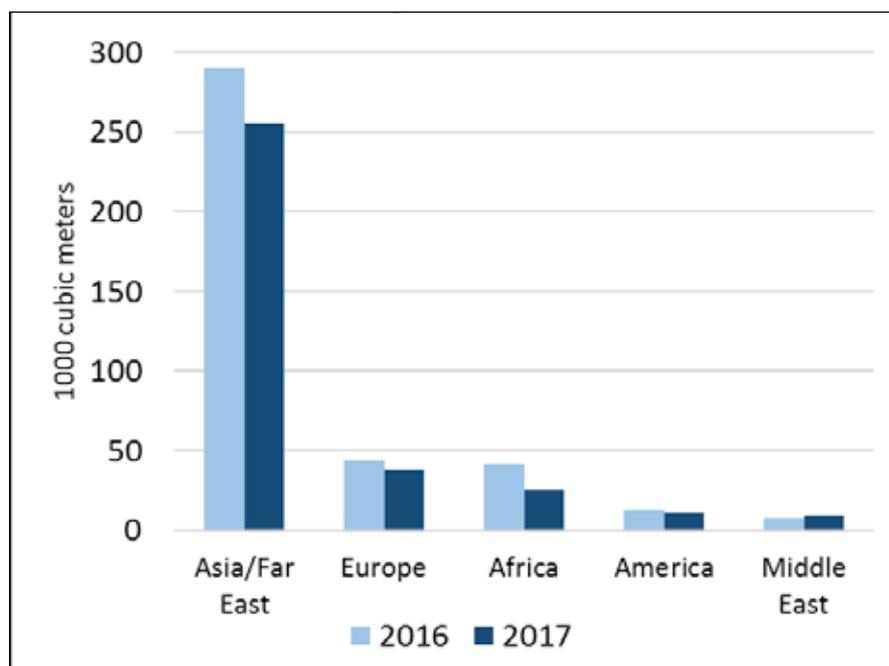
Exports fell to all regions except the Middle East and the decline affected nearly all product groups, the only exception being higher value tertiary products, such as mouldings and flooring.

Given that the fall in exports was virtually across the board and occurred at a time of generally rising global demand, it is likely that the trend was due more to supply-side than demand-side factors.

In 2017, Ghana exported 37,800 cubic meters of wood products to European countries, with a total value of €21.2 million, so around 11% of its total wood products exports. Export volume and value to Europe were down 14% and 19% respectively.

Ghana's exports of air dried lumber fell 12% to 218,000 m<sup>3</sup> in 2017. They were destined mainly for India (46% of 2017 export volume), China (42%) and Vietnam (6%). The small volumes destined for the EU went to Belgium and Germany. Leading species exported as air dried lumber were rosewood, teak, papao/apa and senya.

### Ghana exports of wood products by destination region in 2016 and 2017



Ghana's exports of plywood fell 47% in 2017 to 16,600 m<sup>3</sup>. Nearly all comprised ceiba and were transported overland to neighbouring African countries, notably Niger, Burkina Fasso, Nigeria,

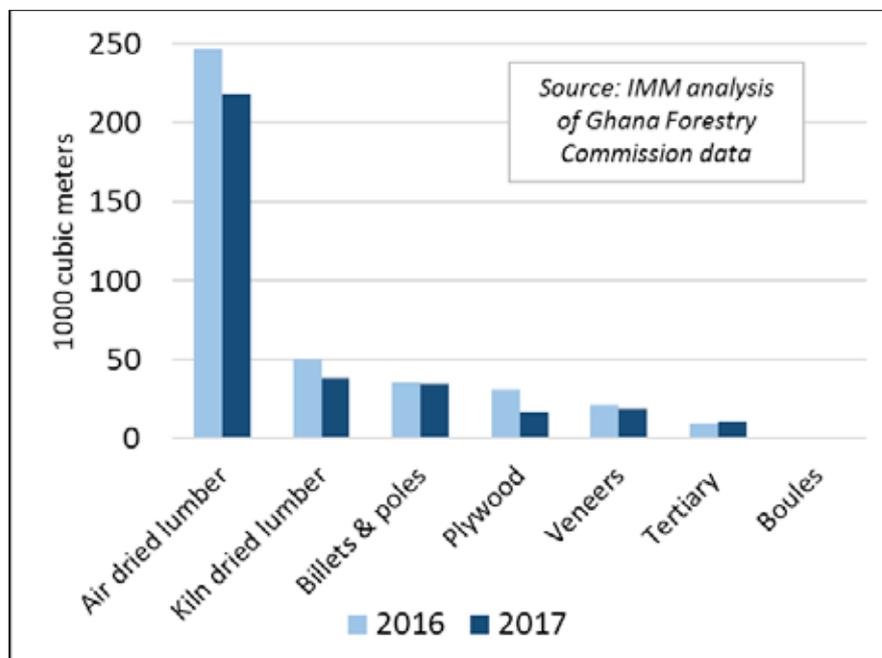
Remaining veneer exports comprised rotary product, mainly ceiba, destined for Spain (40%), USA (26%), Egypt (11%), and Morocco (9%).

Ghana exported 10,800 m<sup>3</sup> of tertiary wood products in 2017, with a total value of €7.6 million, representing increases of 16% and 34% respectively. Tertiary products comprised mouldings (72% of the total), flooring (16%), furniture parts (11%), and dowels (1%).

All Ghana's furniture parts exports in 2017 were rosewood and destined for China, while EU countries were the largest markets for other tertiary products. Mouldings exports, mainly wawa, were mostly destined for Germany (31%), Belgium (18%), Denmark (18%), Croatia (13%) and the UK (6%). All Ghana's flooring exports, mainly of papao/apa, went to Italy. The small volume of dowels exported in 2017 was all destined for the UK, Belgium and Germany.

The small volumes of boules exported, nearly all niangon, went mainly to France and Italy, while exports of billets, all teak and gmelina, were destined mainly for India and China.

### Ghana exports of wood products by group in 2016 and 2017



Ghana's exports of kiln dried lumber fell 25% to 37,900 m<sup>3</sup> in 2017. They comprised mainly wawa (53% of 2017 volume), mahogany (10%), and cedrela (8%), with smaller volumes of a wide range of species including odum, koto/kyere, sapele, edinam, and black ofram. Main export destinations were the USA (17%), China (20%), Germany (18%), Belgium (5%), UK (4%), France (3%), South Africa (4%), UAE (4%), and Saudi Arabia (5%).

Benin and Togo. Only one Ghanaian company – Samartex – exported plywood to markets outside Africa in 2017, nearly all to South Korea.

Ghana's exports of veneer were down 12% to 18,900 m<sup>3</sup> in 2017, with around 70% comprising sliced products, in a variety of species including asanfina, koto/kyere, sapele, chenchen, and ceiba. A diverse range of export markets for Ghanaian veneer was led by Italy, taking around 34% of volume, followed by Egypt (13%), Morocco (12%), UAE (7%), and China (7%).



Ghana's European exports fell last year

## Customs code change and other factors impact EU VPA country imports

Of the €3.78 billion of tropical wood products imported into the EU in 2017, 21% was FLEGT-licensed product from Indonesia. Another 9% derived from the six African countries that are implementing a VPA (Cameroon, the Central African Republic, the Congo, Ghana, and Liberia) and 45% was from the nine tropical countries currently involved in VPA negotiations (Côte d'Ivoire, DRC, Gabon, Guyana, Honduras, the Lao PDR, Malaysia, Thailand and Viet Nam).

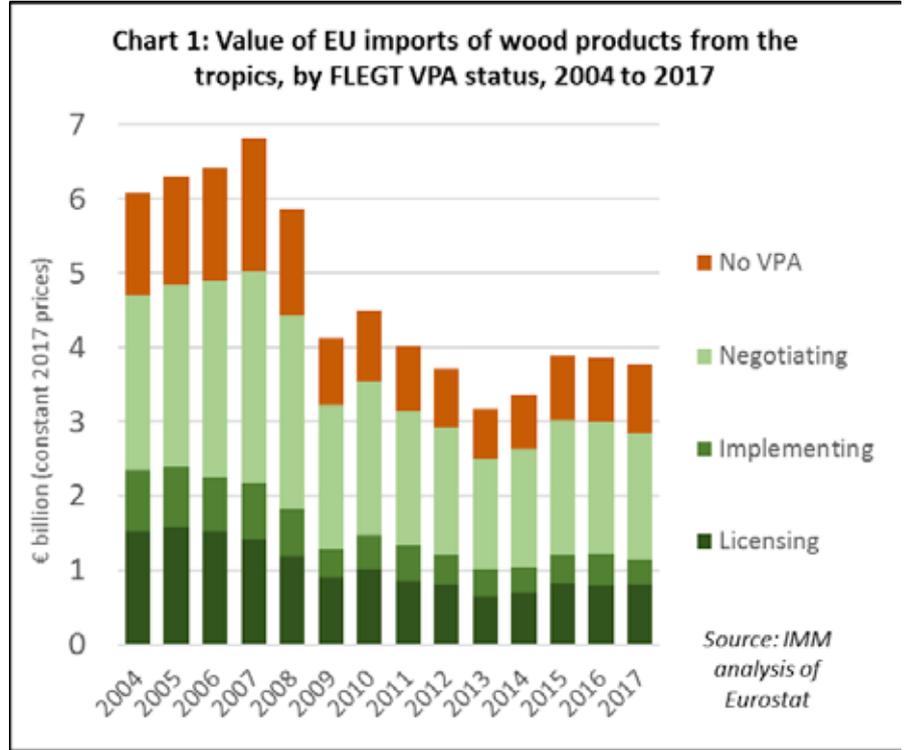
The remaining 25% of tropical product import value was sourced from non-VPA countries, notably Brazil (mainly decking), India (mainly wood furniture), and China (mainly plywood comprising imported tropical hardwood).

But the share of total EU tropical wood product import value from all VPA partner countries declined from 78% in 2016 to 75% last year.

This decline was partly due to a change in the international harmonized system (HS) of product codes from January 1 2017. This identified a much wider range of timber species as having tropical origin, leading to a significant quantity of Chinese plywood, which before 2017 was identified as "other" hardwood, being properly identified as "tropical".

Another factor behind VPA partner countries' declining share of EU tropical timber product imports were rises in wood furniture imports from India and, to a lesser extent, Singapore, two countries not involved in VPA negotiations.

The largest increases in EU imports of timber products from VPA partner countries by product group during 2017 are shown in Chart 2. From a



FLEGT licensing perspective, it is encouraging that Indonesia features prominently in those gains, with a significant rise in Indonesian plywood, furniture, charcoal and mouldings trade with the EU. However, the strongest gains last year were made by Malaysian furniture products, with Vietnam also increasing its EU furniture sales.

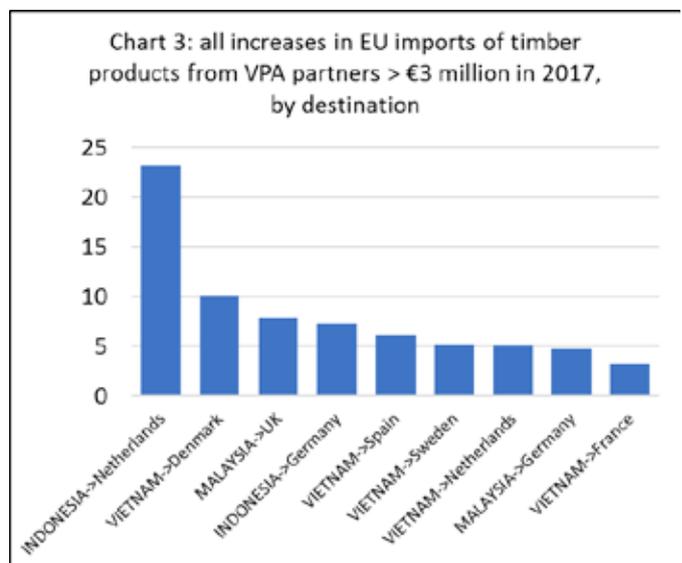
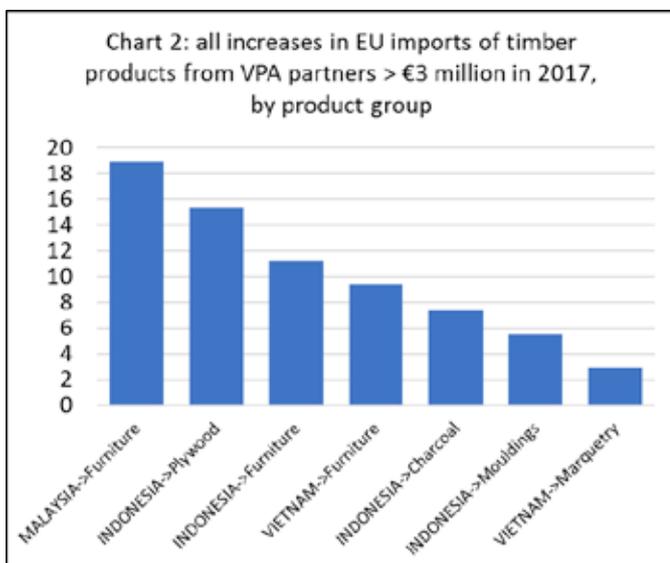
Chart 3 shows that by far the largest increase in a bilateral timber trade flow between a VPA Partner and the EU last year was between Indonesia and the Netherlands. This again might be partly explained by FLEGT licensing, the Netherlands being an EU country where the trade has a long history of commitment to responsible timber procurement policies and which has been active in EUTR enforcement.

The largest decreases in EU imports of timber products from VPA partner countries during 2017, by product group, are shown in Chart 4. By far

the biggest decline was in sawnwood imports from Cameroon. This is understood to be due to the combined effects of overstocking of African sawn timber in the EU in 2016, when a lot of timber that had been delayed for many months arrived all at once, and logistical problems at the Port of Douala in Cameroon. This port is chronically saturated causing severe delays in shipments. The construction of another port has been discussed for years, but with no outcome.

Other than Cameroon, the largest declines in EU imports from VPA countries were mainly in African sawnwood and logs.

From a FLEGT licensing perspective, it is disappointing to see a decline in EU imports during 2017 of Indonesian sawnwood (all surfaced products since rough sawn exports are banned from Indonesia), together with Indonesian flooring and other joinery



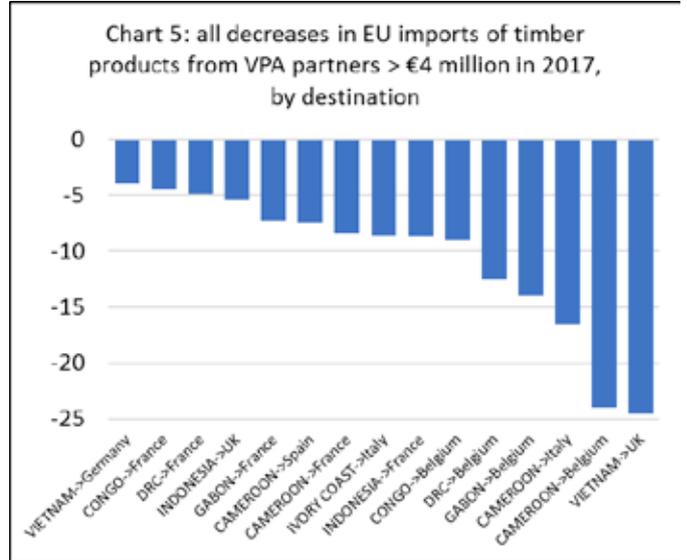
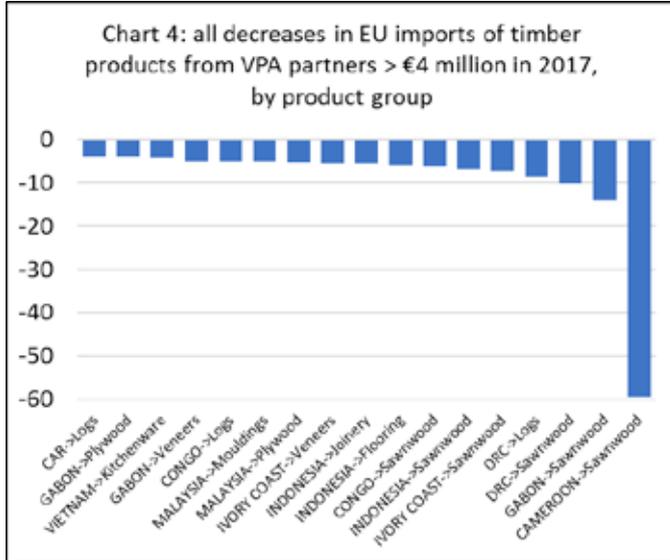
products (mainly doors and laminates for windows scantlings and kitchen tops).

The largest decrease in bilateral timber trade flows between a VPA Partner and the EU last year was between Vietnam and the UK (Chart 5). This was due to a partial switch in UK imports of wood furniture away from Vietnam towards Malaysia last year. This contrasts with the trend in many

other EU countries which increased imports of wood furniture from Vietnam in 2017 - including Austria, Croatia, Ireland, Denmark, France, Netherlands, Spain, and Sweden.

Another large decrease in bilateral VPA Partner-EU timber trade flows last year came between Cameroon and Belgium. This is readily explained as Belgium has recently become the largest single importer of

tropical sawnwood from Cameroon. The trend is partly due to volatility in supply and the effects of EUTR. The latter has contributed to the EU trade in African timber becoming concentrated in the hands of a few large Belgian companies close to the ports with capacity to hold stock, kiln dry timber where necessary, and undertake due diligence checks.



## EU tropical imports dip despite timber market growth

The total value of EU imports of wood products was €18.17 billion in 2017, 2.4% more than in 2016. This followed an increase of 1.3% to €17.74 billion in 2016 and meant EU import value was at its highest level since 2008, before the global financial crises (Chart 1).

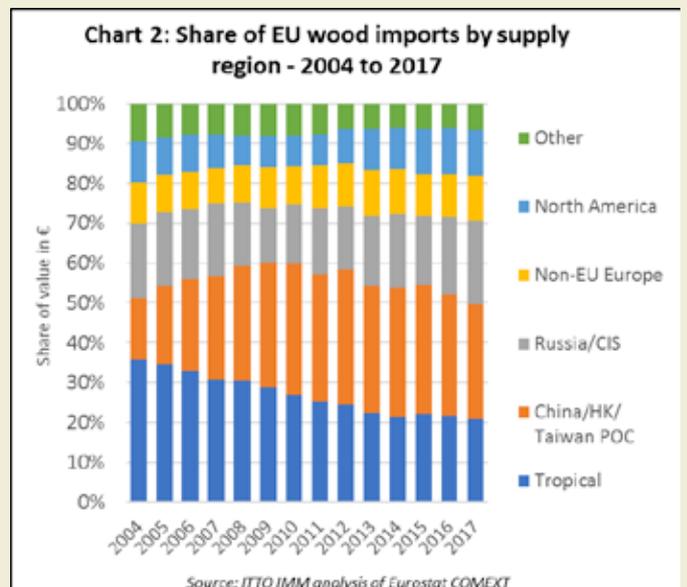
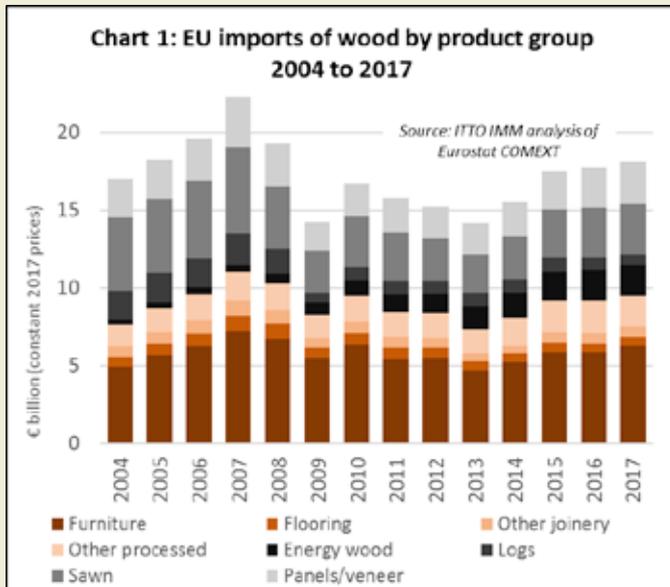
By contrast, the value of EU imports of wood products from tropical countries decreased 1.8% to €3.78 billion in 2017. This follows a 1% fall the previous year. As a result, the share of tropical countries in the total value of EU wood product

imports declined from 22% in 2016 to 21%. This is a resumption of a long-term trend in declining share of tropical countries in total EU imports after a brief rebound in 2015 (Chart 2).

China's share in total EU imports of wood products fell from 30.5% in 2015 to 28.9% last year, the lowest level since 2008. Meanwhile the share of Russia and other CIS countries increased from 19.3% to 21.1% and there was a slight increase in share of EU imports from non-EU European countries (from 10.9% to 11%) and North America (from 11.5% to 11.7%).



EU tropical sales €3.78 billion: Photo Wijma



## Trends vary, but some uptick in EU's Indonesian imports

Alongside regular surveys of market opinion to assess the market impact of FLEGT licensing, IMM is implementing near-real time monitoring of trade flow statistics. This shows that EU imports of a few Indonesian timber products began to trend upwards in the months following introduction of FLEGT licensing in November 2016. In some cases the trend was immediate, in others it became apparent around mid-2017.

However, the upward curve was not universal, and EU imports of some product groups from Indonesia, including wood furniture, were flat or declining last year.

In the 13 months following introduction of licensing (Chart 1), EU imports from Indonesia of HS chapter 44 wood products were broadly flat, with a slight dip at the start of 2017 offset by an equivalent rise

at the end. EU imports from Indonesia of HS chapter 48 paper products also started the year slowly but increased sharply in the last quarter.

In contrast, EU imports from Indonesia of HS Chapter 47 wood pulp started the year strongly but slipped back in the last quarter. Imports of HS Chapter 94 wood furniture declined gradually for the first three quarters of 2017 and stabilised at the lower level in quarter four.

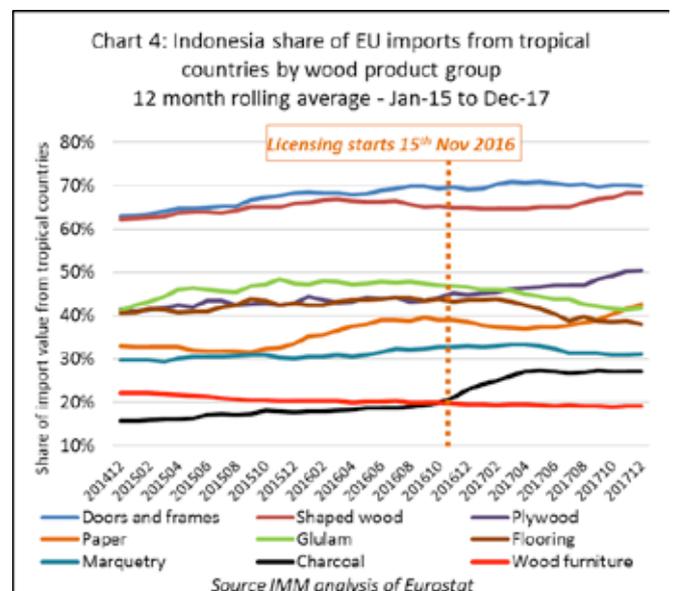
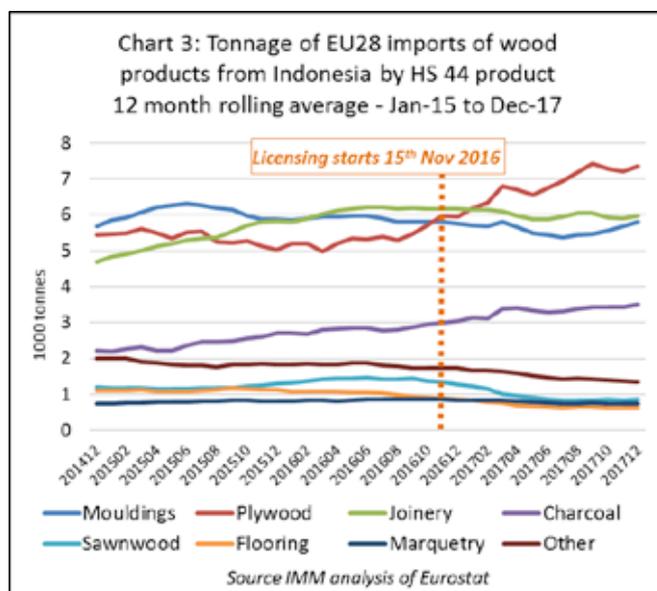
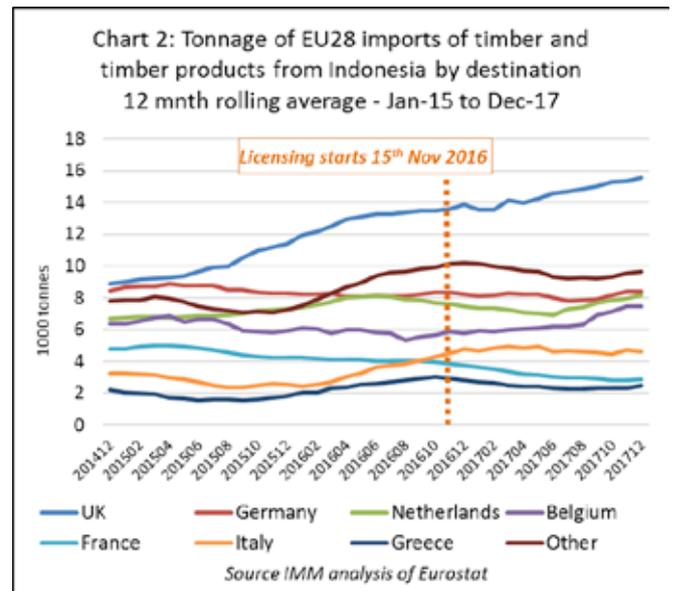
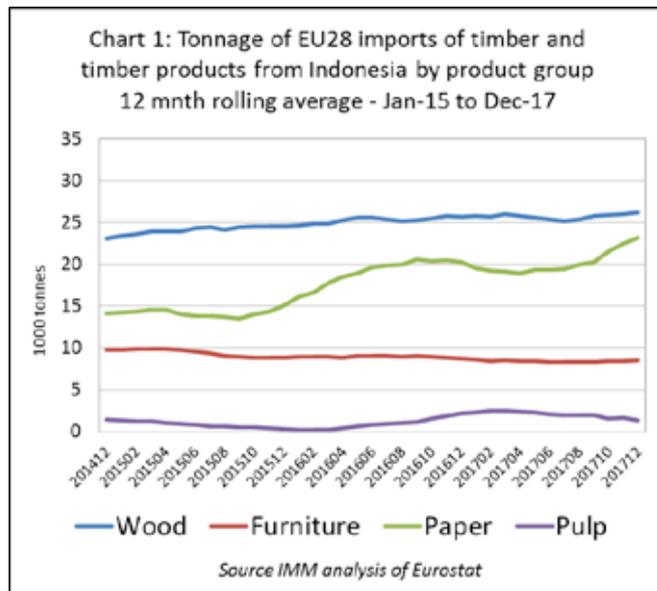
Chart 2 shows the trend in imports of timber and timber products (all products in HS 44, 47, 48, and 94) from Indonesia by individual EU member countries. In the 13 months following FLEGT licensing, EU imports from Indonesia were rising in the UK and Belgium, flat in Italy, and declining in France and Greece. German and Netherlands Indonesian imports, and those of several smaller EU markets, declined in the first half of 2017 but then recovered in the second.

EU imports of HS44 individual wood (HS 44) products have varied widely since introduction of licensing (Chart 3). There has been quite a sharp

increase in EU imports of plywood since November 2017, lending support to anecdotal reports of EU plywood importers being encouraged to stock more Indonesian product due to licensing. Imports of Indonesian charcoal also increased in 2017, although charcoal is not currently covered by the licensing system. EU imports of moulding/decking products from Indonesia were sliding in the first half of 2017 but recovered sharply in the second.

EU imports of Indonesian joinery products (mainly doors and a smaller quantity of glulam) and marquetry were flat in the same period, while imports of sawn wood (all S4S to comply with Indonesian export regulations) and flooring continued to slide throughout 2017.

Chart 4 shows the trend in percentage share of Indonesia in the value of EU imports (excluding internal EU trade) of various tropical timber products. This shows its share increased in tropical mouldings/decking, plywood, charcoal, and paper, but was flat for doors, and declined in wood furniture, flooring, marquetry and glulam.



## UK Timber Trade Federation pushes the profile of FLEGT licensing

UK government recognition of FLEGT-licensing in timber procurement policy as evidence of legality and sustainability on an equal footing with FSC and PEFC schemes is a major credit to the initiative. However, more market promotion, communication and education is needed before a FLEGT licence achieves the broad awareness and acceptance levels of these 'brand-leading' certification schemes.

That's the view of David Hopkins, managing director of the UK Timber Trade Federation (TTF).

Speaking at the IMM Trade Consultation, he said that the TTF had been one of the foremost advocates and supporters of the FLEGT VPA and licensing initiative from the outset. In conjunction, it was also a prominent backer of the EU Timber Regulation. He described himself personally as a 'fan' of licensing.

"The market and consumers increasingly want assurance that timber and wood products meet the highest environmental and ethical standards, but previously for this we only had these voluntary certification schemes, FSC and PEFC. They came into fill the gap left by the lack of a proper regulatory framework and have subsequently developed their market penetration and brand profiles significantly," he said. "But now we also have this regulatory structure in the form of the EU FLEGT initiative and FLEGT licensing, which has to be an advance – it's the regulatory world catching up with the voluntary schemes. At the same time it's clearly not deterring or barring these schemes from the market, it's operating alongside, which also has to be a healthy, positive situation."

It is, he said, understandable that general awareness of the EU FLEGT initiative is still relatively low 'for a number of reasons'.

"Firstly knowledge of and interest in the detail of regulation and policy generally is not great, it's pretty low on most people and businesses' list of priorities – usually only coming to mind when the questions arise 'can I or can't I do this particular thing, or buy that particular product'," he said. "Last year in the UK we had the dreadful Grenfell Tower fire and it turns out that some contractors and installers, which had previously worked on the building, were unaware of the health and safety measures that should have been followed. Given that situation, it's little surprise that not many people have an intimate knowledge and understanding of the intricacies of international forest and timber industry policy!"



David Hopkins, UK Timber Trade Federation managing director

The market profile of FLEGT licensing, he added, is also limited by the fact that to date only one country, Indonesia, is exporting licensed products.

"That means there is a limited selection of products available appealing to a limited number of buyers and end users," said Mr Hopkins. "Also, while the first arrived over a year ago, that is still very early days in commercial terms. They are really only just coming onto the market."

Market recognition will clearly build, he said, as more FLEGT VPA countries reach licensing stage and the volume and range of FLEGT-licensed product grows.

At the same time, he added, the TTF is confident more can be done now to strengthen FLEGT-licensing's image and grow market knowledge. In fact it is increasingly proactive in this area itself.

The IMM Trade Consultation in fact began with a tour of the Federation's two-month-long public 'Timber Transformer' exhibition at the London Building Centre. Supported by the UK Department for International Development, this is about Indonesia's journey through the FLEGT VPA process and start of licensing.

"A core focus is that FLEGT is about more than legality. Timber Transformer explains the social, environmental, economic and livelihood impacts behind the licence," said Mr Hopkins.

The TTF has also included a dedicated section on FLEGT and FLEGT licensing and its status in government TPP in the Sustainable Timber Procurement module of its Wood Campus online timber training programme ([www.woodcampus.co.uk](http://www.woodcampus.co.uk)). This is a Royal Institute of British Architects (RIBA) continuing professional development-accredited resource and a video on it, fronted by Mr Hopkins, is posted on the RIBA website and those of the British Institute of Interior Design and, of course, the TTF.

"We're also including information on FLEGT and government TPP in other training materials for architects, designers and other market shapers

and procurers, such as contractors," he said. "In addition we're urging our members to inform and educate their customers about FLEGT and we've written to all UK local authorities recommending they put their personnel through our procurement training programme, with a view that public procurement is also a key driver for private sector practice."

Mr Hopkins concluded that, while the TTF acknowledges the market challenges FLEGT licensing faces, it remains 'very positive about its potential and prospects'.

"The central role of our organisation is to get out there in the market and persuade people to buy and specify more timber and FLEGT forms an integral part of our assurance that our members are providing the timber specifiers, end users and consumers can trust."



UK TTF positive about FLEGT licensing

## Options put forward for Chinese timber import legality rules

A new report from the European Forest Institute (EFI) FLEGT facility has identified opportunities for China to incorporate timber legality requirements into its laws and regulations and thus help promote legal forest products trade. It also identifies the challenges.

Currently China's forest and environmental laws apply only to domestically harvested timber, with imports, apart from those of 'valuable species' unrestricted.

"It considers that all timber legally exported from the exporting countries and that has been cleared by Chinese customs as legal," states the FLEGT facility report.

One option for change, it suggests is to develop a new timber legality assurance law, similar to those of the EU and USA – in fact, it says, their experience in this field could inform the Chinese authorities on taking such course of action.

The approach would require closer controls of Chinese timber production and processing and development of due diligence requirements and other legality liability mechanisms. These moreover, would need to take account of the specific characteristics of Chinese timber operations to create a fair competitive environment and incentives for legal compliance.

"The application of good governance systems would lay the foundations for enactment of a potential new law," says the report.

### Developing a timber legality standard

Another approach, it suggests, potentially in conjunction with the above, is development of a timber legality standard and a timber certification body to verify compliance. This is currently only at inception stage in China, and would require 'further policy support and guidance'.

"China would [also] need to encourage development of internationally qualified professional certification bodies and become active in the international certification arena," maintains the report.

A further route put forward is a national standard for regulating timber legality, with national legal mechanisms implemented to enforce CITES used as a model, but with the standard encompassing overall timber trade.

Meanwhile to control cross-border trade with high-illegality risk neighbouring producer countries, the report commends strengthening or introducing new local laws and jurisdictions requiring 'the declaration, approval and licensing of timber imports'.



One option for China – a timber legality assurance law like those of EU or US: Photo UK TTF

"[For instance] Yunnan Province could require all imported Myanmar timber to have a certificate of legal origin issued by the Myanmar government," it says.

Other courses for China, which could again be taken in association with the above measures, could be to regulate legality of imported timber through its 2004 Foreign Trade Law and expand forest and criminal laws to include violations of laws in foreign countries.

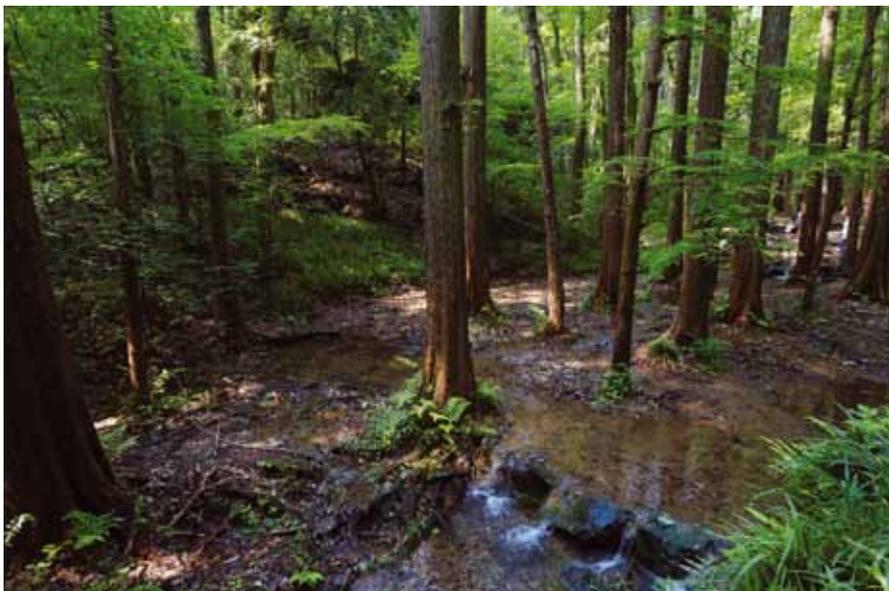
"And a final option could be for China to enter into bilateral or multilateral agreements with other countries to control international illegal timber trade

based on the characteristics of high-risk areas," states the report. Possible partner countries here, it says, could be Russia, South East Asian and African states. The agreements with some could also include support for development of primary and secondary timber processing "to ease the environmental and social pressures brought by intensive low-end wood processing industry".

Among obstacles identified to changing China's current timber legality approach is its divergent view on what constitutes timber illegality, with some viewing import regulation as interference in the internal affairs of other countries.



Another route could be legality agreements with supplier states: Photo Tim Quijano



**EUTR takes into account supplier sovereignty sensibilities: Photo Sergio Tittarini**

One suggested solution to this is the EU Timber Regulation approach, which takes into account the sovereignty sensibilities of suppliers by 'defining illegal timber in reference to applicable legislation in country of harvest'.

The report acknowledges too that amending industry laws and developing timber legality regulation would be complex and time-consuming, with the approval of multiple industry authorities, other ministries and public authorities required.

### Market impact study needed

"More research about the impact of timber legality legislation on China's domestic timber industry would also be needed to create incentives for the sector to support it," it says. This, it maintains would need to look at the capacity of companies to undertake due diligence and otherwise adapt their practices. The cost and competitiveness implications, particularly for SMES, would also need to be taken into account. All this research, in itself, will take time and resources.

"The Chinese government has started developing a timber legality verification system and is conducting pilot projects with members of the China National Forest Products Industry Association," says the report. "But current verification system and standards are not mature yet and awareness raising efforts need to be strengthened."

The potential for opposition to import regulation from suppliers would also have to be taken into account.

"These countries might argue that China's timber legality requirements constitute a non-tariff barrier to trade and could institute proceedings before the World Trade Organization (WTO)," says the report. This challenge was faced by EU legislators when the EUTR was developed. The solution lay in the fact that the EUTR covers trade in timber harvested within the EU as well as imported."

Ultimately, the report argues, if China did impose import regulation, the wider consequences could be significant.



**Trade impacts need analysis: Photo UK TTF**

"Suppliers that operate in areas where the risk of illegal logging is high and/or are unable to provide evidence of the legality of their timber will have to develop the necessary standards, which will directly contribute to the ultimate goal of fighting the illegal logging," says the report.

Development of timber legality legislation would also require close liaison with consumer countries, but this too could have beneficial wider consequences, resulting in "a common understanding on timber legality standards."

For more on the report click [here](#).

- Growing interest is reported in China in recognising accreditation under Indonesia's timber legality assurance (TLAS) scheme in its timber market legality requirements. In recent meetings with the Chinese Academy of Forestry, Multi-stakeholder Forestry Programme (MFP3) consultant Agus Setyarso presented on Indonesia's SVLK TLAS and the value of FLEGT-licensed timber.

## EC and CIFOR convene meeting on FLEGT Action Plan monitoring system

Various international organisations and agencies, including EFI, FAO, ITTO (IMM) and UNEP-WCMC are engaged in monitoring the impacts of the EUTR and VPAs, both at EU and partner country level. To complement and, where possible, link these monitoring efforts, the European Commission has now mandated CIFOR to support the design and implementation of a more global monitoring system that should contribute to improving the overall outcome and impact monitoring of the entire FLEGT Action Plan as well as strengthen the management capacity for delivering the Plan.

In order to inform the project development, CIFOR hosted a workshop in March involving the above organisations and other relevant institutions, such

as Chatham House, to clarify, get feedback and agree on the ultimate objectives of the monitoring system, especially with regards to a common understanding of notions such as monitoring, impacts, outcome mapping and theory of change.

The workshop provided an chance to discuss monitoring strategies and systems of the different implementing partners as well as lessons learnt from implementation of activities. Delegates also discussed options for establishing a global monitoring system for the FLEGT Action Plan and identifying opportunities for coordination between monitoring initiatives. The meeting's ultimate goal was to develop a draft global theory of change.



**Agroforestry in Lubuk: Photo CIFOR**