INTERNATIONAL TROPICAL TIMBER ORGANIZATION / FLEGT INDEPENDENT MARKET MONITOR (IMM)

FLEGT VPA Partners in EU Timber Trade 2019

MAIN REPORT – NOVEMBER 2020

Report authors:
Sarah Storck
(IMM Lead Consultant)
Rupert Oliver
(IMM Trade Analyst)

Edited by:
Steven Johnson
(ITTO Assistant Director Trade and Industry)
Mike Jeffree
(IMM UK Correspondent)

High tech furniture plant in Vietnam
PHOTO BY MICHAEL BUCKLEY

This report has been produced with the financial assistance of the European Union

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Executive Summary

FLEGT-licensed timber in the EU market

This latest IMM Annual Report, "FLEGT VPA Partners in EU Timber Trade 2019" shows EU import value of timber and timber products[1] from Indonesia, the only FLEGT licensing country, increased 11% from US$1.24 billion in 2018 to US$1.38 billion in 2019. This followed a 6% gain between 2017 and 2018. In quantity terms, EU imports from Indonesia increased 14% from 676,000 tonnes in 2018 to 769,000 tonnes in 2019, after falling 6% in 2018.

EU import growth from Indonesia in 2019 was dominated by wood furniture, which rose 18% to US$411 million, and paper products, which also increased sharply, by 31% to US$379 million. On the other hand, the value of EU imports of wood (HS 44) products from Indonesia decreased 3% from US$604 million in 2018 to US$588 million in 2019 losing some of the 9% gain made in 2018. Imports of wood pulp from Indonesia, always limited, were close to zero in both 2018 and 2019 (***Figure S1***).

The rise in EU imports of FLEGT-licensed wood products from Indonesia coincides with a wider recovery in EU demand for wood products generally. Activity in key EU wood end-use sectors, such as construction and furniture, bottomed out in 2013 and then recovered at a slow, but relatively consistent rate until 2019. China, Russia and other countries in the Commonwealth of Independent States (CIS) region remained the dominant partners in EU import trade, although some tropical countries, particularly Indonesia, but also including Viet Nam, India and Brazil, began to make new inroads in the EU market, most notably in the furniture sector.

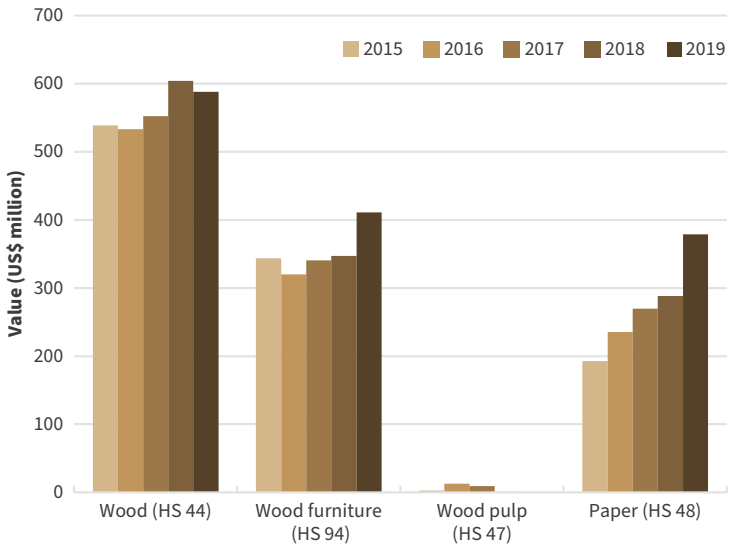


Figure S1: EU import value of timber and timber products from Indonesia, by product type – 2015-2019. *Source: IMM-STIX*

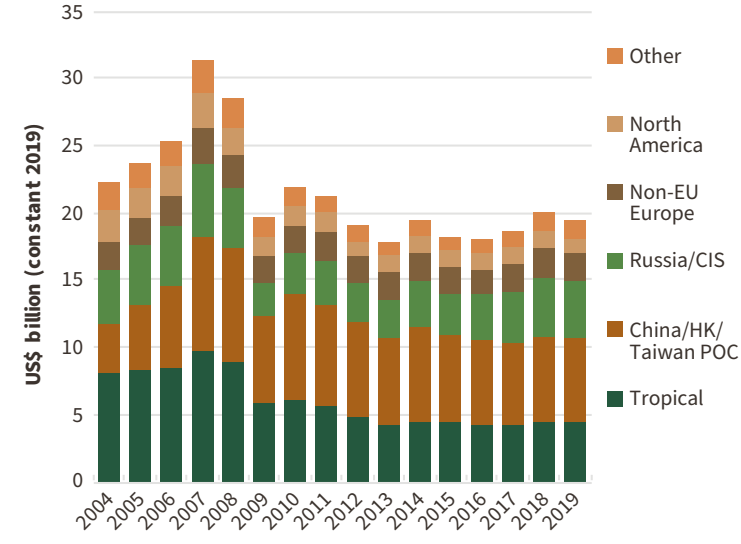


Figure S2: EU import value of wood (HS44) products and wood furniture (HS 94) by supply region – 2004-2019. *Source: IMM-STIX*

The total value of EU imports of wood products was US$19.3 billion in 2019, 3% less than the previous year (***Figure S2***). However due to weakening of the euro against the dollar, there was a 3% increase in euro import value, to €17.3 billion. Import value in 2019, reported in euro terms, was the highest level since 2008. Import quantity declined 2.5% to 26.0 million tonnes in 2019.

In 2019, China maintained its position as the largest external supplier of wood products to the EU. The total value of wood product imports from China (excluding those identified as composed of tropical hardwoods) increased 3% from US$6.12 billion in 2018 to US$6.29 billion in 2019, mainly due to a partial recovery in imports of Chinese furniture and to a lesser extent joinery products and plywood. By contrast, after several years of rapid growth, EU imports of wood products from CIS countries fell 7% from US$4.56 billion in 2018 to US$4.25 billion in 2019. The share of CIS countries in total EU imports declined from 23.3% in 2018 to 22.0% in 2019. EU imports of wood products from North America declined 11% from US$1.15 billion in 2018 to US$1.02 billion in 2019. The region's share of total EU imports of wood products fell from 5.9% to 5.3% during this period.

The total value of EU imports of tropical wood products (including direct imports and imports via third countries such as

1. In this report, wood, wood furniture, pulp and paper are referred to collectively as "timber and timber products". Wood and wood furniture, when dealt with separately from pulp and paper, are referred to collectively as "wood products".

China)[2] increased 1% in real terms to US$4.4 billion in 2019, following a 6% increase in 2018 (*Figure S3*). The increase in the total value of EU tropical wood product imports in 2019 was driven mainly by wood furniture with other smaller gains in imports of tropical sawnwood, 'other' (i.e. non-flooring) joinery, and other processed wood products. These gains offset a decline in imports of tropical panels/veneers, flooring and logs.

Tropical wood products' share in total EU wood imports increased slightly, from 21.9% in 2018 to 22.8% in 2019, with countries engaged in the VPA process accounting for 76.1% of the total, down slightly from 76.7% the year before. Summarising EU wood products imports from VPA partner countries other than Indonesia, none of which were issuing FLEGT Licences in 2019:

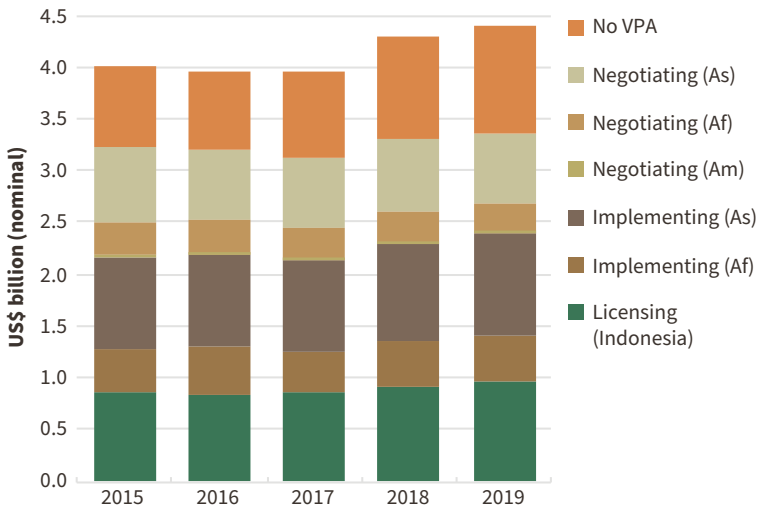


Figure S3: EU import value of tropical wood (HS44) products and wood furniture (HS 94) from tropical countries by FLEGT VPA status – 2015-2019.
Source: IMM-STIX

- the value of EU imports of wood products from the five African VPA implementing countries – **Cameroon**, **Central African Republic (CAR)**, **Republic of the Congo (RoC)**, **Ghana**, and **Liberia** – increased 3% to US$453 million in 2019 after rising 14% in 2018.

- the value of EU imports of wood products from **Viet Nam**, the only Asian VPA implementing country, increased 4% to US$976 million in 2019 after rising 5% in 2018.

- EU import value of wood products from **Gabon**, **the Democratic Republic of the Congo**, **Côte d'Ivoire**, the three VPA negotiating countries in Africa, declined 5.9% to US$283 million in 2019, following a rise of 1.3% in 2018.

- EU import value of wood products from **Thailand**, **Lao PDR**, and **Malaysia**, the three VPA negotiating countries in Asia, fell 3.7% to US$677 million in 2019.

- the value of EU imports of wood products from **Guyana** and **Honduras**, the two VPA negotiating countries in Latin America, fell 6%, to US$5 million in 2019, following a 13% increase in value in 2018.

EU imports of tropical wood products from non-VPA countries increased 5% to US$1.05 billion in 2019, building on a 17% gain in 2018. The increase was driven mainly by tropical hardwood plywood imported from China, tropical hardwood sawnwood and mouldings imported from Brazil, and wood furniture imported from India.

IMM surveys in 2019 flagged up that trade in VPA partner wood products – just like trade in many other commodities – was again facing an increasingly uncertain economic environment, both in the EU and globally. According to the EU Winter 2020 Economic Forecast published on 13 February 2020, GDP growth in the EU27 slipped to 1.5% in 2019, down from 2.1% in 2018. According to the UK Office of National Statistics, the UK economy grew by 1.4% in 2019, only marginally higher than the 1.3% rate in 2018, and recorded zero growth in the last quarter of the year.

Expanding range of IMM activities

With an expanding range of activities and outputs, IMM gained a thorough understanding of the relative market positions of FLEGT-licensed products from Indonesia, as well as timber and timber products from other VPA partner countries in the EU in 2019. The network of IMM

2. In line with previous IMM Annual Reports, this report focuses on tropical wood products as all current VPA partner countries are tropical and as a focus on tropical wood is stipulated in the IMM project description. However, care has been taken to place timber and timber products from VPA partner countries in a wider trade context and to ensure that analysis takes account of all competitors, irrespective of whether tropical or non-tropical. Tropical wood products are defined in this report as:
   - all products in HS 44 and wood furniture products in HS 94 exported by countries located predominantly in the tropics, except Brazil and Mexico (where exports are known from analysis of trade reports and flows over numerous years to be dominated by products manufactured from plantations outside the tropical zone);
   - all products from Brazil identified specifically as "hardwoods" (but excluding eucalyptus) in HS 44 (since feedback from regular trade contacts indicate these are predominantly of tropical species);
   - and all products identified specifically as "tropical hardwoods" from all other countries (tropical hardwoods can be reliably identified in trade statistics for logs, sawnwood, plywood and veneers).

   This definition of "tropical wood products" creates some inconsistencies – notably in relation to Viet Nam where a significant, but unknown, proportion of HS44 and 94 products are composed of non-tropical timber, and Brazil, where all HS94 wood furniture is excluded because there is no way to differentiate tropical from non-tropical, or hardwoods from softwoods, in this product category. However, overall it is believed to represent a reasonable compromise capturing, at global scale, the vast majority of products more likely manufactured from tropical wood, while excluding the vast majority of products more likely to be manufactured from non-tropical woods.

country correspondents continued to monitor market uptake of FLEGT Licences in the seven "key" EU countries[3] accounting for the bulk (i.e. consistently around 90%) of EU tropical timber and timber product imports. IMM also continued to employ correspondents in Indonesia and Ghana. The two partner country correspondents produced update reports, used to inform the Indonesia section of this report and updates on Ghana on the IMM website, and acted as points of liaison between IMM and partner country authorities and organisations.

The EU trade survey conducted by IMM in 2019 had a broad scope, in terms both of content and target audience. The survey sample included EU importers of sawn timber, decking, plywood, mouldings logs, veneers, doors, window frames, as well as furniture and furniture components and other wood products from VPA partner countries. Respondents accounted for up to 75% of the key EU countries' total imports of HS Chapter 44 wood products. IMM correspondents also interviewed the FLEGT/EUTR Competent Authorities in their respective countries as well as timber trade federations and EUTR Monitoring Organisations.

In 2019, IMM published four special studies including on; architects' attitudes to the use of tropical timber in construction and their awareness of the FLEGT VPA programme; EU public timber procurement policies; EU wood promotion programmes and their recognition of FLEGT; and the impact of FLEGT on forest sector investment. IMM also continued to organise "Trade Consultations", which took place in Antwerp and Barcelona in 2019.

Also during 2019, IMM continued to build its statistical capacity so that it has access to, and can readily distribute, the latest global timber trade data each month. This now facilitates near real time monitoring, particularly important during the volatile trading conditions that have emerged since the onset of COVID-19. The insights gained from regular analysis of the latest trade statistics, surveys of traders and regulators, and special studies informs the series of IMM recommendations identified in this IMM Annual Report to help build market resilience for FLEGT-licensed timber in uncertain and challenging times.

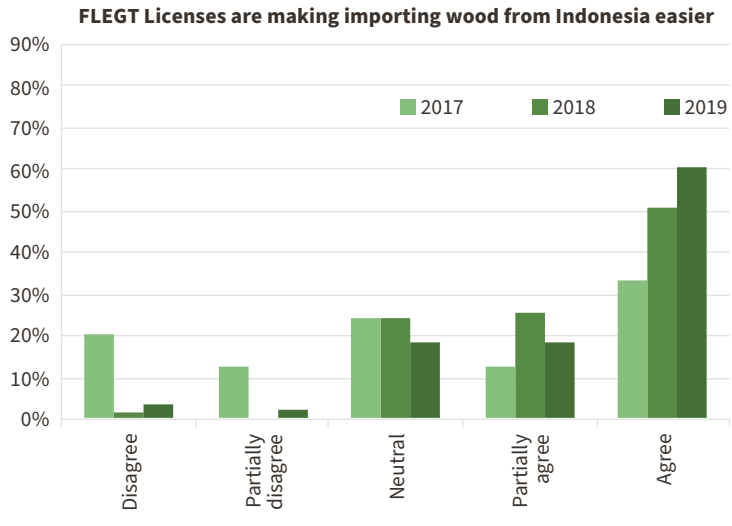


Figure S4: EU trade perceptions of importing FLEGT-licensed timber.
Source: IMM 2017/2018/2019 EU trade surveys

Trade survey data on market perception of FLEGT-licensed timber

The 2019 IMM EU trade survey (***chapter 8*** of this report) showed continuation of the positive trends in market perceptions of FLEGT-licensed timber from Indonesia. There was a sharp rise in the proportion of survey respondents finding the administrative process of importing FLEGT-licensed timber easily understandable and manageable between 2017 and 2019. Almost 80% of 2019 respondents said that FLEGT licensing was making importing wood products from Indonesia easier compared to EUTR due diligence (***Figure S4***). Moreover, a significantly higher number of respondents than in 2018 acknowledged sustainability aspects of FLEGT.

The 2019 trade survey confirmed contrasting impacts of FLEGT licensing and the EU Timber Regulation (EUTR) on European importers' purchasing behaviour. 35% of respondents in 2018 and 38% in 2019 reported either small or big decreases in the share of tropical timber in their overall timber imports due to introduction of the EUTR. Survey respondents indicated that EUTR due diligence had narrowed their supply base in tropical countries. Respondents also indicated that the EUTR had caused the sector to reconsider its supply chain relationships, which had frequently resulted in increasing substitution of tropical hardwoods with alternatives, including temperate hardwoods, chemically or thermally modified timber or non-wood substitutes. No respondents in 2018 and just 2% of respondents in 2019 said their imports of tropical timber had increased as a result of the EUTR.

In the case of the market introduction of FLEGT-licensed timber from Indonesia, the majority of respondents – 87% (2018) and 83% (2019) – reported no change in the share of tropical timber in their overall timber imports. 13% of respondents in both years registered large or small increases.

The IMM Annual Report also provides an update on market constraints to FLEGT-licensed timber identified in the 2017 report (***chapter 5*** of this report). The sharp decline in the number of both HS code and other FLEGT Licence mismatches (e.g. relating to shipments' weight or volume) registered in 2018 has continued in 2019. There was also further progress in the development of an electronic licensing scheme, as well as in communication and marketing efforts, both within Indonesia and in the EU.

VPA partners in global tropical wood products trade

The IMM Annual Report includes an analysis of the share of VPA partner countries in global tropical wood products trade in 2019. This is to ensure that trade flows between VPA Partner countries and the EU are considered in their appropriate global context. Globally, trade in tropical wood products grew at a much slower pace, by 0.2% to US$41.7bn, in 2019, than during the previous two years, when there was a sharp rebound from the dip in 2016, when

3. Belgium, France, Germany, Italy, Netherlands, Spain, UK

the speculative rosewood boom in China had ended. Unlike the 2009 to 2014 period, when rapid trade growth was driven largely by China's imports of primary wood products, particularly rosewood, recent growth is mainly due to rising wood furniture exports, notably from Viet Nam and India destined for the United States.

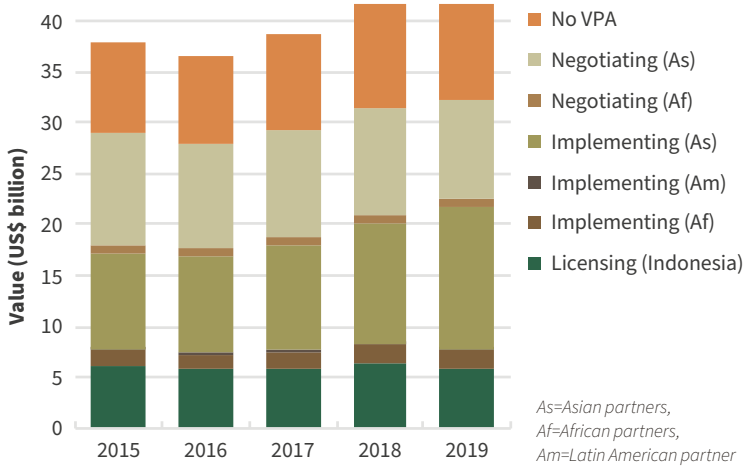


Figure S5: Global tropical wood-product trade by FLEGT VPA status – 2015 to 2019. *Source: IMM-STIX*

Global trade in tropical wood products in 2019 was influenced by overall cooling in the pace of economic growth. The global economy had already slowed sharply in the last three quarters of 2018, and global economic activity remained weak at least until the third quarter of 2019, according to the International Monetary Fund's World Economic Outlook published on 15 October 2019. The IMF blamed this on "rising trade and geopolitical tensions", which "have increased uncertainty about the future of the global trading system and international cooperation more generally, taking a toll on business confidence, investment decisions, and global trade". Global economic growth was estimated at 2.9% in 2019 according to the World Economic Outlook from 9 January 2020. The trade dispute between the US and China had a direct impact on the trade in tropical wood products, increasing opportunities for South East Asian manufacturers, particularly in Viet Nam, in the US market for wood furniture and other finished wood products.

Summarising global trade in tropical wood products by VPA partners in 2019 (***Figure S5***):

- Exports of wood products from **Indonesia** fell 9% to US$5.93 billion in 2019, reversing gains made the previous year. Indonesia's share of global trade in tropical wood products fell from 15.6% in 2018 to 14.2% in 2019. The EU accounted for 17.4% of Indonesia's export value of wood products in 2019, up from 15.2% in 2018.

- Exports of wood products from **Viet Nam** were US$14.0 billion in 2019, a 19% increase compared to the previous year. Viet Nam's share of global trade in tropical wood products increased from 28.3% in 2018 to 33.5% in 2019. The EU accounted for 7.5% of Viet Nam's export value of wood products in 2019, down from 8.6% in 2018.

- Exports of wood products from the five VPA implementing countries in Africa – **Cameroon**, **Central African Republic (CAR)**, **Republic of the Congo (RoC)**, **Ghana**, and **Liberia** – totalled US$1.69 billion in 2019, a 4% decrease from US$1.75 billion in 2018. These countries' share of global trade in tropical wood products decreased from 4.2% in 2018 to 4.1% in 2019. The EU accounted for 26.8% of total export value of wood products by the five countries in 2019, up from 25.6% in 2018.

- In 2019, the three VPA negotiating countries in Asia – **Thailand**, **Laos**, and **Malaysia** – together exported US$9.4 billion of wood products, a 7% decline compared to 2018. Share of these countries in total global tropical wood product trade declined from 24.2% in 2018 to 22.5% in 2019. The EU accounted for 8.0% of total export value of wood products by the three countries in 2019, up from 7.7% in 2018.

- Total exports of wood products by the three VPA negotiating countries in Africa, **Gabon**, **the Democratic Republic of the Congo**, **Côte d'Ivoire**, increased 6% to US$886 million and accounted for 2.1% of global tropical trade in 2019, up from 2.0% in 2018. The EU accounted for 31.9% of total export value of wood products by the three countries in 2019, down from 36.5% in 2018.

- The two VPA negotiating countries in Latin America, **Guyana** and **Honduras**, together exported US$115 million of wood products in 2019, a decline of 18% compared to the previous year. Their share of total tropical wood products trade fell from 0.34% in 2018 to 0.28% in 2019. The EU accounted for 4.6% of total export value of wood products from the two countries in 2019, up from 4.1% in 2018

Requirements for legal timber in VPA partner export markets

Alongside the assessment of the EU market for FLEGT-licensed timber and of global trade in tropical wood products, IMM monitors market impacts of policy measures and regulations with potential to generate demand for timber from FLEGT licensing VPA partner countries in non-EU countries. Analysis of trade data in 2019 shows that the goal of closing world markets to illegal wood products is already well advanced. In 2019, 66.5% (US$27.6 billion) of the total value (US$41.5 billion) of recorded tropical wood product exports worldwide were destined for countries with regulatory measures to eliminate illegal trade (***Figure S6***)[4]. This compares to 62.2% of tropical trade in 2018. The rise in the proportion of tropical wood products destined for regulated markets

4. In addition to the EU (inclusive of the UK), IMM identified the following 10 countries as "regulated markets" in 2019: Australia, Iceland, Lichtenstein, Norway, Indonesia, Japan, Malaysia, Republic of Korea, Switzerland, and US.

in 2019 was due primarily to the decline in imports by China, while US imports of wood products from tropical countries, particularly Viet Nam, increased sharply during the year.

The proportion of wood product exports destined for regulated countries was even higher for VPA partner countries. In 2019, 79% of all wood products exports by FLEGT licensing and VPA implementing countries was destined for regulated markets (***Figure S7***). In addition to the EU, which accounted for 12% of total exports by FLEGT licensing and VPA implementing countries in 2019, a large share of exports went to destinations regulated by the US Lacey Act (42%), Japan Clean Wood Act (13%), Republic of Korea Sustainable Use Act (7%) and Australian Illegal Logging Prohibition Act (2%). In 2019, the share of exports to regulated countries was particularly high for Indonesia (72%) and Viet Nam (85%). The share of exports to regulated markets was lower, but still significant, for VPA implementing countries in Africa (53%).

Conclusions

The IMM 2019 Annual Report shows an increasing level of recognition of FLEGT licensing as a means to reduce importers' own risk under the EUTR and increasing awareness of the wider benefits of implementing FLEGT VPAs in partner countries. It also demonstrates EU trade familiarity with the administrative processes involved in importing FLEGT-licensed timber and a very high level of acceptance of these processes.

IMM survey data and feedback from IMM trade consultations suggests that EUTR has prompted EU importers to reassess their supply chains, especially in countries considered "high risk" and relationships were not unfrequently modified as a result (see ***Chapter 8*** for details). However, this has not necessarily led to replacement of non FLEGT-licensed tropical timber suppliers with licensed. More frequently, importers reported that imports of certain products or species were discontinued and the product either sourced from specialist importers in the EU or replaced with non-tropical or even non-wood alternatives.

This highlights once more the fundamental importance of raising awareness of the long-term benefits of the sustainable use of tropical timber and addressing environmental prejudice in EU markets. Partner countries should be encouraged to develop individual marketing strategies for their prospective FLEGT-licensed timber products in the EU as they approach the end of the VPA implementation process.

It also highlights the importance of continuing efforts to bring more VPA processes to a successful conclusion and widen the source-base, range and availability of FLEGT-licensed timber and timber products.

The second IMM investment study, focussing on Viet Nam and Indonesia and summarised in this report, shows that FLEGT VPA implementation and licensing has a positive impact on the investment enabling environment in VPA partner countries. It identified correlation between the VPA, investment volumes and a shift in investments from forestry and logging towards investment in further processing industries in Indonesia. The study also demonstrates that the potential of the FLEGT VPA process for attracting additional investment would likely be reinforced by integration of relevant stakeholders from the banking and financial sector in the process.

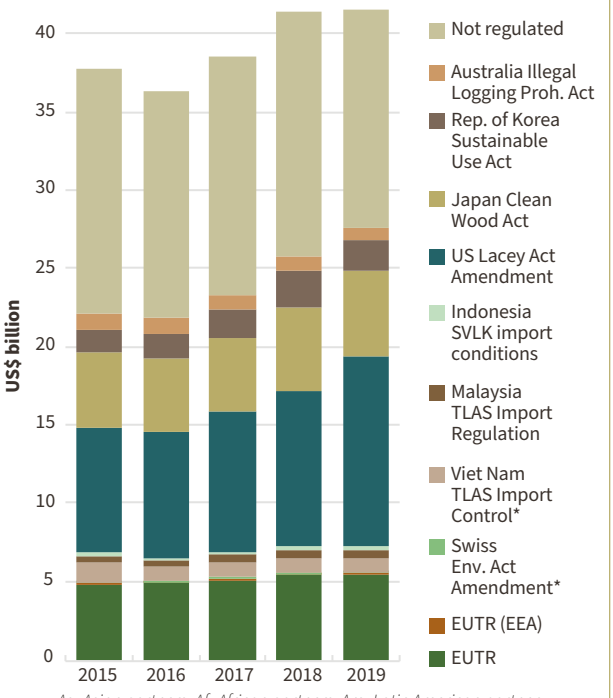


Figure S6: Value of global trade in tropical wood products, 2015 to 2019 by consumer country regulatory status. *Source: IMM analysis of STIX trade data and national legislation (*legislation still in draft at end of 2019).*

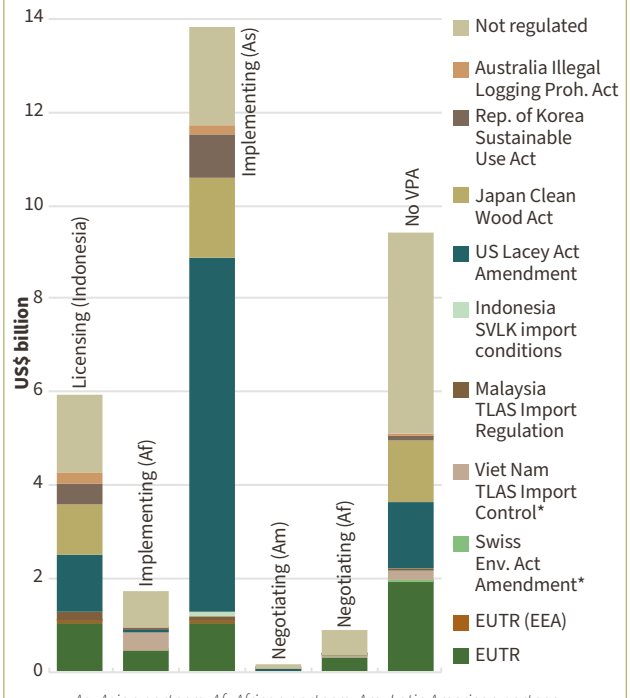


Figure S7: Value of global trade in tropical wood products in 2019 by FLEGT VPA status and consumer country regulatory status. *Source: IMM analysis of STIX trade data and national legislation (*legislation still in draft at end of 2019).*

Recommendations

The Report concludes with a series of recommendations.

- The second IMM investment study (summary in Chapter 11) found that VPAs can be a stimulating factor in the investment-enabling environment in the forest sector at several levels. **FLEGT licensing should be promoted as a factor to improve the bank rating** of forest sector enterprises in VPA countries and relevant actors should be included in the VPA processes.

- A 2019 IMM study of architects' awareness and perceptions of FLEGT and tropical timber as a building material identified a low level of awareness of FLEGT itself, VPAs, FLEGT licensing and the EUTR. **Professional bodies representing architects should be engaged to increase awareness of the FLEGT process**. An important stakeholder group is daily making decisions on the choice of materials that has no understanding of the value and achievements of these processes. Many architectural bodies run continuing professional development courses for architects, and these offer an excellent opportunity to increase awareness of FLEGT processes.

- A second recommendation from the architects' study is to **engage with the World Green Building Council (WGBC) to raise awareness of the value of FLEGT licensing with a long-term goal of gaining credits for its use in WGBC affiliated programmes**. Certified green building projects are set to increase and such programmes play a key role influencing material choices. Whilst some standards currently encourage the uptake of certified wood, only a small proportion allow solely FLEGT-licensed materials to be used. Only through recognition and credit within these standards will FLEGT licensing become of greater value to many projects and WGBC could play a pivotal role in raising awareness and increasing use of FLEGT within standards.

- **Demonstrate the business benefits of the FLEGT licensing scheme in Indonesia to build trust**. Indonesian furniture producers, in particular, see the licensing process as a bureaucratic hurdle rather than as a business opportunity. The current view is that it is not cost effective and any formerly promised market advantages are not tangible.

- **Complete VPA implementation in other VPA countries as quickly as possible**. All IMM surveys identified a clear message that FLEGT-licensed timber from a single country is insufficient.

- **Encourage those companies not yet using FLEGT-licensed timber to do so**. Awareness of EUTR varies among EU-based businesses, with awareness growing lower further down the supply chain. Some potential buyers of FLEGT-licensed timber are almost certainly unaware of it, what it stands for and what the benefits are for their businesses. Increased awareness at the business-to-business level would add value to the "brand" of FLEGT-licensed timber. Research undertaken in 2019 reinforces the view that EU-based companies will not re-source to Indonesia purely due to there being FLEGT-licensed material. Purchasing decisions are complex, and whilst easier compliance with the EUTR is a factor, it is not sufficiently important in its own right to drive a switch.

- **The market recognition FLEGT-licensed products should be strengthened through branding** and preferential treatment for licensed products, for example in public procurement.

- **The private sector both in VPA Partner countries and in the EU needs to be actively engaged in the positive market development of FLEGT-licensed timber**. Timber trade federations, for example, could play a leading role and have already started doing so in some countries. Environmental non-governmental organisations (ENGOs) that are open to supporting the FLEGT VPA process and commercial use of tropical timber should also be more actively engaged.

- IMM surveys demonstrate that the EUTR is having a significant impact on importers' purchasing behaviour in a number of key EU markets. However, continuing high import volumes in some Member States, e.g. from Brazil and Myanmar, which are under special observation by the FLEGT-EUTR Expert Group, indicate that **harmonisation of due diligence standards across the EU** should be further pursued. FLEGT licensing VPA partner countries could then potentially feel a stronger benefit of the "no-risk" status of FLEGT-licensed timber; however, other commercial and economic factors would still have to be taken into account.

Acknowledgements

The authors would like to thank companies, institutions and experts across Europe, Indonesia and Ghana who gave up their time to provide the insights presented in this report. The authors also thank all **IMM national correspondents** for their efforts in recording interviews accurately and for the large amount of information they gathered. Special thanks also go to the authors of IMM special study reports for their significant input to this report.

List of Acronyms

$	United States Dollar
€	Euro
ATIBT	Association Technique Internationale des Bois Tropicaux
CA	Competent Authority
CIF	Cost, Insurance and Freight (relates to shipping)
CIS	Commonwealth of Independent States
CN	Combined Nomenclature of the EU (relates to trade product codes)
CoC	Chain of custody
COMEXT	Eurostat External Trade database
COMTRADE	UN International Trade Statistics Database
CPD	Construction Products Directive
CPI	Construction Production Index
CPR	Construction Products Regulation
CWNRA	FSC Controlled Wood National Risk Assessment
DRC	Democratic Republic of Congo
EDB	Ease of Doing Business Index of the World Bank
ENGO	Environmental non-governmental organisation
EU	European Union
EUTR	European Union Timber Regulation
FAO	UN Food and Agriculture Organisation
FC	Forestry Commission of Ghana
FEP	European Parquet Flooring Federation
FII	Forest Industries Intelligence Ltd
FLEGT	Forest Law Enforcement, Governance and Trade
FOB	Free On Board (relates to shipping)
FRA	Forest Resource Assessment of the UN FAO
FSC	Forest Stewardship Council
FTA	Free Trade Agreement
GATS	USDA Global Agricultural Trade System database
GCI	Global Competitiveness Index of the World Economic Forum
GFC	Global Financial Crisis
GFW	Global Forest Watch
GhLAS	Ghana Timber Legality Assurance System
GTA	Global Trade Atlas
has.	Hectares
HDF	High Density Fibreboard
HS	Harmonised System (relates to trade product codes)
IMM	FLEGT Independent Market Monitoring project of the ITTO

List of Acronyms

ITTO	International Tropical Timber Organisation
JFSQ	Joint Forest Sector Questionnaire (regularly issued by UN)
LAS	Legality Assurance System
LEI	Lembaga Ekolabel Indonesia – sustainable forest management standard
LIU	Licensing Information Unit
LVL	Laminated Veneer Lumber
m^2	Square meters
m^3	Cubic metres
MDF	Medium Density Fibreboard
MLH	Mixed Light Hardwood (applied to plywood)
MO	Monitoring Organisation
MoEF	Indonesian Ministry of Environment and Forestry
MS	(EU) Member State
MT	Metric tonnes (1000 kilograms)
NTFP	Non-Timber Forest Product
OSB	Oriented Strand Board
PEFC	Programme for Endorsement of Forest Certification
PFE	Permanent Forest Estate (defined by ITTO)
PHPL	Indonesian Sustainable Forest Management Standard
PVC	Polyvinyl chloride
RoC	Republic of the Congo
RWE	Roundwood Equivalent (relates to wood product volumes)
SFM	Sustainable Forest Management
spp.	Several species within a genus
STTC	Sustainable Tropical Timber Coalition
SVLK	Sistem Verificasi Legalitas Kayu
TLAS	Timber Legality Assurance System
TRAFFIC	Trade Records Analysis of Flora and Fauna in Commerce
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP/WCMC	United Nations Environment World Conservation Monitoring Centre
US	United States of America
USDA	US Department for Agriculture
VPA	Voluntary Partnership Agreement
WEF	World Economic Forum
WGBC	Word Green Building Council

Introduction

1.1 Background

The Independent Market Monitoring (IMM) mechanism was established under a project of the International Tropical Timber Organization (ITTO) funded by the European Union (EU) 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 harvested timber. A VPA specifies commitments and actions by both signatory parties with the aim of developing a timber legality assurance system and the issuance of FLEGT Licences that certify the legality of timber and timber products for export to the EU.

IMM monitors the flow of FLEGT-licensed timber to the EU and its use and acceptance in the EU market[5].

1.2 Overview

In 2019, the network of IMM country correspondents continued to monitor market uptake of FLEGT Licences in the – at that time – seven "key" EU countries[6] accounting for the bulk (i.e. consistently around 90%) of EU tropical timber and timber product imports from VPA partner countries. IMM also continued to employ correspondents in Indonesia, the only FLEGT licensing country in 2019, and Ghana, a VPA country nearing agreement to issue FLEGT Licences. The two partner country correspondents produced update reports and acted as points of liaison between IMM and partner country authorities and organisations. Information from the Indonesia report has been included in ***Chapter 5*** of this report and the Ghana report was used as a basis to update the Ghana page on the VPA partner country section of the IMM website[7].

The EU trade survey conducted in 2019 again had a broad scope, in terms both of content and target audience. European IMM correspondents interviewed 109 (2018: 96) companies for the general trade survey[8]. In 2018, a separate survey for the IMM furniture sector scoping study[9] included interviews with 54 furniture companies. In 2019, the IMM correspondents interviewed European architects (22 companies) for a separate special study[10].

The 2019 trade survey sample included importers of sawn timber, decking, plywood, mouldings logs, veneers, doors, window frames, as well as furniture and furniture components and other products from VPA partner countries. Respondents accounted for between 20% and 75% of the key countries' total imports of HS Chapter 44 products, except for Spain, where coverage was lower (around 10%). IMM correspondents also interviewed the FLEGT/EUTR Competent Authorities in their respective countries as well as timber trade federations and EUTR Monitoring Organisations. The EU trade survey, including information from correspondents' national summary reports is summarised in ***Chapter 8*** of this report.

Besides continuing and refining work initiated in 2017 and 2018, IMM also continued to expand its scope of activities and outputs in 2019. Also, four special studies were published in 2019 including; the above-mentioned study on architects' attitudes to the use of tropical timber in construction and their awareness of the FLEGT VPA programme; a study of EU public timber procurement policies[11]; a study on EU wood promotion programmes and their recognition of FLEGT[12]; and a scoping study of FLEGT impact on forest sector investment[13]. IMM also continued to organise "Trade Consultations"[14] which took place in Antwerp and Barcelona in 2019. Both the special studies and Trade Consultations provided considerable contributions to this report.

1.3 Scope and definitions

The report covers all products within the scope of existing VPAs and VPAs under negotiation and includes the following chapters (and parts thereof) of the international Harmonized Commodity Description and Coding (HS) System:

5. For more details on IMM, visit www.flegtimm.eu
6. Belgium, France, Germany, Italy, Netherlands, Spain, UK. During the reporting period, the UK was still a Member State of the European Union.
7. https://www.flegtimm.eu/index.php/vpa-countries/ghana
8. A tabling of views. Scoping study for assessing the impacts of timber legality on the European Union's wood-furniture sector and the associated tropical timber trade. George White (ITTO/IMM/2018) https://www.itto.int/direct/topics/topics_pdf_download/topics_id=5782&no=1&disp=inline
9. A tabling of views, a scoping study for assessing the impacts of timber legality on the European Union's wood-furniture sector and the associated tropical timber trade. George White (IMM/2018) https://www.itto.int/direct/topics/topics_pdf_download/topics_id=5782&no=1&disp=inline
10. A study of EU architects' perceptions and experience with FLEGT Licences. George White (IMM/2019) https://www.flegtimm.eu/images/imm_indicators/IMM_Study_of_EU_Architects_Report_Dec19_st3.pdf
11. A study of EU public timber procurement policies, related guidance and references to FLEGT. George White. https://www.flegtimm.eu/images/IMM_Public_Procurement/IMM-EU-Public-Timber-Procurement-Report---Final.pdf
12. EU Wood Promotion Programmes and their recognition of FLEGT. Mike Jeffree/George White http://www.flegtimm.eu/images/Mikes_folder/IMM-Promotion-Report---April-4-2019-ST3.pdf)
13. Forest Sector Investments in FLEGT VPA countries. Scoping study on investors' perspectives and investment monitoring. Christian Held, Katalin Solymosi, Lincoln Davis, Veronica Alonso. https://www.flegtimm.eu/images/IMM_Investment_Study/IMM_Forest_Sector_Investments_Study_Final_Version.pdf
14. Trade Consultations are a series of meetings organized by the IMM programme in the EU key tropical timber consuming countries. The Consultations aim to gauge the trade's views and discuss opinions of relevant FLEGT-related topics identified as a part of IMM surveys. IMM also shares latest survey and study results with trade representatives during the Consultations. Consultations were held in London (March 2018), Nantes (May 2018) and Berlin (November 2018) as well as in Antwerp (April 2019) and Barcelona (October 2019).

- all products in Chapter 44 (Wood);
- products identified as containing wood in Chapter 94 (Furniture);
- virgin wood-based pulp products in Chapter 47 (Pulp); and
- all products in Chapter 48 (Paper).

In this report, all the products identified above (wood, wood furniture, pulp and paper) are referred to collectively as "timber and timber products"[15]. Wood and wood furniture, when dealt with separately from pulp and paper, are referred to collectively as "wood products".

The report focuses on the trade in 2019 between the – at that time – 28 EU Member States and the following 15 tropical timber-supplying countries at various stages of the VPA process in December 2019, which are collectively referred to as VPA partner countries[16]:

- FLEGT licensing: Indonesia.
- VPA implementing: Cameroon, Central African Republic, Republic of the Congo, Ghana, Liberia and Viet Nam.
- VPA negotiating countries: Côte d'Ivoire, the Democratic Republic of the Congo (DRC), Gabon, the Lao People's Democratic Republic (Lao PDR), Malaysia, Thailand, Guyana, Honduras.

There is a particular focus on "tropical wood products" in the report because all the VPA Partner countries are tropical, the closest competitors to FLEGT-licensed products from Indonesia are also tropical, and the IMM project description and annual reporting framework agreed with the EU places particular emphasis on tropical wood products. However, care has been taken to place timber and timber products from VPA partner countries in a wider trade context and to ensure that analysis takes account of all competitors, irrespective of whether tropical and non-tropical.

"Tropical wood products" are defined in this report as:

- all products in HS 44 and wood furniture products in HS 94 exported by countries located predominantly in the tropics except Brazil and Mexico (where exports are known from analysis of trade reports and flows over numerous years to be dominated by products manufactured from plantations outside the tropical zone);
- all products from Brazil identified specifically as "hardwoods" (but excluding eucalyptus) in HS 44 from Brazil (since feedback from regular trade contacts indicate these are predominantly of tropical species);
- and all products identified specifically as "tropical hardwoods" from all other countries (tropical hardwoods can be reliably identified in trade statistics for logs, sawnwood, plywood and veneers).

This definition of "tropical wood products" creates some inconsistencies – notably in relation to Viet Nam where a significant, but unknown, proportion of HS44 and 94 products are composed of non-tropical timber, and Brazil, where all HS94 wood furniture is excluded because there is no way to differentiate tropical from non-tropical, or hardwoods from softwoods, in this product category.

However, overall this definition of "tropical wood products" is believed to represent a reasonable compromise capturing, at global scale, the vast majority of products more likely manufactured from wood from tropical forests, while excluding the vast majority of products more likely to be manufactured from wood from other forest types. The definition is used to place VPA partner countries into the wider context of trade where there is the most direct competition and to give an indication of the scope of VPA partner trade in relation to wood from tropical forests. Consistent use of this definition, common to all previous IMM Annual reports, helps ensure continuity in reporting.

1.4 Report Content

Chapter 2 of the Report focuses on the state of VPA implementation and negotiation in all VPA partner countries, while ***Chapter 3*** provides an update on the share of VPA partner countries in global tropical wood products trade in 2019.

VPA partner competitiveness (***Chapter 4***) is analysed in detail, taking into account not only international indices of competitiveness but also IMM EU 2019 trade survey and Trade Consultation results.

Chapter 5 provides an update of IMM's EU-Indonesia trade flow analysis. It also includes findings of research undertaken by the IMM Indonesia correspondent and market perceptions derived from the EU trade survey and Trade Consultations.

Chapters 6 updates the 2018 analysis of requirements for legal timber in VPA partner export markets and provides an overview of VPA partner trade with regulated markets.

Chapters 7 to 10 focus on the EU market. In ***Chapter 7***, the report updates key trade data contained in the previous IMM reports. As far as possible, it does not duplicate analysis in the previous report, but rather updates trade data and includes a commentary on market trends in the 2019 reporting period[17].

Chapter 8 summarises findings from the 2019 EU trade survey, while ***Chapter 9*** provides an update on the recognition of FLEGT Licences in EU private sector and public procurement policies. ***Chapter 10*** informs on EU wood promotion programmes and their uptake of FLEGT as well as media coverage of FLEGT VPAs and EUTR.

Building on recommendations from the scoping study, ***Chapter 11*** provides more detailed insights into potential impacts of FLEGT VPA implementation on forest sector investment and the investment enabling environment in Indonesia and Viet Nam.

The Report concludes with recommendations for market development of FLEGT-licensed timber.

15. This aligns with usage of the term "Timber and Timber Products" in the FLEGT Action Plan and EU Timber Regulation.
16. The reference to VPA negotiating and implementing countries includes such countries, where little or no progress was made in the negotiations or in the joint implementation during 2019
17. The analysis of trade flows between VPA Partner countries and the EU contained in this report may be read in conjunction with the IMM Data Dashboard (http://www.stats.flegtimm.eu/). The Dashboard provides data visualisations and full access to statistics on EU imports of timber, paper and pulp from the 15 VPA partner countries. To facilitate broader market analysis, the IMM Data Dashboard also provides statistics on other countries which are leading suppliers of tropical timber into the EU.

VPA implementation and negotiation – state of play

2.1 Overview

In 2019, no changes occurred in the overall number of countries involved in negotiating and implementing a FLEGT VPA with the EU; the process includes 15 tropical countries, which together account for around 80% of the international tropical timber trade by value (***Figure 2.1***). While Indonesia remained the only FLEGT licensing partner country in 2019, several countries made progress on the path towards licensing, whilst in others there was no progress in the negotiations or in the joint implementation (e.g. no Joint Expert Meetings (JEMs) or Joint Implementation Committees (JICs)) during 2019[18].

Perhaps most notably in 2019 was progress made by Ghana, which, together with the EU, launched the Joint Assessment on the readiness of its timber legality assurance system. Ghana is now addressing some final non-compliances identified by the Assessment (see ***section 2.3.4***).

Below follows a summary of where VPA negotiations or implementation stood in each partner country by the end of 2019. More information on FLEGT licensing and VPA partner countries, including on forest resources, industry structure and a detailed trade overview, can be found on the VPA Partner Country section of the IMM website at **https://www.flegtimm.eu/index.php/vpa-countries**.

2.2 FLEGT-licensing partner countries

2.2.1 Indonesia

In 2016, Indonesia became the first country to start FLEGT licensing, having ratified its VPA with the EU in 2014. Indonesia's established SVLK framework became the VPA timber legality assurance system. Early issues, such as mismatches in HS customs codes between those applied on Licences and those used by EU customs, for example, have been largely resolved through dialogue.

The EU and Indonesian authorities also responded to private-sector calls for an e-licensing system to further streamline administration. A feasibility assessment of e-licensing, which will link the Indonesian licence database (SILK) and the EU system for receiving and managing FLEGT Licences (FLEGIT) electronically, was completed in January 2019.[19]

The Indonesian government also developed an online portal that can be used by stakeholders to flag-up non-compliances and trace action taken by government on the SILK website.

2.3 VPA implementing partner countries

2.3.1 Cameroon

Cameroon started VPA negotiations in 2007, signed the agreement in 2010 and ratified it in 2011. However, the pace of VPA implementation has been slow in recent years. In May 2019, Cameroon and the EU agreed to stop implementation of the SIGIF2 software, which was supposed to underpin the Legality Assurance System (TLAS). Review of the VPA legality definition is ongoing, as is reform of the country's forest code.

A 2020-2026 roadmap for VPA implementation is under development and 20 quick results initiatives have been identified[20]. Short-term priorities for the VPA implementation process in Cameroon include establishing of a VPA monitoring structure, stakeholder capacity building and improved transparency.

2.3.2 Central African Republic (CAR)

VPA implementation in CAR is still affected by the aftermath of the civil war. After signing of a peace agreement and appointment of an 'inclusive government' on 24 March 2019, political priorities centred around maintaining the peace and paving the way for democratic elections.

In February 2019, the 2017 joint EU-CAR Annual Report on VPA implementation was released. Among developments highlighted were: sanctions for mandated independent observation of forest law enforcement; further support for the WWF's private sector VPA capacity-building project; reinstatement of the Mobile Inspection Brigade, which controls forest, wildlife and fishing activity; launch of a collaborative database within the VPA Permanent Technical Secretariat (STP) to monitor timber transport from the forest and tax payment; and missions

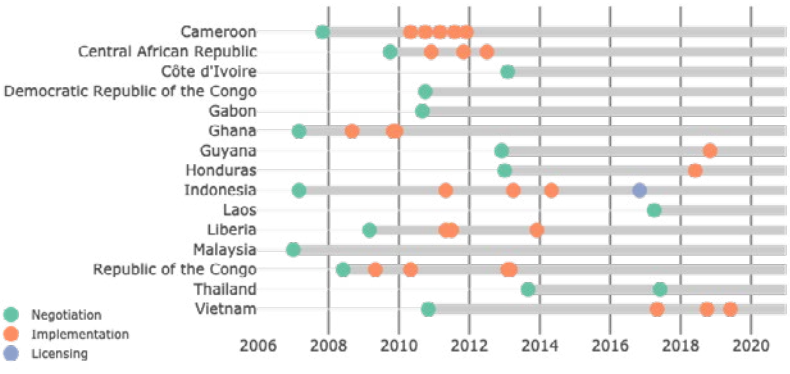


Figure 2.1: History of Voluntary Partnership Agreements *Source: IMM Monitoring Dashboard (interactive image at: http://77.68.2.134:3838/sample-apps/imm_stats_2020/)*

18. The reference to VPA negotiating and implementing countries includes such countries, where little or no progress was made in the negotiations or in the joint implementation during 2019
19. The e-licensing system reached advanced stages of development during 2020 and pilot e-licensing started on 2 November 2020 for a period of six months.
20. https://www.flegtimm.eu/images/Trade_consultations/Barcelona_7Oct19/Laurent_Cerbonney_201910_EFI_IMM_meeting_VPA_FLEGT_CAMRoC_udpates_V3.pdf

by FAO-EU FLEGT Programme consultants to support the STP in developing a VPA information website and timber monitoring database.

2.3.3 Republic of the Congo (RoC)

Progress in VPA implementation in the Republic of the Congo continued at a brisk pace in 2019. In the final year leading up to this development, civil society and the private sector actively lobbied Parliamentarians in a bid to secure key asks and seek clarification on some contentious provisions, such as the much-debated production sharing scheme. National ownership of the VPA implementation has further strengthened, largely underpinned by the prospect of enhanced collection of forest revenue.

Pending operationalisation of the Inter-Ministerial Committee in charge of overseeing the funding and roll-out of the timber legality assurance system (SVL), an Inter-Ministerial Working Group is in place to monitor implementation of the computerised system (SIVL) roll-out strategy validated in July 2019. Sensitisation campaigns targeting the private sector were launched, and work to deploy the initial modules (Tax, Legality and Special Permits) has started, supported by an external service provider.[21]

While the next phase for the independent audit of the system is yet to be launched, all seven reports produced under the previous phase were validated and made public in 2019. Work is underway to address the auditor's requests for corrective action, in particular at the level of the decentralised forestry administration. As of May 2019, 22 forest concessions (making up 60% of the 13.8 million ha of forest allocated to commercial use) had sustainable management plans in place, and work was in progress in a further five concessions (7%). At the 11th JIC meeting (November 2019), the introduction of an external forest monitoring system was presented. It is intended to complement the existing mandated monitor, thereby increasing the scope and impact of independent forest monitoring in Republic of the Congo.

2.3.4 Ghana

Ghana's Forestry Commission started addressing remaining non-compliances identified during the 2019 Joint Assessment on the readiness of Ghana's Legality Assurance System (GhLAS) in 2019.

Remaining non-compliances flagged up by the Assessment include: Forestry Commission's evaluation and approval of remaining applications for conversions of concessions to Timber Utilisation Contracts (TUCs) and subsequent ratification of the approval by Parliament; Forestry Commission (FC) updating and revising several forest management plans that were deemed incomplete or outdated by the auditor; and (re-) appointment of an independent monitor.[22]

2.3.5 Liberia

Liberia started VPA negotiations in 2009, agreed and signed the VPA in 2011 and ratified and brought the VPA into force in 2013. The VPA JIC met seven times between 2013 and 2019. During the most recent meeting between 25th February and 1st March 2019, EU and Liberian government representatives as well as civil society and private sector stakeholders discussed progress made in implementing a system to verify the legality of Liberia's timber products from forest to point of export.

During 2019, the Liberian government began the process of taking over management of the Legality Verification Department (LVD) and the timber tracking system called LiberTrace from Société Générale de Surveillance (SGS) the service provider. In November 2019, the Independent Auditor concluded its 4th Audit of the TLAS.

In the second half of 2019, a series of regional dialogues was organized by the National Union of Community Forestry Development Committee (NUCFDC), the National Union of Community Forest Management Body (NUCFMB), and the Liberia Timber Association (LibTA) to obtain recommendations for improving existing laws, regulations, policies, agreements and operations of forest structures and companies from representatives of communities, companies and local and national government. Also in the second half of 2019, the UK DfID-funded Multi-stakeholder Forest Governance and Accountability Project (MFGAP) was launched. This will run to mid-2022 and support governance reform in Liberia in the context of the VPA. The EU launched the VPA-SU2 project in 2019, which has since provided technical support and capacity building measures to the Forestry Development Authority in Liberia to support implementation of the VPA.

2.3.6 Viet Nam

Viet Nam began VPA negotiations in 2010 and the agreement was ratified by the EU and Viet Nam in April 2019 and entered into force in June 2019[23]. As foreseen in the VOA, a JIC, supported on technical matters by a JEM meets twice a year for the first two years after entry into force, and after that once a year. The first meeting of the JIC (JIC-1) took place on 15 November 2019, preceded by a two-day JEM (JEM-1) on 12-13 November.

Alongside ratification of the VPA, the new Law on Forestry, which also came into effect in 2019, provides the legal foundation for institutionalisation of various elements of the VPA and VNTLAS in national legislation.

To institutionalise commitments under the FLEGT VPA, the Ministry of Agriculture and Rural Development has collaborated with relevant ministries and stakeholders to develop a decree regulating the Viet Nam Timber Legality Assurance System (VNTLAS). An initial draft of the VNTLAS Decree was posted on the government's websites at the end of May 2019. Comments were invited

21. Operations did not stop during the COVID-19 confinement either. During that time, the Inter-ministerial Technical Group worked to develop training materials and an e-learning platform. Training on the SIVL tax module was completed in July 2020.
22. The Covid-19 pandemic and related lockdowns of business and administration in Ghana, as well as administrative difficulties due to 2020 being an election year, were regarded as factors potentially leading to delays in parliamentary ratification of steps taken by the Ghana Forestry Commission by the time of preparation of this report.
23. In 2020, following the national plan issued for VPA implementation (Decision No. 1624/QĐ-TTg of November 2019) following the Joint Implementation Framework, the central and local government authorities have prepared detailed plans for their regions and areas of jurisdiction.

from agencies, organisations and individuals affected by the Decree. Six stakeholder consultation events were also organised on the draft Decree. The draft Decree dossier was subsequently submitted to the government for initial consideration in December 2019.

Alongside the FLEGT VPA process, a Multi-Stakeholder Core Group (CG) was established in 2017. It is co-chaired by the Vice Director General of VNFOREST and representatives from CSOs, with participation of 32 organisations and agencies. Its main function is to bring the voice and contribution from different stakeholders, especially CSOs, into the FLEGT VPA process. The CG convened twice in 2019.

As Viet Nam is not only a significant timber producer in its own right (mainly plantation timber) but also a major regional processing hub, importing wood from over 80 countries, tropical and temperate, the VNTLAS covers not only domestically produced wood, but also imports. Vietnamese operators will have to undertake due diligence on imports, assess the risk of illegality and undertake mitigation measures if necessary.

2.5 VPA negotiating partner countries

2.5.1 Côte d'Ivoire

Côte d'Ivoire entered VPA negotiations in 2013 as part of a strategy to combat serious deforestation, which has seen forest cover decline by 80% over the last century. Since that time, two formal negotiation sessions have taken place, in addition to regular technical missions and exchanges[24]. In 2019, a new roadmap was drawn up between the Government of Côte d'Ivoire and the EU, with the aim to initial a VPA by 2022[25]. Members of the Technical Negotiating Committee (CTN) participated in its creation, including civil society, traditional chieftains and the private sector.

As a part of a previous roadmap, launched in 2017, a new forest code had been adopted by the National Assembly in June 2019, with the objective to accelerate the reforestation of the country by encouraging partnerships between small holders, private sector and public sector. Sanctions are reinforced and new issues such as agroforestry, forest concession, independent observation and a participatory approach are introduced. The code also clarifies customary land tenure rights.

2.5.2 Democratic Republic of the Congo (DRC)

Discussion about the VPA between the EU and DRC were brought back into focus late 2016, with the country's FLEGT Technical Commission continuing work on its legality definition. The draft of the latter for industrial forest concessions was produced in 2017 and field-tested in December 2018. The FLEGT Technical Commission presented the results of that field test during a consultation and information workshop in June 2019. Some of the active engagement in the EU REDD initiative, including action on sustainable forest management, conservation and strengthening of forest carbon stocks, has seen the country progress towards FLEGT objectives. Pilot projects have included the Mai Ndombe Province Emission Reduction Program, which is trialling a legality strategy and compliance standard for monitoring logging companies with a view to rolling it out to the rest of the country.

2.5.3 Gabon

Gabon started VPA negotiations with the EU in 2010. However, after two negotiation sessions held in 2010 and 2011, respectively, followed by a bilateral technical session in 2012 and preparation of a roadmap, there has been little further progress towards concluding a VPA.

In the meantime, the Gabonese government has continued with legal reforms in the forestry sector, including an ongoing revision of the forestry code. A new minister, formerly the head of Gabon's National Parks Agency, was appointed in June 2019 and prioritised renewed efforts to stamp out illegal logging. In November 2019 the minister sent a letter to the head of the EU Delegation in Gabon, proposing the relaunch of VPA negotiations.

2.5.4 Lao PDR

Lao PDR began VPA negotiations in 2017 after first voicing interest in 2012 and opening a FLEGT standing office in 2013. The aim is to develop the forest sector and its skills levels and encourage technology transfer to the industry. Currently Lao PDR's main source of timber is forest clearing for conversion to plantation and non-forest use, including hydropower generation and agriculture. Underlining its commitment to reform, in January 2019 a national consultation workshop was held to discuss the final draft of the Ministry of Industry and Commerce's policy for monitoring input and output across the wood processing and trade sectors. The aim of the latter is systematic timber supply chain monitoring and control to ensure legality. Lao PDR delegations have also joined study trips to other VPA countries, including Indonesia and Ghana, to see how timber legality assurance systems operate on the ground. Laos aims to achieve 70% forest cover by 2030. To reach this target, the government is creating an enabling regulatory environment through national strategies including the 'National Socio-economic Development Plan 2016-2020', the 'Forestry Strategy' and the 'National Green Growth Strategy 2019-2030'.[26,27]

2.5.5 Malaysia

Formal VPA negotiations have been on hold in Malaysia since 2014 as the state of Sarawak refused to be party to the VPA. No VPA can be reached in Malaysia and no TLAS evaluated or accepted for FLEGT licensing until this situation changes.

2.5.6 Thailand

Thailand started VPA negotiations with the EU in 2013. Like Viet Nam, it is a significant regional wood products manufacturing hub and importer from

24. http://www.euflegt.efi.int/cote-ivoire
25. FLEGT VPA Update. Fern, January 2020. https://loggingoff.info/wp-content/uploads/2020/01/VPA-Update-January-2020-2.pdf
26. https://www.euredd.efi.int/laos
27. A fourth round of VPA negotiation took place in September 2020 to look at the timber legality definitions related to conversion forests, plantation forests, village-use forests, confiscated and imported timber. The TLAS is not yet developed and should be discussed during the next round of negotiations, expected to take place in 2021.

other suppliers in the area including neighbouring countries with higher deforestation rates; Cambodia, Malaysia (Sarawak) and Myanmar. After three rounds of negotiations, three updated draft documents are expected to become the core annexes of the eventual VPA treaty: The legality definition (LD), the timber legality assurance system (TLAS), and the supply chain control system (SCC). While the drafts are well advanced, clarification and work is needed, in particular on whether private certification should have a role within the TLAS, and, if so, how best to guarantee the mutually agreed exclusion of confiscated timber from the supply chain and further assurances on how government departments will enforce legality control. Updates will also be needed with regard to the product scope, the legality control system on private lands and the import control system. Conditions for release for the free circulation in the Union of Thai FLEGT-licensed timber products, and the terms of reference for independent audit will be left for final negotiations.[28]

2.4.1 Guyana

Guyana started VPA negotiations with the EU in 2012 and the VPA agreement was initialled in November 2018. However, the agreement still needs to be ratified by both parties before it becomes legally binding.

According to an EU FLEGT Facility report from December 2018[29], Guyana has developed some "key thematic areas to focus on over the next three to five years", including market improvements and industry development, the strengthening of implementing structures to ensure effective coordination of all the various implementing bodies, developing a finance mechanism for implementing the VPA, capacity building, and communication, among other things.

2.4.2 Honduras

Honduras was the first Latin American country to initial a VPA with the EU in 2018, but the agreement has yet to be signed and ratified. Implementation of a TLAS (Sistema para asegurar la legalidad de los productos forestales de Honduras: SALH) is outlined in a 2019-2023 Multiannual Plan.

Next steps include advancement of the signature and ratification process and creation of the body responsible for developing the TLAS and its implementation.

3 VPA country export trade – 2019 update

3.1. Scope

This section reports on the share of VPA partner countries in global tropical wood products trade in 2019. This is to ensure that trade flows between VPA Partner countries and the EU are considered in their appropriate global context. The section considers the relative contribution of VPA Partners in total global trade in tropical wood products in 2019. It considers the changing composition of wood products in the tropical trade and changing regional supply and demand during the year. The section builds on the more detailed analysis of long-term trends already covered in previous IMM reports[30].

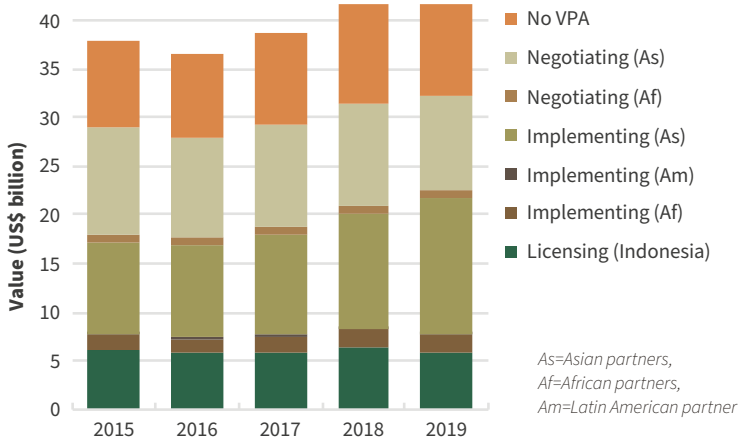
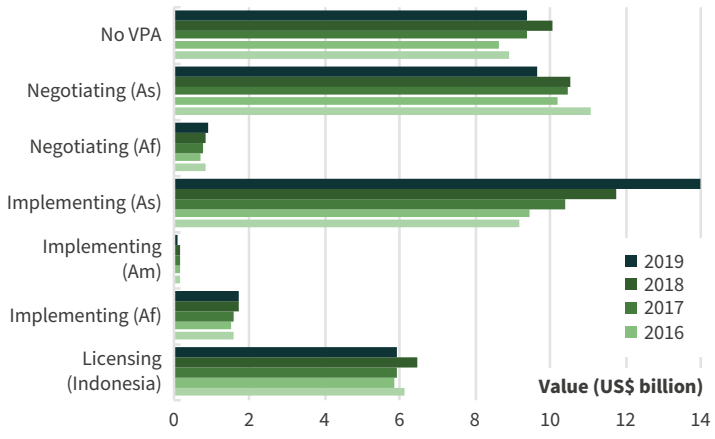


Figure 3.2.1: Global tropical wood-product trade by FLEGT VPA status – 2015-2019. *Source: IMM-STIX*

3.2 VPA partner share of global tropical wood product trade in 2019

Global trade in tropical wood products (all products in HS 44 and wood furniture products in HS 94) increased 0.2% to US$41.7 billion in 2019 (***Figure 3.2.1***). Growth continued in 2019, but at a much slower pace than during the previous two years when there was a sharp rebound from the dip in 2016 after the speculative rosewood boom in China had ended. Unlike the 2009 to 2014 period, when rapid trade growth was driven largely by China's imports of primary wood products, particularly rosewood, recent growth is mainly due to rising wood furniture exports, notably from Viet Nam and India, destined for the United States.

28. The fourth round of negotiations is planned for September 2021.
29. http://www.euflegt.efi.int/publications/high-hopes-for-guyana-eu-partnership-on-legal-timber-trade
30. Longer-term trade trends are analysed in more depth in the ITTO-IMM reports 'Europe's changing tropical timber trade 2004 to 2014' published in 2015, 'FLEGT VPA Partners in EU Timber Trade 2014 to 2016' published in 2017, and FLEGT VPA Partners in EU Timber Trade 2017 published in 2018. All IMM reports are available at: http://www.flegtimm.eu/index.php/reports



As=Asian partners, Af=African partners, Am=Latin American partner

Figure 3.2.2: Tropical wood-product trade by FLEGT VPA status – 2015-2019.
Source: IMM-STIX

Indonesia's wood products exports fell 9% to US$5.93 billion in 2019, reversing gains made the previous year (***Figure 3.2.2***). While the country's furniture exports continued to rise slowly, exports of plywood, notably to the US, fell back after a good year in 2018. Its share of global trade in tropical wood products fell from 15.6% in 2018 to 14.2% in 2019.

Viet Nam exported tropical wood products with total value of US$14.0 billion in 2019[31], an increase of US$2.2 billion (19%) on the year before. Its share of global trade in tropical wood products increased from 28.3% in 2018 to 33.5% in 2019. Nearly 50% of Viet Nam's exports in 2019 were destined for the US, while nearly a third were destined for other Asian markets, mainly Japan, China and South Korea. The trade dispute between China and the US boosted Viet Nam's exports to the latter in 2019. Viet Nam's exports to the EU increased 4% to US$981 million in 2019, when they accounted for 7% of its total exports.

In 2019, the five VPA implementing countries in Africa together exported US$1.69 billion of wood products, a 4% decrease from US$1.75 billion in 2018, and accounted for 4.1% of total global tropical trade, down from 4.2% in 2018. A decline in exports in Cameroon, the Central African Republic and Liberia offset a continuing rise in Republic of the Congo and Ghana. The overall decline in exports by African VPA implementing countries was driven mainly by falling demand for logs and rough sawn timber destined for China. Exports of sawn timber to the EU also weakened in the second half of 2019. However, exports to Viet Nam and India continued to rise in 2019.

The two VPA negotiating countries in Latin America exported US$115 million of wood products in 2019, a decline of 18% compared to the previous year. Their share of total global tropical wood product exports fell from 0.34% to 0.28%. Exports from Guyana declined sharply, particularly due to falling demand for logs in China. Its exports to the EU rose in 2019 but, at only US$4.1 million, were still limited. Exports from Honduras fell in 2019 due to declining sales in several neighbouring Latin American countries and in China and the EU, although there was good and stable demand in the leading US market.

Exports by the three VPA negotiating countries in Africa increased 6% to US$886 million and accounted for 2.1% of total global tropical wood products trade in 2019, up from 2.0% in 2018.

Although Gabon's exports to China declined during the year, this was offset by a sharp rise in exports to India. These increased from just over US$10 million in 2017 to US$100 million in 2019, nearly all comprising veneer, with a much smaller quantity of sawnwood (log exports have been banned since 2010).

After several years of decline, exports by Côte d'Ivoire recovered some ground in 2019 due to a sharp rise in exports to other African countries including Senegal, Mali, Burkina Faso, Morocco and Niger.

Exports from DRC continued to decline in 2019, a slight increase to China offset by a fall to Belgium, Taiwan and Portugal.

In 2019, the three VPA negotiating countries in Asia together exported US$9.4 billion of wood products, a 7% decline compared to 2018. Share of these countries in total global tropical wood trade declined from 24.2% in 2018 to 22.5% in 2019.

Malaysia's exports declined 6% during the year, with falling shipments to Japan, India, Singapore, Australia, South Korea, China and the Netherlands offsetting a significant gain in exports to the US.

Exports by Thailand, which are dominated by sawn rubberwood exports to China, declined 13% in 2019.

Exports by the Lao PDR Laos remained flat and low.

In 2019, countries not engaged in the VPA process exported US$9.4 billion of tropical wood products, down 7% on the previous year, and accounted for 22.5% of total global trade, down from 24.2% in 2018.

Although exports by India, the Philippines, Ecuador and Brazil continued to rise, this was offset by a decline in exports, mainly of logs, to China by Papua New Guinea and the Solomon Islands.

31. Figures reported here for trade by Viet Nam and several other tropical countries are higher than reported by national authorities in those tropical countries. This is because the data used in this analysis is primarily derived from "mirror statistics", that is imports reported by major trade partners rather than exports reported by tropical countries, the latter being less readily available on a regular basis. Unlike export data, which is usually based on FOB values, import data is frequently reported in CIF values (i.e. also including freight cost) which will be higher. It is also not unusual for ownership of shipments to change hands during transit, with the new owner adding a mark-up in price resulting in the recorded import value being higher than the value recorded at export.

3.3 Product mix of tropical wood trade

The most notable change in product mix of tropical wood in international trade in 2019 was resumption, after a brief and partial reversal in 2018, of the long term trend of rising share of higher value-added products, such as wood furniture and joinery, at the expense of less processed products, such as logs, sawnwood and plywood (*Figures 3.3.1* and *3.3.2*).

Between 2018 and 2019, the share of furniture increased from 36.4% to 41.5% and the share of joinery and other value-added products increased from 8.3% to 8.7%. In contrast, share of logs and fuelwood fell from 20.3% to 18.5%, share of sawnwood and mouldings fell from 15.9% to 14.1%, and share of plywood, panels and veneer fell from 19.0% to 17.2%.

These shifts in product mix in 2019 are closely linked with the strength of furniture and other value-added product exports from Viet Nam, particularly to the US, and the downturn in the Chinese market, which is dominated by logs and rough sawnwood, during the year. The year 2019 also saw a downturn in the value of the tropical plywood trade, after significant gains in 2018, particularly for Indonesia destined for the US, Japan, South Korea, the EU, and Australia.

3.4 Regional supply of tropical wood products

3.4.1 Asia

In terms of value, Asian countries have dominated the tropical wood trade for many decades, a result of more rapid economic development and far-reaching steps up the value chain of Asian countries compared to countries in other tropical regions. The overall share of Asian countries in global trade increased to 84% in 2019, rising from 82% the previous year (*Figure 3.4.1.1*).

In the five years between 2015 and 2019, total wood product exports by the five countries of the Mekong region (Cambodia, Lao PDR, Myanmar, Thailand, Viet Nam) increased from US$14.6 billion to US$18.4 billion. The Mekong region has emerged as the largest source of tropical wood product supply, overtaking South East Asia where exports have fluctuated between US$13.4 billion and US$14.2 billion during the same period without showing a consistent trend. While the Indian sub-continent now exports more tropical wood products than in the past, rising to US$1.6 billion in 2019, it remains a comparatively smaller supplier to the rest of the world (*Figure 3.4.1.2*).

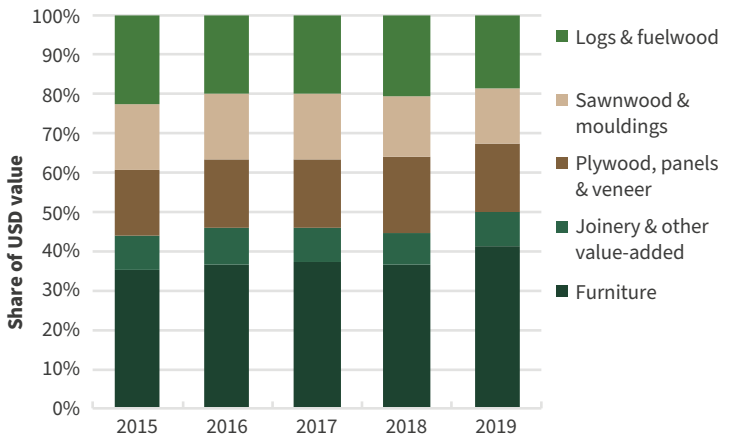


Figure 3.3.1: Share of global trade in tropical wood-products by product group – 2015-2019. *Source: IMM-STIX*

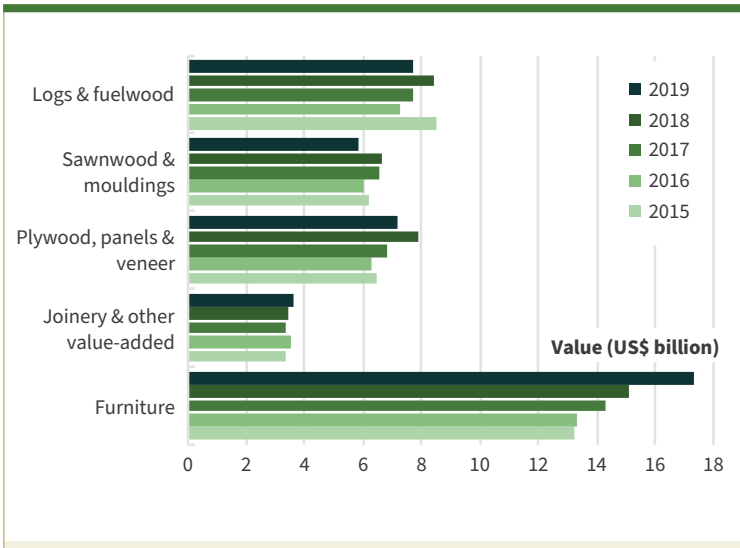


Figure 3.3.2: Global trade in tropical wood-products by product group – 2015-2019. *Source: IMM-STIX*

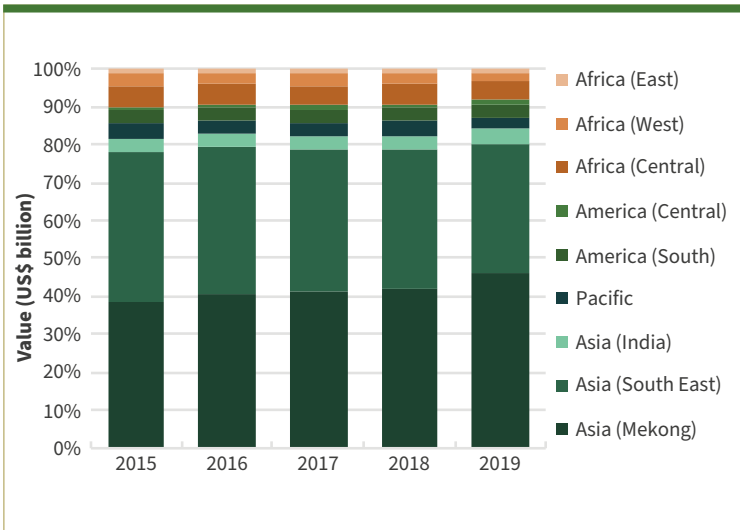


Figure 3.4.1.1: Share of global trade in tropical wood-products by region of supply – 2015-2019. *Source: IMM-STIX*

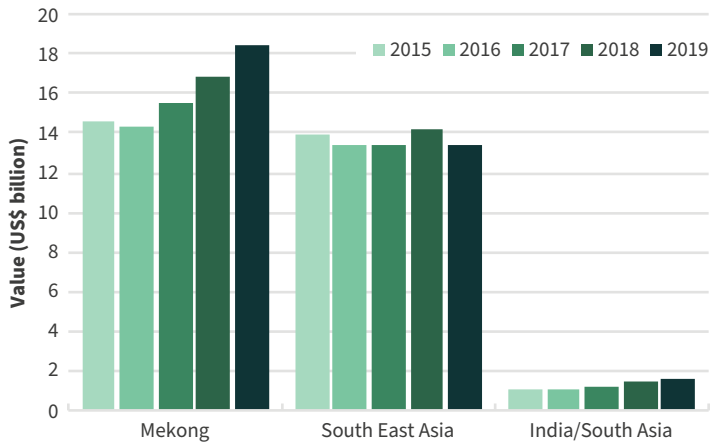


Figure 3.4.1.2: Tropical wood-products exports by Asian region of supply – 2015-2019. *Source: IMM-STIX*

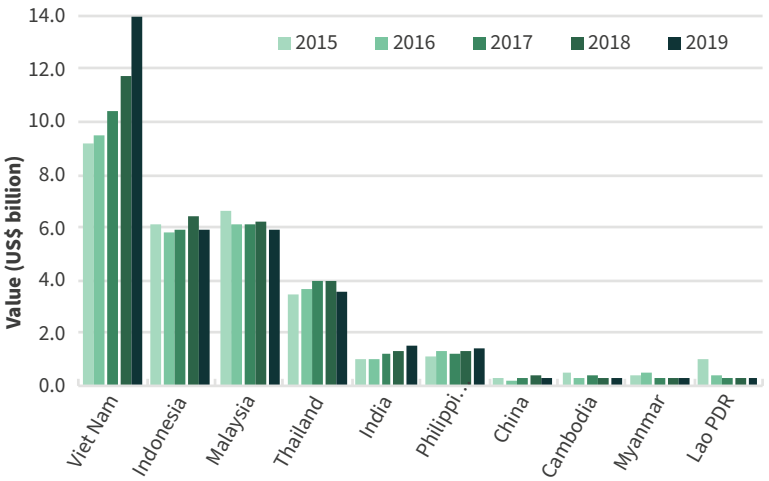


Figure 3.4.1.3: Trade in tropical wood-products by Asian exporters – 2015-2019. *Source: IMM-STIX*

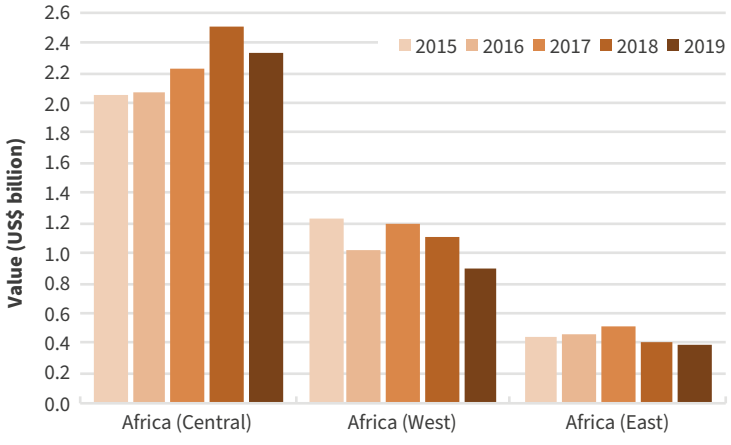


Figure 3.4.2.1: Tropical wood-products exports by African region of supply – 2015–2019. *Source: IMM-STIX*

Trade by countries within the Mekong region itself is shifting. Previously driven by a large and often unregulated trade in logs and rough sawn timber internally and to China and India, much comprising teak and rosewood, and by rising exports of plantation rubberwood and acacia from Thailand to China, recent growth is mainly due to Viet Nam's rising exports of furniture and plywood to the US and of biomass to Japan, China and South Korea.

Thailand's exports, primarily of sawn wood from plantations, after reaching a record level of US$4.02 billion in 2018, fell 13% to US$3.52 billion in 2019. Cambodia, which previously exported large quantities of sawnwood to Viet Nam and China, is becoming more dependent on exports of plywood and furniture to the US. Cambodia exported around US$347 million of wood products in 2019, 3% more than the previous year, with exports to the US rising 45% to US$263 million during the year. In Myanmar, where forests are heavily degraded and log exports were banned in 2014, exports fell 4% to US$297 million in 2019, still destined mainly for China, India and Thailand, but now focused on sawnwood, veneer and charcoal. Exports from Lao PDR, comprising logs and sawn wood destined principally for China and Viet Nam, fell 11% to US$300 million in 2019, well down on trade value of at least US$1 billion in 2015 at the height of the rosewood boom in China (*Figure 3.4.1.3*).

In South East Asia, exports from Indonesia declined 8% to US$5.9 billion in 2019, mainly due to declining plywood exports to the US and Japan after a surge in demand the previous year. Indonesia's furniture exports continued to rise slowly. Malaysia's exports also lost ground in 2019 after a rise the previous year, falling 6% to US$5.9 billion, with a sharp decline in plywood exports to Japan and the US, and in plywood, veneer and biomass exports to South Korea, only partially offset by growth in furniture exports, mainly to the US.

3.4.2 Africa

Exports in the Central region of Africa decreased 7% in 2019, to US$2.34 billion (*Figure 3.4.2.1*), with Cameroon exports down 6% to US$904 million, Equatorial Guinea down 40% to US$223 million, the Central African Republic down 25% to US$69 million, and DRC down 25% to US$69 million. These declines in exports were only partly offset in 2019 by a 4% rise in Gabon exports to US$644 million and an 11% rise in Republic of

the Congo exports, to US$420 million (*Figure 3.4.2.2*). These trends were significantly influenced by the sharp fall demand in China. Exports from Central Africa to China fell from US$1.3 billion in 2018 to just over US$1 billion in 2019. In contrast, exports to India from Central Africa increased from US$60 million to US$115 million, with most of the increase comprising veneers from Gabon. Exports from Central Africa to the EU also increased slightly in 2019, by 1% to US$642 million, with most of the gain due to rising EU trade with Republic of the Congo.

The fall in exports in West Africa in 2019 was even larger than in Central Africa, down over 19% to US$9 billion. However, the downturn was concentrated in just one country, Nigeria, where exports fell 76% decline from US$393 million in 2018 to US$95 million in 2019. This followed an investigation by CITES revealing widespread illegal logging and trade in rosewood, and irregularities in the issue of CITES certificates by Nigeria and which led to the suspension of all CITES authorization for rosewood exports from the country after after November 1 2018. In contrast to Nigeria, exports by Sierra Leone to China increased 17% to US$129 million in 2019, the vast majority under the Chinese code for rosewood (44034980).

Elsewhere in West Africa, exports from Côte d'Ivoire rebounded by nearly 20%, to US$188 million, driven mainly by rising regional demand in Africa. The long-term decline in Côte d'Ivoire's exports to the EU resumed in 2019, falling 12% to US$68 million after a brief upturn in 2018. Ghana's exports increased 2% to US$276 million in 2019, with exports of logs, mainly plantation teak, continuing to rise to India, and exports of sawnwood rising to Viet Nam. Ghana's exports to the EU increased 4% to US$35.7 in 2019, mainly due to a rise in exports of sawnwood to Germany. Liberia's exports declined 57% to US$21.7 million in 2019 due to weak demand for logs in China which account for around 90% of export value.

Exports in East Africa fell 6% in 2019, to US$387 million. Exports from Mozambique, by far the largest exporter in the region for which data is available, were US$284 million, the same level as the previous year. Exports from Zambia to China, nearly all logs of 'other tropical hardwoods' (product code 44034990), fell 27% to US$46 million in 2019. In 2016, Zambia banned the felling and transport of a tree known

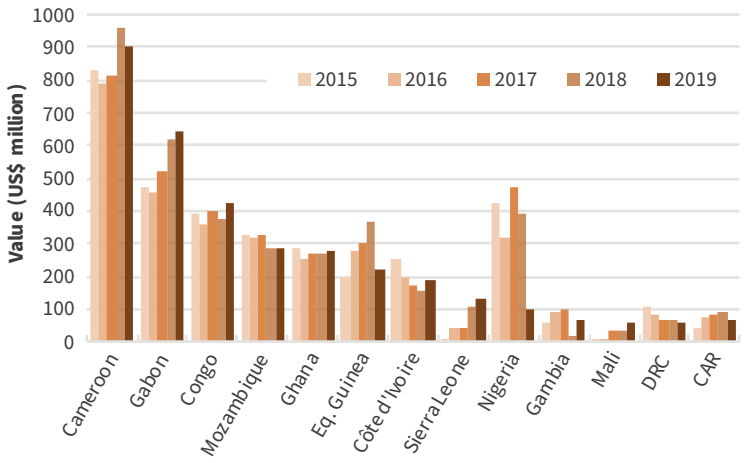


Figure 3.4.2.2: Trade in tropical wood-products by African exporters – 2015-2019. *Source: IMM-STIX*

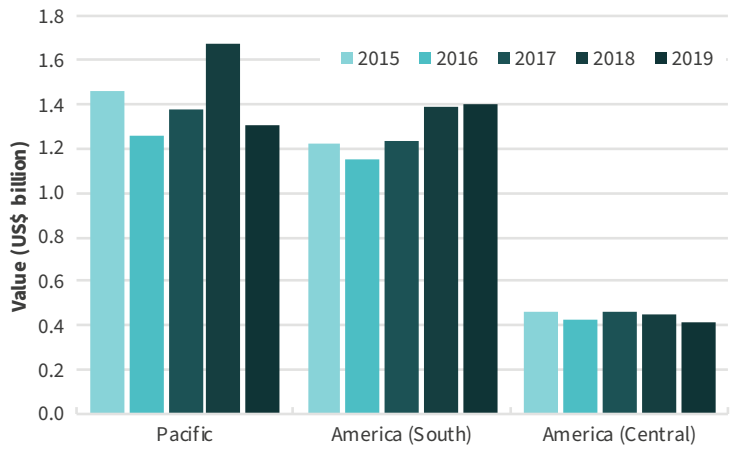


Figure 3.4.3.1: Tropical wood-products exports from Pacific and American region of supply by smaller VPA partner exporters – 2015 to 2019.
Source: IMM-STIX

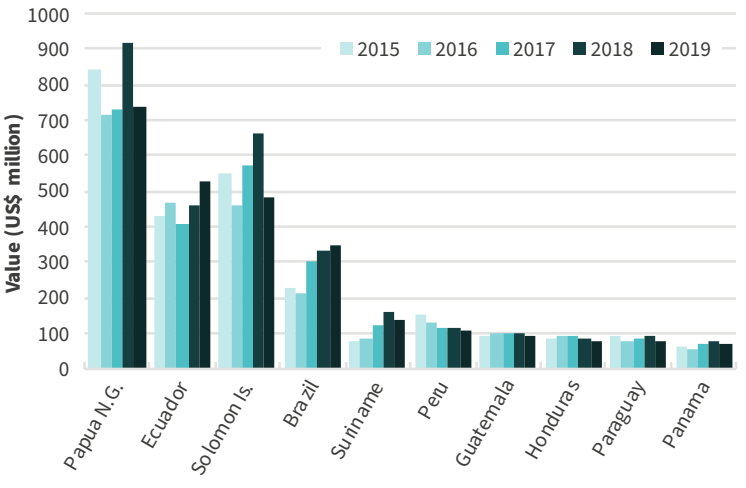


Figure 3.4.3.2: Trade in tropical wood-products by Pacific and American exporters – 2015-2019. *Source: IMM-STIX*

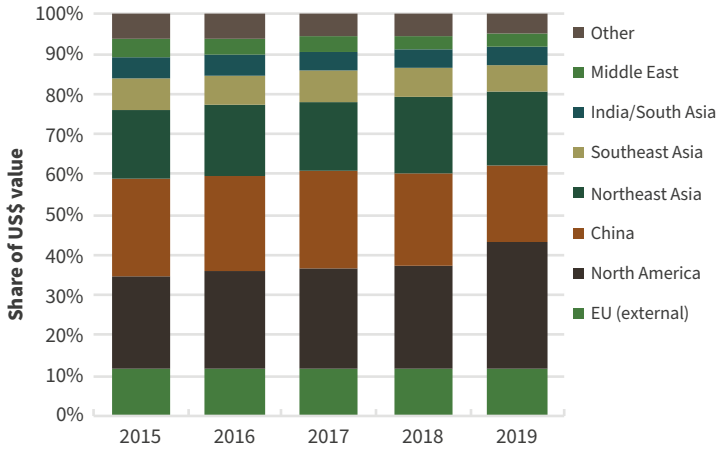


Figure 3.5.1: Trade in tropical wood-products by region of import – 2015-2019. *Source: IMM-STIX*

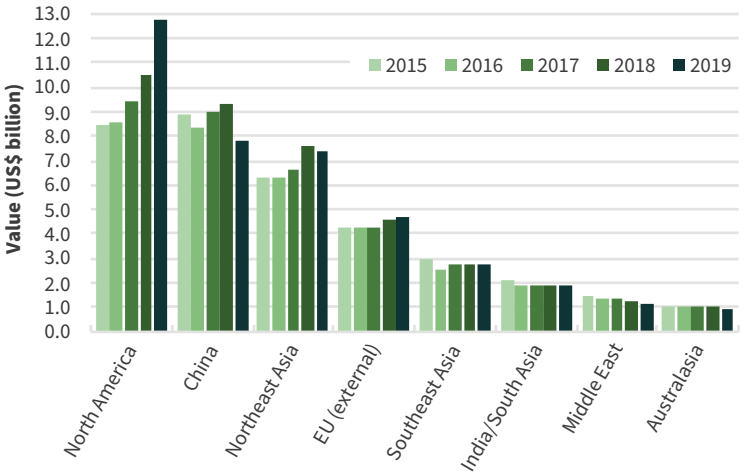


Figure 3.5.2: Trade in tropical wood-products by region of import – 2015-2019. *Source: IMM-STIX*

locally as mukula – Pterocarpus chrysothrix, a relative of rosewood – but government sanctioned exports of confiscated illegal wood have continued.

3.4.3 Pacific and America

Tropical wood product exports in the Pacific region are dominated by logs from Papua New Guinea and the Solomon Islands destined almost exclusively for China, with the remainder destined for India, Japan, South Korea and Taiwan. After a sharp increase in 2018, total exports from the Pacific region fell 22% to US$1.30 billion in 2019 (***Figure 3.4.3.1***). Papua New Guinea exports decreased 20% to US$737 million in 2019 while Solomon Islands exports fell 28% to US$480 million (***Figure 3.4.3.2***).

Tropical wood products exports by South American countries increased 1.3% to US$1.30 billion in 2019 (***Figure 3.4.3.1***). A 15% rise in exports in Ecuador to US$528 million, and a 5% rise in exports in Brazil to US$350 million, were offset by a 16% decline in exports in Suriname to US$136 million, an 8% decline in Peru to US$109 million, and a 16% decline in Paraguay to US$76 million (***Figure 3.4.3.2***). Ecuador exports an increasingly diverse range of wood products including logs, sawnwood, plywood, and panels destined mainly for the US, China and neighbouring South American countries. Exports from Brazil[32] have been rising to the United States and India in the last two years. Exports from Guyana, the only South American country engaged in the VPA process, declined 25% to US$38.8 million in 2019 driven by a sharp fall in exports of logs and sawnwood to China.

Tropical wood products exports by Central American countries[33] fell 7% to US$417 million in 2019 (***Figure 3.4.3.1***). Exports from Guatemala, the largest tropical wood exporter in Central America, fell 2% to US$94.7 million in 2019. Exports from Honduras, the only VPA country in the region, declined 14% to US$76 million (***Figure 3.4.3.2***). Exports from Honduras to the US, the largest destination accounting for around 40% of total exports, were stable in 2019 but exports fell to other leading markets in El Salvador, Nicaragua and St Lucia. A large proportion of Honduras exports comprise sawn softwood.

3.5 Changes in regional demand for tropical wood products

The value of EU imports of tropical wood products (excluding internal trade) increased 2% to US$4.7 billion in 2019, building on a 7% gain the previous year. The EU's share of total global imports of tropical wood products increased marginally, from 11.4% in 2018 to 11.6% in 2019, mainly due to the sharp decrease in Chinese imports (***Figures 3.5.1*** and ***3.5.2***).

Imports in North America accelerated in 2019 as US trade in wood furniture switched away from China in favour of suppliers in tropical countries of Asia in response to the

32. Due to the large proportion of Brazilian wood and wood furniture exports composed of softwoods and eucalyptus from plantations outside the tropical zone, unlike for other tropical countries (where it is assumed all wood and wood furniture products are "tropical") the data reported for Brazil refers only to sawnwood, veneer, and plywood specifically identified as composed of tropical hardwood in the HS system of product codes. Trade data for all other product groups does not separate tropical from non-tropical wood and is therefore excluded. In practice this means that there may be significant under reporting of Brazilian exports of tropical products, particularly of mouldings (HS4409) and furniture (HS94).

33. Due to the large proportion of Mexican wood and wood furniture exports composed of temperate hardwoods and softwoods, including both domestic wood and imports from the US, the data reported for Mexico refers only to logs, sawnwood, veneer and plywood specifically identified as composed of tropical hardwood in the HS system of product codes. In the case of Mexico these exports are negligible and only a tiny percentage of Mexico's total exports of wood and wood furniture, which exceeded US$7.5 billion in both 2017 and 2018 and were mainly destined for the US (94%) and Canada (4%).

US–China trade dispute. Total imports of tropical wood products into North America increased 22% to US$12.7 million in 2019, building on an 11% rise the previous year. North American imports from Viet Nam increased 34% to US$7.60 billion in 2019, and there were also significant increases in imports from Malaysia (+17% to US$1.44 billion), India (+10% to US$574 million), Thailand (+19% to US$305 million) and Cambodia (+45% to US$263 million). Imports from Indonesia declined 9% to US$1.24 billion. Although North American imports of wood furniture from Indonesia increased during the year, this was offset by a sharp decline in plywood imports from Indonesia.

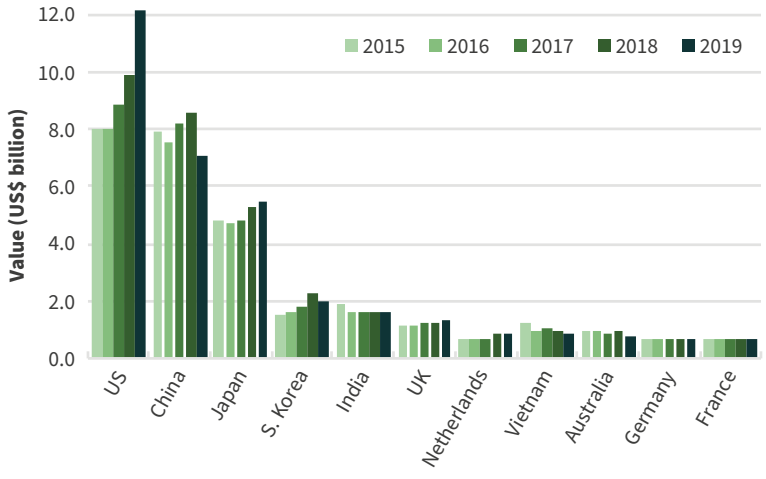


Figure 3.5.3: Top 11 importers of tropical wood-products – 2015-2019.
Source: IMM-STIX

After making gains in 2018, tropical wood products imports in North East Asia fell 3% to US$7.4 billion in 2019. Imports of wood furniture into North East Asia from tropical Asia remained stable in 2019, but there were significant changes in the mix of other tropical wood product imports. There was a sharp fall in Japan's imports of plywood from Indonesia and Malaysia in 2019. However, Japan's imports of joinery products from the Philippines continued to rise, reaching US$1.16 billion in 2019. Japan's imports of wood pellets and chips from Viet Nam also continued to rise rapidly. During 2019, there was a decline in South Korea's imports of pellets and plywood from Viet Nam, plywood from Indonesia, and plywood, particle board and pellets from Malaysia and Thailand.

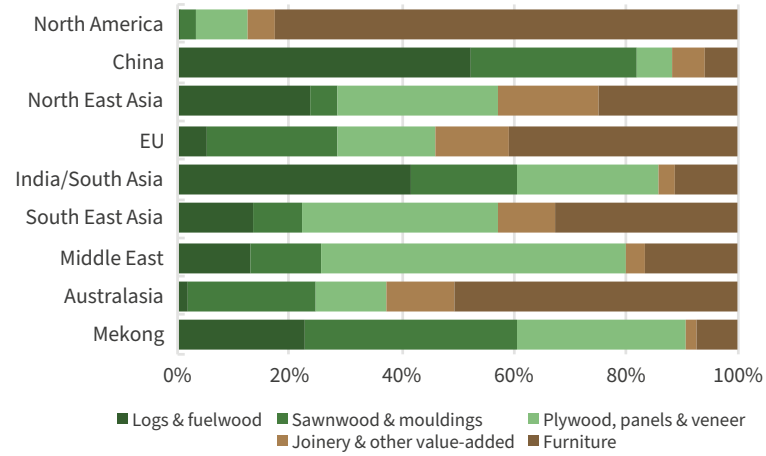


Figure 3.5.4: Product mix of tropical wood-products trade in 2019 by region of import. *Source: IMM-STIX*

The expectation that the trade dispute between the US and China, which contributed to significant slowdown in China's imports of US hardwood in 2019, may increase China's reliance on imports of tropical hardwoods has yet to be realized. Instead, China's imports of tropical wood declined 17% in 2019 to US$7.8 billion in response to weakening demand from the plywood and furniture manufacturing sectors and the interior-decoration markets. This was driven both by weakening in the domestic economy and a deteriorating external environment, including both a global slowdown, and the US–China trade tensions. Although China's GDP growth of 6.1% in 2019 was strong by the standards of other countries, for China it was the slowest since 1990. A specific factor for wood product manufacturers in China has been the introduction of relatively strict emission control policies, causing numerous less efficient factories to close since 2017, particularly in the plywood sector.

During 2019, there was a 27% decline in China's imports from Thailand, mainly sawn rubberwood, to US$1.28 billion, while there was a large fall in imports from Papua New Guinea (–24% to US$620 million), the Solomon Islands (–27% to US$404 million), Gabon (–10% to US$280 million), Cameroon (–25% to US$243 million), Malaysia (–20% to US$211 million) and Equatorial Guinea (–42% to US$199 million). However, imports from Viet Nam, over 90% comprising wood chips, increased 4% to US$1.35 billion in 2019. As a result, Viet Nam replaced Thailand as the largest single supplier of tropical wood products to China in value terms. China also imported more from the Republic of Congo and Ghana in 2019, trade rising 16% to US$249 million and 20% to US$113 million respectively.

Tropical wood product imports in the Southern Asian region, dominated by trade with India, declined 2% to US$1.88 billion in 2019. The downward trend was mainly driven by a continuation of the long term fall in India's imports of logs from Malaysia. The total value of India's wood imports from Malaysia fell a further 9% to US$369 million in 2019. Imports from Indonesia were also down 7% at US$153 million in this case due mainly to a fall in the plywood trade. In contrast, India's imports from Gabon rose by 130% to US$100 million in 2019, driven by a sharp rise in the veneer trade. Underlying this trend is increased urbanization and rising household

income, together with declining availability of traditional teak supplies, notably in Myanmar, which is increasing demand for modern veneered panels and domestically produced plywood and other laminates in India's furniture and interiors sector. India's imports of plantation teak logs from Ghana also continued to rise strongly in 2019, up 17% at US$76 million.

Tropical wood products imports in the South East Asian region (including the Malay archipelago and Mekong delta) declined 1.6% to US$2.8 billion in 2019. However, import trends varied widely across the region in 2019. Although Viet Nam's imports of tropical wood products increased from Cameroon, Lao PDR and PNG, overall imports were down mainly due to a large decline in trade with Cambodia, with smaller downturns from Republic of the Congo and Gabon. Malaysia's imports of tropical products, which increased in 2018 driven by a rise in imports of plywood from Indonesia and Viet Nam, fell back again in 2019. Indonesian imports of tropical wood products increased 33% in 2019 driven almost entirely by rising trade in chips from Viet Nam.

The mix of tropical wood products varies widely in each of the import regions (***Figure 3.5.4***). Imports into China, India, and the Mekong region continue to be led by logs and fuelwood although there are signs of increasing willingness to import more sawnwood and veneer in all regions as log availability has declined and controls on logs exports have been progressively tightened in some tropical exporting countries. Rising processing costs in China are also making imports of sawnwood more attractive in that region. Imports of tropical wood products in North America are dominated by wood furniture. A large proportion of tropical wood products imports in the Middle East are of sawn wood (much must be lower grade judging from relatively low unit values). The EU, North East Asia, South East Asia and Australasia import a more diverse range of tropical wood products, from logs through to finished furniture.

VPA partner country competitiveness

4

4.1 Relative international competitiveness of VPA partner countries

Previous IMM Annual Reports[34] observed that several VPA partner countries ranked highly in international competitiveness indices and that there is correlation between the ranking in these indices and the development of countries' wood processing industries. The previous reports used three indices, namely the World Bank's "Ease of Doing Business"[35] (EDB), the World Economic Forum Global Competitiveness[36] Index (GCI), and UNCTAD's Liner Shipping Connectivity Index[37] (LSCI) to identify trends in VPA partner country competitiveness.

Ranking in these three indices evaluates a country's performance against numerous economic performance indicators, many of which need to be considered when analysing trade flow trends for timber and timber products. The relevance of transport logistics, to mention just one example, has been highlighted as a key factor influencing purchasing decisions in the international timber trade – alongside price, quality and reliability – by all IMM trade consultations, as well as the IMM furniture sector scoping study.

Overall, the 2019 analysis of the three indices demonstrates continuation of trends shown in previous years. Malaysia, Indonesia, Viet Nam and Thailand have the most developed wood-processing sectors among the VPA partner countries and are significant exporters of value-added wood products to the EU. They also continue to rank far better in international competitiveness indices than other VPA partner countries.

Among the Asian VPA partner countries, Malaysia has performed best by outranking not only the other VPA partner countries, but also China on the EBD and GCI, although China ranks still stronger on the Connectivity Index. Lao PDR is the only Asian VPA partner country with weak competitiveness ratings by all international standards.

VPA partner countries that are poorly connected to international trade routes and are rated as challenging places in which to do business are typically also more focused on the export of primary wood products. The African VPA partner countries all ranked much lower on all three indices than their Asian counterparts and continued to supply primarily sawnwood and logs to EU markets in 2019.

The rankings achieved by the South American VPA partner countries in the international competitiveness indices was more comparable to the African VPA partners than to the Asian countries (other than Lao PDR). And like the African partner countries, sawnwood and logs continue to be the dominant product groups supplied by Guyana and Honduras to the EU.

4.1.1 2019 VPA partner country performance against the UNCTAD LSCI

The Liner Shipping Connectivity Index (LSCI) aims at "capturing a country's level of integration into global

34. http://www.flegtimm.eu/index.php/reports/annual-reports (IMM/ITTO 2015; IMM/ITTO 2017; IMM/ITTO 2018; IMM/ITTO 2019)
35. World Bank Group, Doing Business 2020. Comparing Business Regulation in 190 Economies. http://documents.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf (WB 2020)
36. World Economic Forum, Klaus Schwab. The Global Competitiveness Report 2019 (WEF 2019) http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf
37. UNCTAD Liner Shipping Connectivity Index. Table of Results. (UNCTAD 2019) https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=92

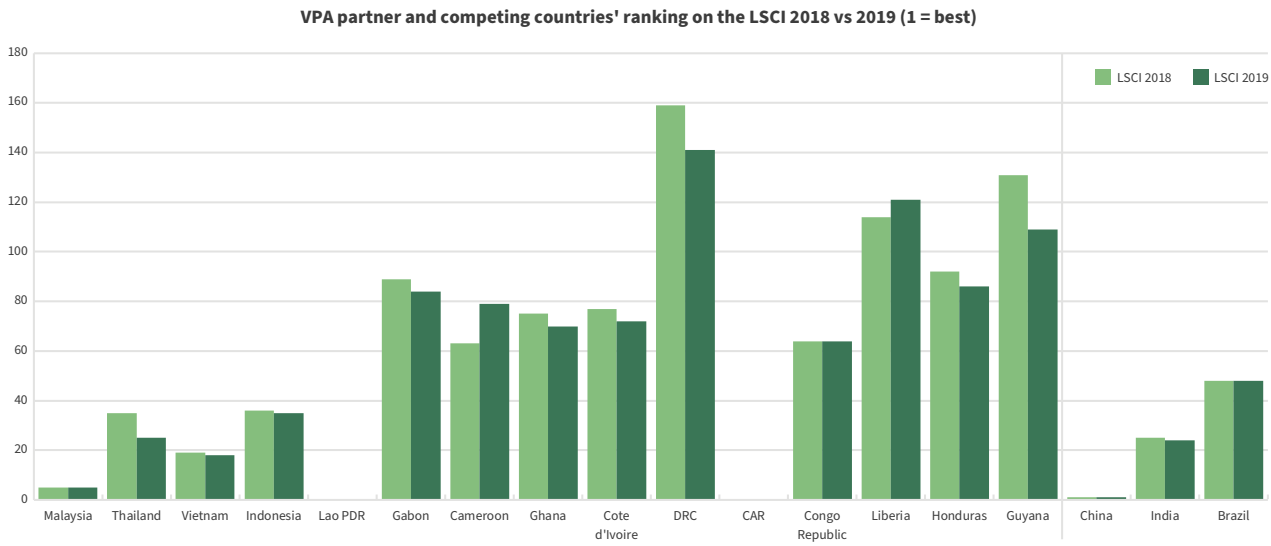


Figure 4.1.1.1: Relative international competitiveness of VPA partner countries - LSCI. *Source: IMM 2019 analysis of UNCTAD data*

liner shipping networks". The level of integration is assessed against a combination of six indicators[38]:

- The number of scheduled ship calls per week in the country;
- Deployed annual capacity in Twenty-Foot-equivalent Units (TEU): total deployed capacity offered at the country;
- The number of regular liner shipping services from and to the country;
- The number of liner shipping companies that provide services from and to the country;
- The average size in TEU of the ships deployed by the scheduled service with the largest average vessel size;
- The number of other countries that are connected to the country through direct liner shipping services.

The sixth indicator was added as recently as 2019 and the index for previous years (back to 2006) newly generated. The addition to the index caused no significant shift in the ranks of VPA partner countries in the LSCI (***Figure 4.1.1.1***). A total of 178 countries was listed on the LSCI in 2019.

4.1.1.1 Asian VPA partner countries on the LSCI

The relative positions on the LSCI remained unchanged among the Asian VPA partner countries from 2018 to 2019, although Thailand gained more ground than the other countries, improving from 35th to 25th place. Malaysia has performed best of all VPA partner countries against the LSCI for several years now and held 5th place globally both in 2018 and 2019. China (1st place) is one of the few countries world-wide that is better connected to international transport routes than Malaysia.

Viet Nam ranked 19th on the LSCI in 2018 and 18th in 2019. Indonesia is facing stronger challenges than most other Asian VPA partner countries in terms of logistics, something that is reflected in its ranking on the LSCI (36th in 2018 and 35th in 2019) and has been repeatedly confirmed by participants at IMM trade consultations as well as the IMM 2019 competitiveness survey (section 4.2) and the competitiveness survey embedded in the IMM 2018 Furniture Sector Scoping Study[39]. Besides Malaysia, Viet Nam and Thailand, India and China, included by way of comparison with competing non-VPA partner countries, also performed better against the LSCI than Indonesia. Lao PDR was the only Asian VPA partner country not listed on the LSCI in either 2018 or 2019.

4.1.1.2 African VPA partner countries on the LSCI

As demonstrated by ***Figure 4.1.1.1*** all African VPA partner countries are less well connected to international trade routes by far than their Asian counterparts. While all listed Asian VPA partner countries are among the 40 best connected countries in the world, none of the African countries has been in this category – or even among the 60 best connected – in recent years.

Cameroon performed best of the African VPA partner countries in 2018 (63rd) but fell through the ranking (79th) in 2019. Republic of the Congo retained its comparatively good ranking by regional standards (64th) in both years. There was also little variation in the – by international standards weak – rankings of Côte d'Ivoire (72nd in 2019), Ghana (70th), Gabon (84th) and Liberia (121st) between 2018 and 2019. DRC was rated weakest (159th in 2018 and 141st in 2019) of the listed VPA partner countries, while Central Africa Republic was not included in the index.

4.1.1.3 South American VPA partner countries on the LSCI

The international connectivity of the two South American VPA partner countries is low by international standards, with Honduras (92nd in 2018 and 86th in 2019) being more or less comparable to the better performing African countries and Guyana (131st in 2018 and 109 in 2019) to the weaker performing ones. Local competitor Brazil (48th in both years) performs much better against the LSCI than the South American VPA partner countries.

38. UNCTAD Liner Shipping Connectivity Index: Measure updated in 2019. https://stats.unctad.org/handbook/MaritimeTransport/Indicators.html
39. A tabling of views, a scoping study for assessing the impacts of timber legality on the European Union's wood-furniture sector and the associated tropical timber trade. George White (IMM/2018) https://www.itto.int/direct/topics/topics_pdf_download/topics_id=5782&no=1&disp=inline

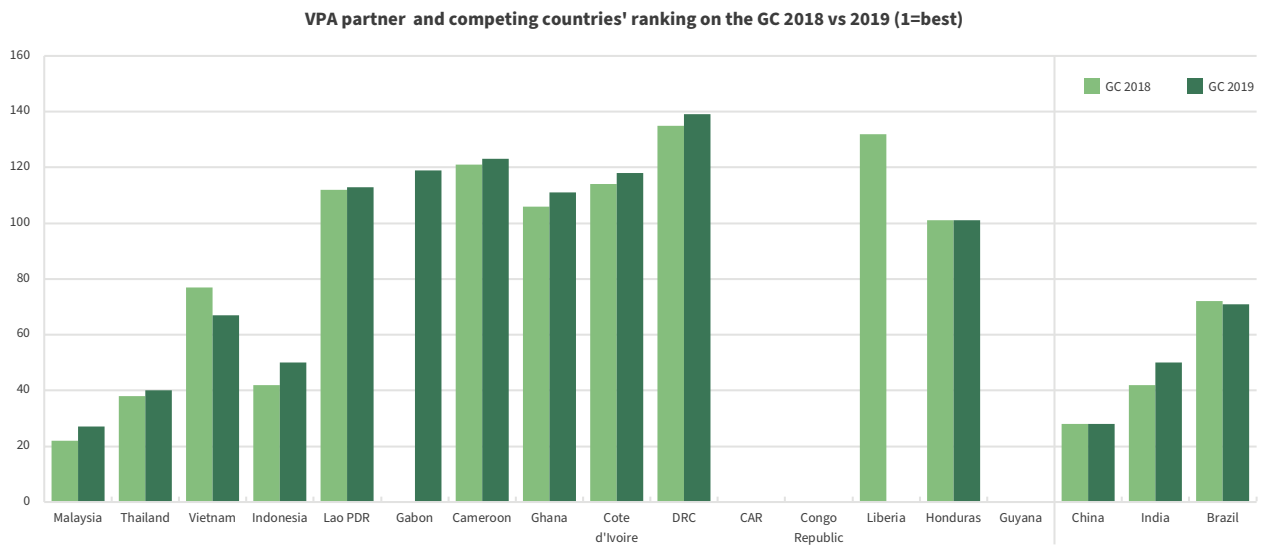


Figure 4.1.2.1: Relative international competitiveness of VPA partner countries. *Source: IMM 2019 analysis of GCI data*

4.1.2 VPA partner country performance against the Global Competitiveness Index

The GCI was revised in 2018 (GCI 4.0) to better reflect the realities of a globalised economy. Its declared aim is to help policy makers to assess "progress against the full set of factors that determine productivity". These factors are analysed against 103 individual indicators, divided into 12 pillars: institutions; infrastructure; ICT adoption; macroeconomic stability; health; skills; product market; labour market; financial system; market size; business dynamism; and innovation capability.

In 2019, the GCI listed a total of 141 countries, which, according to the report, account for 99% of the world's GDP. Among the VPA partner countries, Central African Republic, Republic of the Congo and Guyana were not included in the index in either 2018 or 2019. Liberia was listed 132nd in 2018 but excluded in 2019. Conversely, Gabon was not listed in 2018 but included in 2019 (119th).

The report overall concludes that "the global economy is ill-prepared for a downturn after a lost decade for productivity-enhancing measures" and that "the world is not on track to meet most of the 17 United Nations' Sustainable Development Goals by the deadline of 2030". Among the VPA partner countries, Viet Nam was the only one to register a year-on-year improvement against the GCI.

4.1.2.1 Asian VPA partner countries on the GCI

As on the LSCI, Malaysia is the best-performing of all VPA partner countries. Malaysia lost five places on the index (22nd to 27th) in 2019, but is still well-placed within the ranks of high-income economies rated better than China (28th) as well as all Eastern European and some Southern European EU countries (Italy, Portugal, Greece) and only a few places behind Austria (21st), Belgium (22nd) and Spain (23rd).

Indonesia ranked 50th in 2019, down five places from 2018. However, the decline in overall GCI score was small (0.3 to 64.6 points) and "its performance essentially unchanged", according to the GCI report. It ranks third among the Asian VPA partners, behind Malaysia and Thailand (40th in 2019 and 38th in 2018) but well ahead of Viet Nam (67th in 2019 and 77th in 2018) and Lao PDR (113th in 2019 and 112th in 2018). Indonesia's main strengths, according to the report, are its market size and macroeconomic stability. Indonesia also made improvements in "business culture" and "a stable financial system". "Innovation capacity", says the report, remains limited in Indonesia but is increasing.

Viet Nam is the country whose score on the GCI improved most globally last year, gaining 10 places and 3.5 points. Viet Nam has improved especially in "ICT adoption", "infrastructure", and gained ground on "business dynamism" and "innovation capability". Smaller improvements were also achieved in the "markets" and "human capital" pillars.

4.1.2.2 African VPA partner countries on the GCI

Sub-Saharan Africa is overall the least competitive region globally, according to the GCI report, with 25 of the 34 economies assessed in 2019 scoring below 50 out of 100 points. None of the African VPA partner countries that were listed in both years achieved an improvement or even stabilisation on the GCI between 2018 and 2019, with all countries slipping at least one or two places. Ghana was rated best (106th in 2018 and 111th in 2019), followed by Ivory Coast (114th and 118th). Ghana improved or was rated comparatively well on "institutions", "market size", "ICT adoption" and "innovation capability", but lost ground over 2018 on "macroeconomic stability" and "health".

As mentioned above, CAR and Republic of the Congo were not included in the GCI in either year and Liberia (132nd in 2018) was unlisted in 2019. Gabon was included on 119th place, after not being listed in 2018. Cameroon (121st and 123rd) and DRC (135th and 139th) fared worst among the listed African VPA partners.

4.1.2.3 South American VPA partner countries on the GCI

Of the two South American VPA partner countries, only Honduras was included in the GCI in 2018 and 2019. The

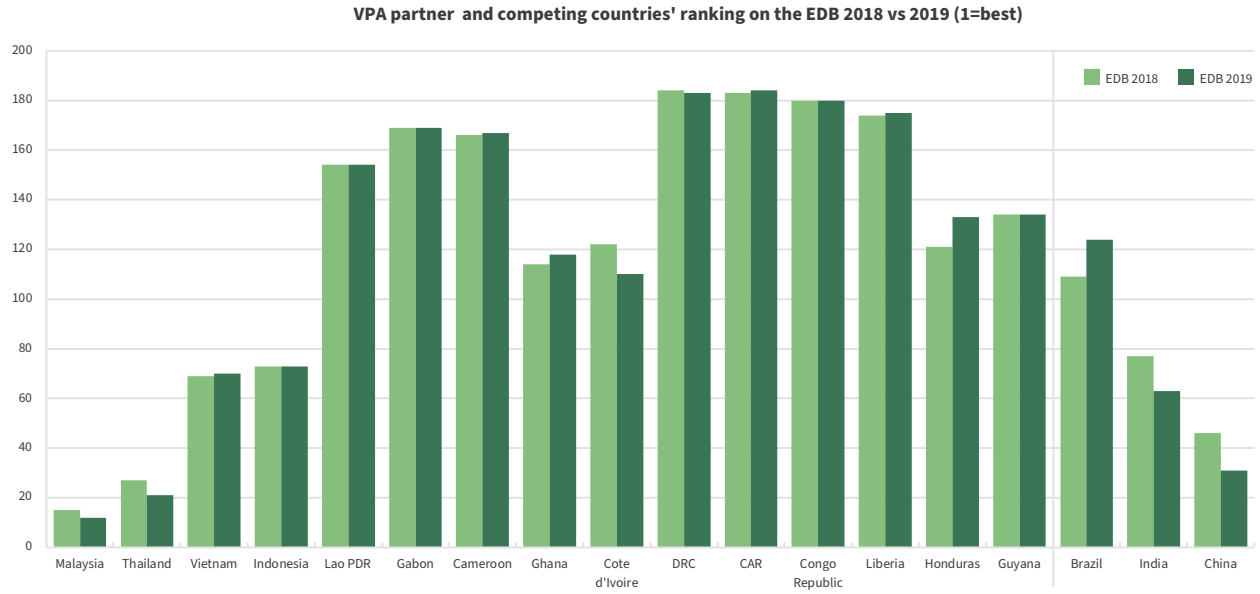


Figure 4.1.3.1: Relative international competitiveness of VPA partner countries. *Source: IMM 2019 analysis of World Bank data*

country was ranked 101st in both years, significantly lower than local competitor Brazil (72nd and 71st). Compared to 2018, Honduras improved in the categories of "health", "financial system" and "product market", in particular. On the other hand, it weakened on "ICT adoption"

4.1.3 VPA partner country performance against the Ease of Doing Business Index

The World Bank's EDB index looks at developments in business regulation in a total of 190 countries. Specifically, it documents changes in twelve areas of business activity; starting a business; employing workers; dealing with construction permits; getting electricity; registering property; getting credit; protecting minority interests; paying taxes; trading across borders; contracting with the government; enforcing contracts; and resolving insolvency. The EDB also analyses regulation that encourages efficiency and supports freedom to do business. The 2020 report gives some reason for optimism, stating that developing economies are "catching up with developed economies in ease of doing business". Moreover, 115 out of the 190 countries analysed made doing business easier in 2019.

Analysed by region, the results of the EBD mirror those of the GCI and the LSCI: while some Asian VPA partner countries rank highly on the index, none of the African or South American VPA partners are listed among the top 100.

4.1.3.1 Asian VPA partner countries on the EDB index

Malaysia and Thailand were the best-rated Asian VPA partner countries, with both achieving improvements in their EDB rating in 2019; Malaysia from 15th to 12th and Thailand from 27th to 21st. According to the 2019 report, both countries streamlined the process of dealing with construction permits.

Viet Nam (69th in 2018 and 70th in 2019) and Indonesia (73rd in both years) are ranked relatively equally on the EDB. For Viet Nam, the World Bank noted improvements in "getting credit" and "paying taxes" in 2019, with the latter being achieved through an upgrade of the information technology infrastructure. Indonesia made progress at several levels last year, including on "starting a business", "getting electricity", "paying taxes", "trading across borders" and "enforcing contracts".

As on the other indices, Lao PDR plays in a different league from other Asian VPA partner countries being ranked 154th in both 2018 and 2019. However, improvement was registered on the ease of "starting a business" and "getting electricity".

4.1.3.2 African VPA partner countries on the EDB index

The 2019 EDB report confirms that the African VPA partner countries have remained challenging places in which to do business. Three countries – Central African Republic (184th), DRC (183rd) and Republic of the Congo (180th) – ranked among the ten last places globally on the EDB, with Liberia (175th), Gabon (169th) and Cameroon (167th) faring little better. Ivory Coast (110th) and Ghana (118th) were the best-rated African VPA partner countries.

In Ghana, the latest EDB report highlights progress in "getting electricity", both through faster administrative procedures and increasing the availability of equipment. At the same time, it notes a setback in "paying taxes", by making the recoverable VAT system more complicated.

4.1.3.3 American VPA partner countries on the EDB index

Honduras (121st in 2018 and 133rd in 2019) and Guyana (134th in both years) rank almost at the same level on the EDB. The report does not specify why Honduras fell in the ranking between 2018 and 2019. The summary of business reforms merely notes improvements in "starting a business" for Honduras. Therefore, the weaker ranking in 2019 was probably not due to deterioration within Honduras, but rather to stronger improvements in other countries. Guyana, on the other hand, scored lower in "trading across borders" in 2019 than in 2018. Regional competitor Brazil ranked 109th in 2018 and lost further ground in 2019 (124th).

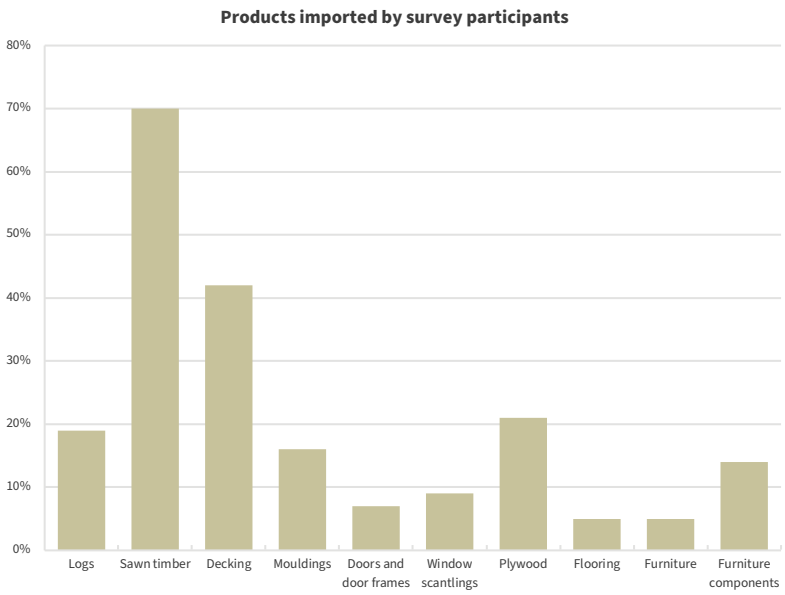


Figure 4.2.1: Products imported by survey participants.
Source: IMM 2019 survey of VPA partner competitiveness

4.2 VPA partner competitiveness in IMM surveys

IMM began gauging European trade perceptions of VPA partner country competitiveness in 2017. At that time, a survey was undertaken of perceptions of all VPA implementing (including FLEGT licensing) partner countries against a range of indicators; price; logistics; product range; technical performance of wood products; obtaining legality assurance; and obtaining assurance of sustainability.

The survey found that Indonesia was playing in a "different league" compared to the other VPA implementing countries all of which were in Africa at the time the survey was undertaken[40]. 90% of the 2017 survey respondents rated Indonesia's overall competitiveness "very good" to "satisfactory"; 58% rated Indonesia's competitiveness "good" or "very good". Indonesia was found to be particularly competitive in terms of "legality assurance", "technical properties" and "assurance of sustainability".

Figure 4.2.1.1: Asian countries' price competitiveness.
Source: IMM 2019 survey of VPA partner competitiveness

In 2018, IMM undertook a similar competitiveness survey for its furniture sector scoping study. This study took both European countries as well as important Asian suppliers of furniture into account. Participants in the furniture sector survey confirmed Indonesia's strong performance in terms of "quality/technical properties", where the country was rated almost at the same level as Western Europe and ahead of Eastern Europe and all Asian countries. At the same time, the furniture-sector survey found other Asian suppliers – especially China and Viet Nam – more competitive on price and logistics/lead time; the latter is in line with results of the LSCI.

In 2019, IMM updated the questions on competitiveness with a special focus on the Asian VPA partner countries; Indonesia, the only FLEGT licensing country; Viet Nam, which is now also a VPA implementing country; and Malaysia, which is a competitor to Indonesia and Viet Nam for a variety of wood and wood products on the European markets. These countries were considered alongside India and China, which are major competitors to VPA partner countries. The African VPA implementing countries were also included in the survey to monitor potential changes in EU trade perception of their competitiveness during the last two years.

Forty-four European companies importing a wide range of products (***Figure 4.2.1***) participated in the 2019 competitiveness survey, which was designed as a separate online survey outside the general IMM EU trade survey. Participants were asked to only rate countries in which they had direct experience of doing business. Survey respondents imported timber and timber products from and rated the competitiveness of the following countries: Indonesia (59% of respondents), Malaysia (34%), Viet Nam (16%), India (11%), China (18%), Cameroon (50%), CAR (20%), Republic of the Congo (39%), Democratic Republic of the Congo (16%), Gabon (23%), Ghana (27%), Ivory Coast (20%), Liberia (5%), Guyana (2%) and Honduras (2%). Due to the limited sample size, the competitiveness survey cannot be considered representative. However, it can serve as an indication of perceived strengths and weaknesses, especially when considered in conjunction with previous surveys and other indices.

The ratings for India were excluded from the 2019 analysis as they were inconclusive, with the small number of respondents most frequently just selecting "neutral" on all categories. However, India has emerged as an increasingly important supplier of furniture to key EU markets in 2018 and 2019. The country was therefore included in the IMM 2020 follow-up furniture study, the results of which will be published towards the end of 2020. Responses for Guyana and Honduras were also excluded due to the very small number of respondents: both countries currently only export very limited volumes of timber and timber products to the EU (see ***chapter 3.2***).

40. IMM Annual Report "FLEGT VPA partners in EU timber trade 2017". Chapter 4, page 16ff. Sarah Storck/Rupert Oliver.

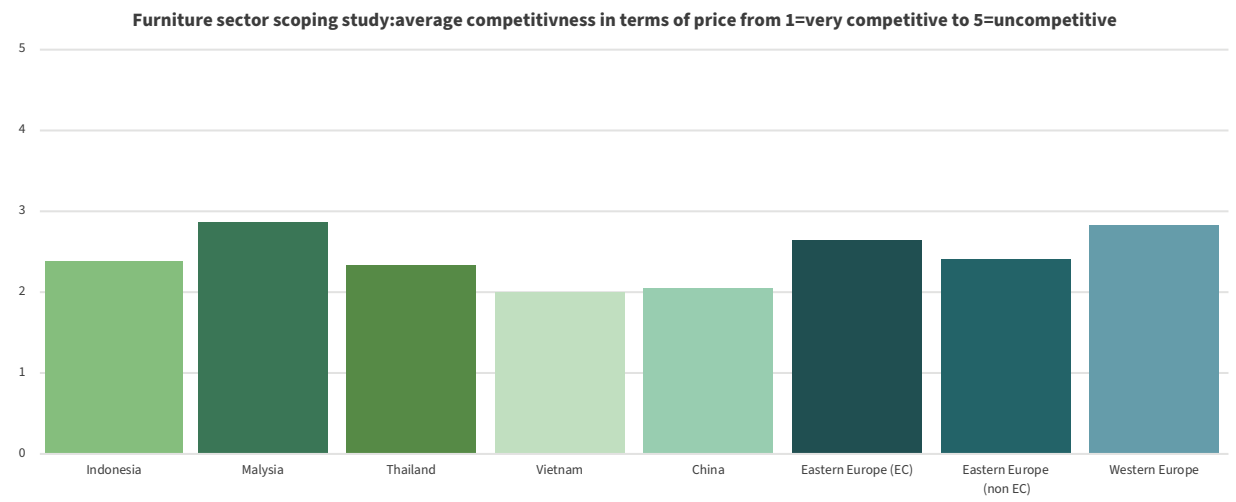


Figure 4.2.1.2: Furniture supplier competitiveness in terms of price, by country/region. *Source: IMM 2018 furniture sector scoping study*

4.2.1 Asian VPA partners and competing countries – IMM 2019 survey results

4.2.1.1 Price

China was rated the most competitive country (13% "very competitive") in terms of price among the Asian countries by participants in the 2019 competitiveness survey, with no respondent rating the country "less competitive" or "uncompetitive" (***Figure 4.2.1.1***). Viet Nam and Indonesia tied in second place, with Viet Nam rated "less competitive" by only a very small number of respondents and "very competitive" by 10% of respondents. Indonesia was found to be "very competitive" by 8% of respondents, but "competitive" by a larger number of companies than Viet Nam and China. However, about 20% of respondents, roughly the same proportion as for Malaysia, rated Indonesia "less competitive" compared to only 10% in the case of Viet Nam and none for China. For Malaysia there were no "very competitive" votes, but 47% of respondents found the country "competitive" in terms of price.

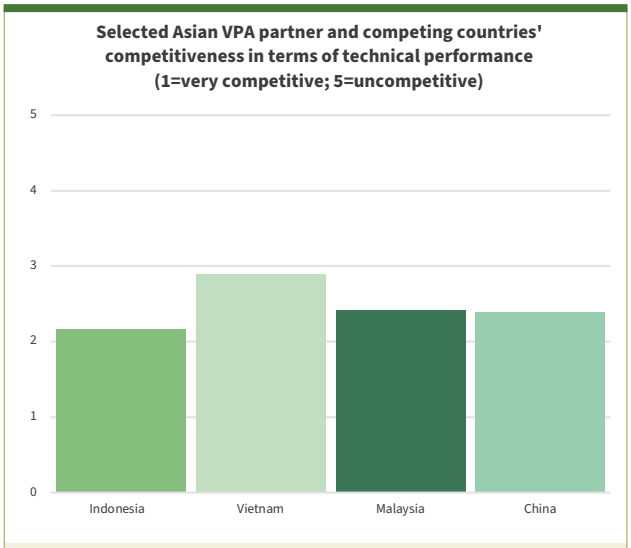


Figure 4.2.1.3: Asian countries' competitiveness by technical performance. *Source: IMM 2019 survey of VPA partner competitiveness*

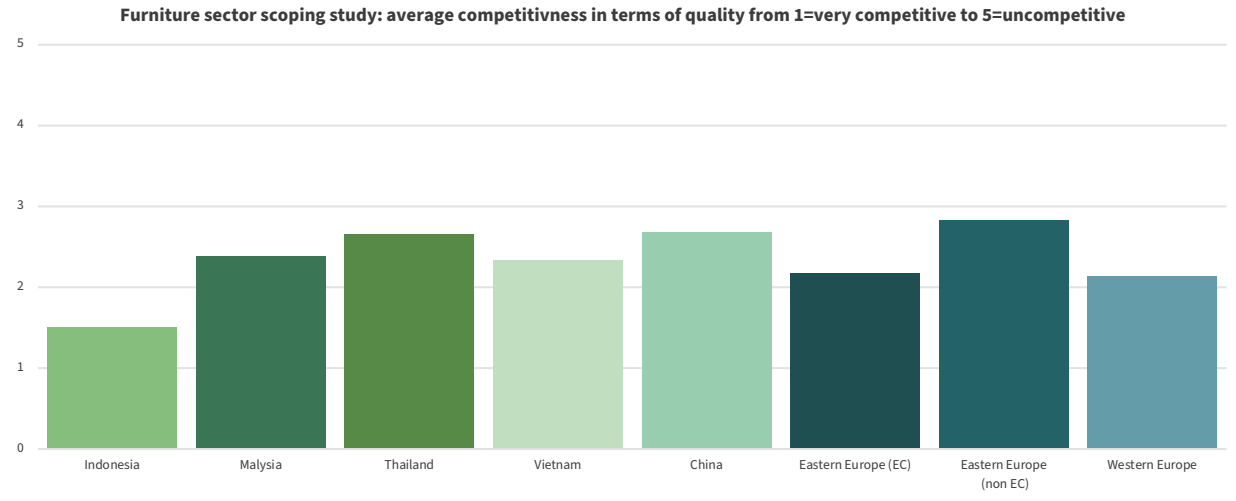


Figure 4.2.1.4: Furniture supplier competitiveness in terms of quality. *Source: IMM 2018 furniture sector scoping study*

Figure 4.2.1.5: Asian countries' competitiveness by product range. *Source: IMM 2019 survey of VPA partner competitiveness*

These responses are largely in line with perceptions from the 2018 IMM furniture sector scoping study, which found Viet Nam and China most competitive in terms of price, followed by Thailand and Indonesia. Malaysia was considered less competitive than the other Asian suppliers also by the furniture study.

4.2.1.2 Technical performance and product range

As demonstrated by ***Figures 4.2.1.3*** and ***4.2.1.4***, Indonesia was rated highly compared to the other Asian countries in terms of technical performance of wood products. The technical performance rating in the 2019 survey aligns with the rating of product quality in the IMM 2018 furniture sector scoping study (***Figure 4.2.1.4***).

The 2019 IMM survey also rated Indonesia very highly on product range, with 16% of respondents rating the country "very competitive". Malaysia, Viet Nam and China received no such ratings. At the same time, however, there were also respondents who rated Indonesia "less competitive" (12%) or even "uncompetitive" (4%). Malaysia, Viet Nam and China were not rated "uncompetitive" by any respondent and received as smaller proportion of "less competitive" ratings than Indonesia in each case.

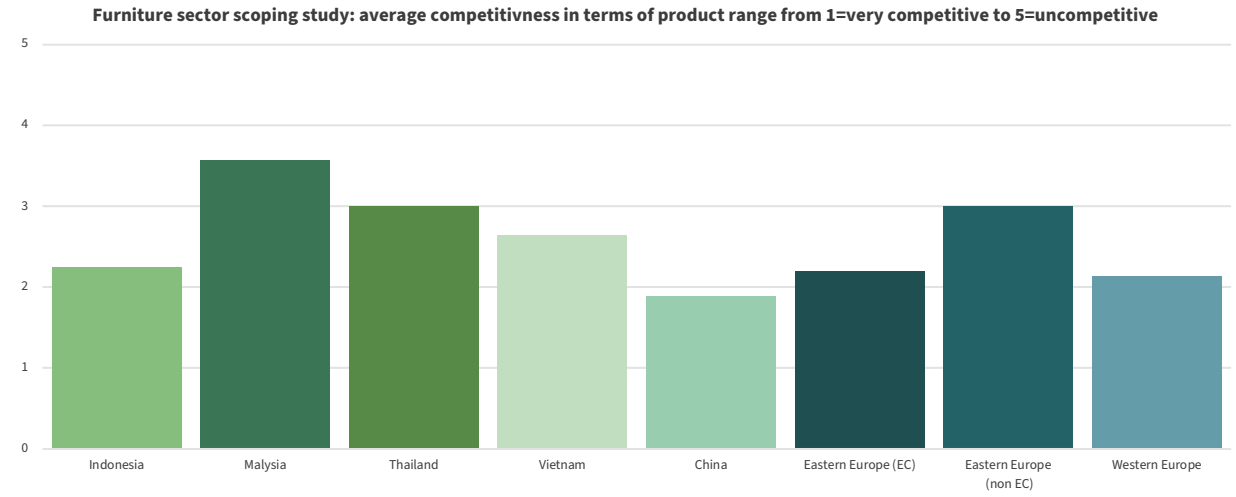


Figure 4.2.1.6 Asian countries' competitiveness by product range. *Source: IMM 2018 furniture sector scoping study*

Figure 4.2.1.7: Asian countries' competitiveness by logistics. *Source: IMM 2019 survey of VPA partner competitiveness*

When looked at in combination with results from the 2018 furniture study, where Indonesia was considered less competitive, especially than China, a possible conclusion is that Indonesia's product range may be considered less competitive in the furniture sector than for other wood products. The IMM 2020 furniture sector follow-up study will analyse this in more detail.

4.2.1.3 Logistic and lead times

The 2019 rating of logistics and lead times (***Figure 4.2.1.7***) is largely in line with official data from the LSCI. Malaysia is rated particularly highly, followed by China and Viet Nam. Indonesia's ratings are more mixed than for the other three countries, with more respondents than for Viet Nam and China rating its competitiveness "well" or "very well", but also more than 30% of respondents considering Indonesia "less competitive" or "uncompetitive".

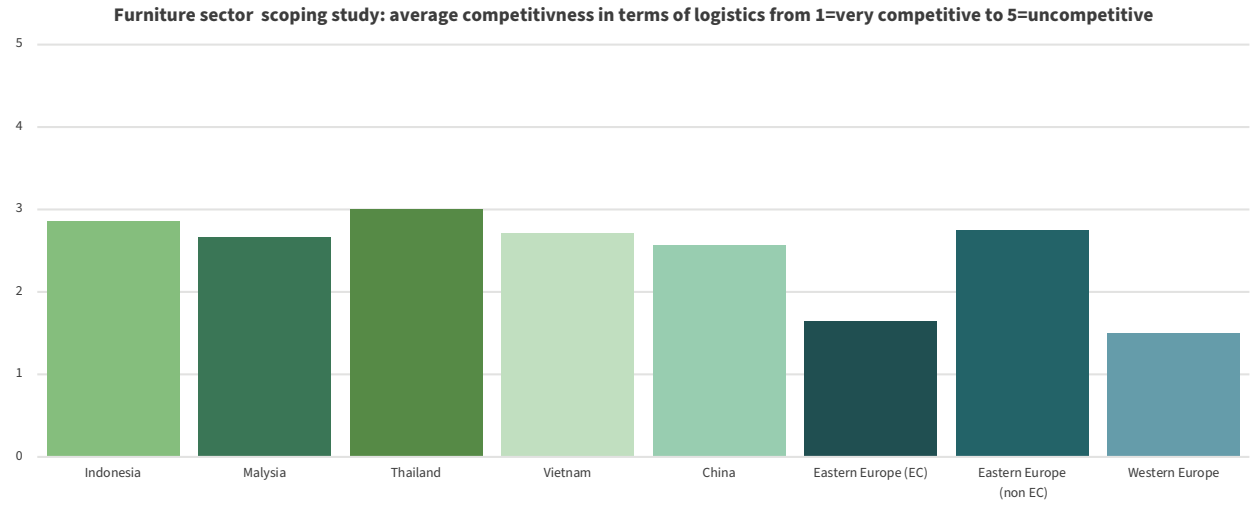


Figure 4.2.1.8: Asian countries' competitiveness by logistics. *Source: IMM 2018 furniture sector scoping study*

In the 2018 furniture sector study, the advantages in terms of logistics of China and Malaysia over the other Asian supplier countries were more pronounced and China was rated the most competitive among the Asian countries. However, Western Europe and Eastern European EU countries have a very clear advantage over all other suppliers here.

4.2.1.4 Assurance of legality and sustainability

As demonstrated by ***Figure 4.2.1.8***, the VPA and FLEGT licensing appears to give Indonesia a clear advantage over all regional competitors when it comes to assuring legality of wood products. Indonesia also ranks strongly in assuring sustainability of wood products. Second place in "assuring legality" is held by Malaysia, where European importers focus on sourcing from Peninsular Malaysia and frequently on PEFC certified products, which are readily available there. The latter also explains Malaysia's strong rating in "obtaining proof of sustainability".

Obtaining assurance of legality and sustainability in China and Viet Nam is still considered a much more challenging exercise by respondents. This is in line with the IMM 2018 trade survey, as a part of which respondents also still flagged up difficulties in undertaking EUTR due diligence in China and Viet Nam, and even more so in India[41].

4.2.2 Changes in perception of competitiveness of African VPA implementing partner countries 2017-2019

In the 2017 IMM baseline trade survey on competitiveness, the African VPA partner countries achieved (very) good to satisfactory ratings primarily in the areas of "product range" and "technical performance". While supplying primarily sawn timber and some logs to the EU markets, the African VPA countries deliver several commercial wood species that can be found nowhere else in the world. This remained largely unchanged in 2019. Transport logistics have frequently remained challenging, according to both the 2019 competitiveness and trade survey as well as IMM trade consultations.

Figure 4.2.1.8: Asian countries' competitiveness by legality assurance. *Source: IMM 2019 survey of VPA partner competitiveness*

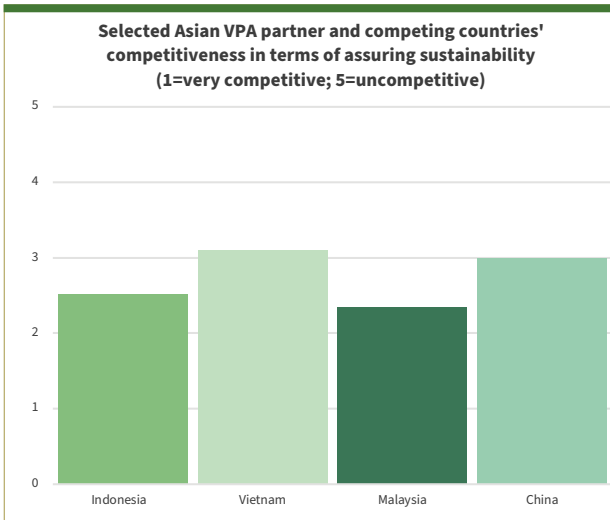


Figure 4.2.1.9: Asian countries' competitiveness by sustainability. *Source: IMM 2019 survey of VPA partner competitiveness*

41. IMM Annual Report "FLEGT VPA partners in EU timber trade 2017". Chapter 4, page 25ff. Sarah Storck/Rupert Oliver.

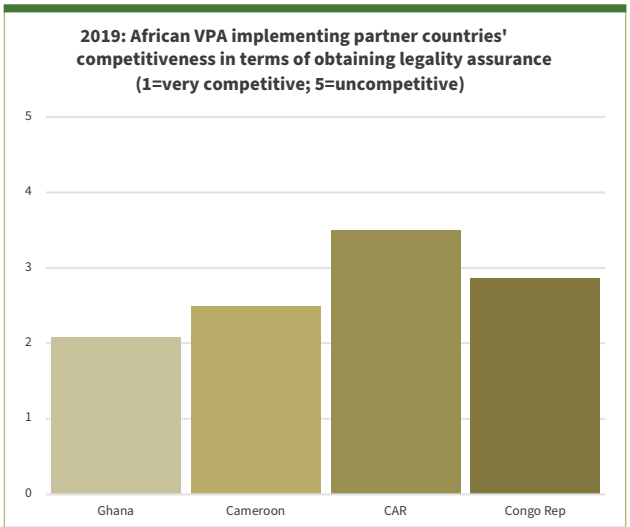


Figure 4.2.2.1: African countries' competitiveness by legality assurance (2019). *Source: IMM 2019 survey of VPA partner competitiveness*

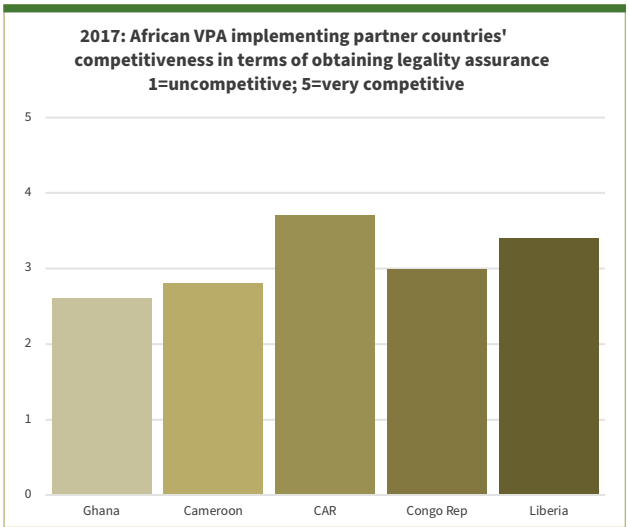


Figure 4.2.2.2: African countries' competitiveness by legality assurance (2017). *Source: IMM 2019 survey of VPA partner competitiveness*

The 2019 ratings for obtaining evidence of legality showed a positive trend over 2017, especially for Ghana and Cameroon. Ghana's lead in this category increased between 2017 and 2019 (***Figures 4.2.2.1*** and ***4.2.2.2***). Ghana has very likely profited from progress in VPA implementation and announcements of imminent FLEGT licensing, which can be expected to have increased overall trust in the Ghanaian timber sector. Cameroon was also rated "competitive" or even "very competitive" by a significant number of respondents in 2019. At first glance, this seems to contradict assessments made during IMM trade consultations and the IMM trade survey, where companies frequently still flagged up significant difficulties in undertaking EUTR due diligence in Cameroon and called for completion of VPA implementation and FLEGT licensing in order to facilitate trading with this country. However, when taking into account repeated and frequent reports of concentration of tropical timber import trade in the hands of regional specialists over the last few years, and given that such specialists were most likely to have rated Cameroon in the competitiveness survey, the improvements can be more readily explained: specialist importers are typically very well connected in the supply countries and now have years of experience of EUTR due diligence.

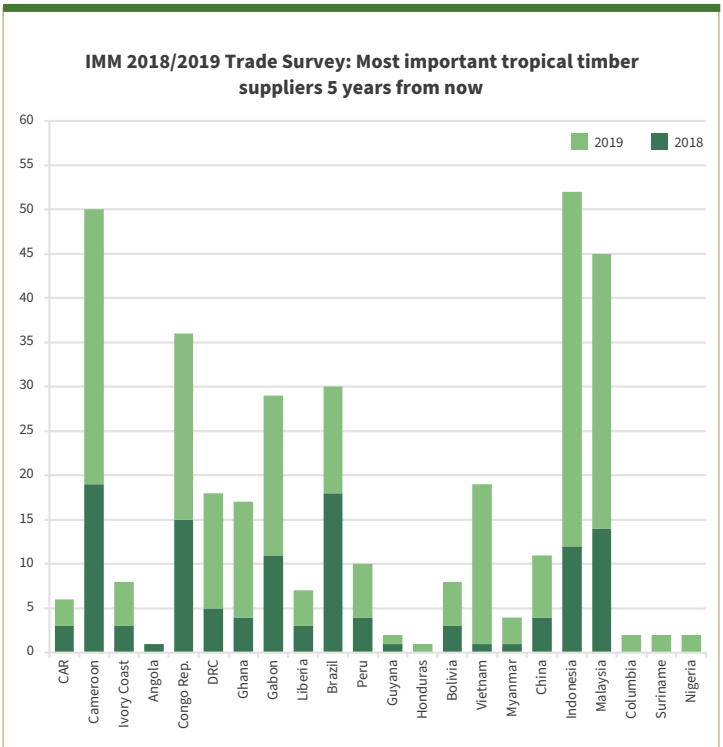


Figure 4.3.1: Future relevance of tropical timber supply country in IMM surveys. *Source: IMM 2018 and 2019 trade survey. 95 respondents answered the question in 2019 and 67 in 2018.*

Republic of the Congo remained more competitive in terms of legality assurance than Central African Republic in 2019. Liberia's 2019 rating had to be excluded from the analysis as only 4 respondents rated this country and all voted "neutral". In 2017, Liberia's ratings had been the second weakest before CAR.

4.3 Future tropical timber supply

In IMM's 2019 EU trade survey, Indonesia and Malaysia overtook Cameroon in the question which country respondents would see as the most important supplier of tropical timber five years from now (***Figure 4.3.1***). In 2018, Cameroon was perceived the most important future supplier, followed by Brazil, Republic of the Congo, Malaysia and Indonesia.

Attitudes to Indonesia, in particular, changed significantly in 2019, with the country obtaining the most individual votes by far and overtaking all four countries that were considered potentially more important in the future in 2018. The VPA and FLEGT licensing was frequently mentioned as the reason behind this projection, as was the product range, political stability and the "overall level of organisation" in the country. The last two reason also applied to Malaysia and Viet Nam. Viet Nam also gained

significant ground in 2019, after being mentioned hardly at all in 2018.

Where the African supply countries are concerned, respondents mentioned political instability, as well as a general "lack of organisation", also with regards to EUTR due diligence, as factors potentially hampering their future as suppliers to the European market. Cameroon's importance was repeatedly highlighted, both as a supplier in its own right and as a place of transit for shipments from the Congo Basin. However, the unclear political climate makes Cameroon's future as a supplier increasingly difficult to predict, according to respondents.

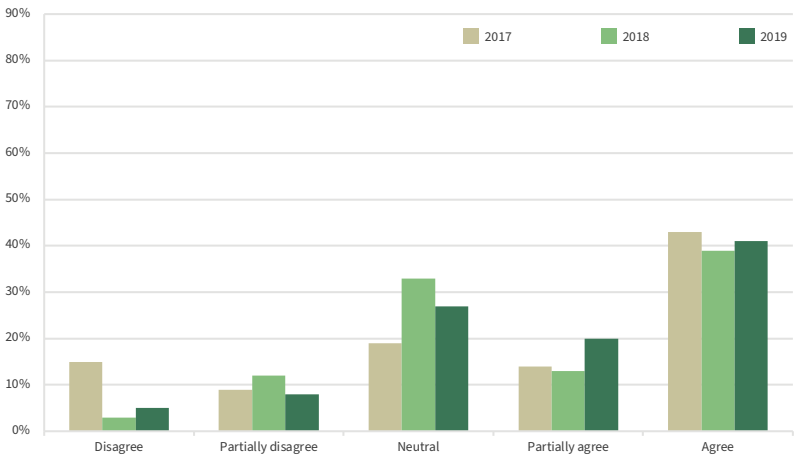


Figure 4.4.1: EU trade perceptions of importing FLEGT-licensed timber.
Source: IMM 2017/2018/2019 EU trade surveys

Similar assessments were made for South American countries, especially for Brazil. After being considered second most important only to Cameroon in 2018, Brazil fell through the ranking in 2019 (9th place). Political instability and the country becoming an increasingly "complicated and risky" supplier under EUTR were quoted as the main reasons. In this context, several other South American countries were mentioned as having potential to gain in importance as suppliers to Europe, including Peru, Bolivia, Columbia, Suriname and the VPA partner countries Guyana and Honduras. However, political instability in these countries was mentioned as a factor potentially affecting this development. On the other hand, a small number of respondents from the Netherlands and the UK remarked that South American countries could gain market share from Asian supplier countries in the future, due to the limited availability of third-party certified timber in Asia.

4.4. FLEGT licensing in purchasing decisions

As in 2018, the 2019 IMM Trade Consultations in Antwerp and Barcelona also included workshops on "Priorities and purchase dynamics for tropical wood products – development of supply chain relationships and the relevance or impact of FLEGT licensing". Participants in Antwerp and Barcelona confirmed the conclusion from the 2018 Consultations that, while FLEGT can play a role, it is not currently a leading factor impacting purchasing decisions.

At all 2018 and 2019 Trade Consultations, participants remarked that they would consider business and commercial considerations first and foremost. Top of the list, alongside price, was ensuring that the supplier can deliver the product in the time frame required and in consistent quality and specification. Only once buyers are satisfied on those points, does the focus move more to chain of custody, certification, sustainability, legality verification and capacity to provide EUTR due diligence information. As a result, FLEGT licensing can be considered a factor that can positively impact purchasing decisions, but only if the product is competitive at other levels as well. The 2019 Trade Consultations also confirmed the key findings identified by the 2018 workshops:

- Importers place tropical timber supply relationships under greater scrutiny post EUTR. The tropical timber supply pool and product variety has reduced as a result.
- Market competitiveness and environmental requirements place even greater stress on maintaining strong, long-term supply relationships.
- FSC/PEFC certification remains a greater purchasing preference than a FLEGT Licence for the majority of participants.
- Importers are not switching from other suppliers to Indonesia solely due to FLEGT licensing.
- There is still lack of awareness of FLEGT down the supply chain in the EU.
- Suppliers of FLEGT-licensed products must still compete on price, availability, quality and consistent delivery.

Responses in the IMM 2019 Trade Survey to the question whether companies would give preference to FLEGT-licensed timber from Indonesia over unlicensed timber from competing sources also remained mixed against this background (***Figure 4.4.1***.). However, the number of respondents who explicitly said they would not give preference to FLEGT-licensed timber has declined sharply since 2017. Respondents to the Survey remarked that FLEGT licensing was a factor that could impact purchasing decision, but only where other product criteria were equal.

Indonesia: Market position and prospects 5

5.1 Scope

The section considers timber production in Indonesia and analyses trends in Indonesia's timber and timber products trade spanning the period 2015 to 2019, covering two years before and three years after FLEGT licensing began in November 2016. Analysis of Indonesian production and export data places the EU in the wider market context for Indonesian timber products. EU import data is used to assess the changing scale, direction and share of Indonesia's trade in timber and timber products in the EU market.

The section also summarizes the results of surveys of timber traders in Indonesia and the EU during 2019 to assess their views of the market impact of FLEGT licensing. It reports on steps taken during the year to overcome administrative and communication constraints to market development of Indonesian licensed timber and considers price trends for Indonesian timber products in the context of FLEGT licensing.

5.2 Indonesia's timber supply

5.2.1 Production

According to data from the Indonesian Ministry of Environment and Forestry (MoEF) , following a period of rising log production between 2016 and 2018, from 48.4 million m^3 to 57.9 million m^3, driven by increased supply from plantations[42] and community forests[43], log production fell 1% to 57.3 million m^3 in 2019. Although production in community forests increased 7% to 9.2 million m^3 in 2019, production in plantations fell 1% to 40.1 million m^3 in 2019. Production in natural forest concessions[44] also declined, by 3% to 4.9 million m^3 to 4.9 million m^3, and production from land clearance operations[45] fell a further 30% to only around 500,000 m^3 in 2019. Log imports fell 20% to 700,000 m^3. (***Figure 5.2.1***).

In 2019, 70% of Indonesia's log supply came from industrial plantations and 9% from natural forest concessions, in both cases the same proportion as the previous year, while 16% came from community forests, up from 15% in 2018, and 3% came from 'other' sources[46].

Data on timber production published by the MoEF needs careful interpretation as it is not always clear the extent to which trends are due to changes in installed capacity and production levels or in the range of companies captured by the reporting process. The progressive roll-out of the SVLK in Indonesia has coincided with, and is likely partly driving, a rise in the scope of the production units captured by the data. This implies more accurate monitoring of production trends in the future. The MoEF data indicates that both the number of units reporting, and the production capacity of reporting units increased for all the main primary timber product groups between 2014 and 2019 (***Figure 5.2.1.2***).

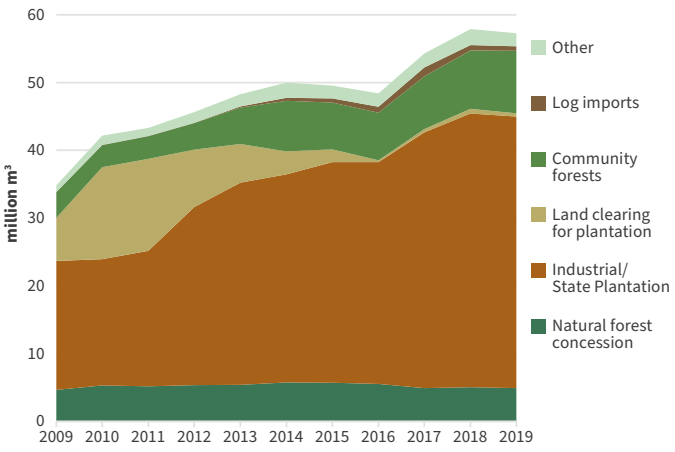


Figure 5.2.1.1: Indonesia log production by forest type – 2009-2018. *Source: IMM analysis of Indonesian Ministry of Environment and Forestry data from RPBBI website*

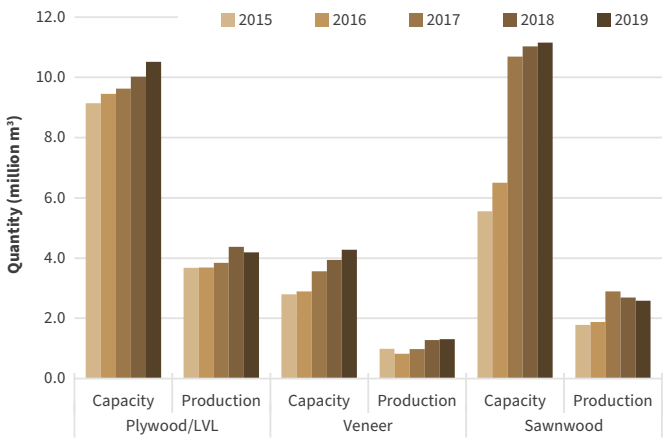


Figure 5.2.1.2: Capacity of reporting production units and production quantity of primary timber products in Indonesia by product type – 2015-2018. *Source: IMM analysis of Indonesian Ministry of Environment and Forestry data from RPBBI website*

42. Production from 'plantations' as defined here, is dominated by supply from industrial plantations (IUPHHK Pada Hutan Tanaman Industri atau HTI, mainly for the pulp and paper sector), but also includes smaller volumes from Perum Perhutani (state plantations, mainly teak in Java and Madura), and from 'other plantations' (IUPHHK Pada Hutan Tanaman Rakyat atau HTR).
43. Production from 'community forests' is defined here to include supply from IUPHHK Dalam Hutan Desa (Village forest), IUPHHK Dalam Hutan Kemasyara katan (Community forest), Hutan Rakyat (Peoples Plantations), and Kayu Perkebunan (Woodlots)
44. Production from 'natural forest concessions' is defined to include wood from IUPHHK Hutan Alam.
45. Production from 'land clearance operations' is defined here to include wood from LC Penyiapan Lahan Penanaman HTI.
46. Production from 'other' is defined here to include wood from: 'Izin Lainnya Yang Sah (ILS) Atau IPK' (other legal permits), 'Pemilik atau Pedagang Hasil Hutan Kayu Bulat Dan Asal Usul Yang Sah' (private sources), and 'IPHHK Lain' (other supplies to wood processing industry).

According to MoEF data, in 2019 Indonesia produced 4.19 million m^3 of plywood/LVL, 1.31 million m^3 of veneer, and 2.58 million m^3 of sawn wood. For all products, production was significantly less than 50% of total installed capacity in 2019. Despite a rise in the number and capacity of units reporting, there was a 4% decline in reported production of both plywood/LVL and sawnwood, suggesting an even larger decline in the total level of production. For veneer, reported production in 2019 was 2% more than in 2018, the rise more likely due to a 17% increase in the number of reporting production units than to an actual increase in supply. Overall, the signs are that output of timber mills in Indonesia declined during 2019 in line with the fall in log production.

In 2019, MoEF gathered data on wood chip production from 19 Indonesian mills compared to 16 mills the previous year and 19 mills in 2017. Total production reported by these mills was flat at slightly more than 31 million m^3 per year between 2017 and 2019, up from around 26 million m^3 in 2015 and 2016 (***Figure 5.2.1.3***). Indonesia's wood chips are produced in plantations and destined mainly for the pulp sector.

Data capture for wood pulp production appears already to be more stable, with figures for the four years 2016–2019 seemingly derived from the same group of six large production plants. Recorded pulp production increased 2% from 7.62 million tons in 2018 to 7.81 million tons in 2019, continuing the long-term upward trend although at a slower rate than in the previous two years (***Figure 5.2.1.4***).

Data on the production and consumption value of wood furniture in Indonesia is not readily accessible from official sources. Estimates from unofficial sources vary widely, probably due to the high degree of fragmentation in the sector and differences in the scope of products covered by the estimates.

Drawing on the total value of furniture production in Indonesia estimated by CSIL, the Italy-based furniture research organisation, and IMM analysis of Indonesian wood furniture trade data, IMM estimates that the value of wood furniture production in the country was around US$2.3 billion in 2019, a rise from US$2.2 billion the previous year. With export sales of 1.4 US$ billion, and imports of no more than US$160 million, wood furniture consumption in Indonesia is estimated to have been US$1.1 billion in 2019. In other words, it is estimated that nearly half the wood furniture produced in Indonesia is destined for the domestic market. (***Figure 5.2.1.5***).

5.2.2 Indonesian certified forest area

IMM monitors the proportion of forest and plantation area covered by FSC, PEFC or other independent forest certification frameworks

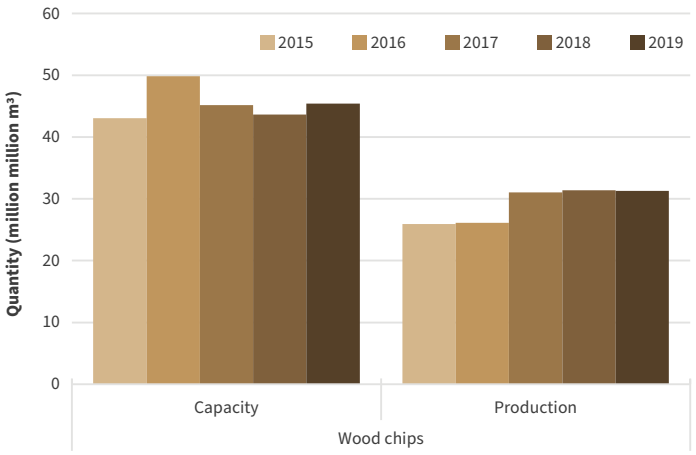


Figure 5.2.1.3: Capacity of reporting production units and production quantity of wood chips in Indonesia – 2015-2018. *Source: IMM analysis of Indonesian Ministry of Environment and Forestry data from RPBBI website*

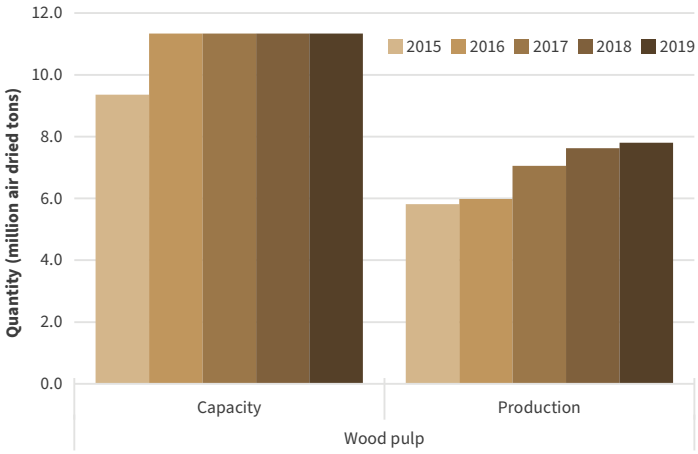


Figure 5.2.1.4: Capacity of reporting production units and production quantity of wood pulp in Indonesia – 2015-2018. *Source: IMM analysis of Indonesian Ministry of Environment and Forestry data from RPBBI website*

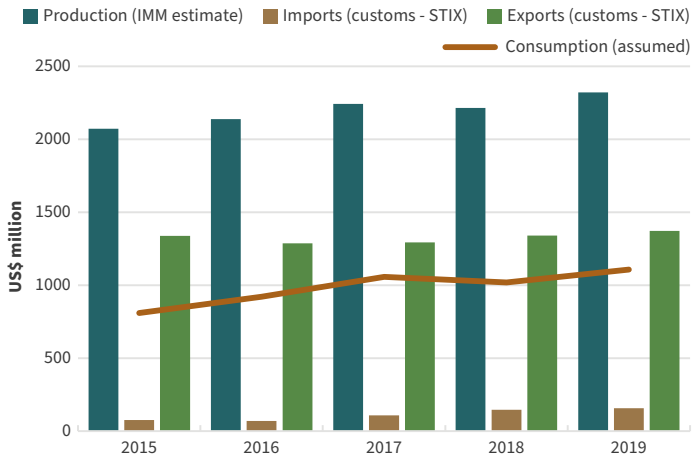


Figure 5.2.1.5: IMM estimates of the value of production, trade and consumption of wood furniture in Indonesia – 2015-2019. *Source: IMM analysis of STIX trade data and CSIL national furniture production data*

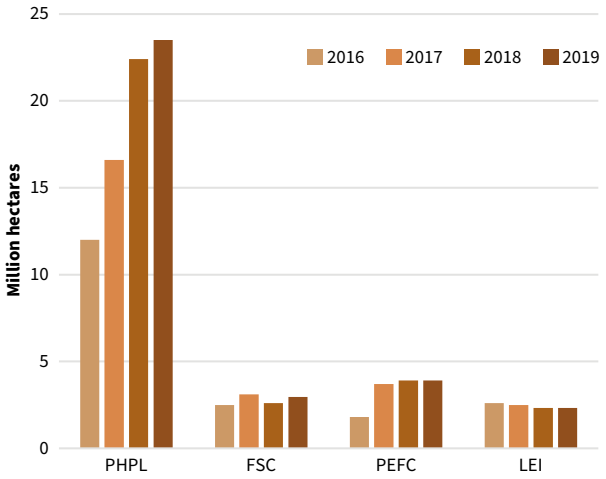


Figure 5.2.2.1: Indonesian certified forest area by s cheme – 2016-2019. *Source: Ministry of Environment and Forestry, FSC, IFCC/PEFC, LEI*

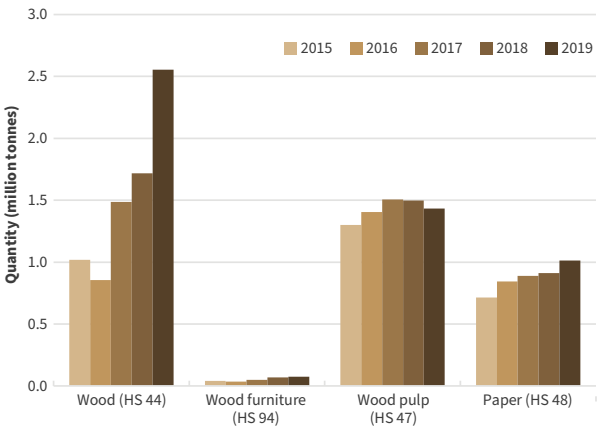


Figure 5.2.3.1: Indonesia timber import quantity by product group – 2015 -2019. *Source: IMM STIX*

in each VPA Partner country where FLEGT licensing is operational. The aim is to assess the extent to which FLEGT licensing might provide preconditions for independent certification, and thereby encourage greater uptake or, alternatively, discourage further investment in forest certification by providing an effective alternative assurance mechanism.

An assumption behind this monitoring is that the timber legality assurance system developed as part of the VPA is something distinct from private sector certification initiatives. However, in the case of Indonesia, there is no clear distinction and some overlap between the government legality assurance framework and private sector certification.

In practice the SVLK system, on which FLEGT licensing is based and is required by law for all Indonesian wood product exporters, adopts many of the procedures pioneered by private sector forest certification. It requires, for example, on-site audits of forest management operations and chain of custody by third-party verifiers that are accredited by Indonesia's National Accreditation Committee (KAN) which operates under the guidance of the ISO/IEC 17011, the same procedure as required by PEFC certification.

The SVLK is also regarded by the Indonesian authorities as a key policy measure to ensure implementation of sustainable practices at national level in all commercial forest operations and forest types. In line with this objective, a specific standard for sustainable management of Indonesian production forest – Pengelolaan Hutan Produksi Lestari (PHPL) – has been integrated into the SVLK.

Originally launched in 1998, the PHPL was made mandatory for commercial logging concessions, industrial timber plantations, state-owned community forests and private community forest in 2003. However, in practice, PHPL certificates only began to be issued on a large scale with the development and nationwide roll-out of the SVLK.

Forests for which PHPL is mandatory can initially be certified to the SVLK legality standard only. The SVLK certificate is valid for three years and concessions must now demonstrate conformance to the PHPL standard by the end of that period. Both the PHPL and the SVLK's forest legality standard are subject to annual audit by a KAN accredited independent verification body.

While certification to the SVLK and PHPL does not preclude voluntary adoption of private sector initiatives by individual forest operators, the existence of a large and expanding mandatory framework raises questions relating to the costs and efficiency of other forms of certification in Indonesia. At this stage, there is no clear evidence from analysis of certification trends in Indonesia to indicate that the presence of the SVLK-PHPL framework has either encouraged or discouraged other forms of certification in the country (***Figure 5.2.2.1***).

Now driven by the SVLK framework, PHPL certified forest area increased from around 12 million hectares at the end of 2016 to 23.51 million hectares at the end of 2019. Despite efforts to promote FSC certification in Indonesia for over 20 years, FSC certified area amounted to only 2.5 million hectares in November 2016 at the start of licensing. In the following three years the area has fluctuated between 2.6 million hectares and 3.1 million hectares without showing a consistent trend. LEI, a national forest certification system which began operations in the late 1990s (and for the five-year period 2000 to 2005 was affiliated to FSC) had certified 2.6 million hectares by the end of 2016, declining to 2.3 million hectares in 2019.

Meanwhile, the Indonesian Forest Certification Cooperation (IFCC) launched in 2011 and endorsed by PEFC in 2014, had certified 1.8 million hectares in 2016, rising to 3.91 million hectares in December 2019. Unlike LEI and FSC, for which certification is concentrated in natural forest, all PEFC certification to date in Indonesia is of plantations to supply the pulp and paper sector.

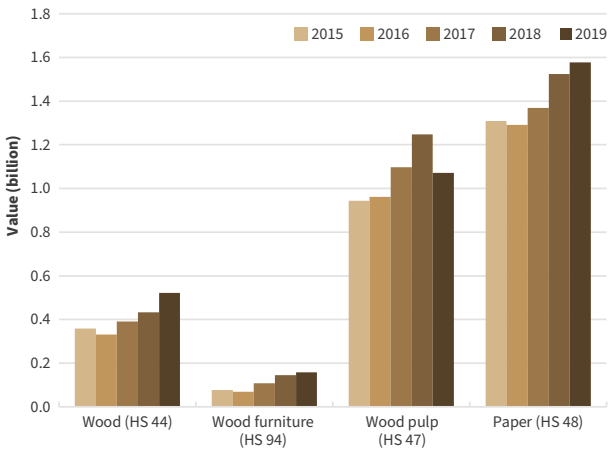


Figure 5.2.3.2: Indonesia timber import value by product group – 2015-2019 *Source: IMM STIX*

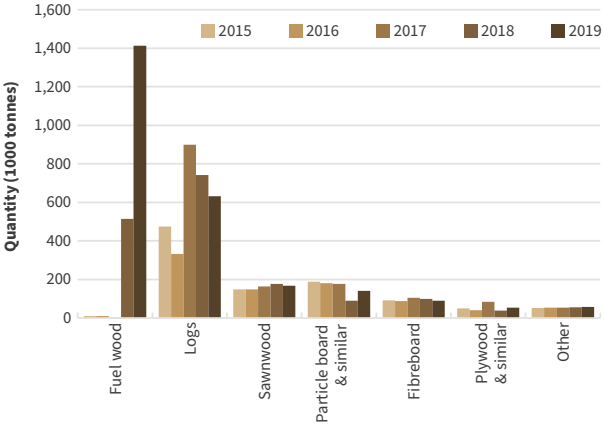


Figure 5.2.3.3: Indonesia import quantity of wood (HS 44) products by product type – 2015-2019. *Source: IMM STIX*

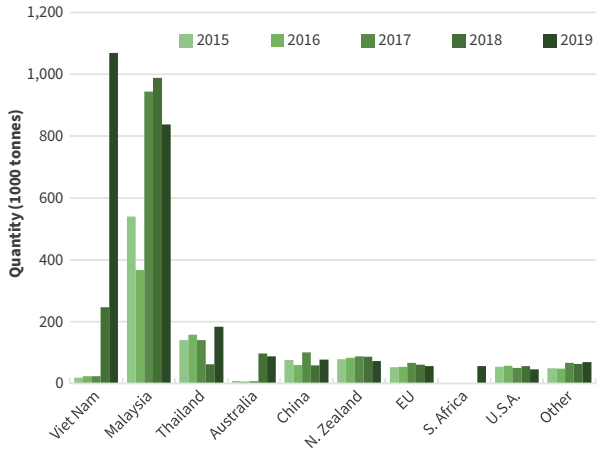


Figure 5.2.3.4: Indonesia import quantity of wood (HS 44) products by supply country – 2015-2019 *Source: IMM STIX*

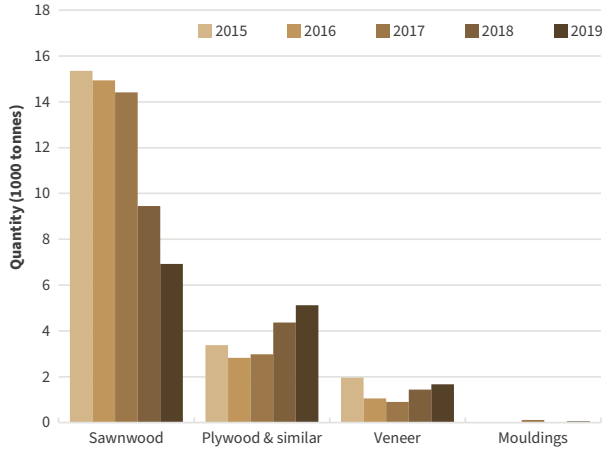


Figure 5.2.3.5: Indonesia import quantity of wood products (excluding logs) identified as of tropical hardwood species by product type – 2015-2019. *Source: IMM STIX*

5.2.3 Imports

While still dwarfed by domestic production and exports, Indonesia's imports of timber and timber products are rising in several product groups. Total Indonesian imports of timber and timber products increased 21% to 5.1 million tonnes in 2019. The growth in import quantity was concentrated in wood (HS 44) products and, to a lesser extent, paper products (***Figure 5.2.3.1***).

In value terms, Indonesia's total imports of timber and timber products were stable at US$3.3 billion in 2018 and 2019. In 2019, a rise in the value of Indonesia's imports of paper, wood and wood furniture products was offset by a fall in import value of wood pulp. (***Figure 5.2.3.2***).

The growth in the quantity of HS 44 wood products imports in 2019 was driven almost entirely by chips of low unit value, mainly destined for the pulp sector and derived from Viet Nam. After rising sharply in 2017, imports of logs declined in 2018 and 2019. Log imports have low unit value and were almost all identified under Indonesian product code 44034990 which covers pulpwood logs of tropical species. Imports of all other HS44 wood products were low and quite flat during the 2015 to 2019 period (***Figure 5.2.3.3***).

During the 2015 to 2019 period, Indonesia chip imports derived mainly from Viet Nam, with smaller quantities from Malaysia, South Africa and Thailand. Indonesia's imports of logs derived almost exclusively from Malaysian plantations and were destined mainly for the pulp sector. Sawnwood imports were dominated by temperate species from the US and New Zealand, with small volumes from Canada, Germany, Uruguay, China and Chile. Panel products were sourced almost exclusively from Thailand, Malaysia and New Zealand (***Figure 5.2.3.4***).

Indonesian import data indicates that if tropical wood from third countries is being transited through

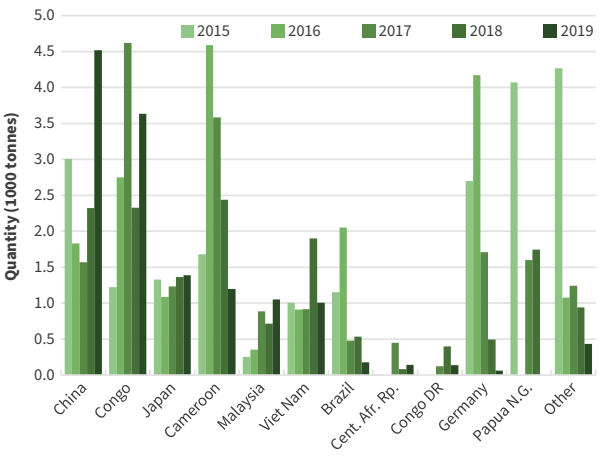


Figure 5.2.3.6: Indonesia import quantity of wood products (excluding logs) identified as of tropical hardwood species by supply country – 2015-2019. *Source: IMM STIX*

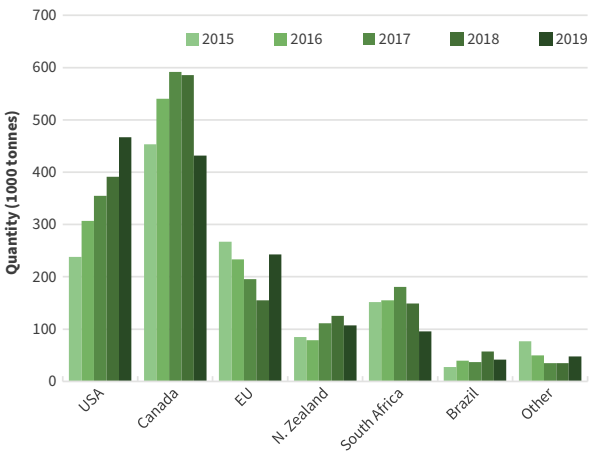


Figure 5.2.3.7: Indonesia wood pulp (HS 47) import quantity by supply country – 2015-2019. *Source: IMM STIX*

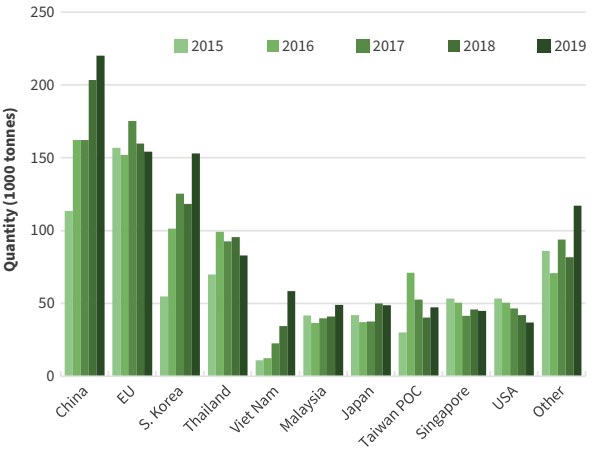


Figure 5.2.3.8: Indonesia paper import quantity by supply country – 2015-2019. *Source: IMM STIX*

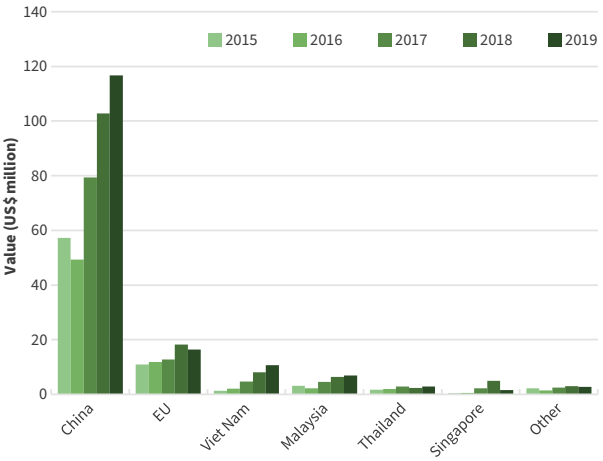


Figure 5.2.3.9: Indonesia wood furniture (HS 94) import value by supply country – 2015-2019. *Source: IMM STIX*

Indonesia to obtain a FLEGT Licence, the volumes involved are small and declining overall (***Figure 5.2.3.5***). Indonesian imports of sawnwood products identified in trade statistics as being composed of tropical timber species fell from 14,000 tonnes in 2017 to less than 7,000 tonnes in 2019. While tropical sawnwood imports increased from Republic of the Congo and Malaysia in 2019, they fell sharply from Cameroon and Papua New Guinea (***Figure 5.2.3.6***). Indonesia's imports of tropical hardwood faced plywood increased in 2018 to 2019, but to little more than 5,000 tonnes, mostly from China. In the absence of survey data on Indonesian internal trade, there is no way of knowing how much of these imports of tropical wood products were for re-export or domestic consumption.

Indonesia's wood pulp imports continued to rise from the US and the EU in 2019, but these gains were offset by declining imports from Canada, New Zealand, South Africa and Brazil (***Figure 5.2.3.7***).

Indonesia's imports of paper products are sourced from a wide variety of countries, although only in relatively small volumes. The EU was formerly the largest external source, supplying around 150,000 tonnes per year between 2015 and 2019, but recently has been overtaken by China, which supplied 220,000 tonnes in 2019. Imports from South Korea increase sharply to just over 150,000 tonnes in 2019. Only two other countries – Thailand and Viet Nam – supplied more than 50,000 tonnes of paper to Indonesia in 2019 (***Figure 5.2.3.8***).

China is the leading external supplier of wood furniture to Indonesia, with sales of US$117 million in 2019, 14% more than in 2019. Total wood furniture imports from the EU were US$16.4 million in 2019, 10% less than the previous year. Viet Nam was the only other country supplying more than US$10 million of furniture to Indonesia in 2019. (***Figure 5.2.3.9***).

5.3 Indonesia timber product exports

5.3.1 Indonesia timber product export data sources

This analysis of Indonesia timber product exports and of EU trade with Indonesia draws on customs data[47] in preference to data compiled from V-legal certificates in Indonesia and FLEGT Licences in the EU for the following reasons:

- while data on Indonesian exports of V-legal timber is published on-line by the Timber Legality Information System (SILK) at **https://silk.dephut.go.id**, there is no comparable on-line system for regular publication of harmonized data on FLEGT- licensed imports in the EU[48];
- customs data is fully disaggregated by both country and product group at the highest level of HS resolution;
- customs data provides a continuous time series, in contrast to the SILK data on V-legal exports which is available only from 2017 onwards;
- customs data covers all Indonesian exports, in contrast to the SILK data which doesn't capture all trade during the period of SVLK roll-out;
- customs data allows assessment of Indonesia's share of total EU imports relative to competing supply countries.

With completion of the SVLK roll-out, the SILK data should in time match Indonesia's customs data for product groups requiring V-legal certificates and may be used to help inform market monitoring in future IMM reports.

5.3.2 Indonesia total timber and timber products exports

Indonesia's worldwide exports of timber and timber products totalled 16.2 million tonnes in 2019, an 8% gain compared to 15.0 million tonnes in 2018. Indonesia's exports were formerly dominated by wood (HS 44) products, but export quantity of these products has been falling in recent years, while exports of wood pulp and paper have been rising. Wood (HS 44) product exports were 5.1 million tonnes in 2019, down 3% compared to the previous year. Indonesia's total exports of pulp and paper were 10.8 million tonnes in 2019, 15% more than in 2018. Indonesia's worldwide exports of wood furniture were flat in

47. Indonesian customs data is supplied to IMM by BTS Ltd, a UK-based company specialising in sourcing global trade flow data. EU customs data is derived by IMM from the Eurostat COMEXT system.

48. That is not to say there is no reporting system, only that the system that exists is designed to assess regulatory conformance and not market impacts. Article 8(1) of the EU FLEGT Regulation requires all Member States to submit an annual report including information on imports of FLEGT-licensed products (quantity and number of licenses received) by HS headings specified in the VPAs (not necessarily at the highest level of HS resolution). Based on the information submitted, Article 8(3) of the Regulation requires the EC to prepare and make public a synthesis report covering the previous calendar year by 30 June.

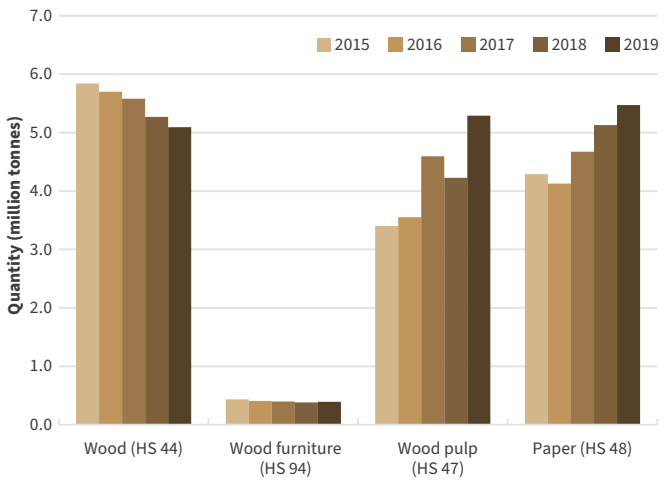


Figure 5.3.2.1: Indonesia export quantity of timber and timber products by product group – 2015-2019. *Source: IMM-STIX*

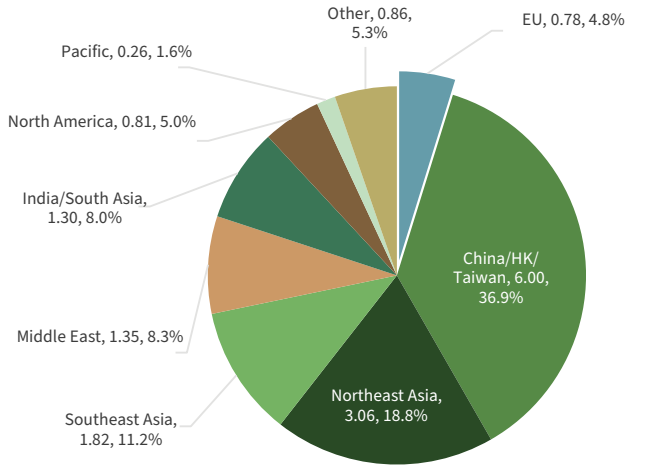


Figure 5.3.2.2: Destination region share of Indonesia export quantity of timber and timber products by million tonnes, % – 2019. *Source: IMM-STIX*

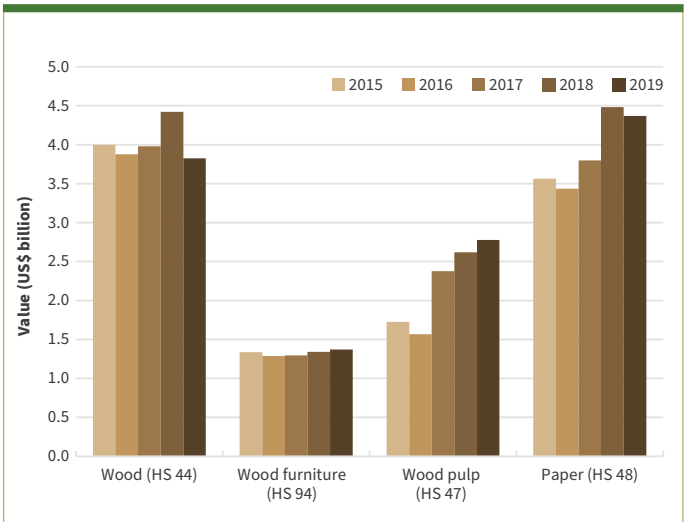


Figure 5.3.2.3: Indonesia export value of timber and timber products by product group – 2015-2019. *Source: IMM-STIX*

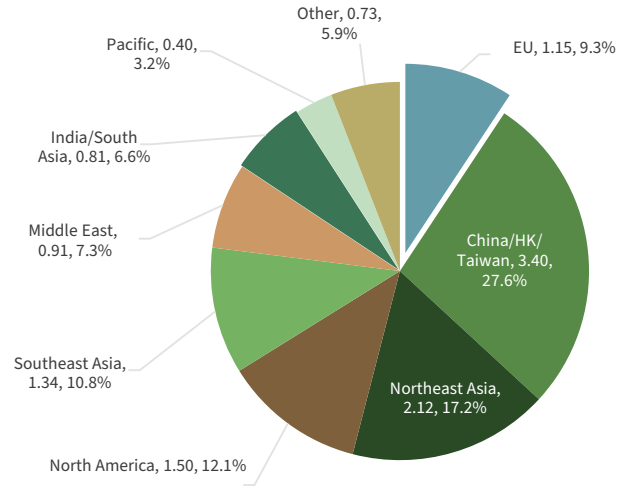


Figure 5.3.2.4: Destination region share of Indonesia export value of timber and timber products by US$ billion, % – 2019. *Source: IMM-STIXIX*

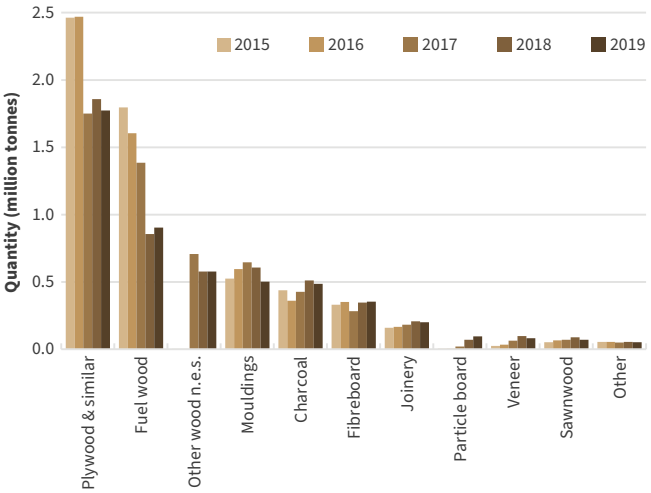


Figure 5.3.3.1: Indonesia export quantity of wood (HS 44) by product type – 2015-2019. *Source: IMM-STIX*

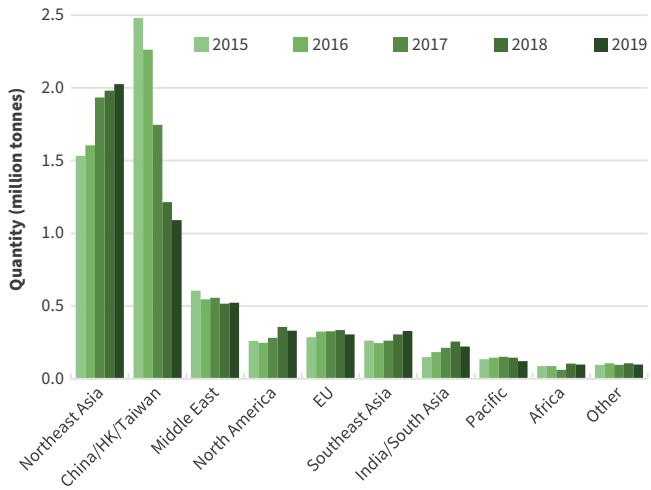


Figure 5.3.3.2: Indonesia export quantity of wood (HS 44) products by destination – 2015-2019. *Source: IMM-STIX*

quantity terms between 2016 and 2019 at around 400,000 tonnes (***Figure 5.3.2.1***).

In quantity terms, 83% of Indonesia's exports of timber and timber products were destined for other Asian markets in 2019, with China alone accounting for 37%. Total exports to the EU, of 778,000 tonnes, accounted for 4.8% of total export quantity in 2019 (***Figure 5.3.2.2***). This compares to 729,000 tonnes accounting for 4.9% in 2018.

In value terms, Indonesia's worldwide exports of timber and timber products decreased 4% to US$12.3 million in 2019. After increasing 11% in 2018, the value of Indonesia's exports of wood (HS 44) products declined nearly 14% in 2019, to US$3.8 billion. Export value of paper fell 3% in 2019, to US$4.4 billion after rising 18% the previous year. However, export value of wood pulp continued to rise in 2019, gaining 6% to US$2.8 billion following a 10% rise the previous year. Export value of wood furniture also continued to rise, up 2% to US$1.4 billion in 2019, building on a 4% gain in 2018. (***Figure 5.3.2.3***).

In value terms, other Asian markets accounted for 69% of Indonesian timber and timber product exports in 2019. Total export value to the EU, of US$1.15 billion, accounted for 9.3% of total export value in 2019 (***Figure 5.3.2.4***). This compares to US$1.14 billion accounting for 8.8% of export value in 2018.

5.3.3 Indonesia exports of wood (HS 44) products

In 2019, there was a decline in Indonesian exports of plywood (–5% to 1.77 million tonnes), mouldings/ decking (–17% to 501,000 tonnes), charcoal (–5% to 486,000 tonnes), joinery products (–4% to 200,000 tonnes), veneer (–17% to 81,000 tonnes) and S4S sawnwood (–21% to 70,000 tonnes). However, these losses were partially offset by rising exports of wood chips (mainly for pulp) and pellets (for energy), which increased 6% to 902,000 tonnes, fibreboard, up 2% to 352,000 tonnes, and particle board, up 39% to 96,000 tonnes (***Figure 5.3.3.1***).

In recent years, there has been a significant shift in Indonesian wood product exports towards Northeast Asia and away from China (***5.3.3.2***). These trends continued in 2019. Indonesia's exports to Northeast Asia increased 2% to 2.03 million tonnes in 2019. Although exports of plywood to Japan fell in 2019, this was offset by a rise in exports of wood chips to this destination. In contrast, in trade with the Republic of Korea, exports of plywood and particleboard increased while exports of wood pellets declined during 2019.

Indonesia's exports to China fell a further 10% in 2019, to 1.09 million tonnes, after a 30% fall the previous year. Indonesia's exports of wood chips and plywood to China, each close to 1 million tonnes only a few years before, had fallen to negligible levels by 2019. Most exports to China now comprise mouldings/decking and "other wood not elsewhere stated", both of which declined in 2019.

Indonesia's exports of wood products to Middle Eastern countries were flat in 2019 at 520,000 tonnes. Most exports to the region go to Saudi Arabia, Iraq,

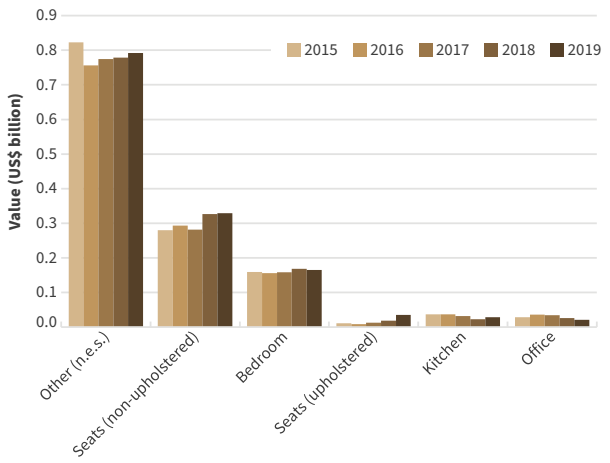


Figure 5.3.4.1: Indonesia export value of wood furniture (HS 94) by product type – 2015-2019. *Source: IMM-STIX*

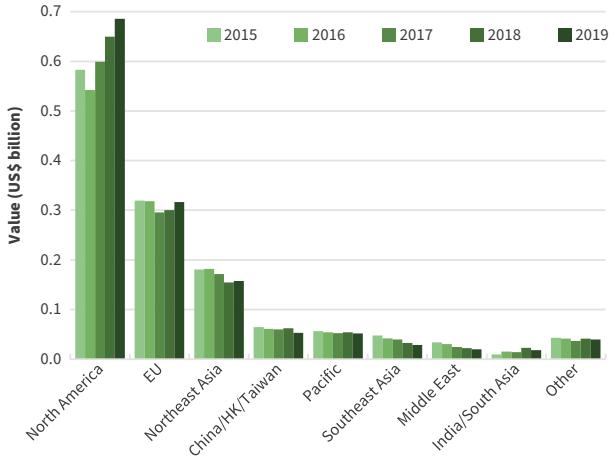


Figure 5.3.4.2: Indonesia export value of wood furniture (HS 94) by destination – 2015-2019. *Source: IMM-STIX*

Jordan, and Syria and comprise plywood, fibreboard and charcoal. Indonesia's exports to North America declined 7% to 331,000 tonnes in 2019. Exports to this region are dominated by plywood, with smaller quantities of flooring, mouldings/decking and picture frames, almost all destined for the United States.

Indonesia exported 306,000 tonnes of wood products to the EU in 2019, a 9% decline compared to the previous year. In value terms, exports to the EU fell 10% from US$554 million in 2018 to US$504 million in 2019. The decline in exports to the EU in 2019 was concentrated in plywood, which fell 21% in quantity to 83,000 tonnes and 24% in value to US$101 million. Exports of joinery products to the EU lost a little ground in 2019, falling 1% to 91,600 tonnes (-1% to US$199 million), but this followed a 31% gain in quantity and 30% gain in value the previous year. There was some slight slippage in Indonesia's exports of mouldings/decking (down 3% to 64,500 tonnes) and charcoal (down 2% to 49,200 tonnes) to the EU during 2019, and a bigger fall in exports of veneer (down 20% to 2,150 tonnes), and S4S sawnwood (down 33% to 1,770 tonnes). Small gains were made in exports of marquetry/ornaments (+13% to 8,440 tonnes) and tableware (+4% to 2,410 tonnes).

5.3.4 Indonesia exports of wood furniture (HS 94) products

Indonesia's exports of wood furniture comprise mainly products for external use. There is no separate HS code for garden furniture, so these products are included under HS 94036090 ("other" not elsewhere stated[49]) and HS 94016900 (non-upholstered seating). Exports of both these product groups increased in 2019, by 2% to US$792 million and by 1% to US$329 million respectively. In percentage terms, there were larger increases in exports of two interior furniture categories, suggestive of new investment for export. Exports of upholstered seating (HS 94016100) increased 88% to US$35 million and kitchen furniture (HS 94034000) increased 26% to US$29 million. However, exports of bedroom furniture (HS 94035000) and office furniture (HS 94033000) declined in 2019, respectively by 2% to US$165 million and 18% to US$21 million (***Figure 5.3.4.1***).

Indonesian wood furniture exports increased to all three of the main destination regions in 2019 (***Figure 5.3.4.2***). Exports to North America increased 6% to US$686 million in 2019, maintaining the strong growth of the two previous years. Exports to the EU, increased 5% to US$317 million in 2019, building on the 2% gain of the previous year. Exports to Northeast Asia, mainly Japan, increased 2% to US$158 million after falling 10% the previous year. However, exports to other smaller destination regions were generally declining in 2019, down 15% to US$53 million in China, down 5% to US$52 million in the Oceania/Pacific region (mainly Australia), down 13% to US$29 million in South East Asia, and down 20% to US$18 million in the Middle East.

5.3.5 Indonesian exports of wood pulp (HS 47) and paper (HS 48) products

Indonesia's exports of wood pulp to China, by far the largest destination, increased 26% to 3.74 million tonnes in 2019, bouncing back from a 9% decline the previous year. Exports to other destinations were limited, but rising strongly, during 2019, up 22% to 361,000 tonnes to the Republic of Korea, up 22% to 335,000 tonnes to Bangladesh, up 36% to 276,000 tonnes to India, up 137% to 124,000 tonnes to Turkey, and up 118% to 124,000 tonnes to Viet Nam (***Figure 5.3.5.1***). Exports of Indonesian wood pulp to the EU in 2019 were negligible, no more than 605 tonnes, all destined for the UK.

The largest destinations for Indonesian exports of paper products are in South East Asia and China (***Figure 5.3.5.2***). Exports increased 1% to both regions in 2019, to 1.28 million tonnes in South East Asia and 1.15 million tonnes in China. In percentage terms, exports increased more rapidly to other regions in 2019 including the Middle East (up 7.5% to 569,000 tonnes), North East Asia (up 13% to 555,000 tonnes), India/South Asia (up 7% to 449,000 tonnes), Africa (up 1% to 433,000 tonnes), the EU (up 27% to 366,000 tonnes), and North America (up 27% to 323,000 tonnes).

49. However, unlike the EU, Indonesia has no separate product code for "living/dining room" furniture so the Indonesian code 94036090 for "other wood furniture not elsewhere stated" may also include a significant, but unknown proportion, of interior furniture.

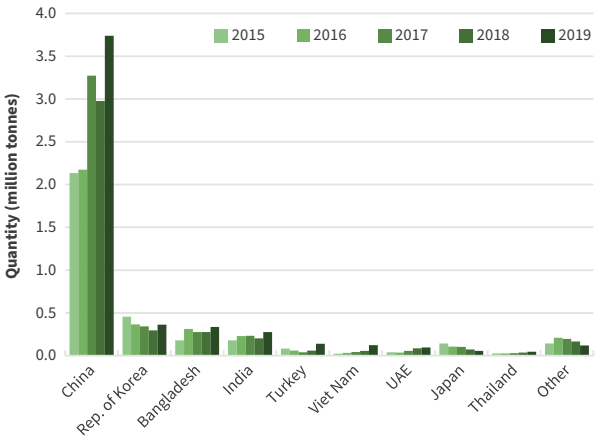


Figure 5.3.5.1: Indonesia export quantity of wood pulp (HS 47) by destination – 2015-2019. *Source: IMM-STIX*

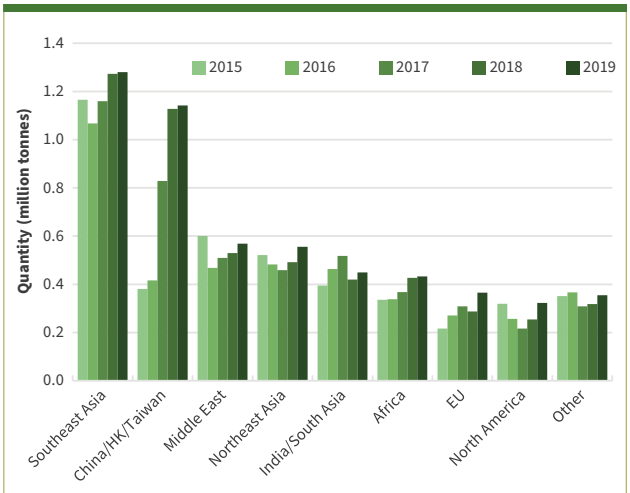


Figure 5.3.5.2: Indonesia export quantity of paper (HS 48) products by destination – 2015-2019. *Source: IMM-STIX*

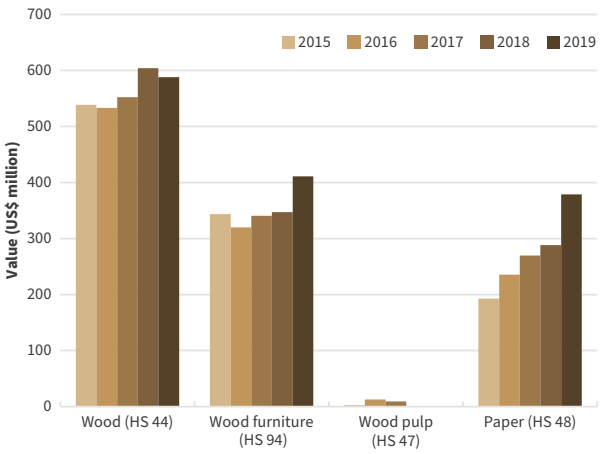


Figure 5.4.1.1: EU import value of timber and timber products from Indonesia, by product type – 2015-2019. *Source: IMM-STIX*

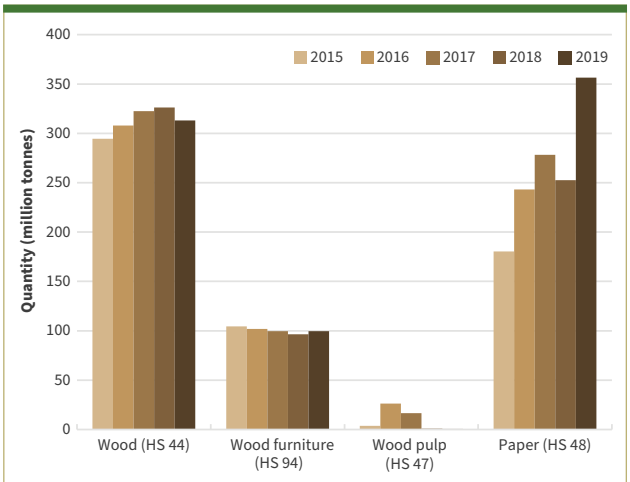


Figure 5.4.1.2: EU import quantity of timber and timber products from Indonesia, by product group – 2015-2019. *Source: IMM-STIX*

5.4 EU timber and timber product imports from Indonesia

5.4.1 EU imports from Indonesia by product group

EU trade data (derived from Eurostat COMEXT) records a larger gain in imports from Indonesia in 2019 than indicated by Indonesia export data. The EU import value of Indonesian timber and timber products increased 11% from US$1.24 million in 2018 to US$1.38 billion in 2019, building on a 6% gain the previous year[50]. In quantity terms, EU imports from Indonesia increased 14% from 676,000 tonnes in 2018 to 769,000 tonnes in 2019, after falling 6% the previous year.

The value of EU imports of wood (HS 44) products from Indonesia decreased 3% from US$604 million in 2018 to US$588 million in 2019 losing some of the 9% gain made the previous year. This decline in imports of Indonesian wood products in 2019 was offset by an 18% rise in imports of Indonesian wood furniture, to US$411 million, and a 31% increase in imports of Indonesian paper products, to US$379 million. EU imports of wood pulp from Indonesia, always limited, were close to zero in both 2018 and 2019 (***Figure 5.4.1.1***).

In quantity terms, EU imports of Indonesian wood (HS 44) products decreased 4% from 326,000 tonnes in 2018 to

50. Higher import values reported by Eurostat COMEXT compared to the export values reported in Indonesian export statistics are expected as the former are CIF values, including freight costs, while the latter are FOB values, excluding these costs. Differences in annual exports reported by Indonesia and annual imports reported by the EU are also partly due to the time lag between departure of shipments from Indonesia and arrival in the EU. However, the size of the discrepancy between the value of trade reported in Indonesian export data and EU import data in 2019 was larger than in previous years. Much of the discrepancy was due to very high import values reported by the Netherlands for Indonesian joinery under HS44189990 (other joinery not elsewhere stated) in May 2019, wood furniture under HS 94036090 (other n.e.s. - usually implies garden furniture in this context) and HS 94016900 (non-upholstered seating) in June 2019, and an even larger spike in import value for HS 94036090 in September 2019. These high import values were not reflected in an equivalent increase in import tonnage and implied more than doubling of unit value for these specific products compared to the long-term average in those months. Although Indonesian data shows a slow rise in export value in the relevant joinery product category and both furniture categories to the Netherlands during 2019, the scale of the recorded rise is much less and there are no monthly spikes as recorded in Netherlands data. This raises questions over the accuracy of the Netherlands data reported by Eurostat COMEXT.

313,000 tonnes in 2019 after rising 1% the previous year. Import quantity of wood furniture increased by 3% in 2019, to 100,000 tonnes, and there was a 41% increase in imports of Indonesian paper, to 356,000 tonnes. EU imports of Indonesian wood pulp fell from a peak of 26,000 tonnes in 2016 to only 500 tonnes in 2019 (***Figure 5.4.1.2***).

5.4.2 EU imports of wood (HS 44) products from Indonesia

EU import trends for Indonesian wood (HS 44) products varied widely between product groups in 2019 (***Figures 5.4.2.1*** and ***5.4.2.2***). There was a sharp fall in imports of plywood, with both value and quantity down 11% in 2019, respectively to US$111 million and 83,000 tonnes. The pace of EU imports of plywood fell from the middle of 2019 in the face of a tightening market and highly competitive conditions, with particularly low prices for Russian birch plywood and Chinese mixed hardwood products that have been taking market share from tropical products.

There was some consolation in that direct imports of plywood from Indonesia increased in 2019 into the Netherlands (+6% to 13,000 tonnes) and Germany (+5% to 17,700 tonnes) despite the overall weakness of the market. Imports of Indonesian plywood by the Netherlands in 2019 were double those of 2016 just before licensing started. However, the gains made in these markets in 2019 were not enough to offset declining imports in 2019 in the UK, Belgium and Italy.

EU imports of Indonesian joinery products were higher in 2019 than the previous year, rising 10% in value to US$225 million and 6% in quantity to 86,000 tonnes[51]. EU imports of Indonesian wooden doors, mainly destined for the UK and Netherlands, continued to strengthen in 2019. Indonesia faces intense competition from China, Russia, Ukraine, Malaysia, and Viet Nam in the EU market for other joinery products – such as laminated window scantlings and kitchen worktops. However, EU imports of these products from Indonesia were rising in 2019 and Indonesia maintained its position as the second largest external supplier to the EU, after China.

EU imports of Indonesian mouldings, consisting primarily of bangkirai decking profiles, increased 1% in both value and quantity in 2019, respectively to US$121 and to 64,000 tonnes. However, other countries made larger gains in the EU decking market during the year, notably Brazil, Russia, Peru and Bolivia. Gabon was also beginning to make inroads into this market in 2019.

It is likely that the rise in EU imports of mouldings from Indonesia in 2019 was at least partly due to reclassification of products previously identified as sawnwood in EU customs declarations as part of efforts to iron out mismatches with FLEGT Licences. Sawnwood (HS4407) is one product group where there has been a particularly large discrepancy in trade data reported respectively by Indonesia and the EU. In 2018, the EU reported imports of

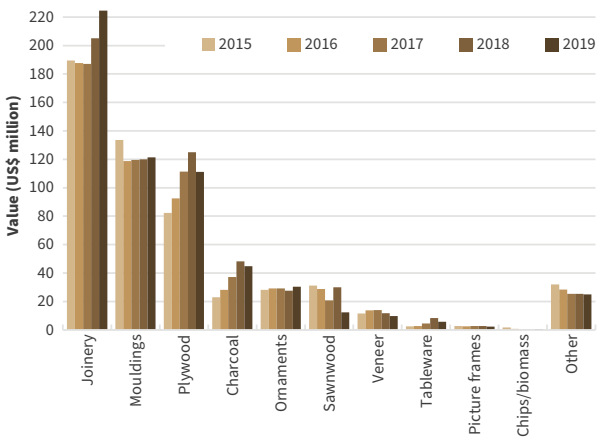


Figure 5.4.2.1: EU import value of wood (HS 44) products from Indonesia by product type – 2015-2019.
Source: IMM-STIX

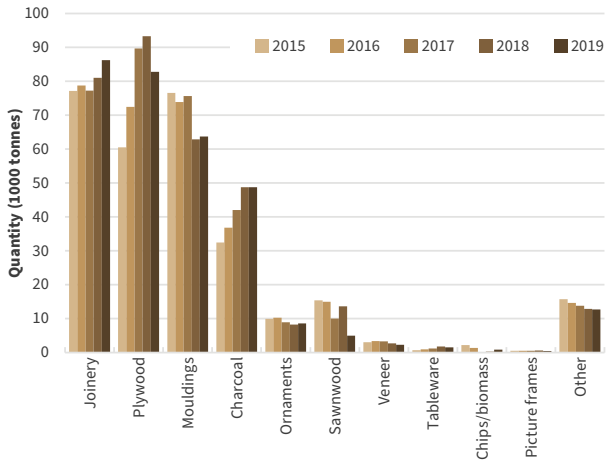


Figure 5.4.2.2: EU import quantity of wood (HS 44) products from Indonesia by product type – 2015-2019.
Source: IMM-STIX

sawnwood from Indonesia of 13,650 tonnes with value of US$30 million, mainly destined for the Netherlands and Germany. This was around five times exports reported by Indonesia of 2,600 tonnes with value of US$6.5 million. In 2019, imports of sawnwood from Indonesia reported by the EU fell 60% in value to US$12.3 million and 63% in quantity to 5,000 tonnes. This large fall brought the EU figures somewhat closer to exports reported by Indonesia of 1,770 tonnes with value of US$4.4 million in 2019. This may be due to on-going efforts to rectify mismatches between product codes, with products previously identified as HS4407 sawnwood now classified as HS4409 mouldings. The fact that the discrepancy was still large in 2019 suggests more work is needed on this issue.

51. There is a significant discrepancy between Indonesia's export data for joinery products in 2019, which shows a slight decline, and EU imports which show a strong rise, particularly in US$ value. In part, this may be due to a significant proportion of joinery products dispatched from Indonesia in late 2018 only arriving into the EU in early 2019. However, the particularly large increase in EU import value from Indonesia in 2019 is strongly influenced by an unexplained temporary but sharp increase in Netherlands import value reported by Eurostat for joinery under HS44189990 (other joinery not elsewhere stated) in May 2019. This increase was not matched by an equivalent rise in Indonesian export value or in Netherlands import quantity and implied a short term and unprecedented rise in unit value of imports from around US$2000-US$3000 per tonne to over US$25000 per tonne during that month only.

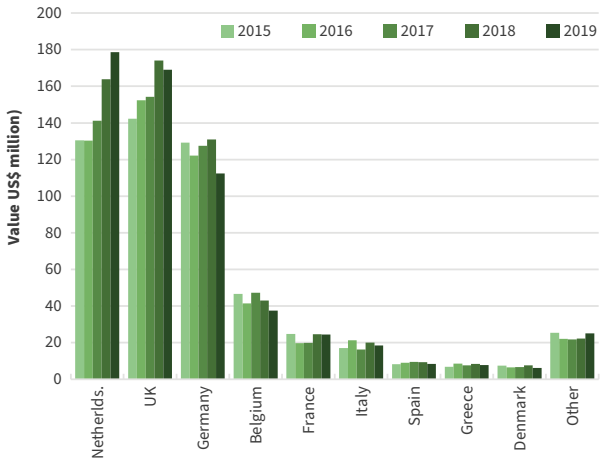


Figure 5.4.2.3: EU import value of wood (HS 44) products from Indonesia by destination – 2015-2019.
Source: IMM-STIX

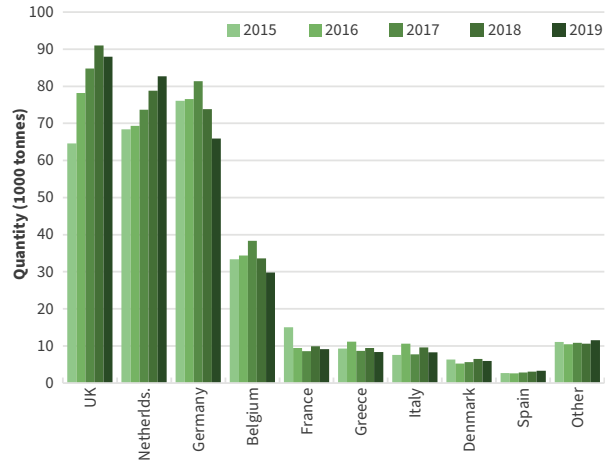


Figure 5.4.2.4: EU import quantity of wood (HS 44) products from Indonesia by destination – 2015-2019.
Source: IMM-STIX

The value of EU imports of veneer from Indonesia fell 17% to US$9.8 million in 2019, continuing a decline on-going since 2016. EU import volume of veneers fell 16% to 2,300 tonnes. Nearly all the veneer is destined for Germany and comprises softwood, perhaps surprising given the tropical origin, although unusually amongst tropical countries, Indonesia has areas of pine forest, some established over 50 years ago.

EU imports of Indonesian charcoal, which is neither subject to FLEGT licensing nor EUTR regulation, increased rapidly between 2015 and 2018, but fell back in 2019, declining 7% in value, to US$45 million, and 1% in quantity, to 48,700 tonnes. In 2019, there was a significant rise in EU imports of charcoal from South Africa, Namibia and Cuba, while imports from the largest suppliers, which include Indonesia alongside Ukraine and Nigeria were relatively flat at a high level after rising in 2018.

EU imports of Indonesian ornaments (under HS 4420), also subject neither to FLEGT licensing nor EUTR regulation, increased 10% in value to US$30 million in 2019 and 4% in quantity to 8,600 tonnes.

EU imports of all other wood product groups from Indonesia, including tableware and kitchenware, picture frames, packaging, chips and other biomass, were all negligible in 2018 and 2019, not exceeding 1600 tonnes and US$6 million per annum in any single product category.

Most EU imports of Indonesian wood products were destined for just four countries in 2019: Netherlands, UK, Germany and Belgium (***Figures 5.4.2.3*** and ***5.4.2.4***). In 2019, the Netherlands overtook the UK as the single largest EU destination in value terms, although the UK remained the largest market in quantity terms.

In 2019, there was strong growth in Netherlands imports of the five product groups which now dominate Indonesian wood trade with the country; wooden doors, other laminated joinery products, mouldings, plywood, and charcoal. Netherlands imports of sawnwood from Indonesia declined sharply during the year, which may, as previously noted, be due to reclassification of products to iron out mismatches in FLEGT Licences.

UK imports of wood products from Indonesia comprise mainly wood doors, plywood, and mouldings. While UK imports of wood doors and mouldings increased slightly in 2019, imports of plywood weakened after strong growth the previous year.

In Germany, mouldings, plywood, and charcoal are the main wood products imported from Indonesia. In 2019, Germany's imports of Indonesian mouldings fell sharply, continuing the decline of the previous year. Imports of Indonesian charcoal also declined. However, Germany's imports of Indonesian plywood increased slightly.

As in Germany, wood products imports into Belgium from Indonesia consist primarily of plywood, mouldings and charcoal. Belgian imports of Indonesian plywood fell sharply in 2019, while imports of mouldings and charcoal were flat during the year.

In France, imports of wood products from Indonesia were previously dominated by mouldings, but these have been declining in recent years and fell again in 2019. French imports of laminated joinery products from Indonesia also fell in 2019 after rising in 2018. However, French imports of wood flooring and doors, ornaments, and "other wood products not elsewhere stated" all increased in 2019.

In Italy in 2019, imports of Indonesian plywood declined after a rise the previous year, while imports of Indonesian flooring also continued to decline. However, these losses were partly offset by a rise in Italian imports of Indonesian mouldings during the year.

Wood products imports into Greece from Indonesia, almost entirely comprised of charcoal, were declining in 2019. Imports of Indonesian wood ornaments into Spain, the leading product group in that market, declined sharply in 2019. This was partly offset by a rise in Spain's imports of Indonesian charcoal during the year.

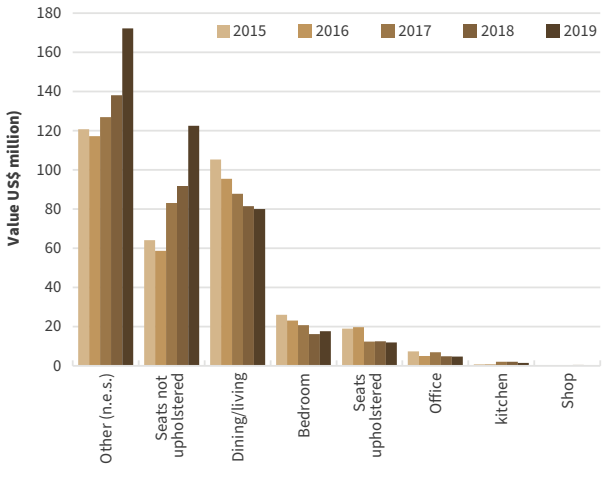


Figure 5.4.3.1: EU import value of wood furniture (HS 94) from Indonesia by product type – 2015-2019. *Source: IMM-STIX*

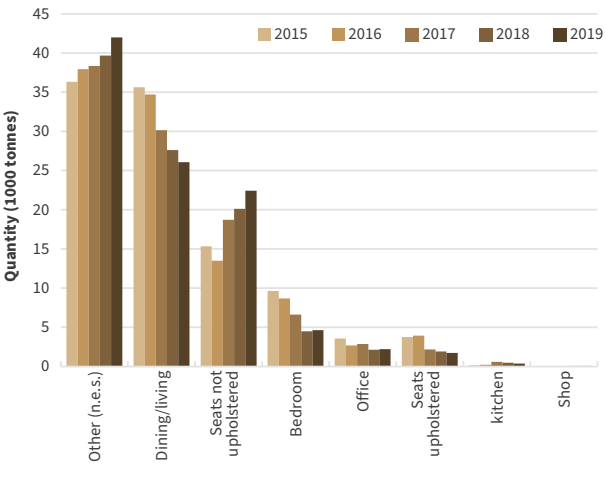


Figure 5.4.3.2: EU import quantity of wood furniture (HS 94) from Indonesia by product type – 2015-2019. *Source: IMM-STIX*

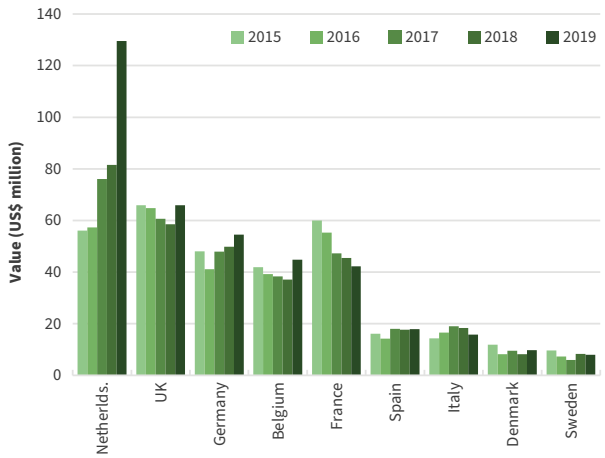


Figure 5.4.3.3: EU import value of wood furniture (HS 94) products from Indonesia by destination – 2015-2019. *Source: IMM-STIX*

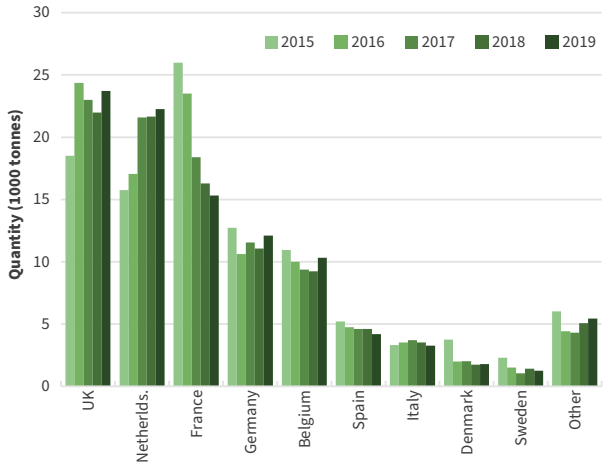


Figure 5.4.3.4: EU import quantity of wood furniture (HS 94) products from Indonesia by destination – 2015-2019. *Source: IMM-STIX*

5.4.3 EU imports of wood furniture (HS 94) products from Indonesia

In 2019, Eurostat COMEXT data shows that the value of EU imports of Indonesian non-upholstered wood seating – which is FLEGT-licensed but not covered by EUTR – increased 25% to US$123 million in 2019. There was also a 34% increase, to US$172 million, in the value of imports of "other not elsewhere stated" (other n.e.s.) wood furniture from Indonesia.

In contrast to these product groups, which primarily consist of furniture for exterior use, changes in EU import value of interior furniture categories from Indonesia were less dramatic. EU import value of Indonesian bedroom furniture increased 9% to US$18 million, a gain offset by a 2% fall in import value of dining/living room furniture, to US$80 million, a 4% fall in import value of upholstered seating, to US$12 million, a 2% fall in import value of office furniture, to US$4.8 million, and a 26% fall in import value of kitchen furniture to US$1.5 million.(***Figure 5.4.3.1***).

Changes in EU import quantity of furniture from Indonesia broadly mirror the changes in import value, although the rise in imports of other not elsewhere stated (n.e.s.) wood furniture (+6% to 42,000 tonnes) and non-upholstered seating (+12% to 22,000 tonnes) is much more moderate (***Figure 5.4.3.2***). Taken at face value, this data implies a large increase in the unit value of EU imports from Indonesia of other n.e.s. wood furniture from US$3480/tonne in 2018 to US$4100/tonne in 2019, and of non-upholstered seating, from US$4560/tonne to US$5460/tonne. While not impossible, the fact that the sharp increase in import value is concentrated in just one EU country, the Netherlands (***Figure 5.4.3.3***), over a very short period[52] and is not

52. Specifically, Eurostat data shows sharp increases in Netherlands import value from Indonesia for non-upholstered wood seating under HS94016900 in June and July 2019, and "other not elsewhere stated" wood furniture in 94036090 in September 2019. These increases were not matched by an equivalent rise in import quantity (or in Indonesian export value) and implied a short term, and unprecedented rise in unit value of imports from around US$3000-US$4000 per tonne to over US$15,000 per tonne for those months only.

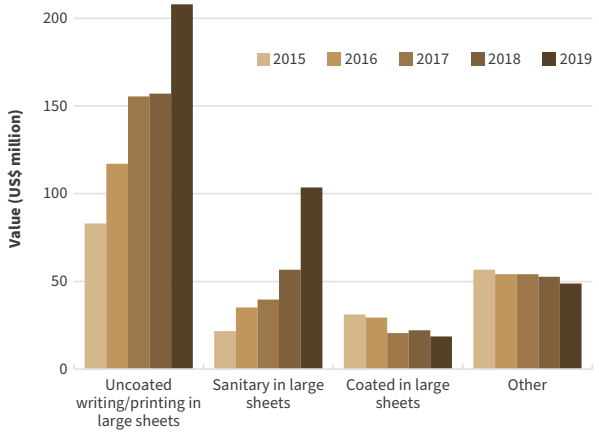


Figure 5.4.4.1: EU import value of paper (HS 48) from Indonesia by product type – 2015-2019. *Source: IMM-STIX*

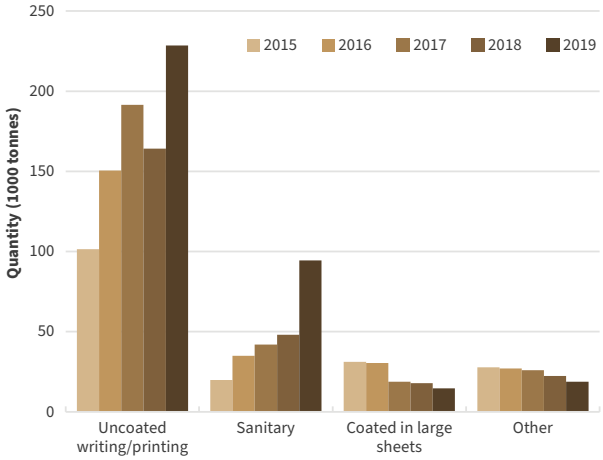


Figure 5.4.4.2: EU import quantity of paper (HS 48) from Indonesia by product type – 2015-2019. *Source: IMM-STIX*

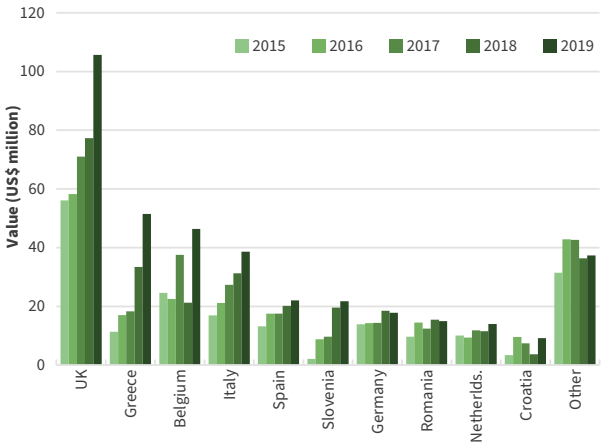


Figure 5.4.4.3: EU import value of paper (HS 48) products from Indonesia by destination – 2015-2019. *Source: IMM-STIX*

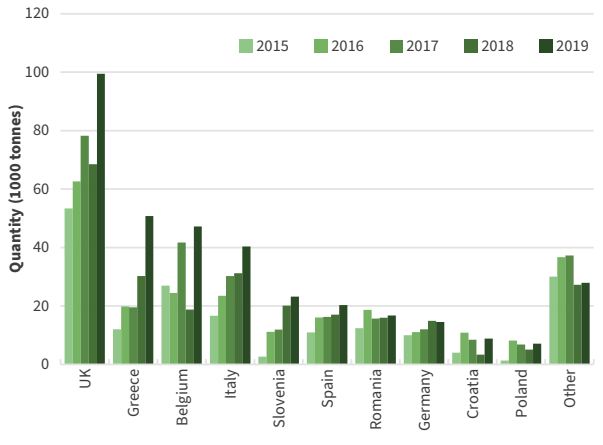


Figure 5.4.4.4: EU import quantity of paper (HS 48) products from Indonesia by destination – 2015-2019
Source: IMM-STIX

mirrored in Indonesian export data, raises questions of the accuracy of the value data reported to Eurostat by the Netherlands. In this instance, the moderate gain in import quantity is probably closer to the actual trend.

By destination, according to Eurostat data the Netherlands recorded a very large increase in import value and a moderate increase in import quantity of wood furniture from Indonesia in 2019. In 2019, if the Eurostat data is to be believed, the Netherlands became by far the largest EU market for Indonesian wood furniture in value terms, with imports rising 59% to US$130 million, compared to a rise of 13% to US$66 million in the UK, the second largest market. During the year, the import value of wood furniture from Indonesia also increased in Germany (+9% to US$55 million), Belgium (+21% to US$45 million), Spain (+1% to US$18 million), and Denmark (+19% to US$10 million). However, import value declined in France (-7% to US$42 million), Italy (-14% to US$16 million) and Sweden (-4% to US$8 million) (*Figure 5.4.3.3*).

In quantity terms, the UK maintained its position as the largest EU market for Indonesian wood furniture in 2019, with imports rising 8% to 23,700 tonnes. In quantity terms imports of Indonesian wood furniture increased only 3% in the Netherlands, to 22,300 tonnes. In other EU countries, import trends in quantity terms more closely mirrored the value trends, with imports rising in Germany (+10% to 12,100 tonnes), Belgium (+12% to 10,300 tonnes), and Denmark (+2% to 1,800 tonnes). However, import quantity fell in France (-6% to 15,300 tonnes), Spain (-9% to 4,200 tonnes), Italy (-8% to 3,300 tonnes), and Sweden (-11% to 1,300 tonnes). (*Figure 5.4.3.4*).

5.4.4 EU imports of wood pulp (HS 47) and paper (HS 48) products

While EU imports of wood pulp from Indonesia declined to negligible levels in 2019, imports of certain finished paper products are significant and rising rapidly (*Figures 5.4.4.1* and *5.4.4.2*). The leading product category is uncoated paper for writing or printing, for which import value increased 32% to US$208 million in 2019, while import

quantity increased 39% to 228,000 tonnes. In 2019, imports of sanitary papers from Indonesia increased by 83% in value, to US$104 million, and by 97% in quantity, to 94,000 tonnes. In contrast, EU imports of coated and other paper products from Indonesia declined in 2019.

Most EU countries now import some Indonesian paper products and, in 2019, nine EU countries imported more than US$10 million of paper from Indonesia (***Figures 5.4.4.3*** and ***5.4.4.4***). In 2019, there was significant growth in imports of Indonesian paper products by all five of the largest importing EU countries: the UK (+37% to US$106 million), Greece (+54% to US$52 million), Belgium (+119% to US$46 million), Italy (+23% to US$39 million) and Spain (+10% to US$22 million).

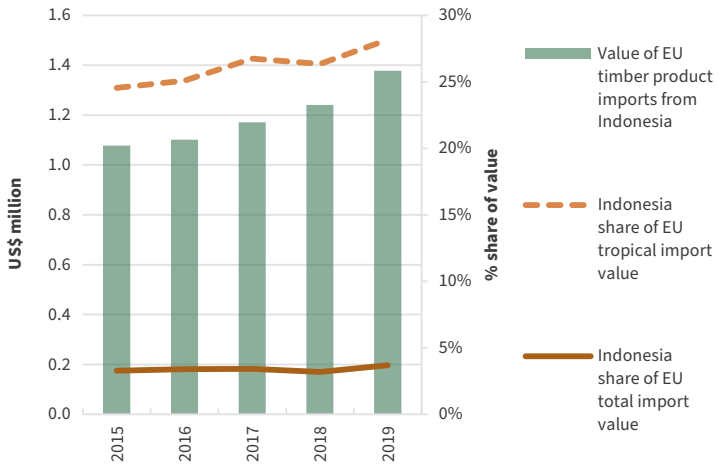


Figure 5.4.5.1: Total value of EU timber and timber product imports from Indonesia (left axis/bar data) and Indonesian share of EU total import value and tropical import value (right axis/line data) – 2015-2019. *Source: IMM-STIX*

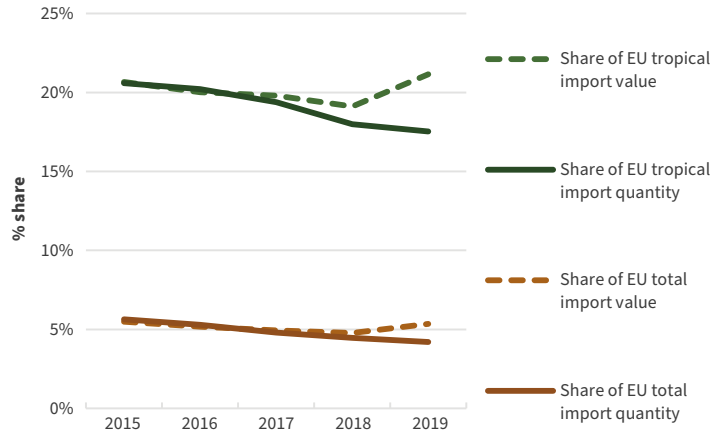


Figure 5.4.5.2: Indonesian share of EU wood furniture imports by value (US$) and quantity (tonnes)– 2015-2019. *Source: IMM-STIX*

5.4.5 Indonesian share of EU timber and timber product imports

While there was an increase in overall EU imports of timber and timber products from Indonesia, following the start of FLEGT licensing, between 2016 and 2019, rising 25% from US$1.1 billion to US$1.4 billion, the benefit in terms of market share was muted as some other supply countries made gains at least as large. During this period, the share of Indonesia in EU timber and timber product import value from the tropics increased from 25.1% to 28.2%, while Indonesia's share of total EU timber and timber product import value increased from 3.4% to 3.7% (***Figure 5.4.5.1***).

Despite relatively slow economic and consumption growth in the EU, the period from 2017 to mid-2019 was characterized by import growth in the EU, the main beneficiaries being neighbouring countries in the European region, notably Ukraine, Russia, Belarus, Serbia, Bosnia and Turkey. More positively, in the second half of 2019 there were some tentative signs that while imports from these other countries began to slow in response to weakening economic conditions in the EU, imports of some timber product groups from Indonesia were proving more resilient and there was an uptick in share. However, there were significant variations in trends in Indonesia's market share for different timber products. The following commentary considers each individual timber product category in which Indonesia is competing for market share in the EU (***Figures 5.4.5.2***[53], ***5.4.5.3*** and ***5.4.5.4***[54]).

Wood Furniture (HS 94): Indonesia's share of EU wood furniture imports declined between 2015 and 2018, irrespective of whether measured in value or quantity. During this period, Indonesia lost share both in relation to total imports and to imports from other tropical countries, with intense competition from non-EU European countries, China, Viet Nam, and India. In 2019, while Indonesia's share of EU wood furniture import quantity continued to slide, Indonesia's share of import value increased. n Indonesia's share of total wood furniture import value increased from 4.8% in 2018 to 5.4% in 2019, while share of wood furniture import value from the tropics increased from 19.1% in 2018 to 21.2% in 2019. In 2019, Indonesia made gains in import value in relation to Viet Nam, Brazil, Thailand, and various non-EU European countries, including Bosnia, Ukraine, Switzerland, and Norway.

Doors and their frames (HS 441820): Indonesia performed well in the EU market for wood doors between 2016 and 2019. Indonesia accounted for 32.2% of import value of all wooden doors imported into the EU in 2019, up from 31.7% in 2018 and 31.1% in 2016. Indonesia's share of all wood door imports from tropical countries was 70.5% in 2019, up from 68.8% in 2018 and 69.1% in 2016 when licensing began. In 2018, Indonesia overtook China to become the EU's largest non-EU supplier of wooden doors, and Indonesia's exports to EU continued to outperform China in 2019. Of other tropical suppliers, EU imports from Malaysia

53. Due to data discrepancies described in Section 5.4.3, trends in Indonesia's share of EU imports of wood furniture differ significantly depending on whether measured in value or quantity. Therefore, Figure 5.4.5.2 shows the trend in Indonesia's share of EU wood furniture imports in both value and quantity.
54. For product categories other than wood furniture, the analysis of Indonesia's changing share of EU imports considers only import value. For these products, the trend in share is the same irrespective of whether measured in value or quantity.

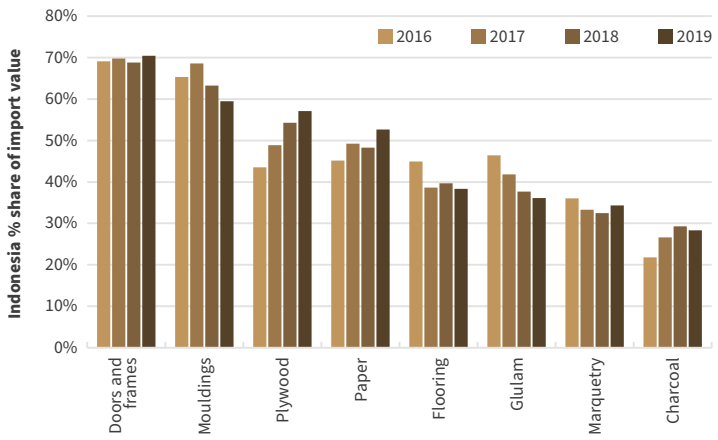


Figure 5.4.5.3: Indonesian share of EU tropical imports by timber product type (excludes furniture) – 2016-2019. *Source: IMM-STIX*

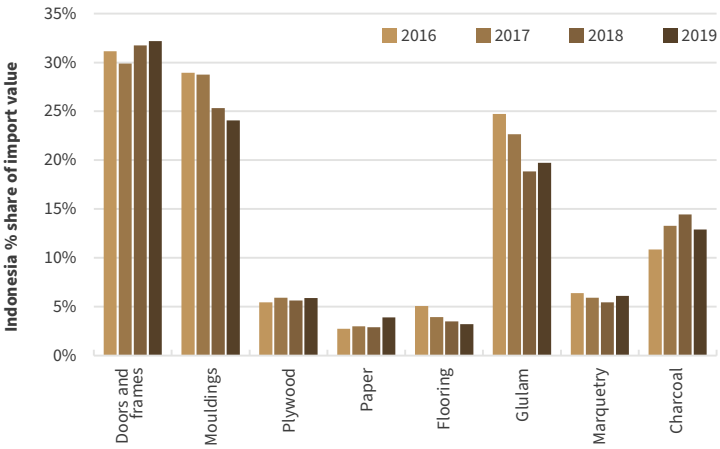


Figure 5.4.5.4: Indonesian share of total EU imports by timber product type (excludes furniture) – 2016-2019. *Source: IMM-STIX*

are well behind those of Indonesia and have been flat-lining since 2012, while imports from Brazil have been in long-term decline and are now well below both Indonesia and Malaysia. A few temperate suppliers made gains in the EU market between 2016 and 2019, including South Africa, Ukraine, Bosnia, and Turkey, but all are still minor players compared to Indonesia is this sector.

Mouldings/decking (HS 4409): As noted in section 5.4.2, analysis of share in the market for mouldings and decking is complicated by differing interpretations of product codes. However, the available data indicates that Indonesia lost share in the EU market for mouldings/decking both in the short-term, in 2019, and during the period after FLEGT licensing began. Indonesia accounted for 24.1% of all EU import value in this product category in 2019, down from 25.3% in 2018 and 28.9% in 2016. Share of imports from tropical countries was 59.5% in 2019 compared to 63.2% in 2018 and 65.3% in 2016. Share is being lost to imports from Brazil, Russia, Peru, Bolivia and, most recently, Gabon. More generally, tropical hardwood products are also under intense competitive pressure from treated temperate woods and wood plastic composites in the exterior decking market, and from composite panel products in the interior mouldings market.

Plywood (HS 4412): Indonesia accounted for 5.9% of import value of all plywood imported into the EU in 2019, up from 5.6% in 2018 and 5.5% in 2016 before FLEGT licensing began. Share of tropical plywood import value was 57.1% in 2019 compared to 54.3% in 2018 and 43.5% in 2016. Since licensing began, Indonesia has significantly outperformed other tropical producers in the EU market, although it has struggled to make significant headway against plywood imports from non-tropical sources, notably mixed hardwood products from China (including a significant proportion faced with tropical hardwood veneer) and birch plywood from Russia and Belarus. However, imports from China, Russia and Belarus, which experienced dramatic growth between 2016 and 2018, slowed throughout 2019 and Indonesia was able to take some share from producers in these countries during the year.

Paper (HS 48): At 3.9% in 2019, Indonesia's share of total EU imports of paper products was still low, but a significant gain compared to 2.9% the previous year and 2.7% before licensing started. Indonesia's share of paper imports from tropical countries was 52.7% in 2019, up from 48.3% in 2018 and 45.1% in 2019. In 2019, the increase in Indonesia's share was at the expense of several countries including US, Turkey, Norway, Russia, and Brazil[55] amongst non-tropical suppliers, and Thailand, Malaysia and the Philippines amongst tropical suppliers. Indonesia was not alone amongst tropical countries in making gains in the EU paper market in 2019. India's share of EU imports from tropical countries increased from 16.5% in 2018 to 18.5% in 2019.

Flooring (HS 441875/441879): Indonesia lost share in the EU market for wood flooring in the period since FLEGT licensing began, continuing a long-term trend in a market heavily dominated by domestic and Chinese producers and where fashions very strongly favour oak-faced products. Indonesia's share of total EU wood flooring import value was 3.2% in 2019, down from 3.5% the previous year and 5.1% in 2016. Share of wood flooring imports from tropical countries was 38.4% in 2019, down from 39.7% in 2018 and 44.9% in 2016. Indonesia lost share to China and Ukraine, the dominant temperate wood product suppliers, and to Malaysia and Brazil, amongst tropical suppliers. In addition to other

55. For paper products, imports from Brazil are not considered of tropical origin since most derives from pulp produced in plantations outside the tropical forest zone. If Brazilian paper was to be categorized as "tropical", Indonesia's total share of EU imports of tropical paper was 41.5% in 2019, up from 34.9% in 2018 and 32.0% in 2016.

solid wood flooring suppliers, this market is under intense competitive pressure from a wide range of flooring products with artificial surfaces and other non-wood materials.

Glulam (HS 44189910): analysis of Indonesia's share of the EU market for glulam is complicated by data limitations, particularly lack of information on the division between the market for structural glulam, in which tropical wood products do not compete, and for smaller-dimension non-structural glulam, such as durable laminated window scantlings and kitchen worktops, in which tropical wood products are significant. The available information strongly suggests that Indonesia's share of the latter market has declined. Indonesia's share of EU imports of glulam from tropical countries was 36.1% in 2019, down from 37.7% in 2018 and 46.4% in 2016. Share was lost to Malaysia and, to a lesser extent, Viet Nam. In 2019, Indonesia, alongside other tropical countries, recovered a little ground from temperate suppliers, notably Russia and Belarus, but lost ground to Ukraine. China lost a lot of share in this market between 2016 and 2018 but recovered some ground in 2019.

Ornaments/marquetry (HS 4420): EU imports from Indonesia under product code 4420 mostly comprise 44201019 (statuettes/ornaments) and 44209099/91 (caskets/cases for jewellery and cutlery), which are neither subject to FLEGT licensing[56] nor regulated under EUTR. Indonesia's share of all EU imports in this product category declined from 6.4% in 2016 to 5.4% in 2019, before rebounding to 6.1% in 2019. In 2019, Indonesia benefitted mainly from a decline in the share of China, which is hugely dominant in this section of the EU market. China's share of total EU imports increased from 76.8% in 2016 to 77.9% in 2018 before falling to 76.5% in 2019. Indonesia's share of imports of this product category from tropical countries declined from 36.1% to 32.5% in 2018 before rebounding to 34.3% in 2019. Major tropical competitors are India, Thailand, Viet Nam and the Philippines.

Charcoal (HS 4402): Charcoal is neither subject to FLEGT licensing nor regulated by EUTR and Indonesia benefited from a significant increase in EU imports and market share in this product category between 2016 and 2018. Indonesia's share in this sector was also expanding well before licensing began. In 2019, EU imports of Indonesian charcoal declined and there was a loss of share to several other supply countries, notably Namibia, South Africa, Cuba, Russia, and the US. In 2019, Indonesia accounted for 12.9% of all EU charcoal import value, down from 14.4% the previous year. Indonesia's share of EU import value from tropical countries was 28.3% in 2019, down from 29.3% the previous year.

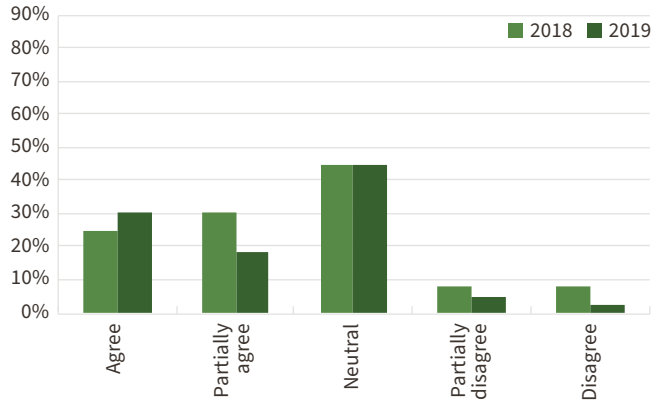


Figure 5.5.2.1: EU trade perceptions of FLEGT Licence mismatches. *Source: IMM 2018&2019 trade surveys*

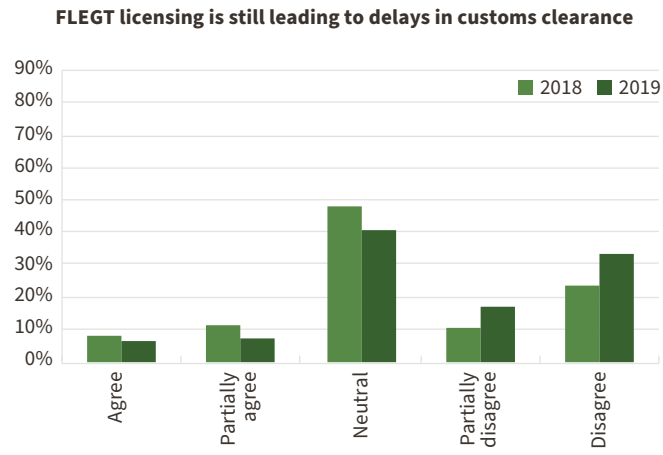


Figure 5.5.2.2: EU trade perceptions of FLEGT Licence import procedures. *Source: IMM 2018&2019 trade surveys*

5.5 Overcoming market constraints to FLEGT-licensed timber

5.5.1 Background

The first IMM EU trade survey in 2017 identified several administrative and general issues that may have had an impact on the market for FLEGT-licensed timber in the early stages after implementation. First and foremost, there were delays in clearance of shipments for circulation on the European markets due to FLEGT Licence mismatches. Some companies also had difficulties adapting to the new administrative procedures involved in importing FLEGT-licensed timber and called for a fully electronic process to reduce administrative effort. Besides these administrative issues, lack of awareness of the Indonesian FLEGT VPA and what it means on the ground was frequently mentioned as undermining market development.

56. Of HS4420 products, the EU-Indonesia VPA only references Indonesian product code '44209090' as within the scope of the agreement, while also noting that this product is 'Prohibited from export under the Indonesian law. In line with Article 3(3) of the VPA, products under this HS code may not be FLEGT-licensed and therefore may not be imported into the Union)'. The product referenced in the VPA as prohibited from export from Indonesia is defined as "Other – Wood in the form of logs or squared logs with simple process in the surface, carved or finely threaded or painted, does not have significant added-value and no significant change in shape".

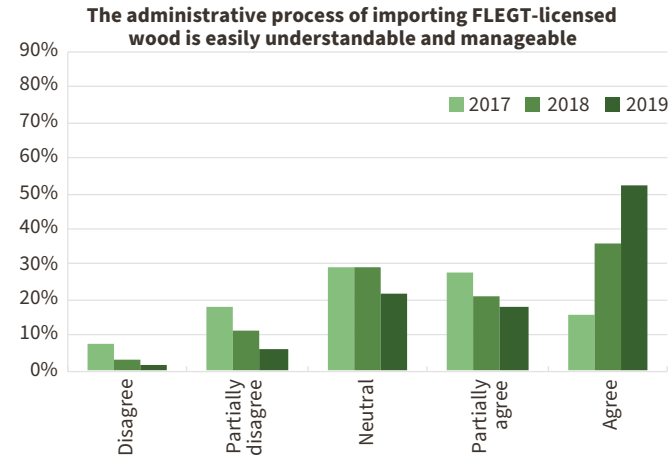


Figure 5.6.1: EU trade perceptions of importing FLEGT-licensed timber. *Source: IMM 2017/2018/2019 EU trade surveys*

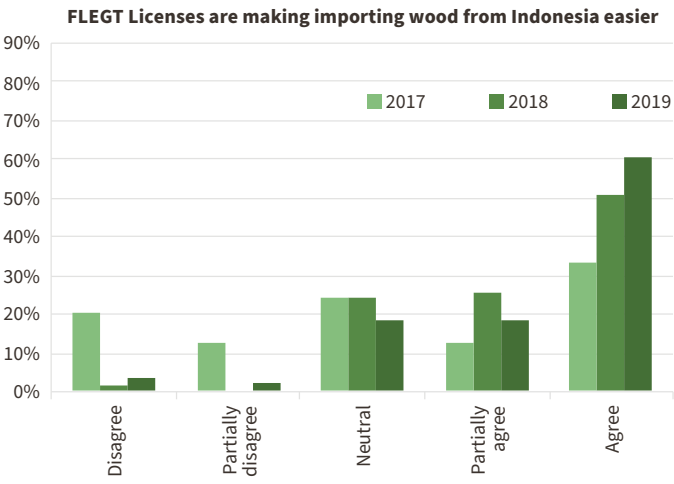


Figure 5.6.2: EU trade perceptions of importing FLEGT-licensed timber. *Source: IMM 2017/2018/2019 EU trade surveys*

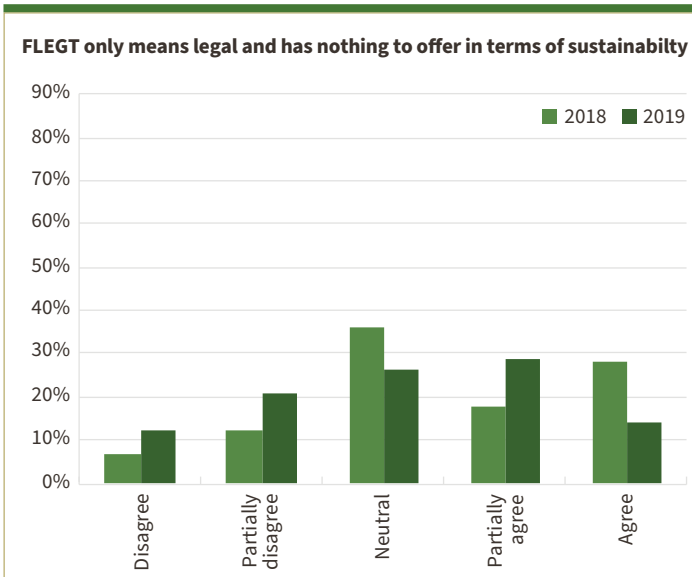


Figure 5.6.3: EU trade perceptions of importing FLEGT-licensed timber. *Source: IMM 2018/2019 EU trade surveys*

5.5.2 HS Code harmonisation and other FLEGT Licence mismatches

The decline in the number of FLEGT Licence mismatches shown in 2018 has continued also in 2019. According to an update on licensing issues presented by the Indonesian licensing Information Unit (LIU) during a Joint Expert Meeting (JEM) in July 2020, the number of "problematic cases" dropped by 75% from 2018 to 2019. In all, 98 cases were recorded by LIU in 2019, which was less than 1% of FLEGT Licences issued during the year.

The IMM 2019 EU trade survey as well as IMM Trade Consultations during 2019 also confirmed a declining trend in the number of Licence mismatches (***Figure 5.5.2.1***). Associations and Monitoring Organisations interviewed as a part of the IMM 2019 round of surveys confirmed that no major issues regarding importing of FLEGT-licensed timber were flagged up by their members during 2019.

Simultaneously, the IMM 2019 EU trade survey also showed a fall in the percentage share of companies that considered FLEGT licensing to cause delays in customs clearance of Indonesian timber imports (***Figure 5.5.2.2***)

5.5.3 Electronic licensing

The fact that the process of importing FLEGT-licensed timber was not fully electronic was emphasised by EU traders in IMM surveys as a limitation of the administrative procedures of importing FLEGT-licensed timber. The EU and Indonesia responded to this by working towards an e-licensing system in 2019.[57]

5.5.4 Communication and marketing

The latest phase of the Multi-stakeholder Forestry Programme (MFP4)[58] contains a component to provide background assistance to the Ministry of Environment and Forestry (MoEF) and Indonesian stakeholders in "building confidence and demand" for Indonesian FLEGT timber. In 2019, MFP4, in cooperation with the MoEF, the Global Timber Forum (GTF) and ID COMM, started developing national and international communications strategies for SVLK and FLEGT-licensed timber products from Indonesia.[59]

57. The e-licensing system had reached advanced stages of development by mid-2020 and pilot e-licensing started on 2 November for a period of six months. Before e-licensing can operate as a standard method for handling FLEGT Licences, the EU and Indonesia will have to take a final decision to this effect.
58. Funded by the UK Department for International Development.
59. Both strategies were ready for consultation with stakeholders in August 2020. The strategies are based on stakeholder interviews and needs assessment. A communications strategy was drafted in July 2020 and, at the time of writing of this report, was expected to be finalised in August 2020, after consultation with stakeholders. The national communications strategy focusses on the promotion of SVLK among domestic audiences, with the overall objective to build confidence in and positive support for the system. The international strategy is to support promotion of FLEGT-licensed timber from Indonesia in the European markets.

Chapter 10 of this report updates information on EU wood promotion campaigns' and influencers' support of FLEGT-licensed timber and the FLEGT VPA programme.

5.6 EU market perceptions of Indonesian FLEGT Licences

The IMM 2017 survey serves as a baseline for EU trade perceptions of the Indonesian FLEGT licensing system and day-to-day management of importing licensed timber. Repetition of the same questions in 2018 and 2019 now allows for comparison over time.

Figure 5.6.1 shows a sharp and constant rise in the proportion of respondents finding the administrative process of importing FLEGT-licensed timber easily understandable and manageable over the last three years. The number of respondents highlighting challenges continued to fall in 2019, after declining sharply in 2018.

The positive overall perception of administrative processes involved in importing FLEGT-licensed timber was confirmed by the survey question addressed in *Figure 5.6.2* both in 2018 and 2019. In both years, about 80% of respondents said that FLEGT licensing was making importing wood products from Indonesia easier compared to EUTR due diligence (full or partial agreement). With one or two exceptions, the remaining respondents were neutral on the subject. In 2017, a significant number of respondents had still partially (12%) or fully (20%) disagreed with this statement. The number of respondents fully agreeing to the statement increased by another 10 percentage points in 2019.

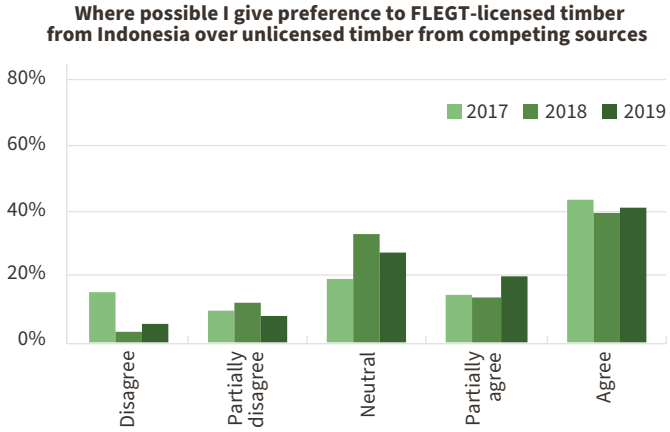


Figure 5.6.4: EU trade perceptions of importing FLEGT-licensed timber. *Source: IMM 2017/2018/2019 EU trade surveys*

The question as to what FLEGT had to offer in terms of proof of sustainability was one of the major issues of interest that emerged from the 2017 trade survey. As a result, IMM included the statement "FLEGT means 'just legal' and has nothing to offer in terms of sustainability" for assessment in the 2018 and 2019 survey. *Figure 5.6.3* demonstrates a significant shift in perception from 2018 to 2019: the proportion of respondents that fully or partially disagreed with this statement rose from 19% in 2018 to 33% in 2019, meaning that a significantly higher number of respondents is beginning to acknowledge wider benefits of FLEGT.

Responses to the question whether companies would give preference to FLEGT-licensed timber from Indonesia over unlicensed timber from competing sources still remain

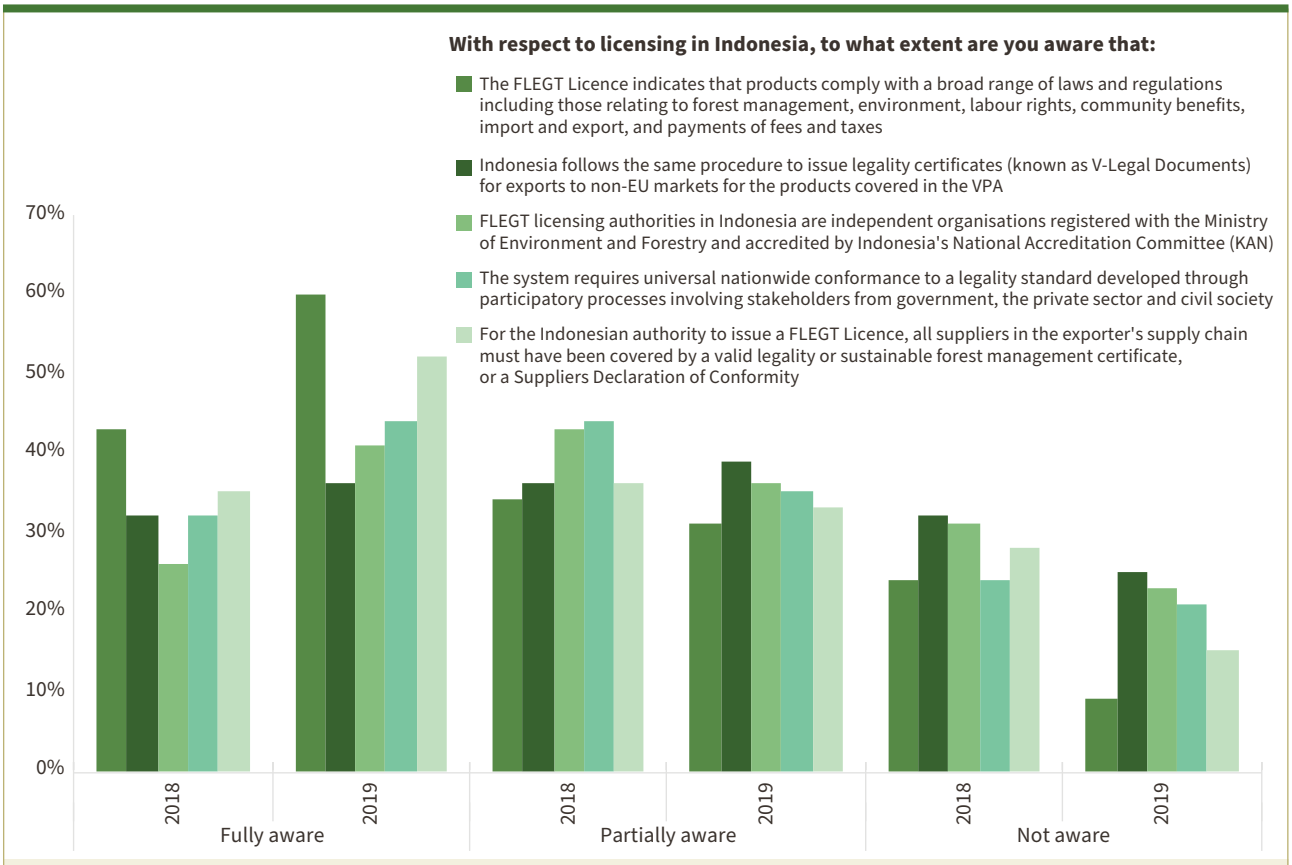


Figure 5.6.5: Awareness of the Indonesian FLEGT licensing system. *Source: IMM 2018/2019 EU trade survey (figures rounded)*

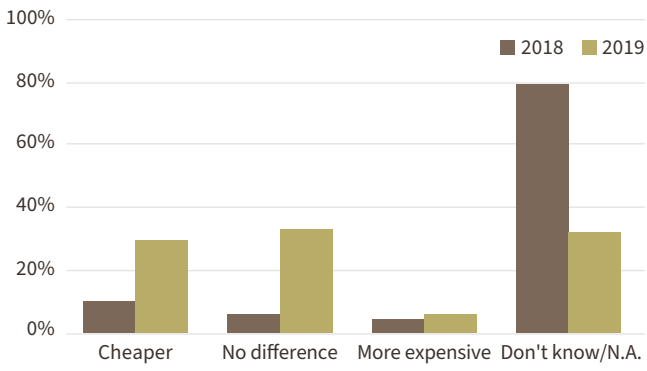


Figure 5.7.1 Cost impact of FLEGT licensing.
Source: IMM 2018/2019 EU trade survey

mixed (***Figure 5.6.4***). However, the number of respondents who explicitly said they would not give preference to FLEGT-licensed timber has declined sharply since 2017. Respondents to the IMM survey and participants at IMM Trade Consultations remarked that FLEGT licensing was a factor that could influence purchasing decisions, but only where other product criteria were equal.

As a part of its Trade Consultations, IMM holds workshops on purchasing dynamics, decision making processes and the question as to where FLEGT licensing sits within these processes. At all 2018 and 2019 Trade Consultations, participants remarked that they would consider business and commercial considerations first and foremost. Top of the list, alongside price, was ensuring that the supplier can deliver the product in the time frame required and in consistent quality and specification.

Only once buyers are satisfied on the above points, does the focus move more to chain of custody, certification, sustainability, legality verification and capacity to provide EUTR due diligence information. As a result, FLEGT licensing can be considered a factor that can positively influence purchasing decisions, but only if the product is competitive at other levels as well.

The 2018 and 2019 EU trade surveys also looked in more detail into the level of information and awareness of the Indonesian FLEGT licensing system than the 2017 survey. ***Figure 5.6.5***. shows that, while there is a definite need for additional information on a number of aspects, awareness, especially of wider environmental, social and economic implications of VPA implementation has improved from 2018 to 2019. The proportion of respondents saying they were fully aware that FLEGT-licensed products "comply with a broad range of laws and regulations including those relating to forest management, environment, labour rights, community benefits, import and export, and payments of fees and taxes" increased sharply by 17 percentage points, from 43% to 80%. A similar increase, from 35% to 52% was shown for full awareness that "for the Indonesian authority to issue a FLEGT Licence, all suppliers in the exporter's supply chain must have been covered by a valid legality or sustainable forest management certificate, or a Suppliers Declaration of Conformity".

A total of 43% of respondents stated that they would be interested in receiving additional or different information. Where different information was requested, companies typically asked for concise information in accessible formats, for example videos or animations.

5.7 Cost impact of FLEGT licensing

In 2020, a much higher number of survey respondents – 74 out of 109 – chose to answer the question whether FLEGT licensing was making importing from Indonesia cheaper or more expensive than exercising EUTR due diligence; 35 companies did not answer. In 2018, only 20 out of 96 companies had answered the question, with 76 companies opting not to respond.

Several companies reported to have experienced price increases for their supplies from Indonesia. Those increases were mostly attributed to supply fluctuations and purchasing competition but, in some instances, especially when working with smaller suppliers, also to suppliers' attempts to offload higher costs experienced

Costs of EUTR due diligence – an example:[1]

Costs of setting up a due diligence system for a small to medium-sized company with 10-30 suppliers initially involves preparation of a manual and training of staff. If there is no in-house capacity, estimated consultancy fees would total around €2000.

The main recurrent costs are related to evaluation of suppliers and documentation of each supply chain. Costs for evaluation are estimated at 1-2 working days per supplier/year, (i.e. about €1,000-2,000/supplier/year if carried out by an external consultant) depending on the product types, countries of origin etc. The initial evaluation is typically more expensive, and it gets cheaper when a supplier has been evaluated several times. With this in mind, estimated costs would total €10,000-20,000/year for a company with 10 suppliers and €30,000-60,000/year for a company with 30 suppliers. Some companies, including small ones, hire an in-house specialist part or full-time to deal with due diligence and supply chains rather than working with external consultants.

Costs incurred when addressing EUTR non-compliances flagged up by Competent Authority checks vary significantly depending on the nature of non-compliance and follow-up work with suppliers involved. On average, around €1250-2000 of consultancy fees should suffice to address a typical notice of remedial action.

1. Example based on requirements of a small or medium-sized furniture importer (with typically around 10-30 suppliers). Costs may vary significantly depending on the complexity of product and supply chain, sourcing area etc. Estimates were provided by the IMM Germany correspondent.

by Indonesian producers and exporters as a result of SVLK certification and FLEGT licensing to sales prices.

Where their own administrative costs are concerned, around one-third of respondents, up from 10% in 2018, acknowledged saving in 2019, as the administrative process of importing FLEGT-licensed timber was considered less time consuming than EUTR due diligence.

Only a small number of 2019 respondents, six in total, felt that their own administrative costs had risen due to "extra paperwork" in connection with FLEGT licensing. One respondent mentioned slightly increased indirect costs due to "longer shipping times, overall more paperwork and frustration". With one exception, the cost increases were considered marginal and not affecting business. Five of the six respondents reporting cost increases were based in the Netherlands, which indicates that there may have been a local issue with processing of FLEGT-licensed timber in the Netherlands in 2019.

Fees for processing FLEGT Licences were mentioned only once as a factor impacting costs.

5.8 Price trends for indicator products from Indonesia

Monitoring price trends is always difficult, as fluctuations in prices can potentially be caused by a large variety of factors, including but not necessarily limited to:

- Demand trends in markets under observation and in competing markets (including changes in fashion trends, emergence of new products, etc.)

Case Study 1: Trends in Indonesian plywood prices[1]

Prices for hardwood plywood from Indonesia had increased quite sharply in late 2017 and early 2018, against the background of strong demand in a number of export markets, including Europe and the US (***Figure 5.8.1***). In Europe, Indonesian suppliers profited from price hikes (raw plywood) and supply shortages for competing birch plywood from Russia, in particular.

This situation changed towards the end of 2018 and especially in 2019, when prices for exports to Europe quickly fell back to, and temporarily even slightly below, pre FLEGT licensing levels. Besides growing competition from Russia, where plywood in comparable qualities was readily available at prices increasingly below Indonesian levels during 2019, some media reports and IMM survey respondents also mentioned supply issues as reasons behind the lower European purchases of plywood imports from Indonesia. These were attributed to both raw material shortages and purchasing competition for Indonesian plywood from other regions, for example the US. In the second half of 2019, in particular, specialist media reported strong US demand for Indonesian plywood, especially thin panels in overlay&better quality. Against this background, lead times for Indonesian plywood were comparatively long throughout the year.

In key European markets, thicker film-faced plywood grades (18/21mm) from Indonesia, in particular, were facing stiff competition from Russia in 2019 (***Figure 5.8.2***). However, a slight uptick in demand was again recorded in early 2020. European demand for thinner (4/8mm) film-faced plywood panels from Indonesia was reported to have been more stable in 2019 and if this trend continues IMM will replace the indicator product accordingly.

Prices for Indonesian plywood for export to Europe stabilised towards the end of 2019 and rose again slightly at the turn of the year and in early 2020. The increases were primarily considered to be attempts to pass on rising costs. FLEGT licensing was not mentioned by timber-sector media as a factor to influence prices.

Developments after March 2020 and the impacts of COVID-19 will be analysed in the 2020 Annual Report.

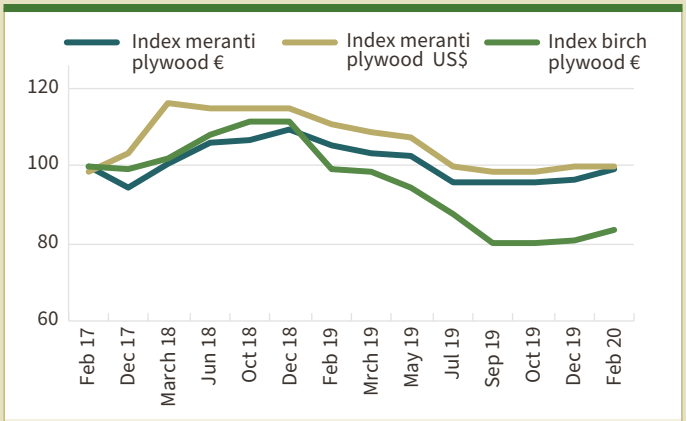


Figure 5.8.1: Price index for meranti plywood (18 mm BB/CC) in € and US$ vs price index for birch plywood (18mm BB/BB) from Russia. *Source: IMM*

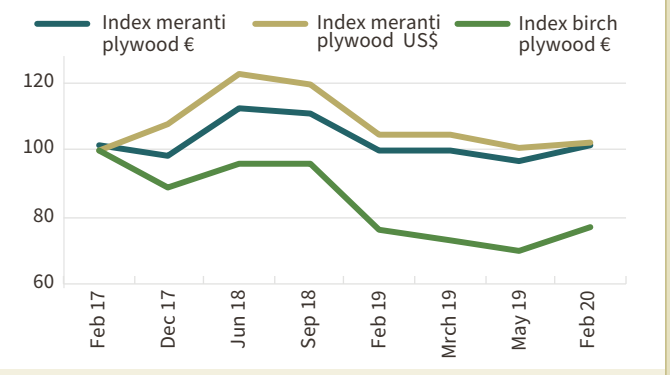


Figure 5.8.2: Price index for film-faced Meranti Plywood (18/21 mm) in US$ and € vs price index for Russian birch plywood (21 mm f/f). *Source: IMM*

1. The trend lines are indexed and based on analysis of ITTO data, market interviews and timber-sector media reports. November 2016=100.

- Demand trends, availability and prices for substitute products
- Supply trends (capacity and weather related, suppliers' changing trading patterns and priorities etc.)
- Currency exchange rate trends
- Transport related issues (freight capacities and prices)
- Other (including FLEGT licensing).

Moreover, given the growing levels of specification and diversification in several VPA partner countries' timber industries – including Indonesia – and increasingly specific requirements and needs of clients in consumer countries, only a limited number of products are still being traded as bulk commodities in comparable qualities and specifications from countries like Indonesia.

A small number of such products, including raw and film-faced plywood in standard dimensions, bangkirai decking (standard+better) and meranti window scantlings were identified by IMM for price monitoring.

Case Study 2: Trends in Indonesian joinery prices[1]

After rising sharply in the first three quarters of 2018, prices for meranti window scantlings from Indonesia fell again towards the end of the year (***Figure 5.8.3***). Recovery in the first few months of 2019 was short lived and followed by another dip in April/May. Between mid-year 2019, and February 2020, prices then stabilised at a still comparatively high level – roughly 10 % above the prices achieved in November 2016.

Demand for meranti window scantlings remained comparatively low in Europe throughout 2019. This did not just affect Indonesian but also Malaysian suppliers. From the second quarter of 2019 onwards, European importers reported delays in deliveries of meranti window scantlings, which lasted into the autumn and were partly blamed on shipping difficulties and partly on reduced production activity in Indonesia and Malaysia. As demand failed to pick up also in the last few months of 2019 and delayed deliveries arrived at the same time, stocks of meranti scantlings in Europe were relatively high towards the end of the year and importers showed reluctance when it came to placing new orders for 2020. Subdued demand in Europe was mostly attributed to continuing replacement of meranti in window production with temperate wood species and plastic.

Prices for bangkirai decking from Indonesia had also increased sharply in the first half of 2018 (***Figure 5.8.4***). After peaking around mid-year, prices slipped between August and December 2018 and, after stabilising for a couple of months, again between March and August 2019. Between August 2019 and January 2020 prices stabilised again at slightly above pre FLEGT licensing levels.

As in the case of plywood and window scantlings, FLEGT licensing wasn't mentioned by specialist media as a factor to have had an impact on prices. However, when it comes to the competitive situation of FLEGT-licensed decking from Indonesia, specialist media mentioned increasing difficulties facing European importers when sourcing competing decking products in South America, especially in Brazil, as a result of increasingly strict checks of EUTR due diligence by Competent Authorities.

Softening of prices at the start of 2019 was attributed by specialist media to a number of factors: raw material prices in Indonesia fell, after increasing sharply in 2018; abundant supply of finished decking in Indonesia; and exchange rate fluctuations between US dollar and Ruphia, which made sales at slightly lower US dollar prices acceptable to Indonesian suppliers. The supply situation remained relaxed throughout the year. However, during the summer months European media reported increasing quality issues with deliveries including an increased share of square log and short decking boards, which are less popular in Europe, in mixed-length batches and mixed species e.g. red balau or kapur rather than pure Bangkirai. This, in combination with seasonal factors, led to a renewed decline in prices in May/June 2019. Towards the end of 2019, media reports flagged up unusually high remaining stocks of bangkirai decking and decline in prices also on European sales markets.

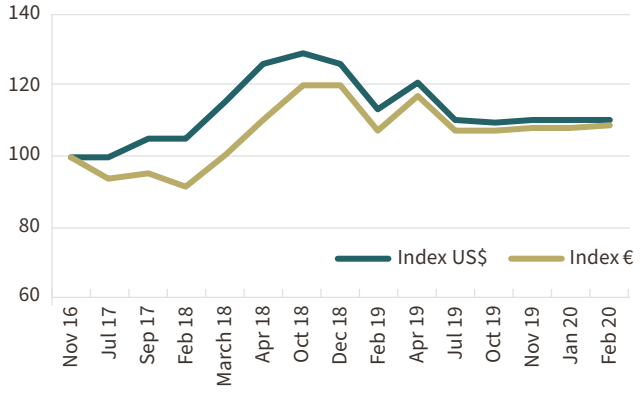


Figure 5.8.3 Price index for meranti window scantlings. *Source: IMM*

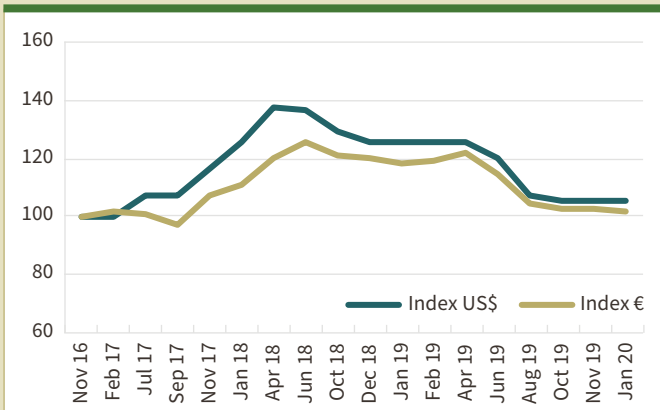


Figure 5.8.4 Price index for bangkirai decking. *Source: IMM*

1. The trend lines are indexed and based on analysis of ITTO data, market interviews and timber-sector media reports. November 2016=100.

The price indices in Case Studies 1 and 2 show that prices for these indicator products from Indonesia increased between the start of FLEGT licensing and early/mid-2018. The price rises did not coincide directly with the beginning of FLEGT licensing. The strongest increases occurred in the first half of 2018 or in late 2017 at the earliest. Prices slipped again towards the end of 2018. There was some temporary recovery for some products in early 2019. However, during 2019, plywood prices temporarily fell below pre FLEGT licensing levels, before recovering again in 2020. Prices for solid timber products dropped as well in 2019 but stayed above the level reached in November 2016.

6 Requirements for legal timber in VPA partner export markets

6.1 Introduction

In addition to assessing the EU market for FLEGT-licensed timber, IMM monitors market impacts of policy measures and regulations with potential to generate demand for timber from FLEGT licensing VPA partner countries in non-EU countries. The acceptance of FLEGT Licences (or equivalent documents issued by FLEGT licensing VPA partner countries for exports to non-EU countries) as evidence of legality in non-EU countries has become increasingly relevant as an incentive for countries to implement a FLEGT VPA over the last decade, during which Europe's importance as a player in the global tropical timber trade has diminished, while other dominant consumer markets and processing hubs, notably China and Viet Nam, have emerged.

Section 6.2 of this report provides an overview of VPA partner country trade with "regulated" and "unregulated" markets worldwide. Regulated markets are those where a legal framework is in place designed to prevent market access for illegally harvested wood. In addition to the EU, IMM considers the following 10 countries as "regulated markets"[60]:

- Australia (Illegal Logging Prohibition Act)
- Iceland, Lichtenstein, Norway (EEA countries to which the EUTR applies)
- Indonesia (Import Control under TLAS)
- Japan (Clean Wood Act)
- Malaysia (Import Regulation under TLAS)
- Republic of Korea (Act on Sustainable Use of Wood Import Provisions)
- Switzerland (Swiss Timber Regulation expected to enter into force in 2022)
- US (Lacey Act)

Section 6.3 of this report provides an update of regulations designed to encourage or legally oblige importers to put in place systems that reduce the risk of illegally harvested timber entering the supply chain, including on the status of FLEGT-licensed timber in existing regulations. This report does not repeat the detailed commentary for all countries contained in the IMM 2018 Annual report as only minor changes occurred in most countries during the year. However, some new regulatory initiatives that have since been announced or adopted are highlighted. *Section 6.3* also includes an update of trends in timber and timber product trade flows between VPA partner countries and

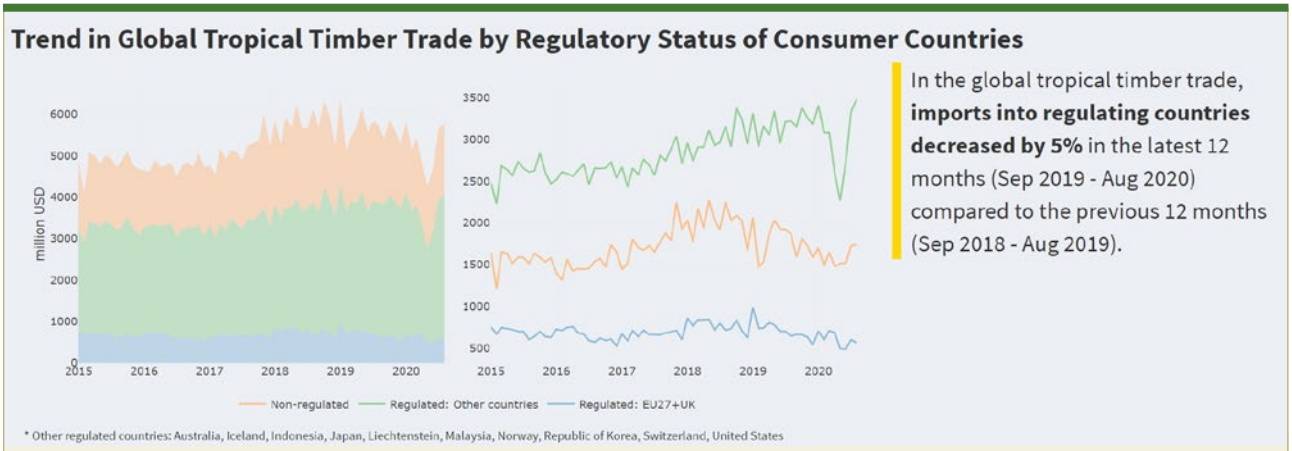


Figure 6.1.1: Global tropical timber trade by regulatory status of consumer country. *Source: IMM Data Dashboard - Monitoring Board*

60. While China announced a revision to the Forest Law in 2019, which includes a prohibition on trade in timber of known illegal origin, at time of writing no supporting regulations had been introduced clarifying the extent to which this requirement applies to imported timber and the respective obligations of state and market actors. Therefore, for purposes of this report, China is not considered a "regulated" market

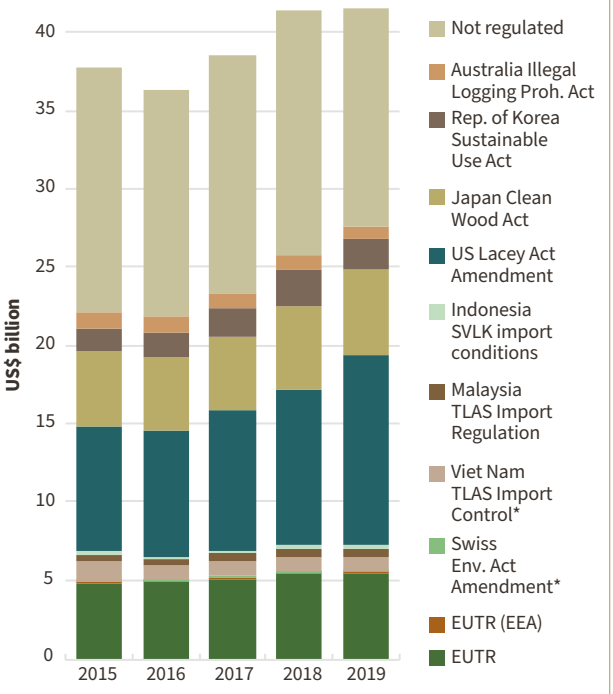


Figure 6.2.1: Value of global trade in tropical wood products, 2015-2019 by consumer country regulatory status. *Source: IMM-STIX*

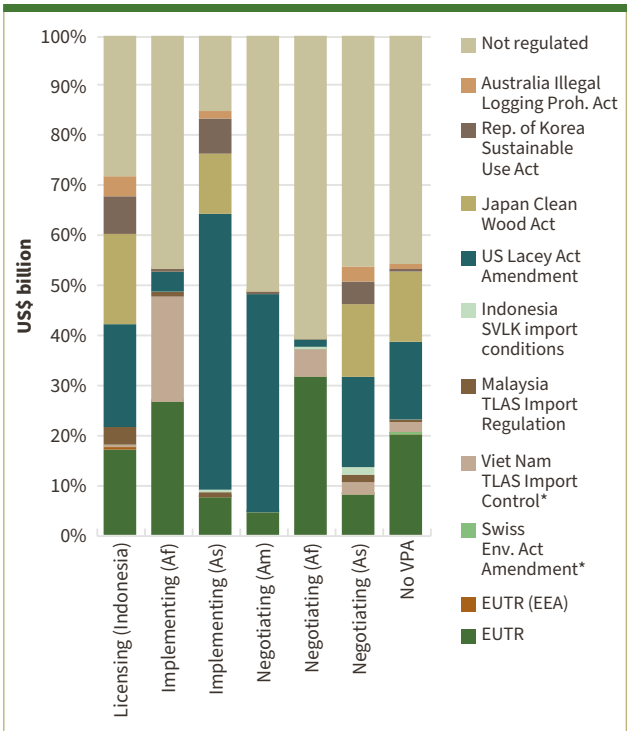


Figure 6.2.3: Share of global trade value in tropical wood products in 2019 by FLEGT VPA status and consumer country regulatory status. *Source: IMM analysis of STIX trade data and national legislation (*legislation still in draft at end of 2019). As=Asian partners, Af=African partners, Am=Latin American partners*

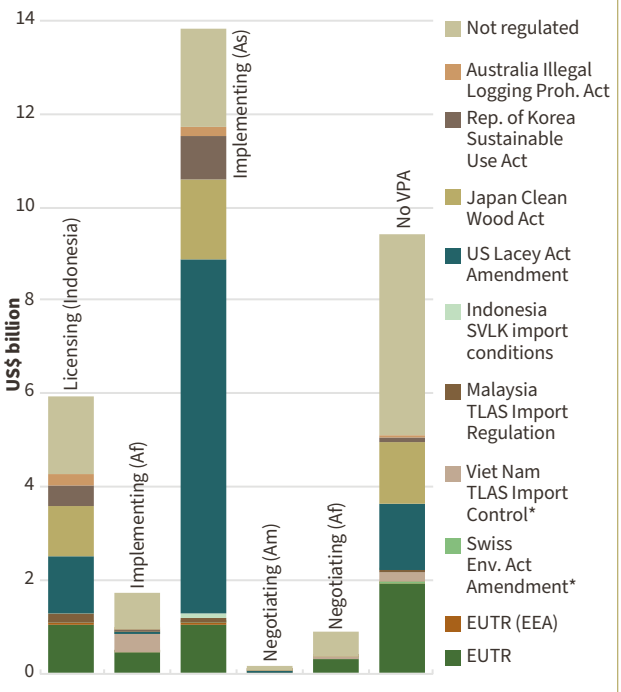


Figure 6.2.2: Value of global trade in tropical wood products in 2019, by FLEGT VPA status and consumer country regulatory status. *Source: IMM analysis of STIX trade data and national legislation (*legislation still in draft at end of 2019). As=Asian partners, Af=African partners, Am=Latin American partners*

individual "regulated" markets in the period leading up to and including 2019[61].

In addition to the annual overview of timber trade between VPA partner countries and regulated markets in the IMM Annual Reports, the IMM Data Dashboard (**https://stats.flegtimm.eu**) now includes a Monitoring Board, which among other things, allows for monitoring of trade flow trends between VPA partner countries and regulated markets (*Figure 6.1.1*).

6.2 Overview of VPA partner country trade with regulated and unregulated markets

Analysis of trade data shows that the goal of closing world markets to illegal wood products is already well advanced (even if recent steps towards regulation in China are discounted for now). In 2019, 66.5% (US$27.6 billion) of the total value (US$41.5 billion) of recorded tropical wood product exports worldwide were destined for countries with regulatory measures to eliminate illegal trade (*Figure 6.2.1*). This compares to 62.2% of tropical trade in 2018. The rise in the proportion of tropical wood products destined for regulated markets in 2019 was due primarily to the decline in imports by China, considered here an unregulated market, while US imports of wood products from tropical countries, particularly Viet Nam increased sharply during the year.

The proportion of wood product exports destined for regulated countries was even higher for VPA partner

61. The EU is included, alongside other regulated markets, in the overview of global trends in section 6.2. Section 6.3 includes a brief overview of trade between VPA partners and all non-EU regulated markets, plus China, which may be moving towards a more regulated approach. Detailed analysis of trade flows between the EU and VPA partners is contained in Chapter 7.

countries (*Figures 6.2.2* and *6.2.3*). In 2019, 79% of all wood products exports by FLEGT licensing and VPA implementing countries was destined for regulated markets. In addition to EUTR, which accounted for 12% of total exports by FLEGT licensing and VPA partner implementing countries in 2019, a large share of exports went to destinations regulated by the US Lacey Act (42%), Japan Clean Wood Act (13%), Republic of Korea Sustainable Use Act (7%) and Australian Illegal Logging Prohibition Act (2%). In 2019, the share of exports to regulated countries was particularly high for Indonesia (72%) and Viet Nam (85%). The share of exports to regulated markets was lower, but still significant, for VPA implementing countries in Africa (53%).

Around US$13.9 billion of tropical wood product trade in 2019, 33% of total recorded trade, was destined for countries without import regulations in 2019. More than half was destined for China (*Figure 6.2.4*).

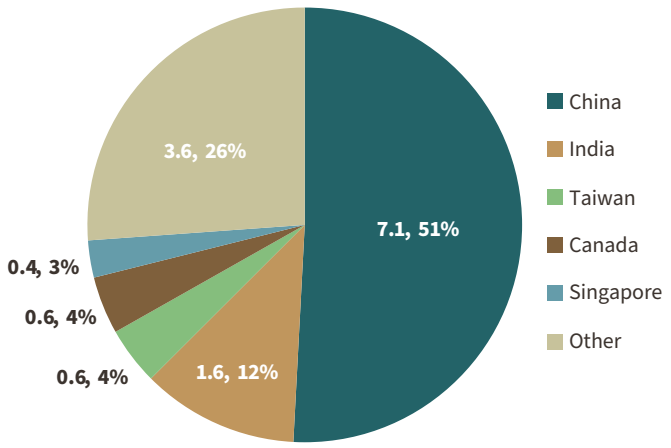


Figure 6.2.4: Tropical wood product imports into unregulated markets by main importers –2019.
Source: IMM analysis of STIX trade data and national legislation

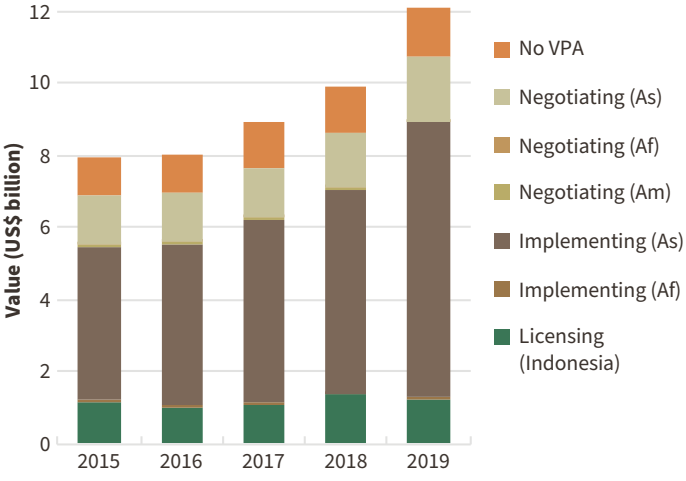


Figure 6.3.1.2.1: United States tropical wood product imports by FLEGT VPA status – 2015-2019. *Source: IMM-STIX. As=Asian partners, Af=African partners, Am=Latin American partners*

6.3 Americas

6.3.1 US

6.3.1.1 US regulatory update

US timber imports are regulated through the Lacey Act, which is a 1900 United States law that bans trafficking in illegal wildlife. In 2008, the Act was amended to include plants and plant products such as timber and paper. There are two major components to the plant amendments: a ban on trading plants or plant products harvested in violation of the law; and a requirement to declare the scientific name, value, quantity, and country of harvest origin for some products.

The Lacey Act is a fact-based statute with strict liability, which means that only actual legality counts (no third-party certification or verification schemes or FLEGT licensing can be used to "prove" legality under the Act) and that violators of the law can face criminal and civil sanctions even if they did not know that they were dealing with an illegally harvested product.

No further amendments with relevance for timber and timber products have been made to the Lacey Act during the last year. More information on exercising due care under the Lacey Act and the role of FLEGT Licences can be found in the IMM 2018 Annual Report.

6.3.1.2 US trade trends

Trade data highlights the potential role of the FLEGT VPA process to assist US importers compliance to the US Lacey Act. US imports from FLEGT licensing and VPA implementing countries were US$9.0 billion in 2019, US$1.9 billion (26%) more than the previous year. In 2019, 73% of all tropical wood imports in the US were sourced from FLEGT licensing and VPA implementing countries, up from 71% the previous year. US imports from Viet Nam, dominated by wood furniture and plywood, increased 35% to US$7.6 billion during the year. US imports from VPA implementing countries in Africa also increased, up 11% to US$65 million. Most of the increase comprised sawnwood from Cameroon. However, US imports from Indonesia fell 9% to US$1.2 billion in 2019. This was due to a sharp downturn in plywood imports, which fell 37% to US$283 million during the year. In contrast to plywood, US furniture imports from Indonesia increased 6% to US$770 million in 2019. (*Figure 6.3.1.2.1*).

The prospects for continued trade growth in the US for VPA partner countries are good, particularly against the background of the ongoing US/China trade war which is encouraging importers to look for supplies from other Asian countries. According to IWPA, Indonesian plywood products are particularly favoured in the US because of their quality and producers' ability to comply with the Toxic Substance Control Act (TSCA). According to IWPA, the main concern from the US side is that Indonesian supply may be limited in the future by lack of capacity and access to fibre.

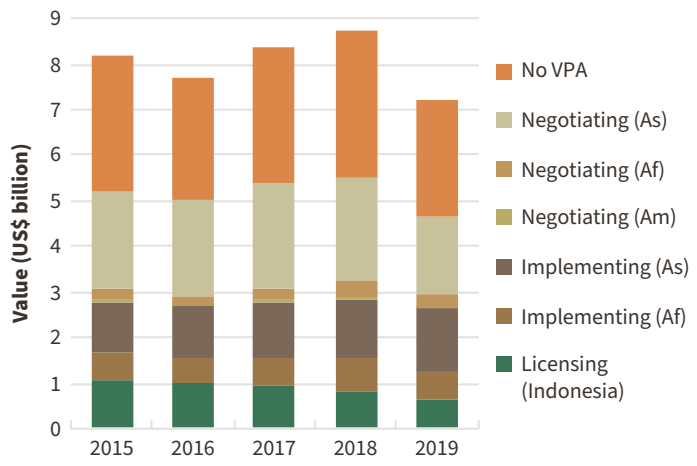


Figure 6.4.1.2.1: China tropical wood product imports by FLEGT VPA status – 2015-2019. *Source: IMM-STIX. As=Asian partners, Af=African partners, Am=Latin American partners*

6.4 Asia

6.4.1 China

6.4.1.1 China regulatory update

Probably most significant in the medium and longer term among the new regulatory initiatives announced in 2019 was the revision of China's Forest Law, which now includes an explicit prohibition of buying illegal timber. Article 65 specifies that "purchasing, processing, or transporting timber that is known to derive from illegal sources, such as illegally or indiscriminately logged forest, by any work units or individuals, are prohibited"[62]. China's National People's Congress Standing Committee approved the new Forest Law on 28 December 2019 to take effect on 1 July 2020.

While this has been widely celebrated as a significant step forward, the current legal framework still has significant limitations for control of illegal wood in imports.

Article 65 states that "timber trading and processing enterprises shall establish ledgers to record input and output of raw materials". The revised law also empowers relevant forestry authorities to supervise and inspect timber from illegal sources (Article 67) and stipulates specific punishment measures (Article 78). However, the amendments seem to have been prepared mainly with the intent of preventing trade in illegal wood from domestic forests rather than in imported timber. Effective implementation in relation to imported timber would require clearer identification of institutional roles, notably closer coordination between Chinese customs and other government agencies, and the development of specific regulations and guidelines for importers. As things stand, the burden of proof in cases of alleged illegal timber would be on government departments, making it very challenging to secure prosecutions. There is no legal framework at this stage requiring due diligence or due care on the part of timber importers and traders in the same way as EUTR, the Australian Illegal Logging Prohibition Act or the US Lacey Act.

6.4.1.2 China trade trends

Compared to other major importers of tropical wood products, China imports from a much wider range of countries, including many not involved in the VPA process, and with a stronger focus on logs and rough sawn timber. In line with the wider decline in the Chinese market in 2019, China's imports of wood products from FLEGT licensing and VPA implementing countries fell 8% to US$2.63 billion in 2019. Imports declined 24% to US$610 million from Indonesia and 11% to US$657 million from VPA implementing countries in Africa. However, China's imports from Viet Nam increased 4% to US$1.36 billion. Overall, due to a larger decline in China's imports from non-VPA countries, the share of FLEGT licensing and VPA implementing countries in China's total imports of tropical wood products increased from 33% to 37% between 2018 and 2019. The largest suppliers of tropical wood to China that are not either FLEGT licensing or implementing an EU VPA are Thailand, Papua New Guinea, Solomon Islands, Gabon, Mozambique and Brazil[63].

6.4.2 Indonesia

6.4.2.1 Indonesia regulatory update

Since 1 January 2016, Indonesia has extended requirements onto importers to conduct due diligence on all forest materials/products to be imported. The requirements were set out in the Regulation of the Minister of Trade No. 97/2015 and the Regulation of Director General of Sustainable Management of Production Forest No. P.7/2015. The import regulation has been amended in 2018, with the due diligence requirements set out under the Regulation of the Director General of Sustainable Management of Production Forest No. P.3 /2018.

In line with Regulation P.3/2018, demonstrating proof of legality and traceability of origin of raw materials/ products can be achieved through meeting any one of the following requirements[64]:

- Comes from a country with FLEGT Licences
- Derived from a country with Mutual Recognition Arrangement (MRA) with Indonesia
- Derived from countries that have Country Specific Guideline (CSG) with Indonesia
- Have certificates from certification bodies that apply sustainability, legality and/or traceability

62. Unofficial translation and commentary on the amended Forest Law distributed by the UK Department for International Development (DFID) by email to the Chatham House Forest Governance Advisory Group on 29 January 2020.
63. Further details of China's changing tropical wood trade with VPA partner countries are provided in Section 3.5 of this report and in *Analysis of China's trade with the EU and VPA countries 2010-2019*, a briefing commissioned by the European Forestry Institute (EFI) as an output of the 2019 meeting of the Bilateral Coordination Mechanism (BCM) on FLEG.
64. https://www.agriculture.gov.au/sites/default/files/sitecollectiondocuments/forestry/australias-forest-policies/illegal-logging/indonesia-country-specific-guideline.pdf

- Have a certificate from the authority of country of harvest or country of origin (government agency, association or institution authorized by government) concerning its sustainability, legality or traceability.

Further revisions of due diligence requirements and obligations of importers have been brought underway in 2019, with a revised version of the regulation expected to be finalised in the third quarter of 2020, at the time of preparation of this report. The revised regulation will include more detailed due diligence obligations for timber importers, which will be based on results of two round tables on due diligence held in 2019 and recommendations from a working group on timber imports.

6.4.2.2 Indonesia trade trends

Of Indonesia's imports of tropical wood products of US$299 million in 2019, US$119 million (40%) was sourced from VPA implementing countries, most comprising wood chips from Viet Nam. Most other wood imports from tropical countries into Indonesia comprise pulp logs from Malaysia and panel products from Malaysia and Thailand, both VPA negotiating countries. Indonesia's imports from VPA implementing countries in Africa are very limited and fell 4% to US$4.6 in 2019 (***Figure 6.4.2.2.1***)[65].

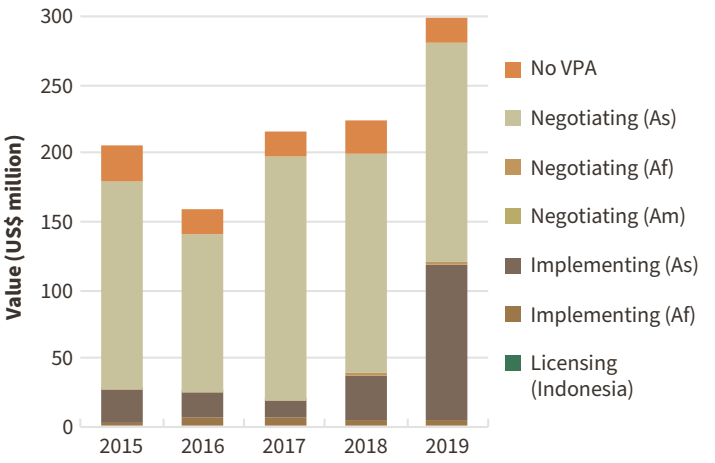


Figure 6.4.2.2.1: Indonesia tropical wood product imports by FLEGT VPA status – 2015-2019. *Source: IMM-STIX. As=Asian partners, Af=African partners, Am=Latin American partners*

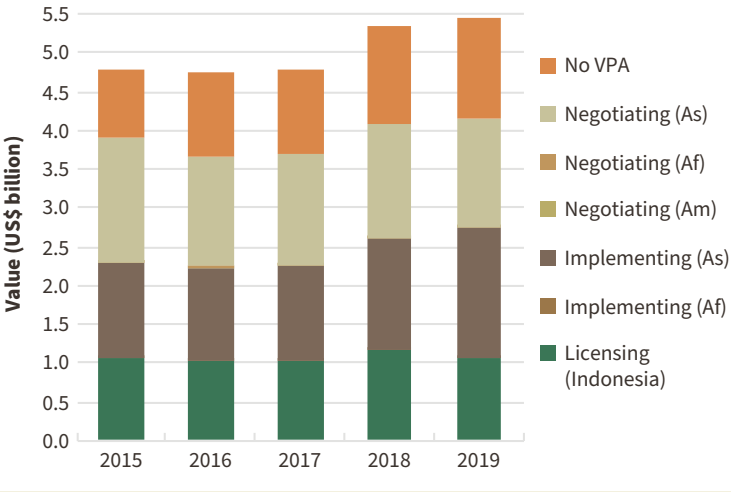


Figure 6.4.3.2.1: Japan tropical wood product imports by FLEGT VPA status – 2015-2019. *Source: IMM-STIX. As=Asian partners, Af=African partners, Am=Latin American partners*

6.4.3 Japan

6.4.3.1 Japan regulatory update

Under the Japanese Clean Wood Act of 2017, operators voluntarily register as a way of being recognised by the Government of Japan for their responsible behaviour. Registered operators are officially recognised as businesses that take measures to verify the legality of their wood and wood products. The Government of Japan plays an important role in promoting the registration of operators and disclosing good practice by registered operators.

Under the Act, the main penalty is the revocation of registration. Registration can be refused or revoked if the operator cannot prove that it takes measures to handle only legal timber and timber products. Fines are also contemplated, but they relate to falsely claiming registration and not to the trade in illegal timber or timber products. While not mandatory, registration as a compliant operator under the Clean Wood Act can be considered as a significant reputational benefit. Conversely, the loss of registration can cause considerable reputational damage.

No amendments have been made to the Clean Wood Act during the last year. More information on registered Japanese operators' obligations under the Clean Wood Act and the role of FLEGT Licences can be found in the IMM 2018 Annual Report.

6.4.3.2 Japan trade trends

Japan's imports of tropical wood products increased 6% to US$5.5 billion in 2019, a trend driven mainly by rising imports of wood pellets, chips and furniture from Viet Nam. Japan's total wood products imports from Viet Nam increased 18% to US$1.7 billion in 2019. After a strong rise the previous year, Japan's imports from Indonesia declined 9% to US$1.1 billion in 2019 due to weakness in the plywood sector. FLEGT licensing and VPA implementing countries accounted for 50% of Japan's total tropical wood product imports in 2019, 19% from Indonesia and 31% from Viet Nam. Japan's imports from African VPA implementing countries were negligible in 2019. Other leading tropical suppliers to Japan in 2019 were the Philippines, Malaysia and Thailand.

65. Further details of Indonesia's wood product imports are provided in Section 5.2.3 of this report.

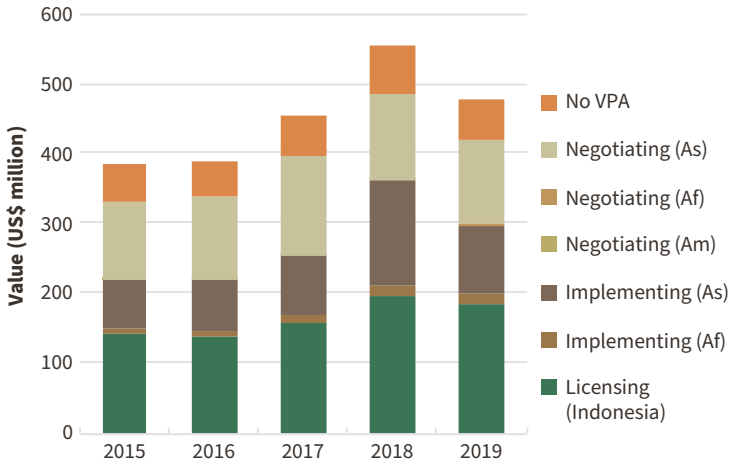


Figure 6.4.4.2.1: Malaysia tropical wood product imports by FLEGT VPA status – 2015-2019. *Source: IMM-STIX. As=Asian partners, Af=African partners, Am=Latin American partners*

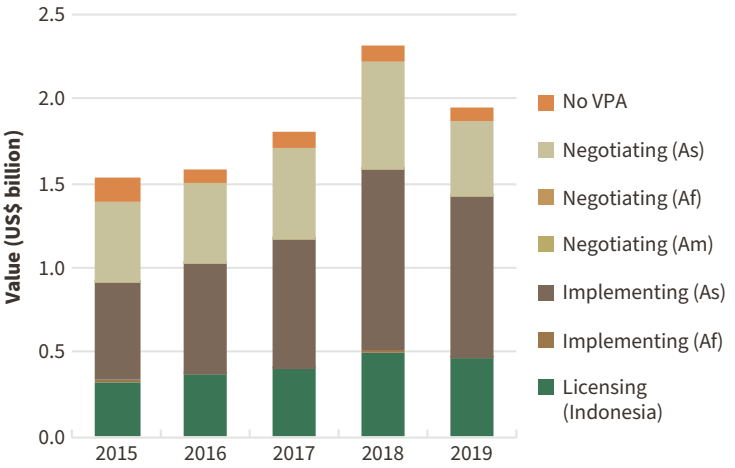


Figure 6.4.5.2.1: Republic of Korea tropical wood product imports by FLEGT VPA status – 2015-2018. *Source: IMM-STIX. As=Asian partners, Af=African partners, Am=Latin American partners*

6.4.4 Malaysia

6.4.4.1 Malaysia regulatory update

The Malaysian Timber Industry Board says that a timber legality assurance system based on the VPA model has been in force since 1 July 2017[66]. Imports of logs, baulks, sawn timber, plywood, veneered panels and laminated wood have since required legality documentation from producer countries.

To obtain an import permit, importers are required to submit either a CITES permit/certificate or proof of legal origin through one of the following documents:

- FLEGT Licences; or
- Certificate issued by a recognised timber certification body; or
- Certificate of Voluntary Legality Scheme; or
- Legality document issued by a recognised agency / corporation / association; or
- Self-declaration documents by the exporter with endorsement by the authorities of the exporting country; or
- Copy of the Customs Export Declaration from exporting countries

As the only country yet to issue FLEGT Licences, Indonesia is the only country to benefit directly from recognition of FLEGT Licences in the Malaysian regulation so far. However, the longer term "network effects" of mutual recognition of legality licenses by VPA partner countries may be considerable, helping to reinforce legal compliance and facilitate the free flow of trade between countries which are now themselves emerging as major consumer markets for wood products. There will also be significant market pull effects for other tropical countries not engaged in the VPA process.

6.4.4.2 Malaysia trade trends

In 2019, Malaysia imported US$476 million of tropical wood products, a 14% decline compared to the previous year (***Figure 6.4.4.2.1***). Of this total, 62% was imported from FLEGT licensing or VPA implementing countries in 2019, down from 65% the previous year. Indonesia is the largest single external tropical supplier, accounting for US$183 million (39%) in 2019. Imports from Indonesia, which consist mainly of plywood, with smaller quantities of furniture and charcoal, declined 7% in 2019 following a 26% gain the previous year. Malaysian imports of wood products from Viet Nam, also consisting primarily of plywood with a smaller quantity of furniture, fell 36% to US$95 million in 2019. Viet Nam accounted for 25% of all Malaysian wood product imports during the year. Thailand is the other large supplier of tropical wood products to Malaysia, contributing US$119 million in 2019, 2% less than the previous year. Malaysian imports from Thailand are a mix of panel products and furniture. Malaysia imported US$17 million of wood products from VPA implementing countries in Africa in 2019, 19% more than the previous year. Nearly all imports from Africa in 2019 were sawnwood from Republic of the Congo and Cameroon.

6.4.5 Republic of Korea

6.4.5.1 Republic of Korea regulatory update

The Republic of Korea's compulsory legislation – the Act on the Sustainable Use of Timbers – came into force on 1 October 2018. After a trial period between late 2018 and September 2019, the government enforced the "Legal Timber Trade Promotion" policy under the Act on the Sustainable Use of Timbers on 1 October 2019[67].

66. https://www.marketscreener.com/news/latest/MTIB-Malaysian-Timber-Industry-Board-IMPORT-LEGALITY-REGULATION-UNDER-TIMBER-LEGALITY-ASSURANCE-SY--24724334/

67. Kim & Seol. (2020). Case Study of the Legal Timber Trade Promotion System in the Republic of Korea. The Journal of the Korean Society of International Agriculture, 32(2), 172-179.

The Act on the Sustainable Use of Timbers initially covers sawnwood, plywood, pallets and anti-decay, fire retardant or laminated wood, which together account for a large portion of South Korea's imports of timber and timber products. The Korea Forest Service (KFS) may extend the product scope in the future; related discussions are expected to start in 2021 at the earliest.

The law requires importers to submit documents, for example harvesting permits, to Korean Customs authorities to show that their timber and timber products are legal. FLEGT Licences are accepted as evidence of legality. After the Korea Forest Service has confirmed that the products are legal, Korea Customs will clear the imports for entry into the country. The processing time for an import declaration is a maximum of three days.

The Korea Forestry Promotion Institute (KOFPI), the implementing body of the legislation, launched some new services for timber importers in 2020, such as support channels and document translations funded by KFS[68].

More information on the Sustainable Use of Wood Act can be found in the IMM 2018 Annual Report.

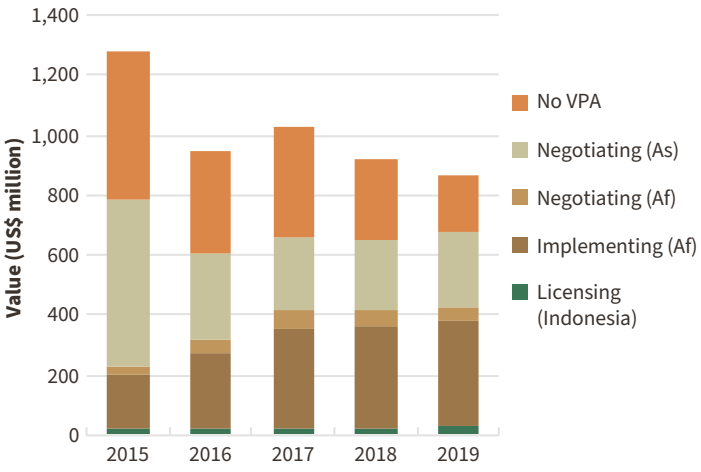


Figure 6.4.6.2.1: Viet Nam tropical wood product imports, by FLEGT VPA status, 2015 to 2019. *Source: IMM-STIX. As=Asian partners, Af=African partners, Am=Latin American partners*

6.4.5.2 Republic of Korea trade trends

In 2019, the Republic of Korea imported US$1.95 billion of tropical wood products, a 16% decline compared to the previous year (***Figure 6.4.5.2.1***). Of this total, 73% was imported from FLEGT licensing or VPA implementing countries in 2019, up from 68% the previous year. Viet Nam is the largest single external tropical supplier, accounting for US$959 million (49%) in 2019. Imports from Viet Nam, which are varied and include pellets, chips, plywood and other panels alongside furniture, declined 11% in 2019 following a 43% gain the previous year. Indonesia is the second largest supplier, accounting for US$458 million (23%) in 2019. Imports from Indonesia consist primarily of plywood and decking/mouldings, with a smaller quantity of pellets, particle board, charcoal and furniture. Imports from Indonesia fell 9% in 2019 after a 25% gain the previous year. Nearly all remaining imports are from Malaysia (US$225 million in 2019), mainly plywood, pellets and veneer, and from Thailand (US$202 million in 2019), mainly panels and pellets.

6.4.6 Viet Nam

6.4.6.1 Viet Nam regulatory update

Viet Nam, like Malaysia and Indonesia is developing a system to ensure legality of timber imports closely linked to the FLEGT VPA. The prohibition of importing illegal timber and rules for demonstrating legality of timber imports are integrated into the Vietnamese Timber Legality Assurance System (VNTLAS) Decree.

The VNTLAS Decree "provides for a system to ensure timber legality of Viet Nam for import and export" (chapter 1, article 1). The General Regulations on Management of Imported Timber (chapter 2, section 1, article 4) stipulate that "imported timber must be ensured to be legal, to go through import procedures and be subject to inspection and supervision by the Customs in accordance with the Law on Customs". Importers are bound to apply "risk management measures", which differ depending on the origin ("positive or non-positive geographical region") and "risk" or "non-risk" product categories.

6.4.6.2 Viet Nam trade trends

Viet Nam's imports of tropical wood products were US$869 million in 2019, down 5% compared to the previous year and continuing a long-term slide (***Figure 6.4.6.2.1***)[69]. Imports from FLEGT licensing (Indonesia) and VPA implementing countries were US$380 million in 2019, up 4% compared to the previous year. FLEGT licensing (Indonesia) and VPA implementing countries accounted for 44% of Viet Nam's total imports from tropical countries in 2019, up from 40% the previous year.

Imports from Indonesia, while still limited at US$30 million in 2019, were 35% more than in the previous year. The gain was due mainly to an increase in imports of plywood, fibreboard and decking/mouldings from Indonesia.

Viet Nam's imports from VPA implementing countries in Africa continued to rise in 2019, up 2% to US$350 million, a large proportion consisting of logs and sawnwood from Cameroon. Viet Nam's imports of logs from Cameroon declined 16% to US$181 million in 2019 while import quantity remained more stable at 500,000 m^3 in both 2018 and 2019. However, imports of sawnwood from Cameroon nearly doubled from US$54 million in 2018 to US$102 million in 2019 (in quantity terms rising from 110,000 m^3 in 2018 to 220,000 m^3 in

68. https://www.kofpi.or.kr/index.do

69. Due to lack of direct access to customs data from Viet Nam, this short analysis of Viet Nam wood imports is based on export data derived from trade partners and on additional secondary sources, notably the annual analysis of Viet Nam timber trade by Forest Trends supported by various agencies. The latter report includes a more comprehensive analysis of Viet Nam's imports and exports (Vietnamese only).

2019). Viet Nam imports from other VPA implementing in Africa in 2019 were US$30 million from Republic of the Congo, US$20 million from CAR, US$16 million from Ghana and US$10 million from Liberia. In 2019, Viet Nam also imported around US$2 million of wood products from Honduras, one of the two VPA negotiating countries in Latin America.

Viet Nam's imports of wood products from Cambodia, which prior to 2016 was the largest tropical supplier, continued to fall in 2019. Imports from the country were around US$32 million in 2019, 66% less than in 2018 and a small fraction of the US$386 million imported in 2015. In volume terms, imports from Cambodia, mainly sawnwood, fell to less than 100,000 m^3 in 2019.

Imports from Lao PDR are estimated at around US$54 million in 2019, a significant rise from US$34 million the previous year, but well down on US$360 million in 2015, the year before the Government of Lao PDR enacted Prime Ministerial Order (PM15) to ban the export of logs and sawnwood.

Viet Nam's imports from Malaysia were US$66 million in 2019, 24% less than the previous year and continuing a long-term decline. Viet Nam's imports from Malaysia, which were formerly dominated by logs from Sarawak, now consist of a diverse mix of panels, sawnwood and mouldings, joinery and furniture products.

In 2019, there was a large increase in Viet Nam's imports of tropical logs from Papua New Guinea (rising 6% in value to US$42.8 million and 22% in quantity to 237,000 m^3) and Suriname (rising 100% in value to US$23.8 million and 114% in quantity to 79,000 m^3). These two countries were the two largest suppliers of tropical logs to Viet Nam after Cameroon in 2019. Viet Nam's imports of sawnwood from Brazil also increased in 2019, rising 7% in both value and volume, to US$61 million and 225,000 m^3 respectively. According to Brazilian trade statistics, sawnwood exports to Viet Nam in 2019 comprised, by value, 58% softwood, 40% 'other' hardwoods (i.e. non-tropical, possibly eucalyptus), and only 2% tropical hardwood. Viet Nam's imports from Brazil in 2019 were four times the volume of only five years before.

The decline in Viet Nam's imports of tropical wood products between 2015 and 2019 was more than offset by a dramatic increase in imports from non-tropical countries to feed Viet Nam's rapidly expanding wood processing sector. Viet Nam's imports from non-tropical countries, which mainly derive from the United States and China, increased by around 100% from just over US$900 million in 2015 to US$1.81 billion in 2019. Viet Nam's imports from the US were US$340 million in 2019, 7% more than the previous year. Viet Nam's imports from the US are dominated by sawnwood and logs, nearly all hardwood. Viet Nam's imports from China mainly comprise plywood, veneers and other panels, and furniture. According to China's trade statistics, only 4% of plywood and 3% of veneer exported to Viet Nam is identified as of tropical species. A large proportion of plywood and veneer imported into Viet Nam from China is likely composed of either Chinese grown poplar and eucalyptus (used to manufacture so-called mixed light hardwood plywood) or re-exports of temperate hardwoods, notably Russian and American. These temperate hardwood plywood and veneers are used in Viet Nam to manufacture interior furniture destined primarily for the U.S. market where the preference is for temperate hardwood finishes more familiar to U.S. customers.

China's exports of wood furniture to Viet Nam also increased rapidly between 2018 and 2019, from US$242 to US$463 million, leading to speculation that this was driven by efforts to circumvent US import taxes of up to 25% imposed on Chinese wood furniture during the US-China trade dispute. According to Viet Nam customs, more resources were being allocated in 2019 to prevent fraudulent labelling of exported products and illegal trans-shipments[70].

6.5 Australasia and Pacific

6.5.1 Australia

6.5.1.1 Australia regulatory update

The Australian Illegal Logging Prohibition Act is similar in design to the EUTR and has been in force since 2012. It has a broad scope, targets first placers, and importers are obliged to develop a due diligence system to prove their timber imports are from legal sources. As in other non-EU consuming countries, the VPA process has considerable potential to facilitate Australian market access for VPA partner exporters and to assist legal conformance by Australian importers.

In January 2019, the Australian Government published a report of the "Statutory review of the Illegal Logging Prohibition Act 2012", which examined the first five years of operation of Australia's illegal logging laws.

According to the Australian Department of Agriculture, Water and the Environment[71], the review "assessed to what extent the Illegal Logging Prohibition Act 2012 and associated Illegal Logging Prohibition Regulation 2012 have met the Australian Government's illegal logging policy objectives; highlighted operational issues encountered during the Act's first five years of operation; and identified potential options for improving the Act's operation".

Based on results of the review and further consultation, the Australian Government decided in October 2019 not to make any significant changes to the Act for the time being. Future changes "will be considered as part of a further review of the Act and supporting Illegal Logging Prohibition Regulation 2012 in late 2021".

More information on the Australian Illegal Logging Prohibition Act and the role of FLEGT Licences can be found in the IMM 2018 Annual Report.

70. From an interview with Au Anh Tuan, head of customs control and supervision in the General Department of Viet Nam Customs, Business Standard, 21 November 2020. https://www.businessstandard.com/article/international/Viet Nam-cracks-down-on-exporters-using-them-to-bypass-higher-us-tariffs-119112100602_1.html

71. https://www.agriculture.gov.au/forestry/policies/illegal-logging/review-and-consultation#statutory-review-of-the-illegal-logging-prohibition-act-2012

6.5.1.2 Australia trade trends

Australia's imports of tropical wood products were US$795 million in 2019, down 15% compared to the previous year (***Figure 6.5.1.2.1***). Imports from FLEGT licensing and VPA implementing countries were US$449 million in 2019, down 16% compared to the previous year. FLEGT licensing and VPA implementing countries accounted for 57% of Australia's total imports from tropical countries in 2019, the same proportion as the previous year.

Imports from Indonesia fell 18% to US$249 million in 2019, mainly due to a 23% decline in Indonesian mouldings imports (to US$121 million). Nevertheless, Indonesia maintained its position as the largest single supplier of tropical products to Australia, accounting for 31% of all Australia's tropical wood product imports. Australia's imports from Viet Nam fell 12% to US$199 million in 2019. Most other imports of tropical wood products in 2019 came from Malaysia (down 15% to US$247 million), Thailand (unchanged at US$36 million) and India (down 3% to US$31 million).

Nearly two thirds of Australia's imports of tropical wood products comprise value added products such as furniture and joinery. Most of the remainder comprises plywood, decking and sawn wood.

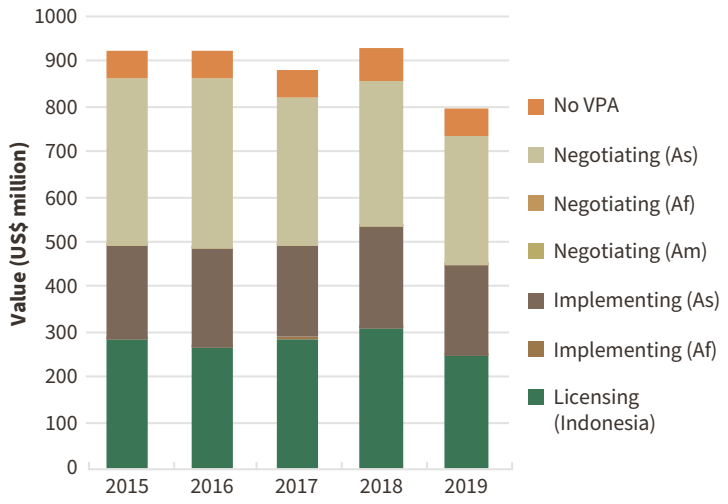


Figure 6.5.1.2.1: Australia tropical wood product imports by FLEGT VPA status – 2015-2019. *Source: IMM-STIX. As=Asian partners, Af=African partners, Am=Latin American partners*

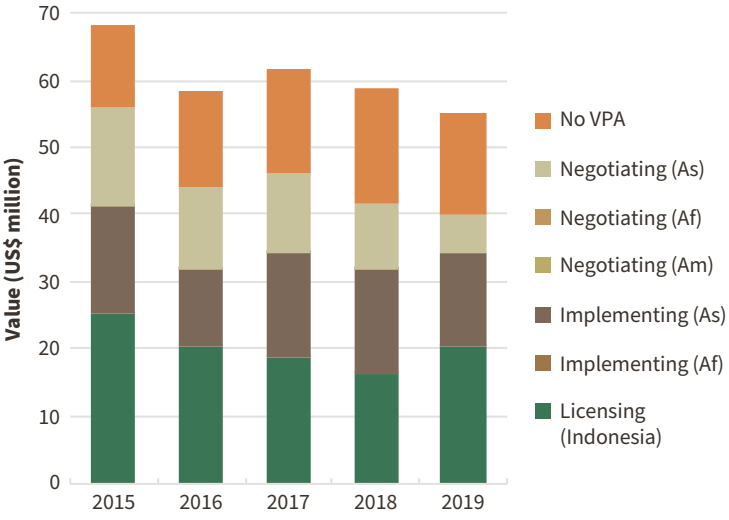


Figure 6.6.2.2.1: Total tropical wood product imports by Norway, Iceland and Lichtenstein by FLEGT VPA status – 2015–2019.
Source: IMM-STIX. As=Asian partners, Af=African partners, Am=Latin American partners

6.6 Europe

6.6.1 EU

6.6.1.1 Regulatory update

The EU Timber Regulation (EUTR), which has been in force since March 2013, has seen recent changes insofar as the UK has dropped out of the sphere of direct influence of the Regulation after the UK left the EU on 31 January 2020. However, the UK decided in 2019 to incorporate both the EUTR and the FLEGT regulation in UK law after Brexit[72]. The green lane advantage FLEGT-licensed timber enjoys in the EU is therefore continuing in the UK as well, even after Brexit. This is significant from a VPA partner country perspective, given the UK's prominent role among the major tropical timber consuming markets in Europe (***chapter 7***).

6.6.1.2 IMM monitoring of EUTR impacts

The IMM mandate regarding monitoring of market impacts of EUTR is laid down in indicator group "i" of the IMM Global Indicators[73]. The first three indicators under that group: application of EUTR compliant due diligence systems by operators in EU member states; sanctions imposed on non-compliant operators in EU member states; and prosecution of non-compliant operators in EU member states are considered by the European Commission to be fully covered under a separate project managed by the UN Environment Programme's World Conservation Monitoring Centre (UNEP-WCMC). UNEP-WCMC publishes information on EUTR implementation and enforcement in Briefing Notes several times each year[74].

IMM survey results on the direct impacts of EUTR implementation and FLEGT licensing on importers' purchasing behaviour are included in the summary of the 2019 EU trade survey in ***chapter 8*** of this report. Analysis of EU imports of timber and timber products from Indonesia is provided in ***chapter 5*** of this report, while EU imports from other VPA partner countries and major non-VPA competitors is in ***chapter 7***.

72. https://www.flegtimm.eu/index.php?view=article&id=38:eutr-and-eu-flegt-stay-in-uk-law-post-brexit&catid=22
73. IMM Global Indicators I EU Timber Regulation https://www.flegtimm.eu/images/imm_indicators/IMM_Meth_Annex1_Indicators_global.pdf
74. https://www.unep-wcmc.org/resources-and-data/briefing-notes-on-the-implementation-of-the-eu-timber-regulation

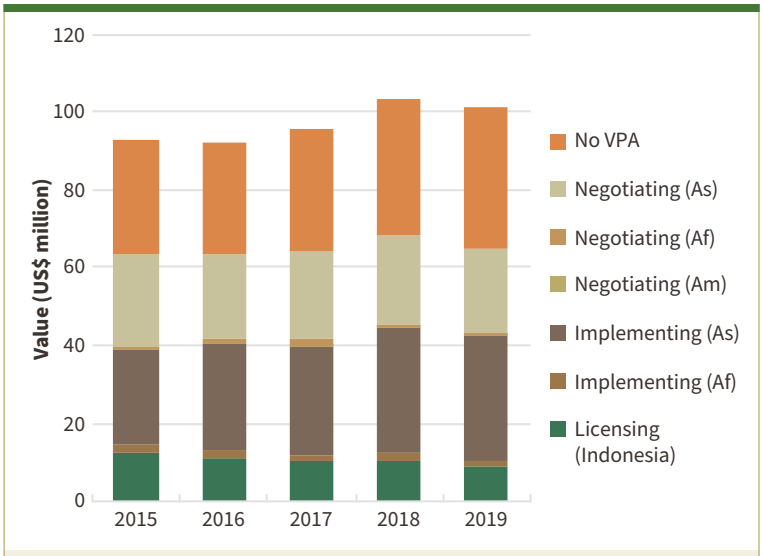


Figure 6.6.3.2.1: Switzerland tropical wood product imports by FLEGT VPA status – 2015-2019. *Source: IMM-STIX. As=Asian partners, Af=African partners, Am=Latin American partners*

6.6.2 EEA

6.6.2.1 EEA regulatory update

The European Economic Area (EEA) brings together the EU Member States with three additional countries – Iceland, Liechtenstein and Norway. It was established by the EEA Agreement which enables the three countries to participate fully in the Single Market. All relevant EU legislation in the field of the Single Market is integrated into the EEA Agreement so that it applies throughout the whole of the EEA, ensuring uniform application of laws relating to the Single Market. Therefore, Norway, Iceland and Liechtenstein are obliged to implement EUTR in the same way as all EU Member States.

6.6.2.2 Norway, Iceland and Liechtenstein trade trends

Of the three non-EU countries enforcing EUTR as part of their commitment to EEA membership, only Norway is a significant importer of tropical wood products[75]. In total, US$55.3 million of tropical wood products were imported by the three countries in 2019, down 6% on the previous year (***Figure 6.6.2.2.1***). US$34.2 million (62%) were sourced from FLEGT licensing and implementing countries. Indonesia was the largest single supplier accounting for US$20.4 million in 2019, a 25% gain compared to the previous year. Indonesia's share of total imports into this group of countries increased from 28% in 2018 to 37% in 2019. Imports from Viet Nam, the second largest tropical supplier, declined 11% to US$13.7 million in 2019. Other leading suppliers in 2019 were India (-13% to US$7.0 million), Malaysia (-39% to US$3.2 million) and Thailand (-50% to US$2.1 million). Imports from tropical countries comprise mainly furniture and charcoal with small quantities of panel products, sawnwood and various valued added products such as tableware, joinery products and tools.

6.6.3 Switzerland

6.6.3.1 Switzerland regulatory update

Switzerland has been working on legislation similar to EUTR for several years. In 2019, an amendment to the country's Environmental Act was approved by the Swiss Environmental, Spatial Planning and Energy Commission (UREK). In September 2019, the Swiss National Council and the Council of States both approved the bill as well[76].

The new law is similar to the EUTR. It prohibits placing illegal timber on the Swiss market, introduces due diligence obligations for first placers and traceability obligations for timber traders further down the supply chain. Infringements will be fined and prison sentences of up to three years are also possible for first placers.

However, the new regulation had not yet entered into force at the time of writing of this report. [77]

6.6.3.2 Switzerland trade trends

Switzerland's imports of tropical wood products were US$101 million in 2019, down 2% compared to the previous year (***Figure 6.6.3.2.1***). Nearly all of Switzerland's imports of tropical wood products comprise value added products such as furniture, ornaments/marquetry, and joinery.

Imports from FLEGT licensing and VPA implementing countries were US$43 million in 2019, down 4% compared to the previous year. FLEGT licensing and VPA implementing countries accounted for 42% of Switzerland's total imports from tropical countries in 2019, down from 43% the previous year.

Imports from Indonesia fell 11% to US$9.0 million in 2019, falling across a range of product groups including furniture, marquetry/ornaments, flooring and charcoal. Indonesia accounted for 9% of all Switzerland tropical wood product imports in 2019, down from 10% the previous year. With value of US$32.4 million in 2019, the same as in 2018, Viet Nam was by far the leading tropical wood products supplier to Switzerland, accounting for 32% of the total. Nearly all Swiss wood product imports from Viet Nam comprise furniture, with a small amount of flooring.

Most other imports of tropical wood products into Switzerland in 2019 came from Thailand (down 2% at US$18.4 million), India (up 14% to US$14.3 million), Brazil (up 22% to US$5.8 million) and Malaysia (-18% to US$3.4 million).

75. Iceland's imports of wood products from tropical regions typically do not exceed US$2 million per year. Liechtenstein is a tiny territory of 160 km^2, with a total population of no more than 38,000, trading primarily with neighbouring European countries.
76. Amendment to Swiss Environmental Act (in German) https://www.admin.ch/opc/de/federal-gazette/2019/6603.pdf
77. In April 2020 a process of consultation at state level (Vernehmlassung) was opened, which closed on 20 August. According to information from UREK, the consultation process indicated that industry needed more time to prepare for changes and the new regulation would not come into force until the beginning of 2022.

7 VPA partners in EU timber and timber products trade

7.1 Overview

This Chapter extends the analysis contained in Chapter 5 on FLEGT-licensed timber from Indonesia, to consider economic and timber sector trends in the EU and their impact on the competitiveness and imports of timber products from all VPA partner countries. The Chapter considers growth in the overall EU timber products market in 2019, considering this in relation to long-term trends. It considers the effect of exchange rate and other economic trends on the competitiveness of VPA partners relative to other supply countries, and VPA partner share of total EU wood product imports during the year.

Unlike other sections of the IMM 2019 Annual Report, where "wood and wood furniture products" is treated as a single category including all products in HS chapter 44 and wood furniture in HS chapter 94, this section gives separate consideration to "wood energy and wood waste" products in HS chapter 44. This reflects the very distinctive market characteristics of wood energy products in the EU and their different treatment in relation to FLEGT policy measures.

In this chapter, "wood and wood furniture" includes all products in HS Chapter 44 except 4401 (Fuelwood and waste) and 4402 (Charcoal), together with wood-based products in Chapter 94 (Furniture). Nearly all these products are within the scope of both the FLEGT VPAs and the EUTR, the only notable exception being wooden seating which is not within the scope of EUTR (HS 9401).

"Wood energy and wood waste" includes all products in 4401 (Fuelwood and wood waste[78]) and 4402 (Charcoal). Coverage of these products in FLEGT policy measures varies. EUTR includes coverage of 4401 (Fuelwood and waste) but excludes 4402 (Charcoal). The EU-Indonesia VPA includes softwood and hardwood chips (440121 and 440122 respectively) as these are equally likely to be feedstock for the pulp and paper sector as for the energy sector, but no other form of wood for energy is included[79].

78. The official definition of HS 4401 is a follows: "fuel wood, in logs, in billets, in twigs, in faggots or in similar forms; wood in chips or particles; sawdust and wood waste and scrap, whether or not agglomerated in logs, briquettes, pellets or similar forms". The main application for the majority of these products is energy, however chips (440121 and 440122) may equally be destined for the pulp sector.

79. In 2016, when the FLEGT licensing system was launched in Indonesia, chips (subject to licensing) were by far the largest product exported by Indonesia in the "fuelwood" category, accounting for US$105 million (83%) of total 127 million. At that time pellets (not subject to licensing), the second largest category accounted for US$7 million (6%). Over the next three years exports of chips declined to US$57 million (66%) while exports of pellets increased to US$27 million (31%) of total US$86 million.

7.2 Wood and wood furniture imports into the EU

7.2.1 Total import value and quantity

The total value of EU imports of wood and wood furniture products was US$19.3 billion in 2019, 3% less than the previous year. However due to weakening of the euro against the dollar, there was a 3% increase in euro import value, to €17.3 billion. Import value in 2019, reported in euro terms, was the highest level since 2008. Import quantity declined 2.5% to 26.0 million tonnes in 2019.

While, in fine detail, there were some significant changes in EU imports of wood and wood furniture products, review of the bigger picture indicates that total trade was essentially flatlining in the six years between 2014 and 2019 (***Figure 7.2.1.1***). During this whole period import quantity fluctuated within a narrow band around 26 million tonnes, while import value increased only slowly in real terms, particularly when measured in US dollars.

Taking a longer term view, the 15 years between 2004 and 2019, encompassing the whole period since the FLEGT Action Plan was introduced in 2003, can be divided into three periods from the perspective of EU wood and wood furniture imports (***Figure 7.2.1.2***). Prior to the financial crises in 2008, import quantity was high at over 35 million tonnes per annum. At that time, a relatively high proportion of imports still comprised logs and other primary and secondary wood products, although imports of furniture were also rising rapidly, particularly from China and unit values were rising steeply overall in response to strong consumer demand and limited supply. The unit value of EU imports of wood and wood furniture increased considerably from US$650 per tonne to over US$1100 per tonne during this period. Imports were buoyed as the euro strengthened against the dollar and other major international currencies.

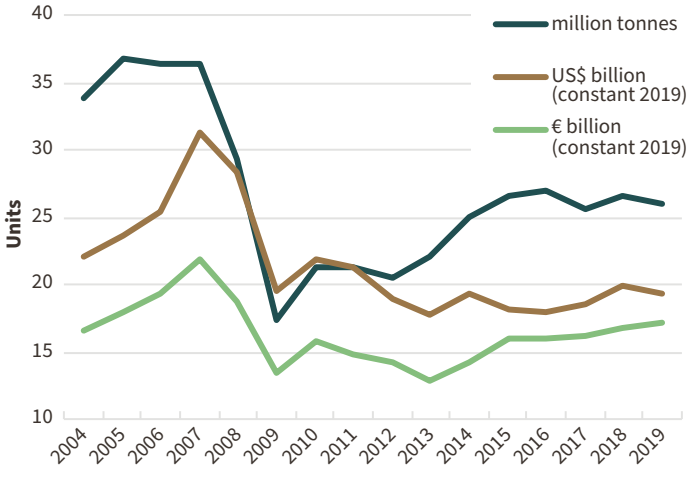


Figure 7.2.1.1: Total quantity and value of EU imports of wood and wood furniture (excluding intra-EU trade) – 2004-2019. *Source: IMM-STIX*

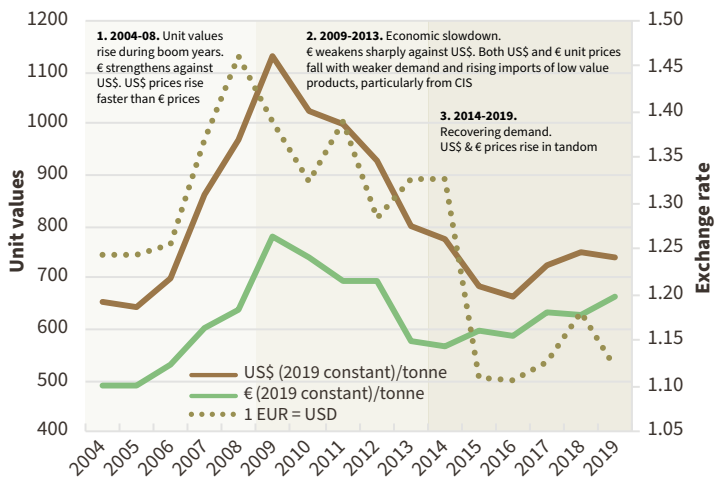


Figure 7.2.1.2: USD and EUR value per tonne of EU total imports of wood and wood furniture (excluding intra-EU trade), and EUR-USD exchange rate – 2004-2019. *Source: IMM-STIX*

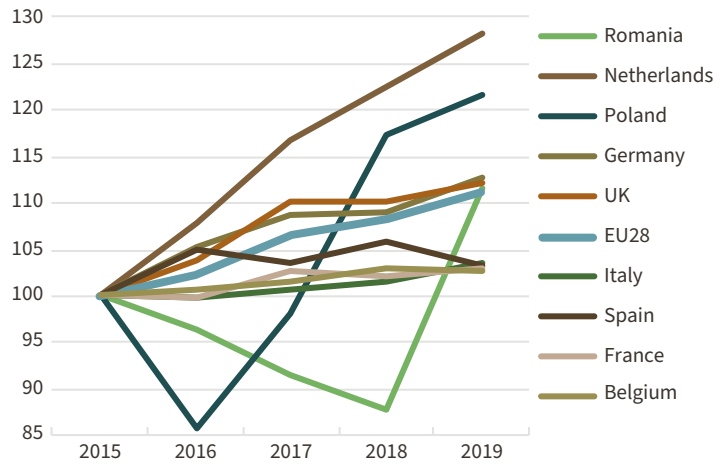


Figure 7.2.2.1: Construction volume index of production in the EU and selected EU countries – calendar adjusted data, not seasonally adjusted data – 2015=100. *Source: Eurostat*

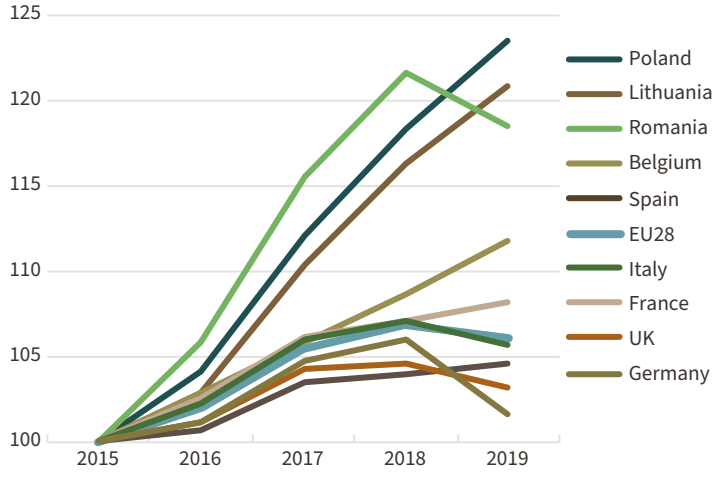


Figure 7.2.2.2: Furniture volume index of production in the EU and selected EU countries – calendar adjusted data, not seasonally adjusted data – 2015=100. *Source: Eurostat*

The period between 2009 and 2013 was defined by the financial and currency crises, which led to a very sharp fall in consumption, progressive weakening in the euro exchange rate against the dollar, feeding through into a massive decline in imports, to around 20 million tonnes per annum. The unit value of imports also declined sharply, a trend driven both by the intensely competitive environment and by the rising proportion of imports from Russia and other CIS countries where currencies had weakened dramatically. Tropical wood lost a lot of ground in EU imports during this period, in terms of volume, value and market share.

Between 2014 and 2019 was a period of recovering demand. Activity in key European wood end-use sectors, such as construction and furniture, bottomed out in 2013 and began to recover at a slow, but relatively consistent, rate. The euro made some gains against the dollar until the beginning of 2019 when concerns again emerged about longer term economic prospects. China, Russia and other countries in the CIS region remained the dominant partners in EU import trade, although some tropical countries, particularly Viet Nam, Indonesia, India and Brazil, and most notably in the furniture sector, began to make new inroads in the EU market.

7.2.2 Key economic trends in the EU in 2019

After the slow recovery since 2013, signs of weakness in the European economy again began to emerge in 2019, particularly in the second half of the year. According to the EU Winter 2020 Economic Forecast published on 13 February 2020, GDP growth in the EU27 slipped to 1.5% in 2019, down from 2.1% in 2018. According to the UK Office of National Statistics, the UK economy grew by 1.4% in 2019, only marginally higher than the 1.3% rate in 2018, and recorded zero growth in the last quarter of the year.

The volume of construction activity in the EU increased by 2.6% in 2019, a slight rise in growth rate compared to 1.7% in 2018 but down from over 4% in 2017 (***Figure* 7.2.2.1**). Relatively high rates of growth in 2019 in the Netherlands (+4.7%), Germany (+3.5%) and Poland (+3.8%) offset the continuing slower pace of growth in France (+0.7%) and Italy (+2%). Construction activity in the UK increased 1.9% in 2019, an improvement on the stasis in 2018 but well down on 6% growth in 2017. Construction activity declined in Spain (-2.5%) and Belgium (-0.3%) in 2019 after making gains the previous year.

The volume of furniture production declined overall in the EU in 2019 by 0.7% after rising 1.3% the previous year (***Figure* 7.2.2.2**). There was strong growth in furniture production in several eastern European countries in 2019, including Poland and Lithuania where growth

continued at around 4% during the year, and moderate growth in several western European countries including Belgium (2.9%), Sweden (+1.2%), Spain (+0.9%), and France (+0.6%). However this was not enough to offset declining production volume in several leading European manufacturing countries including Italy (–1.2%), Germany (–4.1%), Romania (–2.5%), the UK (–1.2%), and the Netherlands (–0.6%).

The slowing economy fed through into a 4% decline in the value of the euro against the US dollar in 2019 following an 8% fall the previous year. The British pound dipped to an all-time low against the US dollar and other top currencies in the middle of 2019 as concerns mounted over Brexit, although it did rally to some extent towards the end year.

On the other hand, EU currencies remained reasonably strong relative to currencies in several key Eastern European supply countries, including Ukraine, Russia, and Turkey. These exchange rate fluctuations generally favoured EU imports from Eastern Europe and acted as a drag on imports from North America and Asia.

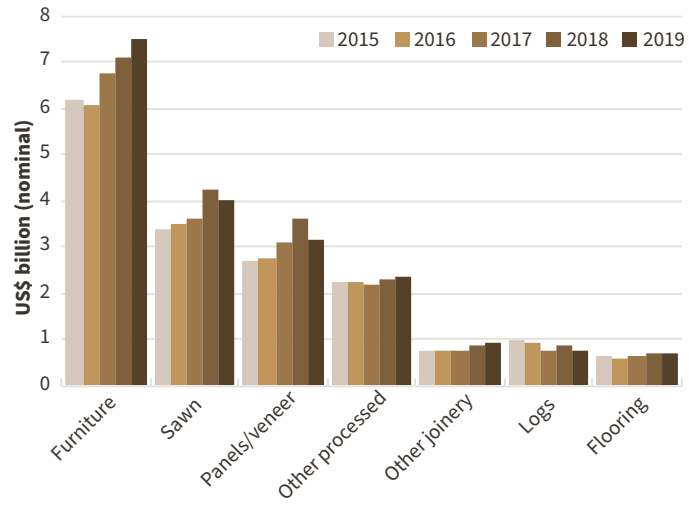


Figure 7.2.3.1: EU import value of wood (HS44) and wood furniture (HS 94) by product type – Years 2015-2019. *Source: IMM-STIX*

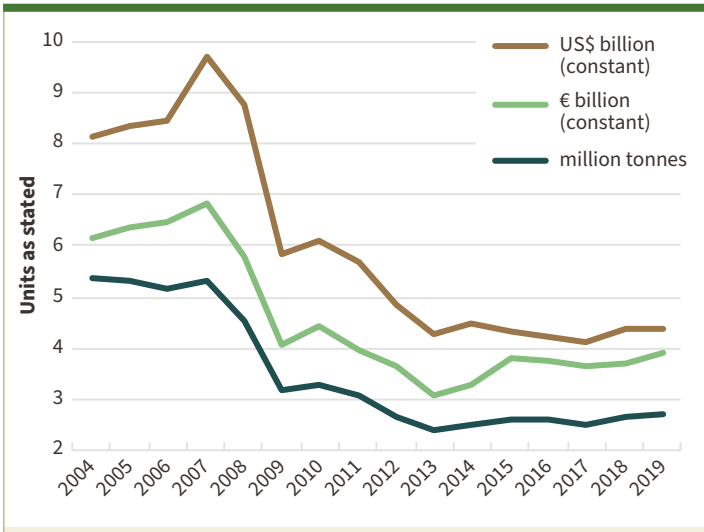


Figure 7.2.4.1: Total quantity and value of EU imports of tropical wood and wood furniture (excluding intra-EU trade) – 2004-2019. *Source: IMM-STIX*

7.2.3 EU wood and wood furniture imports by product group

Considering individual products (***Figure 7.2.3.1***), the value of EU imports of wood furniture increased by 5% to US$7.50 billion in 2019 after a 5% rise in 2018. After flatlining in 2018, imports from China, the EU's largest external furniture supplier, increased throughout 2019. Imports from Turkey, the second largest external supplier, also made some gains, but not as large as those made by several tropical suppliers including Indonesia, Viet Nam, Malaysia and India. Furniture imports from Bosnia were weakening throughout the year, but imports from Serbia were rising.

EU imports of sawnwood declined 6% to US$3.99 billion in 2019, losing some of the gains made the previous year when imports increased 17%. After a strong first quarter, sawnwood imports slowed dramatically from April 2019 onwards. During this period, the pace of sawnwood imports fell rapidly from all four of the leading suppliers, Russia, Belarus, Ukraine, and the US. Of tropical sawnwood suppliers, imports from Cameroon and Brazil increased, partly offset by a continuing fall in imports from Malaysia.

EU imports of panels (mainly plywood) decreased 12% to US$3.15 billion in 2019, wiping out much of the 16% gain made the previous year and the first fall in imports of this commodity since 2015. Imports from Russia and Belarus, which experienced particularly dramatic growth in previous years, slowed throughout 2019. While imports of plywood from China were higher in 2019 than in 2018, the rise in trade was concentrated in the first half of 2019 and imports were weakening in the second half of the year. Imports from nearly all the other main suppliers – including Brazil, Ukraine, Chile and the US – were weakening during 2019. Indonesia fared better than most, a strong rise in plywood imports from the country in the first half offsetting a slowdown towards the end of the year.

EU imports of logs declined 13% to US$740 million in 2019, after rising 10% the previous year. The downturn was due partly to a slowdown in imports from Russia in the second half of 2019, while all EU imports of logs from Belarus ceased in 2019 after tightening of log export controls in the country.

After rising 9% in 2018, EU imports of wood flooring fell 1% to US$680 million in 2019. Flooring imports from China, by far the largest external supplier accounting for around two thirds of the total, continued to rise strongly in the first half of 2019 but began to lose ground in the second half of the year, while imports from Ukraine made gains throughout 2019. Imports from Switzerland, Malaysia and Indonesia were sliding throughout the year.

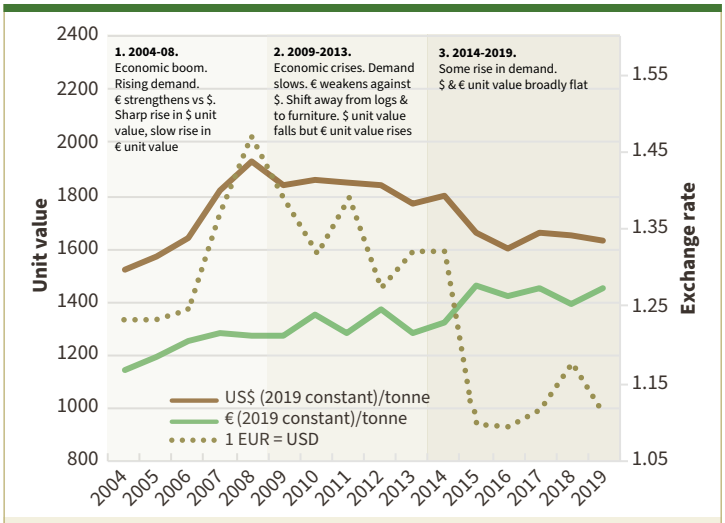


Figure 7.2.4.2: USD and EUR value per tonne of EU imports of tropical wood and wood furniture (excluding intra-EU trade), and EUR-USD exchange rate – 2004-2019. *Source: IMM-STIX*

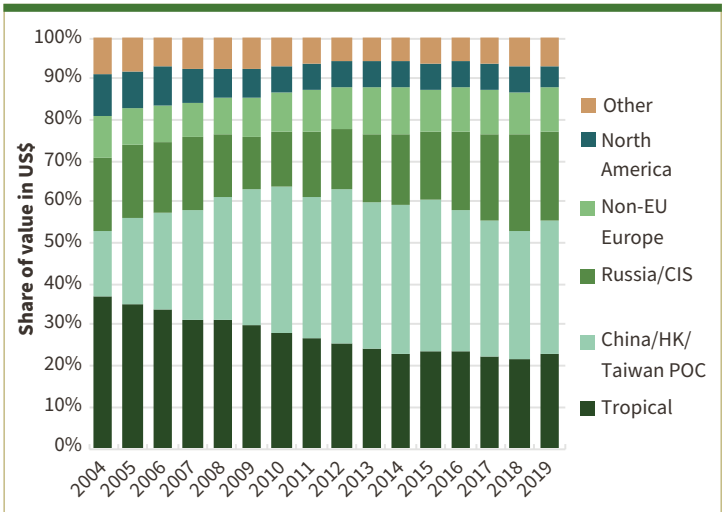


Figure 7.2.5.1: Share of EU import value of wood (HS44) products and wood furniture (HS 94), by supply region – 2004-2019.
Source: IMM-STIX

EU imports of 'other' joinery products (i.e. excluding flooring and mainly comprising doors and laminated wood for window frames and kitchen tops) increased 7% to US$900 million in 2019, after rising 8% the previous year. There was good growth in imports of this commodity group from Indonesia, building on gains made in the previous year, while imports from China and Malaysia also made ground.

7.2.4 Total EU import value and quantity of tropical wood and wood furniture

The total value of EU imports of tropical wood and wood furniture products (including direct imports and imports via third countries such as China) increased 1% in real terms to US$4.4 billion in 2019 following a 6% increase in 2018. Due to weakening in the euro exchange rate, the gain in the euro value of imports was more significant in 2019, rising 7% to US$3.92 billion following a smaller gain of 2% in 2018. The increase in import quantity of tropical products was more aligned with the US dollar trend, rising 2% to 2.7 million tonnes in 2019 after a 6% gain the previous year (***Figure 7.2.4.1***).

The increase in the total value of EU wood product imports from the tropics in 2019 was driven mainly by wood furniture with other smaller gains in imports of tropical sawnwood, 'other' (i.e. non-flooring) joinery, and other processed wood products. These gains offset a decline in imports of tropical panels/veneers, flooring and logs.

Considering the long-term perspective, the trend in tropical wood and wood furniture imports into the EU can be related to the three distinct periods for total imports described in ***Section 7.2.2***. Imports of tropical products went through the same phases of growth (2004–2008), decline (2009–2013) and slow recovery (2014–2019), although in this instance the scale of the decline between 2009 and 2013 was much greater, with value falling from a peak of nearly US$10 billion in 2007 to just over US$4 billion in 2013.

Analysis of the long-term trend in unit values helps explain the particularly large fall in tropical wood imports into the EU. Unlike the unit value of total imports, which declined in both euro and dollar terms during the economic downturn due to a large influx of cheaper products from the CIS and China, the unit value of tropical products, when measured in euros, continued to rise steadily until 2015. In practice, the persistent weakness of the euro against the dollar, combined with other factors such as increased scarcity as more wood was diverted to China and other emerging markets, meant that tropical wood products became less price competitive during this period.

In contrast to the euro unit value, the dollar unit value of imports was declining continuously between 2008 and 2016, implying worsening in the terms of trade for tropical suppliers selling into the EU, at least those invoicing in dollars. Other markets with stronger currencies, such as China and the US, became more attractive for tropical exporters than the EU during this period. At the same time, importers in the EU were strongly drawn to cheaper alternatives from the CIS region.

Between 2016 and 2019, there was some improvement in terms of trade for tropical exporters to the EU as the euro recovered some ground against the dollar, unit values for tropical wood products in the EU stabilized, European demand slowly recovered, and there were also signs of China's international competitiveness beginning to wane with rising labour and other input costs.

7.2.5 Share of tropical wood and wood furniture in EU imports

The share of tropical products in the total value of EU wood product imports increased from 21.9% in 2018 to 22.8% in 2019, rebounding to the level of two years before. Considering the long-term trend, after falling continuously from 37% in 2004 to 23% in 2014, the share of tropical countries in EU imports stabilized in the range 22–23% during the five years between 2015 and 2019 (***Figure 7.2.5.1***).

In 2019, China maintained its position as the largest external supplier of wood and wood furniture products to the EU. The total value of imports from China (excluding those identified as composed of tropical hardwoods) increased 3% from US$6.12 billion in 2018 to US$6.29 billion in 2019, mainly due to a partial recovery in imports of Chinese furniture, and to a lesser extent joinery products and plywood. After falling between 2015 and 2018, China's share in total EU imports of wood and wood furniture products recovered from 31.2% in 2018 to 32.5% in 2019.

After several years of rapid growth, EU imports of wood and wood furniture products from CIS countries fell 7% from US$4.56 billion in 2018 to US$4.25 billion in 2019. The share of CIS countries in total EU imports declined from 23.3% in 2018 to 22.0% in 2019. The growth in imports from Russia, Ukraine and Belarus all began to slow in 2019. The slowing trend was apparent in imports of sawnwood, plywood and logs from the CIS region. However, EU imports of furniture products from the region continued to rise in 2019.

EU imports from non-EU European countries fell 3% to US$2.03 billion in 2019 and share of imports from these countries fell from 10.7% to 10.5%. While imports from Serbia and North Macedonia were rising in 2019, imports from Bosnia and Herzegovina, Norway and Switzerland slowed during the year.

EU imports from North America declined 11% from US$1.15 billion in 2018 to US$1.02 billion in 2019. The region's share of total EU imports fell from 5.9% to 5.3% during this period. Imports of sawnwood, furniture, and veneers from North America all declined, only partially offset by rising imports of barrels. Nearly all EU imports of wood products from North America are now from the US and only a small proportion from Canada.

7.2.6 Tropical wood and wood furniture imports by VPA status

In 2019, there was a robust rise in EU imports from both Indonesia and Viet Nam, by far the two largest tropical suppliers to the EU during the year. However, the continued rise in EU imports of competing products from tropical countries with no engagement in the FLEGT process raised questions about the benefits of FLEGT licensing to improve overall competitiveness.

Of the US$4.40 billion of tropical wood and wood furniture products imported into the EU in 2019, US$3.35 billion (76%) was sourced from countries either already FLEGT licensing (22%), or implementing a licensing system (32%) or in negotiations towards a VPA (22%). This compares to 2018, when US$4.29 billion (77%) of tropical imports was sourced from countries either already FLEGT licensing (21%) or implementing a licensing system (32%) or in negotiations towards a VPA (24%) (***Figure 7.2.6.1***).

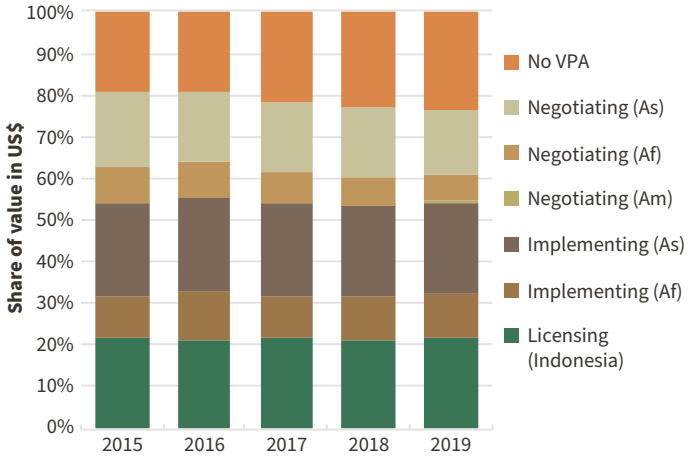


Figure 7.2.6.1: Share of EU import value of tropical wood (HS44) products and wood furniture (HS 94) from tropical countries by FLEGT VPA status – 2015-2019. *Source: IMM-STIX*

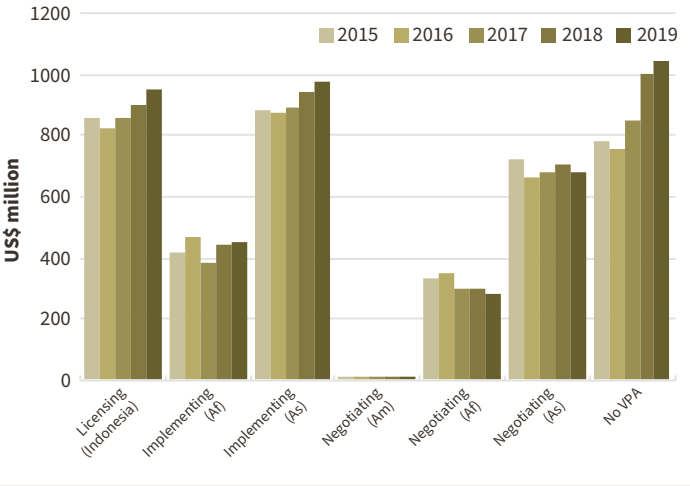


Figure 7.2.6.2: EU import value of tropical wood (HS44) products and wood furniture (HS 94) from tropical countries by FLEGT VPA status – 2015-2019. *Source: IMM-STIX*

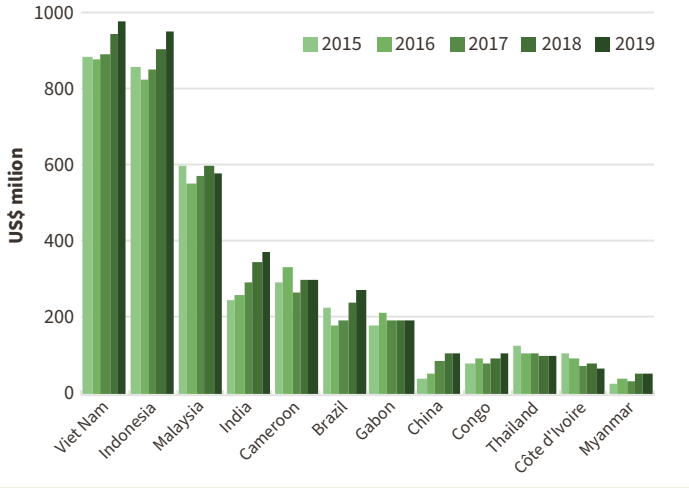


Figure 7.2.7.1: EU import value of tropical wood (HS44) products and wood furniture (HS 94) from tropical countries by supply country – 2015-2019. *Source: IMM-STIX*

Summarising EU imports by VPA status (*Figure 7.2.6.2*):

- strong gains were made in the value of imports from Indonesia, the only FLEGT licensing country in 2019, rising 6% from US$903 million in 2018 to US$954 million in 2019. In terms of tonnage, imports from Indonesia declined 3% to 363,000 tonnes in 2019. Taken together this implies an increase in the unit value of imports from Indonesia which were focused more on furniture than lower value wood products during the year. Indonesia accounted for 21.7% of the total value of EU tropical wood-product import value in 2019, up from 21.0% the previous year.

- the value of EU imports from the five African VPA-implementing countries – Cameroon, Central African Republic (CAR), Republic of Congo (RoC), Ghana, and Liberia - increased 3% to US$453 million in 2019 after rising 14% the previous year. Import quantity increased 10% to 436,000 tonnes following a 9% gain in 2018, driven mainly by a rise in imports from Cameroon and RoC. The share of African VPA implementing countries in total EU tropical import value increased slightly from 10.2% in 2018 to 10.3% in 2019.

- the value of EU imports from Viet Nam, the only Asian VPA implementing country, increased 4% to US$976 million in 2019 after rising 5% in 2018. Import quantity increased 1% to 289,000 tonnes in 2019 after rising 9% the previous year. Viet Nam accounted for 22.2% of the total value of EU tropical wood-product imports in 2019, up from 21.9% the previous year.

- the value of EU imports from Guyana and Honduras, the two VPA negotiating countries in South America, is negligible and fell in 2019, down 6% to US$5 million, following a 13% increase in value the year before. Import quantity remained level at 6,000 tonnes in 2019 after rising 13% the previous year. These countries accounted for 0.1% of the total value of EU tropical wood-product imports in both 2018 and 2019.

- EU import value from the three VPA negotiating countries in Africa declined 5.9% to US$283 million in 2019, following a rise of 1.3% in 2018. Import quantity was 283,000 tonnes in 2019, down 2% on the previous year. Imports from Côte d'Ivoire and Democratic Republic of Congo (DRC) were sliding in 2019, while imports from Gabon were flat. These countries accounted for 6.4% of the total value of EU tropical wood-product imports in 2019, down from 7.0% the previous year.

- EU import value from the three VPA negotiating countries in Asia fell 3.7% to US$677 million in 2019. Import quantity fell 4% to 337,000 tonnes during the year. Share of these countries in the total value of EU tropical wood-product imports fell from 15.9% in 2018 to 15.0% in 2019. While imports of wood furniture from Malaysia increased, this was offset by a decline in imports of Malaysian sawnwood and plywood. Imports from Thailand were stable during the year and remained negligible from Lao PDR.

- EU imports from non-VPA tropical countries increased 5% to US$1.05 billion in 2019, building on a 17% gain the previous year. Import quantity increased 9% to 600,000 tonnes in 2019 following a 13% gain the previous year. Share of non-VPA countries in total EU tropical wood product import value increased from 23.3% in 2018 to 23.9% in 2019. Most of the gains comprised wood furniture from India, sawnwood and mouldings/decking from Brazil, and tropical hardwood-faced plywood from China.

7.2.7 EU tropical wood and wood furniture imports by supply country

Viet Nam increased its lead as the largest supplier of tropical wood and wood furniture products to the EU in 2019, staying just ahead of Indonesia despite continued strong growth in imports from that country in 2019. Malaysia maintained its position as the third largest supplier to the EU in 2019 with trade remaining broadly flat in recent years. India consolidated its position as the fourth largest supplier in 2019 having pushed Cameroon into fourth place two years before. Imports from Cameroon, which recovered ground in 2018, remained at the higher level in 2019. Imports from Brazil were rising rapidly between 2016 and 2019 while imports from Gabon were flat. (*Figure 7.2.7.1*).

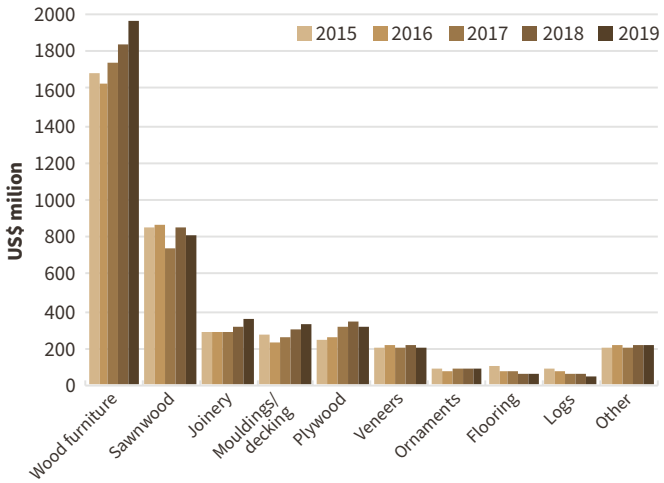


Figure 7.2.8.1: EU import value of tropical wood (HS44) products and wood furniture (HS 94) from tropical countries by product type – 2015-2019. *Source: IMM-STIX*

7.2.8 EU tropical wood and wood furniture imports by product group

In terms of product mix, the growth in EU imports from the tropics in 2019 was driven mainly by wood furniture (*Figure 7.2.8.1*). Import value of tropical furniture products was US$1.96 billion in 2019, up 7% compared to the previous year. Import quantity of wood furniture increased 6% to 568,000 tonnes in 2019. The main South East Asian wood furniture supply countries – Indonesia, Viet Nam and Malaysia – have all followed a similar trajectory in the EU market in the last five years. A period of flat or declining imports between 2015 and 2018 followed by a sharp upturn in 2019.

The EU market situation for tropical wood products other than furniture was more mixed in 2019. Overall, if wood furniture is excluded, there was a slight increase in the tonnage of EU imports in 2019, but a decrease in value. The EU imported

1.79 million tonnes of these products with a total value of US$2.44 billion, respectively 1.8% greater and 0.8% less than the previous year.

Gains made in EU non-furniture wood products imports from the tropics in the first half of 2019 were eroded in the second half as the EU economy began to slow. The first half growth was driven mainly by a recovery in imports of sawnwood from Cameroon and of sawnwood and mouldings/decking from Brazil, particularly into Belgium, together with rising imports of a variety of joinery products (doors and laminates) from Indonesia and Malaysia. These gains offset falling imports of tropical logs, plywood, and veneers.

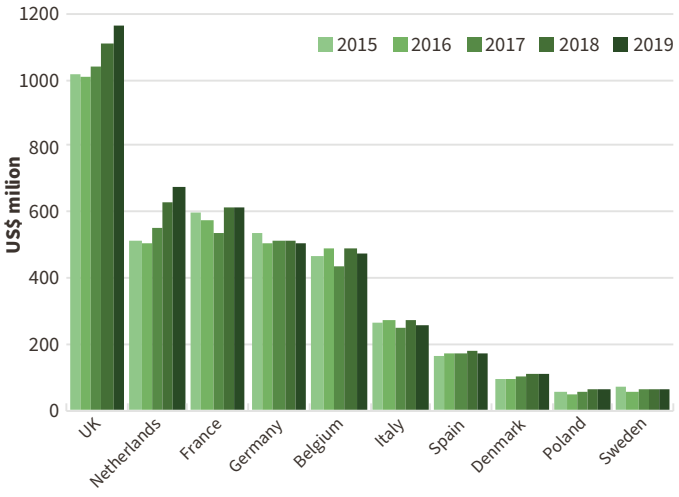


Figure 7.2.9.1: EU import value of tropical wood (HS44) products and wood furniture (HS 94) from tropical countries by destination – 2015-2019. *Source: IMM-STIX*

7.2.9 EU tropical wood and wood furniture imports by destination

The UK was the leading destination for tropical wood and wood furniture imports in the EU in 2019, posting a 5% gain to US$1.16 billion to build on a 6% increase the previous year. Imports were also rising strongly into the Netherlands, the second largest destination, up 8% in 2019 to US$679 million after a gain of 15% the previous year. Import performance of other EU destinations was more mixed in 2019, remaining static in France at US$614 million after gaining 14% the previous year, while declining in Germany (–2% to US$503 million), Belgium (–2% to US$476), Italy (–4% to US$259 million), and Spain (–2% to US$174 million) (***Figure 7.2.9.1***).

There were gains in a few smaller EU markets for tropical wood in 2019 including Denmark (+3% to US$111 million), Sweden (+3% to US$65 million), Ireland (+14% to US$63 million), Greece (+22% to US$56 million), Portugal (+6% to US$47 million) and Romania (+7% to US$22 million).

7.2.10 Largest winners and losers in EU imports of tropical wood and wood furniture

Wood furniture from Indonesia was at the top of the league of the largest gains in EU tropical wood product imports in 2019. Indonesian furniture imports were US$63.8 million greater in 2019 than in the previous year. Joinery products from Indonesia were also amongst the largest gainers during the year. For VPA implementing countries, significant gains were seen in imports of furniture and 'other (not elsewhere specified)' wood products from Viet Nam, and sawnwood from the

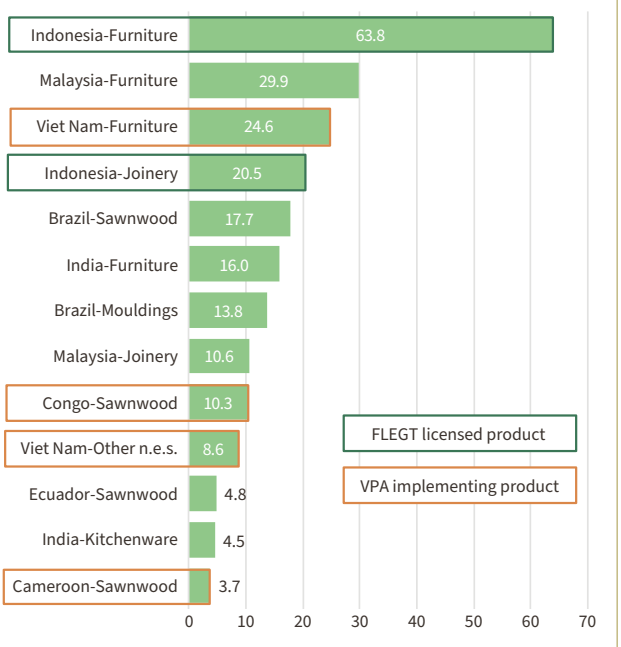


Figure 7.2.10.1: Largest gains in import value of tropical and wood furniture products in 2019 (US$ million increase in 2019 compared to 2018) by partner-product combination. *Source: IMM-STIX*

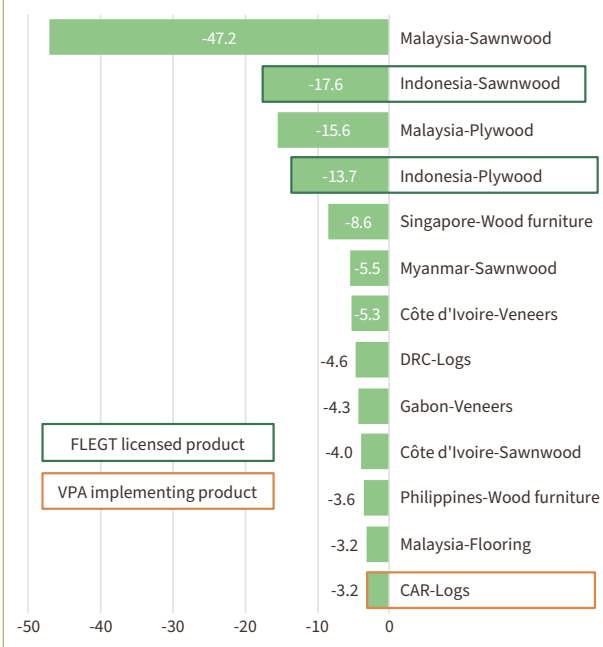


Figure 7.2.10.2: Largest losses in import value of tropical and wood furniture products in 2019 (US$ million decrease in 2019 compared to 2018) by partner-product combination. *Source: IMM-STIX*

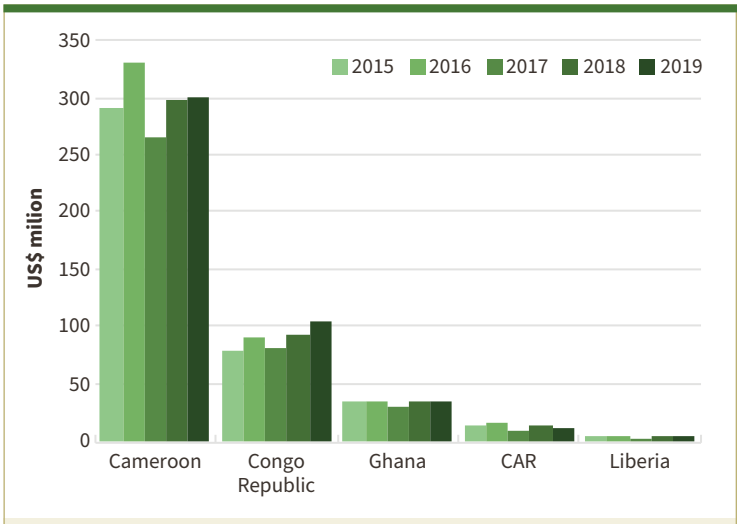


Figure 7.2.11.1: EU import value of tropical wood (HS44) products and wood furniture (HS 94) from VPA implementing countries in Africa – 2015-2019. *Source: IMM-STIX*

Republic of Congo and Cameroon. Of tropical products from other supplying countries, significant gains were made in 2019 in imports of furniture and joinery from Malaysia, furniture from India, and sawnwood and mouldings from Brazil (***Figure 7.2.10.1***).

Less positive from a FLEGT perspective is that Indonesian sawnwood and plywood appear in the list of the biggest losers in EU imports of tropical wood and wood furniture products in 2019 (***Figure 7.2.10.2***). The fall in sawnwood imports from Indonesia maybe related to efforts to rectify code mismatches as part of the FLEGT licensing process with some products previously identified as 4407 sawnwood now reported as 4409 mouldings (see discussion in ***Section 5.4.2***). The decline in Indonesian plywood imports in 2019 followed strong gains the previous year.

For VPA implementing countries there was a significant decline in imports of logs from the Central African Republic and veneers from the Republic of Congo in 2019. Other large decreases in EU imports in 2019 were recorded for Malaysian sawnwood and plywood, wood furniture from Singapore, sawnwood from Myanmar, and veneer from Côte d'Ivoire.

7.2.11 EU wood and wood furniture imports from African VPA implementing countries

EU wood imports from Cameroon have been very volatile in recent years, rising 14% to US$331 million in 2016 before falling 20% to US$265million in 2017 and then rebounding 12% to US$297 million in 2018. In 2019 imports remained more stable, rising only 1% to US$300 million (***Figure 7.2.11.1***).

Most EU trade with Cameroon comprises sawnwood destined for Belgium. The volatility is due to supply side problems, notably shipment delays caused by bureaucratic red tape and poor infrastructure after many years with little or no investment at Douala, the country's only major port.

EU imports from the Republic of Congo (RoC), comprising sawnwood, logs and veneers, increased 15% to US$93 million in 2018 and then another 13% to US$104 million in 2019. There was particularly strong growth in Belgian imports of logs and sawnwood and French imports of veneers from the RoC in 2018 and 2019.

EU imports from Ghana, mostly of sawnwood and veneer, remain low but were rising gradually in 2018 and 2019. Imports increased 11% to US$34 million in 2018 and then another 4% to US$35 million in 2019. Although direct imports from Ghana into Germany and France declined, this was offset by rising imports into Belgium and the UK. Italian imports of Ghanaian sawnwood and veneer were stable.

EU imports from Central African Republic (CAR), recovered from a low of US$8 million in 2017 to US$13 million in 2018. However, after a strong start to 2019, imports slowed in the second half and by the end of the year were 19% down at US$11 million. Almost all EU imports from CAR comprise logs, mainly destined for France, Portugal and Belgium. Imports of sawnwood, previously destined mainly for Belgium, had fallen to negligible levels in 2019.

EU imports from Liberia, all of which comprises logs, are very limited, in recent years averaging around 5,000 tonnes with value less than US$3 million per year. However, in 2019 there was an uptick, with import quantity rising 29% to 7,500 tonnes and value up 20% to US$3.3 million.

In terms of the mix of products from VPA implementing countries in Africa, EU imports of logs and sawnwood were reasonably robust in 2019, but there was a downturn in imports of veneer. In 2019, imports of tropical veneer declined from Cameroon (–5% to 18,200 tonnes), Republic of Congo (–11% to 10,000 tonnes), and Ghana (–6% to 4,700 tonnes).

The downturn in African veneer imports was particularly dramatic in the second half of 2019 – partly allied to weakness in the European plywood and door manufacturing sectors during this period. There were also signs of tropical wood veneer coming under pressure from temperate wood substitutes and a wide range of artificial surface materials.

7.2.12 EU wood and wood furniture imports from Viet Nam

EU imports of wood products from Viet Nam, the only VPA implementing country in Asia, which were flat in 2016 and 2017, increased consistently throughout 2018 and the first nine months of 2019, before levelling off in the last quarter of 2019. Imports into the EU from Viet Nam were US$942 million in 2018, rising 3% to US$976 million in 2019.

While EU imports from Viet Nam continued to be dominated by wood furniture (HS 94) in 2019, there was strong growth in imports of a range of other wood products in HS Chapter 44, notably plywood, laminated wood, planed sawnwood, and doors (***Figure 7.2.12.1***).

The UK was the leading EU market for Vietnamese wood furniture in 2019, accounting for around 40% of all EU imports, and this market continued to grow in 2019.

Imports of wood furniture from Viet Nam were also rising into France and the Netherlands during the year.

Around a third of EU furniture imported from Viet Nam in 2019 comprised "Other products not elsewhere stated" (i.e. not seats or bedroom, dining room, office or shop furniture), likely to consist largely of garden furniture manufactured almost exclusively from tropical timber which is not identified separately.

The second largest category of EU import from Viet Nam comprised dining room furniture, accounting for around one quarter of total EU imports from the country in 2019. This product group was likely manufactured from a mix of temperate and tropical plantation species, such as acacia and rubberwood.

The increase in imports of HS 44 wood products from Viet Nam in 2018 and 2019 was driven by EU countries other than the UK, notably sawnwood to France, plywood to Germany, laminated wood to Belgium, and fuelwood to Denmark and Sweden.

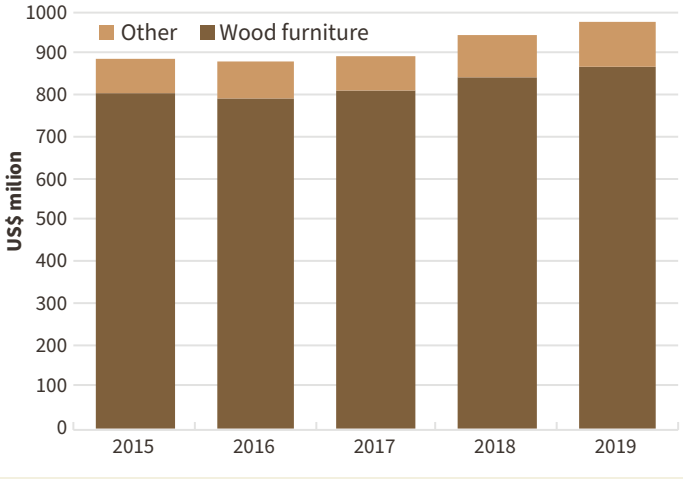


Figure 7.2.12.1: EU import value of wood (HS44) products and wood furniture (HS 94) from Viet Nam by major product type – 2015-2019.
Source: IMM-STIX

7.2.13 EU wood and wood furniture imports from VPA countries in LAC region

The two VPA negotiating countries in Latin America, Guyana and Honduras, are still only small suppliers of timber to the EU (***Figure 7.2.13.1***).

EU imports from Guyana, mainly consisting of hardwood logs and sawn destined for the UK and Netherlands, tend to be quite volatile with demand strongly focused on a specialist niche market for heavy duty sea and river defence applications. After falling 63% to only US$2.2 million in 2016, imports from Guyana increased slowly in the next three years to reach US$4.1 million in 2019.

EU imports from Honduras, mainly sawn softwood destined for France, Germany, Belgium and Spain, declined from just under US$3 million in 2015 to US$1.1 million in 2019.

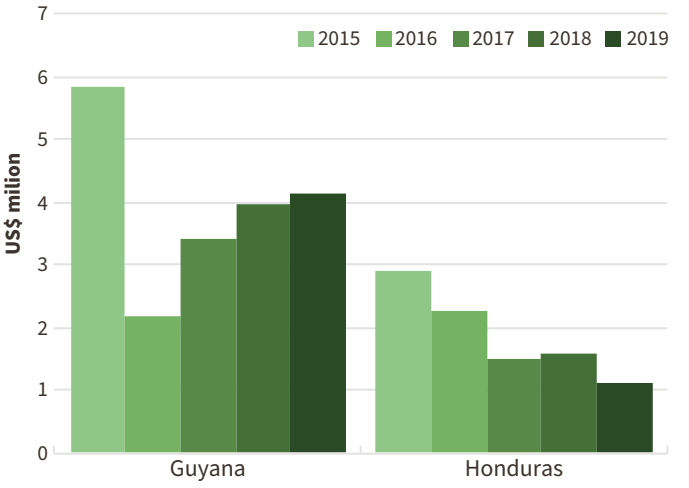


Figure 7.2.13.1: EU import value of wood (HS44) products and wood furniture (HS 94) from VPA countries in the LAC region – 2015-2019.
Source: IMM-STIX

7.2.14 EU wood and wood furniture imports from VPA negotiating countries in Asia

Of VPA negotiating countries, Malaysia is by far the largest supplier of tropical timber products to the EU (***Figure 7.2.14.1***). EU imports from Malaysia which hit a low of US$550 million in 2016, recovered to US$601 million in 2018, but receded 4% to US$577 million in 2019.

Imports of wood furniture from Malaysia strengthened in 2019. Furniture imports from Malaysia mainly comprise rubberwood product for interior use at the lower end of the price spectrum, the UK being by far the largest market for these products in Europe. Significant gains were made in 2019 in EU imports of wood bedroom furniture, wood dining-room furniture and wood non-upholstered seating.

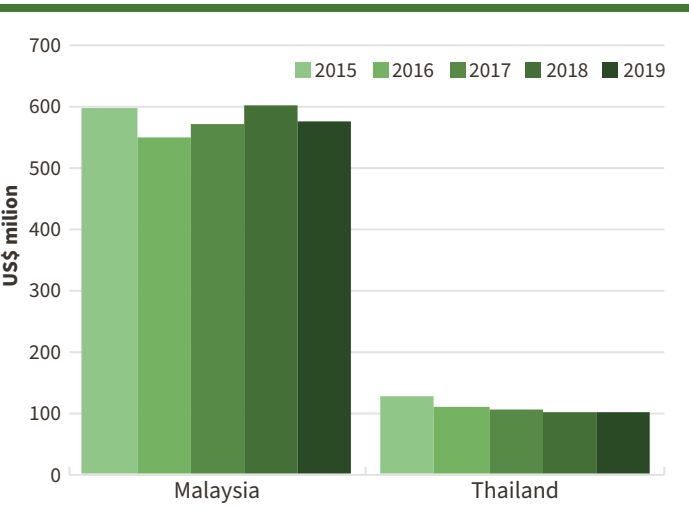


Figure 7.2.14.1: EU import value of wood (HS44) products and wood furniture (HS 94) from VPA negotiating countries in Asia – 2015-2019. *Source: IMM-STIX*

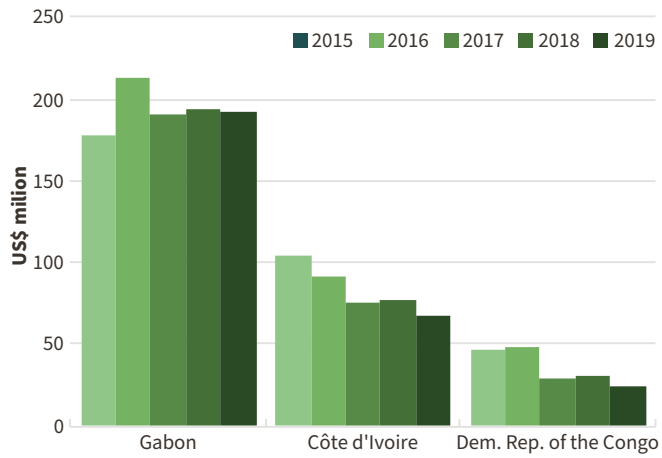


Figure 7.2.15.1: EU import value of wood (HS44) products and wood furniture (HS 94) from VPA negotiating countries in Africa – 2015-2019. *Source: IMM-STIX*

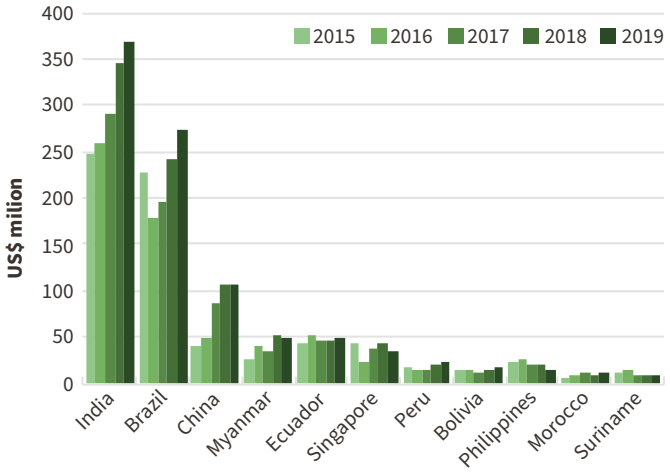


Figure 7.2.16.1: EU import value of tropical wood (HS44) products and wood furniture (HS 94) from non-VPA countries – 2015-2019. *Source: IMM-STIX*

Longer term, Malaysia has lost ground to both Cameroon and Brazil in the EU market for tropical sawnwood, and to China and Indonesia (and Russia) in the market for hardwood plywood. The decline in imports of these product groups from Malaysia in 2019 was attributed by some importers to reduced availability of PEFC certified product following the suspension of MTCS certification in Johor and Kedar states in May 2019 which led to the total certified area in Malaysia to fall by around 25%.

This may have been a factor in the Netherlands and UK where there is a stronger preference for certified wood. However, rising EU imports from other tropical countries with even less access to certified wood, such as Cameroon and Brazil, implies that other factors were also important for the decline in imports from Malaysia.

EU imports of timber products from Thailand consist primarily of furniture, with smaller quantities of plywood, and fibreboard. The main European destinations are the UK, Germany and France. After falling 14% in 2016, and another 4% decline in both 2017 and 2018, EU imports from Thailand gained 1% in 2019 to just exceed US$100 million.

7.2.15 EU wood and wood furniture imports from VPA negotiating countries in Africa

Of the three VPA negotiating countries in Africa, Gabon is the largest supplier to the EU (***Figure 7.2.15.1***). After declining in 2017, EU imports from Gabon in the next two years were very volatile on a monthly basis but overall, on an annual basis, were flat at around US$190 million. Imports into the EU from Gabon comprise mainly veneer, mostly rotary veneer used to manufacture plywood in France, sawnwood, much imported via Belgium, and plywood, which goes mainly to the Netherlands and Italy.

EU imports of sawnwood from Gabon were strengthening in 2018 and the first half of 2019 but slowed in the second half. Imports of veneer from Gabon also weakened slightly in the third quarter of 2019 but stabilized at the lower level towards the end of 2019. Imports of plywood from Gabon were sliding in 2017 and 2018 but stabilised at US$21 million in 2019. Although still low at around US$7 million in 2019, EU imports of decking/mouldings from Gabon were strengthening during the year.

EU imports from Côte d'Ivoire consist primarily of veneers, destined for Italy, Spain, Romania, and Belgium, and sawnwood destined mainly for Italy, Belgium and the UK. After declining sharply in 2016 and 2017, EU imports from Côte d'Ivoire stabilised at US$77 million in 2018 before falling 13% to US$68 million in 2019. The decline in 2019 affected both veneers and sawnwood, and was particularly pronounced in Spain, Belgium and the UK.

After falling nearly 40% in 2017, EU imports from DRC stabilised at US$30 million in 2018, but declined another 21% to US$24 million in 2019. EU imports from DRC consist primarily of logs destined mainly for France and Portugal, sawnwood mainly for Belgium and the UK, with a smaller volume of veneer, going mainly to Greece.

Imports of DRC sawnwood into Belgium, and DRC logs into France and Belgium, were declining steadily in 2018 and 2019. After rising in the first half of 2019, imports of DRC sawnwood by the UK and DRC veneers by Greece declined in the second half of the year.

7.2.16 EU tropical wood and wood furniture imports from non-VPA countries

EU imports from non-VPA tropical countries increased 5% to US$1.05 billion in 2019, building on a 17% gain the previous year. Most of the increase in 2019 came from India and Brazil. Imports from China and Myanmar, which made significant gains in 2018, slowed in 2019 (***Figure 7.2.16.1***).

EU imports of wood products from India increased without interruption between 2015 and 2019, hitting an all-time high of US$370 million in 2019. Import growth

from India has been continuous in Germany, now the largest EU destination for Indian wood furniture, but slowed in the Netherlands, the second largest destination, from the last quarter of 2019. Imports from India into the UK, the third largest destination, were rising in 2017 and 2018, but flat in 2019. Imports in France, the fourth largest EU destination fell slightly in 2019.

EU imports from India mainly consist of wood furniture made from local plantation species such as mango, sheesham, acacia and rubberwood, often in rustic style which are hand-crafted and for which formal quality standards were not high. Usage of sheesham for Indian furniture manufacturing has been declining, as it is a CITES-listed dalbergia species, while use of mango has been rising in recent years.

EU imports of tropical wood products from Brazil, which consist mainly of sawnwood and decking, increased 13% to US$273 million in 2019 following a 24% gain the previous year. From a price point of view, Brazilian products have been highly competitive on international markets in recent years while Brazil's domestic market has been weak. In 2019, the value of the Brazilian real was at historically very low levels on international currency exchange markets having lost nearly 50% against the euro in the previous decade.

The European Commission (EC) and EUTR Competent Authorities introduced, at a FLEGT-EUTR Expert Group meeting on December 2018 (reaffirmed at their meeting on December 2019), far-reaching guidance which stresses that "insofar as imports of species harvested in natural forests in the Brazilian Amazon basin are concerned.... operators should generally consider the level of risk of illegality as not negligible unless adequate risk mitigation measures have been taken that demonstrably reduce the level of risk to a negligible level".

The FLEGT-EUTR Expert Group also specified, in relation to timber from the Brazilian Amazon, that "to mitigate the risk of illegally harvested timber entering the EU market to a negligible level, due diligence should specifically include an independent factual verification of the reliability of the determination of available timber volumes in AMFs (Área de Manejo Florestal) as well as on the integrity of the operator's supply chain" (this and other measures required are described in detail in the minutes of **FLEGT-EUTR Expert Group on 7th December 2018**).

Despite these strictures, French imports of Brazilian hardwood decking increased 29% to US$83 million in 2019 after a gain of 28% the previous year. French imports of Brazilian sawn hardwood from Brazil also increased by 9% in 2019, to US$ 17.2 million, after gaining 21% in 2018. French import growth of these commodities from Brazil only began to slow in the last quarter of 2019.

In Belgium, imports of Brazilian hardwood decking increased 40% to US$23 million in 2018 but declined 26% in 2019 to US$13 million. However, Belgium's imports of sawn hardwood from Brazil increased 80% to US$27 million in 2019 having fallen 12% the previous year.

There was uninterrupted increase in EU imports of plywood with a tropical hardwood face from China between 2015 and 2019, with US$ value rising from US$36 million to nearly US$100 million during this period. In 2019, 70% of EU imports of this commodity were destined for the UK, with most of the remainder destined for Belgium and France. With a sharp deterioration in the EU market for plywood in the second half of 2019, imports of tropical hardwood plywood from China increased only 3% in 2019, a significant slowing of pace compared to 23% growth in 2018 and a 77% gain in 2017.

EU imports of wood products from Myanmar, mainly sawnwood and a small amount of decking and veneer, after rising 53% from US$34 million in 2017 to US$52 million in 2018, declined 7% to US$48 million in 2019. Imports from Myanmar have continued despite high profile EUTR prosecutions of importers of Myanmar teak (in Sweden and the Netherlands) and the conclusions of the EC's FLEGT-EUTR expert group (reiterated at their 12 December 2019 meeting) that "it is not possible to come to a negligible risk of illegally harvested timber from [Myanmar], in particular due to a lack of sufficient access to the applicable legislation and documentation from governmental sources".

While imports from Myanmar into Germany, Belgium and the Netherlands fell to negligible levels in 2019, these declines were more than offset by rising imports in Italy. Italian imports of Myanmar wood products increased from 77% to US$27.6 million in 2018 and by a further 2% to US$28 million in 2019. Imports from Myanmar into Greece and Croatia increased from negligible levels to over US$6.3 million and US$4.7 million, respectively, in 2019. Imports into Sweden from Myanmar were also close to US$4 million in 2019.

7.3 Energy wood and wood waste imports into the EU

7.3.1 EU energy wood and wood waste market background

According to an EC Policy Brief published in 2019[80], biomass[81] for energy (bioenergy) plays an important role in helping to meet the EU's 2020 target of 20% renewable energy. Biomass continues to be the main source of renewable energy in the EU, with a share of almost 60%. The heating and cooling sector is the largest end-user, using about 75% of all bioenergy. Germany, France, Italy, Sweden and the UK are the largest bioenergy consumers in absolute terms, while the Scandinavian and Baltic countries, as well as Austria, consume the most bioenergy per capita.

Under the 2010 National Renewable Energy Action Plans, total biomass demand for electricity, heating and transport is planned to reach 178 Mtoe (million tonnes of oil equivalent) by 2020. The latest data made available in the EC Policy Brief shows that by 2016 the biomass supply for energy had reached 140 Mtoe. Looking further

80. European Commission Knowledge Centre for Bioeconomy, Brief on biomass for energy in the European Union, 2019, http://publications.jrc.ec.europa.eu/repository/bitstream/JRC109354/biomass_4_energy_brief_online_1.pdf

81. According to the EC, "biomass" is defined as the biodegradable fraction of products, waste and residues from biological origin from agriculture, including vegetal and animal substances, from forestry and related industries, including fisheries and aquaculture, as well as the biodegradable fraction of waste, including industrial and municipal waste of biological origin as defined in the Directive of the European Parliament and the Council on the promotion of the use of energy from renewable sources (EU, 2018). Bioenergy is the energy produced from biomass.

ahead, in June 2018 the EU adopted a 32% target for renewables in total gross final energy consumption by 2030 implying continued growth in demand.

In 2016, forestry was the main source of biomass for energy (logging residues, wood-processing residues, fuelwood, etc.), accounting for more than 60% of all EU domestic biomass supply. Most demand was being met from domestically produced biomass (about 96% in 2016 with only 4% imported from non-EU countries). Wood was the most important single source of energy from renewables in many Member States. Latvia (29%), Finland (24%), Sweden (20%), Lithuania (17%) and Denmark (15%) had the largest share of wood and wood products in gross inland consumption of energy.

Public funding and governmental incentives aimed to increase the competitiveness of biomass combustion systems in the existing EU energy market conditions have supported the diffusion of biomass power plants. Besides, the EU has set up programs for financial support of research and development activities based on biomass energy. The EC with the "Innovating for Sustainable Growth: A Bioeconomy for Europe" (2012) – better known as EU Bioeconomy Strategy – has emphasized that the demand for timber and fuelwood in the context of increasing renewable energy demand is a strong stimulus for increasing forest growth and productivity, and for improving management practices (Paletto ***et al***, 2019[82]).

Wood pellets, mainly for heating and electricity production, have become a particularly important energy carrier in the EU. Global production of wood pellets reached 29 million tonnes in 2016, of which more than 50% was produced in the EU. The EU is also the main consumer globally (23 million tonnes in 2016, of which 32.6% was consumed in the UK, 9.1% in Italy, 8.7% in Germany, 8.7% in Denmark and 7.4% in Sweden). In some Member States, the consumption of wood pellets relies mostly on imports, notably in the UK (94.7%) and Italy (81%). Wood pellets are mostly used in the residential sector for heating (in Italy, Austria, etc.) or for electricity production (in the UK, Austria, etc.).

While the rise in EU demand for biomass looks set to continue, the extent to which future demand will be serviced by forest products, and the balance of domestic production against imports, is less certain. European policy goals in relation to renewables imply that forestry generally is expected to contribute a declining share, although in an expanding market overall. The EC policy brief notes in relation to the 2020 target that "while the share from the forestry sector is above the expected level (already 81 Mtoe in comparison to the 76 Mtoe level expected for 2020), the supply from agricultural crops would need to increase by 29% and from agricultural by-products by 17%. However, the largest relative increase is needed in bioenergy from waste, where 42% growth would be required to reach 23.7 Mtoe by 2020".

In addition to reducing carbon emissions, a goal of EU policy in promoting renewables is to contribute to greater energy security, which in turn implies further reduction in import dependence. Also, the EC policy brief notes that "bioenergy can play a key role in achieving the EU's renewable energy targets for 2030 and beyond. However, biomass for energy must be produced, processed and used in a sustainable and efficient way in order to optimise greenhouse gas savings and maintain ecosystem services, all without causing deforestation or degradation of habitats or loss of biodiversity".

There may be potential for FLEGT licensing to assist exporters in VPA partner countries to demonstrate conformance to the various standards developed in the EU to demonstrate sustainable biomass. The European Commission (2020[83]) has issued non-binding recommendations on sustainability criteria for biomass including: prohibition on the use of biomass from land converted from forest, and other high carbon stock areas, as well as highly biodiverse areas; ensure that biofuels emit at least 35% (rising to 60% for new installations by 2018) less greenhouse gases over their lifecycle (cultivation, processing, transport, etc.) when compared to fossil fuels; and encourage the monitoring of the origin of all biomass consumed in the EU to ensure their sustainability.

The EC has also encouraged member states to develop their own sustainability criteria for biomass based on these recommendations. In consequence, some European countries have implemented support and voluntary schemes to govern the sustainable production and use of solid biomass. Belgium has implemented three Green Certificate schemes (GCs) for solid biomass used for electricity generation that include sustainability principles since 2002. The UK has implemented binding sustainability criteria for sustainable biomass used to produce heat and power since 2016. Denmark has also implemented a voluntary scheme to support the sustainable use of solid biomass for energy production in 2016. In the Netherlands, sustainability criteria have also been developed for solid biomass used for co-firing and large-scale heat production. In addition, some industrial bioenergy users (e.g. RWE, Engie, Drax Power, Dong Energy) have voluntarily developed their own sustainability criteria for sourcing biomass. (Thuy Mai-Moulin et al, 2017[84]. Manjola Banjaa et al, 2019[85].)

There is overlap between the product scope of these policy requirements for biomass and FLEGT policy measures. EUTR includes coverage of all products in HS 4401 (fuelwood and waste)[86]. The Indonesian

82. Paletto et al, 2019, Assessment of environmental impact of biomass power plants to increase the social acceptance of renewable energy technologies, https://doi.org/10.1016/j.heliyon.2019.e02070
83. European Commission, 2020, webpage on "Biomass", https://ec.europa.eu/energy/topics/property-fieldtopicparent/biomass_en, accessed on 30 July 2019.
84. Thuy Mai-Moulin et al, 2017, Toward a harmonization of national sustainability requirements and criteria for solid biomass, https://doi.org/10.1002/bbb.1822
85. Manjola Banjaa et al, 2019, Biomass for energy in the EU – The support framework, https://doi.org/10.1016/j.enpol.2019.04.038
86. HS 4401 includes: "fuel wood, in logs, in billets, in twigs, in faggots or in similar forms; wood in chips or particles; sawdust and wood waste and scrap, whether or not agglomerated in logs, briquettes, pellets or similar forms". The main application for nearly all these products is energy, although chips (440121 and 440122) may equally be destined for the pulp sector.

FLEGT licensing system covers softwood and hardwood chips (HS 440121 and HS 440122 respectively), which may be feedstock for both the energy sector and pulp and paper sector, but no other form of wood for energy. In 2016, when the FLEGT licensing system was launched in Indonesia, chips (subject to licensing) were by far the largest HS 4401 product exported by Indonesia, accounting for US$105 million (83%) of total US$127 million. At that time pellets (not subject to licensing), the second largest HS4401 category, accounted for US$7 million (6%) of Indonesian exports. Over the next three years Indonesian exports of chips declined to US$57 million (66%) while exports of pellets increased to US$27 million (31%) of total US$86 million. Until 2017, China was the leading destination for Indonesian exports of HS4401 products, but in 2018 and 2019, nearly all exports were destined for Japan, South Korea and Taiwan. Only negligible quantities have been destined for the EU.

Another important energy carrier, charcoal, lies outside the scope of EU policy measures for both renewable energy and FLEGT. Charcoal is not covered by either EUTR or the FLEGT licensing system in Indonesia. The market for charcoal is opaque, both globally and within the EU, and not driven exclusively by energy demand. The most visible market in the EU is for cooking, particularly BBQs. There is no specific data available on the leading distributors in the EU, but the large supermarkets are believed to be leading players, although no single retailer appears to dominate in any country and there are also many smaller distributors and more is now being sold on-line. There are also a range of industrial applications and users of charcoal, including the steel sector, for activated carbon (filters), drugs, silicon-making processes (electronics and photovoltaic panels), and biochar (soil fertilization). Data on the extent of usage is not readily available for any of these sectors.

A revealing study of the charcoal market in the UK was published by the Earthworm Foundation in 2019[87]. The study highlights the potential for forest degradation resulting from extraction for charcoal, noting that production of one ton of charcoal requires between 4 and 12 tons of dry round wood. The study also indicated that misleading claims on origin and lack of transparency are features of the UK market for charcoal, one of the largest in the EU.

Earthworm used wood identification techniques to establish the actual content, in terms of wood species and likely origin, of the charcoal contained in bags bought from major retailers in the UK and comparing this with the claims on origin made. The study showed that, in

87. Earthworm 2019 Charcoal Bags Analysis (Earthworm were formerly The Forest Trust - TFT). https://www.earthworm.org/uploads/files/European-charcoal-market_UK_2019_190606_093634.pdf

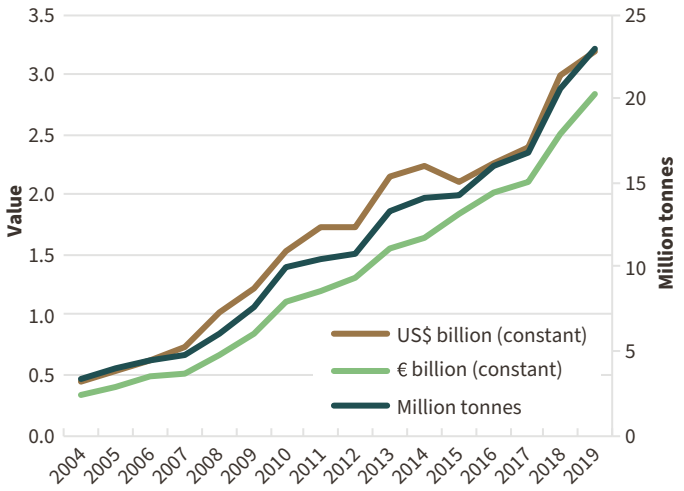


Figure 7.3.2.1: Total quantity and value of EU imports of fuelwood and wood waste (excluding intra-EU trade)– 2004-2019. *Source: IMM-STIX*

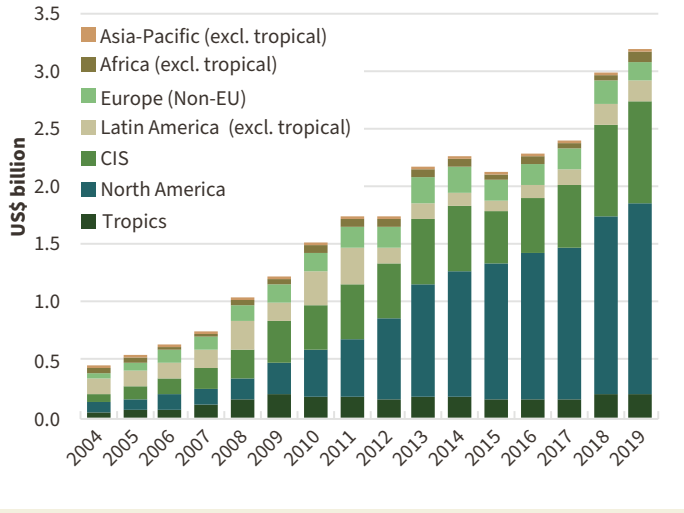


Figure 7.3.2.2: Value of EU imports of fuelwood and wood waste by supply region – 2004-2019. *Source: IMM-STIX*

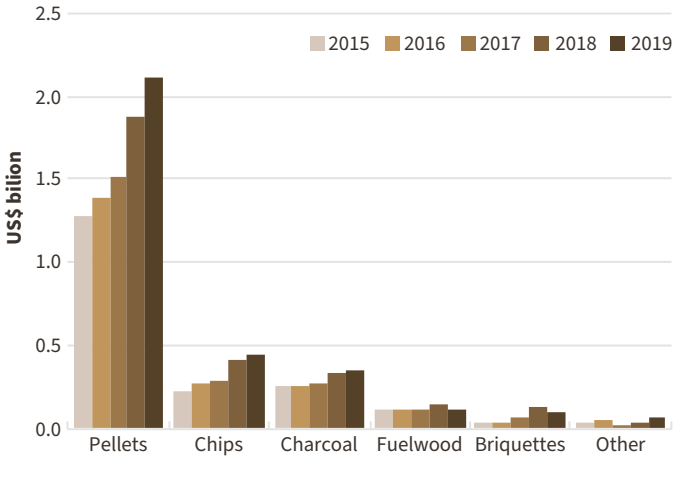


Figure 7.3.2.3: Value of EU imports of fuelwood and wood waste by product type – 2015-2019. *Source: IMM-STIX*

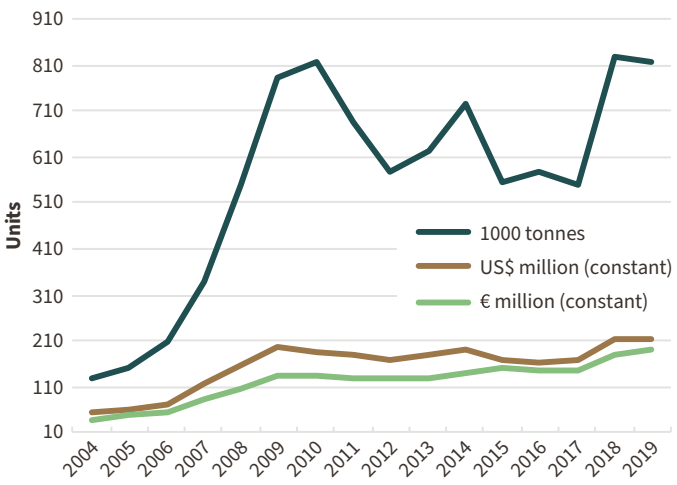


Figure 7.3.3.1: Total quantity and value of EU imports of fuelwood and wood waste from tropical countries – 2004-2019. *Source: IMM-STIX*

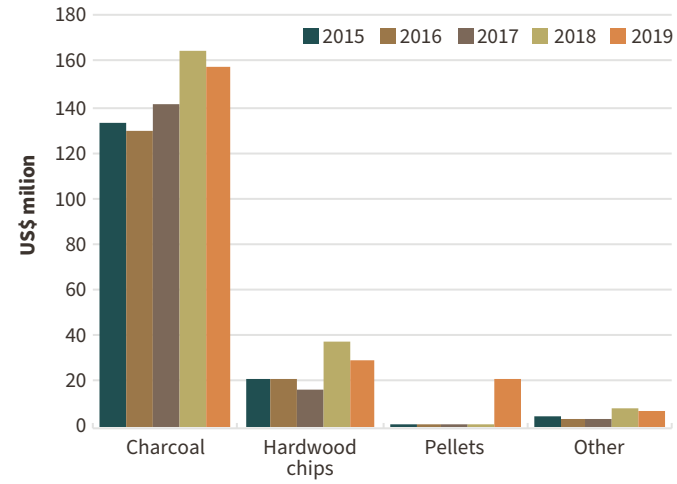


Figure 7.3.3.2: Value of EU imports of fuelwood and wood waste from tropical countries, by product type – 2015-2019. *Source: IMM-STIX*

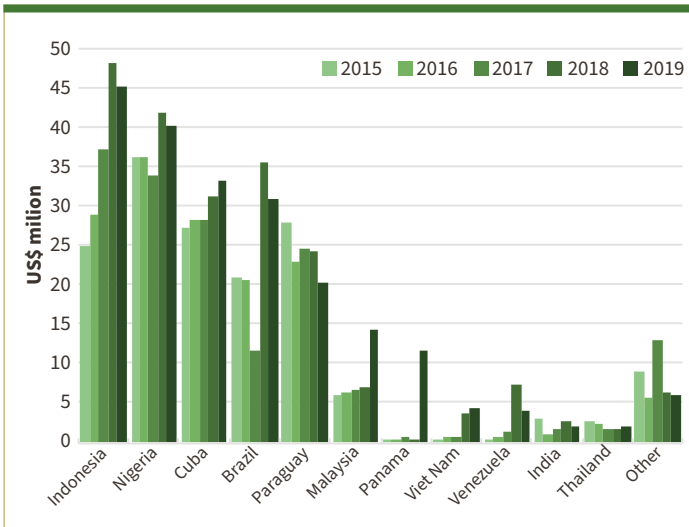


Figure 7.3.3.3: Value of EU imports of fuelwood and wood waste from tropical countries – 2015-2019. *Source: IMM-STIX*

2018, 100% of the analysed charcoal bags in the UK contained tropical or subtropical charcoal, 81% of the bags were certified FSC, and only 38% had a declared country of origin, with only Namibia or South Africa being identified. The study concludes that "consumers cannot make an informed choice, because in a majority of cases, information on the country of timber origin is not mentioned on charcoal bags.... Retailers highly rely on FSC charcoal, giving additional guarantee to consumers... There is still an important opacity in the UK charcoal industry; steps need to be taken to move towards greater transparency".

7.3.2 Total EU import value and quantity of energy wood and wood waste

The long-term rise in EU imports of energy and wood waste continued in 2019 although at a slower pace than in the previous year. Import value increased 7% to €3.18 billion in 2019 building on 24% growth in 2018. In quantity terms, imports increased 12% to 23.0 million tonnes in 2019 after a 22% gain the previous year (*Figure 7.3.2.1*).

There was another increase in EU imports of energy and waste wood from North America in 2019, rising 6% to US$1.6 billion, mostly comprising pellets from the United States destined for the UK. EU imports of energy and waste wood also increased 12% from the CIS in 2019, to US$0.9 billion, with strong gains made by Russia and Belarus, while imports from Ukraine stabilized. Imports of energy and waste wood from the tropics were stable at US$210 million in 2019. However, imports from non-tropical regions of Latin America increased 15% to US$200 million in 2019 (*Figure 7.3.2.2*).

EU imports of energy and waste wood are dominated by pellets, for which imports increased 12% to US$2.11 billion in 2019. There were more moderate gains in EU imports of wood chips, up 7% to US$440 million, and charcoal, up 4% to US$350 million, during the year. However, EU imports of fuelwood and briquettes declined, respectively by 15% to US$120 million and 25% to US$90 million (*Figure 7.3.2.3*).

7.3.3 VPA partners in EU energy wood and wood waste trade

In value terms, EU imports of energy and waste wood from the tropics have been relatively stable over the long term, fluctuating in a narrow range between US$170 million and US$190 million per year in the decade after 2008, rising to around US$210 million in 2018 and 2019. Imports in quantity terms tend to be volatile as trade in low unit value products such as chips and briquettes is often irregular and concentrated in a few large shipments each year. Overall annual import quantity varied between 550,000 tonnes and 810,000 tonnes in the decade before 2019 without showing any consistent upward or downward trend (*Figure 7.3.3.1*).

In value terms, EU imports of energy and waste wood from tropical countries is dominated by charcoal (***Figure 7.3.3.2)***. Compared to other energy and waste wood products, tropical charcoal imports have high unit value, around US$400–475/tonne (compared to US$75–100/tonne for chips). Total EU import value of tropical charcoal declined 4% to US$158 million in 2019, after rising 17% the previous year. Import value of tropical hardwood chips also fell in 2019, down 22% to US$29 million, after a 122% increase the previous year. Until 2018, the EU imported only negligible quantities of wood pellets from tropical countries, but imports surged to US$21 million in 2019, mainly from Panama[88], Malaysia and to a lesser extent, Viet Nam. The EU imports a small amount of other energy and waste wood from tropical countries, including briquettes and raw fuelwood, with total value of US$6 million in 2019.

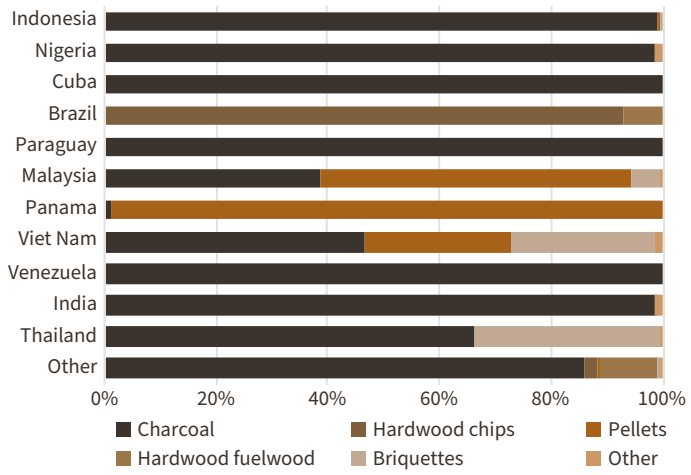


Figure 7.3.3.4: Share of EU import value of fuelwood and wood waste by tropical country and product type – 2019. *Source: IMM-STIX*

Of FLEGT licensing and VPA implementing countries, Indonesia and Viet Nam were the only tropical countries supplying any significant quantity of energy and waste wood to the EU in 2019 (***Figure 7.3.3.3***). In fact, in value terms, Indonesia was the largest tropical supplier following a sharp rise in trade between 2016 and 2018, from US$29 million to US$48 million. In 2019, EU imports from Indonesia fell 6% to US$45 million. EU imports of energy and waste wood from Viet Nam increased from negligible levels in 2017 to around US$4 million in 2018 and stayed at that level in 2019. The other leading tropical suppliers of energy and waste wood to the EU are non-VPA countries, including Nigeria, Cuba, Brazil, and Paraguay.

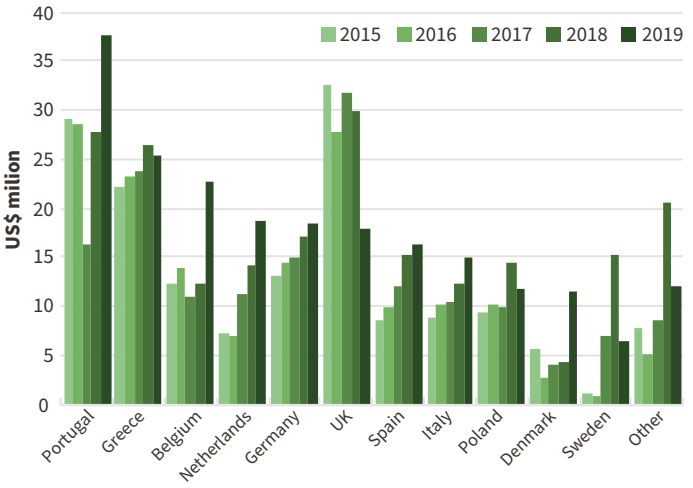


Figure 7.3.3.5: Value of imports of fuelwood and wood waste from tropical countries by EU countries – 2015-2019. *Source: IMM-STIX*

The mix of energy and waste wood products exported by tropical countries varies (***Figure 7.3.3.4***). In terms of value, EU imports from Indonesia, Nigeria, Cuba, Paraguay, Venezuela and India are dominated by wood charcoal. EU imports from Brazil comprise mainly hardwood chips and almost all is destined for Portugal and may be used for paper making rather than energy generation[89]. Imports from Malaysia and Viet Nam were formerly dominated by charcoal but pellets and briquettes entered the mix from 2018. Thailand supplies the EU with small volumes of charcoal and briquettes.

Until 2018, Germany was the largest EU importer of energy and waste wood from the tropics, but Germany's imports fell 40% to US$18 million in 2019 driven by a sharp decline in imports of charcoal from Indonesia, Nigeria, and Paraguay (***Figure 7.3.3.5***). Portugal became the largest importer of energy and waste wood from tropical countries when imports of hardwood chips from Brazil surged in 2019. Sweden also imported a significant quantity of hardwood chips from Brazil in 2018. Greece is the largest EU importer of higher value charcoal products from tropical countries, mainly Cuba, Indonesia, and Malaysia, after a strong rise between 2015 and 2018. A large proportion of the sharp increase in pellet imports from Panama and Malaysia in 2019 was destined for Belgium and Denmark. The general rise in imports of energy and waste wood from tropical countries between 2015 and 2019 into Netherlands, UK, Spain, Italy, and Poland was all driven by charcoal.

A key question is the potential for EU imports of energy and waste wood from VPA partner countries to rise in the future in response to increased demand for green energy. In addition to the demand side issues discussed

88. Panama is not known to have any significant pellet manufacturing facilities, raising questions about the accuracy of this data. It may not be coincidental that Enviva, the world's largest pellet producer, operates a large distribution hub in the port of Panama City in Florida in the US and it is possible that EU pellet imports from 'Panama' (destined mainly for Denmark and Belgium) are in fact shipped for the United States.

89. Hardwood chip imports from Brazil are almost certainly plantation eucalyptus and not of tropical origin, but this cannot be confirmed from trade data, which does not identify tropical hardwood chips separately.

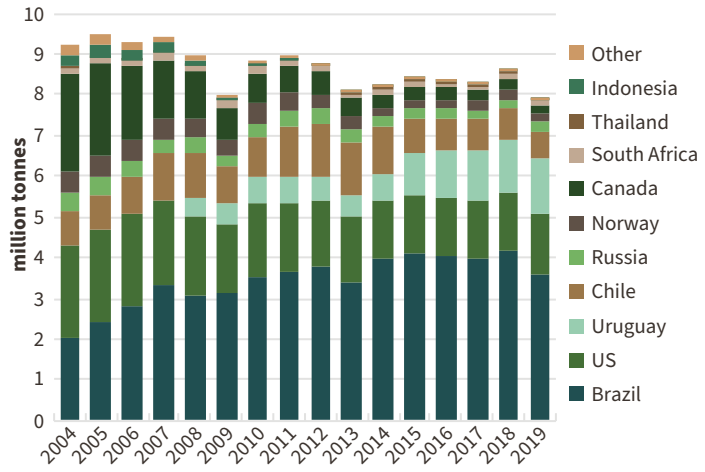


Figure 7.4.2.1: EU import quantity of wood pulp by supply country – 2004-2019. *Source: IMM-STIX*

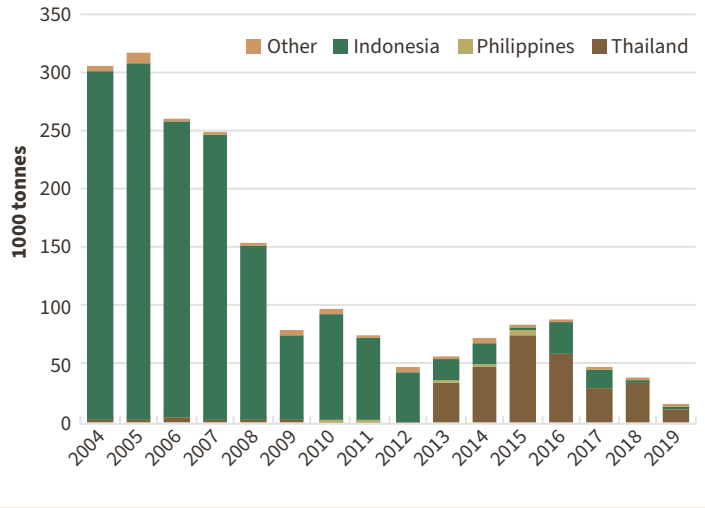


Figure 7.4.2.2: EU import quantity of wood pulp from tropical countries by supply country – 2004-2019. *Source: IMM-STIX*

in *Section 7.3.1*, there are supply side issues likely to limit this potential in the long term.

The case of Viet Nam is instructive. In the period 2017 to 2019, the total value of energy and waste wood products exported by Viet Nam into China, Japan, and South Korea increased by more than 50% to US$2.13 billion. However, the factors which facilitated Viet Nam's large scale exports of pellets and wood chips to other Asian countries do not exist in EU trade, notably extremely low freight rates for Viet Nam's exports to Japan and South Korea due to high volumes of incoming container shipments not balanced by low volumes of outgoing shipments allowing pellet producers to take advantage of empty containers on the return leg.

The conditions that allow for low-cost production of pellets in Viet Nam are also changing. The availability of low-cost feedstock from furniture factories is nearing its limit in Viet Nam and producers are becoming more dependent on forest residuals, forest thinnings, and other roundwood which are costlier to procure and require debarking, chipping, drying, and hammermilling prior to being densified into pellets[90].

Overall, the relatively high costs of shipping and processing energy wood in tropical countries, the presence of large alternative markets closer to home for the large tropical exporters in Asia, and the EU's readier access to biomass from domestic sources, North America and the CIS, imply that the EU is unlikely to significantly increase imports from VPA partners. In addition to adding significant costs to delivery of a bulky and relatively low value commodity, longer transport routes also make it challenging for exporters to comply with EU low carbon emission standards for biomass.

However, a recent modelling study[91] has indicated that there is significant potential to expand production of woody biomass for energy in Indonesia, and that if prices in the EU were to increase by around 20% over the maximum price paid during the period 2009 to 2016, Indonesian biomass could be supplied competitively into the EU in compliance with requirements for 70% GHG reduction compared to fossil fuel-based heat and electricity production set in the Renewable Energy Directive. However, if the requirements of GHG emissions are strengthened up to an 80% GHG reduction, it becomes very challenging for Indonesian biomass to comply.

7.4 Wood pulp (HS 47) and paper (HS 48) imports into the EU

7.4.1 Paper and pulp market background

The year 2019 was a challenging one for the pulp and paper sector in the EU. The slowdown of the EU economy, combined with global instability and trade tensions, and the long-term decline in graphic grades due to progressive digitisation, led to a decline in paper and board sales, imports and domestic production in 2019.

According to the Confederation of European Paper Industries (CEPI)[92], CEPI member countries paper and board production decreased by 3% in 2019 compared to the previous year, while total consumption declined 4%. Production was 89.5 million tonnes in 2019, the first time since before the financial crises that production fell below 90 million tonnes. Although new factories came on stream and some existing ones were upgraded, other closures and lower production rates dragged volumes down.

90. William Strauss, Future Metrics, July 2018, White paper on Viet Nam Wood Pellet Industry, https://www.futuremetrics.info/
91. Thuy Mai-Moulin et al, 2018. Sourcing overseas biomass for EU ambitions: assessing net sustainable export potential from various sourcing countries, https://onlinelibrary.wiley.com/doi/10.1002/bbb.1853
92. CEPI Preliminary Statistics 2019. CEPI member countries in 2019 were Austria, Belgium, Czech Republic, Finland, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

While packaging paper and board production in CEPI member countries remained relatively stable in 2019, overall production of graphic grades – newsprint and printing and writing papers – fell by more than 8% during the year. Production of sanitary and household papers continued to increase, but at a slow rate of only 1.0% in 2019.

Despite the overall decline in paper production and sales, total pulp production (integrated pulp, plus market pulp) in CEPI member countries increased by 0.8%. The gain was concentrated in market pulp production, which jumped 6.1% in 2019 following recent investment in new capacity.

With the weak domestic market in Europe, a rising proportion of the new pulp production was exported. EU exports of market pulp jumped by close to 40% in 2019 according to Eurostat. Rising production at a time of weakening demand led to high stocks of wood pulp in the EU and a sustained fall in wood pulp prices during the year.

7.4.2 VPA partners in EU wood pulp trade

EU wood pulp imports are almost all from South and North America, with a negligible volume from the tropics. Brazil has been the leading external supplier of wood pulp to the EU since 2004. In the following decade, Brazil's share of EU pulp imports increased to around 50%. Brazil supplies hardwood pulp from plantations of eucalyptus located in sub-tropical regions of the country. Uruguay has emerged as another leading supplier of hardwood pulp, also from eucalyptus plantations, to the EU in the last decade. Meanwhile there has been a long-term decline in EU imports of softwood pulp from the US, Canada, and, more recently, Chile (*Figure 7.4.2.1*)

Against the background of weak demand and falling prices, total EU wood pulp imports declined 8% to 7.86 million tonnes in 2019. Most of the decline was registered in imports from Brazil, which fell 14% to 3.59 million tonnes in 2019. Imports from Chile also fell sharply, by 16% to 610,000 tonnes. Imports from the US increased 8% to 1.50 million tonnes in 2019, only the second year since 2010 in which there was a rise in imports from that country. Imports from Uruguay also increased 2% to 1.38 million tonnes in 2019, continuing an uninterrupted upward trend on-going since 2013.

Indonesia, Thailand and the Philippines are the only tropical countries supplying pulp to the EU. The volumes involved have always been very low and fell to no more than 13,300 tonnes in 2019 of which 11,600 tonnes came from Thailand (***Figure 7.4.2.2***). Although Indonesia has large pulpwood plantations, consisting primarily of *Acacia mangium* with smaller quantities of *Acacia crassicarpa*,

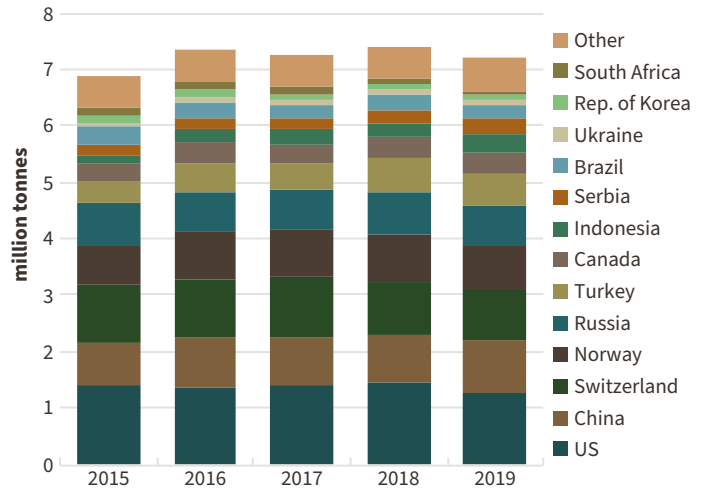


Figure 7.4.3.1: EU import quantity of paper by supply country – 2015-2019. *Source: IMM-STIX*

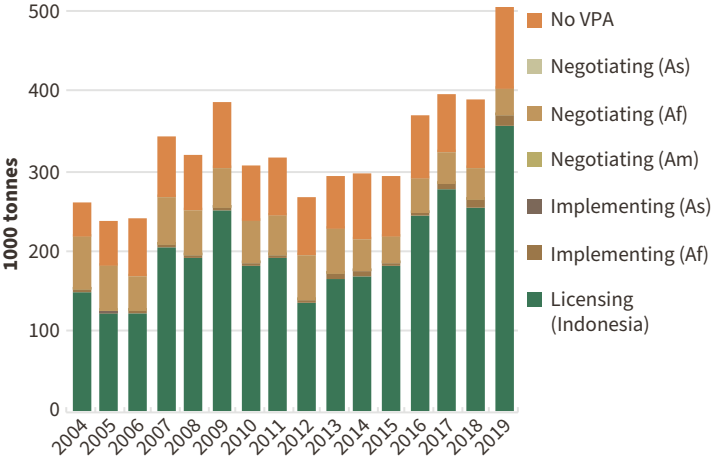


Figure 7.4.3.2: EU import quantity of paper from tropical countries by VPA status – 2004-2019. *Source: IMM-STIX*

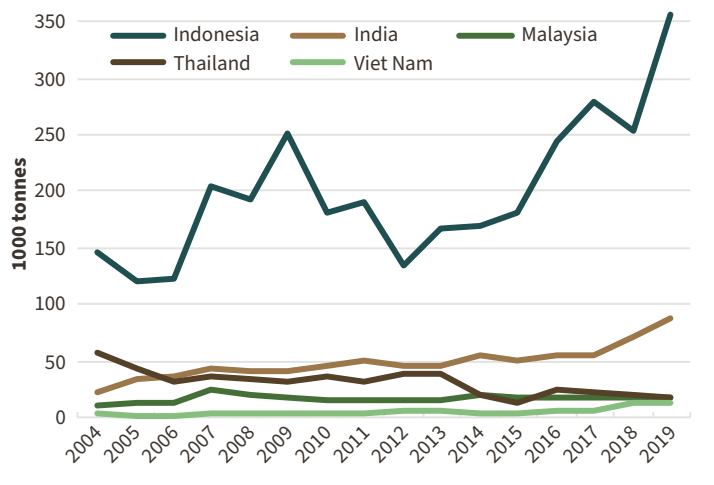


Figure 7.4.3.3: EU import quantity of paper from tropical countries by supply country – 2004-2019. *Source: IMM-STIX*

Gmelina arborea and *Eucalyptus deglupta*, nearly all the available pulp supply is absorbed by paper, board, and tissue mills in Indonesia and China.

7.4.3 VPA partners in EU paper trade

EU imports of paper products in 2019 declined 3% to 7.21 million tonnes in 2019. The EU imports paper products from a wide range of countries, of which the US has been the largest external supplier since 2006 when it overtook Switzerland. Imports from both countries declined in 2019, by 11% to 1.29 million tonnes from the US and by 4% from Switzerland to 890,000 tonnes. With imports rising 8% to 910,000 tonnes, China overtook Switzerland as the second largest external supplier to the EU in 2019. Imports fell from all other leading suppliers during the year including Norway, Russia, Turkey, and Canada (***Figure 7.4.3.1***).

Against the background of a generally weak market in 2019, significant gains in imports from tropical countries, particularly Indonesia, imply a strong improvement in competitiveness during the year. EU paper product imports from tropical countries increased 30% to 506,000 tonnes in 2019 when they represented 7.0% of total imports (5.3% in 2018) (***Figure 7.4.3.2***).

EU imports from Indonesia increased 41% to 356,000 tonnes in 2019, after a 9% fall the previous year which briefly interrupted the longer-term growth trend on-going since 2012 (Figure 7.4.3.3). In 2019, Indonesia accounted for 70% of all EU paper imports from tropical countries, up from 65% the previous year.

Imports from India, the second largest tropical supplier, increased 24% to 89,000 tonnes in 2019. There was also a slight (1%) increase in imports from Viet Nam, to 12,700 tonnes. However, imports declined from Malaysia (-6% to 16,900 tonnes) and Thailand (-14% to 16,700 tonnes).

IMM EU Trade Survey 2019: Summary of key results

8

8.1 Methodology and sample

In 2019, the European IMM team undertook follow-up research in the seven key countries accounting for more than 90% of EU timber and timber product imports from VPA partner countries. The 2019 studies prepared in Belgium, France, Germany, Italy, Netherlands, Spain and the United Kingdom built on previous research undertaken in 2015, 2017 and 2018.

The follow-up studies covered a broad spectrum of private sector players, including importers and agents as well as manufacturers and retailers. Results were collected in an online survey tool. As in previous years, companies did not fill in the survey alone but were guided through the tool by the respective IMM correspondents. This process allowed for discussion of responses and comments provided by respondents and gave IMM correspondents much more detailed insights into respondents' opinions.

The sample of 109 companies interviewed as a part of the IMM 2019 trade survey was larger than in 2018 (96) companies. In 2018, the furniture sector (54 companies) had been interviewed in a separate survey for the IMM furniture sector scoping study[93]. In 2019, the IMM correspondents interviewed European architects (22 companies) for a separate special study[94]. The 2019 trade survey sample included importers of sawn timber, decking, plywood, mouldings logs, veneers, doors, window frames, as well as furniture and furniture components and other products from VPA partner countries.

In 2019, IMM correspondents interviewed a slightly higher number of wholesalers, retailers and manufacturers than the year

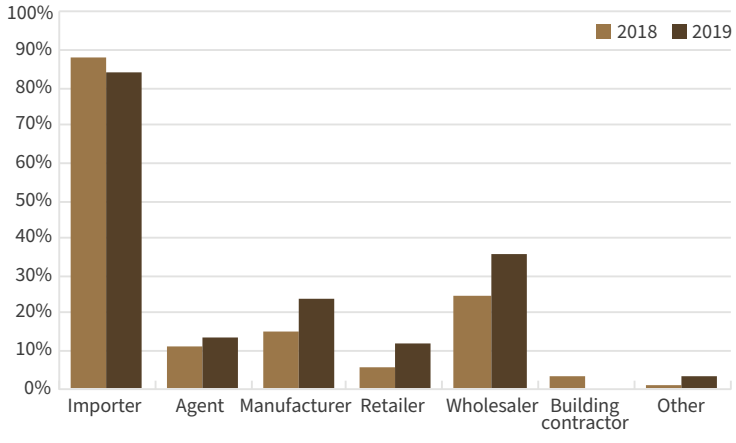


Figure 8.1.1: IMM Survey Participants by company type.
Source: IMM 2019/2018 EU trade surveys

93. A tabling of views, a scoping study for assessing the impacts of timber legality on the European Union's wood furniture sector and the associated tropical timber trade. George White (IMM/2018) https://www.itto.int/direct/topics/topics_pdf_download/topics_id=5782&no=1&disp=inline

94. A study of EU architects' perceptions and experience with FLEGT Licences. George White (IMM/2019) https://www.flegtimm.eu/images/imm_indicators/IMM_Study_of_EU_Architects_Report_Dec19_st3.pdf

before (*Figure 8.1.1*). Many of these companies also have their own importing operations and thus take an interest in FLEGT and EUTR, while at the same time having insights into attitudes and perceptions further down the supply chain. Traders further down the supply chain without own importing operations have remained difficult to engage, as they continue to show little interest in FLEGT.

The proportion of EU survey respondents who acted as operators as defined by the EUTR[95] ranged between 89% and 94% between 2017–2019. Between 8% and 11% of respondents were purely Traders.

The size and relevance of IMM trade survey samples in relation to the overall number of Operators identified in the key EU Member States by EUTR Competent Authorities was analysed in the 2017 IMM Annual Report[96]. While relatively small in absolute respondent numbers, the IMM 2019 survey again covered a significant proportion of EU trade in core products imported from VPA partner countries, including tropical sawn timber/mouldings, joinery, plywood and decking.[97]

As a result, the survey can be considered fairly representative where tropical wood products (HS 44) are concerned. On the other hand, market coverage was lower when it comes to furniture and furniture components and pulp and paper products.

Specific feedback from an important consumer and influencer group was gathered in 2019 as a part of a study of EU architects' perceptions of timber in general and tropical timber in particular, as well as their level of awareness and attitudes towards the FLEGT VPA process. A total of 22 architects were interviewed in the seven IMM key countries.

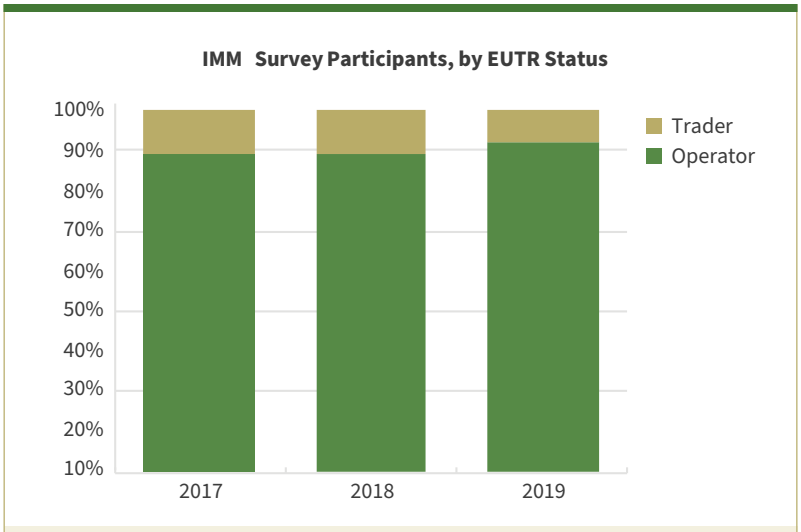


Figure 8.1.2: EU trade survey participation by EUTR status.
Source: IMM 2019/2018/2017 EU trade surveys

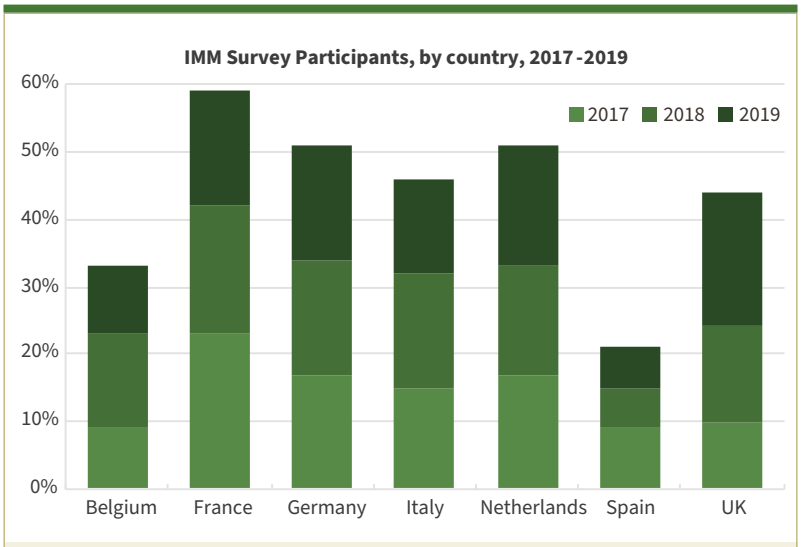


Figure 8.3.1: EU trade survey participation by country.
Source: IMM 2019/2018/2017 EU trade surveys

8.2 Economic environment in EU key countries in 2019

The 2019 IMM survey was undertaken against the background of an overall mostly still favourable, but increasingly uncertain economic environment in most European IMM key countries as well as subdued global economic growth[98]. Issues causing increasing uncertainty included, among others, the US–China trade war, a looming trade dispute between the US and the EU, an overall slow-down of the Chinese economy, Brexit, as well as weakening of the continental European powerhouse economy of Germany.

All seven countries monitored by IMM reported continuing economic growth in 2019, although frequently at a slower pace than in previous years. Moreover, consumer and business confidence weakened or fluctuated more than in previous years in most countries, according to the national reports prepared by IMM correspondents.

Detailed information on economic and timber-sector trends in each European key country can be found on the **IMM website**.

95. Operators under the EUTR are entities that place timber and timber products on the internal market for the first time and are subject to the due diligence system, while a trader in the supply chain should be required to provide basic information on its supplier and its buyer to enable the traceability of timber and timber products.
96. "FLEGT VPA Partners in EU Timber Trade 2017". Sarah Storck/Rupert Oliver. (IMM 2018) https://bit.ly/2JRlrAK
97. Respondents accounted for between 20% and 75% of the key countries' total imports of tropical sawn timber/mouldings, joinery, plywood and decking, depending on the country, except for Spain, where coverage was lower (around 10%).
98. World Economic Outlook, July 2019. An update of the key WEO projections. https://www.imf.org/en/Publications/WEO/Issues/2019/07/18/WEOupdateJuly2019

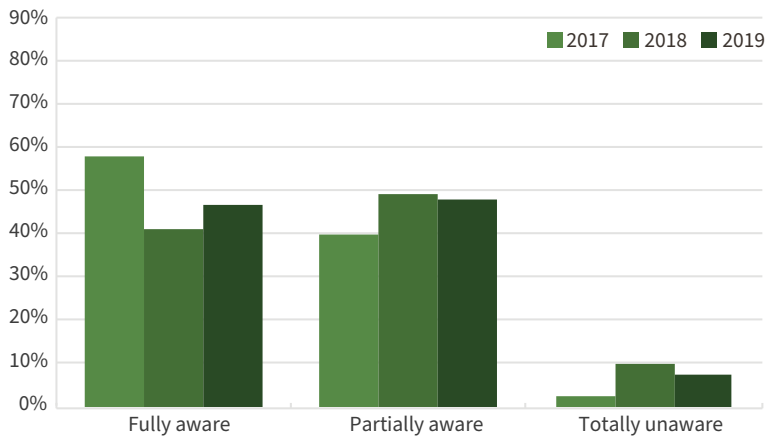


Figure 8.4.1: Awareness of the FLEGT VPA process.
Source: IMM 2017/2018/2019 EU trade surveys

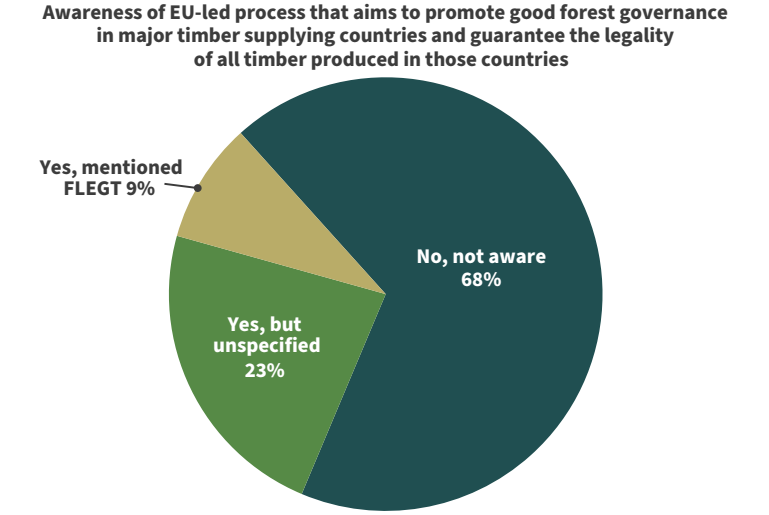


Figure 8.4.2: Awareness of the FLEGT VPA process – IMM Architects Survey.
Source: IMM study of architects' perceptions and attitudes to FLEGT

8.3 Reception of the IMM survey in key countries

In 2019, correspondents in five of the seven IMM key countries – Belgium, France, Germany Netherlands and UK – found the private sector more responsive to IMM surveys than in 2018. Reasons given for this greater readiness to participate included:

- A number of core companies are now used to annual IMM surveys and have developed trust and interest in IMM;
- General positivity due to favourable economic environment, especially in the Netherlands and France;
- Insecurity due to increasingly strict EUTR enforcement and hope for information and guidance, especially in Belgium;
- Uncertainties surrounding Brexit and the future of FLEGT licensing and EUTR in the UK.

In Italy and in particular in Spain, the correspondents reported a continuing reluctance of the private sector to engage in dialogue with IMM. Reasons given include:

- frustration with the FLEGT VPA process due to slow implementation in most partner countries, especially in Africa (Cameroon);
- limited relevance of Indonesia as a supplier country.

In spite of this reluctance, the correspondent in Italy still conducted a meaningful number of interviews and gained interesting insights into market perceptions (***Figure 8.3.1***). In Spain, on the other hand, participation has remained very low, as it had been in 2017 and 2018. Given that Spain also ceased to be one of the seven largest importers of tropical timber and timber products in the EU during 2019, IMM decided to suspend monitoring in the country as of 2020.

8.4 Awareness of the FLEGT process and perceptions of tropical timber

No significant changes were recorded in the overall level of awareness of the FLEGT VPA process (***Figure 8.4.1***) among IMM Trade Survey respondents over the last three years. The number of companies claiming to be "fully aware" of the process dropped by 10 percentage points in 2018, with some companies stating that they only realised that they had not fully understood the process after beginning to hear more about it. At the same time, the number of companies claiming to the be "totally unaware" of the process had risen as well. However, this was believed by IMM correspondents to have mainly been expressions of frustration with the duration of the process, which resurfaced in 2018, after initial euphoria over Indonesia achieving the licensing stage in late 2016. In 2019, the number of "fully aware" companies increased again slightly, while the number of "totally unaware" companies fell.

Overall, IMM surveys still indicate a need for awareness raising, especially further down the supply chain in the EU and in important third countries that implement the EUTR and give green lane status to FLEGT-licensed timber.

The 2019 IMM study of architects' attitudes to tropical timber and FLEGT[99], for example, shows very limited awareness of FLEGT VPAs and FLEGT licensing among this important group of market influencers. When asked to name an "EU process that aims to promote good forest governance in major timber supplying countries and guarantee the legality of all timber produced in those countries" almost 70% of respondents said they were not

99. A study of EU architects' perceptions and experience with FLEGT Licences. George White (IMM/2019). https://www.flegtimm.eu/images/imm_indicators/IMM_Study_of_EU_Architects_Report_Dec19_st3.pdf

aware of such a process. 23% said they were aware of EU efforts to this effect, but had no particular knowledge of any specific process and only 9% were able to name the FLEGT VPA process (*Figure 8.4.2*).

The architects' survey also identified significant knowledge gaps over tropical timber as a building material and issues surrounding sourcing tropical timber, including on the environmental impact of using tropical timber in construction. Only 5% of all surveyed architects found that they had a reasonable level of knowledge upon graduation. 88% reportedly have little or no knowledge of tropical timber when graduating as architects (*Figure 8.4.3*).

Interviewees were also asked if knowledge around forest governance would help with the narrative for choice of materials. With one exception, all respondents stated that, to a degree, knowledge of forest governance could play a role in developing the narrative of their design or specifically with respect to their choice of materials (*Figure 8.4.4*).

8.5 FLEGT licensing and EUTR direct impact on EU tropical timber procurement

As a part of the IMM 2018 and 2019 EU trade surveys, respondents were asked whether FLEGT licensing and the implementation of the EUTR had had any direct impact on the share of tropical timber in their overall timber imports[100]. As demonstrated in Figure 8.5.1, contrasting impacts were identified for FLEGT licensing and EUTR.

35% of respondents in 2018 and 38% in 2019 reported either small or big decreases in the share of tropical timber in their overall timber imports due to introduction of EUTR. Survey respondents indicated that EUTR due diligence had narrowed their supply base in tropical countries, in particular in Africa. An increasing concentration of tropical timber and timber product import trade in the hands of "specialist" exporters and importers was also note. Respondents also indicated that EUTR had caused the sector to reconsider its supply chain relationships, which had frequently resulted in increasing substitution of tropical hardwoods with alternatives, including temperate hardwoods, chemically or thermally modified timber or non-wood substitutes as a result of EUTR.

100. It was not the aim of the EU Timber Regulation to promote or reduce imports of certain types of timber or timber products. However, market players report impacts as a side effect. https://www.flegtimm.eu/index.php?view=article&id=109:imm-survey-substitution-economic-crisis-and-diversion-of-supply-main-drivers-of-eu-timber-market-decline&catid=67

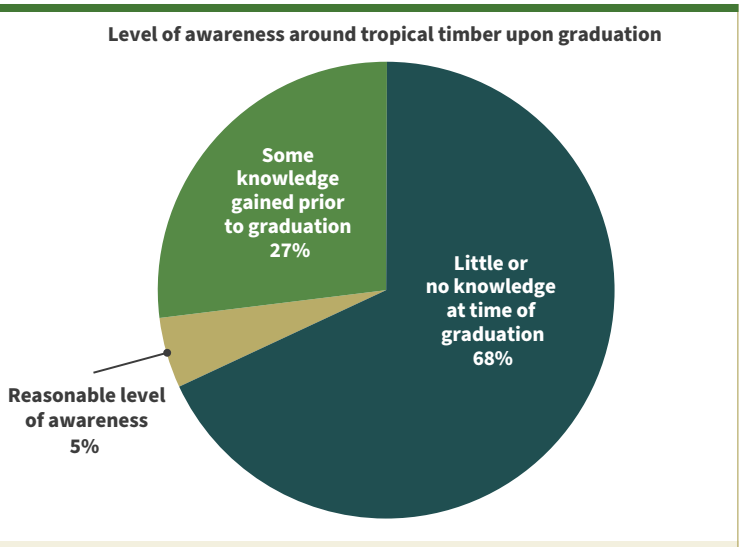
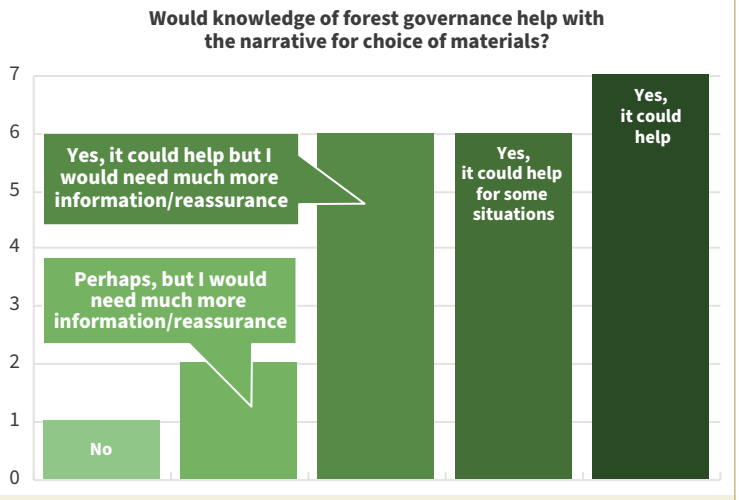


Figure 8.4.3: Level of awareness around tropical timber – IMM Architects Survey. *Source: IMM study of architects' perceptions and attitudes to FLEGT*



Figures 8.4.4: Knowledge of forest governance and narrative for choice of materials – IMM Architects Survey. *Source: IMM study of architects' perceptions and attitudes to FLEGT*

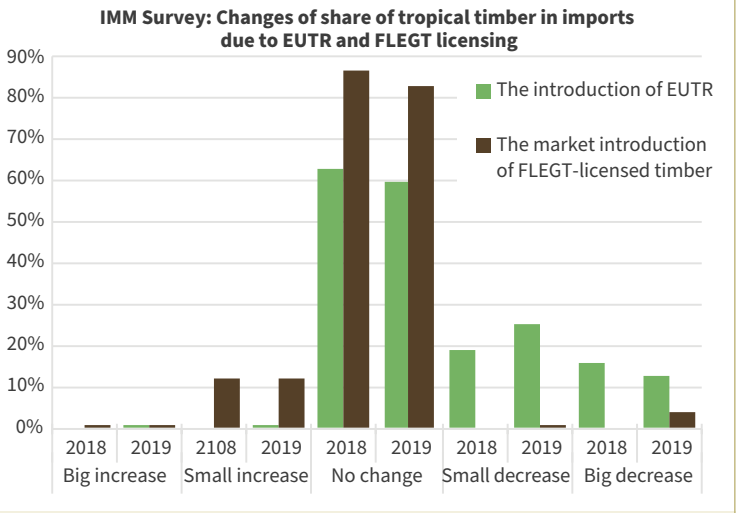


Figure 8.5.1: Impact of EUTR and FLEGT-licensing on tropical timber imports. *Source: IMM 2018/2019 EU trade surveys*

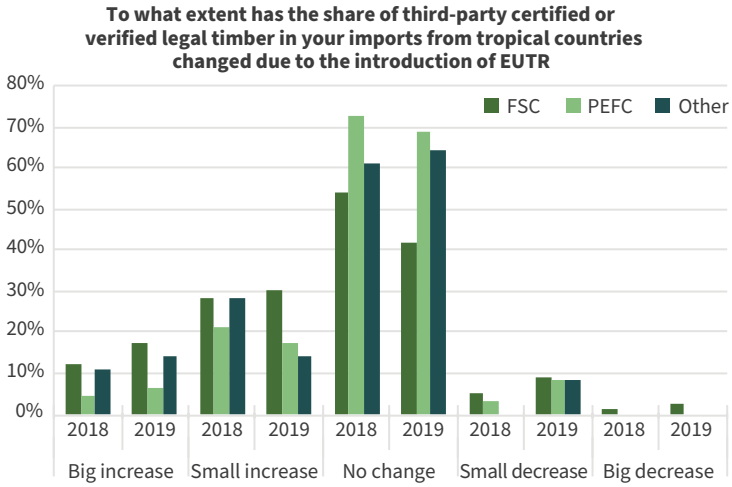


Figure 8.5.2: EUTR impact on certification and legality verification schemes. *Source: IMM 2018/2019 EU trade surveys*

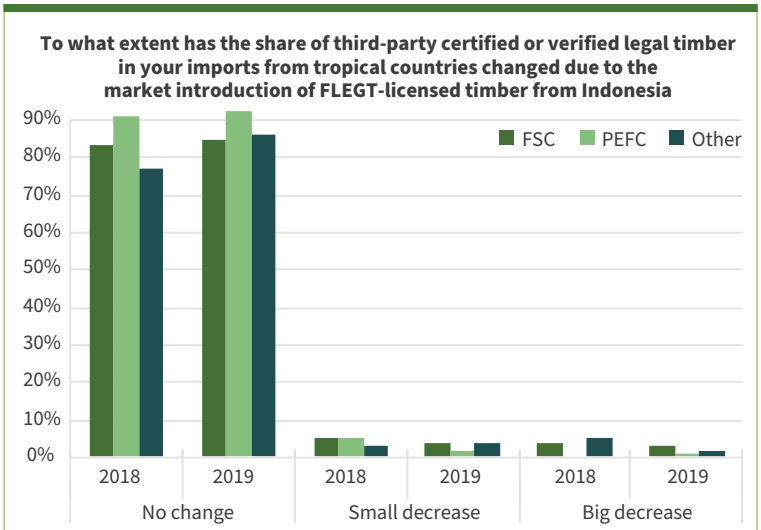


Figure 8.5.3: FLEGT licensing impact on certification and legality verification schemes. *Source: IMM 2018/2019 EU trade survey*

No respondents in 2018 and just 2% of respondents in 2019 said their imports of tropical timber had increased as a result of EUTR. The one or two respondents who noted an increase said that some of their major clients' trust in the legality of tropical timber and timber products had grown and their demand increased due to EUTR.

Roughly 60% in both years said there was no impact due to the introduction of the Regulation. Companies that did no note any impact of EUTR on their imports of tropical timber and timber products mostly stated that they had had due diligence processes in place before the introduction of EUTR and thus felt they and their suppliers were already fully compliant when the Regulation entered into force.

In the case of the market introduction of FLEGT-licensed timber from Indonesia, the majority of respondents – 87% (2018) and 83% (2019) – reported no change. At the same time, 13% of respondents in both years registered large or small increases in the share of tropical timber in their overall timber imports due to the market introduction of FLEGT-licensed timber from Indonesia. Only a small number of respondents in 2019 (5%) reported that their imports of tropical timber had declined due to the market introduction of FLEGT-licensed timber from Indonesia. Most of these respondents blamed this on reputational issues surrounding tropical timber, which, they said, had been placed back in spotlight due to the introduction of FLEGT licensing. Demand for tropical timber imports – not just from Indonesia but overall – had declined as a result. One or two others said that some of their small and medium-sized suppliers in Indonesia had not become SVLK-certified and were thus no longer able to supply them. No such responses had been recorded in 2018.

The 2018 and 2019 surveys also questioned whether there were any direct impacts from the introduction of FLEGT licensing and the EUTR on imports of timber certified by private certification and legality verification schemes. ***Figure 8.5.2*** shows that private schemes, especially FSC, profited from the introduction of EUTR. A number of survey respondents remarked that they preferred buying certified timber since the EUTR came into force and have used certification as a means of compliance with EUTR due diligence requirements since.

However, capacity constraints for certified tropical timber, as already reported in 2018[101], persisted also in 2019, against the background of no further progress in forest certification in tropical countries. As a result, the stronger focus on certified products, both to support EUTR compliance and to achieve goals set by company procurement policies, has further intensified substitution of tropical timber products with alternatives made of temperate wood, which are much more readily available with FSC or PEFC certification.

In addition to FSC and PEFC, respondents said they had been increasingly looking to other private legality verification schemes to ensure EUTR compliance.

When asked whether the market introduction of FLEGT-licensed timber from Indonesia had had any impact on their purchases of certified timber the overwhelming majority of companies answered "no change". A smaller number or respondents – between 1 and 5% depending on the year and certification scheme – reported decreases.

101. *FLEGT VPA Partners in EU Timber Trade 2018*. Sarah Storck, Rupert Oliver (IMM/2019). https://bit.ly/2JRlrAK

9 FLEGT in EU timber procurement policies

In late 2018 and early 2019, IMM published two special studies on EU public and private sector timber procurement policies[102]. Results from the studies were discussed in detail in the IMM 2018 Annual Report published in November 2019[103]. These studies have not yet been systematically updated, as little change was expected in such a short period.

However, IMM correspondents in the seven key EU countries monitored by IMM reported changes – as far as any had occurred – in their respective countries' public procurement policies. Where private sector procurement policies are concerned, the IMM trade survey asked respondents for an update of information on the role of FLEGT Licences in their procurement policies.

9.1 IMM 2019 survey: FLEGT-licensed timber in private sector timber procurement policies

In 2019, all 109 survey respondents answered the question whether their company adhered to a timber procurement policy with other standards than those set by EUTR. As demonstrated by ***Figure 9.1.1.***, the proportion of companies with such a policy increased from 49% in 2018 to 58% in 2019.

When explaining the standards set by such policies, most frequently mentioned were commitments to certification systems or association policies. While the achievement of a certain proportion of "sustainable timber" purchases, with "sustainability" typically defined as FSC or PEFC certified, was by far the most frequently mentioned additional standard in policies, the role of FLEGT licensing has been formalised in a number of companies' timber procurement policies in the last year.

Some respondents said, for example, that their official policy was to give preference to FLEGT-licensed timber over unlicensed or uncertified timber. Others said it was used to demonstrate "low risk" or "timber legality". It was also considered "an acceptable alternative" where no certified timber was available or used to satisfy goals of "mixed origin" of sustainable (certified) and legal (FLEGT-licensed) timber. There was also general acknowledgment among respondents – whether formalised in a policy or not – that FLEGT Licences provide a green lane and no further Due Diligence is required for licensed timber. Two respondents said their policies consider FLEGT as proof of sustainability equivalent to certified timber.

However, most respondents stated, as in 2018, that a formal role for FLEGT licensing in policies would only be considered when Licences are available from a wider range of sources. Many also felt that proof of wider achievements of VPA implementation and FLEGT licensing in terms of environmental, social and economic sustainability needed to be better documented and more widely communicated.

9.2. FLEGT-licensed timber in EU MS procurement policies

The IMM study of EU MS public procurement policies published in early 2018 identified procurement policies with relevance for timber and timber products (furniture, paper, timber used in construction) in 22 out of the 28 Member States at the time of preparation of the study. In early 2020, IMM contacted authorities[104] of the six Member States for which no policy had been identified by the Study – Estonia, Greece, Hungary, Poland, Portugal and Romania. At the time of preparation of this report, replies had been received from Estonia, Hungary, Romania and Poland.

The Hungarian Public Procurement Authority stated that, while Hungary did not have a specific public procurement policy with relevance for timber and timber products, the country's Public Procurement Act would "provide several possibilities for the consideration of environmental aspects in the field of public procurement". Contracts could, for example, be awarded using "criteria representing the best price-quality ratio, covering quality, environmental and social considerations". Contracting authorities would also have the option to "prescribe in the call for competition that such economic operators shall not participate in the procurement procedure, which have infringed the environmental, labour or social requirements, and such infringement was established by a final administrative or a final and binding judicial decision issued within the previous 3 years". And a tender would be "deemed to be invalid, if it does not comply with the environmental, labour or social requirements laid down by legislation or mandatory collective agreement or the provisions on environmental, social and labour requirements listed in (…) the PPA".

Estonia does not yet have a "stand-alone plan for green public procurement", according to the Ministry of Environment, but is planning to incorporate green procurement rules into a "circular economy strategic document and action plan", which is to be completed by the end of 2021. Green procurement should then be mandatory for ten categories, including furniture as well as copying and graphic paper. Additional products with relevance for the timber sector may still be included, as six of the ten categories are still under development.

102. *EU voluntary private sector timber procurement policies & the role of FLEGT licensing*. https://www.flegtimm.eu/images/procurement/IMM_Procurement_Study_December_2018_ST3.pdf and *A study of EU public timber procurement policies, related guidance and reference to FLEGT*. Both by George White. https://www.flegtimm.eu/images/IMM_Public_Procurement/IMM-EU-Public-Timber-Procurement-Report---Final.pdf.

103. *FLEGT VPA partners in EU Timber Trade 2018*. Chapters 9&10 p.80ff. Sarah Storck/Rupert Oliver https://www.flegtimm.eu/images/IMM_2018_Annual_Report/Final_clean_version_Natalie_VPA-Partners-in-EU-Timber-Trade-Annual-Report-2018.pdf. Results from IMM special studies published in early 2019 were included in the 2018 Annual Report, to ensure timely publication of information.

104. Estonia: Forest Department; Greece: Ministry of Environment and Energy; Hungary: Hungarian Public Procurement Authority; Poland: Public Procurement Office; Portugal: Ministry of Finance, Customs Department; Romania: Ministerul Medinlui, Apelor si Podurilor.

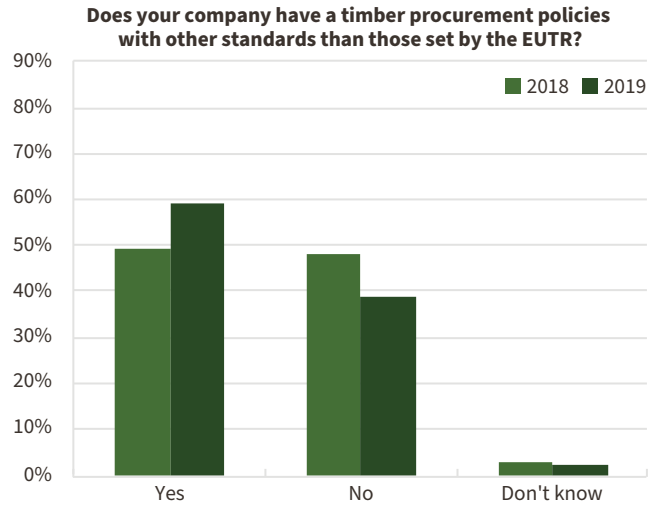


Figure 9.1.1: Respondents' timber procurement policies.
Source: IMM 2018/2019 EU trade survey

Criteria for purchasing will be based on the EU's Green Public Procurement criteria. There will be no specific requirements for sustainable timber, as legality will be considered to "encompass the sustainability aspect as well". FLEGT Licences will be accepted as proof of compliance for relevant products.

Romania adopted a Green Public Procurement Guide that covers furniture and paper products in October 2018, according to information from the Ministry of Environment, Water and Forests. It includes "minimum requirements regarding environmental protection for certain groups of products and services required at the level of specifications".

Poland adopted a National Action Plan on Sustainable Public Procurement for 2017–2020 in April 2017. According to information from the country's Public Procurement Office, the document contains "only general recommendations for contracting authorities to include environmental and social aspects in the tendering process (…) it does not introduce any obligation whatsoever upon contracting authorities".

Table 9.2.1. updates an overview of all Member States' and the UK's policies from the IMM procurement study with information on Estonia, Hungary, Poland and Romania. The table demonstrates that policies vary significantly in terms of their definition of criteria, coverage of products, applicability to different levels of government and whether they are voluntary or mandatory. However, they all require, or at least encourage, government buyers to source legal and often sustainable, timber. FLEGT Licences are mentioned as a form of acceptable proof for legality and/or sustainability by 19 policies.

Considering the key EU Member States monitored by the IMM, there were no major changes or revisions made to their policies during 2019.

FLEGT licensing is explicitly referenced in four of the seven policies – in France, Italy, Netherlands and the UK – and not directly mentioned in Germany and Belgium, both of which accept only FSC, PEFC or "equivalent", and Spain, which accepts FSC, PEFC and ecolabels. The UK remains the only European key country for tropical timber consumption in which FLEGT-licensed timber is explicitly included as evidence of legality and sustainability on equal footing with FSC and PEFC certification.

Country	Criteria	Level of Definition	Forms of proof acceptable	Introduction or revision dates	Range of products covered
Austria	Legal - all products except furniture Sustainable - furniture Paper - preference for recycled FLEGT	Defined Federal Procurement Agency	FSC & PEFC or equivalents. FLEGT Licences Voluntary legality verification	Introduced: 2010	All wood-based products including paper
Belgium	Sustainable	Detailed Belgian Government Procurement Policy	FSC & PEFC or equivalents.	Introduced: 2006 Reviewed: 2009 & 2014	Wood-based products excluding paper
Bulgaria	Legal Sustainable (encouraged) Recycled	Based upon EU GPP criteria	Legal: FSC & PEFC, FLEGT Licences, third party legal verification. Sustainable: Verified as sustainably managed (with no scheme specified).	Introduced: 2012	Paper
Croatia	Legal Sustainable (encouraged) Recycled	Based upon EU GPP criteria	Legal: FSC & PEFC, FLEGT Licences, third party legal verification. Sustainable: Verified as sustainably managed (with no scheme specified).	Introduced: 2015	Paper
Cyprus	Legal Sustainable (encouraged) Recycled	Based upon EU GPP criteria	Legal: FSC & PEFC, FLEGT Licences, third party legal verification. Sustainable: Verified as sustainably managed (with no scheme specified).	Introduced: 2007 Revised: 2012	Paper

Table 9.2.1: Overview of EU member state public forest product procurement policies. *(Continued on next page.)*

Country	Criteria	Level of Definition	Forms of proof acceptable	Introduction or revision dates	Range of products covered
Czech Republic	Legal Sustainable (encouraged) Recycled	Based upon EU GPP criteria	Legal: FSC & PEFC, FLEGT Licences, third party legal verification. Sustainable: Verified as sustainably managed (with no scheme specified).	Introduced: 2010	Furniture
Denmark	Sustainable	Detailed Danish Government Procurement Policy for Tropical Forests	FSC & PEFC acceptable. Nature Agency assesses schemes against criteria.	Introduced: 2001 (tropical timber) General: 2003 Revised: 2013	All wood-based products including paper
Estonia	Legality (considered to encompass sustainability)	Based upon EU GPP criteria	FLEGT Licences FSC & PEFC and "equivalent evidence" acceptable as proof of "attesting history of timber" Documentation of timber legality for unlicensed and uncertified timber.	Planned: 2021	Furniture, copying and graphic paper. Possibly other products as definition of categories not yet finalised.
Finland	Legal Sustainable FLEGT	Legality based upon FLEGT, CITES. Sustainability based upon „Forest Europe process".	FSC & PEFC. FLEGT Licences Ecolabels "Other reliable indicators"	Introduced: 2009 Revised: 2010	All wood-based products including paper
France	Legal Sustainable Recycled papers	Detailed. Policy on Public Procurement of Timber and Wood Products	Any product or chain of custody certificate. FLEGT Licences. Evidence of management plan. Ecolabels. Industry code of conduct - self declaration of compliance. Customs documents to qualify legal/ sustainable products when entering the EU market.	Introduced: 2004 Reviewed: 2011	All wood-based products including paper
Germany	Legal Sustainable	Detailed. German Government Procurement Policy Begleitende Erklärung zur Beschaffung von Holzprodukten	FSC & PEFC or equivalents.	Introduced: 2007 Last revised: 2017	All wood-based products made mainly from virgin material
Greece	No criteria seen				
Hungary	Public Procurement Act has no relevance for timber and timber products				
Ireland	Legal Sustainable Recycled papers	Detailed. Green Tenders - An Action Plan on Green Public Procurement	FSC & PEFC FLEGT Licences	Introduced: 2012	Paper Timber in construction
Italy	Legal Sustainable Recycled papers		FSC & PEFC Ecolabels FLEGT Licences Verifiable self-declarations Third party legal verification State approved export permits	Introduced: 2009 Revised: 2013	Copy & graphic paper. Windows & doors. Office furniture
Latvia	Legal	Not defined	Certification FLEGT Licences	Introduced: 2008	All wood-based products including paper
Lithuania	Legal Sustainable	Not defined	FSC & PEFC FLEGT Licences Third party legal verification	Introduced: 2007 Revised: 2013	All wood-based products including paper

Table 9.2.1: Overview of EU member state public forest product procurement policies. *(Continued on next page.)*

Country	Criteria	Level of Definition	Forms of proof acceptable	Introduction or revision dates	Range of products covered
Luxembourg	Legal Sustainable FLEGT	Detailed	FSC & PEFC acceptable. FLEGT Licences	Introduced: 2014	All products listed in EUTR
Malta	Legal Sustainable (encouraged) Recycled	Based upon EU GPP criteria	Legal: FSC & PEFC, FLEGT Licences, third party legal verification. Sustainable: Verified as sustainably managed (with no scheme specified).	Introduced: 2011	Furniture
Netherlands	Legal Sustainable (encouraged) Recycled	Detailed. Dutch Timber Procurement Policy Framework for Evaluating Evidence of Compliance with Timber Procurement Requirements	FSC & PEFC acceptable. FLEGT Licences. Timber Procurement Assessment Committee assesses schemes against criteria on a case by case basis.	Introduced: 2004 Revised: 2014	All wood-based products including paper
Poland	Recommendations to include environmental and social aspects			4th national action plan for GPP was introduced in 2017	No specific criteria identified for wood-based products
Portugal	No criteria seen			Criteria are under development.	Potentially will include all EC GPP product / use categories
Romania	Minimum requirements regarding environmental protection			Introduced in 2018	Furniture Paper
Slovakia	Legal Sustainable (encouraged) Recycled	Based upon EU GPP criteria	Legal: FSC & PEFC, FLEGT Licences, third party legal verification. Sustainable: Verified as sustainably managed (with no scheme specified).	Introduced: 2016	Paper Furniture Office building design
Slovenia	Legal Sustainable (encouraged) Recycled	Based upon EU GPP criteria	Legal: FSC & PEFC, FLEGT Licences, third party legal verification. Sustainable: Verified as sustainably managed (with no scheme specified).	Introduced: 2011	Paper Furniture
Spain	Sustainable Recycled	Not defined	FSC & PEFC Ecolabels	Introduced: 2008 Revised: ?	Paper Furniture
Sweden	Legal "Acceptable"	Legal: detailed definition. Acceptable: No violations of human rights, traditional rights; no loss of high conservation values, no conversion of natural ecosystems.	Legal: FSC & PEFC, FLEGT Licences, third party legal verification. Acceptable: FSC & PEFC, FSC Controlled Wood or equivalent	Introduced: 2011	All wood-based products including paper
United Kingdom	Legal Sustainable FLEGT	Detailed definitions. UK Government Timber Procurement Policy	FSC & PEFC acceptable. FLEGT Licences. Until 2014 assessments made by Central Point of Expertise on Timber (now defunct)	Introduced: 1997 Revised: 2013	All wood-based products including paper
EC – Green Public Procurement - Guides	Recycled Legal FLEGT CITES	Policy to promote public green procurement and to increase similarities among procurement criteria of EU member states, and provide guidance and advice.	Recognizes chain-of-custody certificates from FSC or PEFC. It also recognizes EU Forest Law Enforcement, Governance and Trade (FLEGT) Licences from countries that have signed voluntary partnership agreements. For non -certified products, requires ability to trace through the supply chain to the origin.	Revised: 2018	Paper Furniture Timber in Office Building Design, Construction and Management

Table 9.2.1: Overview of EU member state public forest product procurement policies.

10 Promotion of FLEGT-licensed timber and timber products

10.1 Background

Improved communication and promotion are frequently flagged up to IMM as key elements of market success for tropical timber in general and FLEGT-licensed timber in particular. A number of recommendations made by IMM survey respondents and Trade Consultation participants centre on this issue. Awareness raising and promotion of FLEGT-licensed timber also took centre stage at a virtual business meeting on wood and furniture organised by the Indonesian Embassy and Fedustria in Brussels on 5 August 2020 and featured prominently during a similar meeting organised by the Indonesian Embassy in London and the UK Timber Trade Federation on September 2020.

IMM undertook a baseline study of the level of support for FLEGT licensing in EU wood promotion campaigns[105] in 2019. Results of the study were summarised in the IMM 2018 Annual Report[106].

A main conclusion of the study was that FLEGT licensing was not actively promoted by existing pan-European initiatives aiming at developing the market for tropical timber and timber products, partly because it was perceived to compete with certified tropical timber, which is the campaigns' primary focus. For the same reason and also because tropical timber is regarded as competition for local alternatives, several national timber trade federations, identified by the Study as important communicators and influencers of the timber sector, were also only cautiously promoting FLEGT-licensed timber.

While no dedicated EU promotion or "brand development" scheme for FLEGT-licensed timber exists to date, in Indonesia, the MoEF, with the support of the MFP-Programme has been working on two separate communications strategies – one national and one international – for FLEGT-licensed timber and the VPA since 2019. The programmes should be ready for roll-out from the end of 2020 (section 10.4).

10.2 Update on European wood promotion campaigns' positions on FLEGT

The IMM EU Wood Promotion Study's comprehensive analysis of existing wood promotion campaigns, covering not just tropical but all types of timber in the EU market, undertaken in early 2019 included sixteen campaigns, of which thirteen potentially have scope to promote FLEGT licensing. By the time the study was undertaken, five of the campaigns made positive reference to FLEGT licensing.

Most relevant from a VPA partner country perspective are the two main pan-European tropical timber promotion programmes – the Sustainable Tropical Timber Coalition (STTC)[107] and ATIBT's Fair&Precious[108] campaign. Both support the aims of the FLEGT initiative and recognise its role in providing legality assurance, but when the Promotion Study was published, both still focussed practically exclusively on advocacy of certification. However, while the Fair&Precious campaign has maintained this stance in its latest communications and activities, more recently FLEGT licensing has figured more prominently in STTC events and publications.

It was featured as one of the main topics at the 2019 annual STTC Conference in Berlin[109], for example, with advocates of both certification and FLEGT licensing giving their views during a panel discussion. At the same time, a data report on the market development of sustainable tropical timber in Europe, commissioned by STTC in 2019 and presented at the same event, included analysis of "exposure to FLEGT licensing" of EU imports of tropical timber, in addition to "exposure to certification"[110]. FLEGT-licensed timber was still separated from the category of "verified sustainable

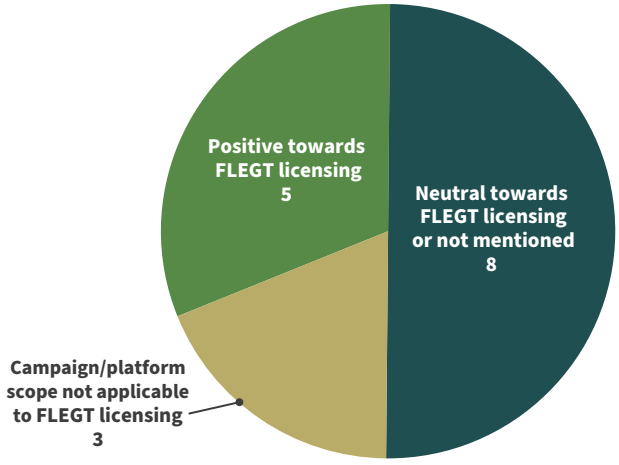


Figure 10.2.1: Wood promotion campaigns' position on FLEGT.
Source: IMM Wood Promotion Study (IMM 2019)

105. EU Wood Promotion Programmes and their Recognition of FLEGT (April 2019). Authors: Mike Jeffree/George White. https://www.flegtimm.eu/images/Mikes_folder/IMM-Promotion-Report---April-4-2019-ST3.pdf
106. *FLEGT VPA partners in EU Timber Trade 2018*. Chapter 8. Sarah Storck/Rupert Oliver https://www.flegtimm.eu/images/IMM_2018_Annual_Report/Final_clean_version_Natalie_VPA-Partners-in-EU-Timber-Trade-Annual-Report-2018.pdf. Results from IMM special studies published in early 2019 were included in the 2018 Annual Report, to ensure timely publication of information.
107. http://www.europeansttc.com
108. https://www.fair-and-precious.org
109. http://www.europeansttc.com/wp-content/uploads/2019/12/STTC%20Conference%20report%202019.pdf
110. *Unlocking sustainable timber market growth through data*. STTC 2019. https://www.idhsustainabletrade.com/uploaded/2019/11/IDH-Unlocking-sust-tropical-timber-market-growth-through-data.pdf The report uses the exposure method developed by IMM with some modifications.

Position on FLEGT Licensing	Organisation
Promoting FLEGT (as operating at a scale necessary for sustainability)	• UK Timber Trade Federation
Mentioning FLEGT as evidence of legality and possibly sustainability (i.e. there are potentially aspects going beyond legality mentioned)	• Fedustria
Promoting EUTR compliance advantages / Promoting FLEGT as evidence of legality	• AEIM • CEI-Bois • Le Commerce du Bois • Fedecomlegno • Fedustria • GD Holz • UK Timber Trade Federation • VVNH
Promoting EUTR compliance advantages, though cautious that FLEGT Licences might gain share from third party certification	• Le Commerce du Bois
Promoting third party certification	• AEIM • Le Commerce du Bois • Fedecomlegno • Fedustria • GD Holz • UK Timber Trade Federation • VVNH

Figure 10.3.1: European timber trade federations position on FLEGT and certification.
Source: IMM Wood Promotion Study + 2020 update

tropical timber", which only included FSC and PEFC certification, but was mentioned as evidence of "responsible timber sourcing". FLEGT licensing was also acknowledged as an EU effort to "promote sustainable forest management (SFM)". In the report, the STTC stated that "increasing synergies between EUTR/FLEGT licensing and forest certifications is an important area for growth. One system is not a substitute for the other – FLEGT is essential in improving the baseline in producing countries and should be recognized as such – and increasing feedback from both systems to power growth in SFM is essential". It adds that "it is dependent somewhat on the legality definition set within a VPA, but, in general, a fully implemented (and licensing) FLEGT VPA lowers the barrier to achieve certified SFM in a producer country and we recognise the large impact it has; covering a country's entire forest area and all timber imports in the case of Indonesia".

10.3 Update on European timber trade federations' position on FLEGT

In terms of European market influencers and communicators for the timber industry, the 2019 study assigned a key role to national timber sector associations and federations. They are involved in wider promotion campaigns and relay their messaging through their own communications channels. They also conduct their own campaigns and highlight the industry's efforts to assure legality of timber placed on the European market and to combat illegal logging, with the main focus in this area on the EU Timber Regulation and associated due diligence.

When it comes to their messaging on FLEGT licensing and the FLEGT VPA initiative, the Study demonstrated that there is no consistency regarding attitudes and activities. Generally, all of the associations can be said to be supportive of the wider VPA process and benefits that will accrue. Beyond this, the level of tangible support around communicating the message is hugely variable. The UK was identified as representing one extreme, with its Timber Trade Federation's (TTF) Timber Transformer campaign,[111] launched in 2018, and early promotion of FLEGT licensing as an equivalent of certification for public procurement.

This special role adopted by the UK TTF has manifested itself even more strongly later in 2019 and in 2020; it now employs a team of two dedicated FLEGT communications experts. The TTF has since developed and sponsored two design contests involving FLEGT–licensed tropical timber: Momentto[112] and Conversations about Climate Change[113]. It is also working on a series of E–Learning modules focusing around FLEGT, tropical timber and "the positives of VPAs", including a promotional video, and is running a separate FLEGT Twitter account. Figure 10.3.1 updates a similar table from the Promotion Study to reflect the increasingly leading role of the UK TTF; in the original table it was categorised as "mentioning FLEGT as evidence of legality and possibly sustainability".

The primary reason given by other associations for being more cautious on FLEGT promotion was that they have invested their energies in certification or promotion of domestic production. Some associations remain at least partially unconvinced of the wider merits of FLEGT licensing, willing to accept that it might equate to "legal compliance" in the country of production, but so far unwilling to consider that it might mean much more of this in terms of environmental (or silvicultural) performance.

111. https://www.flegtimm.eu/index.php?view=article&id=90:uk-ttf-flegt-exhibition-nets-environmental-award&catid=21

112. https://www.flegtimm.eu/index.php?view=article&id=165:speaking-up-and-out-for-flegt-the-imm-interviews-uk-timber-trade-federation-managing-director-david-hopkins-on-its-communication-and-promotion-of-flegt&catid=22

113. https://www.flegtimm.eu/index.php?view=article&id=239:uk-ttf-gets-creative-in-flegt-communication&catid=21

NGO / CSO	Summary of position
WWF	• Describes legality assurance as prerequisite of timber and forest sustainability. • Stresses that differentiation between FLEGT and sustainability certification should be made clear. • Questions whether FLEGT in current form is sufficient to address sustainability holistically. • Cites governance improvement and stakeholder engagement as FLEGT major achievements. • Sees opportunities for advocating FLEGT more via social media • It recommends supplier countries consider joining the VPA process. • It urges communication of the FLEGT initiative outside the EU.
FERN	• Describes FLEGT as most effective functioning process to increase forest governance and combat illegal logging. • Sees FLEGT as helping to meet the EU's wider objective to encourage sustainable forest management • Recommends EU bring together NGOs to coordinate and support their FLEGT communications. • Backs proposition that FLEGT is more than just proof of legality and communicates stakeholder engagement, forest governance reform and social and economic benefits resulting from VPA process. • Produces six monthly updates on countries' VPA progress. • Urges more institutional communication of FLEGT from EU.
Earthworm (formerly TFT)	• Describes legality assurance as prerequisite of timber and forest sustainability. • Feels FLEGT initiative has 'stalled' since Indonesia started licensing.
Greenpeace	• Says continued uneven implementation of EUTR could undermine FLEGT process. • Warns EU against taking shortcuts in VPA process to get more countries to licensing stage.
Environmental Investigation Agency	• Commends FLEGT as template for other forest commodities industries legality assurance. • Sees the multi-stakeholder aspect and in-country timber legality definition of VPAs as key. • Communicates wider issues and reforms related to FLEGT and the VPAs. Says FLEGT 'is about more than licensing'. • Questions aspects of Viet Nam's VPA timber legality assurance system. • Backs VPA for Viet Nam as likely to incentivise it to regulate its timber import/export trade. • Sees Vietnamese VPA as 'significant precedent' for timber legality assurance in China.

Figure 10.4.1: European NGO/CSOs positions on FLEGT. *Source: IMM Wood Promotion Study + 2020 update*

10.4 NGO/CSO communication role and position on FLEGT

NGOs and CSOs, some of whom were interviewed for the IMM study in 2019, are key market influencers and clearly vital to be kept in the FLEGT communications loop. They can, of course, be critical, but the organisations interviewed for the IMM study said they are keen to promote positives in the initiative, where they see them, and to help inform industry and public opinion.

Figure 10.4.1 summarises the positions of five leading NGOs interviewed for the IMM study. No significant step-change in NGO attitudes was identified since publication of the Promotion Study but some additions to positions have been made.

10.5 Media references to FLEGT VPAs

10.5.1 Media monitoring methodology

IMM has started monitoring media coverage of the FLEGT VPA process, the EUTR and more generally of forest law enforcement and forestry practices in VPA partner countries through a media monitoring service from mid-2018, with retroactive analysis of one year being possible.

The media monitoring programme takes both print and all types of online/social media into account. IMM has split monitoring into three different topics:

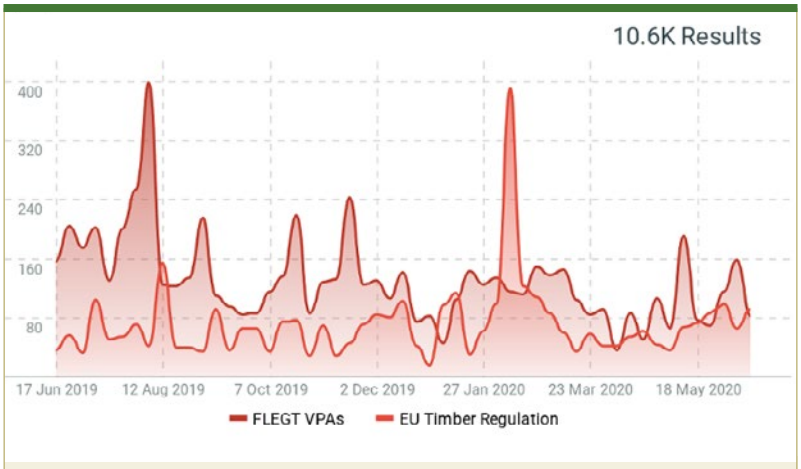


Figure 10.5.2.1: Media mentions FLEGT VPAs and EUTR June 2019-June 2020. *Source: IMM analysis of Talkwalker Media Monitoring*

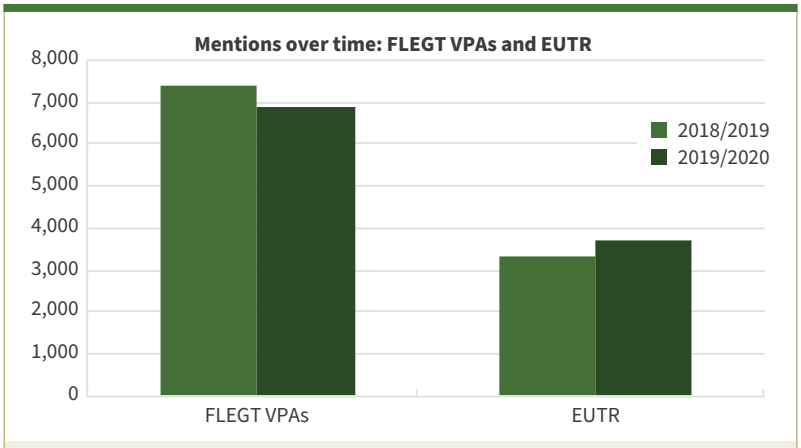


Figure 10.5.2.2: EUTR/VPA mentions over time June 2018-June 2020. *Source: IMM analysis of Talkwalker Media Monitoring*

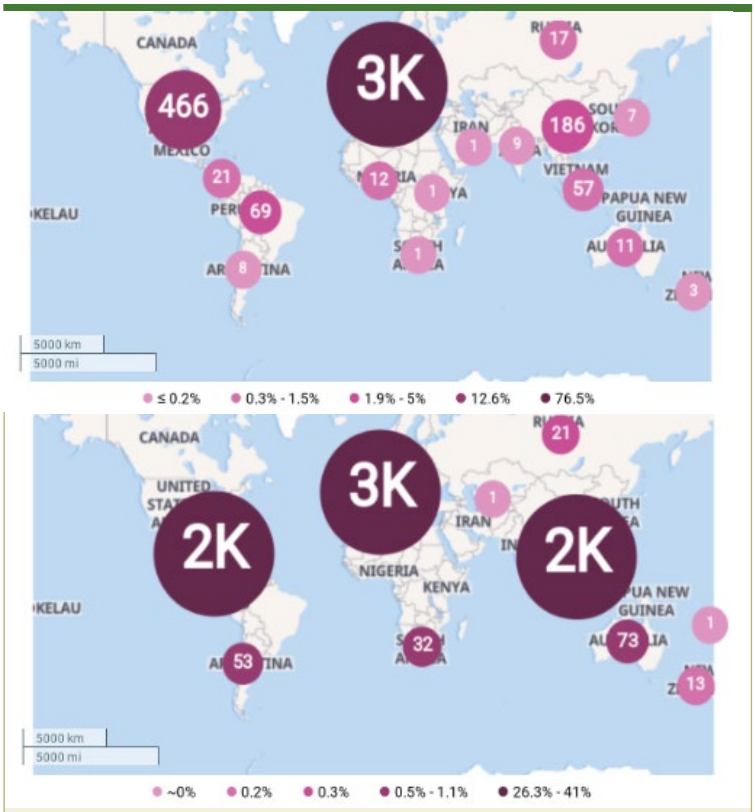


Figure 10.5.2.3: Global distribution of media records EUTR and VPA 2019/2020. *Source: IMM analysis of Talkwalker Media Monitoring*

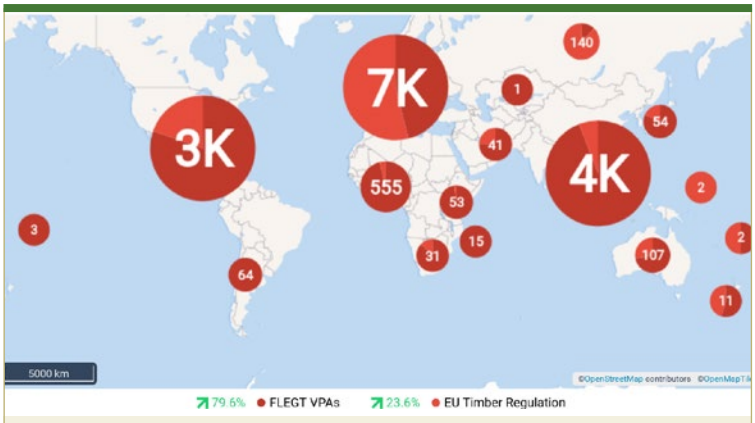


Figure 10.5.2.4: Global distribution of media records EUTR and VPA 2018/2019. *Source: IMM analysis of Talkwalker Media Monitoring*

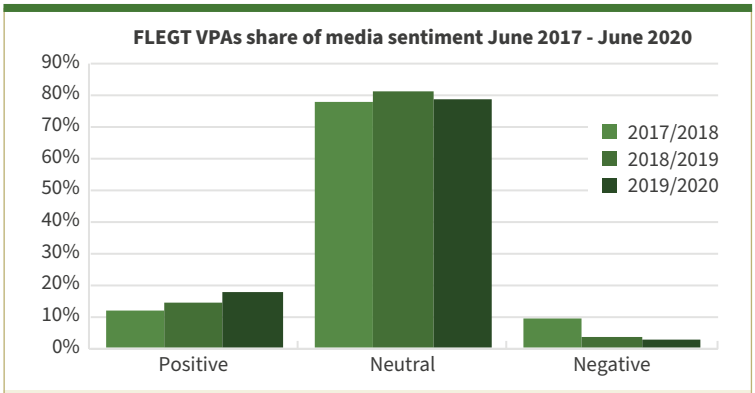


Figure 10.5.3.1: FLEGT VPAs media sentiment over time.
Source: IMM analysis of Talkwalker Media Monitoring

- **FLEGT VPAs**; keywords: "Voluntary Partnership Agreement", "FLEGT VPA", "FLEGT", "Forest Law Enforcement, Governance and Trade"
- **EU Timber Regulation**; keywords: "EUTR" and "EU Timber Regulation"

- **FLEGT Independent Market Monitoring**; keywords: "FLEGT Independent Market Monitoring", "FLEGT IMM", "Voluntary Partnership Agreement", "FLEGT VPA", "FLEGT", "Forest Law Enforcement, Governance and Trade", "Timber Legality Licensing", "International Tropical Timber Organization", "EUTR" and "EU Timber Regulation", "illegal logging", "illegal timber", "sustainable forestry and tropical", "forest certification".

The third search topic is primarily used for daily press clipping. Like for the last two IMM Annual Reports, topics 1 and 2 were taken into account for the below analysis. The period covered by this report is June 2019 to June 2020.

10.5.2 Media results over time

The media monitoring service recorded 10,600 hits for the two topics in the twelve-month period, a significant decline from the total number of hits (May 2018-June 2019: 14,900), in the previous twelve-month period. Strong media interest in the May 2018-June 2019 period had come primarily from Asia and centred on FLEGT VPAs.

65.1% of all posts registered by the tool in the June 2019-June 2020 period were accounted for by FLEGT VPAs and 34.9% by EUTR. This means that the number of posts recorded on topics surrounding EUTR increased by 12.5% over the previous period, while those on FLEGT VPAs declined by 7% (***Figure 10.5.2.2***).

Analysis of global distribution of media mentions on the world map shows that Europe remains at the centre of communications, especially on EUTR. The decline registered in media coverage of FLEGT VPAs was primarily due to lower activity in Asia, where almost 4,000 VPA-related hits were recorded in the 2018/2019 period, but only 2,000 in 2019/2020. Coverage of FLEGT VPAs in South America declined as well, but not as strongly as in Asia.

Overall mentions of EUTR and VPAs in Europe fell from around 7,000 in the previous twelve-month period to 6,000. Distribution of hits between EUTR and VPAs in Europe was equal in the more recent period, after the previous period saw slighty stronger coverage of VPAs.

10.5.3 Media sentiment

The positive trend shown last year in media sentiment expressed towards FLEGT VPAs continued also in the twelve-month period

from June 2019–June 2020. Almost 10% of all posting regarding FLEGT VPAs had been categorised "negative" by the media monitoring tool in the 2017/2018 period. This fell to 3.9% in 2018/2019 and then again to 3% in 2019/2020 (***Figure 10.5.3.1***).

A closer look at sentiment expressed towards FLEGT VPAs over the most recent reporting period shows no significant fluctuations in negative sentiment; it remained at a very low level throughout the year. However, a sharp rise in positive sentiment is showing in July/August 2019 and then at a smaller scale in November 2019 (***Figure 10.5.3.2***).

Most of the positive postings in July and August 2019 made reference to projects organised by the EU-FAO FLEGT programme in South America, in particular to forestry sector round tables or "Mesas Forestales" organised in Colombia. A number of positive postings also made reference to growth in timber product exports from Viet Nam and the Vietnamese VPA. The Vietnamese VPA was also mentioned in the context of developing closer economic ties between Viet Nam and EU.

Overall, media sentiment expressed towards FLEGT VPAs has been more positive in tone than the sentiment towards the EU Timber Regulation in all three reporting periods (***Figure 10.5.3.3***). The share of positive postings with reference to EUTR ranged around 10% in all three years, while the share postings categorised as "negative" fluctuated between 10% and 16% over the three years.

Analysis of sentiment expressed by EUTR-related postings over time, identifies two spikes in media interest in EUTR, one in July 2019 and then again in February/March 2020 (***Figure 10.5.3.4***). The first was largely neutral in tone and related primarily to forestry in Brazil and South America overall and importing of timber from the region in the context of EUTR. The smaller rise in negative reporting at the time was largely triggered by alleged cases of EUTR breaches in France and Belgium – involving timber from Gabon imported via China.

The strong increase in media interest in February and March 2020 was more negative in tone than the previous spike. Posts centred mostly around reports of illegal logging and EUTR breaches in Romania as well as the EU's opening of EUTR infringement proceedings against Romania. There were also some reports of legal action taken in Spain against illegal timber imports from Brazil and central Africa.

The smaller rise in positive media interest recorded at roughly the same time was partly related to reports from Hungary, according to which illegal timber confiscated as a part of EUTR enforcement was made available to be used as fuelwood by people in need. Other positive postings during that period were mostly related to private companies advertising their timber products as EUTR compliant.

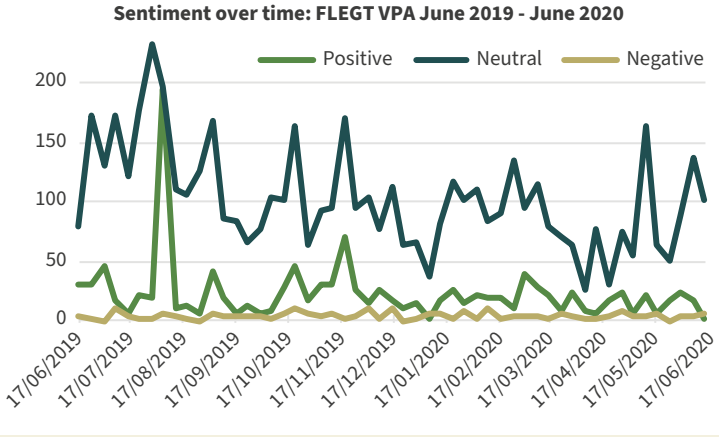


Figure 10.5.3.2: Media sentiment expressed towards EUTR in 2019/2020.
Source: IMM analysis of Talkwalker Media Monitoring

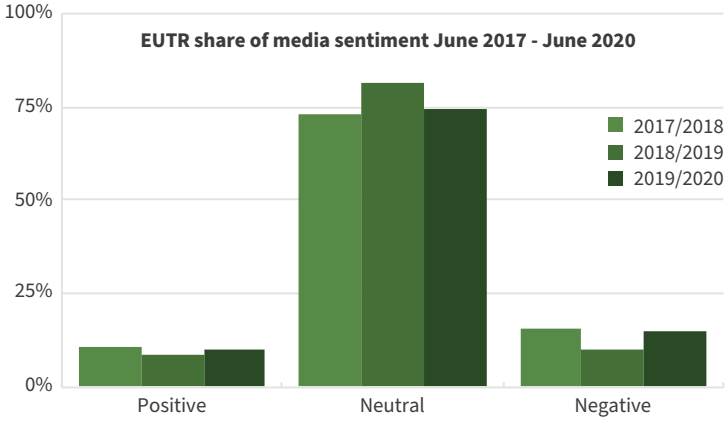


Figure 10.5.3.3: EUTR media sentiment over time.
Source: IMM analysis of Talkwalker Media Monitoring

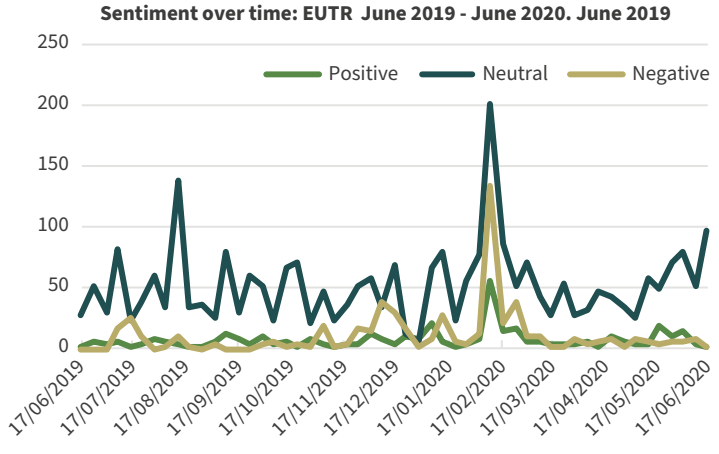


Figure 10.5.3.4: Media sentiment expressed towards EUTR in 2019/2020.
Source: Talkwalker Media Monitoring

FLEGT impact on forest sector investment 11

11.1 Background

In 2018, IMM commissioned a scoping study on forest sector investment in VPA implementing (including Viet Nam and Honduras) and FLEGT licensing VPA partner countries. The study provided a baseline for monitoring potential impacts of FLEGT VPA implementation and FLEGT licensing on investment.

The study concluded that, at the time, a FLEGT VPA was not considered a criterion to rate partner countries as preferential investment locations for the following reasons:

- Long duration of VPA implementation processes and lack of trust that processes will be completed.
- Relevance: Indonesia is the only country with an operational timber legality assurance and FLEGT licensing system. In all other countries, the scope of reforms implemented and the number of actors complying with reforms is still perceived to be too low. Investment decisions are based on the status of the investment enabling environment at the time the decision is under consideration.
- Lack of information: some respondents assumed that, for example, timber legality assurance systems will only apply to exports to the EU and are therefore of relatively limited importance to the wider industry. As a consequence, the scope of reforms of law and governance structures undertaken as a part of VPA implementation were underestimated and respondents saw no risk mitigation potential of FLEGT at country level.

The report also made a number of recommendations, including:

- Targeted awareness-raising in the financial sector was considered key. Information about the scope of VPAs and their risk-mitigating potential with reference to specific investment risks would be of particular interest. Industry investors in natural forest-based value chains rated VPAs risk-mitigating potential more important than financial investors.
- Further monitoring of correlations between the FLEGT VPA process and forest sector investment should be limited to countries with an operational licensing system.
- Due to limitations in data availability, a panel survey to assess the attractiveness of VPA countries for investors with a specific view of VPA implementation activities should be established.
- Results of such a panel survey could be used to establish an investment attractiveness index of VPA countries, ideally disaggregated by investor types (domestic SMEs, international forest industries, TIMOs and institutional investors).

Acting on the second recommendation, IMM commissioned an in-depth follow-up study of FLEGT impact on forest sector investment, the investment enabling environment and forest sector resilience to economic crisis in Indonesia in 2020. Viet Nam was also included in this more detailed study for several reasons:

- Viet Nam is a regional competitor to Indonesia in the wood and forest products sector and a key processing hub.
- Viet Nam is currently progressing fast through VPA implementation.
- Availability and quality of investment data allows for monitoring of investment activity in Viet Nam over a relevant period of time.

The investment follow-up study was in the final stages of completion when this report was published. To allow for timely distribution of information, it was decided to include a short summary of highlights in the IMM 2019 Annual Report.

11.2 2020 investment study – summary of highlights from stakeholder survey

Besides statistical analysis, the 2020 study included a stakeholder survey aimed at assessing forest sector investors' attitudes towards FLEGT VPAs risk mitigating potential, decision-making pre-2020 and during the CoViD-19 pandemic. 20 companies were interviewed across all sub-sectors (forestry and logging, wood industry, pulp and paper, and furniture); 10 in Viet Nam and 10 in Indonesia. Interviews with stakeholders from ministries, NGOs and forest sector associations complemented the enterprise interviews.

The interviews focused on two topics:

1. Major investment risks in the forest sector and the influence of FLEGT VPAs on investment decisions pre-2020.
2. Respondents' perception of the potential of FLEGT VPAs to strengthen their resilience during the COVID-19 pandemic and related economic crisis, with a view to positively influencing investment decisions in the post-crisis reconstruction phase.

11.2.1 Viet Nam

11.2.1.1 FLEGT VPA impact on forest sector investment

In Viet Nam, the in-depth study did not (yet) identify clear correlation between milestones in the Vietnamese VPA process and investment activity in the forest sector (*chart 11.2.1.1*).

In 2000, Viet Nam enacted an enterprise law, which was an important step towards opening up the economy for private investments. Investment in the forest sector has increased steadily since, supported by bilateral trade agreements with the US and general liberalisation of trade regulations in 2001.

Comparison of the decades before and after start of VPA negotiations in 2010 shows a significant increase in average investment volumes per year. The average annual investment volume in the forest sector increased from US$415 million pre-2010 to US$ 690 million after VPA negations started.

However, it is not possible to clearly attribute this increase to the start of the FLEGT VPA process in Viet Nam, because other substantial reforms of the economic system were also implemented by the Vietnamese government at the same time and likely had significant positive effects in the period after 2010. In 2007, for example, Viet Nam became member of the WTO, in 2010 the country became partner of the Transpacific Partnership (TPP) and in 2011 the government enforced a series of resolutions which helped to stabilise the currency, curb inflation and improve the investment enabling environment.

Another reason behind relatively steady rates of investment growth in the Vietnamese forest sector – also during recession periods – is the involvement of the state in many enterprises. The role of the state has reduced but enterprises that are fully or partly owned by the state tend to follow investment plans, regardless of overall economic developments and risks.

The stakeholder survey included in the study supports the results of the statistical analysis. The VPA negotiation phase up to 2018 was not highlighted as a major factor having stimulated investment. Market forces, favourable factor costs and economic reforms were identified as the major investment drivers. However, Vietnamese enterprises voiced high expectations in the fully implemented VPA in terms of mitigation of market risk, capital mobilisation and sector governance in the years to come.

11.2.1.2 VPA impact on investment risks and crisis resilience in Viet Nam

Survey respondents in Viet Nam identified the following risks as most relevant when assessing investment and expansion opportunities:

Most frequent

- Catastrophic events (storm, fire, diseases, pandemic)
- High volatility of market prices
- Restricted market access and lack of market information
- Informal activities resulting in unfair competition and reduced competitiveness
- Restricted access to capital

Less frequent

- Legal insecurity (land tenure, law enforcement)
- Financial risk (exchange rates, inflation)
- Increase of production costs
- Lack of skilled work force

The VPA, once fully implemented, was expected to have significant mitigating impacts on a number of these risks:

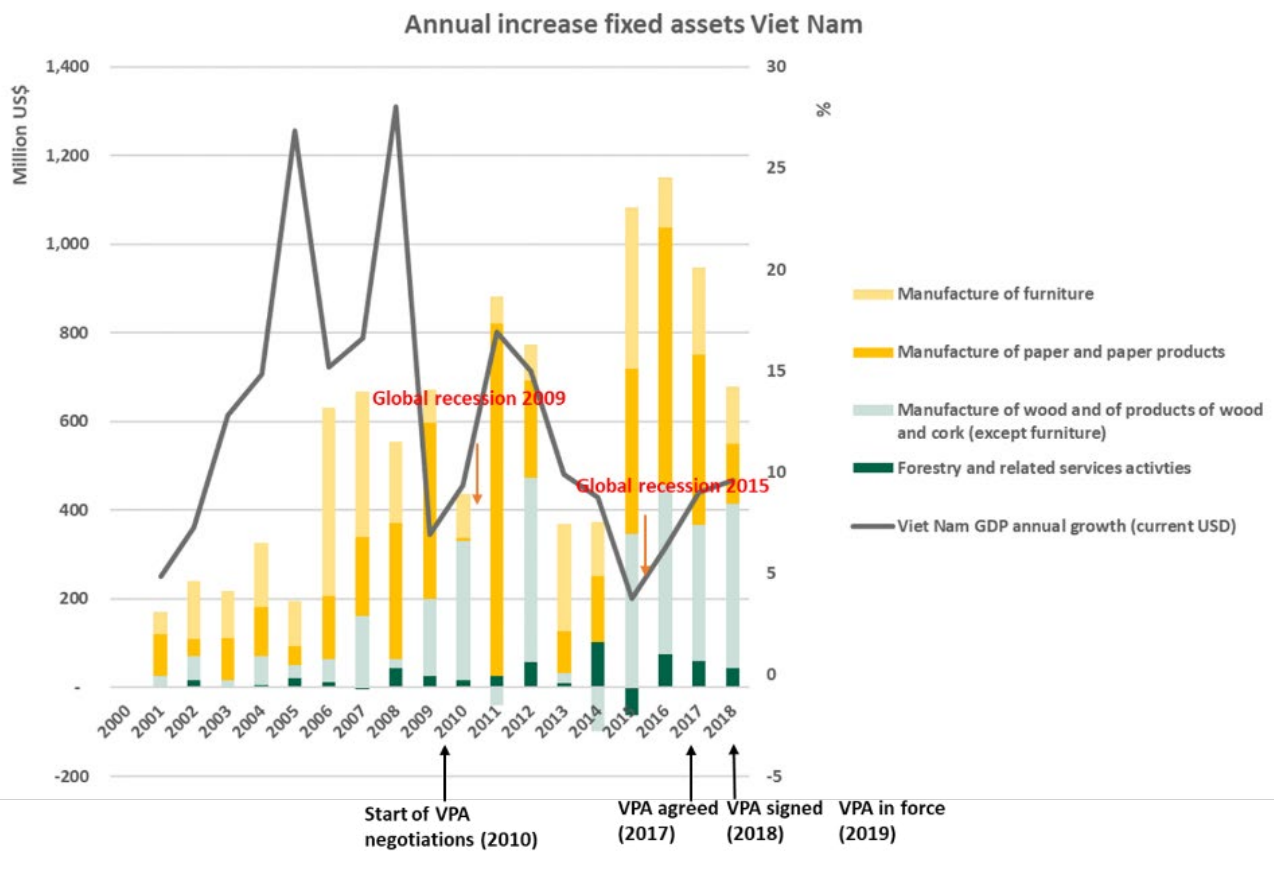


Figure 11.2.1.1: Annual increase of fixed assets in Viet Nam's forest sub-sectors 2001 to 2018.
Source: Annual Statistical Yearbooks for Viet Nam

Market risks
Variations of market risks were most frequently named by the enterprises. Within the set of answers, exporting enterprise were much more optimistic about the positive impact of the VPA on reducing market risks than domestic market suppliers.

Interviewees' highlighted risk-mitigating potential of the VPA in terms of:

- Improved market access in the EU and other regulated markets
- Stabilisation of market share and turnover in export markets
- Diversification of export markets/clients
- Price premiums may be paid for FLEGT-licensed timber
- FLEGT licensing may help establishing long-term business relationships
- Implementation of the VNTLAS will reduce unfair competition from informal enterprises

Catastrophic events
Although most enterprises answered that the VPA´s potential to mitigate the risk of catastrophic events is limited, the following positive impacts were attributed VPA implementation:

- The VNTLAS regulation requires forest owners to apply good forest management practices including fire risk management and appropriate silvicultural practices to mitigate other natural hazards (e.g. diseases).

- Forest owners who comply with the VNTLAS may participate in a (less costly) forest insurance scheme.

Access to capital
Restricted access to capital in form of investment and working capital was frequently mentioned by wood processing industries. Interviewees had high expectations for a positive influence of VPA implementation to mitigate this risk:

- Respondents perceived a direct correlation between the VPA and positive market prospects, increasing turnover and better rating with commercial banks to access loans.

- Complying with TLAS requirements would improve credibility with clients resulting in more willingness to pre-finance production.

- Some interviewees expected increasing interest of private equity investors in their enterprise due to VPA implementation.

Land tenure
Encroachment, timber theft and informal use of forests not designated as production forests were mentioned as important risks by the forestry enterprises in the sample group. They perceived that the VPA significantly contributes to reducing these risks:

- The VPA stimulates the process of issuing land-use certificates.
- Implementation of the VPA comes with enhanced law enforcement and monitoring reduces land encroachment and illegal logging.

Other risks
A number of other investment risks were mentioned only by a few respondents:

- Lack of skilled work force: A certain potential of VPA implementation to enhance qualification of staff was identified by the interviewees. However, this would not resolve the challenge of the forest sector to compete for talents with other industrial sectors.

- Production cost: VPA implementation is rather seen to add additional cost and potentially increase cost of raw material.

- Financial risk: The VPA is not expected to influence exchange rates or inflation.

VPA impact on forest sector resilience to economic crisis
All Vietnamese survey respondents stated that the COVID-19 pandemic has resulted in a drop in sales. While there was a large degree of variation in the amounts of business lost by individual respondent, market opportunities narrowed for all enterprises, no matter whether they supply just domestic or also international clients.

Impacts of the COVID-19 crisis on respondents' investment plans are diverse. A small number of companies said they were postponing investments planned for 2020, but most continue investing as scheduled.

Most respondents felt that the VPA is not yet contributing to mitigating the pandemic's market impacts as the TLAS is not yet fully implemented. However, with regards to post-crisis reconstruction plans, the VPA was considered to have potential positive effects.

A majority of respondents stated, for example, that they were planning to invest in product and market diversification and product quality improvements. The VPA was considered to have a positive impact especially in terms of access to new markets and groups of clients.

11.2.2 Indonesia

11.2.2.1 FLEGT VPA impact on forest sector investment

In Indonesia, where the VPA has been operational and FLEGT Licences issued since late 2016, the study identified impacts of the VPA on forest sector investment, along with several other factors (chart 11.2.2.1).

The long-term trend for Indonesia shows increasing investment volumes in the forests sector with an increasing share of investment in the wood processing and furniture industry. Average annual forest sector investment in the pre-VPA negotiation period (1998 to 2006) of US$1.7 billion almost doubled between 2007 and 2017 (US$3.1bn). At the same time, the focus of investment shifted from pulp and paper more towards wood processing and furniture manufacturing. Survey respondents attributed this increase in investment volumes in wood industry and furniture operations at least partly to the FLEGT VPA process and related improvements in forest sector governance as well as improved Indonesian market access to the EU, the US, Australia and some Asian markets.

The year 2011, when the VPA was agreed and the national forest moratorium enforced, was identified

as a turning point in forest sector investments by Indonesian enterprises and other stakeholders. The substantial improvements in forest governance and increasing application of the national timber legality assurance system (SVLK) led to an increasing interest of formal sector investments in forest industries. However, quantifying the exact impact of the FLEGT VPA process on forest sector investments in Indonesia remains difficult.

11.2.2.2 VPA impact on investment risks and crisis resilience in Indonesia

According to survey respondents, the VPA process has also had a positive impact on mitigating forest sector investment risks in Indonesia. The major risks for investing in the Indonesian forest sector were identified as:

Frequently mentioned

- Legal security
- Land tenure
- Market related risks (fluctuations, price volatility)
- Forest governance (illegal logging, unfair competition)

Less frequently

- Raw material shortage
- Increasing cost
- Catastrophic events (storm, fire, diseases, pandemic)

The VPA was considered to have mitigating impacts on a number of these risks, with significant impacts mentioned for some and lower impacts for others:

Market risks

Interviewees acknowledged the positive impact of the VPA on market access and market expansion in the EU and other regulated markets. However, a positive impact of FLEGT licensing on product prices was not yet perceived.

In this context, several respondents highlighted that the positive impact in terms of market access could be significantly strengthened, if targeted marketing efforts for Indonesian timber and timber products would be undertaken in these markets. They also called for a branding strategy for FLEGT-licensed timber to better compete with third-party certified products in sensitive markets and in public procurement

Forest governance (illegal logging, unfair competition)

The VPA has introduced tracing and monitoring of legal timber flows, reducing illegal and informal competition in the sector. Respondents unanimously agreed that this has contributed significantly to risk-mitigation. However, some said that raw material supply chain control had occasionally led to material shortages.

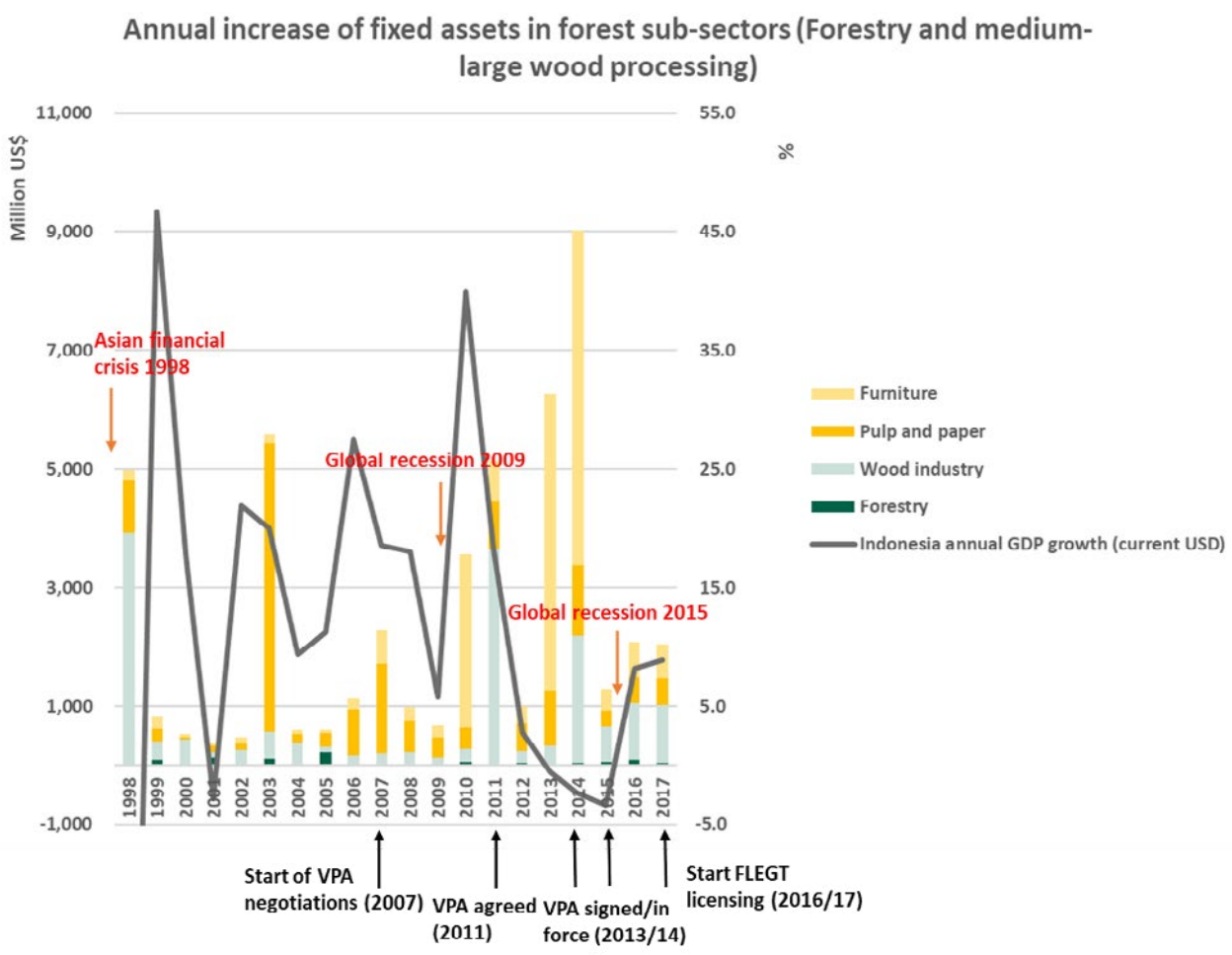


Figure 11.2.2.1: Annual increase of fixed assets in Indonesia's forest sub-sectors 1998 to 2017.
Source: Annual Statistical Yearbooks for Indonesia

Land tenure
Conflicts about land tenure and forest use rights were a frequently mentioned risk factor. This includes land claims of local communities, overlapping user rights, lengthy processes of land demarcation. This risk was mentioned by forestry companies, but also by the buyers of roundwood since the situation threatens reliable supply change management.

Respondents agreed that the VPA has contributed to mitigating this risk since it requires proof of ownership/ user rights and it foresees participatory approaches on forest management and includes provisions for conflict resolution. However, the issue of unequal land tenure and overlapping user rights was considered to be going beyond the forest sector and cannot be fully resolved by the VPA.

Other risks
A number of other investment risks were mentioned only be a few respondents:

- Raw material shortage: A few enterprises are experiencing increasing shortage of raw material, which is threatening the long-term viability of their business. They mention that the SVLK requirements are partly contributing to the shortage in raw material since not all forest producers can easily comply with the protocol.

- Increasing production cost: Higher factor costs in Indonesia is perceived to threaten international competitiveness (e.g. compared to Viet Nam). The VPA is not contributing to cost reduction.

- Catastrophic events: Forest fires occur on a regular basis and are most often caused by burning practices in agriculture and palm oil production, according to survey respondents. As a result, the VPA was considered not to mitigate this risk.

VPA impact on forest sector resilience to economic crisis
On average, the COVID-19 pandemic has resulted in a substantial fall in Indonesian timber and timber product sales, including for exporting companies and their suppliers in forestry and logging. However, some exporters with a focus on countries where COVID-19 restrictions were less severe or where increased time spent at home resulted in higher spending on DIY and gardening products (including furniture) reported unchanged sales or even increasing demand.

Companies perceived only a minor positive impact of the VPA when it comes to mitigating COVID-19 crisis impacts. This includes primarily maintaining market access to regulated markets for the post-crisis phase. The need to boost export sales and intensify marketing efforts for Indonesian wood products featured prominently in most interviews. A number of respondents voiced dissatisfaction with EU efforts to "promote a favourable position" of products covered by the VPA in the EU market and felt that more needed to be done to comply with Article 13 of the VPA .

11.3 Preliminary conclusions

The 2019 baseline study demonstrated that a FLEGT VPA alone cannot compensate for the lack of market drivers for investments such as market potential, investment friendly environment, efficient production systems and favourable cost situations, for example. However, in countries where all or some of the above criteria are met, as is the case in Viet Nam and Indonesia, VPAs can be a stimulating factor in the investment-enabling environment in the forest sector by:

- Creating improved access to regulated markets;

- Improving access to capital and investors through formalisation/improved credibility of forest sector enterprises;

- Eliminating market distortions through unfair / illegal competition;

- Establishing good forest governance, addressing social and environmental risk factors;

- Ensuring long term viability of operations by enhancing sustainable forest management practices.

To further strengthen the positive impacts of VPAs on forest sector investment, the following aspects should be considered:

- Strengthen the pull effect of markets by expanding regulated market demand (i.e. support development of timber legality laws in additional countries e.g. China, India).

- Strengthen the competitiveness of FLEGT-licensed products through branding and preferential treatment for licensed products, for example in public procurement.

- Promote FLEGT licensing as a factor to improve the bank rating of forest sector enterprises in VPA countries.

- Speed up the formalisation of all market participants.

- Find ways to avoid additional cost for producers, e.g. by developing digital solutions.

- Ensure that no raw material shortages occur due to technical limitations of the TLAS.

The full investment study will be published on the IMM website in the first quarter of 2021.

Conclusions

The IMM 2019 Annual Report shows an increasing level of recognition of FLEGT Licences as a means to reduce importers' own risk under the EUTR and increasing awareness of the wider benefits of implementing FLEGT VPAs in partner countries. It also demonstrates growing familiarity with the administrative processes involved in importing FLEGT-licensed timber and a very high level of acceptance of these processes.

The second IMM investment study, focussing on Viet Nam and Indonesia and summarised in this report, shows that FLEGT VPA implementation and licensing has a positive impact on the investment enabling environment in VPA partner countries and identified correlation between the VPA, investment volumes and a shift in investments from forestry and logging towards investment in further processing industries in Indonesia. The study also demonstrates that the potential of the FLEGT VPA process for attracting additional investment would likely be reinforced by integration of relevant stakeholders from the banking and financial sector in the process.

The EUTR has prompted EU importers to reassess their supply chains, especially in countries considered "high risk" and relationships were not infrequently modified as a result. However, this has not necessarily led to replacement of one tropical timber supplier with another supplier from a FLEGT licensing VPA partner country. More frequently, importers reported that imports of certain products or species were discontinued and the product either sourced from specialist importers in the EU or replaced with non-tropical or even non-wood alternatives.

This highlights once more the fundamental importance of raising awareness of the long-term benefits of the sustainable use of tropical timber and addressing environmental prejudice in the EU markets. VPA partner countries should be encouraged to develop individual marketing strategies for their particular FLEGT-licensed timber products in the EU markets during the implementation process.

It also highlights the importance of continuing efforts to bring more VPA processes to a successful conclusion and widen the source-base, range and availability of FLEGT-licensed timber and timber products.

Recommendations

- The second IMM investment study found that VPAs can be a stimulating factor in the investment-enabling environment in the forest sector at several levels. FLEGT licensing should be promoted as a factor to improve the bank rating of forest sector enterprises in VPA countries and relevant actors should be included in the VPA processes.

- A 2019 IMM study of architects' awareness and perceptions of FLEGT and tropical timber as a building material indicates a low level of awareness of FLEGT itself, Voluntary Partnership Agreements, FLEGT licensing and the EU Timber Regulation. Professional bodies representing architects should be engaged to increase awareness of the FLEGT process. An important stakeholder group is daily making decisions on the choice of materials that has no understanding of the value and achievements of these processes. Many architectural bodies run continuing professional development courses for architects, and these offer an excellent opportunity to increase awareness of FLEGT processes.

- A second recommendation from the architects' study is to engage with the World Green Building Council to raise awareness of the value of FLEGT licensing with a long-term goal of gaining credits for its use in Green Building Council affiliated programmes. Certified green building projects are set to increase and such programmes play a key role influencing material choices. Whilst some standards currently encourage the uptake of certified wood only a small proportion allow solely FLEGT-licensed materials to be used. Only through recognition and credit within these standards will FLEGT licensing become of greater value to many projects and WGBC could play a pivotal role in raising awareness and increasing use of FLEGT within standards.

- Demonstrate the business benefits of the FLEGT licensing scheme in Indonesia to build trust. Indonesian furniture producers, in particular, see the licencing process as a bureaucratic hurdle rather than as business opportunity. The current view is that it is not cost effective and any formerly promised market advantages are not tangible.

- Complete VPA implementation in other VPA countries as quickly as possible. All IMM surveys identified a clear message that FLEGT-licensed timber from a single country is insufficient.

- Encourage those companies not yet using FLEGT-licensed timber to do so. Awareness of EUTR varies among EU-based businesses, with awareness decreasing further down the supply chain. Some potential buyers of FLEGT-licensed timber are almost certainly unaware of it, what it stands for and what the benefits are for their businesses. Increased awareness at the business-to-business level would add value to the "brand" of FLEGT-licensed timber. Research undertaken in 2019 and 2020 reinforces the view that EU-based companies will not re-source to Indonesia purely due to there being licensed material. Purchasing decisions are complex and, whilst easier compliance with the EUTR is a factor, it is not sufficiently important in its own right to drive a switch.

- The market recognition FLEGT-licensed products should be strengthened through branding and preferential treatment for licensed products, for example in public procurement.

- The private sector both in VPA Partner countries and in the EU needs to be actively engaged in the positive market development of FLEGT-licensed timber. Timber trade federations, for example, could play a leading role and have already started doing so in some countries. ENGOs that are open to supporting the FLEGT/VPA process and commercial use of tropical timber should also be more actively engaged.

- IMM surveys demonstrate that the EU Timber Regulation is having a significant impact on importers' purchasing behaviour in a number of key EU markets. However, continuing high import volumes in some Member States e.g. from Brazil and Myanmar, which are under special observation by the FLEGT/EUTR Expert Group, indicate that harmonisation of due diligence standards across the EU should be further pursued. FLEGT licensing VPA partner countries could then potentially feel a stronger benefit of the "no-risk" status of FLEGT-licensed timber; however, other commercial and economic factors would still have to be taken into account.

IMM

Independent Market Monitoring of FLEGT-Licensed Timber

International Tropical Timber Organization (ITTO)
International Organizations Center
5th Floor, Pacifico Yokohama, 1-1-1 Minato-Mirai
Nishi-ku, Yokohama, 220-0012 Japan

FLEGT Independent Market Monitor
IMM Lead Consultant, Sarah Storck, lead@flegtimm.eu