



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

VPA partner country timber trade and market perceptions update

AN IMM STUDY – No 1/ 2022



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Indonesia log transport.
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*This report has been subject to review by the European Commission.
It does not necessarily reflect the official positions of the EU or ITTO/IMM.*

Background

Between 2017–2021, IMM distributed annual market overviews and summaries of the previous year’s survey results in the form of **IMM Annual Reports**. To allow for a timelier distribution of this information, IMM decided to switch to shorter, more frequent reports in 2022. These reports will cover the latest market trends combined with either survey results or updated analysis against specific IMM indicators. IMM will publish three short reports in 2022 and a final report in early 2023, when the IMM project will complete its activities.

This first modular report includes a trade update for the full year 2021, with a specific focus on trade between the EU and Indonesia, as well as results from the 2021 IMM EU trade survey. Future reports will focus on providing details of preliminary trade trends in 2022 and other emerging issues.

Acknowledgements

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1 2021 EU-VPA partner countries trade overview

The total value of VPA partner countries¹ timber products² exports to the EU increased 18% to USD 3.07 billion in 2021 following a 7% decline in 2020 to less than USD 2.6 billion. The total value of EU imports from VPA partner countries in 2021 stood 15% higher in value than it was in 2016. [Figure 1.1]

The EU's leading importers of forest products from VPA partner countries in 2021 are the Netherlands (USD 627 million / 20% of the EU's total import value from VPA partner countries); Belgium (USD 531 million / 17%); France (USD 498 million / 16%); Germany (USD 445 million / 15%); Italy (USD 217 million / 7%); Spain (USD 156 million / 5%); Greece (USD 107 million / 4%) and Denmark (USD 104 million / 3%). The remaining Member States accounted for 13% of the total value imports to a value of USD 388 million in 2021. [Figure 1.2]

In terms of value, the largest group of imports are wood based furniture, with

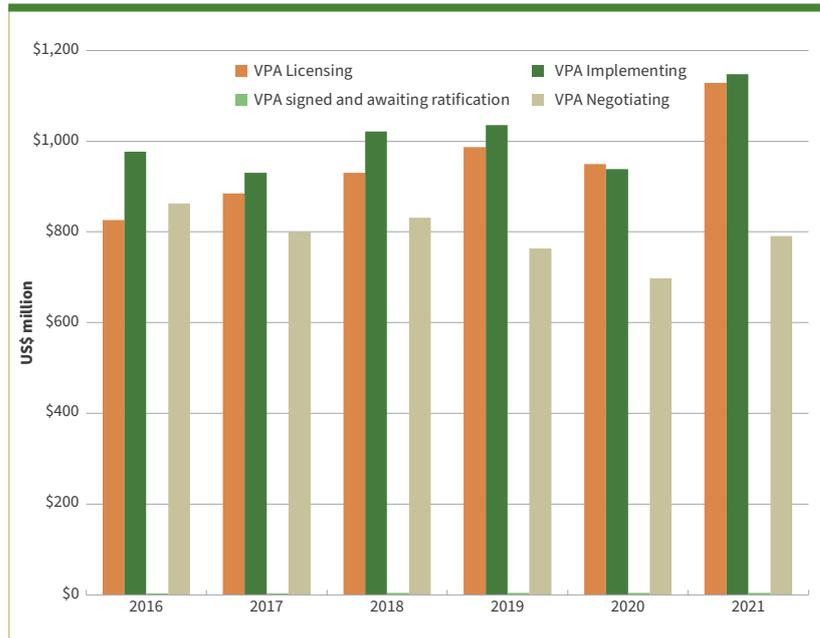


Figure 1.1: Value of EU imports from partner countries 2016-2021 by VPA implementation status. Source: IMM STIX

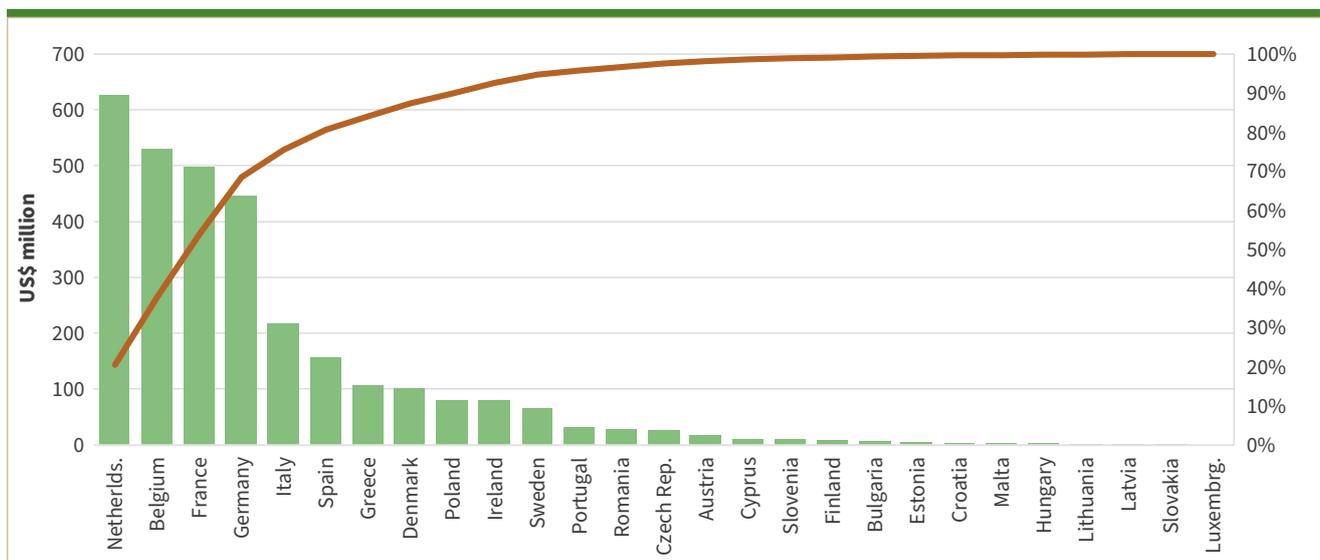


Figure 1.2: Value of EU imports by Member State in 2021. The orange line represents the cumulative total (percentages). Source: IMM STIX

- This report focuses on exports of timber products by VPA partner countries to EU countries. VPA partner countries include countries at the following stages of the FLEGT VPA process in 2021:
 - FLEGT licensing: Indonesia.
 - VPA implementing: Cameroon, Central African Republic, Republic of Congo, Ghana, Liberia, and Viet Nam.
 - VPA signed and awaiting ratification: Guyana and Honduras.
 - VPA negotiating: Côte d'Ivoire, Gabon, DR Congo, Laos, Malaysia and Thailand.
- The report covers all products – referred to collectively as “timber products” - in the scope of existing VPAs including all those in the following chapters (and parts thereof) of the international Harmonized Commodity Description and Coding (HS) System:
 - primary wood products: logs (HS 4403), sawnwood (HS 4407), veneers (HS 4408), plywood (HS 4412);
 - secondary processed wood products (SPWP): mouldings (HS 4409), picture frames (HS 4414), packing cases (HS 4415), barrels and casks (HS 4416), tools (HS 4417), joinery (HS 4418), tableware (HS 4419), marquetry & ornaments (HS 4420), and other secondary processed wood products (HS 4421);
 - wood furniture (HS 940161, 940169, 940330, 940334, 940350, 940360, and 940390); and
 - wood pulp (47) and paper (48).

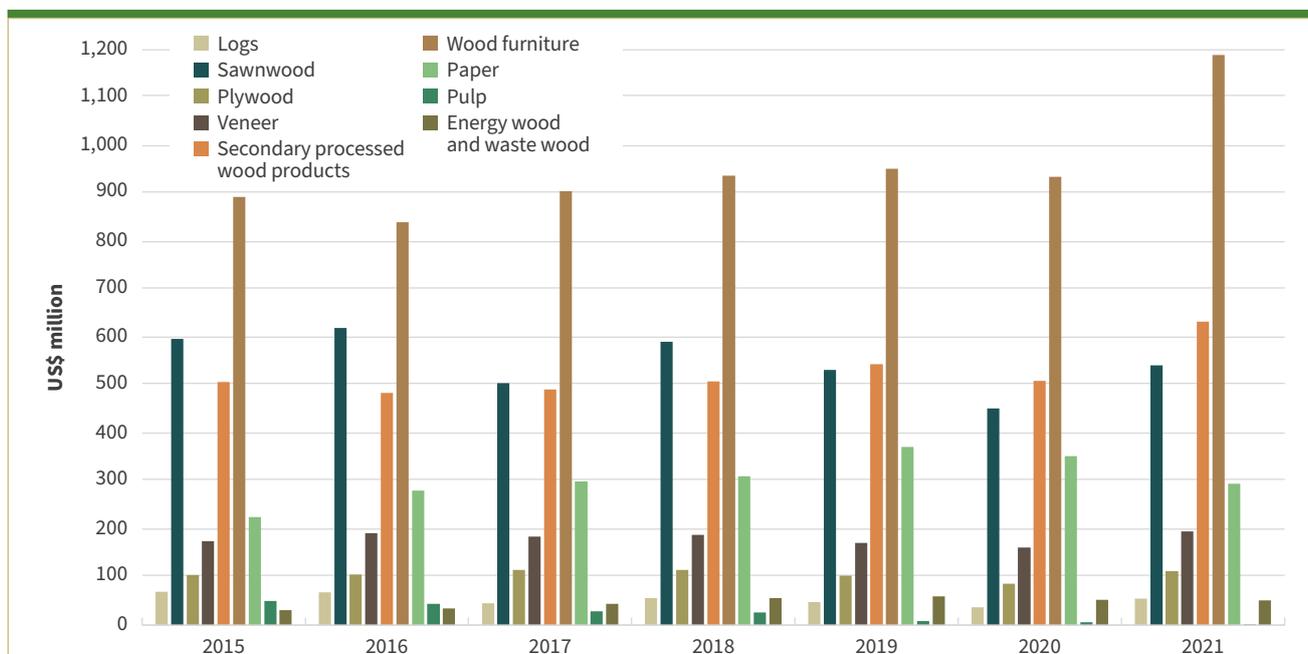


Figure 1.3: Value of EU imports of forest products 2015-2021. Source: IMM STIX

Importer	Exporter	Product group	2019 USD value	2021 USD value	Change from 2019
Netherlands	Indonesia	Secondary processed wood products	\$131,591,000	\$169,280,000	+28%
France	Viet Nam	Wood furniture	\$133,500,000	\$141,842,000	+6%
Germany	Viet Nam	Wood furniture	\$107,489,000	\$126,145,000	+17%
Netherlands.	Indonesia	Wood furniture	\$86,416,000	\$124,687,000	+44%
Belgium	Cameroon	Sawnwood	\$103,278,000	\$108,962,000	+5%
Germany	Indonesia	Wood furniture	\$54,638,000	\$82,977,000	+51%
Germany	Indonesia	Secondary processed wood products	\$67,337,000	\$75,219,000	+11%
Belgium	Indonesia	Wood furniture	\$44,807,000	\$74,272,000	+65%
Netherlands.	Viet Nam	Wood furniture	\$66,783,000	\$70,765,000	+6%
Belgium	Gabon	Sawnwood	\$53,716,000	\$70,329,000	+31%
France	Indonesia	Wood furniture	\$42,317,000	\$67,540,000	+60%
Netherlands.	Malaysia	Sawnwood	\$61,214,000	\$65,532,000	+7%
France	Gabon	Veneer	\$51,153,000	\$64,178,000	+25%
Netherlands.	Malaysia	Secondary processed wood products	\$44,279,000	\$53,392,000	+21%
Greece	Indonesia	Paper	\$51,424,000	\$51,271,000	Unchanged
Denmark	Viet Nam	Wood furniture	\$27,264,000	\$41,523,000	+52%
Spain	Viet Nam	Wood furniture	\$31,667,000	\$40,420,000	+28%
Ireland	Viet Nam	Wood furniture	\$24,823,000	\$34,739,000	+40%
Belgium	Viet Nam	Wood furniture	\$18,823,000	\$34,014,000	+81%
Italy	Cameroon	Sawnwood	\$32,037,000	\$32,669,000	+2%

Table 1: Largest 20 bi-lateral trade flows between EU Member States and VPA partner countries. Source: IMM STIX

a value of USD 1.19 billion, representing 39% of the total value of forest products trade with VPA partner countries in 2021. Around 20% of the EU import value from partner countries in 2021 was in the form of secondary processed wood products (USD 633 million). At a value of USD 542 million and 18% of the total value, sawnwood was the third largest forest products commodity imported from VPA partner countries. EU paper imports from VPA

partner countries amounted to USD 295 million in 2021 (9%). In 2021 veneer imports from VPA partners amounted to USD 195 million (6% of total imports) and plywood amounted to USD 113 million (4% of the total value of imports from VPA partner countries). The remaining imports were made up of logs (2% of the total); energy wood and waste wood products (2%) and a very small amount of wood pulp. [Figure 1.3]

Table 1.1 includes the largest bilateral trade flows between individual EU Member States and VPA Partner countries. The single largest trade flow in 2021 was between the Netherlands and Indonesia, the only VPA partner country issuing FLEGT Licences, with a value over USD 169 million for secondary processed wood products. Three of the five largest bilateral flows are for wood furniture products, between France / Germany and Viet Nam and the Netherlands and Indonesia. The largest bilateral trade flow for sawnwood was between Belgium and Cameroon, with a value of nearly USD 109 million 2021. The largest bilateral

trade flow for veneer was between France and Gabon, with a value of nearly USD 64 million 2021.

With the exception of the bilateral trade in paper between Greece and Indonesia, the value of the largest bilateral trade flows in 2021 had shown positive growth over the last pre-pandemic year of 2019.

Detailed information on trade trends and the VPA status of each VPA implementing country can be found in the **VPA partner country profiles on the IMM website³**.

2 Indonesia 2021 trade trends

2.1 Strong rebound in Indonesian timber and timber products exports in 2021

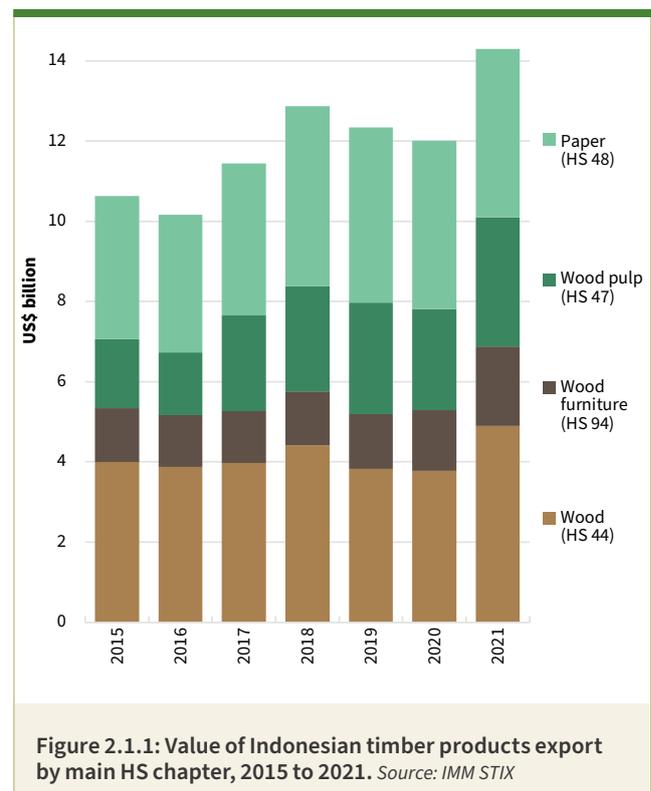
The total value of Indonesia's timber products exports increased 19% to USD 14.3 billion in 2021 following a 3% decline the previous year (**Figure 2.1.1**). The rise in export value formed part of a wider rising trend in world trade in timber products, which is estimated to have increased by 34% to USD 193 billion last year.

The rise in export value, both from Indonesia and globally, was partly due to rising product prices against a background of extremely tight global supply following severe logistical problems during the COVID pandemic.⁴ It was boosted by a strong rebound in global demand, particularly for goods for home and garden renovation. This occurred as consumer finance, notably in the US and Europe, was redirected during COVID lockdowns away from travel, eating out and other leisure pursuits towards improving the living environment. Demand growth was also driven by rising construction activity, encouraged by loose monetary policy and direct fiscal stimulus in some countries (such as US, Netherlands, Italy and India) as construction was prioritised for post-crisis recovery.

The export value of HS 44 wood products from Indonesia increased 30% to USD 4.9 billion in 2021 after declining 1% the previous year. Much of the growth last year was in plywood destined for the US, Japan, South Korea, and Malaysia. However decking exports were up to China, the US, Netherlands, New Zealand, and Germany, while joinery products (mainly doors and laminates) increased to the US, UK, and Netherlands.

The value of Indonesia's wood furniture exports increased 31% last year to USD 2.0 billion after a 10% gain the previous year. Much of the gain was in exports to the U.S. which alone increased 40% from 0.8 billion to 1.1 billion, but there were also significant increases to a wide range of other countries including Japan, Netherlands, Germany, Australia, UK, and France.

Indonesia's export value of paper remained flat overall at USD 4.2 billion in 2021, although this hides a continuing shift in the balance of paper exports towards other Asian



markets, particularly China, and away from the US, EU, and UK. Indonesia's export value of pulp increased 28% to USD 3.2 billion in 2021, nearly all comprising chemical pulp destined for China. No pulp is currently exported from Indonesia into the EU.

Of total Indonesian timber products export value, the proportion destined for the EU27 was 6% down in 2021 – down from 7% the previous year. The proportion destined for China, the largest single market, was 29% in 2021, the same as the previous year. The proportion destined for the US increased from 14% in 2020 to 17% in 2021. Of smaller markets, the proportion destined for Vietnam increased from 2% in 2020 to 3% in 2021. The proportion destined for South Korea (6%), Malaysia (3%), Australia (3%), India (3%) and UK (2%) was the same as the previous year.

3. VPA partner profiles have been available on the website rather than as Annexes to reports for a number of years now. This format allows for regular updating.

4. ITTO Market Information Service https://www.itto.int/files/user/mis/MIS_1-15_Feb2021.pdf

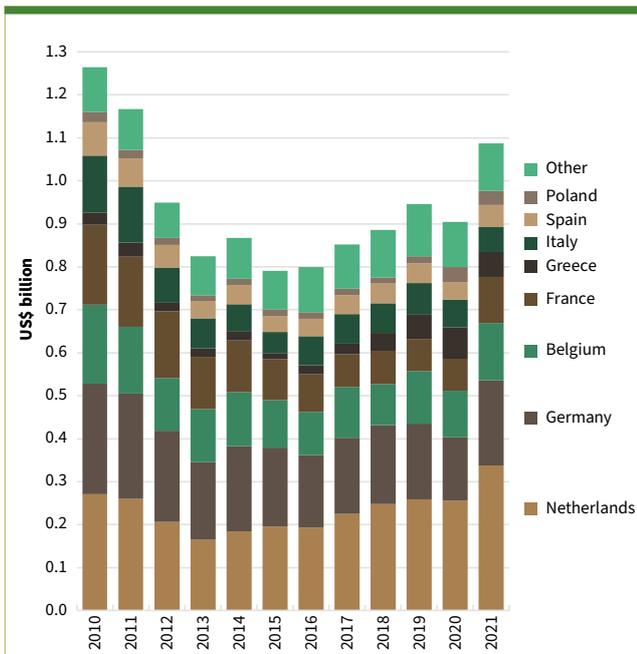


Figure 2.2.1: Value of Indonesian timber products import in the EU27 by country of import, 2010 to 2021. Source: IMM STIX

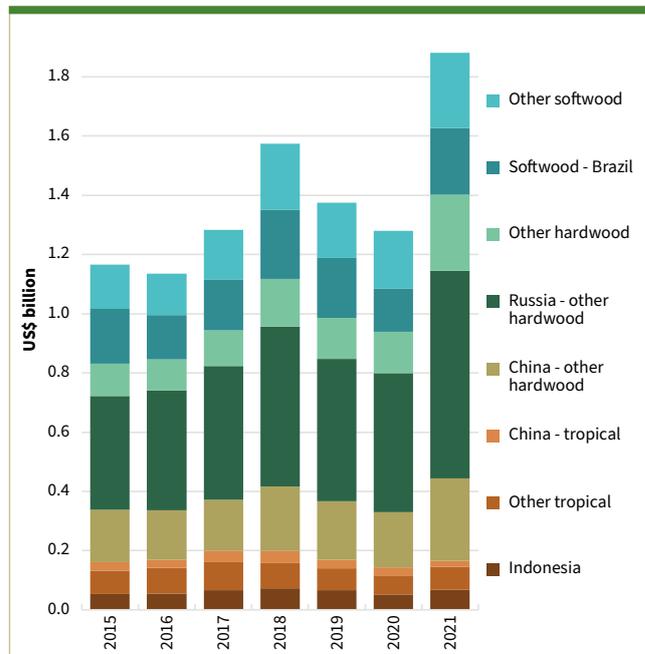


Figure 2.3.1: EU27 import value of plywood, by species group and main source of supply, 2015 to 2021. Source: IMM STIX

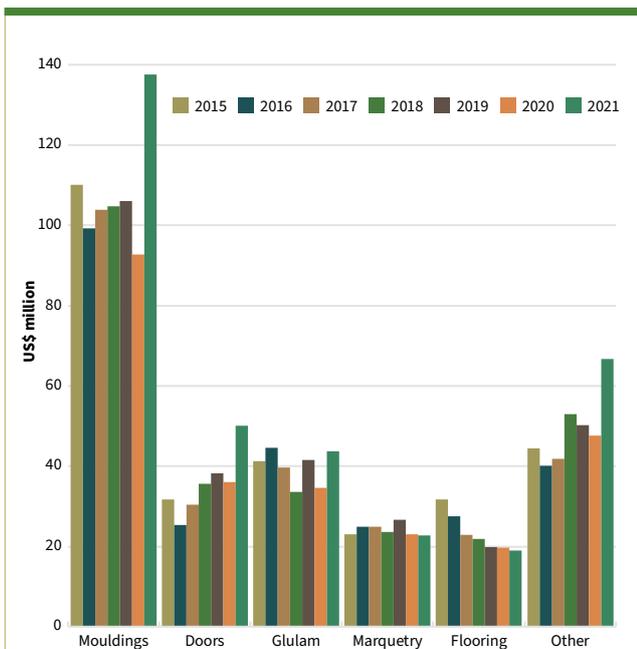


Figure 2.4.1: EU27 import value of Secondary Processed Wood Products from Indonesia, 2015 to 2021 Source: IMM STIX

The proportion destined for “regulated” markets (i.e. those with regulations aiming to prevent import of illegally sourced timber) increased from 47% in 2020 to 50% in 2021. Indonesia remains the only VPA country with an operational FLEGT-licensing system in place.

2.2 EU27 import value of Indonesian timber products rises 20% in 2021

The total value of EU27 imports of timber products from Indonesia increased by 20% to USD 1.09 billion in 2021, the highest level in the last decade (Figure 2.2.1). The rise

was partly due to a sharp increase in product price and freight rates since the start of the COVID crises due to tight supplies and logistical problems.⁵ However, the quantity of imports from Indonesia also increased by 10% to 269,000 tonnes in 2021, the highest level since 2018.

Strong increases in import value were recorded in all four of the leading EU markets for Indonesian wood products in 2021, including the Netherlands (+32% to USD 340 million), Germany (+34% to USD 200 million), Belgium (+23% to USD 130 million), and France (+45% to USD 110 million). Import value from Indonesia was also up 28% to USD 50 million in Spain. In all these markets import value from Indonesia in 2021 was well in excess of the pre-pandemic level in 2019.

Import value into Greece fell 21% to USD 60 million in 2021, but this followed a 40% increase in 2019 and 25% increase in 2020. Import value into Italy fell 11% to USD 60 million in 2021 following an 11% fall the previous year.

The downturns in Greece and Italy in 2021 were driven by volatility in the paper sector during the COVID crises.

2.3 Indonesia takes over 40% share of EU27 tropical plywood market in 2021

EU27 import value of plywood from Indonesia increased 32% in 2021 to USD 70 million. This followed a 21% decline the previous year. Part of the increase in value may have been due to rising product prices and freight costs. In quantity terms, EU27 imports of Indonesian plywood increased 7% to 81,600 m³ after a 15% decline the previous year.

Indonesia’s share of import value of tropical plywood into the EU27, which fell from 39% in 2019 to 36% in 2020, rebounded to 41% in 2021. Last year was the first year since 2005 that Indonesia’s share of total EU27 tropical plywood imports exceeded 40%. Much of the

5. ITTO Market Report https://www.itto.int/files/user/mis/MIS_1-15_Feb2021.pdf

gain in direct imports from Indonesia last year was at the expense of tropical hardwood plywood manufactured in China and of indirect imports of tropical hardwood plywood from the UK.

While Indonesia's share of value of tropical hardwood plywood imported into the EU27 increased last year, share of all hardwood plywood import value fell from 6% in 2020 to 5% in 2021. This continued a longer-term trend of declining share from 7% in 2017, driven mainly by the large rise in imports of birch-faced plywood from Russia between 2016 and 2021 (Figure 2.3.1).

2.4 Sharp rise in value of EU27 imports of decking products from Indonesia

EU27 import value of mouldings (mainly bangkirai decking) from Indonesia increased 48% to USD 138 million in 2021 (Figure 2.4.1), partly due to rising prices and freight rates.⁶ Import quantity increased by only 16% from 57,000 tonnes to 66,000 tonnes during the year. Rising trade was driven by the exceptionally strong market for garden improvement products in the EU27 and restricted supplies of decking from other parts of the world.

Indonesia's share of EU27 import value of mouldings from Lower and Middle Income (LMI) countries increased from 24% in 2020 to 26% in 2021, the first rise in share since 2016 (Figure 2.4.2). Prior to 2020, Indonesia was losing share to Brazilian and Russian products in the EU27 mouldings market, probably to a large extent due to supply limitations in Indonesia since bangkirai decking is still popular in Europe.

EU27 import value of wood doors from Indonesia increased by 39% to USD 50 million in 2021 following a 6% decline the previous year. Import quantity increased 22% to 15,000 tonnes last year, having fallen 2% in 2020. Indonesia accounted for 22% of total EU27 import value of doors from LMI countries in 2021, a rise from 21% in 2020. In 2021, Indonesia was the second largest LMI country supplier of wood doors to the EU27 after China. China's share of import value in this sector fell from 33% in 2020 to 31% in 2021. However share continued to rise from several countries neighbouring the EU27, including Morocco, Belarus, and Turkey.

EU27 import value of Indonesian wood laminates, mainly laminated window frames and kitchen tops, increased 27% to USD 44 million in 2021. This followed a 17% fall the previous year. For these products the rebound in value was probably almost entirely due to rising prices and freight rates. Import quantity increased only 3% to 18,000 tonnes in 2021 after a 9% fall the previous year. Indonesia's share of total import value of laminated wood products from LMI countries fell from 20% in 2020 to 18% last year. Last year all external suppliers of wood laminates to the EU27 lost share to Russia, which overtook Malaysia as the largest supplier. In 2021, Russia accounted for 23% of all EU27 imports of laminated wood products from LMI countries, up from just 14% the previous year.

EU27 import value of wood flooring from Indonesia fell 3% to USD 19 million in 2021, continuing a long-term

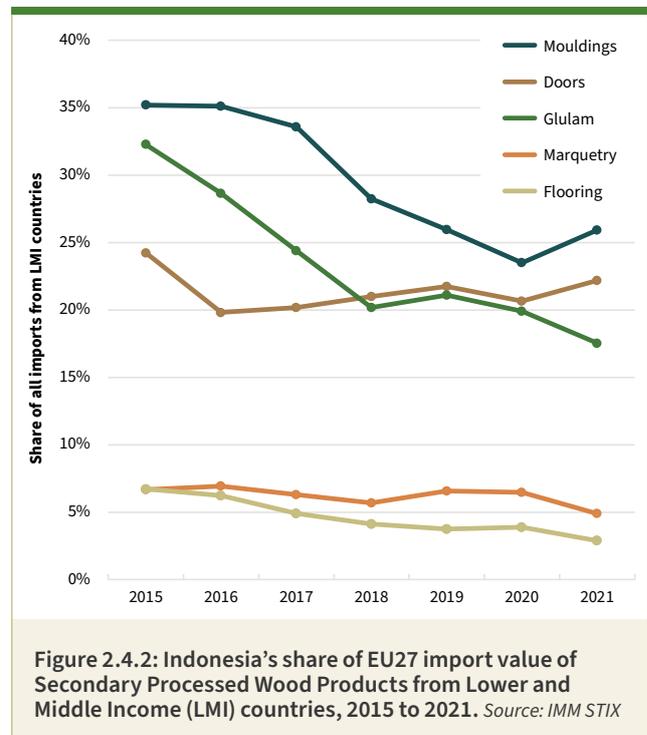


Figure 2.4.2: Indonesia's share of EU27 import value of Secondary Processed Wood Products from Lower and Middle Income (LMI) countries, 2015 to 2021. Source: IMM STIX

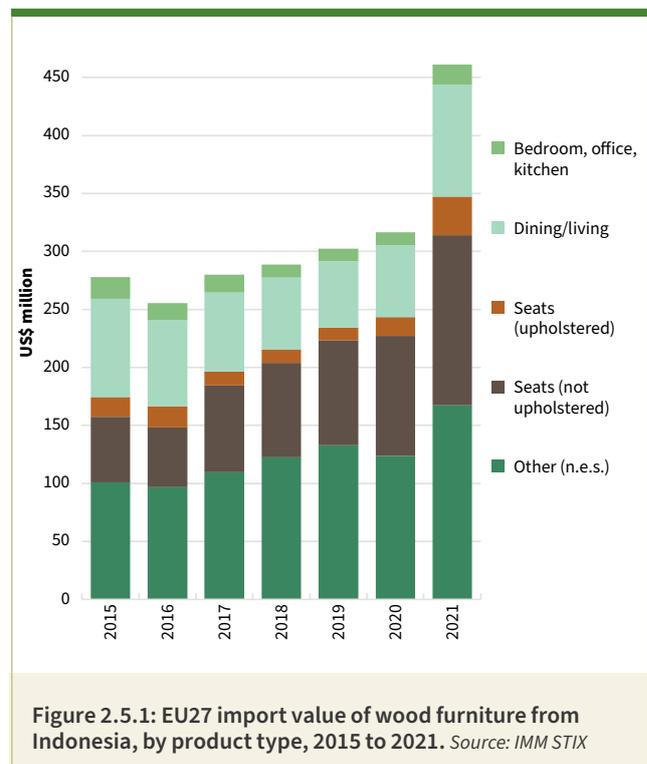
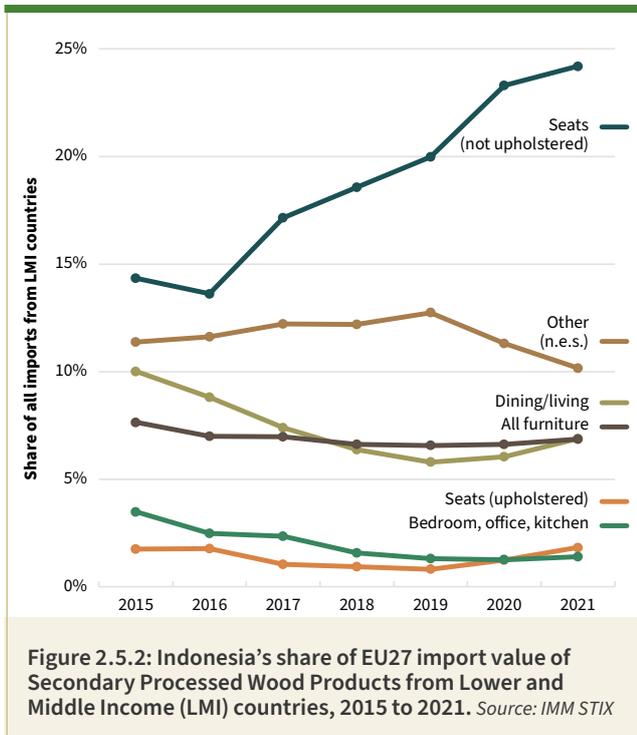


Figure 2.5.1: EU27 import value of wood furniture from Indonesia, by product type, 2015 to 2021. Source: IMM STIX

decline ongoing since the 2008 financial crises. The EU27 wood flooring sector is now almost entirely based on temperate woods, particularly oak which accounts for over 80% of the face veneers used in this sector. EU27 import quantity of Indonesian wood flooring fell 11% to 5,000 tonnes in 2021. This followed a 3% rise the previous year, a short-lived gain in the context of the pandemic and the long-term trend. Indonesia's share of EU27 wood flooring import value from LMI countries fell from 3.9% in 2020 to 2.9% last year. EU27 imports of this product from LMI countries are dominated by China, which accounted for 62% by value in 2021, up from 59%

6. <https://www.cips.org/supply-management/news/2021/november/rising-freight-rates-could-undermine-global-recovery/>
See also: <https://www.statista.com/statistics/1250636/global-container-freight-index/>



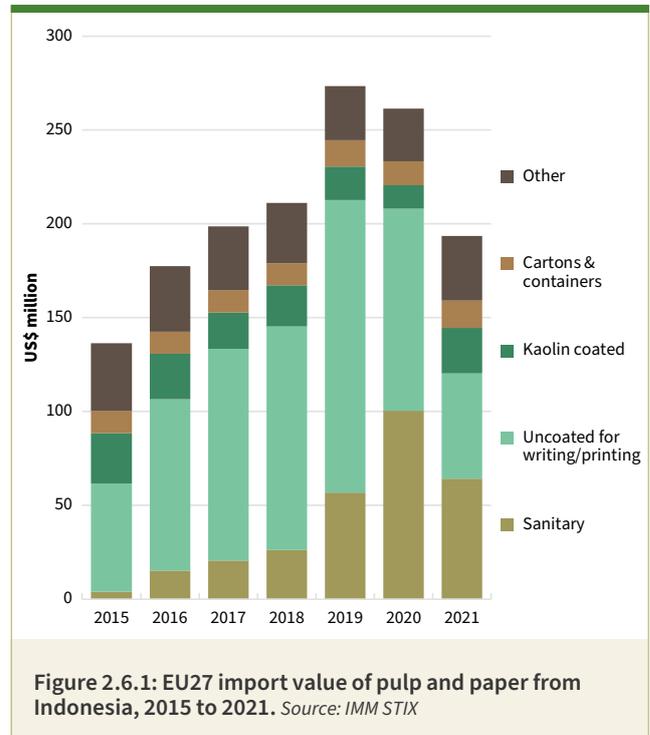
the previous year. Ukraine is the other large LMI supplier of wood flooring to the EU27, accounting for 17% of import value in 2021, down from 18% the previous year.

2.5 More encouraging signs for Indonesian wood furniture in EU27 market in 2021

The overall trend for Indonesian wood furniture in the EU27 in 2021 was positive, with encouraging signs for future development of this market. The value of EU27 wood furniture imports from Indonesia increased 46% to USD 461 million in 2021 following a 5% gain the previous year (Figure 2.5.1). As for other products, the rise in import volume was partly owing to rising prices and freight costs. Import quantity increased 12% to 84,000 tonnes after a 1% decline in 2020. The average unit value for Indonesian wood furniture in EU27 imports increased 30% from USD 4,226/tonne in 2020 to USD 5,476/tonne in 2021. Indonesia accounted for 6.9% of total EU27 wood furniture import value from Lower and Middle Income (LMI) countries in 2021, a slight gain from 6.6% the previous year (Figure 2.5.2).

EU27 imports of wood furniture from Indonesia are dominated by outdoor products, particularly due to relatively abundant plantation teak supplies. The HS product code system has no separate category for garden furniture. However, given that most categories of interior furniture are identified separately (bedroom, office, kitchen, dining/living room, shop), the "other not elsewhere stated (n.e.s.)" category can be assumed to comprise mainly outdoor furniture. The majority of unupholstered seats imported into the EU27 from Indonesia is also likely to comprise outdoor products.

In 2021, EU27 import value of other n.e.s. furniture from Indonesia increased 35% to USD 167 million. However, in this product category, Indonesia's share of EU27 import value from LMI countries has fallen during the pandemic, from 12% in 2019 to 10% in 2020. Share was lost primarily to China, India, Turkey, and Ukraine.



In contrast to other n.e.s. furniture, Indonesia's share of EU27 import value of non-upholstered seating from LMI countries increased significantly during the pandemic, from 20% in 2019 to 24% in 2020. Much of the gain was made at the expense of Malaysia. The share of China, still the largest external supplier to the EU27 in this product category, remained level at around 38% between 2019 and 2021.

Of interior furniture products, Indonesia is beginning to make headway in the EU27 dining/living room and upholstered seating sectors. EU27 import value of dining/living room furniture from Indonesia increased 56% to USD 96 million in 2021 building on an 8% rise the previous year. Indonesia's share of total import value of this product category from LMI countries increased from 6.6% in 2020 to 6.9% in 2021. EU27 import value of upholstered seating from Indonesia increased by 103% to USD 33 million last year. Share of total import value from LMI countries increased from 1.2% to 1.8%.

2.6 EU imports of Indonesian paper products down 26% year-on-year in 2021

EU27 import value of paper products from Indonesia fell 26% to USD 194 million in 2021. This followed a 4% fall the previous year (Figure 2.6.1). In quantity terms, imports fell 38% to 158,000 tonnes in 2021. Indonesia's share of total EU27 import value of paper products from LMI countries fell from 6% in 2020 to 3% in 2021. Share was lost primarily to China, which accounted for half of all EU27 import value of paper products from LMI countries during the year.

Paper imported from Indonesia into the EU27 consists primarily of uncoated papers (in large sheets or rolls for writing and printing) and sanitary paper products. Imports of both these product categories from Indonesia fell sharply last year, only partly compensated by a rise in import value of kaolin-coated paper products. The decline in imports last year occurred across all the main EU27 destinations for Indonesian paper including Greece, Belgium, Italy and Spain.



2.7 Indonesian log supply continues to rise in 2021

Indonesian log supply increased 3% to 63.2 million m³ in 2021, continuing the long-term rising trend driven mainly by rising plantation production⁷ destined for the pulp and paper sector (*Figure 2.7.1*).

According to Indonesian Ministry of Environment and Forestry data, in 2021 plantation production increased 4% to 47.1 million m³, building on a 13% gain the previous year. Community forest production⁸ also increased in 2021, by 11.6% to 9.5 million m³ after an 8% decline the previous year. Logs from land clearing operations⁹ increased 27% from a small base to 0.4 million m³ in 2021, the first rise since 2018. These gains offset a 7% decline in production in natural forest concessions¹⁰ to 4.5 million m³ and a 97% decline in log imports which were negligible in 2021.

In 2021, 75% of Indonesia's log supply came from industrial plantations, 15% from community forests, 7% from natural forest concessions, and 3% from other domestic sources¹¹. There was virtually no supply from log imports.

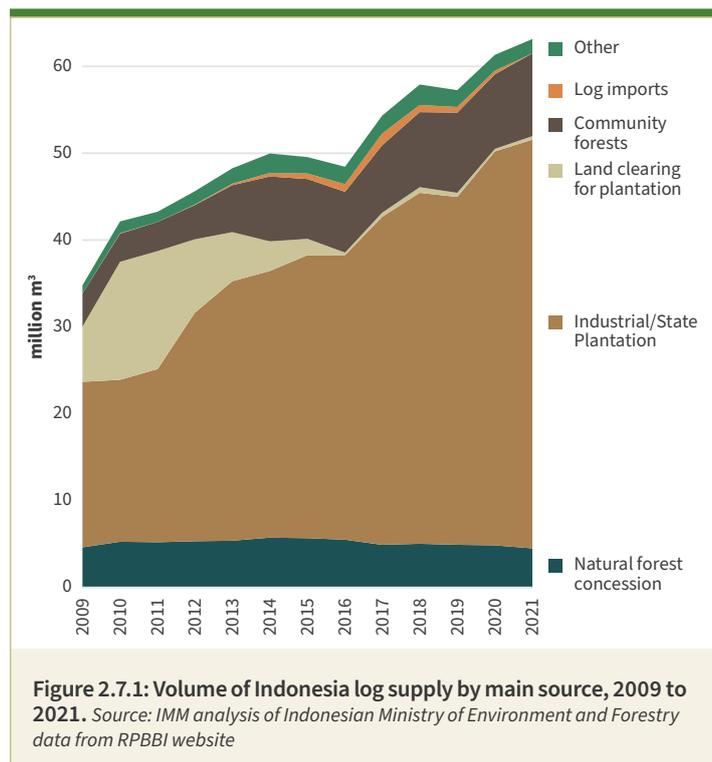


Figure 2.7.1: Volume of Indonesia log supply by main source, 2009 to 2021. Source: IMM analysis of Indonesian Ministry of Environment and Forestry data from RPBB website

7. Production from 'plantations', as defined here, is dominated by supply for 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).

8. Production from 'community forests' is defined here to include supply from IUPHHK Dalam Hutan Desa (Village forest), IUPHHK Dalam Hutan Kemasyarakatan (Community forest), Hutan Rakyat (Peoples Plantations), and Kayu Perkebunan (Woodlots)

9. Production from 'land clearance operations' is defined here to include wood from LC Penyiapan Lahan Penanaman HTI.

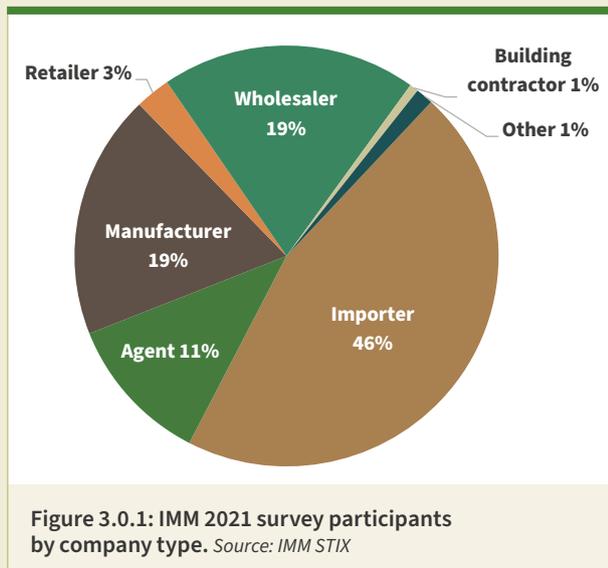
10. Production from 'natural forest concessions' is defined to include wood from IUPHHK Hutan Alam

11. Supply from 'other domestic sources' is defined here to include: '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).

EU trade survey reveals significant COVID impacts on EU trade with VPA partner countries

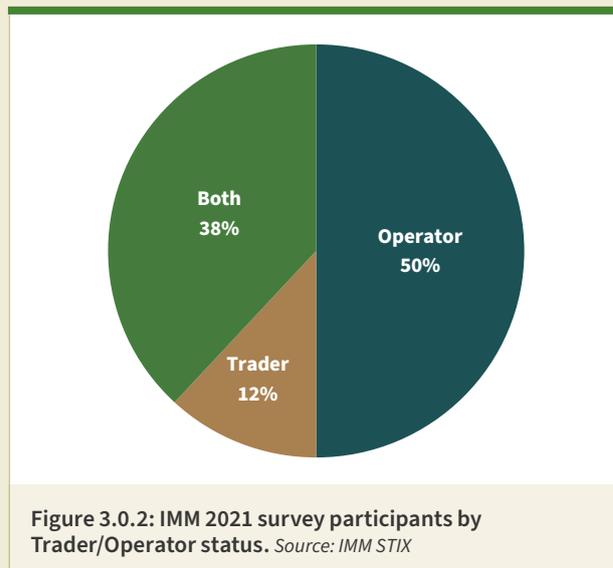
In 2021, the European IMM team undertook follow-up research in the five key countries accounting for about 75% of EU timber and timber product imports from VPA partner countries. The 2021 reports prepared in Belgium, France, Germany, Italy, and the Netherlands were based on interviews with 82 companies. In addition, trade associations and FLEGT/EUTR Competent Authorities were also interviewed in each country. The United Kingdom (UK), which had been included in IMM surveys up to 2020, was not considered in 2021, as the UK had left the EU and the single market after a transition year that ended on 31 December 2020.

The surveys covered a broad range of private sector players, including importers and agents as well as manufacturers, retailers, wholesalers and building contractors.



The 2021 trade survey again reached a high level of market penetration. Manufacturers of timber products (19%), wholesalers (19%) and, to a lesser extent, retailers (3%) accounted for a significant proportion of the sample. 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 along the supply chain.

Traders further down the supply chain without their own importing operations have remained difficult to engage, as they have a less immediate interest in FLEGT licensing to mitigate risk under the EUTR. The proportion of EU survey respondents acting purely as Traders ranged between 6% and 20% in the IMM 2017–2020 surveys and stood at 12% in 2021.



3.1 Full order books, rising prices, limited availability, and freight issues

2021 was an unusual year for the European timber trade, according to IMM survey respondents. Demand for timber and timber products, which had recovered quickly from the initial shock of the COVID pandemic in the early months of 2020, was buoyant during most of the year and across all product ranges. Respondents indicate that EU consumers focused on home improvement, repairs, decoration, and gardening during 2021. New home construction also continued to grow.

Several respondents reported a slowdown in business from September onwards, due to growing uncertainties about future economic prospects and rising inflation. However, demand remained higher than available supplies in many regions and product groups and many importers' inventories were at historically low levels towards the end of the year.

On the supply side, 2021 was characterised by severe shortages caused by a combination of COVID-related mill shutdowns and transportation issues, starting from in-country transport shortages and delays, to limited container shipping capacity and extremely expensive sea freight rates. In several tropical countries, weather-related logging constrictions were added to the mix.

IMM survey respondents reported stiff purchasing competition between Asian and European buyers in Africa and between US and European buyers in South America.

As a result of global competitive pressure, prices skyrocketed, initially for temperate wood products and subsequently also for tropical wood and wood products. Several survey respondents stated that growth in turnover in 2021 was mostly due to higher product prices rather than volume sold.

A few respondents also noted that wood products from VPA partner countries and other tropical countries regained some market share in the EU during 2021, due to the faster rising prices and supply shortages for temperate wood products. However, business with Asian countries, and Indonesia in particular, was affected by extremely high freight rates and mill shutdowns.

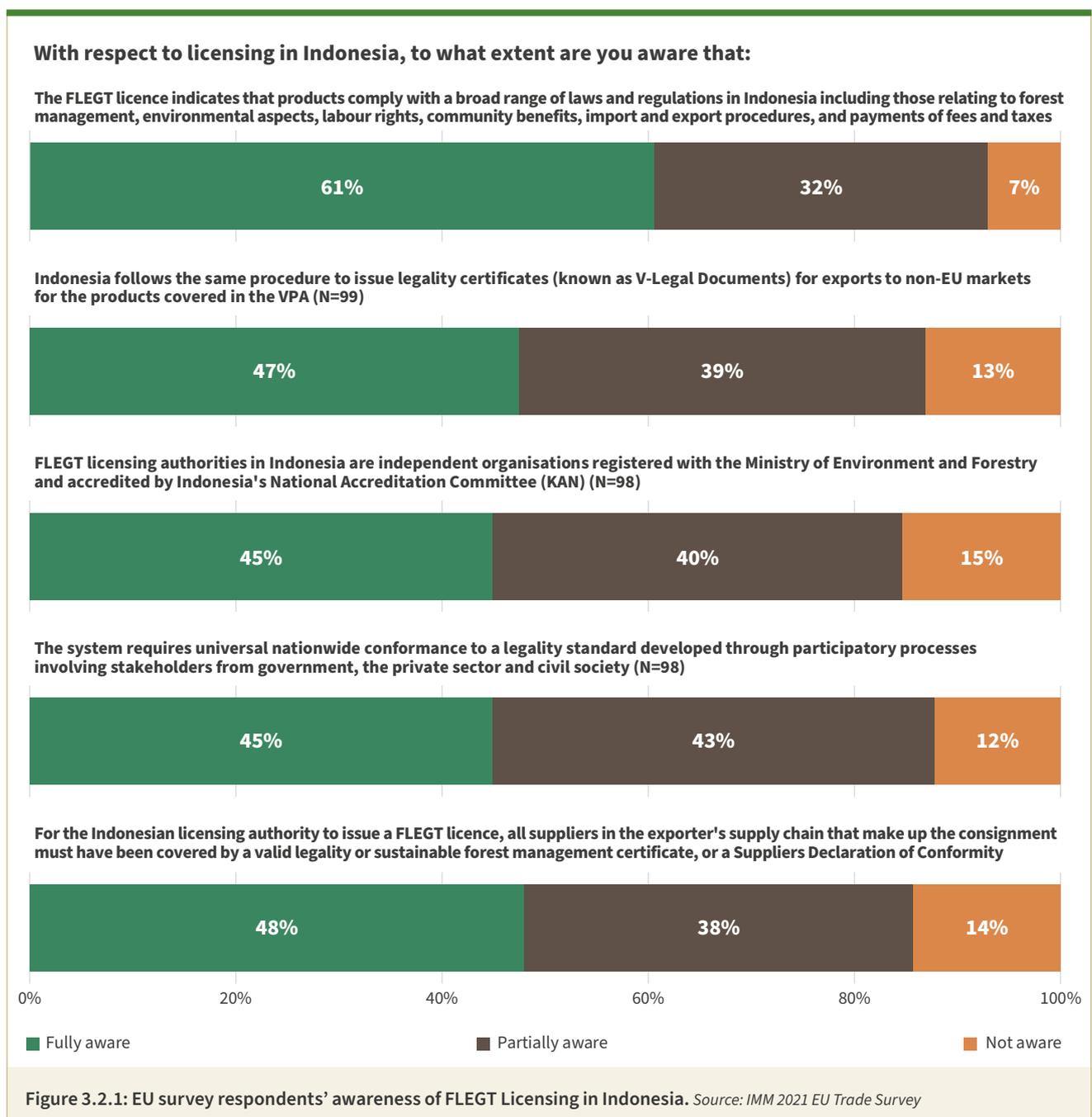
The long-term outlook for tropical hardwood timber species was considered to be even more difficult. Respondents stated that tropical hardwood timber species were still subject to environmental prejudice, not only among the wider public, but frequently also among specifiers, public-sector decision makers and sometimes even among timber wholesalers.

At the same time, tropical hardwood timber species would be facing ever growing competition from alternative materials, including engineered and modified softwoods, temperate hardwoods and non-timber products. Temperate wood products would generally be

considered as more environmentally friendly, which was partly attributed to professional marketing programmes communicating their sustainability to key audiences. Recent experience with transport shortages and price trends would be another factor in favour of using temperate wood in Europe. Moreover, the COVID pandemic has intensified the trend among European consumer to focus on regional products, said survey respondents.

3.2 Indonesian FLEGT Licences: high level of trade awareness and satisfaction with administrative procedures

The 2021 IMM EU trade survey demonstrates that, after five years of FLEGT licensing, the level of awareness of the Indonesian FLEGT licensing system has reached a satisfactory level in key EU markets, with a large majority of respondents being aware also of some of the finer details of what VPA implementation in the country has meant (figure 3.2.1).



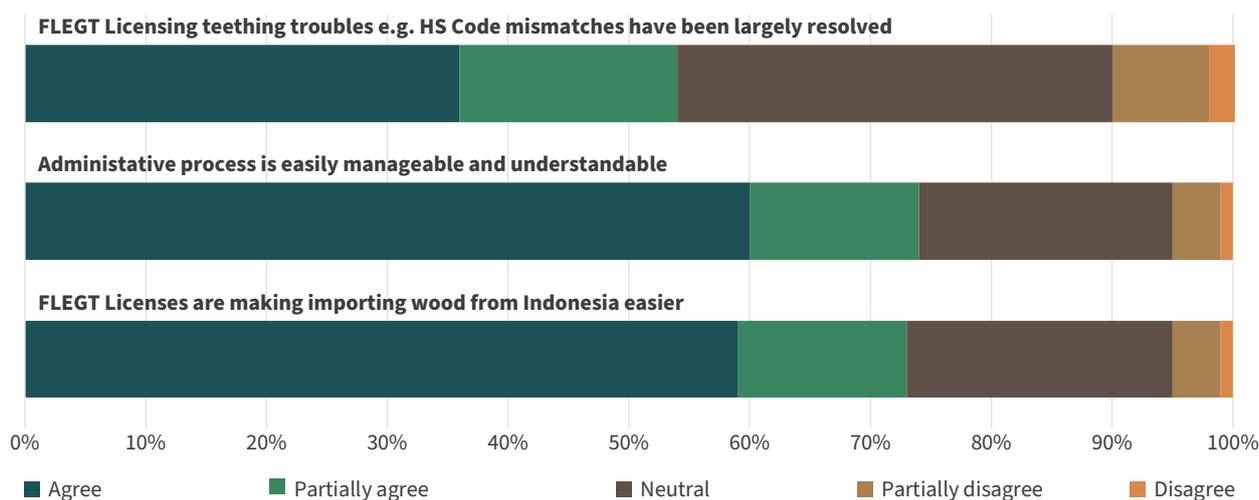


Figure 3.2.2: Perceptions of administrative processes. Source: IMM 2021 EU Trade Survey

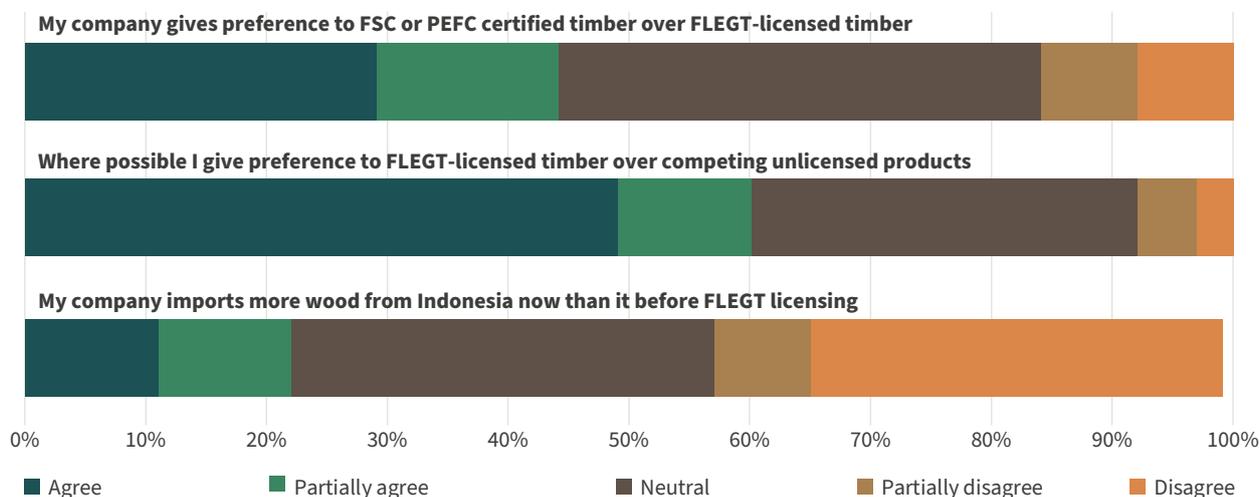


Figure 3.3.1: Market preferences. Source: IMM 2021 EU Trade Survey

Moreover, a large majority – more than 70% of respondents (primarily companies, trade associations and Competent Authorities) in each case – rated the administrative procedures involved in importing FLEGT-licensed timber as “easily manageable and understandable” and agreed that FLEGT Licences were making importing wood from Indonesia easier compared to EUTR Due Diligence (figure 3.2.2¹²).

A majority of company, trade association and Competent Authority respondents also stated that teething problems, such as HS Code or other Licence mismatches had been resolved, with only 10% of respondents still reporting issues. As in 2020, most dissatisfied respondents in terms of authorities’ dealing with Licence issues were based in Belgium and the Netherlands.

3.3 Respondents value the zero-risk status of FLEGT-licensed timber under EUTR

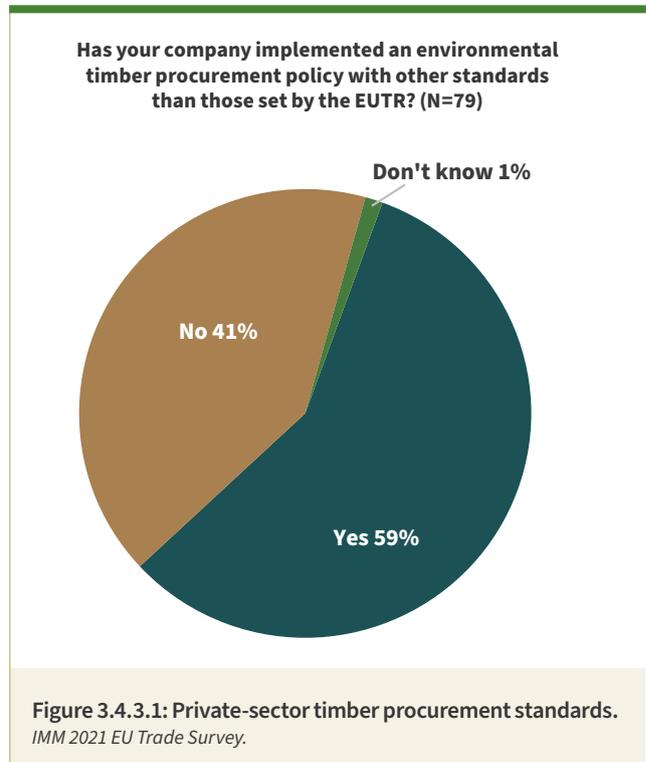
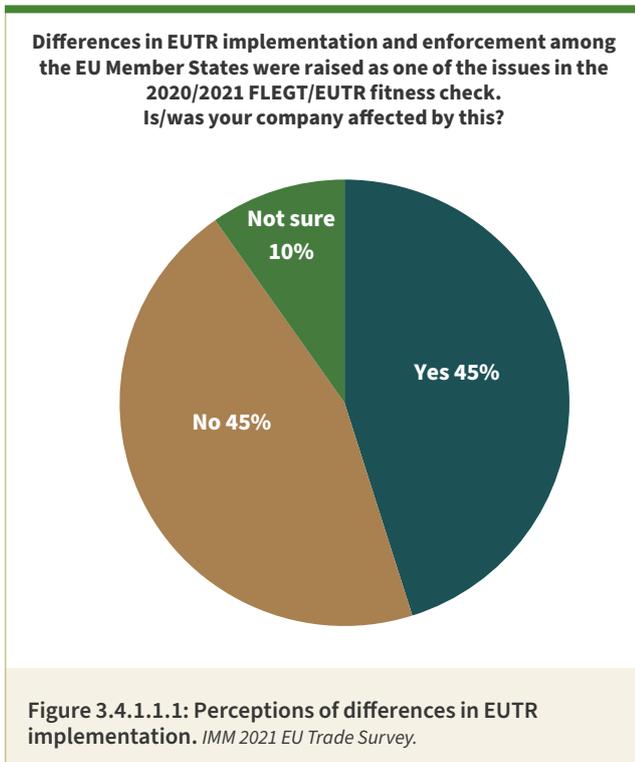
As in previous surveys, a majority of respondents to the 2021 survey stated that, where possible, i.e. where other

criteria such as price, quality, availability and transport are equal, they would give preference to FLEGT-licensed timber over competing unlicensed timber products (figure 3.3.1). Respondents explained that they would give preference to FLEGT- licensed timber as it reduced their own risk of infringing the EUTR to zero and because administrative procedures were less time-consuming and costly than exercising EUTR Due Diligence. One or two respondents also said they were actively promoting FLEGT-licensed timber to their customers for these reasons.

At the same time, however, about 45% of respondents said that they would give preference to FSC- or PEFC- certified timber over FLEGT-licensed timber, while only 18% of respondents said they would not give preference to certified timber. The remaining respondents were neutral on the subject.

The main reasons given by respondents for preferring certified timber were either company procurement policies and standards, the lack of chain-of-custody

12. Companies have the option to rate processes or statements in IMM surveys “neutral” if they have no direct knowledge of the process (i.e. in this case they don’t import from Indonesia) or if they have no specific opinion.



of FLEGT-licensed timber after arrival in the EU, or customer requirements. The latter were attributed primarily to marketing as well as strong end-consumer and public procurement specialists' awareness of the two main certification schemes. In reputedly more environmentally sensitive EU markets, in particular the Netherlands, certification was now considered a minimum requirement by many customers, said respondents. In some countries this includes key retailers, DIY stores and even supermarket chains that require certification for all traded timber and timber products.

Some respondents believed that FLEGT licensing could benefit from this trend alongside certification, but this would require active and consistent communication of contributions towards sustainability and climate change mitigation in FLEGT licensing countries. It would also require broader availability of FLEGT-licensed timber products from more than the current one FLEGT licensing supplier country, i.e. Indonesia. With broader product availability and data-backed reassurance of the wider benefits of FLEGT licensing, more companies – and countries – might include FLEGT in their procurement policies and more might give it a larger role than just verification of legality.

22% of respondents said that they were importing more timber and timber products from Indonesia now than they had before the beginning of FLEGT licensing. There was a broad consensus among survey respondents that since the beginning of the COVID pandemic and the unprecedented market situation that arose as a result, FLEGT licensing has played practically no role in purchasing decisions. Other factors, such as the limitations of supply across all product ranges and the

above-mentioned trends in freight costs and product prices were dominant throughout that period.

Several respondents reported strong to very strong demand in Europe for Indonesian timber products during 2021. However, production and availability were reduced by lockdowns. And even where material was available, some companies were reluctant to buy, as Indonesia was more severely affected by the spike in sea freight rates than other supplier countries.

Limited availability and uncompetitive shipping conditions had also been quoted by IMM survey respondents as reasons for not increasing procurement in Indonesia before the COVID pandemic.

3.4 Creating a favourable market position for FLEGT-licensed timber

All FLEGT VPAs that have been signed and ratified to date include an article on market incentives, which provide for the EU to “create a favourable position in the Union market” for products covered by the agreements¹³. Recognition in public and private procurement policies and “a more favourable perception of FLEGT-licensed products on the Union market” are specifically mentioned in this context.

Moreover, the VPA between Indonesia and the EU specifically provides for the IMM to monitor “the impact of market-related measures taken in the Union on the demand for Indonesian FLEGT-licensed timber¹⁴” as well as “progress with and impact of the implementation of policy measures to tackle trade in illegally harvested timber in the Union”.

13. Article 13 of the VPA between the EU and Indonesia, Article 17 of the VPA between the EU and Viet Nam, and Article 18 in each case of the VPAs under implementation with African countries (CAR, Cameroon, Ghana, Liberia, ROC) as well as Honduras and Guyana, where VPA negotiations were completed but VPAs were not yet signed and ratified in December 2020. The VPA with Honduras was signed in February and ratified in June 2021.

14. Voluntary Partnership Agreement between the European Union and the Republic of Indonesia (ANNEX VII) [eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0520\(02\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0520(02)&from=EN)

3.4.1 EU communications on SVLK

As part of the EU–Indonesian Joint Action Plan 2022 (AP2022) facilitated by the EU FLEGT Asia Programme, the EU is seeking to publish a series of articles on the operation and impacts of the Indonesian SVLK Forest Legality and Sustainability system underpinning FLEGT licensing in Indonesia. The articles form part of EU FLEGT communication strategy.

The first piece will likely focus on smallholders and their interaction with SVLK. It will look at their experience and perceptions of the system; how they manage the SVLK auditing and certification process, and what it means for their business and livelihoods.

Another piece will provide an overview of Indonesian international timber trade, with a particular focus on the EU market. It will cover latest trends in demand for Indonesian SVLK-certified timber and wood products in key markets and outlooks from businesses on future export development.

The third article will look at the uptake of SVLK certification in Indonesia, which continues to increase year by year. It will address how and why it's increasing, with comment from businesses and other sector stakeholders on the ground. It will ask too how SVLK, recently re-branded as the Indonesian Forest Legality and Sustainability system, is set to grow and develop going forward.

The pieces on SVLK will be offered to the range of European trade publications and online media.

3.4.2 Competitive advantages for FLEGT-licensed timber created by EUTR implementation and enforcement

The EUTR requires that Operators¹⁵ exercise due diligence when placing timber or timber products on the EU market. Exercising due diligence means undertaking a risk management exercise to minimise the risk of placing illegally harvested timber, or timber products containing illegally harvested timber, on the EU market. Operators in the EU do not need to exercise due diligence on imports of FLEGT-licensed timber.

Exemption from due diligence obligations creates the most immediate market advantage for FLEGT-licensed timber, which is why monitoring of EUTR-related market impacts features highly both in the IMM indicators¹⁶ and the IMM terms of references contained in the VPA between the EU and Indonesia.¹⁷

As mentioned previously, IMM survey respondents highlighted the fact that their own risk of infringing the law was reduced to zero when importing FLEGT-licensed timber, as well as the less complex administrative procedures and related potential cost savings for European importers¹⁸, as particularly important in this context.

However, about half of the respondents to IMM EU trade surveys each year felt that there were still national differences between EUTR enforcement and sanctions regimes from country to country, which had an impact on both their own business development and, in some instances, also on the direction of timber trade flows within Europe.

While such reports are anecdotal in nature, they are based on a large number of interviews and consultations over several years and some impacts on trade flows are also reflected in trade statistics.¹⁹ Moreover, they are also confirmed by reports from a variety of sources including the European Commission,²⁰ the UN Environment Programme World Conservation Monitoring Centre (UNEP-WCMC),²¹ the Environmental Investigation Agency,²² and Client Earth,²³ for example.

This leads to the conclusion that, while exemption from EUTR due diligence offers competitive advantages for FLEGT-licensed timber, these advantages might be greater if the EUTR was effectively enforced in each EU country and if penalties for infringing the law were effective, proportionate, and dissuasive throughout the EU.

3.4.2.1 EUTR enforcement impacts on EU operators and timber markets

In 2021, IMM repeated the question first asked in 2018, as to whether differences in EUTR enforcement and sanctions regimes between EU Member States – as far as any were perceived – were having a direct impact on respondents' businesses. In all four years, most respondents mentioned that they perceived differences in EUTR enforcement between Member States. The proportion of respondents who saw their business affected by inconsistencies in EUTR enforcement ranged between 41% and 50% over the 2018–2020 period. In 2021, it stood at 45%.

Moreover, some respondents also reported imbalanced approaches within their countries, e.g. too much focus on primary products, certain supply regions, or certain groups of importers.

15. Defined as any natural or legal person that places timber or timber products on the EU market.

16. IMM Global Indicators: www.flegtim.eu/images/imm_indicators/IMM_Meth_Annex1_Indicators_global.pdf

17. Article 15b and ANNEX VII of the VPA between Indonesia and the EU; [eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0520\(02\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0520(02)&from=EN)

18. Examples for rough estimates of costs of exercising due diligence were provided in 2019 IMM Annual Report: Oliver, Rupert/Storck, Sarah *VPA partners in EU Timber Trade 2019* (ITTO/IMM 2020). Forest Trends also provides estimates in an early 2021 report on trade impacts of EUTR: Norman, Marigold: *How is the European Union Timber Regulation Impacting Industry Due Diligence and Sourcing Practices* (FT 2021).

19. Oliver, Rupert/Storck, Sarah: *FLEGT VPA Partners in EU Timber Trade 2020* (ITTO-IMM 2021)

20. *Biennial report for the period March 2017 - February 2019 on Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market (the EU Timber Regulation)*. (COMM 2020) eur-lex.europa.eu/legal-content/EN/TXT/?qid=1601880684249&uri=COM:2020:629:FIN

21. UNEP-WCMC briefing notes on the implementation of the EU Timber Regulation: <https://www.unep-wcmc.org/resources-and-data/briefing-notes-on-the-implementation-of-the-eu-timber-regulation>

22. *Does well, could do better. EIA's recommendations for the EUTR Fitness Check*. (EIA, 2021)

23. *Illegal logging – evaluation of EU rules (fitness check) - EUTR and FLEGT Regulation. Our call for a more effective regulatory approach to tackle illegal logging*. (Client Earth, 2020)

Suggestions to improve the situation made by survey respondents in 2021 included:

- Ensure that controls extend to all types of products, including finished products;
- Appoint a mediator to harmonise standards EU-wide / issue a common and uniform due diligence template;
- Select a best-practice example of EUTR check standards and sanctions/fines from among the EU countries and make that country's standards mandatory EU-wide;
- Auditors from more experienced countries/better staffed CAs could help out in other countries if standards were harmonised;
- Accept third-party certified timber as automatically legal;
- CAs should be supportive and work constructively with the trade;
- All CAs' staff should have knowledge of the trade they are supposed to control;
- All EU countries should carry out a commonly agreed minimum number/standard of checks on operators;
- Countries that do not enforce EUTR effectively should be fined;
- Activities of CAs should be monitored in more detail.

3.4.3 Private-sector procurement policies

59% of 2021 IMM survey respondents, slightly up from the 2018–2020 average (55%), said they were implementing a timber procurement policy with additional requirements to those for assurance of timber legality of the EUTR (*figure 3.4.3.1*). Requirements over and above legality typically included commitments to certain third-party certification schemes or rules set out by associations or Monitoring Organisations. Some companies also have specific requirements with respect to environmental and social responsibility.

Only 53 of the 82 respondents directly answered the question on whether FLEGT was referenced in their procurement policy – with 26 confirming that FLEGT was included and 27 saying it wasn't.

Similar to previous years, where FLEGT was specifically mentioned in policies, respondents said 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” and compliance with EUTR or was considered a “minimum standard”. There also continued to be general acknowledgment among respondents – whether formalised in a policy or not – that FLEGT Licences provide a green lane into the EU and no further due diligence is required for licensed timber.

3.4.4 Draft regulation for deforestation and forest-degradation free supply chains

The draft regulation for deforestation free supply chain, was published on 17 November 2021, along with results from the FLEGT/EUTR Fitness Check. At that time, interviews for the IMM EU trade survey had already been conducted. IMM will gauge trade opinion on the expected impacts of the new regulation on market advantages for FLEGT-licensed timber in 2022. However, initial discussions of the draft regulation are indicating that it may, if adopted, have significant implications for VPA partner countries. There is now considerable uncertainty over the future policy direction in the EU and potential impacts on VPA countries, especially Indonesia, the only country to have achieved FLEGT licensing.

3.4.5 Brexit impacts EU-UK trading of FLEGT-licensed timber

EU importers who re-export timber products from Indonesia to clients in the UK or companies with own offices and warehouses both in the EU and the UK reported an increased administrative effort since the UK left the single market.

FLEGT-licensed timber that is first imported into the EU and then delivered to the UK no longer benefited from a due diligence-free green lane from the start of 2021 onwards. EU companies supplying FLEGT-licensed timber from Indonesia to the UK via an EU location thus become operators under the UKTR and have to provide due diligence documents.

Some companies indicated that they were not exporting to the UK any more or had limited their trade, e.g. to FSC-certified products, as they did not want to pass on detailed supply chain information to their clients in the UK. On the other hand, several respondents said they had opened their own offices in the UK due to Brexit, to avoid sharing supplier information with clients and, in the case of Indonesia, to have FLEGT-licensed timber shipped directly to the UK with a UK FLEGT Licence and green lane benefits.

Mutual recognition of EU and UK FLEGT Licences could help resolving this issue and ensure that the best possible market advantage through the due diligence-free green lane is granted to Indonesian FLEGT-licensed timber products.

For details on economic trends and trade with VPA partner countries in each of the key EU countries monitored by IMM, [visit the EU country profiles on the IMM website](#).



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