



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

VPA partner timber trade and market perceptions UPDATE

AN IMM REPORT – No 3/ 2022

Report authors:

Sarah Storck
IMM LEAD CONSULTANT

George White
IMM MARKET ANALYST

Mike Jeffree
IMM COMMUNICATIONS CONSULTANT

Edited by:

Steven Johnson
ITTO DIRECTOR TRADE AND INDUSTRY



This report was prepared with financial assistance of the European Union.



Timber and forestry sector personnel train on Ghana's Wood Tracking System, an integral element of its VPA TLAS.

*This report was prepared with financial assistance of the European Union.
The views expressed herein are those of the authors and do not necessarily reflect the official opinion of the European Union or of the ITTO.*

Background

Between 2017–2021, IMM distributed annual market overviews, summaries of the previous year's survey results, and detailed analysis of trends against all IMM indicators in the form of **IMM Annual Reports**. To allow for a timelier distribution of this information, IMM decided to switch to shorter, modular reports in 2022. These reports cover the latest market trends, combined with either survey results or updated analysis against specific IMM indicators.

This report is the third IMM modular report and includes a trade update for the first half of 2022, with a specific focus on Indonesia and an outlook to the rest of the year. It also covers results from the IMM 2022 EU trade survey and the stakeholder consultation in Ghana.

Acknowledgements

The IMM would like to thank companies, institutions and experts who gave up their time to provide the insights presented in this report. The IMM also thank all **IMM national correspondents** for their efforts in recording interviews accurately and for the large amount of information they gathered.

| | |
|--|----|
| Background | 2 |
| Acknowledgements | 2 |
| 1. EU-VPA partner countries trade overview – first half of 2022 | 4 |
| 1.1 EU import volume from VPA partner countries grows | 4 |
| 2. Indonesia 2022 first half year trade trends | 5 |
| 2.1 Value of Indonesian timber product exports to the EU shows strong half-year growth in 2022 | 5 |
| 2.2 HS 44 wood product imports exceed 2019 levels in first half of 2022 | 6 |
| 2.2.1 Secondary processed wood product imports higher than in 2019 | 6 |
| 2.3 HS 48 paper products still below pre-COVID levels | 6 |
| 2.4 HS 94 wooden furniture imports from Indonesia continue to grow | 7 |
| 3. Market outlook | 8 |
| 4. EU trade survey 2022 update | 8 |
| 4.1 2022 Survey market climate | 9 |
| 4.2 EU importers continue to see value in FLEGT licensing | 9 |
| 4.3 Positive general perceptions of FLEGT VPAs and FLEGT licensing | 10 |
| 4.4 Broad recognition as evidence of legality in procurement policies | 11 |
| 4.5 Perceived EUDR impact on market development for FLEGT-licensed timber | 12 |
| 5. Competitiveness of VPA partner countries | 13 |
| 5.1 Indonesia continues to perform well on legality assurance and quality | 13 |
| 6. Ghana: IMM's outputs expected to grow in significance when FLEGT licensing starts | 15 |
| 6.1 Additional distribution channels recommended | 15 |
| 6.2 Participants highlight the perceived value of their VPA | 16 |
| 6.3 More information required about EU deforestation regulation | 16 |
| 6.4 Germany, Belgium and Italy are Ghana's biggest EU export destinations | 16 |

EU-VPA partner countries trade overview – first half of 2022

In the first half of 2022 EU imports of timber and wood products from VPA partner countries grew robustly. Trade was buoyed by healthy consumption levels in construction and continuing strong activity in the repair and home improvement markets. Growth was also helped by resolution of some of the logistics issues caused by the pandemic and consequently falling freight rates. Per container freight costs freight costs from Asia to Europe, for instance, were reported as high as \$20,000 in 2020/21 compared to around \$2,500 pre-Covid, leading to large-scale switching to breakbulk vessels. But in 2022 this has dropped to between \$4,000 and \$5,000 and falling. Looking ahead, the picture for the European timber market may not be so bright, with inflation and interest rates at their highest in decades and consumer confidence falling sharply.

The total value of all VPA partner countries¹ timber products² exports to the EU in the first six months of 2022 were still 2% down on the same period in of the last pre-Covid year –2019. But they were up 36% to USD 2.05 billion compared to the same period in 2021 and the total value for 2022 looks likely to exceed last year's figure of USD3.2 billion.

Indonesia remains the only VPA partner country that that exports FLEGT-licensed products and experienced export to the EU value growth of 36% in the first half of 2022 compared to 2021. [Figure 1.1]

1.1 EU import volume from VPA partner countries grows

The first half of 2022 saw overall volumes imported by the EU from VPA partner countries increase to nearly 923,000 tons, a rise of 16% compared to the first half of 2021, though 3% lower than the volume for the same half year in 2019. [Figure 1.2]

In the first six months of 2022 the value of wooden furniture continued to be the dominant product category imported by the EU from VPA partner countries. [Figure 1.3³]

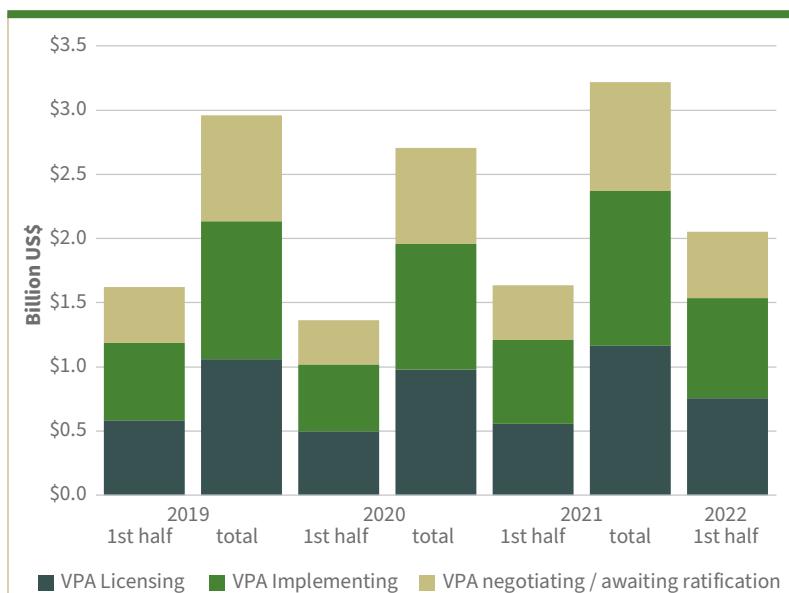


Figure 1.1: Total value of EU imports from partner countries, full year and first half of years 2019-2022, by VPA implementation status (Billion US dollars). Source: IMM STIX

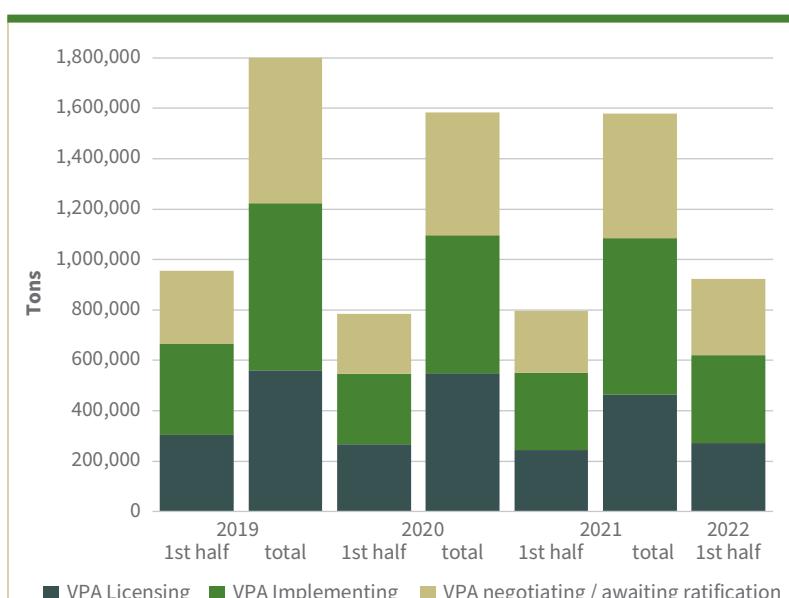
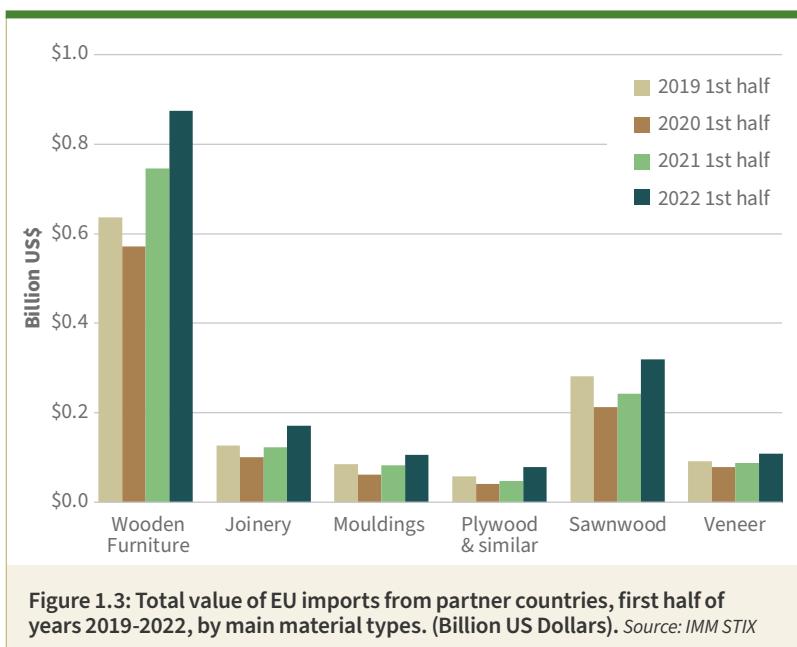


Figure 1.2: Total volume (tons) of EU imports from partner countries, full year and first half of years 2019-2022, by VPA implementation status (tons). Source: IMM STIX

- 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.
- 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, 940340, 940350, 940360, and 940390).
- EU imports of logs from VPA partner countries have declined steadily over the last two decades and only added up to around \$46 million in 2021



With a 17% value increase compared to the same period in 2021, and 37% growth compared to the same quarter in 2019, imports of wooden furniture to the EU from VPA partner countries amounted to USD 880 million in the first half of 2022.

Sawnwood continued to be the second largest material type in terms of value for imports to the EU from VPA partners in the first half of 2022. With imports valued at USD 320 million in the first half of the year, this showed growth of 32% compared to the same period in 2021 and a 14% increase in value compared to the same period in 2019.

Wooden joinery imports to the EU from VPA partners grew by 39% compared to the first half of 2021 (to USD 170 million) and show growth of 36% over the value for the same period in 2019.

Indonesia 2022 first half year trade trends

2

Global export value of Indonesian timber and paper product grows 10% year-on-year

Indonesia's global exports of all timber products (HS 44, 47, 48 & 94) grew 10% compared to the same six months in 2021 to almost USD 7.5 billion. The total value of first half year exports now stands almost 24% higher than the equivalent period in 2019.

HS 44 wood product exports amounted to USD 2.52 billion in the first half of 2022, representing an increase of almost 17% compared to the equivalent quarter in 2021. The value of wood product exports in the first half of 2022 have grown over 36% when compared to 2019.

HS 48 paper products were exported to the EU to the value of USD 2.30 billion in the first half of 2022, an increase of 7% on the same period in 2021 and a rise of 19% on the same period in 2019.

HS 47 wood pulp exports amounted to USD 1.55 billion in the first quarter of 2022, up 7% compared to the same period in 2021 and nearly 19% on the same period in 2019.

HS 94 wood furniture exports in the first six months of 2022 were up around 10% on the same period in 2021 and 4% on 2019 at USD 1.11 billion [Figure 2.0].

2.1 Value of Indonesian timber and paper product exports to the EU shows strong half-year growth in 2022

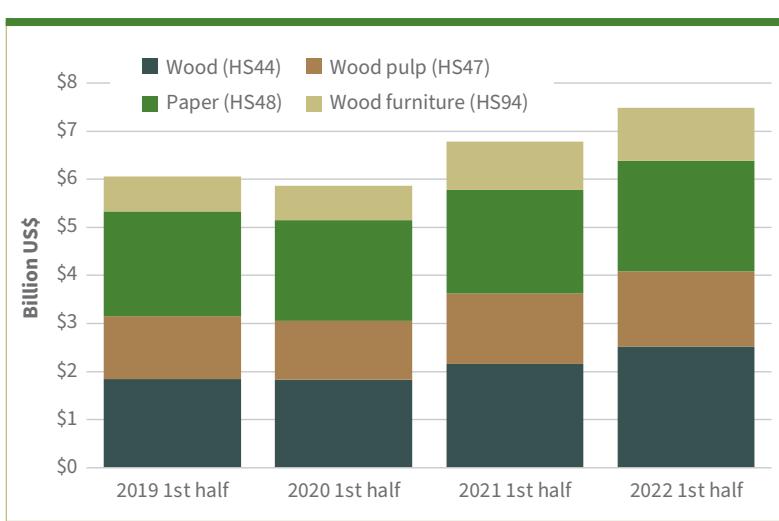
Indonesian exports to the EU across the four main product groupings (HS 44, 47, 48 & 94) saw growth in value in the first half of 2022 over 2021, reaching USD 757 million. The half-year growth for 2022 represents 43% over the same period in 2021 and 29% growth in value over the first six months of 2019. [Figure 2.1.1].

Netherlands' imports across the four categories were up 23% on the same period of 2019, Belgium's 58%, France's 78% and Spain's 50%. [Figure 2.1.2]

The Netherlands remains Indonesia's largest EU trading partner, with imports worth over USD 214 million in the first half of 2022. That represented around 34% growth year-on-year.

Germany remains the second largest EU market, with first quarter imports worth over USD 130 million, a growth up 24% year-on-year.

Belgium comes next with half-year 2022 Indonesian imports worth nearly USD 114 million, up 64% compared to the same period in 2021. The first half of 2022 also



saw strong growth in Italian imports, with 96% growth over the same period in 2021. Both Greece and Poland saw imports decline in the first half of 2022 compared to 2021.

2.2 HS 44 wood product imports exceed 2019 levels in first half of 2022

At USD 301 million, the value of EU imports from Indonesia of HS 44 wood products in the first half of 2022 were up 43% on the same period in 2021 and 29% on 2019. [Figure 2.1.]

Netherlands remains the largest EU member state importer by value of Indonesian HS 44 products, with its total reaching USD 125 million in the first six months of 2022, up 34% on the same period in 2021 and 27% on 2019.

Germany's HS44 Indonesian imports in the first half of 2022 were USD 68 million, a 33% increase on 2021, and up 5% on the first quarter of 2019.

Belgium's HS 44 imports in the first half of 2022 were worth USD 31 million, up 79% on the same period of 2021 and 40% up on the same period in 2019.

France's imports were up by 70% on the same period in 2021 and 92% on 2019 at USD 16 million. Italy's imports were 56% above 2019 levels at around USD 16 million, and up 74% on 2021.

2.2.1 Secondary processed wood product imports higher than in 2019

Of secondary processed wood products, joinery (such as doors and windows) became the most valuable EU import product group from Indonesia in the first half of 2022, standing at USD 83 million. This represents 36% growth in value over the equivalent period in 2021 and 22% on 2019.

Mouldings imports grew to USD 82 million in the first half of 2022, a year-on-year quarterly rise of 29%, and around 27% growth in value over 2019. Marquetry imports grew 68 in comparison to the same period in 2021 and 27% compared to the same period of 2019. [Figure 2.2.1]

2.3 HS 48 paper products still below pre-COVID levels

The value of EU imports from Indonesia of HS 48 paper products in the first half of 2022 were 27% up on the same period of 2021, but 8% below 2019 levels at around USD 135 million.

Belgium's imports of HS 48 products remained the largest among the EU MS, at over USD 27 million in the first half of 2022, up 129% compared to the same period in 2021, and up 11% on 2019 values.

Greece's imports of HS 48 Indonesian in the first six months of 2022 were worth USD 19 million, a 50% decline on the same period of 2021, and 21% lower than the same period in 2019.

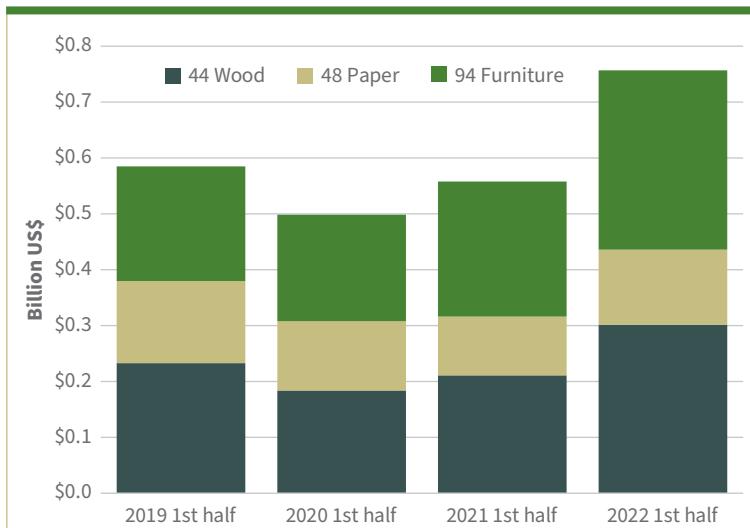


Figure 2.1.1: Value of Indonesian imports of HS44, 48 & 49 products into the EU by material types - first half of years 2019-2022. (Billion US Dollars). Source: IMM STIX

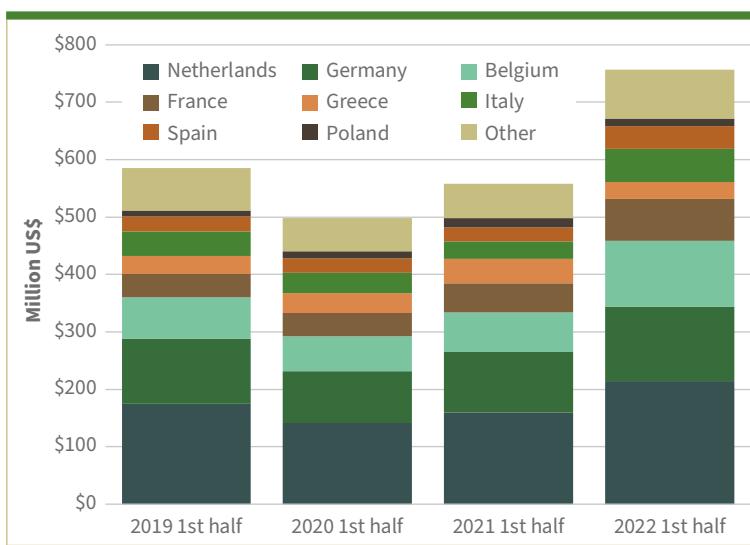


Figure 2.1.2: Value of Indonesian imports of HS 44, 47, 48 & 49 products into the EU by country of import - first half of years 2019-2022. (Million US Dollars). Source: IMM STIX

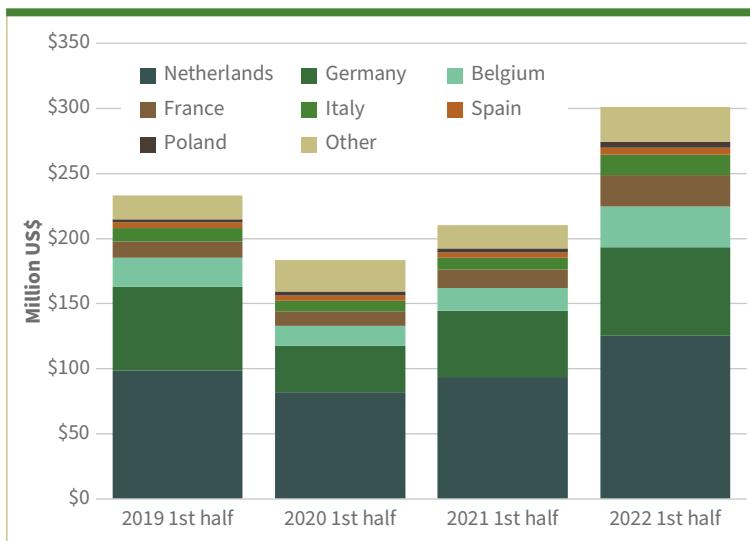


Figure 2.2: Value of Indonesian imports of HS 44 products into the EU, by country of import - first half of years 2019-2022. (Million US Dollars). Source: IMM STIX

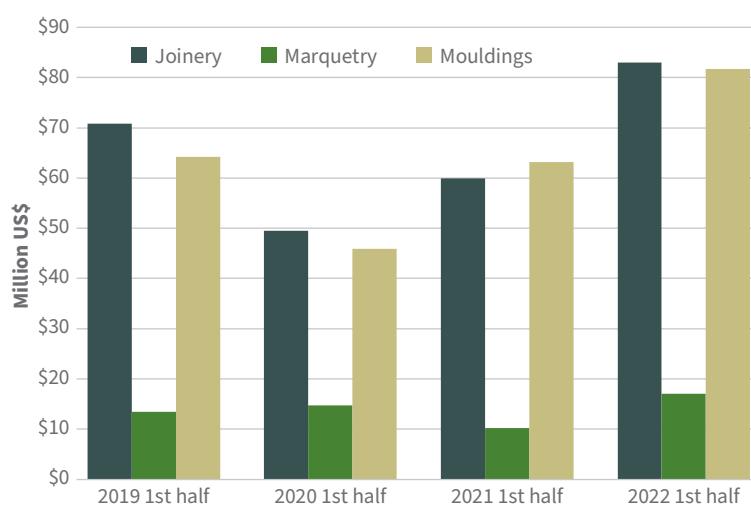


Figure 2.2.1: EU import value of selected Secondary Processed Wood Products from Indonesia - first half years 2019-2022 (Million US Dollars).

Source: IMM STIX

Italy's imports stood at USD 24 million in the first half of 2022, up 159% on the value of imports in the same period of 2021, but only 3% above 2019 levels. Both the Netherlands and Spain experienced significant growth in the first half of 2022 compared to 2021 with respective half-year-on-half-year growth of 136% and 71%. [Figure 2.3]

2.4 HS 94 wooden furniture imports from Indonesia continue to grow

EU imports of Indonesian wooden furniture in the first half of 2022 were worth USD 321 million, up 33% on the same period in 2021 and 57% on 2019. [Figure 2.4]

The Netherlands was the biggest importer of Indonesian wooden furniture among the EU MS in the first half of 2022, with its total at USD 74 million, up 23% compared to 2021 and 6% on 2019.

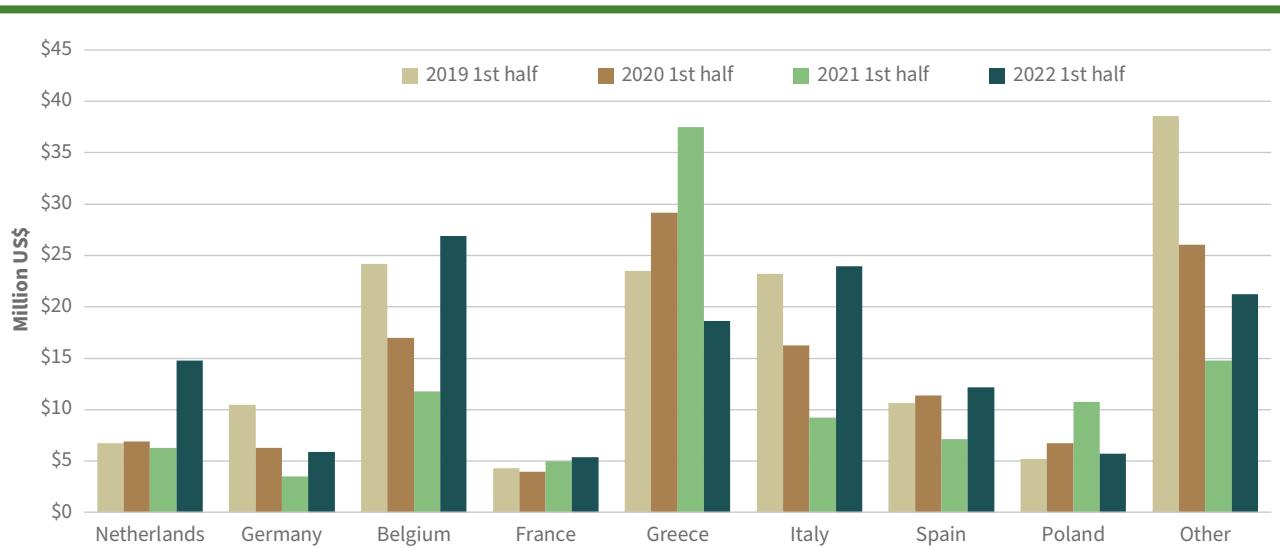


Figure 2.3: Value of Indonesian imports of HS48 products into the EU by country of imports - first half of years 2019 to 2022 (Million US Dollars).

Source: IMM STIX

Germany imported Indonesian wooden furniture worth USD 57 million in the first half of 2022, an increase of 12% on 2021 and 47% on 2019.

Belgium's Indonesian wood furniture imports in the first half of this year were worth nearly USD 56 million, up 38% on the same quarter in 2021 and nearly 117% on the 2019 value.

France's imports of Indonesian wood furniture reached USD 43 million in the first half of 2022, up nearly 39% on 2021, nearly 81% on 2019.

Italy, Spain and Denmark's imports of Indonesian wood furniture imports followed the general EU trend, with significant growth in the first half of 2022 compared to both 2021 and 2019.

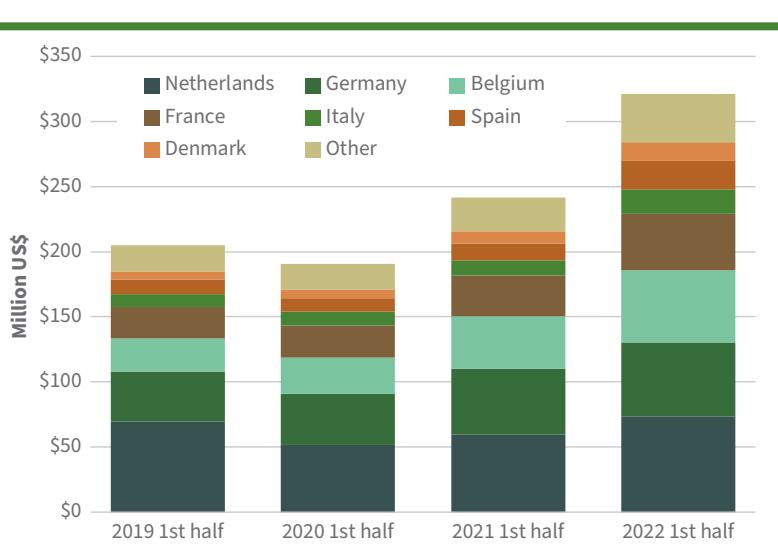


Figure 2.4: Value of Indonesian imports of HS94 products into the EU by country of imports - first half of years 2019-2022. (Million US Dollars).

Source: IMM STIX

Market outlook

Reported in trade media, European hardwood importers variously described business in the first nine months of 2022 as solid to good. However, as the year went on they maintain that the market has gone from being supply driven to demand-led. Tight supply that previously characterised the trade across the board has eased, albeit not from all sources, inventories are higher and prices are no longer on a universal upward curve. Indeed from some sources and in some species, there's been price softening, some of it significant. At the same time, sales until Q4 have proved fairly resilient.

However, as stated above, the dark cloud on the horizon is evidently the deteriorating international economic situation. The combination of energy price-driven inflation, which is now at a four-decade high in Europe, rising interest rates and sinking consumer confidence, resulting from the rise in the cost of living and Russia's war against Ukraine, is forecast by timber businesses to set demand on a downward trajectory. It also prompted the World Bank to comment in

October that 'one more moderate hit to the global economy could tip it into **recession**'.

European importers say they're already seeing signs of market tightening. Generally trade in the third quarter, while not bad, was not as strong as in the first half of 2022. Customers were also reported to be buying on a more piecemeal basis, with speculation and forward ordering drying up. Pricing was said to be 'increasingly competitive', with some timber businesses selling at cost or lower to generate cash, while some customers were reported to be switching from prime material to cheaper options.

On a brighter note, timber businesses said the European trade was better placed to weather the expected downturn than previous economic crises having enjoyed a very strong and highly profitable previous two trading years. However, the consensus is that 2023 will be a challenging year.

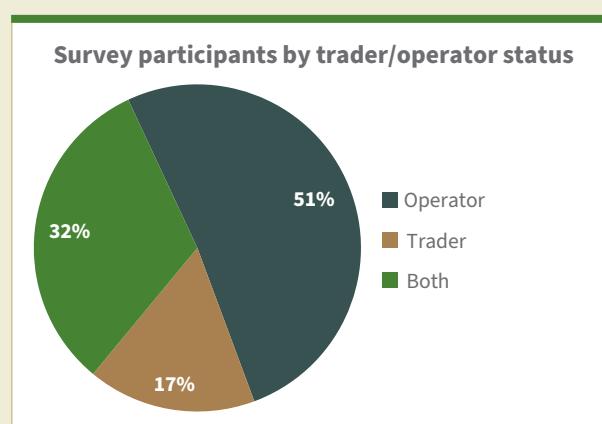
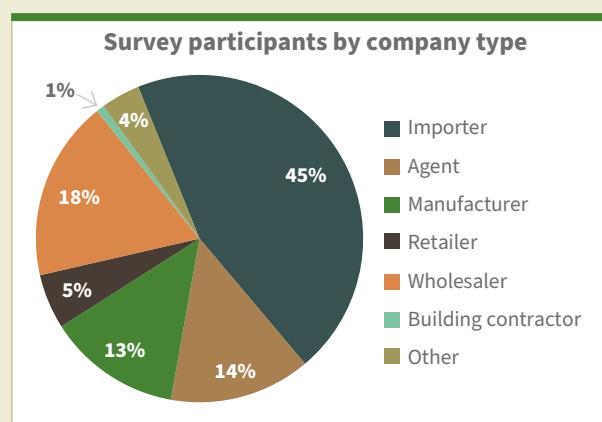
EU trade survey 2022 update⁴

In 2022, the European IMM team undertook follow-up research in the five key countries that have consistently accounted for 75–80% of EU timber and timber product imports from VPA partner countries in recent years. The 2022 reports prepared in Belgium, France, Germany, Italy, and the Netherlands were based on interviews with 73 companies. In addition, trade associations and FLEGT/EUTR Competent Authorities were also interviewed in each country.

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 (13%), wholesalers (18%) and, to a lesser extent, retailers (5%) 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 more 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 2017–2021 surveys and stood at 17% in 2022.



4. Unless otherwise indicated, all opinions expressed in this report section are based on statements recorded by the IMM as a part of the EU 2022 trade survey, which included 73 operators and traders in the five key EU countries (Belgium, France, Germany, Italy, the Netherlands) monitored by the IMM. The United Kingdom (UK), which had been monitored by IMM up to 2020, has not been considered in IMM survey analysis since 2021, as the UK had left the EU and the single market after a transition year that ended on 31 December 2020.

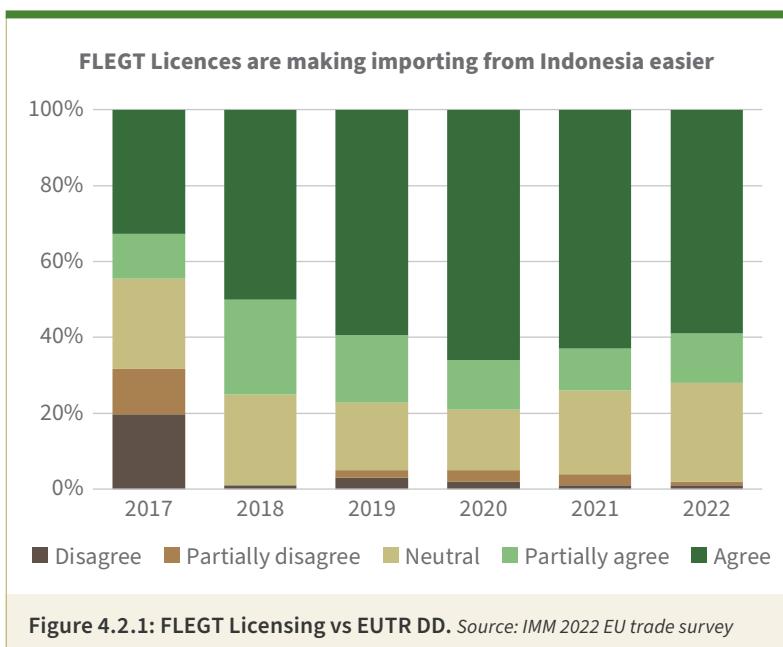


Figure 4.2.1: FLEGT Licensing vs EUTR DD. Source: IMM 2022 EU trade survey

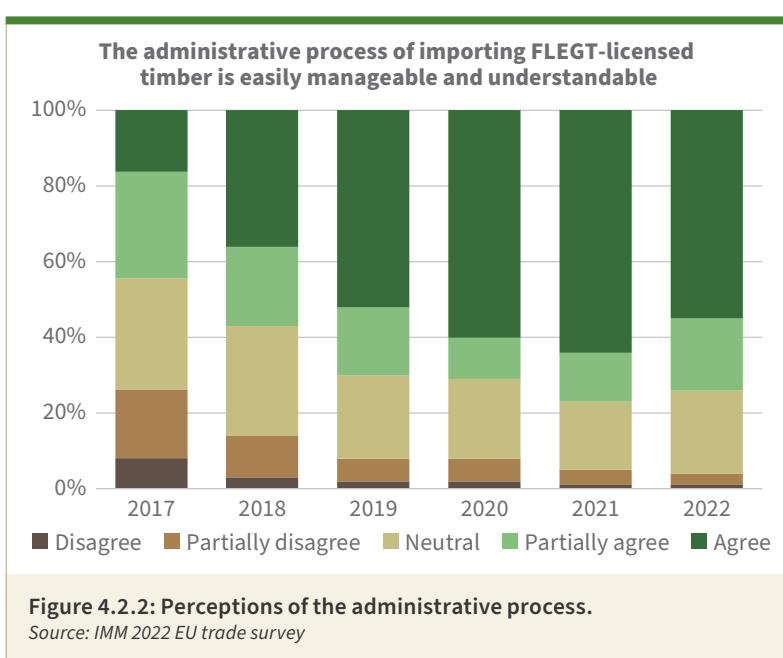


Figure 4.2.2: Perceptions of the administrative process. Source: IMM 2022 EU trade survey

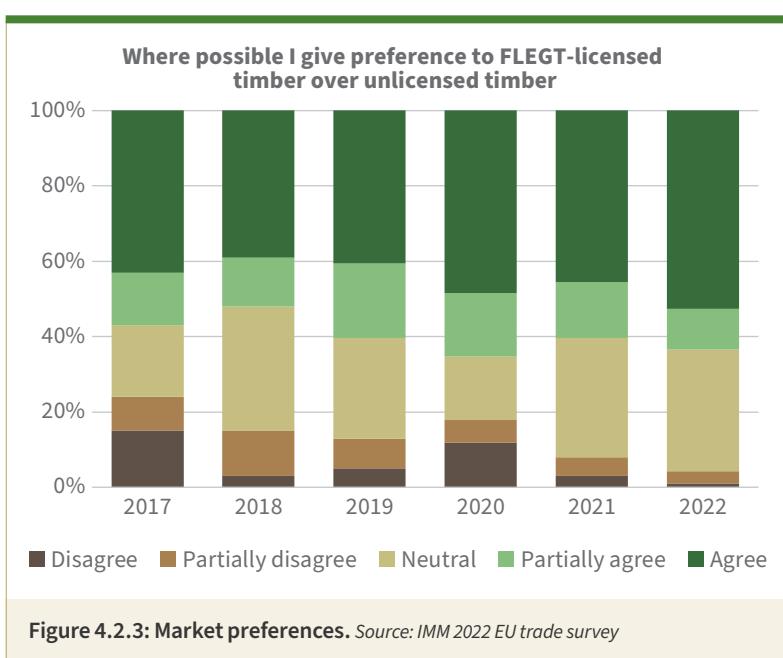


Figure 4.2.3: Market preferences. Source: IMM 2022 EU trade survey

4.1 Survey market climate

The aftermath of the first waves of the COVID pandemic had not been fully overcome, when the global timber trade started facing a range of new challenges, including material and energy shortages, inflation and regional currency crisis, Russia's war against Ukraine and related trade sanctions and restrictions, as well as rising interest rates.

While 2021 had been described by EU trade survey respondents as "unusual" and "challenging", most companies had experienced significant growth in sales at that time, especially by product value. In 2022, the situation in key EU sales markets for tropical timber and timber products initially remained buoyant, but tension and uncertainty has increased **as the year progressed**.⁵ During the summer and into the autumn, demand for tropical timber products in IMM key EU markets has slowed noticeably, except for the Netherlands, where several survey respondents still reported strong demand in the summer.

Despite the increasingly difficult market climate, EU timber imports from VPA partner countries continued to increase in the second quarter of 2022 and Indonesia, the only FLEGT-licensing country, experienced above-average growth (*see trade update in chapters 1 and 2 for details*).

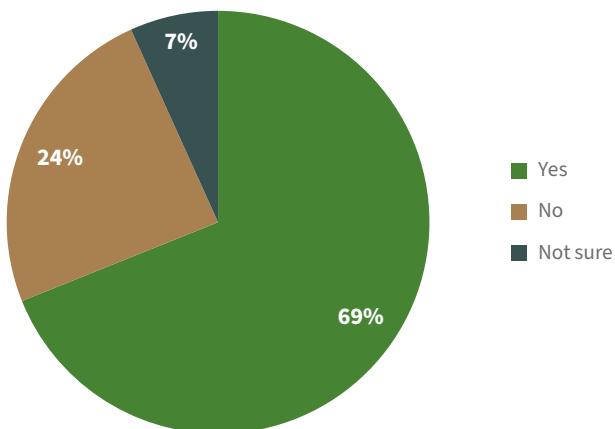
4.2 EU importers continue to see value in FLEGT Licensing

Except for the first round of IMM EU trade surveys in 2017, when results had indicated a certain level of dissatisfaction and uncertainty regarding the role of FLEGT Licences as a tool to create an advantage in terms of facilitating import procedures for timber products compared to EUTR due diligence, all years from 2018–2022 showed a strong majority of respondents confirming such an advantage.

The proportion of respondents agreeing fully or partially that FLEGT Licences are making importing from Indonesia easier ranged between 72% and 79% from 2018 to 2022 (figure 4.2.1). Only a very small number of respondents – between 1% and 5% – found importing FLEGT-licensed timber more difficult than conducting due diligence in each year after 2017. Companies that responded "neutral" usually don't import from Indonesia directly and thus have no personal experience with the import procedures.

5. Jeffree, Mike/Storck, Sarah/White, George: IMM Modular Report No2/2022: <https://flegtimm.eu/wp-content/uploads/IMM-VPA-Partner-Perceptions-Mod-2-Aug-2022-final.pdf>

Has the COVID pandemic had an impact on your supply chains and product mix? (N=72)



Have your supply chains and product mix changed due to FLEGT licensing over the last few years? (N=73)

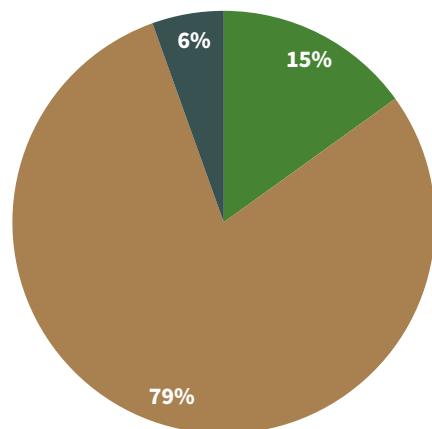


Figure 4.2.4: Drivers of change. Source: IMM 2022 EU trade survey

Moreover, a large majority – more than 70% of respondents in each year since 2018 – rated the administrative procedures involved in importing FLEGT-licensed timber as “easily manageable and understandable” (figure 4.2.2).

As in previous surveys, a majority of respondents to the 2022 survey (59%) 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 4.2.3). 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.

At the same time, however, there was a broad consensus among survey respondents that since the beginning of the COVID pandemic and Russia’s war against Ukraine and related trade sanctions, FLEGT licensing has played only a very minor role in purchasing decisions. Other factors, such as the limitations of supply across all product ranges, trade restrictions as well as high freight costs and product prices were the key elements in purchasing decisions in 2020–2022.

4.3 Positive general perceptions of FLEGT VPAs and FLEGT licensing

Overall, perceptions of FLEGT VPAs as a means to achieve wider improvements in VPA partner countries have remained positive among the European trade over the last few years. Between 67 and 74% of respondents in 2019–2022 believed that implementation of a VPA could trigger such changes.

These findings correspond with feedback received during IMM 2022 stakeholder consultations in **Indonesia** and **Ghana**, where stakeholders from government, civil society and private sector unanimously agreed on the value of their VPA processes.

Implementation of a FLEGT VPA can trigger far-reaching positive changes and improvements in VPA partner countries

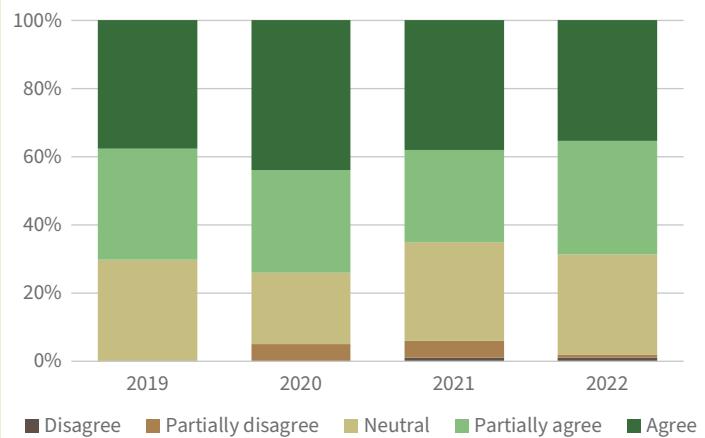


Figure 4.3.1: FLEGT impacts in VPA partner countries.
Source: IMM 2022 EU trade survey

How is FLEGT-licensed timber recognised in your company’s procurement policy?

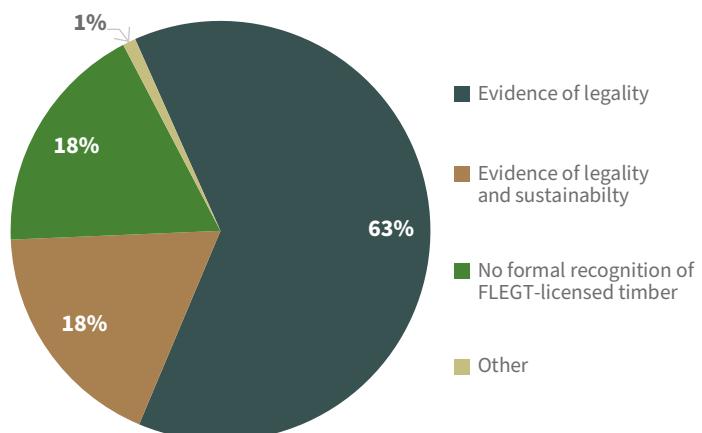


Figure 4.4.1: FLEGT recognition in private sector procurement policies. Source: IMM 2022 EU trade survey

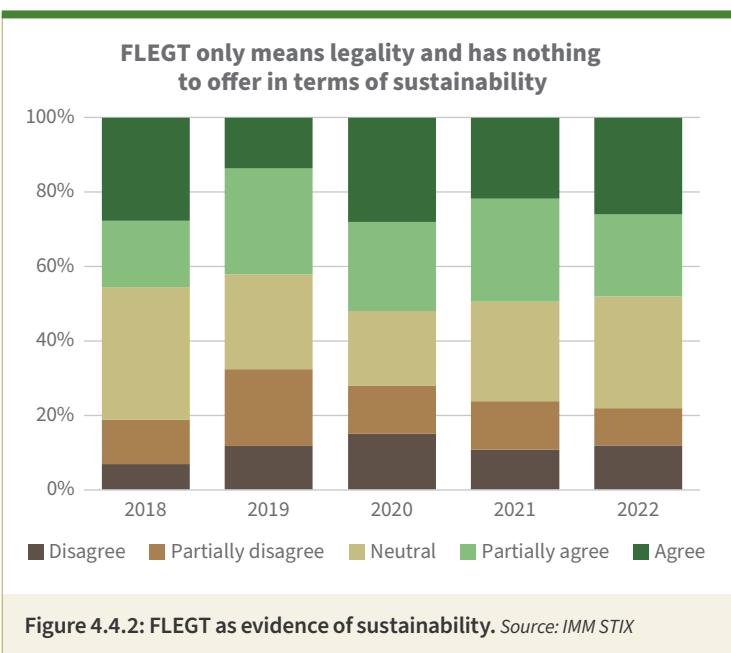


Figure 4.4.2: FLEGT as evidence of sustainability. Source: IMM STIX

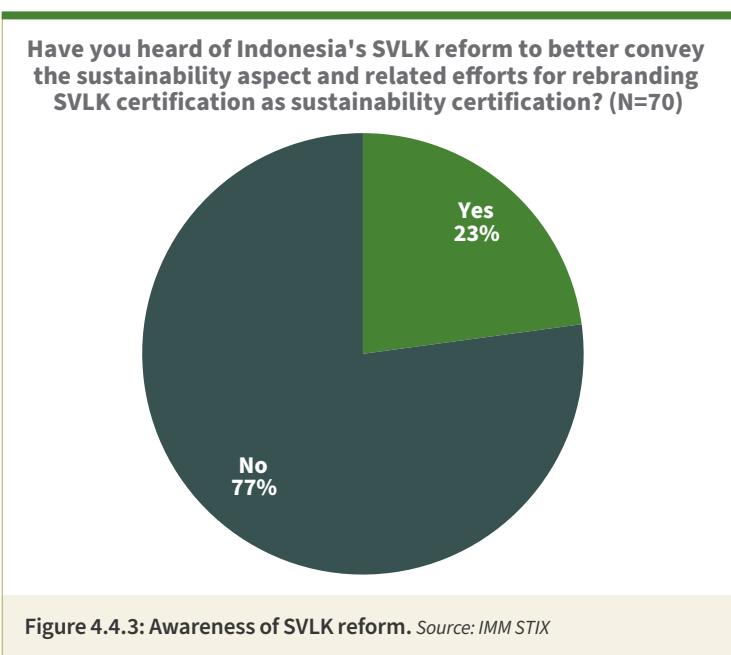


Figure 4.4.3: Awareness of SVLK reform. Source: IMM STIX

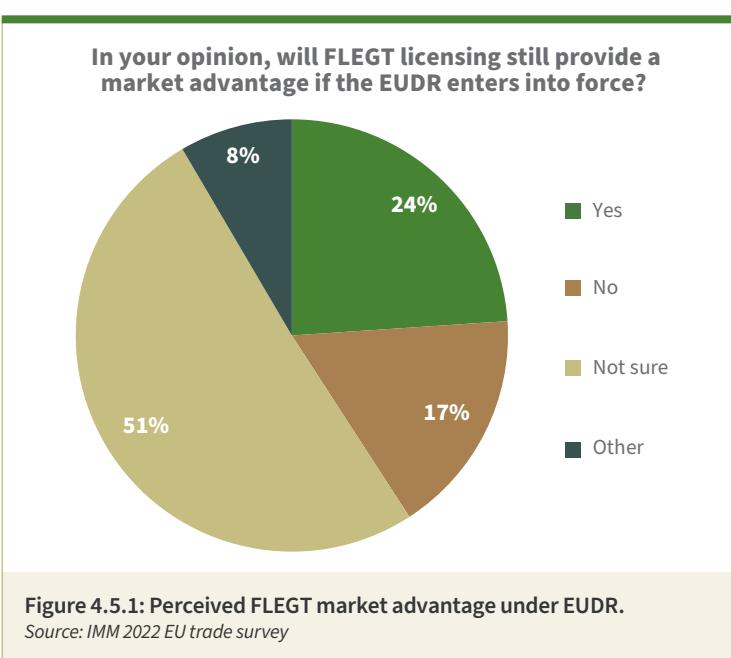


Figure 4.5.1: Perceived FLEGT market advantage under EUDR. Source: IMM 2022 EU trade survey

In Indonesia,⁶ stakeholders highlighted a “feeling of solidarity” that had been created between government and industry, as both parties were committed to improving governance, which in turn had led to widespread legal compliance.

Civil Society representatives in Indonesia cited improved forest management and better market access as perceptible benefits of the VPA. Moreover, they appreciated the formalisation of their own role and that their input was sought after and valued in the process. The CSO sector in Indonesia has been perceptibly strengthened by the multi-stakeholder process of VPA negotiation and implementation, said CSO representatives.

In Ghana, stakeholders reported that an independent impact assessment had followed forest governance developments since 2008 against 13 criteria. In 2008 performance was moderate against one of the criteria and weak against the rest. In 2021, after Ghana’s progress through the VPA process, performance was rated strong against six indicators and weak to moderately strong against six. It was only weak against one and this is being addressed.

4.4 Broad recognition as evidence of legality in procurement policies

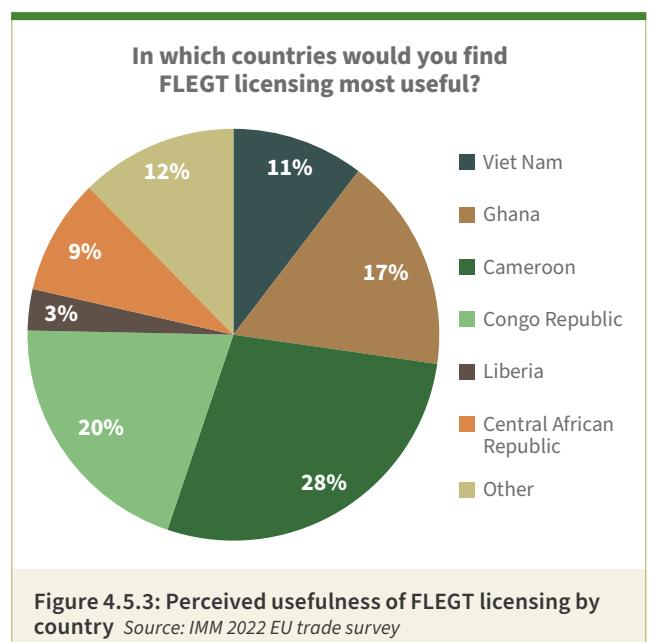
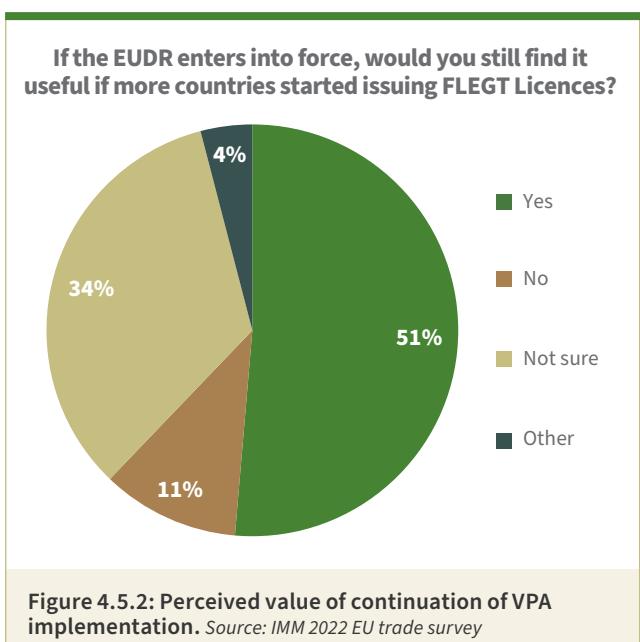
Only 18% of IMM trade survey respondents reported that FLEGT Licences were still not formally recognised in their companies’ timber procurement policies in 2022. However, it was also only 18% of respondents that recognised FLEGT Licences as evidence of legality and sustainability in their policies. 63% are formally recognising FLEGT as evidence of legality.

The question of what FLEGT had to offer in terms of proof of sustainability emerged as key for the market development of FLEGT-licensed timber as early as the first IMM EU trade survey in 2017. As a result, IMM has been gauging trade attitudes towards sustainability aspects of FLEGT VPAs and FLEGT licensing from 2018 onwards.

The latest survey results reveal that attitudes towards FLEGT as proof of sustainability have remained mixed also in 2022. At just 22%, a smaller proportion of respondents disagreed with the statement “FLEGT means “just legal” and has nothing to offer in terms of sustainability” than on average in previous years (2018–2021 average: 26%).

Moreover, only 23% of EU survey respondents had heard of Indonesia’s SVLK reform and ongoing efforts for rebranding SVLK as evidence of sustainability alongside legality. These results indicate an ongoing need for improved communication to support market development of FLEGT licensing.

6. Jeffree, Mike/Storck, Sarah/White, George: IMM Modular Report No2/2022: <https://flegtimm.eu/wp-content/uploads/IMM-VPA-Partner-Perceptions-Mod-2-Aug-2022-final.pdf>



4.5 Perceived EUDR impact on market development for FLEGT-licensed timber

The level of awareness of the details of the new EU regulation for deforestation-free supply chains was relatively low at the time the interviews were undertaken (May–September 2022). More than half of all respondents were unsure whether FLEGT licensing would still provide a market advantage once the new regulation enters into force. 24% believed that there would still be an advantage and 17% were certain that there wouldn't be.

Most of the undecided respondents said that in their opinion a future market advantage would depend on the continuation of the “green lane” for FLEGT-licensed timber, which was widely expected or hoped for by respondents in the final version of the law.

Those who anticipated a continuing advantage independent of the green lane status argued that it would still be helpful to fulfil the legality requirements, if not necessarily the deforestation-free requirements under the new regulation. Most of these respondents saw advantages primarily for potential future FLEGT-licensing countries in Africa, where conducting EUTR due diligence is frequently still described as challenging.

Facilitating timber procurement in Africa was also the main reason given by the 51% of survey respondents who said they would still find it useful if more countries would start issuing FLEGT Licences. Cameroon, Ghana, and Congo Republic were most frequently mentioned as countries in which respondents would appreciate FLEGT licensing.

Competitiveness of VPA partner countries

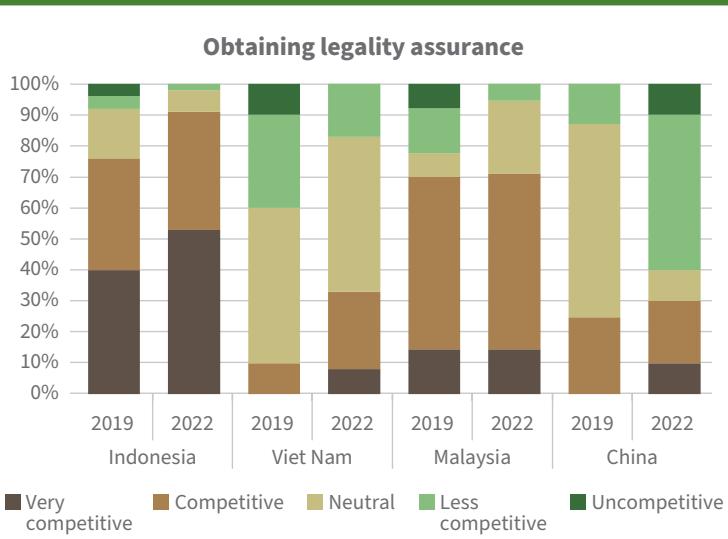


Figure 5.1.1: Competitiveness rating – legality assurance.

Source: IMM 2022 EU trade survey and IMM 2019 competitiveness survey

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” in terms of international competitiveness than the other VPA implementing partner countries, all of which were located in Africa at the time the survey was undertaken.⁷

In 2019,⁸ IMM decided to update the questions on competitiveness with a special focus on some of the Asian VPA partner countries – Indonesia, the only FLEGT-licensing country, Vietnam, which had by then also become a VPA implementing country, and Malaysia, which is a competitor to Indonesia and Vietnam for a variety of wood products on the European markets – as well as non-VPA partner competitor China.

The 2019 survey showed that Indonesia had a clear advantage over all regional competitors when it comes to assuring legality of wood products. Indonesia ranked strongly in assuring sustainability of wood products and was found to be very competitive in terms of quality and product range, but less so on price and logistics.

The 2019 competitiveness survey was repeated as a part of the 2022 EU trade survey, for which 73 companies in Belgium, France, Germany, Italy, and the Netherlands were interviewed.

5.1 Indonesia continues to perform well on legality assurance and quality

The 2022 survey confirmed Indonesia’s significant regional lead in competitiveness when it comes to obtaining assurance of legality for timber and timber products. Malaysia also performed very well on this indicator, and Viet Nam shows significant

7. Oliver, Rupert/Storck, Sarah: IMM Annual Report FLEGT VPA partners in EU timber trade 2017

8. Oliver, Rupert/Storck, Sarah IMM Annual Report FLEGT VPA partners in EU timber trade 2020

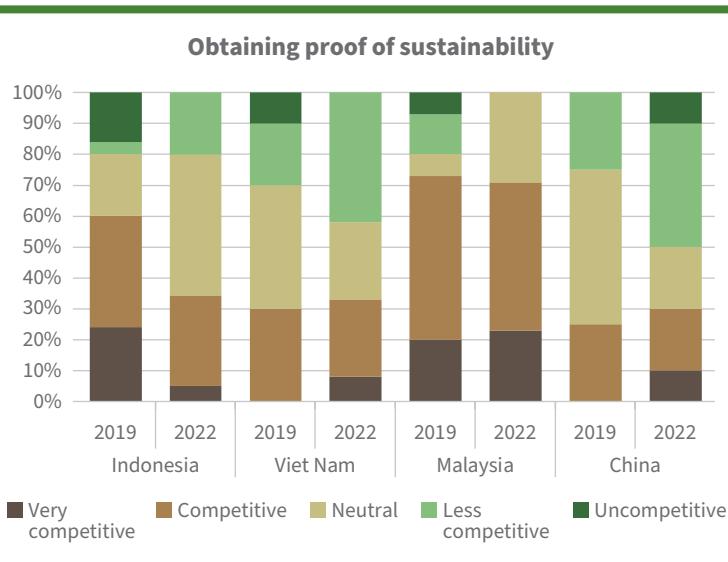


Figure 5.1.2: Competitiveness rating – sustainability assurance.

Source: IMM 2022 EU trade survey and IMM 2019 competitiveness survey

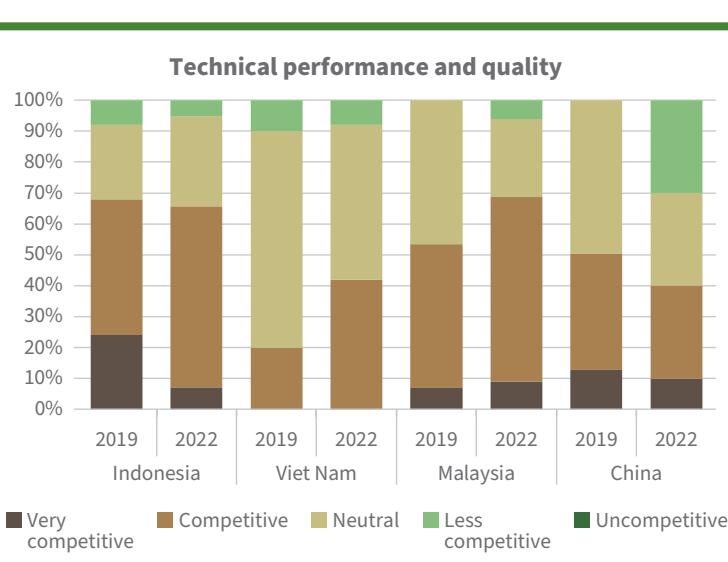


Figure 5.1.3: Competitiveness rating – technical performance and quality.

Source: IMM 2022 EU trade survey and IMM 2019 competitiveness survey

improvements in 2022, from a relatively low level in 2019. China's rating has also improved slightly in 2022.

When it comes to sustainability assurance, Malaysia continued to lead the ranking in 2022. Indonesia, which had been almost on par with Malaysia in 2019, was ranked significantly weaker on this indicator in 2022.

Viet Nam and China both continued to perform slightly weaker than Indonesia on sustainability assurance but showed minor improvements over 2019.

Indonesia and Malaysia also continued to lead the rating with regard to technical performance and quality of wood products. In 2019, Indonesia had been clearly ahead of all regional competitors on this indicator. However, Malaysia gained significantly in the 2022 rating.

The perceived performance of Viet Nam also improved between 2019 and 2022, while China was rated lower by EU survey respondents.

China showed its strength when it comes to perceived competitiveness in terms of price, product range and logistics. In 2022 it was ahead of the competition in all three categories.

Indonesia's perceived competitiveness in product range and logistics has improved since 2019, while competitiveness in terms of price has deteriorated. Viet Nam is also perceived very competitive on price and Malaysia on product range.

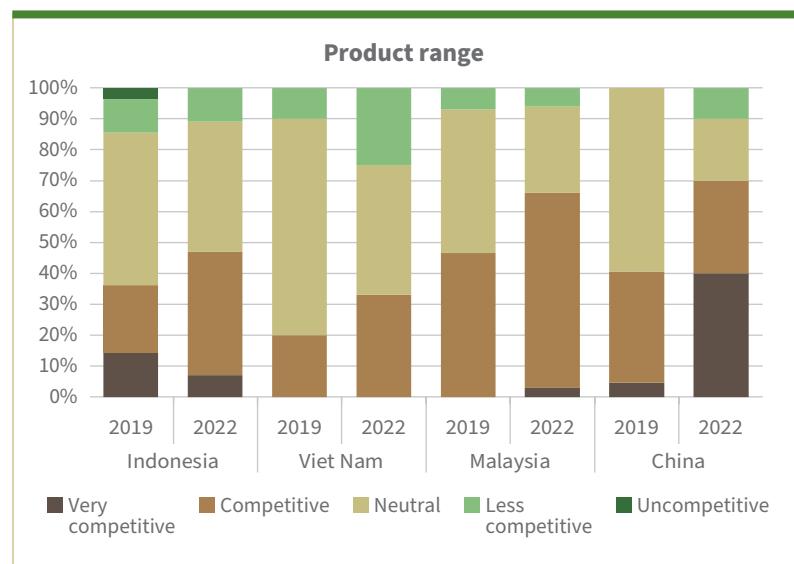


Figure 5.1.4: Competitiveness rating – product range. Source: IMM 2022 EU trade survey and IMM 2019 competitiveness survey

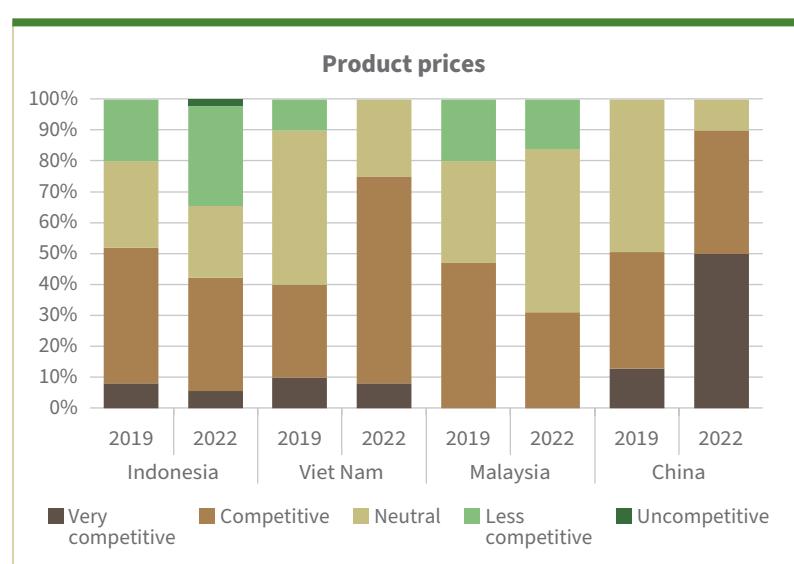


Figure 5.1.5: Competitiveness rating – price. Source: IMM 2022 EU trade survey and IMM 2019 competitiveness survey

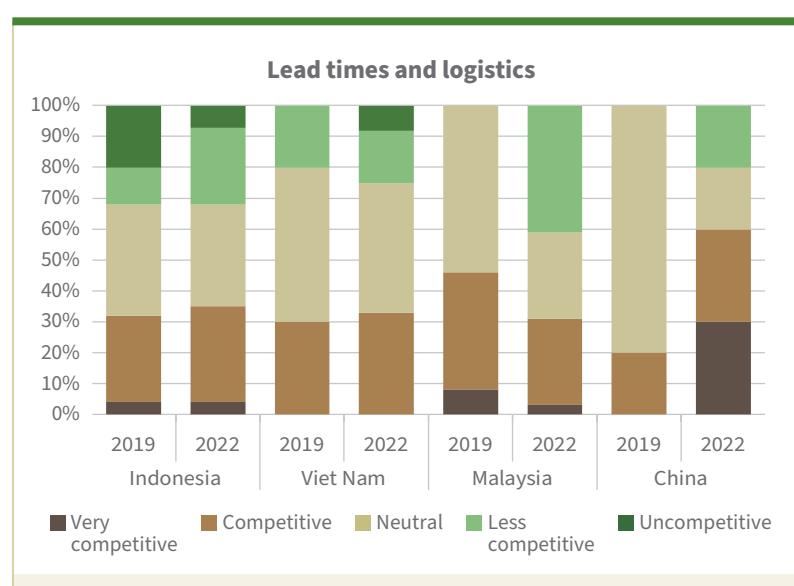


Figure 5.1.6: Competitiveness rating – lead times and logistics. Source: IMM 2022 EU trade survey and IMM 2019 competitiveness survey



Container ship. Image: iStockphoto

Ghana: IMM's outputs expected to grow in significance when FLEGT licensing starts

With the qualification that it could be better disseminated, Ghana timber sector stakeholders rate the work of the EU Forest Law Enforcement, Governance and Trade Independent Market Monitor (FLEGT IMM) positively. They see its function – tracking timber trade flows from countries in EU FLEGT Voluntary Partnership Agreements (VPAs) and other tropical suppliers and reporting on EU market impacts and opinions of FLEGT licensing – as having value for Ghana as it progresses through its own VPA. They believe the IMM's outputs can grow in significance for the country when it starts FLEGT licensing and see scope for its role to broaden in terms of increasing market awareness and understanding of the FLEGT initiative.

So said representatives of Ghanaian civil society organisations (CSOs) and government agencies taking part in IMM consultations in August, as well as Ghanaian timber producers who were interviewed separately by the IMM Ghana correspondent.⁹

The online meetings followed consultations in Jakarta, Indonesia and Nantes, France, attended by representatives of civil society, public and private sectors. The objective of the discussions is to ascertain views on the value and quality of the IMM's work. The aim is also to gauge opinion on whether the role of the IMM should continue beyond December 2022, when the International Tropical Timber Organisation's contract with the EU to manage it ends and, if so, how it should develop.

Ghanaian stakeholders showed strong awareness of the IMM's annual survey of their timber sector and its annual report, including EU country surveys and market analysis. They knew less, however, about some of its other activities and outputs, which include special sectoral reports on a range of topics, such as EU public and private sector procurement policy, the furniture sector, architectural specification and timber promotion campaigns and the extent to which they acknowledge FLEGT licensing. Awareness of the IMM Data Dashboard and the STIX database, which allow user-friendly access to trade data from the world's largest timber producing and consuming countries, was also relatively low. The broad view was that this depth of information would become more important to Ghana when it starts FLEGT licensing.

This point was picked up by Ghana consultation participants. "We need the empirical data IMM provides," said a representative in the government session. "It enables us to keep an eye on market changes and developments in EU policy. It's also valuable in terms of relaying views of buyers and government agencies on FLEGT. These are all good for us to know and, when Ghana starts licensing, will help us address any lack of understanding in the market."



Log transport in Ghana

6.1 Additional distribution channels recommended

In common with those at Jakarta and Nantes consultations, all stakeholder groups in Ghana felt IMM outputs might get more pick-up and awareness if its in-depth reports were complemented with more news bulletins and concise, summarised reviews of analysis.

"Businesses need information they can assimilate quickly," said one delegate. The view was that the IMM could also make greater use of social media and set up a mobile app to deliver bulletins on key topics.

An aspect that gave the IMM especial value, it was felt, was its independence.

"We need a body with no vested interest providing data and analysis and informing policy," said a government consultation delegate. "It's valuable for the development of the international forest process and important the integrity of the dialogue is sustained, lest we're diverted by research with [no basis] in what's happening on the ground."

It was stressed that it was not the IMM's mandate to promote the FLEGT programme, but to report independently on its perceived impacts and value in the context of international trade flows.

9. The consultations of representatives of Ghanaian civil society organisations (CSOs) and government agencies were held in two successive webinar sessions on 18 August 2022. Around 35 stakeholders participated in the two sessions. In addition, the IMM Ghana correspondent conducted face-to-face interviews with five large timber exporting companies to collect their views.

6.2 Participants highlight the perceived value of their VPA

"How do we synchronise evidence we're seeing [on the ground] with the FLEGT/EUTR Fitness Check's conclusions," said a civil society delegate. "How do we work with [the EU] to make them understand the value of our FLEGT VPA and its benefits. For instance, an independent impact assessment in Ghana has followed forest governance developments since 2008 against 13 criteria. In 2008 performance was moderate against one of the criteria and weak against the rest. In 2021, after Ghana's progress through the VPA process, performance was rated strong against six indicators and weak to moderately strong against six. It was only weak against one and this is being addressed."

One participant maintained that, due to its VPA, the performance of "Ghana's wood and forest process systems across all critical control points is amazing". "Voluntary third-party certification schemes just don't have [the benefits of a VPA] system's national coverage, where everything is accounted for – every tree."

It was also felt by stakeholders that the IMM's project steering committee, currently comprising EU and ITTO representatives, along with EFI and FAO, should include VPA partner members to ensure their needs are taken into account in its development.

Areas the IMM could address going forward, said participants, include perceived discrepancies between EU national government timber import policy, despite common obligations under the EUTR. "There's a lack of uniform procedure for receiving timber that needs resolving," said one delegate.

Others recommended that it look at certification schemes' views on FLEGT VPAs and the complementarity of their approaches.

The other role delegates felt the IMM should take on, is to increase market knowledge and appreciation of the role of FLEGT VPAs and licensing.

"In order to stimulate the whole system, the IMM should continue in a wider way in terms of informing stakeholders of what is being done and achieved," said one participant. Another added that currently buyers opted for certified timber over FLEGT-licensed 'not through any deficiency in FLEGT, but because they settled for what they know'.

"More communication is needed about the quality of a FLEGT Licence," they said. "Awareness is limited by the fact that only Indonesia is licensing, so more needs to be done to let the market know what we're talking about. And as market reception for licensed timber warms, other suppliers will be encouraged to progress their VPAs and start licensing. We must support the market for FLEGT-licensed timber." "FLEGT needs apostles," agreed another delegate.

6.3 More information required about EU deforestation regulation

Participants at all 2022 IMM stakeholder consultation raised concerns over the draft EU regulation for deforestation-free imports. In its proposed form, this would maintain a FLEGT Licence's proof of legality status, but under its terms, licensed goods would no longer have a due diligence-free 'green' track into the EU.

Some Ghanaian stakeholders said this raised question marks over FLEGT, but there was relatively low awareness of the implications of the proposed regulation. The general opinion was that Ghana should in any case press on to achieve licensing status.

6.4 Germany, Belgium and Italy are Ghana's biggest EU export destinations

Besides gauging perceptions of its activities, the Ghana stakeholder consultations allowed the IMM to present latest findings from its trade surveys, data analysis and reports and broad conclusions from its work over the years.

IMM market analyst George White addressed developments in Ghanaian timber trade against the backdrop of the global tropical and wider wood market. After falling to \$203 million in 2020, when trade was hit hardest by Covid, Ghana's timber exports recovered in 2021. They remained down on 2019, but rose to \$240 million. Logs remained the biggest export commodity, but with paper rising strongly into second place, possibly, said Mr White, due to the country acting as regional export hub. Next came sawnwood and veneer.

There has been a shift in Ghana's export market composition recently, notably in trade with fellow African states. These now account for 32% of its foreign timber sales, up from 9% in 2016. In the same period, Ghanaian exports to India rose from 19% to 26% of its total, and to the EU from 10% to 15%. China's share fell from 37% to 16%. Germany remains Ghana's biggest EU export destination, followed by Belgium, Italy, and France, with sawnwood comprising the biggest element of EU sales, followed by veneer and secondary wood products.

65% of timber exports from lower to middle income (LMI) producer countries, such as Ghana, are now destined for countries requiring proof of import legality. This can be a potential positive for suppliers with timber legality assurance systems (TLAS) in place.

"That more markets are scrutinizing wood imports should give countries, which have addressed forest governance and legality, cause for optimism," said Mr White.

While the war in Ukraine had resulted in spiraling energy costs and economic uncertainty, he added, the resulting EU embargoes on Russian and Belarusian timber and wood products and restrictions on Ukrainian exports potentially open opportunities for other suppliers. Russia, Belarus and Ukraine have been supplying the EU with around \$6 billion of timber goods annually.



FLEGT
INDEPENDENT MARKET MONITOR



International Tropical Timber Organization (ITTO)

International Organizations Center
5th Floor, Pacifico Yokohama, 1-1-1 Minato-Mirai
Nishi-ku, Yokohama, 220-0012 Japan
www.itto.int

FLEGT Independent Market Monitor
IMM Lead Consultant, Sarah Storck, lead@flegtimm.eu
www.flegtimm.eu
