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FLEGT-licensed and VPA partner timber products trade 2020

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Wood harvesting, Indonesia
PHOTO: EU FLEGT FACILITY

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Executive Summary

The sixth IMM Annual Report “FLEGT-licensed and VPA partner timber products trade 2020” was prepared at a time when global economic activity suffered a severe shock due to the COVID-19 pandemic. Despite the economic turmoil, the European team of IMM correspondents were able to interview 100 timber product importers in the six key countries¹ accounting for 80–90% of EU27+UK country² timber products imports from VPA partners³ for the IMM annual trade survey and another 34 furniture importers for the second furniture sector special study⁴. IMM also continued to employ correspondents in Indonesia, the only FLEGT licensing country in 2020, and Ghana, a VPA country nearing agreement to issue FLEGT Licences. The three IMM correspondents in Indonesia, Ghana and Viet Nam conducted interviews and produced reports for the IMM. IMM correspondents in these countries, alongside another for the Republic of Congo, acted as points of liaison between IMM and partner country authorities and organisations.

This report combines key conclusions of IMM surveys with trade flow analysis to assess the market position of FLEGT-licensed timber products in EU27+UK countries, and more broadly of VPA partner timber products in global trade in 2020. By doing so it helps guide the further development of FLEGT policy measures so that they respond to market realities and potential. The report includes an assessment of the extent to which existing policy instruments and marketing initiatives in EU27+UK countries promote a favourable market position for FLEGT-licensed timber and includes recommendations to enhance effectiveness. Given the extraordinary market situation in 2020, the report gives special consideration to

the impact of the COVID-19 pandemic on FLEGT-licensed and wider VPA partner timber trade flows during the year and identifies some key policy implications.

Promoting a favourable market position for FLEGT-licensed timber

Between 2017 when the IMM became fully operational and 2020, IMM correspondents in EU conducted more than 600 interviews with timber product⁵ importers and traders as well as other industry experts such as architects, designers, specifiers and experts from the finance and investment sector. In addition, IMM received direct feedback on trade in timber products from VPA partners and competing regions and on market development of FLEGT-licensed timber from around 200 participants at IMM trade consultations.

Based on these interviews, IMM identified three focal areas for recommendations to promote a favourable position in the EU market for FLEGT-licensed timber products: consistent and effective enforcement of the EUTR; endorsement and promotion of FLEGT-licensed timber, including recognition in procurement policies; and recommendations around administration and bureaucracy (*Table S1*⁶). The last area has declined in importance since FLEGT Licences were first issued in Indonesia in November 2016 as initial teething issues were quickly resolved in the main importing countries for FLEGT-licensed timber⁷. However, the first two focal areas remain extremely relevant and require a co-ordinated and effective response if FLEGT licensing is to fulfil its market potential.

Ensure consistent and effective enforcement of the EUTR to:	Endorsement/promotion of FLEGT-licensed timber by EC and MS, including:	Minimize bureaucracy involved in importing FLEGT-licensed Timber as much as possible by:
<ul style="list-style-type: none"> • create an immediate market advantage for FLEGT-licensed timber; • create a level playing field at European level and; • address environmental prejudice; • prevent illegal timber from entering or circulating on the Union market. 	<ul style="list-style-type: none"> • acceptance of FLEGT-licensed timber on equal footing with certification in public procurement (and actually specifying it for public projects in practise); • clarification of the status of FLEGT licensing in the legality/sustainability heirachy; • measures to raise awareness delivered by relevant stakeholders; • preferential treatment for FLEGT-licensed timber in green finance initiatives; • measures to address environmental prejudice. 	<ul style="list-style-type: none"> • implementing e-licensing • handling application of different HS codes in Europe and Indonesia as well as any other obviously not fraudulent mismatches in an unbureaucratic manner; • dropping fees for processing FLEGT Licences (they have little impact at current levels, but send the wrong signal).

Table S1: Summary of recommendations. Source: IMM 2017-2020 surveys and trade consultations

1. Belgium, France, Germany, Italy, Netherlands and the United Kingdom.
2. This report includes the UK, as the UK was still regulating timber products trade through EUTR in 2020. Future IMM reports will exclude the UK from market analyses, except as part of IMM monitoring of other non-EU countries that provide market advantages to FLEGT-licensed timber. – see section 1.3
3. VPA partners includes all countries that by 2020 had signed a FLEGT VPA agreement with the EU – see section 1.3
4. White, George (2020) “Assessing the impacts of timber legality on the European Union’s wood-furniture sector and the associated VPA Partner timber trade”. https://www.flegtimm.eu/images/Furniturestudy_follow_up_2020/IMM_Furniture_Study_Dec_2020_St4F.pdf
5. In this report the term “timber product” is used to refer collectively to all wood-based products in HS chapters 44 (wood), 47 (pulp) and 94 (furniture), and all paper products in HS chapter 48 – see section 1.3.
6. Figure S1 provides a strongly condensed overview of most frequently made recommendations. A more detailed overview of recommendations can be found in Annex 1 of this report.
7. In the period 2017 to 2020, the main importing countries for FLEGT-licensed timber were Belgium, France, Germany, Italy, Netherlands, Spain and the UK.

Exemption from EUTR due diligence obligations creates the most direct and immediate market advantage for FLEGT-licensed timber. Operators interviewed in IMM trade surveys and at IMM trade consultations between 2017 and 2020 have confirmed the market advantage due to the reduced regulatory burden when sourcing timber products from Indonesia in comparison to other supply countries. Besides less complex administrative procedures and related cost savings for European importers, interviewees highlighted as particularly important in this context the fact that their own risk of infringing the law is reduced to zero when importing FLEGT-licensed timber. For this reason, monitoring of EUTR-related market impacts features highly both in the IMM indicators⁸ and the IMM terms of references contained in the VPA between the EU and Indonesia⁹.

However, a large proportion of respondents to IMM EU trade surveys each year have expressed the view that there are differences between EUTR enforcement and sanctions regimes from country to country that are impacting both on their own business development and in some instances also on the direction of timber trade flows in EU27+UK countries. While such reports are anecdotal in nature, they are based on a large number of interviews and consultations and some impacts on trade flows are also reflected in trade statistics. Significant variations from country to country in sanctions for EUTR infringements, enforcement regimes, financial and human resources dedicated to EUTR implementation and enforcement as well as transparency issues are also documented by reports published by the European Commission¹⁰, the UN Environment Programme World Conservation Monitoring Centre (UNEP-WCMC)¹¹, the Environmental Investigation Agency¹², Client Earth¹³, and the European Court of Auditors¹⁴.

The trade flow data compiled for this and previous IMM reports highlights that while FLEGT-licensed timber from Indonesia made up some lost ground in EU27+UK country markets in the period 2017 to 2019, there was no significant increase in market share in any sector. FLEGT-licensed timber products faced significant and mounting competitive pressure from suppliers in countries neighbouring the EU, notably Russia, Ukraine, Belarus, Turkey, and Bosnia Herzegovina. For specific products, Indonesia also lost share during this period relative to China (plywood), Brazil (decking), India (craft furniture) and Malaysia (laminated wood products). In 2020, the COVID-19 pandemic led to a significant downturn in EU27+UK country imports which disproportionately impacted

on Indonesia alongside other Asian supply countries relative to countries neighbouring the EUTR region.

There are many commercial reasons why FLEGT-licensed timber struggled to maintain and build share during the period 2017 to 2020 which are independent of the FLEGT regulatory process, both on the supply and demand side. However, this situation raises questions about the continuing ability of suppliers in non-VPA countries, where in some cases there is evidence of significant risk of illegal wood entering trade¹⁵, to compete so readily with FLEGT-licensed timber in EU27+UK countries.

Endorsement and promotion – a FLEGT brand

There is a widespread view in the trade in the leading EU27+UK country markets, expressed during IMM surveys and Trade Consultations, that there has been insufficient positive communication and endorsement from governments and public administration about the FLEGT VPA process and Indonesia's achievements in reaching the FLEGT licensing stage. This reluctance, say survey respondents, is not helping to create trust in and develop markets for what is still a fundamentally new system and concept.

IMM's review of EU27+UK country public procurement policies, updated for this report, shows that whilst around two thirds accept FLEGT Licences in some capacity, they have often not been granted a formal status and it remains unclear where FLEGT Licences sit in the legality/sustainability hierarchy which forms an important component of public procurement policies. Furthermore, these policies continue to vary in their product or usage scope and often are not the powerful market driving tool that they might be. Similarly in the green building rating systems operating in EU27+UK countries, which are frequently used in publicly funded projects, there is almost no recognition of FLEGT licensing. This is confirmed by IMM survey respondents involved in business with Indonesia whose direct experience is that FLEGT-licensed timber is rarely explicitly specified or even accepted upon request in public projects and that FLEGT-licensed timber is given no preferential treatment in public procurement policies.

There are some more positive developments amongst private sector buyers of timber products where procurement policies are more frequently reviewed and tend to be more

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8. IMM Global Indicators: https://www.flegtimm.eu/images/imm_indicators/IMM_Meth_Annex1_Indicators_global.pdf
 9. Article 15b and ANNEX VII of the VPA between Indonesia and the EU; [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0520\(02\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0520(02)&from=EN)
 10. *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 products on the market (the EU Timber Regulation)*. (COMM 2020)
 11. 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>
 12. "Does well, could do better. EIA's recommendations for the EUTR Fitness Check." <https://eia-international.org/report/does-well-could-do-better-eias-recommendations-for-the-eu-timber-regulation-fitness-check/> and "The Italian Job. How Myanmar timber is trafficked through Italy to the rest of Europe despite EU laws" <https://eia-international.org/report/the-italian-job-how-myanmar-timber-is-trafficked-through-italy-to-the-rest-of-europe-despite-eu-laws/>
 13. *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)
 14. *Special Report 21/2021: EU funding for biodiversity and climate change in EU forests: positive but limited results* <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=59368>
 15. For example, significant risks of illegal timber supply are identified in UNEP-WCMC country overviews commissioned by EC to aid implementation of EUTR in the People's Republic of China (September 2018), Russian Federation (September 2018), and Bosnia and Herzegovina (April 2020). Details of specific risks of illegal timber supply are elaborated with respect to Ukraine and Brazil in Annexes to the summary record of the December 2020 meeting of the Expert Group/Multi-Stakeholder Platform on Protecting and Restoring the World's Forests, including the EU Timber Regulation and the FLEGT Regulation Meeting.
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responsive to new developments. In this sector, IMM's latest review shows that the level of recognition of FLEGT licensing, and its role both to demonstrate legality and improve forest governance in VPA partner countries, while still quite modest is rising. Where FLEGT licensing is not recognised, this is often because the companies concerned are not actively buying Indonesian timber and some companies state that a formal role for FLEGT licensing in their policies will only be considered once licenses are available from a wider range of countries.

All the European timber trade associations reviewed by IMM can be said to be supportive of the wider VPA process and its associated benefits. Beyond this, the level of tangible support around communicating the message has remained variable. The UK Timber Trade Federation (TTF) is identified as representing one extreme, with its active and early promotion of FLEGT licensing as an equivalent of certification in both public and private procurement policies. The UK TTF is seeking to cooperate with European partners in taking its FLEGT initiatives forward and continues in its efforts to build a pan-European or even global communications drive. However, the UK TTF is currently the only EU27+UK country federation with a dedicated FLEGT promotion and awareness-raising programme, while many other associations still offer only cautious support, even when it comes to promoting EUTR compliance advantages of FLEGT-licensed timber. As for the NGOs, despite occasional criticisms, these organisations seem broadly supportive of the concept of FLEGT and have recently campaigned strongly in favour of developing and strengthening the initiative¹⁶.

COVID-19 impact on VPA partner timber products trade

In 2019 before the COVID-19 pandemic the global economy was struggling to regain a broad-based recovery for several reasons including the lingering impact of growing trade protectionism, trade disputes among major trading partners, and falling commodity and energy prices. World GDP growth was estimated by the World Bank to be 2.34% in 2019, the slowest rate of growth since 2009 during the global financial crises. In 2020, the global economy was transformed by the pandemic with major, but as yet uncertain, implications for future market development of FLEGT-licensed and other VPA partner timber products, as for all commodities. While the downturn affected nearly all parts of the world and sectors of the economy, some were impacted more heavily than others. Key pandemic related impacts on trade in VPA partner timber products with EU27+UK countries in 2020 include:

- a 6.2% fall in EU27 GDP during the year. This contrasts with GDP trends in other major timber consuming countries in 2020, including the US, where the decline was limited to 3.5%, and China where GDP increased 2.3% in 2020.
- a sharp but short-lived decline in EU27+UK construction and furniture sectors, ultimately the main consumers of most VPA partner products in this market, quickly offset by a sharp rise in spending on home and garden improvement during lockdown.

- a strong emphasis on green growth in COVID-19 economic recovery packages in the EU, raising the prospect of enhanced demand for green products, rising influence of green building initiatives in the EU, and increased demand for credible assurances of legal and sustainable timber origin.
- an immediate negative impact on domestic demand for wood products in the VPA partner countries and the ability of the timber industry to access and pay for essential raw materials and labour during 2020.
- a significant decline in log harvests in most VPA partner countries in 2020, Indonesia being a notable exception due to continuing expansion of log supply from industrial plantations for the pulp and paper industry.
- an emphasis on reduced “red tape” in Indonesia’s October 2020 Omnibus Bill on Job Creation in an effort to boost international competitiveness and thereby boost the economy.
- a very sharp increase in freight rates, particularly on trade routes out of low and medium income countries. Imports of timber products into the EU from VPA partners were disproportionately impacted relative to imports from countries neighbouring the EU.
- further weakening of currencies already faltering before the pandemic, notably the Russian rouble and the Brazilian real, helping to reduce prices of plywood and decking products competing directly with Indonesian FLEGT-licensed products in EU27+UK countries.
- a 14% decrease in EU27+UK country imports of FLEGT-licensed products from Indonesia to USD1.19 billion in 2020.
- early signs of increased market domination by larger operators in the timber products sector with greater resources to ride the COVID-19 downturn and to invest in new forms of on-line distribution at the expense of smaller operators.
- early signs that firms may adapt to the challenges of the pandemic by expanding and diversifying supplier bases for critical raw materials, like wood, and by investing in suppliers to upgrade their capabilities. The FLEGT VPA process may be seen as contributing to this process of diversification, by improving EU manufacturers and consumers access to resilient and sustainable sources of timber products from a wide range of countries.

VPA partner countries’ share of trade global trade

In 2020, VPA partners accounted for 21% of the value of all timber products exports by Low and Middle Income (LMI)¹⁷ countries, up from 19% the previous year.

The growth in share is attributable to rapidly rising exports by **Viet Nam**, a trend which accelerated in 2020 despite the pandemic. Viet Nam was an outlier in 2020 with exports

16. <https://flegtim.eu/news/raise-the-forest-protection-bar-with-flegt-urge-csos/>

17. Unlike previous IMM reports which compared VPA partner trade with other tropical countries, in this report trade is analysed according to income group with the focus on low and middle income (LMI) countries as defined by the World Bank. This group of countries includes all those that most directly compete with Indonesia and other VPA partners in the EU27+UK countries and other global markets. The focus on LMI countries is also justified by evidence that illegal logging tends to occur more regularly in these countries than in high income countries. See section 1.3.

rising 21%, maintaining the extraordinary pace of growth recorded in the previous five years. Viet Nam has been the principal beneficiary of the US switch away from China in supply of wood furniture products.

Indonesia's timber products exports declined 6% in 2020, following a 4% decline in 2019. For Indonesia, the decline was concentrated in pulp and paper exports to China and plywood exports to Japan. Indonesia's wood furniture exports increased in 2020, particularly to the US.

Of African VPA implementing countries, exports were already falling in 2019 in **Cameroon, Ghana and Liberia** and the pandemic deepened the decline. In 2020, exports were down 17% in Cameroon (-6% in 2019), 34% in Ghana (-2% in 2019) and 3% in Liberia (-56% in 2019). There was also a sharp 17% decline in exports from the **Republic of Congo** in 2020, in this case following a 6% gain the previous year. Exports from the **Central African Republic**, which have been very low and volatile in recent years, increased 31% from a small base in 2020 after falling 32% the previous year.

VPA partners in Latin America experienced a significant downturn in timber products exports in both 2019 and 2020. Exports from **Guyana** fell 18% in 2020 after a 25% decline the previous year. For **Honduras**, a decline of 27% in 2020 followed a 14% decline the previous year.

Share of trade destined for EU27+UK countries and other regulated countries

A large and rising proportion of timber products exports from all LMI countries are now destined for countries regulating trade to ensure legal origin. The implication is that the provision of credible assurances of legal origin is increasingly important to maintain market access in nearly all parts of the world.

In 2020, 17.3% of LMI country timber products export value was destined for EU27+UK countries, a marginal rise compared to 17.2% in 2019, mainly a result of rising EU import value from Russia, Belarus and Ukraine during the year. If all countries with some form of due diligence or other requirement to restrict imports of illegal timber are considered, 56% of LMI country export value was destined for these countries in 2020. These proportions are marginally higher than in 2019, mainly due to growth in the proportion of trade destined for the United States during the year. Leading importing countries without regulatory requirements include China, Canada, Mexico, Switzerland, India, Turkey, Saudi Arabia and Russia.

Considering just tropical primary wood products, the share of global export value destined for EU27+UK countries increased from 8.6% in 2018 to 9.6% in 2020. The rise in share was the result of a large fall in tropical primary wood products trade with China and India during the period. The share of tropical primary wood product export value destined for China fell from 38.2% in 2018 to 32.9% in 2020. The share destined for India fell from 7.7% to 6.7% in the same period. Meanwhile, the share of tropical primary wood exports destined for the United States increased from 9.0% in 2018 to 12.9% in 2020. This shift in the balance of tropical primary wood trade meant that the proportion of world export value destined for regulated markets increased from 38.6% in 2018 to 42.5% in 2020.

Share of EU27+UK country imports from LMI countries, VPA partners and tropical countries

The share of EU27+UK country timber products imports from LMI countries, as opposed to high income countries, continued to increase in 2020. EU27+UK country timber product import value from LMI countries increased rapidly from USD21.7 billion in 2016 to USD26.0 billion in 2018, but then declined by 3% to USD25.1 billion in 2019 and by 4% to 24.2 billion in 2020. However, the share of total EU27+UK country import value sourced from LMI countries increased continuously from 74% in 2017 to 78% in 2020.

While the share of EU27+UK country imports from LMI countries has increased, the share specifically from VPA partner countries has remained broadly flat. EU27+UK country timber product import value from VPA partner countries increased from USD2.6 billion in 2016 to USD2.9 billion in 2019 but fell 11% to USD2.6 billion in 2020. Between 2016 and 2020, VPA partners' share of timber product imports into EU27+UK countries hovered around 8%–9% of all imports and 10.5%–11.5% of imports from LMI countries. Throughout this period, several LMI countries with no VPA made larger gains in share of EU27+UK country imports. Consistent gains were made by the Russian Federation, Ukraine, Turkey, Belarus and Serbia during this period. Brazil made gains between 2016 and 2018 but lost share in 2019 and 2020. China lost share between 2016 and 2018 but recovered ground in 2019 and 2020.

Considering just tropical primary wood products, the total value of EU27+UK country imports fell 14% in 2020 to USD1.19 billion after a 6% decline the previous year. In 2020, VPA countries accounted for 40% of all tropical primary wood products imported into EU27+UK countries, down from 42% in 2019.

While the immediate cause of falling tropical primary product imports into EU27+UK countries was slowing economic activity in 2019 and the disruption due to the pandemic in 2020, it also forms part of a long term trend of declining market share for tropical wood in these countries. Tropical wood accounted for 19.4% of EU27+UK country import value of primary wood products in 2020, down from 21.5% in 2019 and figures in excess of 36% in the years before the global financial crises.

Reasons most often cited for the decline in tropical wood market share at IMM trade consultations in the EU include: environmental prejudices; uncoordinated marketing of tropical wood products; substitution by temperate, chemically and thermally modified wood, composites and non-wood materials; and the challenges of demonstrating EUTR conformance in tropical countries in the absence of FLEGT licensing.

Indonesia's trade in FLEGT-licensed timber

In the period immediately following FLEGT licensing, EU27+UK country imports of Indonesian timber products increased from USD 1.07 billion in 2016 to USD 1.28 billion in 2019. This recovery coincided with a wider expansion of EU27+UK country consumption and imports so that there was only a slight increase in Indonesia's share of imports during this period. Indonesia's share of EU27+UK country timber product import value from LMI countries increased from 4.9% in 2016 to 5.1% in 2019. A sharp rise in freight rates and other supply side problems during

the pandemic led to Indonesia, alongside other countries distantly located from the EU27+UK countries, suffering a disproportionate loss of share in 2020. Indonesia's share of EU27+UK country timber product import value from LMI countries regressed to 4.7% in 2020. Trends varied widely between product groups:

- The value of EU27+UK country **wood furniture** imports from Indonesia increased only slowly in the period immediately following FLEGT licensing and there was no noticeable gain in share of EU27+UK country imports. More positively, import value of wood furniture from Indonesia fell by less than 1% in 2020 despite the severe market and transport disruption caused by the pandemic indicating the gains made are reasonably resilient. The relative lack of growth in EU27+UK country furniture imports from Indonesia since the start of FLEGT licensing is influenced by wider stagnation in EU27+UK country furniture market growth and by intense competition in the sectors targeted by Indonesian manufacturers. Tropical hardwood outdoor furniture is now under pressure from a wide range of modified temperate wood and non-wood products. In the high quality specialist hand-made furniture sector, Indonesia is competing most directly with India which increased market share between 2016 and 2019.
- EU27+UK country import value of **plywood** from Indonesia strengthened between 2016 and 2018 in line with a general rise in plywood consumption in the EUTR region at a time of rising activity in the construction sector. However, there was no increase in Indonesia's share of total EU27+UK country import value of hardwood plywood. In 2019 and 2020, EU27+UK country imports of plywood from Indonesia regressed again and Indonesia's share of total hardwood plywood import value fell from 9% to 6%, share being lost primarily to products from China and Russia.
- EU27+UK country import value of **mouldings/decking** from Indonesia was stable between 2017 and 2019, indicative of a rise in prices as import quantity fell by 10% in the same period, mainly due to limited availability. In 2020, EU27+UK country import value of Indonesian mouldings/decking fell by 16% as supply problems and the challenges of shipping products from Indonesia to Europe worsened during the year. Indonesia's share of EU27+UK country imports of mouldings/decking from LMI countries fell between 2017 and 2020, share being lost primarily to Brazilian and Russian products.
- EU27+UK country import value of **wood doors** from Indonesia increased by 15% in 2018 and by 3% in 2019 but then declined by 9% in 2020. Indonesia's overall share of EU27+UK country wood door imports fluctuated between 2016 and 2020 without showing any clear trend. Indonesia increased share relative to suppliers in China, Brazil, and Malaysia but lost share to suppliers in Eastern European countries, notably Ukraine, Bosnia, Russia, Belarus, and Turkey.
- Indonesia's share of total EU27+UK country imports of **laminated wood products** from LMI countries fell between 2015 and 2020, mainly to Malaysia and Russia.

- Indonesia's share of **wood flooring** imports, a market heavily dominated by China and increasingly Ukraine, was flat at a low level between 2018 and 2020.
- EU27+UK country import value of **paper products** from Indonesia increased from USD 237 million in 2017 to USD 380 million in 2019 before falling back 16% to USD 319 million in 2020. Indonesia's share of total EU27+UK country import value of paper products from LMI countries increased from 5% in 2017 and 2018 to 7% in 2019 but fell back to 5% in 2020. In 2020, share was lost primarily to China which accounted for over half of all EU27+UK country imports of paper products from LMI countries during the year.

While there was no significant growth in share of FLEGT-licensed timber products in EU27+UK country markets across all product sectors following licensing, the fact that EU27+UK country import value from Indonesia was rising before the pandemic, and share in some highly competitive markets was at least being maintained, provides reassurance that the regulatory advantages and reputational gains owing to FLEGT licensing may have helped turn the tide after a long period of historically low imports from Indonesia. More anecdotal evidence for market benefits is provided by the IMM trade surveys undertaken between 2017 and 2020 including:

- the number of companies reporting small increases in timber and timber product imports due to FLEGT licensing rose sharply to 28% in 2020; this compares to 12% in both 2018 and 2019;
- a constant rise in the proportion of respondents that found the administrative process of importing FLEGT-licensed timber easily understandable and manageable from 2017 to 2020.
- the proportion of companies fully agreeing that FLEGT Licences were making importing wood from Indonesia easier compared to EUTR due diligence rose by 6 percentage points to 66% in 2020, another 13% agreed partially, bringing the total to almost 80%. Less than 10% fully or partially disagreed.
- a positive attitude overall in the European trade towards the EUTR and FLEGT licensing, with a majority of respondents stating that they are in principle in favour of "a regulatory approach involving increased supply of FLEGT-licensed tropical timber linked to consistent and effective enforcement of EUTR to remove illegal wood".
- in some EU27+UK countries, survey respondents perceived that the political agenda is to make EUTR compliance in the absence of FLEGT Licences or third-party certification very difficult.

Despite the lack of immediate and obvious benefits in terms of higher sales to EU27+UK countries or price increases, the IMM trade survey in Indonesia in 2020 also indicates continuing high level of support for SVLK implementation. A strong majority of respondents felt that FLEGT helps to improve forest management and governance in Indonesia and believe that SVLK is becoming more important now that more export markets are regulating their timber imports.

Other trade policy interventions and relevance for VPA Partners

This report identifies and comments on the implications of several other policy issues arising in 2020 with potentially significant implications for FLEGT-licensed and wider VPA partner timber trade.

- It is likely that the Brexit decision, through its impact on the overall level of economic growth in the UK and in weakening the international value of the GB pound was acting to slow overall UK imports of timber products well before the UK's scheduled departure from the EU single market on 31st December 2020. Brexit was also a significant factor, in addition to the pandemic, contributing to severe volatility in UK timber products imports during 2020. More directly, Brexit involves a change in the regulatory framework for FLEGT-licensed timber in the UK market, effective from 1st January 2021. In 2021, the EUTR is replaced in the UK by the UK Timber Regulation (UKTR). The "Green Lane" for products covered by FLEGT Licences imported directly into the UK applies equally to UKTR. However, if a product is imported into the EU with a FLEGT Licence and then subsequently shipped to the UK, the UK operator is required to undertake due diligence with respect to that timber.
- From 1st January 2020, Indonesia no longer qualified for Generalised Scheme of Preferences (GSP) tariff rates on Wood and Wood Products in the EU. Loss of GSP status meant higher EU tariffs for Indonesian plywood, veneers, and planed, sanded and finger-jointed sawn timber. For plywood, the most significant Indonesian wood product influenced by GSP status, the tariff increased from 3.5% to 7% at the start of 2020.
- The EU and Viet Nam signed a Trade Agreement and an Investment Protection Agreement on 30 June 2019 which came into force on 1 August 2020. The agreement aims to provide opportunities to increase trade and support jobs and growth on both sides, including through: eliminating 99% of all tariffs; reducing regulatory barriers and overlapping red tape; opening up public procurement markets; and making sure the agreed rules are enforceable. The Agreement contains specific commitments on environmental standards, including in relation to forests, setting the basis for bilateral cooperation on the transition to low greenhouse gas emissions and climate-resilient economies.
- Fifteen countries, including VPA partners Indonesia and Viet Nam alongside Australia, Brunei, China, Colombia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea and Thailand signed the Regional Comprehensive Economic Partnership (RCEP) on 15th November 2020. The agreement is expected to boost intra-regional trade by over 10% in the next five years.
- In September 2020, the Russian Federation announced introduction of a ban on exports of logs of softwood and valuable hardwoods (oak, beech and ash), to go into effect at the start of 2022. In the short-term, China will be most directly impacted as most log exports now derive from the Russian Far East and are destined for China. China will likely look to source more sawlogs from other regions of the world, including from Europe

and Africa. The ban may also impact on the relative competitiveness of Russia and Chinese products that compete directly with FLEGT-licensed and other VPA partner timber.

- On 14 October 2020, the EU announced a notice of initiation of an anti-dumping proceeding concerning imports of birch plywood originating in Russia. This has significant implications for Indonesia plywood which is a direct competitor to Russian plywood in the EU market.

Conclusions

Relating to FLEGT licensing:

- It is important always to emphasise that FLEGT policy measures are only one factor driving changes in market share and impacts are often obscured by other dominant issues on both the supply side (wood availability, logistics, labour rates, exchange rates etc) and demand side (changing distribution and composition of consumers, fashion changes, standards etc).
- There was an encouraging rise in EU27+UK country import value of Indonesian timber products in the immediate aftermath of FLEGT licensing between 2017 and 2019.
- However, there was no strong signal in trade data of significant market benefits due to FLEGT licensing during this period.
- Growth in imports from Indonesia coincided with a larger increase from other countries, mainly LMI countries not involved in the VPA process, the most consistent gains being made by Russia and other CIS countries, Turkey, and India.
- Identifiable gains in market share between 2017 and 2019 were restricted to a few niche markets such as doors to the UK and specialist papers to the UK and Greece.
- Trade in FLEGT-licensed timber products in 2020 suffered a downturn due to the COVID pandemic which disproportionately impacted on EU27+UK country imports from Indonesia alongside other South-East Asia suppliers.
- IMM trade survey data paints a more positive picture of market impacts of FLEGT licensing, including that the green lane for FLEGT-licensed timber is making importing from Indonesia easier for EUTR operators and EUTR operators value the "zero risk" status of FLEGT-licensed timber and will give preference where other commercial product criteria are equal.
- While the trade data does not reveal any significant FLEGT licensing related growth in market share, the positive attitude of traders implies that FLEGT licensing may have contributed to stabilising this share in a difficult and competitive environment after a long period of decline.
- The private sector in Indonesia values the role played by FLEGT to improve forest management and governance.
- There is an increasing role for SVLK at a global level due to the growing number and expanding market dominance of regulated markets.

- While FLEGT licensing offers opportunities for market development these are not being fully realised due to:
 - inconsistent messaging and lack of endorsement in public procurement policies that creates confusion about the value of FLEGT licensing and where licensed products sit in relation to definitions of “legal and sustainable” timber products;
 - inconsistencies in EUTR enforcement may have created loopholes that weaken the green lane advantage; and
 - a continuing lack of vigorous private sector initiatives actively promoting the concept in the majority of EU27+UK countries.
- IMM recommendations need to be acted on to fully exploit the market opportunities created by FLEGT licensing.

Relating to FLEGT policy measures in wider trade:

- As a group, VPA partners now account for around one fifth of all timber products exports from LMI countries worldwide.
- While EU27+UK countries accounted for 17% of LMI country timber product exports in 2020, all regulating countries together accounted for 56%.
- This highlights the considerable reach and influence of FLEGT policy measures to help reduce the volume of illegal wood in global trade.
- The proportion of trade impacted by FLEGT and similar policy measures continued to rise in 2020, driven particularly by rising bilateral trade between Viet Nam and the United States.
- As a major importer of primary wood products from other LMI countries and as an exporter of finished timber products of increasing global significance, the VPA with Viet Nam greatly extends the reach of FLEGT policy measures in global trade.
- In Africa, progress by Ghana and the Republic of Congo to reform forest laws and implement procedures in line with VPA commitments is significant and needs further encouragement through measures to communicate the progress and promote a favourable market position for FLEGT-licensed timber.
- Cameroon continues to have a key role to play in FLEGT policy development. Considering EU27+UK country imports of primary wood products in 2020, Cameroon supplied in excess of 50% of all imports from VPA partners and 40% of all imports from the African continent. Cameroon also stands out for the large share (61%) of timber product export value destined for regulated markets in 2020.
- Timber product exports from all African and Latin American VPA partners were declining even before the pandemic and were disproportionately affected during the pandemic. Efforts to further develop timber legality assurance systems need to take account of and be responsive to the significant competitiveness challenges faced by timber industries in these countries.

Relating to COVID-19 impacts:

- The immediate impact of the pandemic was to seriously disrupt EU27+UK country imports of FLEGT-licensed and other VPA partner timber products in 2020.
- Overall timber production and exports from Indonesia and Viet Nam proved more resilient than expected early in the pandemic, but exports to EU27+UK countries were particularly affected by lack of containers destined for Europe and the sharp rise in freight rates, starting in the second half of 2020.
- Exporters in both countries prioritised shipments to alternative markets, particularly the US which recovered more quickly than EU27+UK countries during the year.
- At the same time buyers in EU27+UK countries increased purchases from more accessible suppliers in the European neighbourhood.
- The challenges of moving staff and materials and of maintaining equipment, alongside lack of containers and other freight problems, impacted heavily on supply and exports in VPA partner countries in Africa and Latin America during 2020.
- These and other economic challenges are likely to persist in VPA partner countries which as LMI countries generally have lower levels of access to economic support measures, vaccines and other health services.
- New market opportunities for FLEGT-licensed may emerge longer term in EU27+UK countries due to the strong focus on green growth measures in COVID recovery plans and possible measures by manufacturers and importers to diversify supply sources.

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List of Acronyms

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

List of Acronyms

ITTO	International Tropical Timber Organisation
JFSQ	Joint Forest Sector Questionnaire (regularly issued by UN)
LAS	Legality Assurance System
LEI	Lembaga Ekolabel Indonesia – sustainable forest management standard
LIU	Licensing Information Unit
LMI	Low and Middle Income (country categories defined by World Bank)
LVL	Laminated Veneer Lumber
m²	Square meters
m³	Cubic metres
MDF	Medium Density Fibreboard
MLH	Mixed Light Hardwood (applied to plywood)
MO	Monitoring Organisation
MoEF	Indonesian Ministry of Environment and Forestry
MS	(EU) Member State
MT	Metric tonnes (1000 kilograms)
NTFP	Non-Timber Forest Product
OSB	Oriented Strand Board
PEFC	Programme for Endorsement of Forest Certification
PFE	Permanent Forest Estate (defined by ITTO)
PHPL	Indonesian Sustainable Forest Management Standard
PVC	Polyvinyl chloride
RCEP	Regional Comprehensive Economic Partnership
RWE	Roundwood Equivalent (relates to wood product volumes)
SFM	Sustainable Forest Management
spp.	Several species within a genus
SPWP	Secondary Processed Wood Product
STTC	Sustainable Tropical Timber Coalition
SVLK	Sistem Verifikasi Legalitas Kayu
TLAS	Timber Legality Assurance System
TRAFFIC	Trade Records Analysis of Flora and Fauna in Commerce
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP/WCMC	United Nations Environment World Conservation Monitoring Centre
USA	United States of America
USDA	US Department for Agriculture
USD	US Dollar
VPA	Voluntary Partnership Agreement
WEF	World Economic Forum
WGBC	World Green Building Council

1.1 Background

The Independent Market Monitoring (IMM) mechanism was established under a project of the International Tropical Timber Organization (ITTO) funded by the European Union (EU) to support the implementation of bilateral Voluntary Partnership Agreements (VPAs) between the EU and timber-supplying countries.

VPAs are a key element of the EU's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan, which defines the EU's policy for promoting legal logging and the trade of legally harvested timber. A VPA specifies commitments and actions by both signatory parties with the aim of developing a timber legality assurance system and the issuance of FLEGT Licences that certify the legality of timber products for export to the EU.

The IMM's role is to use trade flow analysis and market research to independently assess trade and market impacts of VPAs in the EU and partner countries. IMM monitors trends in the market share and level of acceptance of FLEGT-licensed timber products on the EU market and recommends actions to promote a favourable position in the EU market for these products¹⁸.

The sixth IMM Annual Report "FLEGT-licensed and VPA partner timber trade 2020" was prepared at a time when economic activity in Europe suffered a severe shock due to COVID-19 pandemic. Despite the economic turmoil, the European team of IMM correspondents were able to interview 100 (2019: 109¹⁹) timber product importers in the six key countries²⁰ accounting for 80–90% of EU27+UK country²¹ timber products imports from VPA partners for the IMM annual trade survey and another 34 furniture importers for the second furniture sector special study²².

The 2020 trade survey sample had a broad scope, including importers of sawn timber, decking, plywood, mouldings, logs, veneers, doors and window frames, as well as furniture and furniture components and other products from VPA partners²³. IMM correspondents also interviewed the FLEGT/EUTR Competent Authorities in their respective countries as well as timber trade federations and EUTR Monitoring Organisations. EU trade survey results, including information from correspondents' national summary reports is included in Chapters 5 and 6 of this report as well as the EU27+UK country profiles on the IMM website²⁴.

IMM also continued to employ correspondents in Indonesia, the only FLEGT licensing country, and Ghana, a VPA country nearing agreement to issue FLEGT Licences. Moreover, new correspondents were contracted in Viet Nam and the Republic of Congo in 2020. The three correspondents in Indonesia, Ghana and Viet Nam were able to conduct interviews and produce reports for the IMM in spite of the pandemic. The situation was more difficult for the IMM correspondent for the Republic of Congo, where preparation of a baseline report was postponed to 2021 or 2022, as COVID permits. IMM correspondents in all four countries acted as points of liaison between IMM and partner country authorities and organisations. Information from the Indonesia report has been included in Chapter 5 of this report, as well as the Indonesia page on the VPA Partner section of the IMM website²⁵. Information from the Ghana and Viet Nam reports were used to update the respective VPA Partner profiles.

1.2 Report Content

Chapter 2 of the Report gives an overview of COVID-19 impacts on VPA partner timber trade, while *Chapter 3* summarises progress in VPA implementation in the four VPA partners monitored by IMM correspondents. More information on all VPA implementing countries, including industry profile and trade can be found on the VPA Partner page on the IMM website²⁶.

Chapter 4 provides an update on VPA Partner timber products trade in 2020 and *Chapter 5* analyses Indonesia's market position in the EU in detail and summarises trade perceptions from the IMM 2020 survey.

Chapter 6 gives an overview of efforts to create a favourable position for FLEGT-licensed timber products in the EU, including activities to raise awareness and recognition in public and private sector procurement policies as well as green building rating systems.

Chapter 7 addresses other policy interventions impacting on trade in VPA partner timber in 2020.

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

18. For more details on IMM, visit www.flegtimm.eu

19. In 2019, interviews were still conducted in seven countries. IMM research in Spain was suspended in 2020 due to a decline in Spain's relative importance as a tropical timber importing country, Spain's limited trade volumes with Indonesia and, as a result, the Spanish timber-sector's currently limited interest in FLEGT-licensed timber and participation in IMM surveys. Spain may be included again in future surveys or special studies, especially if an African country should start FLEGT licensing.

20. Belgium, France, Germany, Italy, Netherlands and the United Kingdom.

21. EU27+UK countries are all those that in 2020 were regulating timber products trade through the EUTR – see section 1.

22. White, George (2020) "Assessing the impacts of timber legality on the European Union's wood-furniture sector and the associated VPA Partner timber trade". https://www.flegtimm.eu/images/Furniturestudy_follow_up_2020/IMM_Furniture_Study_Dec_2020_St4F.pdf

23. Depending on the country, respondents accounted for between 25% and 75% of each countries' total imports of tropical primary timber products.

24. <https://flegtimm.eu/country-profiles/>

25. <https://www.flegtimm.eu/index.php/vpa-countries>

26. <https://www.flegtimm.eu/index.php/vpa-countries>

1.3 Scope and definitions

The report covers all products – referred to collectively as “timber products”²⁷ – in the scope of existing VPAs²⁸ 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 SPWP (HS 4421);
- wood furniture (HS 940161, 940169, 940330, 940340, 940350, 940360, and 940390); and
- wood pulp (47) and paper (48).

The report focuses on exports of timber products by “VPA partners” to “EU27+UK countries”. VPA partners include countries at the following stages of the FLEGT VPA process in 2020:

- 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.

On the demand side, the UK²⁹ is included in this report alongside the 27 EU Member Countries³⁰ as it was still regulating timber products trade through the EUTR in 2020. Future IMM reports will exclude the UK from market analysis, except as part of IMM monitoring of other non-EU countries that provide market advantages to FLEGT-licensed timber. Trade between VPA partners and the three other countries implementing EUTR belonging to the EEA³¹ was negligible.

While the focus is on timber products trade between VPA partners and EU27+UK countries, the report also considers VPA Partner exports to other regions so as to place EU27+UK countries in their global market context. This is necessary since demand in countries outside the EUTR region significantly affects the availability and competitiveness of timber products exported by VPA partners to the region.

In addition, a significant proportion of timber consuming countries outside the EUTR region have introduced regulations which parallel the EUTR. These countries, identified as “Regulating countries” in this report, include Australia (Illegal Logging Prohibition Act), Indonesia (Import Control under TLAS), Japan (Clean Wood Act), Malaysia (Import Regulation under TLAS), Republic of Korea (Act on Sustainable Use of Wood Import Provisions), USA (Lacey Act), and Viet Nam (Import Regulation under TLAS)³². The acceptance of FLEGT Licences (or equivalent documents issued by FLEGT licensing VPA partners for exports to non-EU27+UK countries) as evidence of legality in non-EU27+UK countries has become increasingly relevant as an additional incentive for countries to implement a FLEGT VPA in the last decade.

All previous IMM reports adopted the convention of analysing data for “tropical” timber products as a category distinct from “non-tropical” timber products. The intent, responding to the official mandate of the IMM³³, was to place exports from VPA partners, which are all located in the tropical region, in relation to non-VPA countries in the tropics considered to be their closest competitors and to be dealing with similar governance issues. For the current report, the approach has been adjusted so that the distinction between “tropical” and “non-tropical” products is only applied in relation to primary wood products. This is for the following reasons:

- The HS system which provides the statistical basis for trade flow analysis only explicitly differentiates between products manufactured from tropical and non-tropical species in relation to logs, sawnwood, veneers and plywood and not in relation to any SPWPs, furniture, pulp or paper products.

27. The definition of “timber products” in this report closely equates to but does not exactly mirror the term “timber and timber products” used in the FLEGT Action Plan and EUTR. By necessity, the range of products included within the scope of the definition varies depending on context – not all VPAs cover the same products, and there is discrepancy between the products covered by VPAs and EUTR. For example, wooden seating (9401) is within the scope of the EU-Indonesia VPA but is excluded from the EUTR. For purposes of this report, all wooden seating is included in the definition of “timber products”. On the other hand, “timber products” as defined in this report excludes all wood for energy and various forms of wood waste (that is all products in HS 4401 - Fuelwood and wood waste - and HS 4402 - Charcoal). Wood energy products have very distinctive market characteristics in the EU27+UK countries and elsewhere, tend to be dealt with through policy mechanisms other than FLEGT (Renewable Energy Directive in the EU), and are not treated consistently in FLEGT measures. While EUTR includes coverage of 4401 (Fuelwood and waste) it excludes 4402 (Charcoal). In the EU-Indonesia VPA, wood chips are within the scope of the agreement but all other wood for energy is excluded.

28. A minor exception is that the EU-Indonesia VPA includes softwood and hardwood chips (440121 and 440122 respectively) but these are excluded from the definition of timber products used here which avoids products primarily destined for the energy sector. Chips are one product group where there is some overlap as these can be feedstock both for pulp production and for energy.

29. The UK withdrew from the EU on 31st January 2020 but under the terms of the EU-UK Withdrawal Agreement remained part of the single market and continued to implement EUTR until 31st December 2020 when EUTR was replaced by the UK Timber Regulation.

30. Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden

31. Norway, Liechtenstein and Iceland

32. In this report countries excluded from the list of “Regulating countries” despite moves to introduce relevant legal obligations include: Switzerland, due to delayed introduction of the Swiss Timber Regulation now not expected to enter into force in 2022; and China which while announcing a revision to the Forest Law in 2019 to prohibit trade in timber of known illegal origin, has yet to introduce supporting regulations clarifying the extent to which this requirement applies to imported timber and the respective obligations of state and market actors.

33. The IMM contract agreed between EC and ITTO requires that IMM, under Activity 2.1, reports on “collection of statistics (quantitative information) on FLEGT timber trade to the EU, on timber trade to the EU, in particular tropical legally verified timber, and to other consuming areas, and on temperate and tropical timber trade to take into account global trends”.

- A rising proportion of exports of timber products from countries in the tropics now comprise SPWPs, wood furniture, pulp, and paper for which applications and export market competitiveness are not determined by the technical qualities of natural forest tropical timbers but by other economic factors.
- The assumption implicit to previous reports that SPWPs and wood furniture products exported by VPA partners are principally comprised of timber from tropical forests is becoming less realistic with every passing year. A rising share of timber exports from VPA partners, particularly in South-East Asia, is manufactured using plantation timbers and imported temperate timbers.
- As Indonesia has progressively moved up the wood product value chain, some of the largest competitors to Indonesian FLEGT-licensed timber in EU27+UK countries and other regulated markets are not located in other tropical

countries but in China, Russia and the CIS, Turkey, and non-tropical areas of South America and Africa.

- Forest governance challenges are not only apparent in tropical countries and evidence and significant risks of illegal harvesting and timber trade have been identified for several non-tropical countries that are also leading competitors to Indonesia and other VPA implementing countries in global markets.

Rather than comparing VPA partner trade with other tropical countries, in this report trade is analysed according to income group with the focus on low and middle income (LMI) countries as defined by the World Bank.³⁴ This group of countries includes all those that most directly compete with Indonesia and other VPA partners in the EU27+UK countries and other global markets. The focus on LMI countries is also justified by evidence that illegal logging tends to occur more regularly in these countries than in high income countries.³⁵

COVID-19 impacts on VPA partner timber trade

2.1 Overview

In 2019 before the COVID-19 pandemic the global economy was struggling to regain a broad-based recovery as a result of a number of issues, including the lingering impact of growing trade protectionism, trade disputes among major trading partners, and falling commodity and energy prices. World GDP growth was estimated by the World Bank to be 2.34% in 2019, the slowest rate of growth since 2009 during the global financial crises.

In 2020, the global economy was transformed by the pandemic with major, but as yet uncertain, implications for future market development of FLEGT-licensed and other VPA Partner timber products, as for all commodities.

The World Health Organization (WHO) first declared COVID-19 a world health emergency in January 2020; on 11th March it announced the viral outbreak was officially a pandemic, the highest level of health emergency. The pandemic rapidly evolved into a global public health and economic crisis beyond anything experienced in nearly a century.

The focal point of infections shifted from China to Europe in March 2020, the United States a month later, and extended rapidly into Russia, India, Brazil and other Latin American countries during the rest of 2020. In 2020, much of Africa was spared the worst immediate effects of the pandemic, although there were higher levels of infection recorded in South Africa, Egypt, Nigeria, Algeria, and Ghana. Southeast Asia fared comparatively well in minimizing COVID-19 deaths in 2020, with Indonesia spending most of the year in the top spot for coronavirus cases in the region.

Initially, the economic effects of the virus were expected to be short-term supply issues as factory output fell because workers were quarantined to reduce the spread of the virus through social interaction. The drop in economic activity, initially in China, had immediate international repercussions as firms in many countries experienced delays in supplies of intermediate and finished goods through supply chains.

Concerns grew, however, that virus-related supply shocks would soon be accompanied by prolonged and wide-ranging demand shocks as lockdowns and social distancing measures would reduce activity by consumers and businesses and greatly reduce economic growth. As the economic effects persisted, their impact spread through trade and financial linkages to an ever-broadening group of countries, firms and households.

Through various phases of the health crisis, governments adopted policies to lock down social activities to contain the spread of the pandemic, inadvertently creating a global economic recession. In response to the unprecedented drop in economic activity, governments adopted a series of actions initially comprised of monetary policies aimed at stabilizing financial markets and ensuring the flow of credit. In the second phase, policy actions shifted to fiscal measures aimed at sustaining economic growth as governments adopted quarantines and social distancing measures.

While the downturn affected nearly all parts of the world and sectors of the economy, some were impacted more heavily than others. The pandemic was ruinous for many but there were sectors and companies that proved more

34. LMI countries include all countries in the "low", "lower-middle" and "upper-middle" income groups defined by the World Bank based on Gross National Income (GNI) per capita (current USD). For the 2020-2021 fiscal year, this includes all economies with a GNI per capita of \$12,695 or less.

35. Bösch, M. Institutional quality, economic development and illegal logging: a quantitative cross-national analysis. *Eur J Forest Res* (2021). <https://doi.org/10.1007/s10342-021-01382-z>

resilient and some were able to exploit new opportunities created by the unprecedented economic conditions. Some of the key economic impacts of the pandemic and their relevance to the market for FLEGT-licensed and other VPA partner timber during 2020 are considered below.

2.2 Sharp fall in economic activity

Lower economic activity will tend to reduce overall global demand for VPA partner timber products. The geographic distribution of the downturn and recovery will impact on the direction and prices of timber product exports by VPA partners and competing suppliers.

According to the World Bank, the pandemic led to a 3.7% decline in global GDP in 2020. The decline was not as great as forecast earlier in the year (for example IMF forecast a decline of 5.2% in June 2020) due in part to the fiscal and monetary policies governments adopted in 2020. Nevertheless, at global level the immediate economic downturn was significantly greater than the 1.6% decline in GDP in 2009 due to the global financial crises.

Due to the early spread of the pandemic to Europe and North America during 2020, and early containment in China, the GDP decline in high income countries (-4.7%) was greater than in low and middle income (LMI) countries (-1.9%) (Figure 2.2.1). Nevertheless according to the IMF, longer-term the pandemic is expected to widen gaps in living standards between high and low income economies.

According to OECD, among LMI countries, the economic downturn is projected to affect most negatively those that rely on commodity exports to support annual economic growth. In addition to lower prices for commodity exports and reduced global demand for exports, LMI countries are projected to be negatively affected by reduced remittances, weaker currencies and tighter financial conditions.

The GDP growth trend varied widely in the large global consuming markets for timber products (Figure 2.2.2). European countries were seriously impacted by the pandemic during 2020. According to the World Bank, GDP in the EU27, which grew only slowly at 1.6% in 2019, fell 6.2% in 2020. In the UK, the economy was already sluggish for Brexit-related reasons, growing only 1.4% in 2019, and in 2020 recorded a 9.8% decline, the largest downturn amongst all high income countries.

As a leading global market for plywood, wood furniture and other secondary processed wood products, developments in the US economy strongly influence demand for VPA partner timber. The country was seriously impacted in the early stages of the pandemic but there was a rapid rebound in the second half of 2020. According to the World Bank, US GDP fell only 3.5% over the full year 2020. The recovery was boosted by two massive stimulus bills passed by Congress in 2020 totalling more than US\$3 trillion. Key sectors of critical importance to timber demand in the US, notably construction and furniture retail, remained robust throughout the downturn.

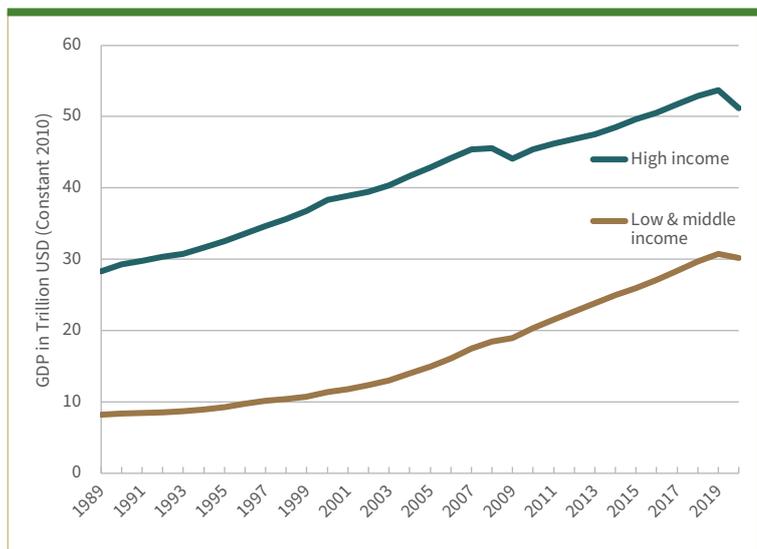


Figure 2.2.1: GDP in High Income and Low & Middle Income Countries, 1989 to 2020, Trillion USD (Constant 2010). Source: World Bank

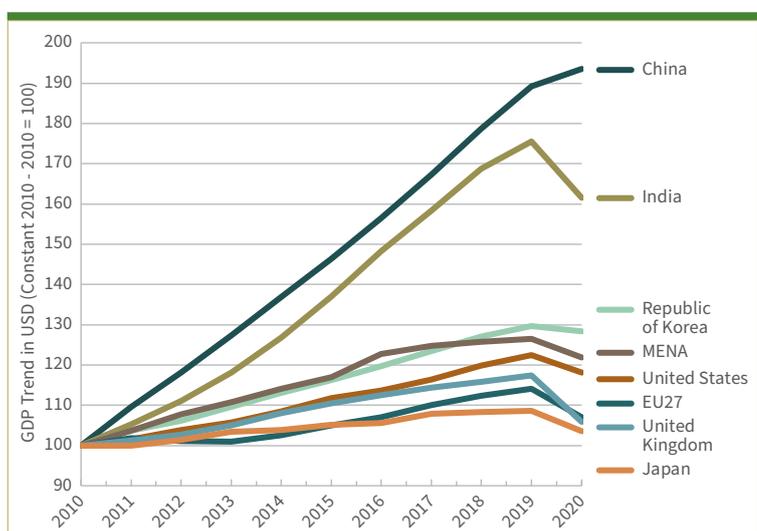


Figure 2.2.2: GDP trend in large global timber consuming markets, 1910 to 2020, USD (Constant 2010) 2010=100. Source: World Bank

China is the largest market for primary timber products from VPA partners and for pulp and paper products from Indonesia. It is also a key competitor to VPA partners, particularly those in Southeast Asia, in global markets for plywood, wood furniture and secondary wood products. China emerged in June 2020 as the first major country to announce a return to economic growth since the outbreak of the COVID-19 pandemic. According to the World Bank, China experienced a small, but positive rate of growth of 2.3% during 2020, down from 6% the previous year. However, during 2020 China was still grappling with the economic effects of the COVID-19 pandemic, including sluggish domestic consumption and the sharp downturn in its top export markets, made worse by the on-going trade dispute with the US which imposed restrictions on its overseas commercial activities.

Japan and the Republic of Korea are significant markets for plywood, furniture, secondary processed wood products, and furniture from VPA partners, particularly Indonesia and Viet Nam. Having experienced only very sluggish growth in the previous decade, Japan's economy

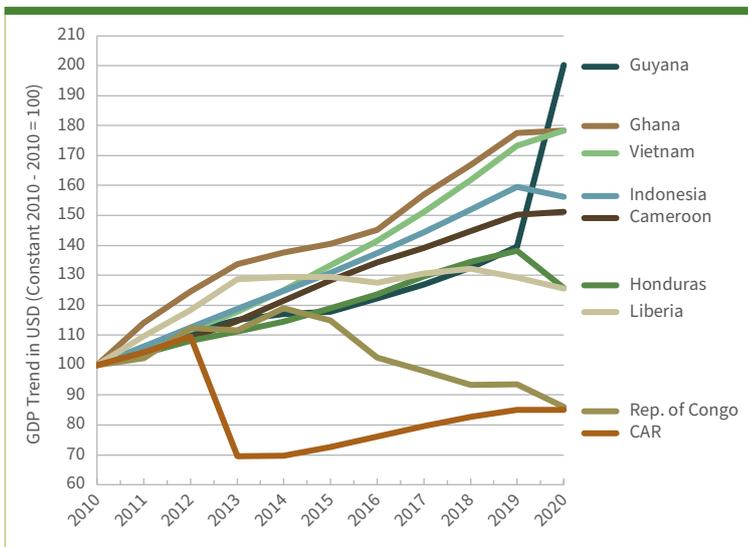


Figure 2.3.1: GDP trend in large global timber consuming markets, 2010 to 2020, USD (Constant 2010)=100. Source: World Bank

suffered a significant 4.7% decline in 2020. While experiencing relatively low numbers of coronavirus cases and deaths compared to the US, EU and UK, Japan was hit by a sharp decline in domestic consumption due to the imposition of tight lockdown conditions and a big fall in export demand for manufactured goods.

The Republic of Korea handled the early stages of the pandemic very effectively and was able to flatten the epidemic curve quickly without closing businesses, issuing stay-at-home orders, or implementing many of the stricter measures adopted by other high-income countries until late 2020. GDP declined only 1% in 2020 after rising 2% in 2019.

India imports a large range of VPA partner products including plantation teak logs (mainly from Ghana), sawnwood and veneer (mainly from Indonesia), secondary processed wood products (notably from Indonesia and Viet Nam), and paper (from Indonesia). India's wood furniture suppliers are also an important competitor in EU27+UK countries to VPA partner furniture suppliers. Of all the world's economies, India was one of the hardest hit by the pandemic during 2020, the World Bank recording a downturn in GDP of nearly 8%. The slowdown felt particularly severe in a country which grew at over 4% in 2019. India's business sector, heavily dependent on SMEs, was struggling to ride out the storm in 2020.

The Middle East and North Africa (MENA) is a significant market for plywood, wood furniture, and secondary processed wood products from Indonesia and Viet Nam, and paper products from Indonesia. It is also a source of demand for (mainly lower grade) sawnwood from VPA partners in Africa. Even before the pandemic, economic growth in the MENA region was sluggish, particularly due to relatively low oil prices between 2015 and 2019. The oil price collapsed briefly to around \$20 a barrel in March 2020, only the second time prices were this low since the 1940s. On the positive side, COVID-19 containment measures in the region were reasonably effective during the first year of the pandemic in 2020. Overall economic growth declined 3.7% in the region after growth of 0.5% the previous year.

2.3 Variable economic performance in VPA partners

Significant changes in economic conditions due to the pandemic in the VPA partners themselves had an immediate impact on domestic demand for wood products and the ability of the timber industry to access and pay for essential raw materials and labour during 2020. The change in economic circumstances may also have a significant influence on the financial resources and level of political priority to be devoted to forest governance reform and timber export market development.

The economic effects of the pandemic varied very widely between VPA countries, dependent on differential spread of the pandemic, ability of countries to respond both in terms of health care provision and economic support measures, and other longer term economic factors (Figure 2.3.1).

GDP was growing consistently in Indonesia before the pandemic, rising 5% in 2019, but the country recorded a 2% decline in 2020. While large, this downturn was smaller than other countries in the Asia-Pacific region, reflecting less stringent containment measures and lower dependence on highly impacted sectors like tourism. After an initial sharp downturn in the second quarter of 2020, economic activity in Indonesia started to rebound in July 2020, following the easing of containment measures and strong government support, led by government consumption and net exports.

Indonesia Omnibus Bill on Job Creation

In response to the pandemic, Indonesia's Omnibus Bill on Job Creation became law in October 2020, with the government set to complete its implementation by the end of the year. The new law is aimed at reducing the red tape that characterises Indonesia's current business and labour laws. According to the Indonesian government, the new legislation will play a key role in boosting the economy, by improving the competitiveness of exports and increasing foreign investment during and after the pandemic. The law includes several measures targeting the forest sector including: deletion of a minimum limit of 30% preserved forest area on each watershed and/or island; a removal of a requirement for House of Representatives (DPR) approval for changes to forest designations by function; expanding eligibility for protected forest utilisation permits, previously limited to individuals and cooperatives, to include state-owned corporations, local government and private companies; additional obligations on business permit holders to prevent forest fires in their areas of operation; and exempting individuals and communities that have lived in or around forest areas for generations from criminal and administrative sanctions for violation of forest products harvesting rules³⁶.

36. JPIK Newsletter 16th Edition "The Monitor" Apr 14, 2021 https://issuu.com/jaringanpemantauindependenkehutanan/docs/_eng___newsletter_jpik_edisi_16__the_monitor_

Indonesia's comprehensive response to the pandemic was crucial in preventing a deeper downturn. The National Economic Recovery Program aimed to strengthen health care capacity and provide financial support to vulnerable households and businesses. The government introduced several extraordinary support measures for businesses, such as a large-scale loan restructuring program and interest subsidies for the most affected sectors. Nonetheless, credit growth to Indonesian firms was very weak in 2020, likely reflecting a combination of weak loan demand and risk aversion by banks amid underlying corporate vulnerabilities.

In Viet Nam, Ghana and Cameroon, where there has been consistent economic growth in recent years, GDP continued to expand in 2020 but at a slower pace. In 2020, GDP increased 2.9% in Viet Nam (+7% in 2019), 0.7% in Cameroon (+3.7% in 2019), and 0.4% in Ghana (+6.5% in 2019).

In the Republic of Congo, the pandemic deepened an already steep economic decline ongoing almost unchecked since 2014. GDP in the country fell 8% in 2020 after growing just 0.2% in 2019. In the Central African Republic, GDP flatlined in 2020, interrupting a slow recovery from the depths of economic devastation at the height of the 2012-13 civil war in the country which eased with the ceasefire agreement signed in July 2014. Similarly, the pandemic hit Liberia at a time of pre-existing fragility as the country was passing through a challenging transition to a new political administration coinciding with the winding down of increased foreign aid after the 2014-16 Ebola outbreak. Liberian GDP fell 2.9% in 2020, following on from a 2.3% decline in 2019.

The economy of Honduras was expanding before the pandemic, with GDP growth of 2.6% in 2019 building on a long period of expansion which nevertheless still left the country struggling with high levels of poverty and inequality. In 2020, GDP in Honduras fell nearly 9% due to the pandemic and the unprecedented impact of two successive hurricanes, Eta and Iota.

In terms of economic growth, Guyana was an outlier in 2020. The nation started oil production in December 2019, a prospect which led the IMF to forecast before the onset of the pandemic economic growth of 86% in 2020, up from 5.4% in 2019. The projection was probably the highest annual economic forecast IMF had ever predicted and followed massive offshore discoveries of oil which attracted investment by large multinational companies, including the U.S.'s ExxonMobil and Hess, Spain's Repsol, and China's CNOOC. In the wake of the pandemic, Guyana's GDP growth was 43.5% in 2020, lower than first predicted but still unprecedented.

2.4 Fall in timber production

Preliminary estimates indicate that global log harvest declined 3.1% in 2020 to 1.948 billion m³. This followed a 2.7% decline the previous year. In tropical countries, the decline was 1.4% following a downturn of 0.3% the

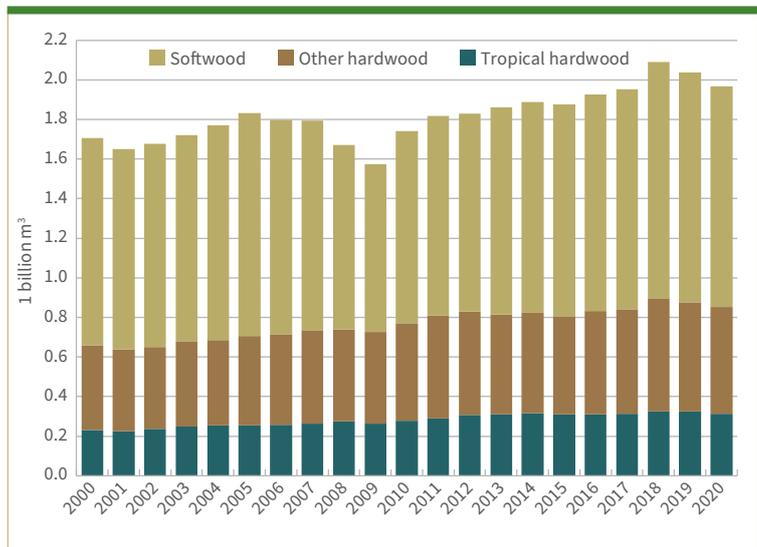


Figure 2.4.1: Global log production, by wood type, 2000 to 2020, billion m³. Source: ITTO Biennial Review Statistics

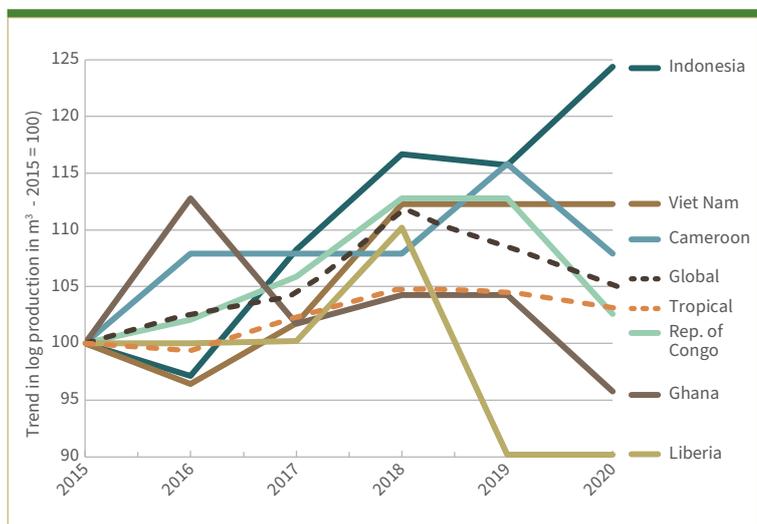


Figure 2.4.2: Log production trend in FLEGT licensing and VPA implementing countries (excluding CAR), 2015=100.

Source: ITTO Biennial Review Statistics & Indonesia Ministry of Environment & Forestry

previous year. Despite the decline in both 2019 and 2020, harvesting was still at an historically high level in 2020 following the consistent gains between 2009 and 2018, mainly concentrated in softwood harvests. (Figure 2.4.1).

Indonesia was unusual amongst major timber producing countries for reporting a rise in log harvesting in 2020, with a gain of 7.5% to 124.4 million m³, all due to an expansion in supplies from industrial plantations for the pulp and paper industry. Log harvests declined in most other VPA partners countries, including Cameroon (-7% to 5.46 million m³), Central African Republic (-4% to 554,000 m³), Republic of Congo (-9% to 2.21 million m³), Ghana (-8% to 2.25 million m³) and Honduras (-10.4% to 600,000 m³). Harvest levels were reported as stable in 2020 in Viet Nam (37.5 million m³), Liberia (451,000 m³) and Guyana (411,000 m³), although in each case this is due to lack of accurate production data for the year (Figure 2.4.2).

While these figures indicate only a moderate downturn in log harvesting during 2020, production statistics are notoriously unreliable for many countries and they may

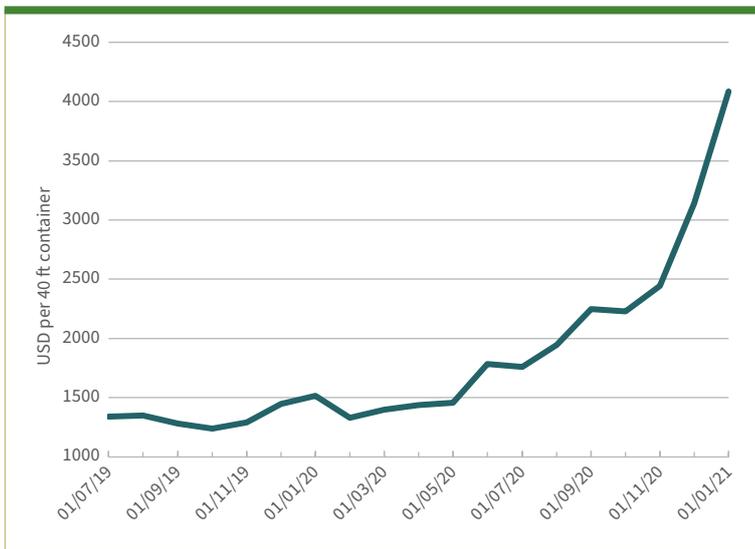


Figure 2.5.1: Global container freight rate index, July 2019 to July 2021 (USD per 40 foot container). Source: Drewry's composite World Container Index

Changes in consumption and shopping patterns triggered by the pandemic, including a surge in electronic commerce, as well as lockdown measures, led to increased import demand for manufactured consumer goods. Carriers, ports and shippers were all taken by surprise. Empty boxes were left in places where they were not needed, and repositioning was not planned for. As the global economy more generally revived when lockdown restrictions eased, exporters in producer countries, notably in Asia, found themselves increasingly short of containers and prices rose accordingly.³⁷

The impact on freight rates was greatest on trade routes to and from western Africa and South America were higher than to any other major trade region. In these regions trade volumes are lower and it is much more difficult to fill containers on both the outward and inward leg, which results in much higher costs when containers are scarce.

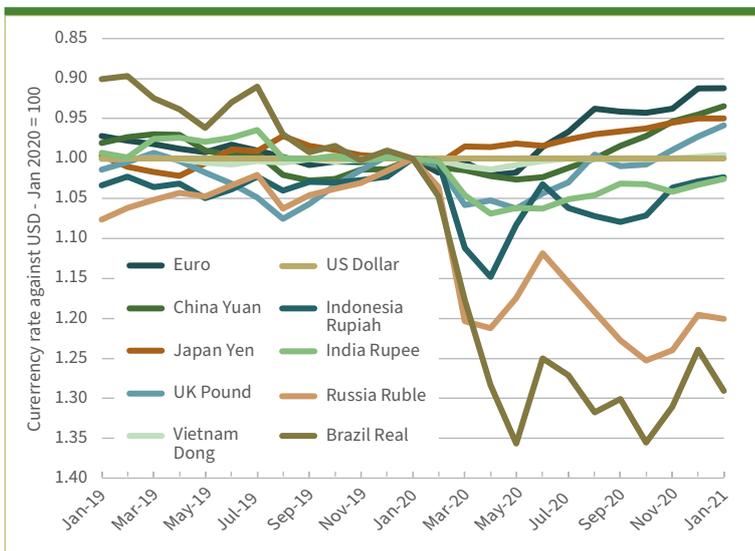


Figure 2.6.1: Currency rate against the US Dollar, Jan 2019 to Jan 2021 (Jan 2020=100). Source: STIX

2.6 Exchange rate effects

Similar to conditions during the 2008–2009 financial crisis, the dollar initially emerged as the preferred currency by investors in the early months of the pandemic, reinforcing its role as the dominant global reserve currency in the first half of 2020. The dollar was rising slowly against other international currencies (on a trade weighted basis) in the first two months of 2020, but then appreciated more than 3.0% during the period between 3rd March and 13th March 2020³⁸. This was an immediate response to increased international demand for the dollar and dollar-denominated assets.

Another immediate impact of the pandemic was to further weaken certain other currencies already faltering before the pandemic, notably the Russian rouble and the Brazilian real. The continuing weakness of these currencies has direct implications for trade in Indonesian FLEGT-licensed wood.

The weakness of domestic currencies (and economies) has increased the focus of timber product manufacturers in Brazil (notably pulp and decking) and Russia (notably plywood) on exports and improved their price competitiveness in markets where there is direct competition with Indonesian producers. The Indonesian rupiah also weakened against the dollar during the early stages of the pandemic, but not to the same extent as the rouble or real (Figure 2.6.1).

well underestimate the real level of decline. Throughout 2020 there were widespread reports from across the world and many wood products sectors of shortfalls in wood supply. In addition to a decline in log harvesting, wood processing and distribution were severely disrupted during the year by government lockdowns, social distancing measures, and large numbers of essential workers being in isolation or unable to travel.

2.5 Sharp rise in freight rates

Contrary to expectations, demand for container shipping increased during the pandemic, bouncing back quickly from an initial slowdown in February 2020. The global freight rate index started to climb in May 2020, initially quite slowly until October but then shooting up at an unprecedented rate with rates doubling in the last quarter of 2020 (Figure 2.5.1).

Following the highs reached in March 2020 the exchange value of the dollar began to ease against other major traded currencies for the rest of the year, particularly the Euro and to a lesser extent the British pound. The British pound continued to suffer from Brexit-related uncertainty during the year. In contrast, the relative strength and stability of the Euro during the first year of the pandemic tended to boost prospects for imports from outside the region.

37. <https://unctad.org/news/shipping-during-covid-19-why-container-freight-rates-have-surged>

38. According to U.S. Dollar Trade Weighted Broad Index, Goods and Services

2.7 Dramatic swings in timber end use products

The European construction and furniture sectors, ultimately the main consumers of most VPA partner products in the EU market, were severely impacted by the pandemic, experiencing dramatic swings during 2020 but eventually recovering more rapidly than forecast earlier in the year. The pace of the upturn surprised many timber producers and manufacturers. Initially stimulated by European consumers spending more money on their homes and gardens during lockdown – particularly as expenditure on other items such as holidays and meals out was curtailed – but then given added impetus by government economic stimulus measures.

Eurostat data shows that EU27 construction output slumped by 15% in April 2020 compared to March but recovered rapidly in the following months. The construction sector was hit hardest in April 2020 in Italy, down 53%, France, down 43%, and Spain, down 25%. Construction in the UK also fell rapidly in April, down 40%. Although production rebounded in May and June, it was still down on the long-term average in July in all four of the worst affected countries. In contrast, construction production in the Netherlands, Germany, Poland and Sweden was less affected during the first wave of the pandemic.

The Eurostat index for the full year shows that EU27 construction output was down 4.9% in 2020 compared to the previous year. The downturn was very severe in France (-15%) and Spain (-12.5%), moderately severe in Belgium (-8.2%) and Italy (-8.1%), and less severe in Poland (-4.3%) and the Netherlands (-0.3%). In Germany, construction activity actually increased 2.9% during 2020 (Figure 2.7.1).

The Eurostat monthly furniture production index for most EU countries was broadly stable throughout the whole period from January 2015 through to February 2020 – the only exceptions being Poland and Lithuania, both of which outperformed all other EU countries by recording a significant rise in production. The picture changes dramatically in March 2020, with nearly all leading EU furniture manufacturing countries recording a precipitous and unprecedented fall in production as much of the continent went into lockdown. The downturn deepened in April but was followed by recovery in May and June for all EU countries.

The Eurostat annual furniture production index shows that EU27 furniture production was down 8.7% in 2020 compared to the previous year, with particularly large falls in Romania (-23.2%), Belgium (-17.1%), Sweden (-16.3%), Germany (-9.9%), Spain (-8.1%), and the Netherlands (-7.1%). The production index declined less steeply in Italy (-5.7%), Portugal (-4.8%), and Denmark (-0.2%). Production increased 1.8% in Lithuania. In the UK, the furniture production index declined 14.4% in 2020 (Figure 2.7.2).

2.8 Impact on sectoral distribution of growth

The economic shock delivered by the pandemic has been asymmetric with respect to sectors. While in 2020 there was depressed spending on tourism and hospitality, and at high street retailers in nearly all global regions, on-line business was booming. With a large part of the population confined to their homes during lockdown, spending on home and garden improvement increased dramatically in the most affected areas in the EU, UK and North America. Activity in the wider construction sector also remained relatively more buoyant in areas affected by the pandemic as fiscal support from governments identified construction as a key engine of economic recovery.

Overall, these trends meant that global demand for timber products remained reasonably resilient throughout the year. The decline in production and trade in timber products was due more to supply side problems and logistical issues than to a fall in demand. The result was widespread reports of timber shortages and rising prices in the major timber consuming markets.

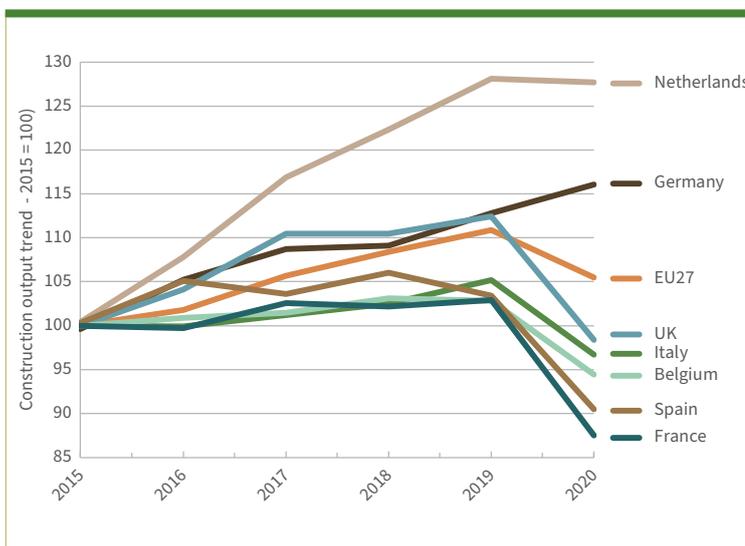


Figure 2.7.1: Trend in construction output in EU27 and selected EU27+UK countries (2015=100). Source: IMM analysis of Eurostat

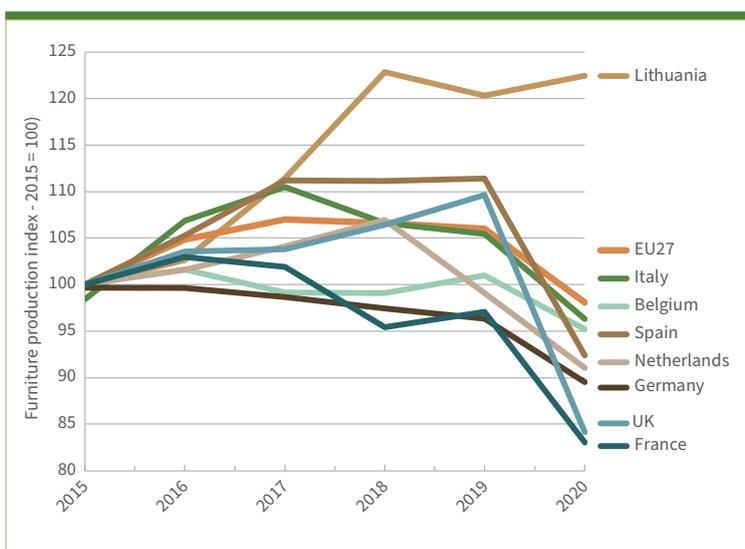


Figure 2.7.2: Furniture production index in EU27 and selected EU27+UK countries (2015=100). Source: IMM analysis of Eurostat

In the paper sector, the pandemic contributed to significant growth in demand for hygiene products and for packaging. In contrast, the long-term decline in demand for graphics papers, driven by increased digitization in the world economy, accelerated in 2020 as the closure of companies and schools significantly reduced the need for printing paper³⁹.

2.9 Weakened position of smaller operators

There is evidence indicating that micro, small and medium-sized enterprises (MSMEs), which dominate supply in some timber industry sectors in VPA partners were disproportionately impacted by the pandemic in 2020⁴⁰. According to the ILO, the market situation has been particularly challenging for MSMEs in the timber industries of developing countries⁴¹. A study of COVID-19 impacts on sustainable forest management in Africa reported survey data which indicated that SMEs were operating at about 43% of installed capacities while larger operators were at a slightly higher capacity⁴². OECD notes that MSMEs are particularly vulnerable to the pandemic shock; on the supply side due to reduced access to labour when workers are unwell or need to look after children or other dependents while schools are closed and movements of people are restricted; on the demand side, the dramatic and sudden loss of sales and revenue for SMEs caused severe liquidity shortages amongst operators with low access to credit. OECD's review of 41 surveys worldwide on the impact of COVID-19 on MSMEs indicated that more than half face severe losses in revenues, one third feared to be out of business without further support within 1 month, and up to 50% within three months.⁴³

While MSMEs were disproportionately affected, particularly in developing countries, larger corporations were better positioned to exploit new opportunities created by the pandemic. A survey of the top 200 furniture companies worldwide in 2020 revealed that they performed relatively well with their collective turnover falling less than 2% during the year compared to a 7% decline in the total value of world furniture production. The better performance of the largest companies is associated with the deeper financial reserves which allowed quicker re-alignment of business strategies, development of new on-line sales channels, and repositioning of their supply chains. To mitigate commercial risks during the pandemic, larger furniture companies are better able to diversify their supply bases, reduce dependence on single suppliers and source from a wider range of locations⁴⁴.

2.10 Focus on green growth in COVID-19 recovery plans

In response to the COVID pandemic, EU Member States put in place significant national recovery packages. Those national efforts were matched at EU level by the Next Generation EU (NGEU) package, agreed in December 2020. The key element is an EU Recovery Instrument Regulation which allows the EC to borrow up to €750 billion of funding from capital markets to provide additional resources to fill the investment gap left by the health crisis as well as help to push further the Green and Digital transformations. The funds raised will be disbursed through grants and loans for which Member States need to submit national Recovery and Resilience Plans under a specific new Regulation for the Recovery and Resilience Facility (RRF). These plans are to include a combination of investments and reforms that will aid their social and economic recovery after COVID-19, both in the short and in the long term, by acting on the demand and supply side of the economy⁴⁵.

Next Generation EU is explicitly linked to the EU Green Deal, the plan to cut EU emissions by 55% compared to 1990 levels by 2030 on the way to making the EU climate neutral by 2050. The RRF Regulation requires Member States to allocate at least 37% of expenditure to green projects. A favoured spending area in early drafts of plans was in the area of sustainability, with one key focus being renovation of buildings for energy efficiency. More investment in building renovation, particularly with a strong focus on sustainability, might imply more demand for timber products in the EU, particularly those backed by formal Environmental Product Declarations (EPDs) and other environmental assurances. Green building programmes should be given added impetus, raising and broadening their influence over the material procurement process. Again this reinforces the value of timber products suppliers into the EU implementing credible procedures to demonstrate their legal and sustainable status.

2.11 Change in investment flows

It is too early to assess the impact of the pandemic on investment flows in the forest products sector. However, UNCTAD data for worldwide foreign direct investment (FDI) flows in all sectors suggests the impact may be very significant. UNCTAD estimate that worldwide FDI flows fell by 42% in 2020, mainly due to a decline in flows to high income economies, which fell by 69%. In contrast, inflows to LMI countries fell by 12% over the period. While LMI countries appear to have fared better, in large part this was

39. <https://www.coface.com/Economic-Studies-and-Country-Risks/Paper>

40. For example: Bartik et al (2020), The impact of COVID-19 on small business outcomes and expectations, PNAS July 28, 2020 117 (30) 17656-17666; first published July 10, 2020; <https://doi.org/10.1073/pnas.2006991117>; EU FLEGT Facility (2020) Briefing COVID-19 impacts on wood-based MSMEs in Myanmar <https://www.euflegt.efi.int/publications/covid-19-impacts-on-wood-based-msmes-in-myanmar>.

41. ILO Sectoral Brief, Impact of COVID-19 on the forest sector, June 2020, https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---sector/documents/briefingnote/wcms_749497.pdf

42. Attah (2020), Initial Assessment of the Impact of COVID-19 on Sustainable Forest Management African States, Background Paper prepared for the United Nations Forum on Forests Secretariat

43. OECD (2020) Coronavirus (COVID-19): SME policy responses - Updated 15 July 2020 - <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>

44. World Furniture (2021), article on CSIL Top 200 Furniture Manufacturers Worldwide Report, World Furniture No. 90/June 2021 <https://www.worldfurnitureonline.com/PDFres/WFR91/mobile/>

45. Lopriore and Vlachodimitropoulou, Recovery and Resilience Plans for the Next Generation EU: a unique opportunity that must be taken quickly, and carefully, February 2021, European Institute of Public Administration.

due to positive inflows to China. In the early stages of the pandemic, foreign investors pulled an estimated \$16 billion out of India and another \$26 billion out of other developing Asian economies, increasing concerns about a major economic recession in Asia outside China⁴⁶.

While total investment flows are declining worldwide, a study by McKinsey Global Institute (MGI)⁴⁷ which considers the impact of the pandemic on global value chains concludes that there may be only limited potential for major changes. The report observes that global production networks reflect “economic logic, hundreds of billions of dollars’ worth of investment, and long-standing supplier relationships.” Although firms occasionally shift production locations, the interconnected nature of supply chains “limits the economic case for making large-scale changes in their

physical location.” Relocation is particularly unlikely where the value chain is highly capital- or knowledge-intensive or tied to natural resources.

The conclusions of the MGI report are particularly relevant to the supply of timber products into the EU27+UK countries from VPA partners. MGI note that for many sectors, the pandemic will not lead to any dramatic shifts in manufacturing location, but rather that firms will adapt to the challenges of the pandemic by expanding and diversifying supplier bases for critical raw materials, like wood, and by investing in suppliers to upgrade their capabilities. The FLEGT VPA process may be seen as contributing to this process of diversification, by improving EU manufacturers and consumers access to resilient and sustainable sources of timber products from a wide range of countries.

3 Progress in VPA implementation in Indonesia, Viet Nam, Ghana and the Republic of Congo

While VPA implementation processes were affected to some degree by the COVID-19 pandemic in 2020, all four VPA partners monitored by IMM through national correspondents recorded progress.

In Indonesia, an e-licensing system to further streamline FLEGT Licence administration reached advanced stages of development during 2020. Pilot e-licensing started on 2 November 2020 for a period of six months⁴⁸. The Indonesian government also developed an online portal that can be used by stakeholders to flag up non-compliances and trace action taken by government on the SILK website in 2020.

At the end of 2020, Indonesia started rolling out national and international communications strategies for SVLK and FLEGT-licensed timber developed in the previous two years under the UK-funded Multi-stakeholder Forestry Programme (MFP). The strategies are being implemented by a consortium of Kiroyan Partners – responsible for the communications campaign in Indonesia – and Kreab Brussels, which will implement the international strategy⁴⁹.

Viet Nam also recorded significant progress in VPA implementation in 2020. In September 2020, the country promulgated Government Decree No. 102 to implement a Timber Legality Assurance System (VNTLAS Decree). The VNTLAS Decree addresses important elements of the

VPA related to timber and wood products’ import and export. It also provides the basis for an Organisation Classification System (OCS) (referred to as the Enterprise Classification System (ECS) in the Decree) and addresses the need to establish the country’s FLEGT licensing scheme. However, within the scope of the VNTLAS Decree the OCS/ECS only applies to processing and exporting enterprises, whereas the VPA states that it should apply to all organisations in the supply chain. The EU Delegation to Viet Nam said in a press release⁵⁰ published in September 2020 that FLEGT licensing scheme could only become operational “once a fully functioning VNTLAS in line with the VPA has been developed, implemented and jointly assessed as fulfilling all VPA requirements”.

Next steps in the Vietnamese VPA process for 2021 include:

- Establishing the electronic information management system and developing a circular with specific provisions for the enterprise classification system which will come into effect after 18 months;
- Establishing the electronic FLEGT licensing system linked to the Viet Nam National Single Window international trade information and data system;
- Producing technical guidelines and manuals for operation of the VNTLAS and FLEGT.

46. UNCTAD (2021), Global foreign direct investment fell by 42% in 2020, outlook remains weak

24 January 2021, <https://unctad.org/news/global-foreign-direct-investment-fell-42-2020-outlook-remains-weak>

47. McKinsey Global Institute (2020), Risk, resilience, and rebalancing in global value chains, August 6, 2020, <https://www.mckinsey.com/business-functions/operations/our-insights/risk-resilience-and-rebalancing-in-global-value-chains>

48. Pilot testing was extended by another six months in April 2021.

49. More details in chapter 5 of this report.

50. [https://eeas.europa.eu/delegations/Viet Nam/85283/voluntary-partnership-agreement-forest-law-enforcement-governance-and-trade-eu-welcomes_en](https://eeas.europa.eu/delegations/Viet%20Nam/85283/voluntary-partnership-agreement-forest-law-enforcement-governance-and-trade-eu-welcomes_en)



PHOTOS: CIFOR

- The M&E Framework and Action Plan for VPA/FLEGT Communication and public disclosure of information was approved by Joint Implementation Committee (JIC) Co-Chairs and came effect on 16 April 2021.

VPA implementation in Ghana was affected both by a nationwide lockdown in the second quarter of the year and by general elections in December 2020. Evaluation and approval of remaining applications for conversions of concessions to Timber Utilisation Contracts (TUCs) and subsequent ratification of the approval by Parliament was delayed by the lockdown and could not be completed before the elections.

Consequently, the 2020 Joint Assessment of Ghana’s Timber Legality Assurance System highlighted similar shortcomings as the previous Assessment, including:

- Forestry Commission’s evaluation and approval of remaining applications for conversions of concessions to Timber Utilisation Contracts (TUCs) and subsequent ratification of the approval by Parliament. A number of TUCs were already submitted for ratification, with more to follow as they are being processed by the Forestry Commission;
- Forestry Commission updating and revising several Forest Management plans that were deemed incomplete or outdated by the auditor.

In the Republic of Congo promulgation of the new Forest Code (**Law 33-2020** July 8, 2020), marked a milestone in the legal reform process in 2020. The new Forest Code reflects

prioritisation of themes such as climate change mitigation, environmental services payment, carbon ownership, biodiversity and wildlife protection, as well as active participation of local communities, indigenous peoples (LCIPs) and civil society in forest governance and management.

Some of the Code’s provisions align with the systems and requirements of the VPA, such as: (Art 130) mandatory obtention of a legality certificate prior to operations in industrial forest concessions; (Art 62–68) tracking and verification of legality of all timber products (including imported products and products in transit) through implementation of a computerised legality assurance system; and (Art 69) recognition of civil society-led Independent Forest Monitoring.

The Republic of Congo also made progress in the roll-out of the computerised Timber Legality Assurance System (Système Informatique de Vérification de la Légalité (SIVL)) in 2020. Through missions carried out by the CLFT, the government body in charge of timber legality verification, 15 timber companies in southern Congo and 6 in the northern part of the country were trained on the Tax module in 2020.

More details on industry structure and trade as well as history of the VPA process for the four FLEGT licensing and VPA implementing countries monitored by the IMM through national correspondents, the other three VPA implementing countries in Africa (Central African Republic, Cameroon, Liberia) as well as Honduras and Guyana⁵¹ can be found on the VPA Partner page of the IMM website⁵².

51. Honduras and Guyana had both completed VPA negotiations and were in the process of signing and ratifying the VPA at the end of 2020.

52. <https://www.flegtimm.eu/index.php/vpa-countries>

VPA partner timber products trade in 2020

4.1 Overview

In 2020, the total value of international trade in timber products fell 6% to USD261 billion⁵³. Exports from LMI countries fell 4.5% while the downturn from high income (HI) countries was 7.5% (Figure 4.1.1). The apparently more robust export performance by LMI's was due to gains in specific products by a few countries including Viet Nam and Mexico (mainly wood furniture to the US), Ecuador (balsa wood for wood turbines), Belarus (manufactured wood products for Russia and sawnwood for the EU), and Turkey (paper products).

While the pandemic had a significant impact on timber products trade in 2020, the downturn was less than in the previous year when there was a 7.6% decline. In 2019, timber products export value from LMI countries fell 6.1% while export value from HI countries fell 9.3%. The pandemic reinforced a pre-existing downward trend as growth in the global economy was slowing and trade declining, particularly due to mounting trade tensions. Most notable was the trade dispute between the US and China, but there were also renewed trade tensions between the US and Canada in relation to forest products, and between the US and Mexico.

In 2020, VPA partners accounted for 11.0% of the total value of global timber products exports, up from 9.9% in 2019. In the same year, VPA partners accounted for 20.5% of the value of all timber products exports by LMI countries, up from 18.8% the previous year. Trends in timber products exports by VPA partners varied widely in 2019 and 2020. The recent growth in share is attributable to rapidly rising exports by Viet Nam, a trend which accelerated in 2020 despite the pandemic (Figure 4.1.2).

Viet Nam was an outlier in 2020 with exports rising 20.8%, maintaining the extraordinary pace of growth recorded in the previous five years.

Viet Nam has been the principal beneficiary of the US switch away from China in supply of wood furniture products.

Indonesia's timber products exports declined 6.2% in 2020, following a 3.7% decline in 2019. For Indonesia, the decline was concentrated in pulp and paper exports to China and plywood exports to Japan. Indonesia's wood furniture exports increased in 2020, particularly to the US.

Of African VPA implementing countries, exports were already falling in 2019 in Cameroon, Ghana and Liberia and the pandemic deepened the decline. In 2020, exports

were down 17.4% in Cameroon (-6.3% in 2019), 34.1% in Ghana (-2.4% in 2019) and 3.3% in Liberia (-55.5% in 2019). There was also a sharp 16.8% decline in exports from the Republic of Congo in 2020, in this case following a 6.2% gain the previous year. Exports from the Central African Republic, which have been very low and volatile in recent years, increased 31.4% from a small base in 2020 after falling 32.1% the previous year.

VPA partners in Latin America experienced a significant downturn in timber products exports in both 2019 and 2020. Exports from Guyana fell 17.8% in 2020 after a 25%

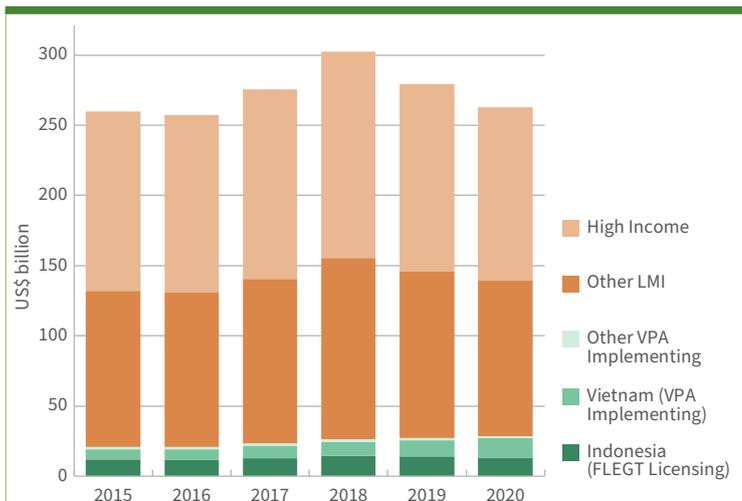


Figure 4.1.1: Value of global trade in timber products, 2015 to 2020, by VPA status and World Bank Income Group (excludes internal EU single market trade). Source: IMM analysis of STIX & COMTRADE data

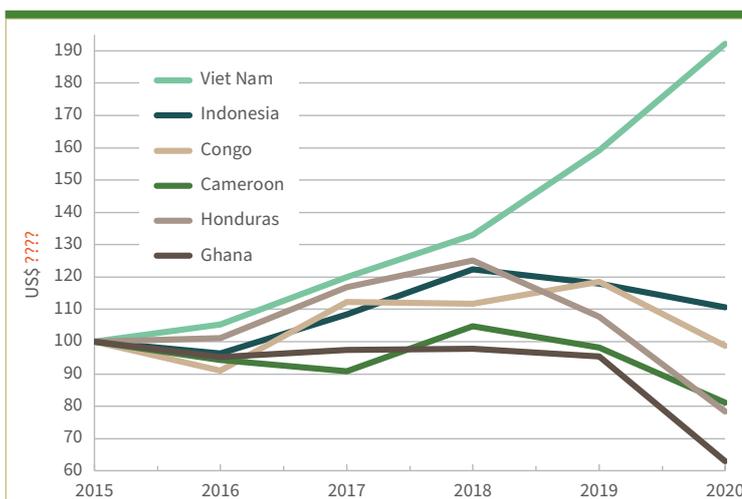


Figure 4.1.2: Trend in VPA partner timber product USD export value, 2015 to 2020, 2015=100. Source: IMM analysis of STIX & COMTRADE data

53. International trade is defined here to exclude internal trade in the EU single market. The EU single market is defined here to include the 27 Member Countries of the EU, the 3 Members of the EEA (Iceland, Liechtenstein, and Norway), and the UK (under the terms of the EU-UK Withdrawal Agreement still part of the Single Market in 2020). If internal EU trade is included, global timber products trade fell 5.8% to USD378 billion in 2020. Internal EU timber products trade was USD117 billion in 2020, 5.6% less than the previous year. The pandemic was a major factor behind the downturn in internal EU trade in 2020 but it also followed on from a larger a 6.7% decline in 2019 when there was rising economic uncertainty in the EU, particularly owing to the US-China trade dispute and Brexit.

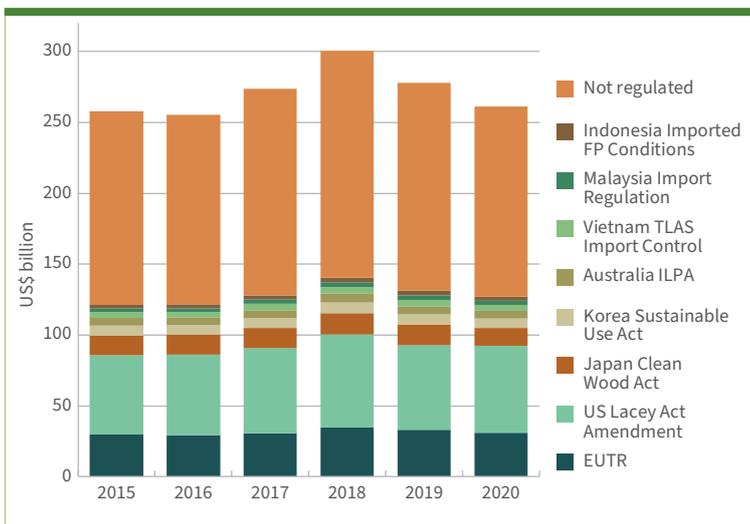


Figure 4.1.3: Value of global trade in timber products, 2015 to 2020, by consumer country regulatory status.

Source: IMM analysis of STIX & COMTRADE trade data and national legislation

decline the previous year. For Honduras, a decline of 27.1% in 2020 followed a 14% decline the previous year.

In 2020, 11.8% (USD30.91 billion) of global timber products export value was destined for EU27+UK countries, a slight decline compared to 11.9% in 2019 (Figure 4.1.3). The proportion of LMI timber products export value destined for EU27+UK countries was 17.3% in 2020, a slight rise compared to 17.2% in 2019, mainly a result of rising EU import value from Russia, Belarus and Ukraine during the year.

If all countries with some form of due diligence or other requirement to restrict imports of illegal timber are considered, 49% of global timber product export value and 56% of LMI country export value was destined for these countries in 2020. These proportions are marginally higher than in 2019, mainly due to growth in the proportion of trade destined for the United States during the year. Leading timber importing countries without regulatory requirements include China, Canada, Mexico, Switzerland, India, Turkey, Saudi Arabia and Russia (Figure 4.1.4).

The proportion of timber product exports destined for regulated countries in 2020 varied widely between VPA partners (Figure 4.1.5). In Indonesia, 46% of export value was destined for regulated countries, including 9% going to EU27+UK countries, 13% to the United States, 9% to Japan, 6% to Korea, 5% to Malaysia, 3% to Australia, and 1% to Viet Nam.

Nearly 87% of Viet Nam's timber product export value was destined for regulated countries in 2020. While EU27+UK countries accounted for only 7% of Viet Nam's export value in 2020, 66% of value was destined for the United States, 6% for Japan, 4% for Korea, 2% for Australia and 1% for Malaysia.

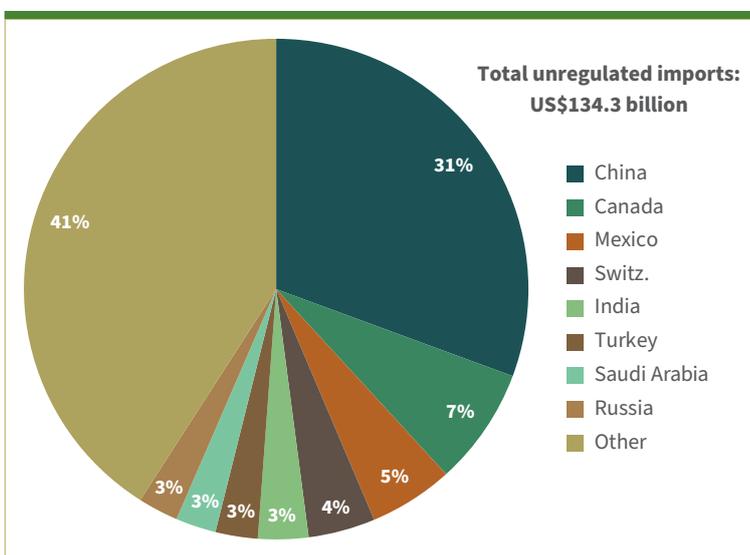


Figure 4.1.4: Share of value of global timber product imports by unregulated countries in 2020. Source: IMM analysis of STIX & COMTRADE data

Of VPA partners in Africa, Cameroon stands out for the large share (61%) of timber export value destined for regulated markets in 2020. EU27+UK countries accounted for 35% of Cameroon export value during the year while an additional 21% was destined for Viet Nam. 40% of export value from the Republic of Congo was destined for regulated markets in 2020, including 21% destined for EU27+UK countries, 13% for Viet Nam and 3% each for Malaysia and the United States. For Ghana, 28% of export value was destined for regulated countries, including 15% going to EU27+UK countries, 7% to Viet Nam, and 5% to the United States. Only around 10% of export value from Liberia and Central African Republic was destined for regulated markets in 2020, mainly EU27+UK countries, with the remaining 90% destined almost exclusively for China, an unregulated market in 2020.

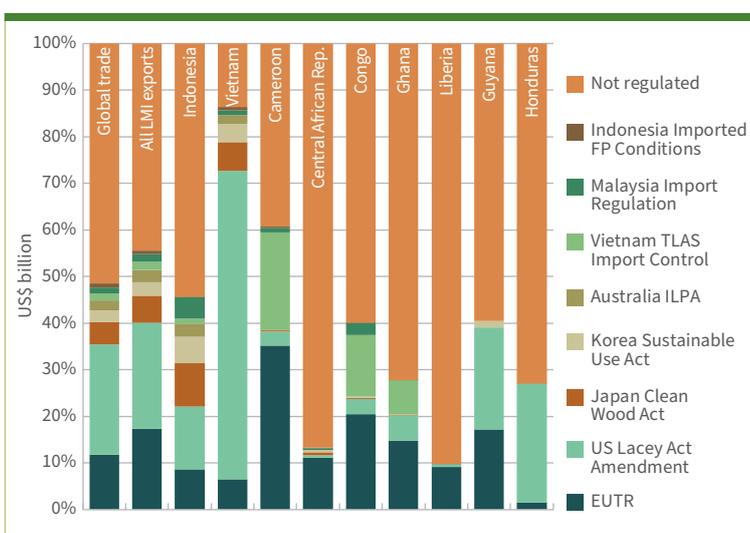


Figure 4.1.5: Share of value of timber product exports by regulatory status of importing countries in 2020, for global trade, all LMI trade, and each VPA country. Source: IMM analysis of STIX & COMTRADE data

In Guyana, 40% of timber product export value in 2020 was destined for regulated countries,

including 17% destined for EU27+UK countries, 22% for the United States and 1% for Korea. In Honduras, the United States was the only significant regulated export market in 2020, accounting for 26% of value. Less than 2% of Honduras export value was destined for EU27+UK countries in 2020.

After reaching nearly USD35 billion in 2018, the highest level since 2008 before the global financial crises, timber product imports by EU27+UK countries fell 5% in 2019 to USD33 billion and a further 6% in 2020 to USD30.9 billion. The largest decline was in imports of pulp and paper products, down 10% to USD12.7 billion in 2020 after a 10% decline in 2019. EU27+UK country imports of primary wood products fell 7% to USD5.6 billion in 2020 after falling 11% the previous year. Imports of secondary processed wood products and wood furniture were down 2% in 2020 to USD12.6 billion after falling 3% the previous year (Figure 4.1.6).

EU27+UK country timber product import value from LMI countries increased rapidly from USD21.7 billion in 2016 to USD26.0 billion in 2018, but then declined by 3% to USD25.1 billion in 2019 and by 4% to USD24.2 billion in 2020. However the share of total EU27+UK country import value sourced from LMI countries increased continuously from 74% in 2017 to 78% in 2020.

The value of timber product imports from VPA partners into EU27+UK countries increased consistently from USD2.59 billion in 2016 to USD2.92 billion in 2019 but fell 11% to USD2.59 billion in 2020. Between 2016 and 2020, VPA partners share of timber product imports into EU27+UK countries hovered around 8%–9% of all imports and 10.5%–11.5% of imports from LMI countries. Throughout this period, several LMI countries with no VPA made larger and more consistent gains in share of EU27+UK country imports. Consistent gains were made by the Russian Federation, Ukraine, Turkey, Belarus and Serbia during this period. Brazil made gains between 2016 and 2018 but lost share in 2019 and 2020. China lost share between 2016 and 2018 but recovered ground in 2019 and 2020 (Figure 4.1.7).

The rise in share of non-VPA LMI countries in EU27+UK country timber product imports between 2015 and 2020 coincides with a partial shift in the destination of EU27+UK country imports. The share of imports destined for some larger western European markets, including France, Germany, Italy, and Spain, declined during this period (Figure 4.1.8). Meanwhile share of imports increased in several Eastern European countries, notably Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, and Romania. The shift in destinations aligns with the more rapid pace of economic growth and relocation of wood manufacturing capacity in Eastern Europe during the period.

This shift is important for understanding recent trends in import share of VPA partners and their

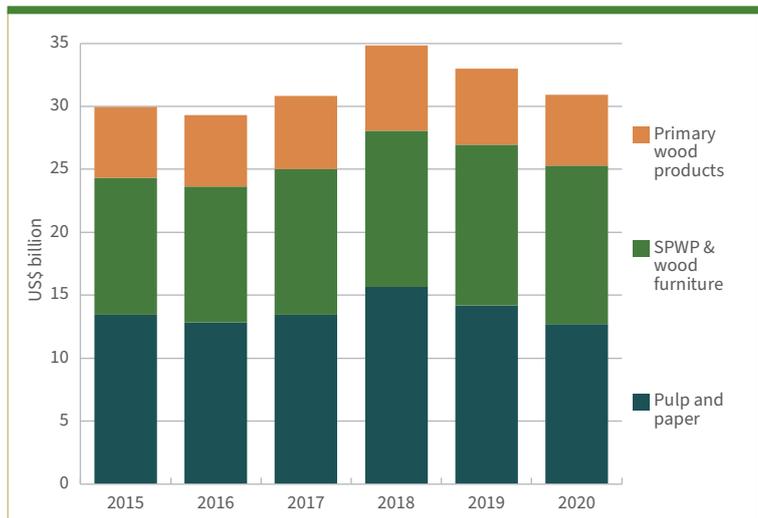


Figure 4.1.6: Value of timber product imports into EU27+UK countries (excluding EU internal market trade), by major product group, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

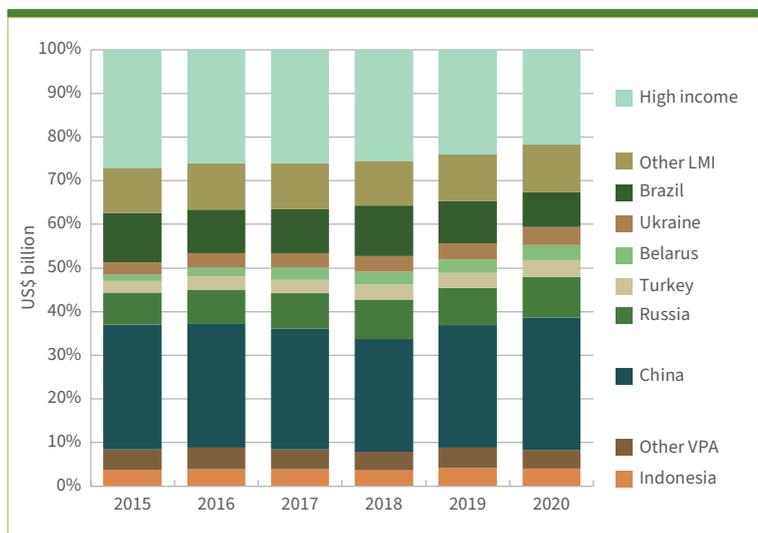


Figure 4.1.7: Share of value of timber product imports into EU27+UK countries, by VPA status and World Bank income category of partner country, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

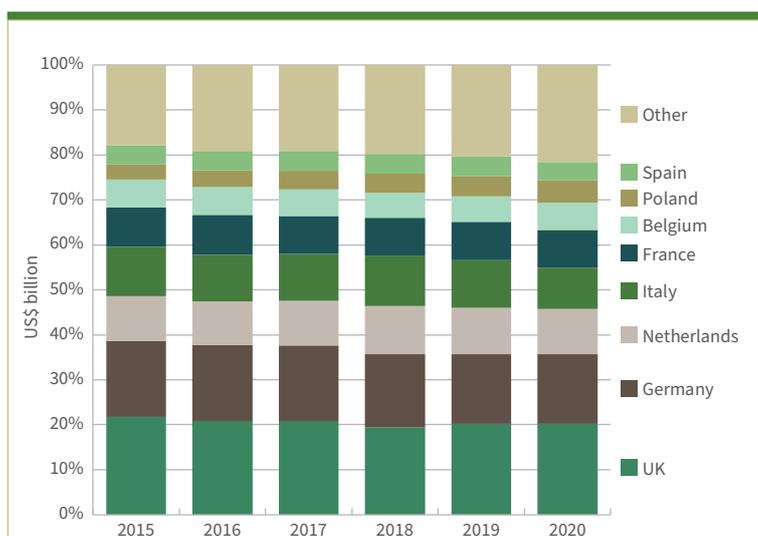


Figure 4.1.8: Share of value of timber product imports into EU27+UK countries, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

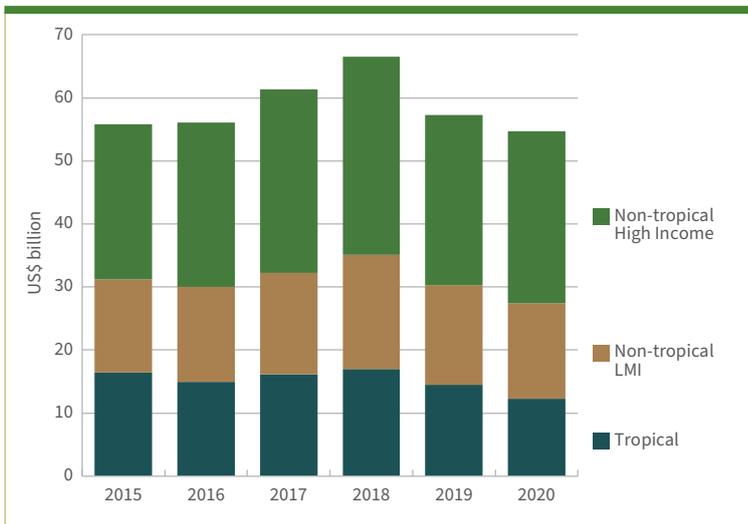


Figure 4.2.1: Value of global primary wood products trade, tropical and non-tropical by World Bank income group, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

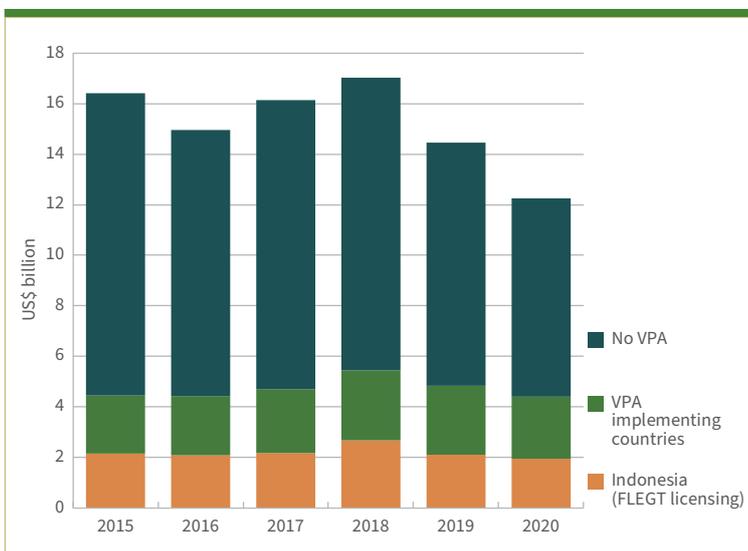


Figure 4.2.2: Value of tropical primary wood products trade, by VPA status, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

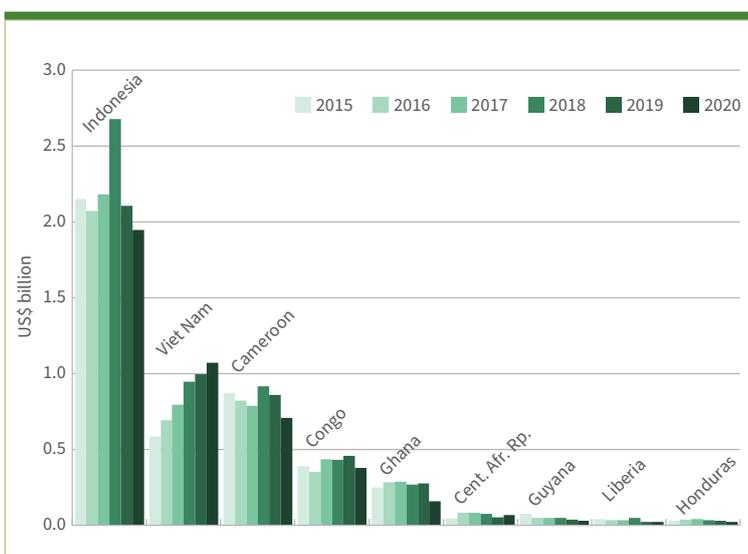


Figure 4.2.3: Value of primary wood products exports by VPA partners, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

competitors but should not be overstated. In 2020, the seven western European countries (Belgium, France, Germany, Italy, Netherlands, Spain and the UK) that traditionally have been the major importers from outside the EU still accounted for 74% of import value, down from 79% in 2015.

4.2 VPA partner primary wood products trade in 2020

The total value of global trade in primary wood products fell 5% to USD5.7 billion in 2020 following a 14% decline in 2019⁵⁴ (Figure 4.2.1). The deterioration in primary wood products trade in 2019 was due to the combined effects of disappointingly low construction activity in the US and Europe, ongoing US trade disputes between the US and China and the US and Canada, and slowing domestic consumption in China.

In 2019 there was a 15% decline in the value of tropical primary wood products trade and a 13% downturn in non-tropical trade. In contrast, to the relatively symmetrical decline in 2019, the COVID-19 driven downturn in 2020 fell much more heavily on the tropical trade. In 2020, the value of global trade in tropical primary wood products fell 15% while for non-tropical products the decline was only 1%.

In 2020, trade in non-tropical primary wood products was buoyed by: strong growth in US imports of timber for construction, particularly from Canada; a record rise in Germany's log exports to China, in part due to salvage logging following a massive spruce bark beetle-infestation in 2018; and a continuing rise in exports from Belarus to the EU and China.

The total value of tropical primary wood products trade fell from USD17.0 billion to USD14.5 billion in 2019 and then to USD12.2 billion in 2020 (Figure 4.2.2). While exports from VPA partners declined significantly during this period, they were relatively more stable than from non-VPA tropical countries. The share of VPA partners in total global exports of tropical primary wood products increased from 32% in 2018 to 33% in 2019 and then leapt to 36% in 2020. This was due to a particularly steep decline in exports of primary wood products by Malaysia (now making a decisive shift towards value-added exports), Thailand (recorded a large reduction in exports of low grade sawnwood to China), and Papua New Guinea and the Solomon Islands (both recorded a big reduction in log exports to China).

Due to the rapid decline in primary wood product exports from Malaysia, Indonesia became the world's largest exporter of tropical primary wood products in value terms in 2018. Indonesia's total export value surged in 2018 to USD2.68 billion driven by a sharp increase in exports of plywood to Japan, the United States, and the Republic of Korea. Following the dramatic slowdown in the global plywood market in 2019 and the onset of

54. Excludes internal trade in the European single market

the COVID-19 pandemic in 2020, the value of Indonesia's primary wood product exports declined to USD1.95 billion in 2020 (Figure 4.2.3). Nevertheless, Indonesia was still the largest exporter of tropical primary wood products in 2020, significantly larger than Malaysia in second place with export value of USD1.57 billion.

Following a long period of consistent growth, uninterrupted by either the economic downturn in 2019 or the COVID-19 pandemic in 2020, Viet Nam's export value of primary wood products reached USD1.07 billion in 2020. Viet Nam's export growth in primary wood products in 2019 and 2020 was concentrated in plywood destined for the United States and veneer destined for China. Formerly large exports of logs and sawnwood from Viet Nam to China, valued in excess of USD250 million in 2017, fell sharply in following years to only USD50 million in 2020.

Cameroon export value of primary wood products fell by 6% to USD860 million in 2019 and by 17% to USD710 million in 2020. The value of Cameroon's log exports, destined mainly for China and Viet Nam, fell by 44% from USD389 million to USD218 million in the two years between 2018 and 2020. Cameroon's exports of sawnwood were more robust, rising 10% to USD522 million in 2019, with particularly good demand in Viet Nam, the United States and the Netherlands, before declining 15% to USD446 million in 2020.

Republic of Congo export value of primary wood products increased 6% to USD460 million in 2019 before declining 17% to USD380 million 2020. Much of the volatility was due to exports to China, mainly logs and sawnwood, which increased 15% to USD249 million in 2019 before falling 10% to USD224 million in 2020. Republic of Congo export value to Viet Nam, also comprising mainly logs and sawnwood, fell 23% to USD72 million in 2019 and then by 29% to only USD51 million in 2020.

Export value of primary wood products from Ghana increased by 4% to USD280 million in 2019 but then suffered one of the largest falls in trade of all tropical countries in 2020, down 4.2% to USD160 million. In 2019, Ghana benefited from strong export growth in plantation teak logs to India, rising 17% to USD74 million, and near tripling in sawnwood export value to China, to USD34 million. However, in 2020

there was a sharp decline in Ghana's export value of logs to India, China and Viet Nam, and of sawnwood to China, the United States, Germany and Viet Nam.

Export value of primary wood products from Central African Republic, which due to the political situation and logistical challenges tends to be very volatile even in normal times, fell 32% to USD52 million in 2019 before rebounding by 32% to USD69 million in 2020. Exports from the Central African Republic were dominated by logs and sawnwood destined for China, with small volumes going to France, Morocco, Turkey and Portugal.

Export value of primary wood products from Liberia fell 52% to USD22 million in 2019 and remained at this low level in 2020. Most exports from Liberia in 2019 and 2020 comprised logs destined for China with small volumes destined for France and India.

Guyana export value of primary wood products fell 25% to USD38 million in 2019 and by 20% to USD31 million in 2020. The decline was mainly driven by exports of logs to China, for which export value fell from USD33 million in 2018 to less than USD15 million in 2020. In the same period, Guyana's export value of logs to India fell by more than 50%, from USD5.1 million to USD2.5 million. However, Guyana's export value of sawnwood to the United States was consistent at around USD6 million throughout this period.

Export value of primary wood products from Honduras fell 12% to USD32 million in 2019 and by 33% to USD21 million in 2020. Unlike other VPA partners, Honduras primary wood products trade is heavily oriented towards softwood sawnwood destined for regional markets. While Honduras' export value to the United States increased in 2020, this was insufficient to offset a big decline in export value to El Salvador, the largest market, and to other countries in the Caribbean and Central American region.

The share of global export value of tropical primary wood products destined for EU27+UK countries increased from 8.6% in 2018 to 9.6% in 2020. The rise in share was the result of a large fall in tropical primary wood products trade with China and India during the period. The share of tropical primary wood product export value destined for China fell from 38.2% in 2018 to 32.9% in 2020. The share destined for India fell from 7.7% to 6.7% in the same period. Meanwhile, the share of tropical primary wood exports destined for the United States increased from 9.0% in 2018 to 12.9% in 2020. This shift in the balance of tropical primary wood trade meant that the proportion of world export value destined for regulated markets increased from 38.6% in 2018 to 42.5% in 2020 (Figure 4.2.4).

The total value of EU27+UK country imports of primary tropical wood products fell 14% in 2020 to USD1.19 billion after a 6% decline the previous year. While the immediate cause of falling tropical primary product imports into EU27+UK countries was slowing economic activity in 2019 and the disruption due to the pandemic in 2020, it also forms part of a long term trend of declining market share for tropical wood in these countries (Figure 4.2.5).

Tropical wood accounted for 19.4% of EU27+UK country import value of primary wood products

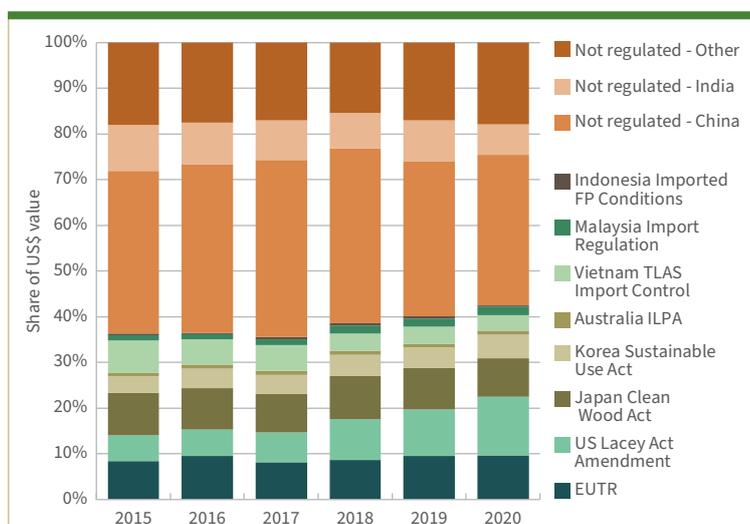


Figure 4.2.4: Share of value of tropical primary wood products imports by consumer country regulation, 2015 to 2020.

Source: IMM analysis of STIX & COMTRADE data

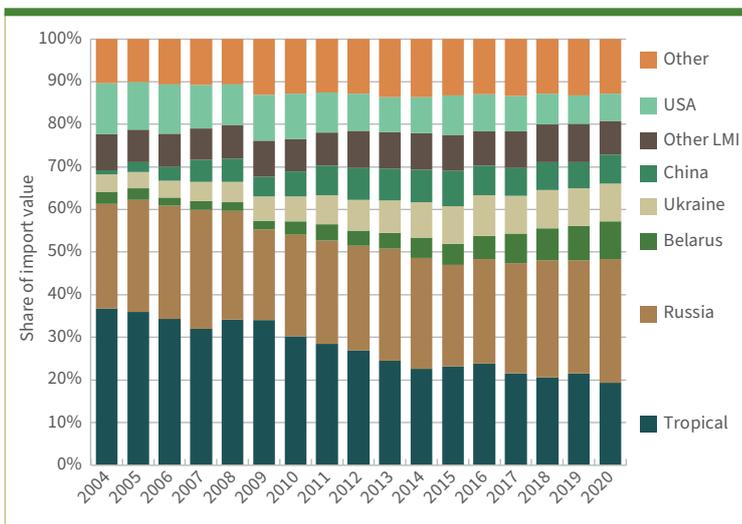


Figure 4.2.5: Share of value of EU28 imports of primary wood products by main source of supply, 2004 to 2020.

Source: IMM analysis of STIX & COMTRADE data

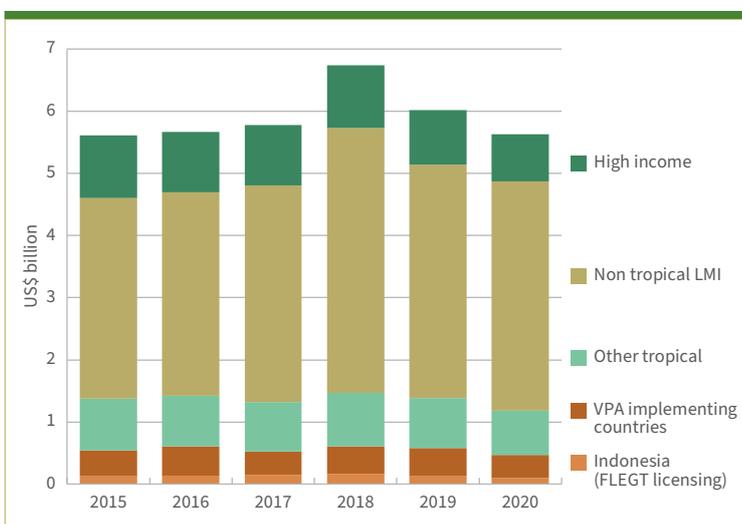


Figure 4.2.6: Value of EU27+UK country imports of primary wood products by VPA status and World Bank income group, 2015 to 2020.

Source: IMM analysis of STIX & COMTRADE data

in 2020, down from 21.5% in 2019 and figures in excess of 36% in the years before the global financial crises. In the 2010 to 2020 period, a rising share of primary wood products imports into EU countries was sourced from Russia, Belarus and Ukraine. Reasons most often cited for the decline in tropical wood market share at IMM trade consultations in the EU include environmental prejudices, uncoordinated marketing of tropical wood products, substitution by temperate, chemically and thermally modified wood, composites and non-wood materials, and the challenges of demonstrating EUTR conformance in tropical countries in the absence of FLEGT licensing.⁵⁵

The fact that American wood products have also lost share during this period, despite being less affected by environmental prejudices and benefitting from well-funded and active marketing campaigns, offers further insight into the reason for the decline in tropical products. Like imports from the tropics, primary wood imports from the United States are dominated by hardwoods traditionally

destined for higher-end joinery and furniture manufacturing sectors in Western Europe, particularly on the Atlantic and Mediterranean fringes. However, this market has gradually eroded as the centre of gravity of European manufacturing has shifted eastwards and there has been growing focus on high volume pre-fabricated production at the expense of on-site and more craft-oriented production. The large manufacturers require large volumes of consistent wood materials and have developed new treatment and finishing techniques to allow cheaper softwoods and panel products to replicate the look and feel of hardwoods. The eastern location of many of these manufacturers has meant they have been more inclined to look to countries neighbouring the eastern borders of the EU for wood supplies than to shipments from the tropics and North America.

To some extent this process has also been facilitated by EU policy measures implemented through the European Neighbourhood Policy (ENP) designed to progressively achieve closer political associations and a higher degree of economic integration with non-EU countries in the wider European region. Another factor has been the weakness of the Russian rouble and other CIS countries relative to the euro and the dollar following the currency crisis that started in Russia and Ukraine during 2014 and subsequently to neighbouring countries in the CIS.

In 2020, EU27+UK country imports of primary wood products from VPA partners fell 20% to USD468 million after a 4% decline the previous year. VPA partner share of EU27+UK country imports declined in 2020. In 2020, VPA countries accounted for 40% of all tropical primary wood products imported into EU27+UK countries (down from 42% in 2019), 10% of all primary wood products imports from LMI countries (down from 11% in 2019), and 8% of total primary product imports, down from 10% in 2019 (Figure 4.2.6).

EU27+UK country imports of primary wood products comprise mainly sawnwood and plywood as log imports have fallen away in recent years with imposition of tightening export controls on unprocessed wood in several countries, both in temperate regions (e.g. Russia, Ukraine and Belarus) and the tropics (e.g. Gabon and Cameroon). In 2020, the largest falls in sawnwood imports into EU27+UK countries were all reserved for tropical suppliers. In contrast, imports of sawnwood from Russia, by far the largest external supplier, increased 9% in 2020, while imports from Belarus remained quite stable in 2020, declining only 2%.

The European market for plywood weakened sharply in the second half of 2019 with widespread reports of overstocking and falling prices as the economy began to cool at that time. The onset of the pandemic deepened the already prevailing downward trend in plywood trade during 2020. With few exceptions, the downward trend impacted on all the leading suppliers of plywood to EU27+UK countries, both in temperate and tropical regions.

55. IMM reports of Spanish, Dutch/Belgian, German, French, and UK trade consultations, <https://flegtimm.eu/events/>

Cameroon stands out for supplying in 2020 in excess of 50% of all EU27+UK country imports of primary wood products from VPA partners (Figure 4.2.7) and 40% of all EU27+UK country primary wood imports from Africa. Cameroon therefore continues to have a key role to play in FLEGT policy development. EU27+UK country imports of primary wood products from Cameroon fell 16% to USD248 million in 2020, after a small 1% gain the previous year. Most EU27+UK country trade with Cameroon comprises sawnwood destined for Belgium and even in “normal” times tends to be volatile. Imports from Cameroon in 2020 were only slightly lower than in 2017 when shipments via Douala port were severely affected by dockyard workers strikes, delays in VAT reimbursements and other red tape.

EU27+UK country imports of primary wood products from Indonesia are heavily focused on plywood due to Indonesia’s tight restrictions on log and sawn timber exports. Total primary wood products imports from Indonesia fell 26% to USD99 million in 2020 after a 20% decline the previous year. Indonesian plywood suffered from widespread substitution by Russian birch plywood in EU27+UK countries during this period.

EU27+UK country imports from the Republic of Congo were rising consistently throughout 2018 and 2019 but fell 26% to USD72 million in 2020. This trend was driven mainly by Belgian imports of logs and sawnwood and French imports of veneers from the country.

Gains made in EU27+UK country imports of primary wood products from Ghana in 2018 and 2019, mostly of sawnwood and veneer, were lost in 2020. EU27+UK country imports from Ghana fell 18% to USD23 million in 2020 after rising 2% the previous year. Imports from Ghana into Germany, Belgium and the UK weakened in 2020 after strengthening in 2018 and 2019. Imports from Ghana into Italy were also sliding in 2020, continuing a longer-term downward trend that started in 2018.

EU27+UK country imports of primary wood products from the Central African Republic (CAR) recovered from a low of just USD8 million in 2017 to USD13 million in 2018. However, thereafter imports fell back to USD11 million in 2019 and USD7 million in 2020. EU27+UK country imports from CAR now consist almost exclusively of logs, mainly for France, Portugal and Belgium. Imports of sawnwood, previously destined mainly for Belgium, have fallen to negligible levels.

EU27+UK country imports of primary wood products from Liberia, while still low, increased from around USD1.5 million in 2017 to USD2.7 million in 2018 and USD3.1 million 2019. However, imports fell back to only USD2.0 million in 2020. Imports were almost exclusively logs destined for France and Belgium.

EU27+UK country imports of primary wood products from Viet Nam were valued at no more than USD10 million in 2020, 18% less than in 2019. Plywood

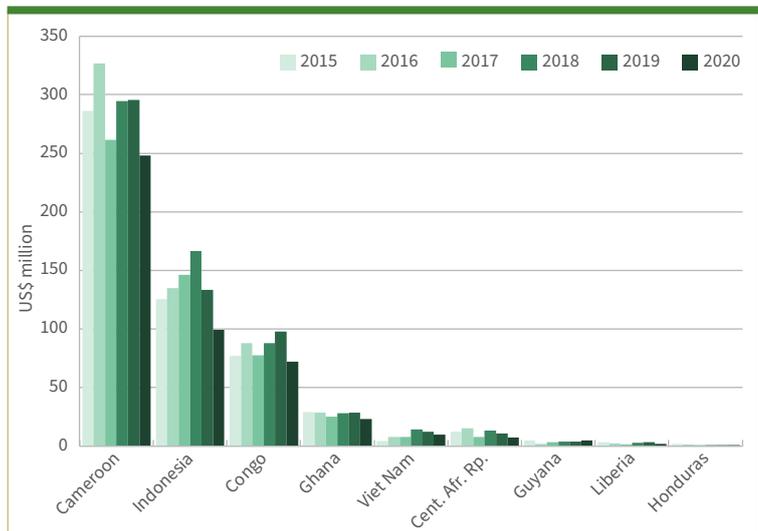


Figure 4.2.7: Value of EU27+UK country imports of primary wood products from VPA partners, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

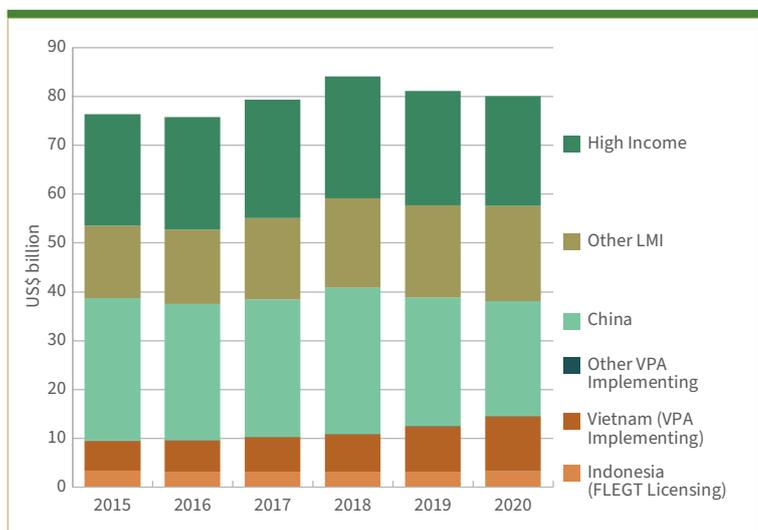


Figure 4.3.1: Value of global SPWP and wood furniture trade, by VPA status and World Bank income group, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

accounted for about a third of import value from Viet Nam in 2020, the remainder comprised sawnwood. Most was destined for France and Germany.

EU27+UK country imports of primary wood products from Guyana increased slowly from less than USD2 million in 2016 to USD3.7 million in 2019 and then more rapidly to USD5.1 million in 2020. UK import value of sawnwood from Guyana doubled from USD1.6 million to USD3.3 million in 2020. EU27+UK countries imports of primary wood products from Honduras were negligible between 2017 and 2020, averaging less than USD1 million a year, mainly sawnwood destined for Germany, Belgium and Spain.

4.3 VPA partner SPWP and wood furniture trade in 2020

The total value of global trade in SPWP and wood furniture fell 1.3% to USD80.1 billion in 2020 following a 3.6% decline in 2019⁵⁶ (Figure 4.3.1). Total export value by

56. Excludes internal trade in the European single market

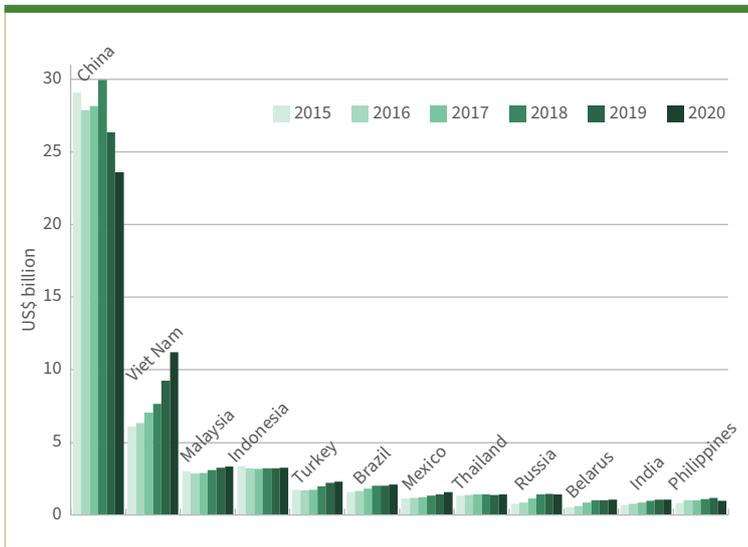


Figure 4.3.2: Value of SPWP and wood furniture exports by leading LMI supply countries, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

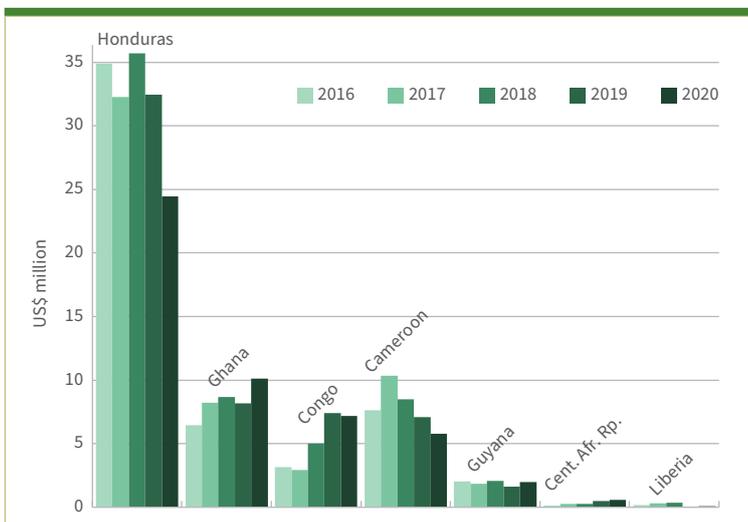


Figure 4.3.3: Value of SPWP and wood furniture by VPA partners (excluding Indonesia and Viet Nam), 2016 to 2020. Source: IMM analysis of STIX & COMTRADE data

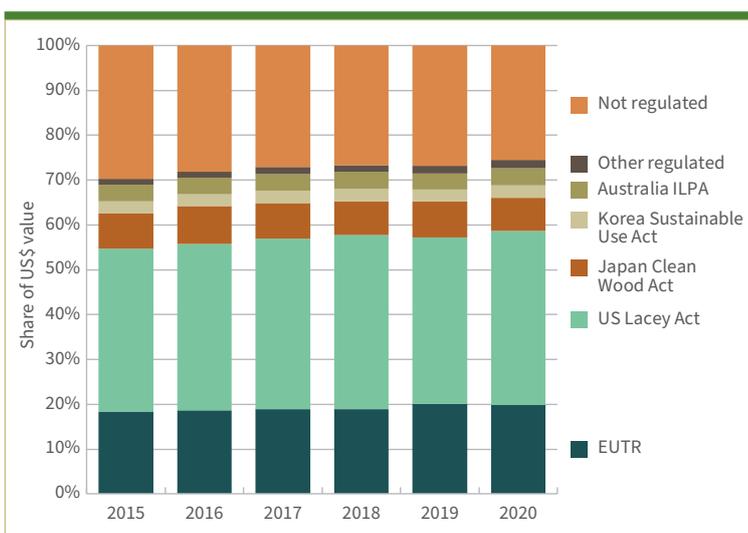


Figure 4.3.4: Share of value of global SPWP and wood furniture imports from LMI countries by consumer country regulation, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

VPA partners increased 16% to USD14.5 billion in 2020 after a 14% rise the previous year. In 2020, VPA partners accounted for 18% of global SPWP and wood furniture exports and 25% of LMI country exports, up from 15% and 22% the previous year. This growth was all concentrated in Viet Nam for which export value increased 21% to USD11.2 billion building on an equivalent 21% gain the previous year. Indonesia's export value increased 2% to USD3.3 billion in 2020 following a slight 0.1% gain the previous year (Figure 4.3.2). This suggests that Viet Nam continues to offer a more favourable environment for furniture industry investment than other LMI countries, including Indonesia.

The main trend in terms of global exports of SPWP and wood furniture in 2019 and 2020 was a sharp fall in China's share, driven mainly by the trade dispute with the US since 2019. The decline in China's exports to the US was not offset to any significant extent by rising exports to other global markets for various reasons. No other market is large enough to absorb the volumes previously destined for the US. China's export market competitiveness has also been hit in recent years by rising labor and other costs of production. The trade dispute with the US is likely to have strengthened an existing trend to increase the proportion of Chinese production destined for the large and expanding domestic market.

Export value of SPWP and wood furniture by VPA partners other than Indonesia and Viet Nam totalled no more than USD50 million in 2020, 12% less than in 2019. Around half the total comprised Honduras exports of wood furniture, tools and pallets, mainly destined for the United States. Export value from Honduras fell 25% to USD24.5 million in 2020 (Figure 4.3.3). Export value of SPWP and wood furniture from Ghana increased 24% to USD10.1 million in 2020, mainly driven by a rise in exports of pallets to Cote d'Ivoire. Ghana's export value of higher value joinery and mouldings, mainly destined for EU markets, declined in 2020. Export value from the Republic of Congo fell 3% to USD7.2 million in 2020, a sharp turnaround after rising 47% the previous year. While still only a very small share of the Republic of Congo's overall timber trade, the country's exports of joinery, mouldings, sleepers, and other SPWP had increased rapidly in 2018 and 2019, mainly destined for the EU.

The total export value of SPWP and wood furniture from LMI countries in 2020 was USD57.6 billion in 2020, down just 0.1% from USD57.7 billion the previous year. Of the total in 2020, USD11.4 billion (20%) was destined for EU27+UK countries, the same proportion as the previous year. In total, 74.5% of all LMI export value of SPWP and wood furniture was destined for regulated countries in 2020, up from 73.1% in 2019. The US alone was the destination for 39% of LMI trade in these commodities in 2020, up from 37% in 2019 (Figure 4.3.4). Increasingly it is standard practice in the SPWP and wood furniture sector that importers have

a legal obligation to ensure all raw material is legally harvested in the country of origin.

The value of EU27+UK country imports of SPWP and wood furniture from LMI countries decreased by 2% to USD11.4 billion in 2020 after a 3% increase in 2019. Imports from China, by far the largest supplier, fell 2.3% to USD5.7 billion after rising 4% the previous year (Figure 4.3.5). Viet Nam and Indonesia were respectively the second and third largest LMI country suppliers of SPWP and wood furniture products to EU27+UK countries in 2020. However, both experienced a downturn in sales in EU27+UK countries in 2020, Viet Nam falling 11% to USD869 million and Indonesia down 6% to USD727 million. Imports also fell from Malaysia and India, the other large suppliers in the Asian region. In contrast, imports from all other leading supply countries – all near neighbours to EU27+UK countries – increased during the year (Figure 4.3.6).

Such consistency across the board – with rises in EU27+UK country imports from neighbouring countries matched by declines from China and other supply countries in Asia – is unusual. It may be a short-term adjustment as European importers switched to more regional suppliers with the sharp drop in availability of container space and rising freight rates and other problems in sourcing products from Asia during the pandemic. But it may have long term consequences if it reinforces the trend towards ‘reshoring’ and a preference for sourcing SPWP and wood furniture from other regionally located suppliers which was on-going in Europe in the decade up to 2020.

EU27+UK country imports of SPWP and wood furniture from the Republic of Congo and Ghana were rising strongly, but from a small base, between 2015 and 2019. In 2020, imports from the Republic of Congo increased again by 3% to USD7.0 million but imports from Ghana fell by 5% to USD6.2 million. Imports from Cameroon, the only other VPA Partner outside Asia supplying any significant volume of SPWP and wood furniture to Europe, fell 31% to just USD2.9 million in 2020 (Figure 4.3.7).

4.4 VPA partner pulp and paper trade in 2020

The total value of global trade in pulp and paper fell 9% to USD126.3 billion in 2020 after a 7% fall the previous year. The economic crisis brought on by the COVID-19 pandemic further weakened trade in a sector that was already facing difficulties.

Pulp market conditions have been extremely volatile in recent years for various reasons including the impact of new capacity being brought on stream, policy changes (e.g. halting imports of paper for recycling in China), major changes in paper consumption patterns, and market speculation. Of paper products, graphic paper was hardest hit by the pandemic. Use of graphic paper was already declining in line with the gradual digitalisation of the world economy. The pandemic exacerbated this trend, mainly

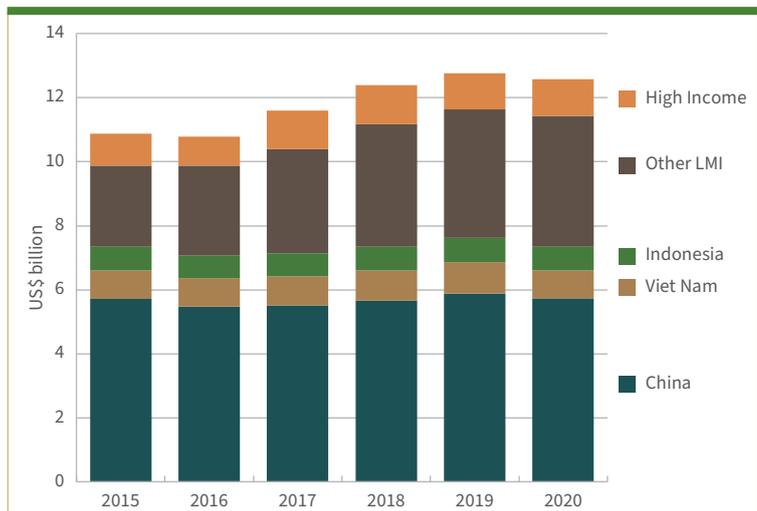


Figure 4.3.5: Value of EU27+UK country imports of SPWP and wood furniture by leading supply countries and World Bank income group, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

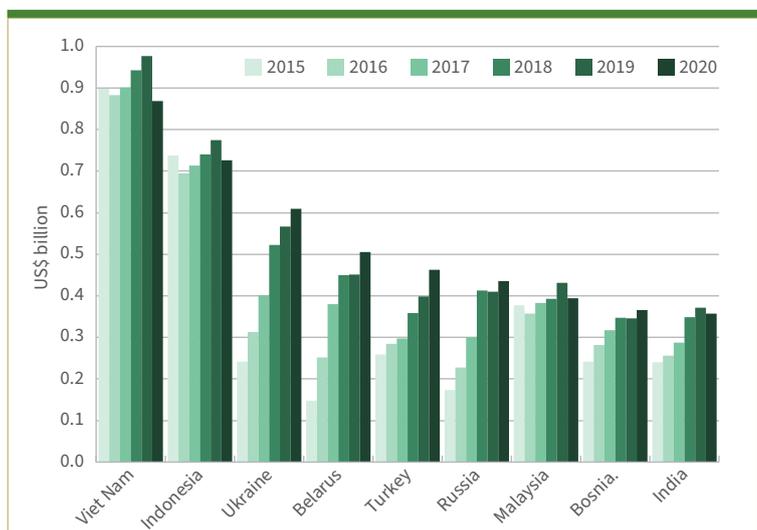


Figure 4.3.6: Value of EU27+UK country imports of SPWP and wood furniture from leading LMI supply countries, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

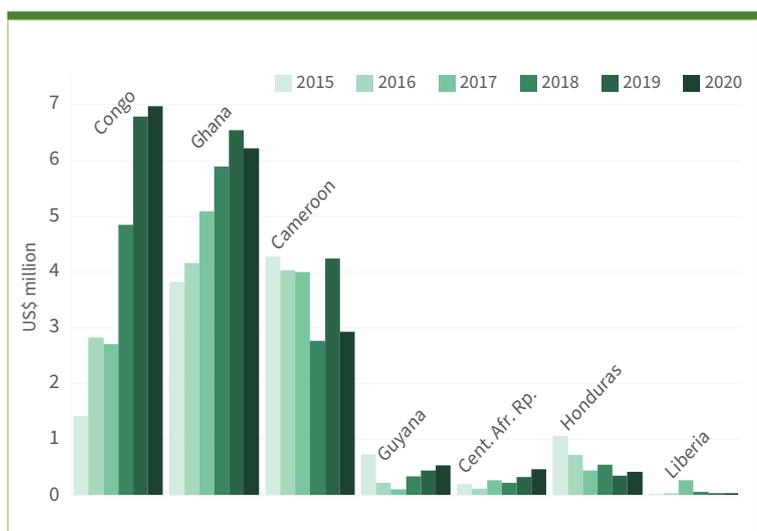


Figure 4.3.7: Value of EU27+UK country imports of SPWP and wood furniture from VPA partners (excludes Viet Nam and Indonesia), 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

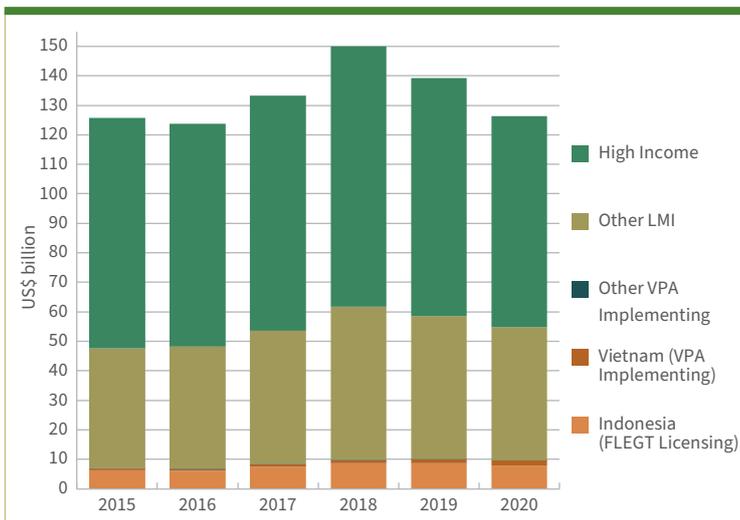


Figure 4.4.1: Value of global pulp and paper trade, by VPA status and World Bank income group of exporting country, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

because the closure of companies and schools significantly reduced the need for printing paper. Conversely, other sub-sectors benefited from the economic situation during the pandemic. Packaging paper, in particular, benefited from strong growth in e-commerce and hence in delivery activities worldwide, and from growth in paper products for personal hygiene .

Compared to other timber products, a relatively large share of pulp and paper exports derive from high income countries – 56% in 2020 – a reflection of the high levels of investment required over many years in both plant and intensive forest management to establish large globally competitive paper industries. Total value of exports from LMI countries fell 6% to USD5.4 billion in 2020 after a 5% decline the previous year (Figure 4.4.1).

Pulp and paper exports from China, the largest LMI country exporter, were valued at USD18.9 billion in 2020, 5% less than the previous year (Figure 4.4.2) . China’s exports comprise mainly finished paper products such as cartons and packaging, sanitary rolls, large industrial sheets of coated papers, exercise books and labels. Most are destined for the USA, Japan, UK, Viet Nam and Australia.

Exports from Brazil, the second largest LMI country exporter, fell 13% to USD9.7 billion in 2020. This follows a particularly volatile period for Brazil’s exports which increased sharply in 2018 but then fell 19% in 2019. Unlike China, Brazil’s exports are dominated by hardwood market pulp, mostly destined for China, the USA and EU.

Indonesia is by far the largest exporter of pulp and paper products amongst VPA partners and third largest of all LMI countries. After strong export growth between 2016 and 2018, Indonesia’s export value of pulp and paper levelled off at USD8.7 billion in 2019 and fell 9% to USD8.0 billion in 2020. Viet Nam is the only other VPA Partner with globally significant paper exports. Viet Nam’s exports increased 28% to USD1.6 billion in 2020, continuing a strong rising trend since 2016. Viet Nam exports a variety of finished paper products, mainly to the USA, China and other Asian markets.

Of other VPA partners, Honduras and Ghana are regionally significant exporters of paper products (Figure 4.4.3). Honduras export value of paper products declined 26% to USD62.5 million in 2020. This followed a 17% fall the previous year. Honduras paper exports comprise mainly cartons and other packaging products destined for Costa Rica and other regional markets. Ghana’s paper exports increased 81% to USD26.8 million in 2020 following a 53% decline the previous year. Ghana’s paper exports in 2020 comprised mainly sanitary and packaging products destined for Togo and other West African countries.

Of total pulp and product exports from LMI countries, USD7.9 billion (14%) was destined for

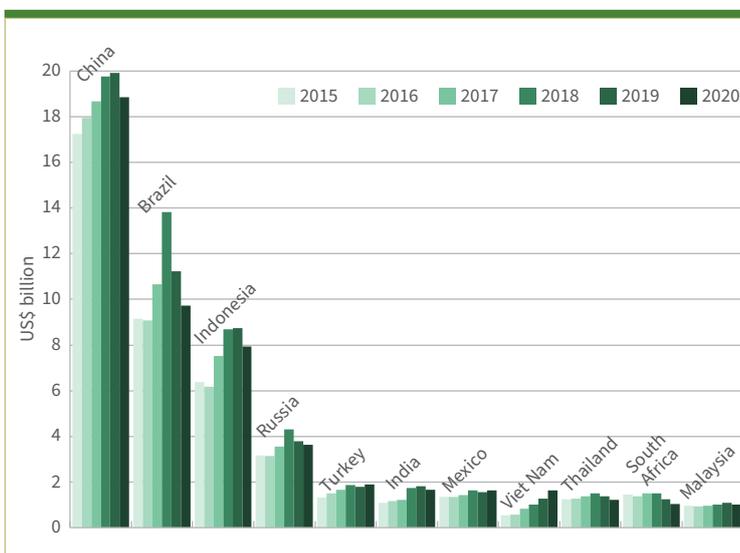


Figure 4.4.2: Value of pulp and paper exports by leading LMI exporting countries, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

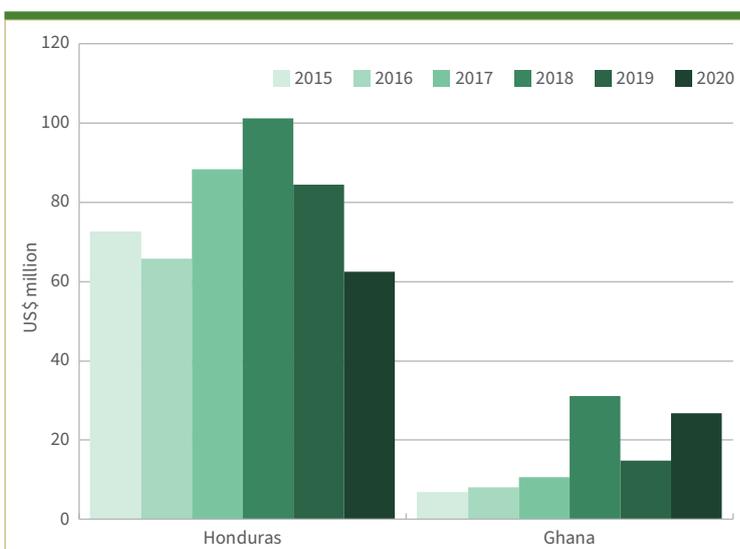


Figure 4.4.3: Value of pulp and paper exports by Honduras and Ghana, 2015 to 2020. Source: IMM analysis of STIX & COMTRADE data

EU27+UK countries in 2020, the same proportion as the previous year. In total, 41% of all LMI export value of pulp and paper was destined for regulated countries in 2020, down slightly from 42% in 2019. This included 12% destined for the US, 4% for Japan, 3% for the Republic of Korea, and 2% each for Viet Nam and Australia (Figure 4.4.4). China, accounting for 22% of total export value of pulp and paper from LMI countries, was by far the largest unregulated market in 2020, followed a long way behind by Singapore (3%), UAE (2%), Thailand (2%) and India (2%).

EU27+UK country import value of pulp and paper fell 10% to USD12.7 billion in 2020 following a 10% fall the previous year. Import value from LMI countries fell 5% to USD7.9 billion in 2020 following an 8% fall the previous year.

The decline in 2019 and 2020 was largely due to volatility in the wood pulp trade for which EU27+UK country import value fell from USD6.3 billion in 2018 to USD3.8 billion in 2020. Import value fell dramatically from all the leading supply countries between 2018 and 2020, including from Brazil, USA, Uruguay, Chile, Russia and Canada. In 2019, the decline in pulp import value was worsened by a sharp downturn in prices during the year as global demand weakened and pulp stocks increased in the face of unstable political and economic conditions, particularly due to the US-China trade war. EU27+UK country imports of pulp products from VPA partners were close to zero between 2018 and 2020.

EU27+UK country import value of paper products fell 2% to USD8.9 billion in 2020 following a 2% fall the previous year. However EU27+UK country paper product import value from LMI countries increased 4% to USD6.1 billion in 2020 after 2% gain the previous year. The main trend in EU27+UK country paper imports between 2015 and 2020 was a continuous rise in imports from China (Figures 4.4.5 and 4.4.6). Until 2019, this trend was driven mainly by rising imports of packaging materials from China. However in 2020, EU27+UK country imports of packaging materials from China declined by over 10% while there was a three-fold increase in imports of sanitary paper products from the country.

EU27+UK country import value of paper products from Indonesia declined 16% to USD319 million in 2020 after rising 31% the previous year. In 2020, import value of large rolls of uncoated papers for writing/printing from Indonesia fell 33% to USD130 million, a decline partly offset by a 17% increase in export value of sanitary papers to USD120 million.

Of other VPA partners countries, only Viet Nam supplied a significant volume of paper products to EU27+UK countries in recent years. After rising 12% to USD34 million in 2019, EU27+UK country import value from Viet Nam stabilised at this higher level in 2020. Most EU27+UK country imports from Viet Nam in 2019 and 2020 comprised papers for packaging.

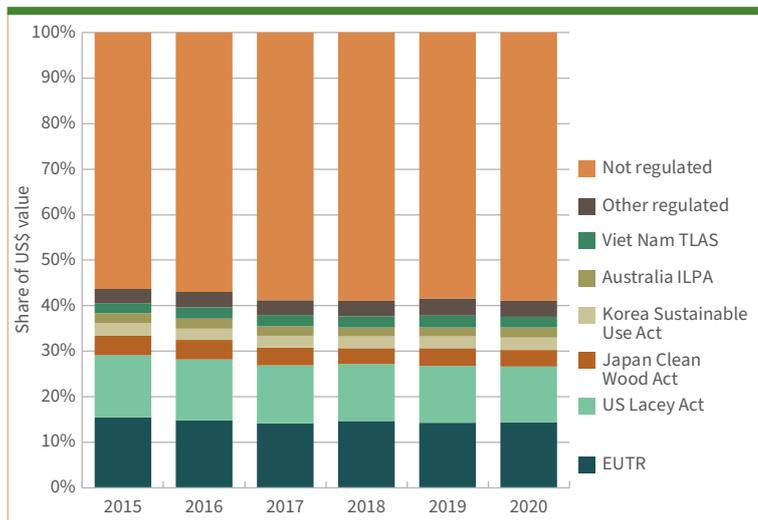


Figure 4.4.4: Share of value of global pulp and paper imports from LMI countries by consumer country regulation, 2015 to 2020.

Source: IMM analysis of STIX & COMTRADE data

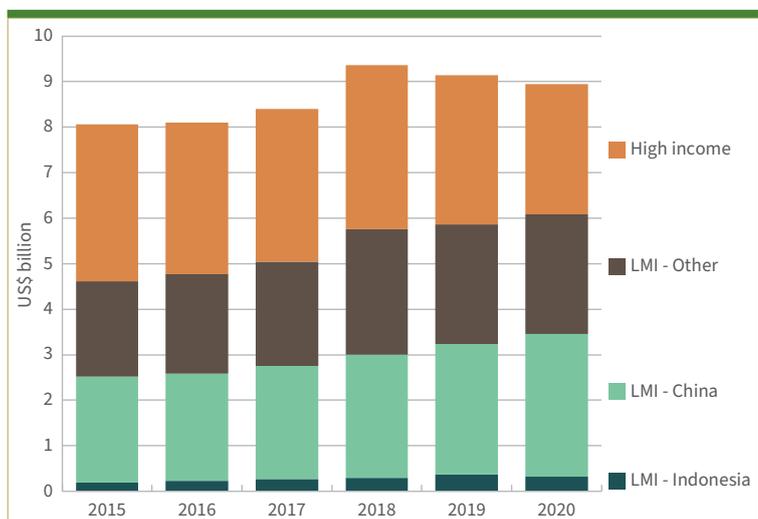


Figure 4.4.5: Value of EU27+UK country imports of paper products by leading supply countries and World Bank income group, 2015 to 2020.

Source: IMM analysis of STIX & COMTRADE data

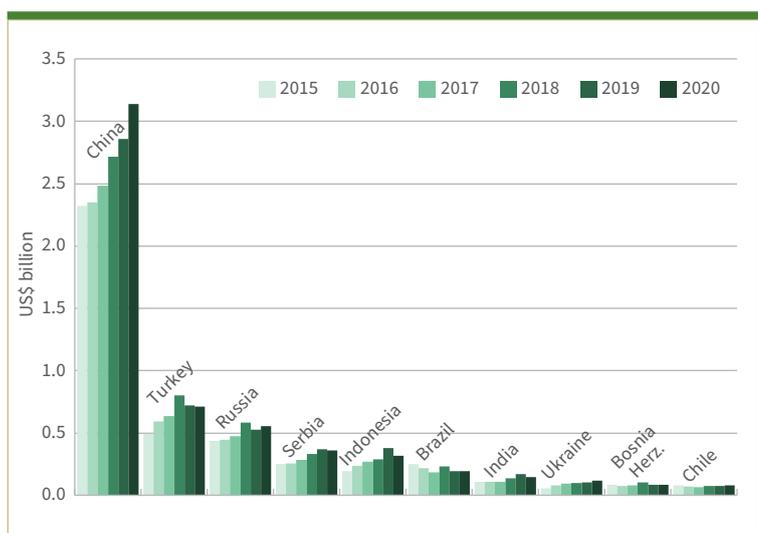


Figure 4.4.6: Value of EU27+UK country imports of pulp and paper from leading LMI supply countries, 2015 to 2020.

Source: IMM analysis of STIX & COMTRADE data

5.1 Overview

Considering the long-term perspective, the value of EU27+UK country imports of Indonesian timber products were at an historic low of USD 1.05 billion in 2015, the year before FLEGT licensing was introduced. Imports fell from an all-time high of over USD 2 billion in 2007 just prior to the Great Recession to USD 1.06 billion in 2013 and remained at around that lower level for the next four years (Figure 5.1.1).

In the period immediately following FLEGT licensing, EU27+UK country imports of Indonesian timber products recovered some of the lost ground, rising to USD 1.28 billion in 2019. This recovery coincided with a wider expansion of EU27+UK country consumption and imports. Activity in key EU27+UK country wood end-use sectors, such as construction and furniture, had bottomed out in 2013 and then recovered at a slow, but relatively consistent, rate

until 2019. In practice, despite the rise in EU27+UK country imports from Indonesia between 2017 and 2019, FLEGT-licensed timber experienced only a small increase in market share. Indonesia's share of total EU27+UK country timber product import value increased from 3.7% in 2016 to 3.9% in 2019. Share of import value from LMI countries increased from 4.9% to 5.1% in the same period.

Nevertheless, the fact that EUTR imports from Indonesia were rising and share in a highly competitive market was at least being maintained, provided some reassurance that the regulatory advantages and reputational gains owing to FLEGT licensing might be just beginning to help turn the tide after a long period of historically low EU timber products imports from Indonesia. While the EU is the destination for only a small proportion of Indonesia's total timber product exports, rising sales to this market were helping to bolster a wider policy of export market diversification.

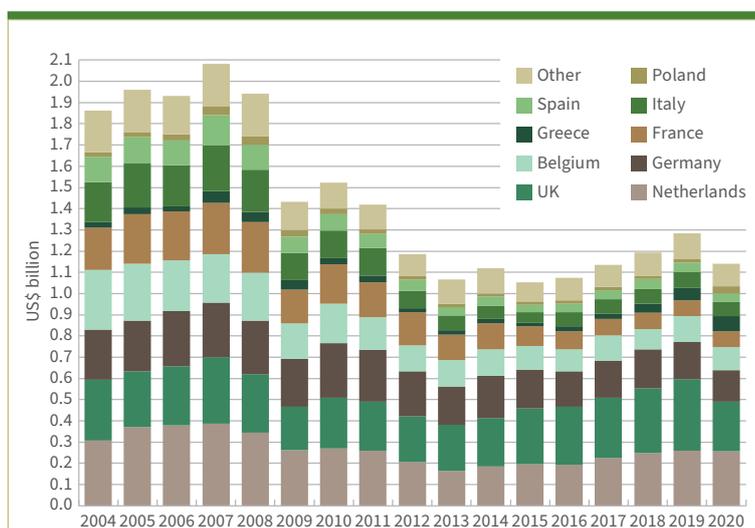


Figure 5.1.1: Value of EU27+UK country imports of timber products from Indonesia, 2004 to 2020. Source: IMM analysis of STIX & COMTRADE data

The market situation was transformed by the COVID-19 pandemic in 2020. The near term effects included an 11% decrease in EU27+UK country imports of FLEGT-licensed products from Indonesia to USD 1.14 billion in 2020. This was primarily due to the detrimental effects of the COVID-19 on supply and shipment of products to EU27+UK countries from Indonesia. Rising freight rates due to a very severe shortage of containers for shipment from Indonesia to the EU27+UK countries was a particularly significant cause of trade decline during the year. Indonesia, alongside other countries distantly located from the EU27+UK countries, suffered a disproportionate loss of share. In 2020, Indonesia's share of total EU27+UK country timber product import value decreased to 3.7% while share of import value from LMI countries decreased to 4.7%.

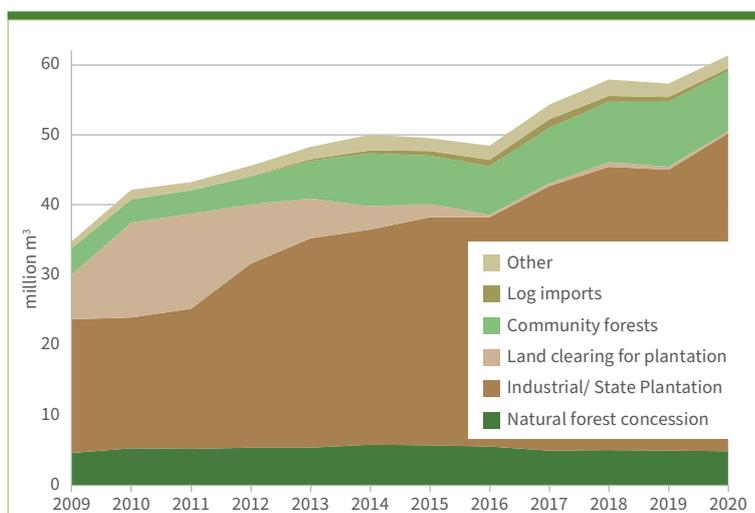


Figure 5.2.1: Volume of Indonesia log supply by main source, 2009 to 2020. Source: IMM analysis of Indonesian Ministry of Environment and Forestry data from RPBBI website

The Netherlands was the largest EU27+UK country destination for timber products imports from Indonesia in 2020, accounting for 22%, followed by the UK (21%), Germany (13%), Belgium (9%), France (7%), Greece (6%), Italy (6%), Spain (4%) and Poland (3%). The share of imports from Indonesia destined for the UK fell during the year (26% in 2019) while there was a significant increase in share destined for the Netherlands (20% in 2019), Greece (5% in 2019) and Poland (1% in 2019).

5.2 Indonesia supply side trends

While the COVID-19 pandemic led to a downturn in harvesting in other parts of the world during 2020, this was not the case in Indonesia. According to Indonesian Ministry of Environment and Forestry data, following a 1% decline to 57.3 million m³ in 2019, log supply in Indonesia rebounded strongly by 7% to 61.3 million m³ in 2020. The rise was all due to increasing production of plantation wood destined for the pulp and paper sector (Figure 5.2.1).

In line with a long-term trend towards increased supply from plantations, in 2020 plantation log production in Indonesia increased 13% to 45.4 million m³⁵⁷. This offset a 2% decline in production in natural forest concessions⁵⁸ to 4.8 million m³, an 8% decline in community forest production⁵⁹, to 8.5 million m³, and a 35% decline in wood supply from land clearing operations⁶⁰, to 500,000 m³, and 31% decline in log imports, to 700,000 m³.

In 2020, 74% of Indonesia's log supply came from industrial plantations, 14% from community forests, 8% from natural forest concessions, 3% from other domestic sources⁶¹, and 1% from log imports.

The total value of Indonesia's timber products exports fell 3% to USD 12.0 billion in 2020. However, the pace of decline in 2020 was actually slower than in 2019 when export value fell 4% to USD 12.3 billion, but this followed a sharp 13% increase to USD 12.9 billion in 2018. Despite the effects of the pandemic, the export value of Indonesia's timber products in 2020 were still well above the level of 2017 (Figure 5.2.2).

Between 2016 and 2020, there was a shift in the balance of Indonesia's timber products exports away from traditional solid wood and wood furniture products, destined primarily for the US, Japan, Republic of Korea, the EU and UK, more towards pulp and paper products destined primarily for China and, to a lesser extent, Southeast Asia. During this period, the share of Indonesia timber products export value destined for China increased from 23% to 32%. In contrast the share of timber product export value destined for EU27+UK countries declined from 10.6% in 2016 to 8.9% in 2020.

5.3 Trade in FLEGT-licensed primary wood products

Plywood is the only primary wood product exported in any volume from Indonesia to EU27+UK countries. EU27+UK country imports of plywood from Indonesia strengthened between 2016 and 2018 in line with a general rise in plywood consumption in the EU27 region at a time of rising activity in the construction sector (Figure 5.3.1). However there was no increase in Indonesia's share of total EU27+UK country imports of hardwood plywood which remained static at between 8% and 9% of value during this period.

The lack of any increase in Indonesia's share of the plywood market in EU27+UK countries was due the combined effects of supply constraints in Indonesia

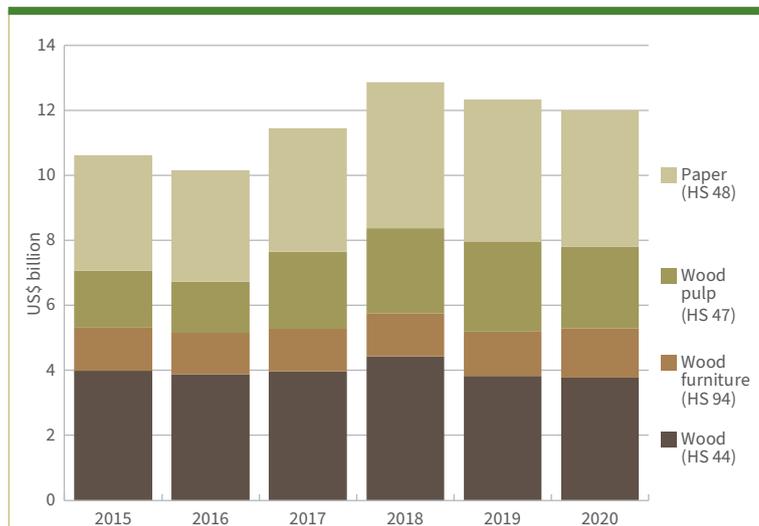


Figure 5.2.2: Value Indonesia timber products export by main HS chapter, 2015 to 2020. Source: IMM STIX

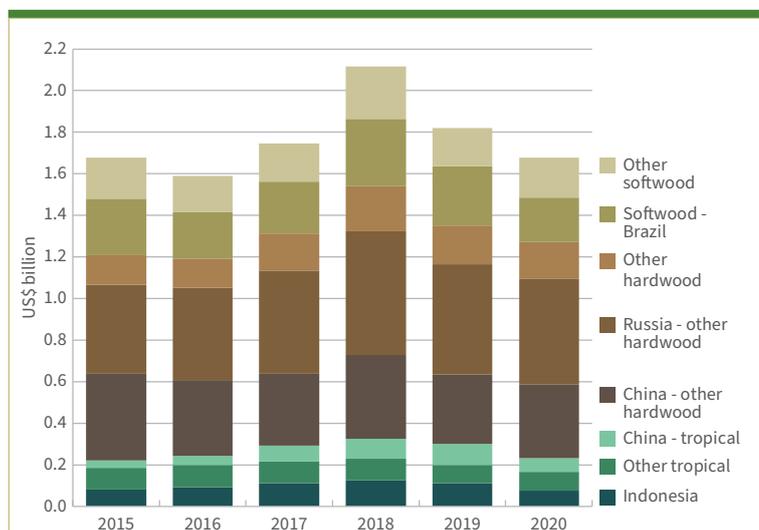


Figure 5.3.1: EU27+UK country import value of plywood, by species group and main source of supply, 2015 to 2020. Source: IMM STIX

and intense competitive pressure from alternatives, particularly Chinese and Russian products.

In 2019, the plywood market in EU27+UK countries began to weaken as consumption in the construction sector could not keep pace with supply which led to a period of severe over-stocking. In the first half of 2020, plywood demand fell again as the first COVID-19 lockdown led to a short-term decline in construction activity.

However, EU27+UK country plywood demand recovered rapidly in the second half of 2020 as construction and DIY

57. 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).

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

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

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

61. 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).

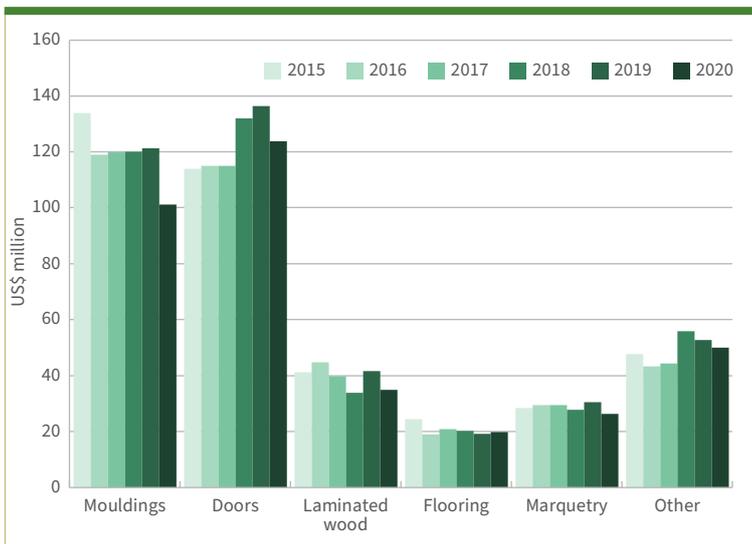


Figure 5.4.1: EU27+UK country import value of Secondary Processed Wood Products from Indonesia, 2015 to 2020. Source: IMM STIX

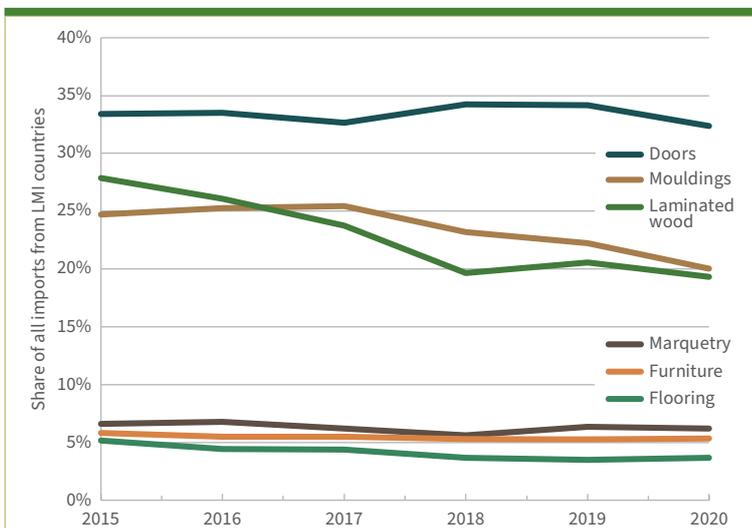


Figure 5.4.2: Indonesia's share of EU27+UK country import value of Secondary Processed Wood Products from LMI countries, 2015 to 2020. Source: IMM STIX

activity rebounded at a time when supplies were severely affected by raw material shortages and production shutdowns in the main supply countries and lack of access to containers, particularly in shipments into Europe from Southeast Asia.

The combined effect of these trends was an 11% decline in EU27+UK country plywood import value from Indonesia in 2019, to USD 111 million, followed by a 30% decline to USD 78 million in 2020. Between 2019 and 2020, Indonesia's share of EU27+UK tropical hardwood plywood import value fell from 37% to 34%, with most share lost to Malaysia and Gabon. Indonesia's share of total hardwood plywood imports fell from 9% to 6% in the same period.

5.4 Trade in FLEGT-licensed SPWP and wood furniture

EU27+UK country import value of mouldings (mainly bangkirai decking) from Indonesia was consistent at around USD120 million between 2017 and 2019 (Figure 5.4.1), the stability indicative of a rise in prices for Indonesian

mouldings as import quantity fell by 10% from 76,000 tonnes to 64,000 tonnes in the same period. According to EU27+UK country importers, the decline in import quantity and rise in prices from Indonesia during this period was due to limited availability. In 2020, EU27+UK country imports of Indonesian mouldings fell by 16% to USD101 million as supply problems and the challenges of shipping products from Indonesia to Europe worsened during the year.

Indonesia's share of EU27+UK country imports of mouldings from LMI countries fell from 25% to 20% between 2017 and 2020 (Figure 5.4.2). Before 2020 share was lost primarily to Brazilian products. In 2020, EU27+UK country imports of mouldings from Brazil also stalled during the pandemic but Indonesia continued to lose share to Russian products.

EU27+UK country import value of wood doors from Indonesia increased by 15% to USD 132 million in 2018 and by 3% to USD136 million in 2019 but then declined by 9% to USD124 million in 2020. Indonesia's share of EU27+UK country wood door imports from LMI countries fluctuated between 32% and 34% throughout the period 2016 and 2020 without showing any clear trend. Indonesia is the largest LMI country supplier of wood doors to EU27+UK countries, overtaking China in 2018. Indonesia took share in the wood door market from China, Brazil and Malaysia between 2017 and 2020. However, suppliers in Eastern European countries, notably Ukraine, Bosnia, Russia, Belarus, together with Turkey, were also making gains in EU27+UK country markets in the same period.

EU27+UK country import value of laminated wood products, mainly laminated window frames and kitchen tops, was volatile in the period following licensing, falling by a quarter between 2016 and 2018, making up nearly all these losses in 2019, and then falling by 16% to USD35 million in 2020. Indonesia's share of total imports of laminated wood products from LMI countries fell from 28% in 2015 to 20% in 2018 and stabilised at this lower level in 2019 and 2020. Indonesia lost share mainly to Malaysia and Russia between 2015 and 2018.

EU27+UK country import value of wood flooring from Indonesia, which peaked at USD130 million just before the financial crises in 2007–2008, was sliding continuously in the decade to 2017. Between 2017 and 2020, import value from Indonesia stabilised at the low level of USD20 million. Indonesia's share of total wood flooring imports from LMI countries was flat at around 4% between 2018 and 2020. EU27+UK country imports of wood flooring continued to be heavily dominated by China between 2016 and 2020, although China's share of all imports from LMI countries fell from 73% to 64% during this period. The main beneficiary was Ukraine, for which share increased from 10% in 2016 to 17% in 2020.

The value of EU27+UK country wood furniture imports from Indonesia was rising in the period immediately

following FLEGT licensing, from USD324 million in 2016 to USD 373 million in 2019. Import value fell by less than 1% to USD371 million in 2020 despite the market and transport disruption caused by the pandemic (Figure 5.4.3).

In contrast to import value, EU27+UK country import quantity of Indonesian wood furniture products trended downwards from 102,000 tonnes in 2016 to 100,000 tonnes in 2019 with a further larger fall of 10% to 89,000 tonnes in 2020. Overall the unit value paid for Indonesian wood furniture by EU27+UK country importers has been rising, a trend which accelerated in 2020, at least partly due to the sharp rise in freight rates during the year.

The relative lack of growth in EU27+UK country furniture imports from Indonesia since the start of FLEGT licensing is influenced by wider stagnation in EU27+UK country furniture market growth and by intense competition in the sectors targeted by Indonesian manufacturers. EU27+UK country imports of wood furniture from Indonesia are dominated by outdoor products, particularly due to relatively abundant plantation teak supplies. There is now intense competition in this sector from a wide range of modified temperate wood and non-wood products which are taking share from tropical hardwoods.

Indonesia's long woodworking tradition has also encouraged a focus on high quality specialist hand-made furniture to supply a niche market in the EU27+UK countries. In this market, Indonesia competes most directly with India which increased market share between 2016 and 2019 despite the lack of any comparable timber legality assurance system in India or widespread availability of third-party certified wood in the country.

Of LMI countries, Indonesia is the third largest external supplier of wood furniture products to EU27+UK countries after China and Viet Nam accounting for 5.3% of total import value from those countries in 2020, the same proportion as in 2018 and 2019 but a decline from 5.5% in 2017 and 2016 prior to FLEGT licensing. Alongside China and Viet Nam, between 2016 and 2020 Indonesia was losing share in the EU27+UK country wood furniture market primarily to Turkey, India, Ukraine and Belarus.

5.5 Trade in FLEGT-licensed pulp and paper

EU27+UK country import value of paper products from Indonesia increased from USD 237 million in 2017 to USD 380 million in 2019 before falling back 16% to USD 319 million in 2020 (Figure 5.5.1). Indonesia's share of total EU27+UK country import value of paper products from LMI countries increased from 5% in 2017 and 2018 to 7% in 2019 but fell back to 5% in 2020. In 2020, share was lost primarily to China which accounted for over half of all EU27+UK country imports of paper products from LMI countries during the year.

Paper imported from Indonesia into EU27+UK countries consists primarily of uncoated papers (in large sheets

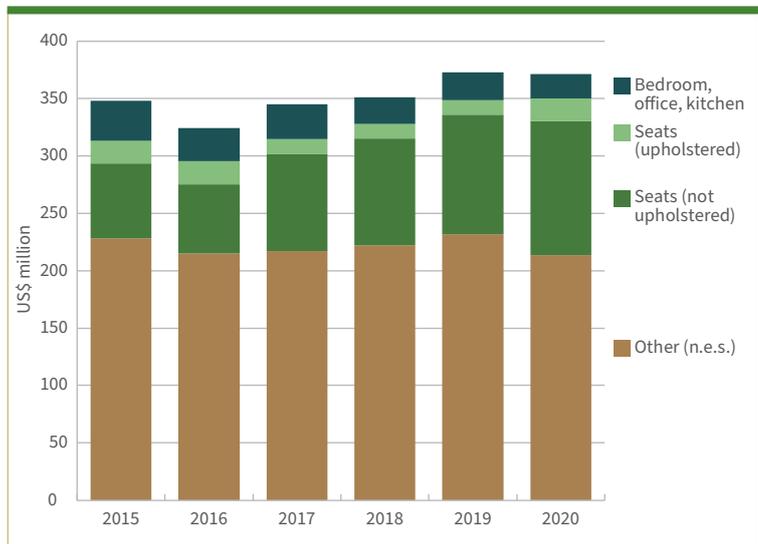


Figure 5.4.3: EU27+UK country import value of wood furniture from Indonesia, by product type, 2015 to 2020. Source: IMM STIX

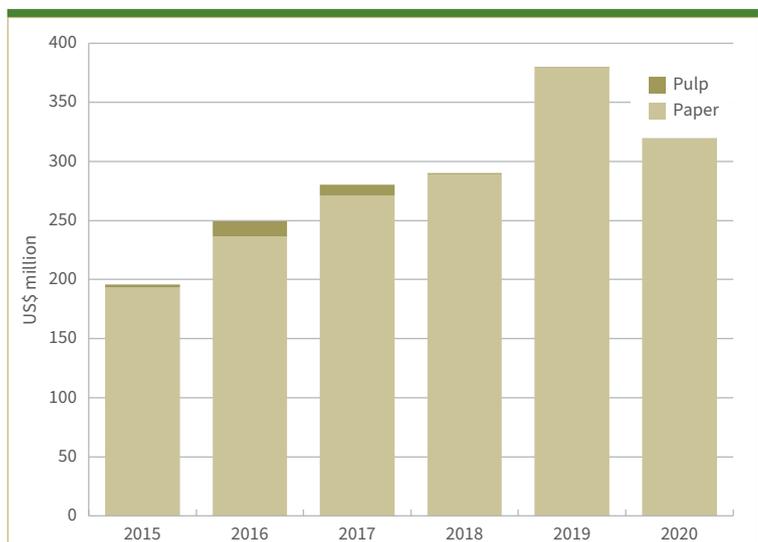


Figure 5.5.1: EU27+UK country import value of pulp and paper from Indonesia, 2015 to 2020. Source: IMM STIX

or rolls for writing and printing) and sanitary paper products. Imports of uncoated papers were rising between 2016 and 2019 but declined in 2020. Imports of sanitary papers continued to rise throughout the whole period 2016 to 2020.

Prior to 2020, over a quarter of EU27+UK country paper imports from Indonesia were destined for the UK with most of the remainder destined for Greece, Belgium and Italy. In 2020, import value of Indonesian paper products by the UK and Belgium fell 46% and 28% respectively but these losses were partly offset by a 31% increase in imports by Greece and a 193% increase in imports by Poland, the latter formerly only a minor buyer.

EU27+UK country imports of Indonesian wood pulp were close to zero between 2018 and 2020 having fallen from USD9.1 million in 2017. The negligible level of EUTR pulp imports from Indonesia is due to nearly all the available supply being taken up by paper, board, and tissue mills in both Indonesia and China.

5.6 Price trends for indicator products delivered to EU from Indonesia

The indices in *Case Studies 1 and 2*⁶² show that prices for IMM indicator⁶³ products from Indonesia for delivery to

the EU increased between the start of FLEGT licensing and early/mid-2018. The price rises did not coincide directly with the beginning of FLEGT licensing. The strongest increases occurred in the first half of 2018 or in late 2017 at the earliest. Prices slipped again towards the end of 2018.

Case Study 1: Trends in Indonesian plywood prices

The first few weeks of 2020 saw strong demand for Indonesian plywood from several international markets, including the US and Japan as well as improving demand in Europe. Demand then became increasingly volatile due to the COVID-19 pandemic and national lockdown strategies. As a result, Indonesian manufacturers' attempts to raise prices for exports to Europe mostly came to nothing at that time.

Prices for hardwood plywood from Indonesia had increased quite sharply soon after the start of FLEGT licensing and increases continued also in 2018, against the background of strong demand in several export markets, including Europe and the USA. At that time, Indonesian suppliers profited from price hikes and supply shortages in Europe for competing birch plywood from Russia, in particular. This situation reversed towards the end of 2018 and especially in 2019, when prices for exports to Europe quickly fell back to, and temporarily even slightly below, pre FLEGT licensing levels as Indonesian plywood became increasingly uncompetitive on European markets due to then very low prices and short lead times for birch plywood from Russia.

Demand for Indonesian plywood fell as a result and some European buyers replaced some Indonesian plywood grades almost completely with Russian birch plywood. By mid-2020, the price difference between Indonesian and Russian plywood had narrowed again, especially on a Euro basis, due to the weakness of the US dollar, and price increases pushed through by Russian suppliers. However, the COVID-19 pandemic caused demand for timber products to be very much stop-start in many EU countries in 2020 and buyers tried to increasingly focus on short supply distances and lead

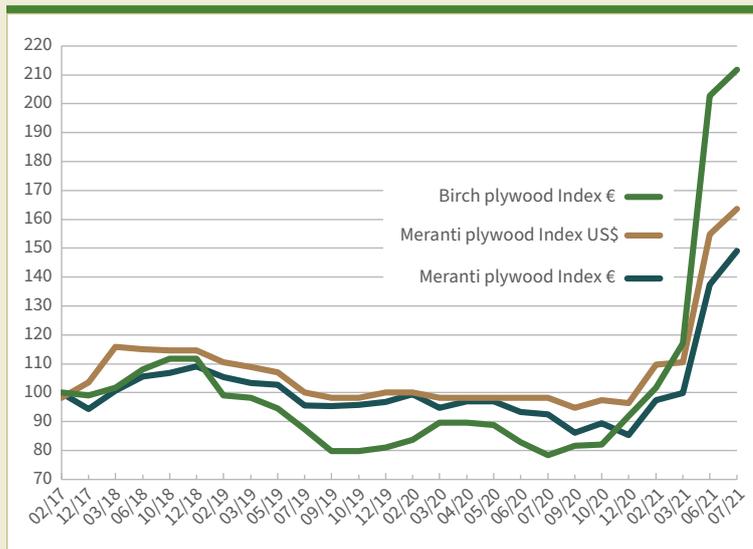


Figure CS1: Price Index for meranti plywood (18/21mm BB/CC) and for Russian birch plywood (18/212 mm BB/BB) 4x8ft.⁶²

times, which again put Indonesia at a disadvantage. This disadvantage grew towards the end of 2020, when container freight rates increased to unprecedented highs between September and December. Historic highs in freight costs also continued to drive costs of importing from Indonesia upwards in 2021.

From the middle of the first quarter of 2021 onwards, Russian birch plywood again became more expensive than competing grades from Indonesia, firstly due to price increases implemented by manufacturers and secondly due to EU anti-dumping duties of 15-15.9% which have applied for birch plywood imports from Russia since June 2021. European importers' replacement prices for Indonesian plywood also rose far above the level seen in previous years. However, this was primarily due to shipping costs.

FLEGT licensing was not mentioned by timber-sector media as a factor to have influenced plywood prices or demand for plywood from Indonesia in 2020.

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

63. Given the growing levels of specification and diversification in several VPA partner countries' timber industries – including Indonesia – and increasingly specific requirements and needs of clients in consumer countries, only a limited number of products are still being traded as bulk commodities in comparable qualities and specifications from countries like Indonesia. A small number of such products, including raw plywood, bangkirai decking and meranti window scantlings from Indonesia were identified by IMM for price trend monitoring. Monitoring price trends and attributing impacts is always difficult, as fluctuations in prices can potentially be caused by a large variety of factors, including but not necessarily limited to:

- Demand trends in markets under observation and in competing markets (including changes in fashion trends, developing of new products, etc.)
- Demand trends, availability and prices for substitute products
- Supply trends (capacity and weather related, suppliers' changing trading patterns and priorities etc.)
- Currency exchange rate trends
- Transport related issues (freight capacities and prices)
- Policy developments giving preferred market access to certain products (e.g. EUTR and FLEGT licensing)
- Other (e.g. natural disaster or pandemics).

Case Study 2: Trends in Indonesian joinery prices

Prices for bangkirai decking from Indonesia plummeted between January and May 2020, before rising again sharply during the remainder of the year and through the first half of 2021. Initial smaller price increases for decking in July to September 2020 were attributed by media to exchange rate fluctuations between the Indonesian rupiah and the US dollar, which put pressure on Indonesian producers' earnings, as well as reduced production from mid-year onwards, due to the COVID-19 pandemic. At the same time, demand in Europe remained strong throughout the year, as Europeans focused on home improvement and renovation projects during the pandemic rather than going on holiday. The subsequent sharper price increases in late 2020 and early 2021 were primarily due to much higher freight costs. Several suppliers ceased shipping in early 2021, due to historic highs in freight costs and limited capacity, which led to shortages on the European markets from April 2021 onwards.

Prices for window scantlings made of meranti from Indonesia showed a similar trend as those for bangkirai decking. Shipments from Indonesia were still on time and supplies sufficient in the first half of 2020, according to media reports, while longer delays in delivery were reported at that time for competing products from Malaysia. However, the situation became more difficult in the third quarter with COVID-related restrictions to production also extending to Indonesia, raw material shortages and growing freight capacity bottlenecks, coupled with rising freight rates. In early 2021, some European importers were switching to break bulk deliveries when shipping from Malaysia, as container freight rates remained at very high levels. Indonesian suppliers were increasingly put at a competitive disadvantage,



Figure CS2. Bangkirai decking price index.⁶²



Figure CS 2.2: Meranti scantlings price index.⁶²

as container rates for shipping from Indonesia were even higher than from Malaysia. In 2021, Indonesia was reported by European media to have lost some market share to Malaysia as a result.

There was some temporary recovery in early 2019. However, during 2019, raw plywood prices (*case study 1*) temporarily fell below pre-FLEGT licensing levels. Recovery at the end of 2019 was short lived, with prices falling again below 100 index points from March/April 2020 onwards. A sharp price hike towards the end of 2020 and into 2021 was due almost entirely to extremely high costs of container shipping.

Prices for joinery products (*case study 2*) also fell in 2019 but stayed above the level reached in November 2016 until the first quarter of 2020. The first half of 2020 then saw a sharp fall for both bangkirai decking and meranti window scantlings in the first half of the year, followed by an even sharper increase in the second half and into 2021.

In 2020, pricing as well as supply and demand for timber products from Indonesia was strongly influenced by the COVID-19 pandemic and related containment measures.

Lock downs and related uncertainties caused prices to fall or stagnate at best in the first half of the year. The subsequent sharp price increases were primarily attributable to the unprecedented rise in container freight rates, also caused by the COVID-19 pandemic. However, supply shortages due to COVID-related interruptions in raw material supply and production in Indonesia, limited freight capacities as well as strong demand for timber products in important European sales markets also contributed to the price increases.

FLEGT licensing was not mentioned as a factor impacting demand or prices for plywood from Indonesia by European timber trade media during 2020. However, it was mentioned as providing a competitive advantage for joinery products from high-risk areas by European media. According to market reports by timber sector newsletter EUWID, some German importers discontinued decking

imports from Brazil, for example, due to difficulties with EUTR compliance. This made it possible for Indonesian suppliers to gain some market share in 2020. However, the reduction in freight capacities and the sharp rise in shipping costs, which affected Indonesia even more strongly than competitors in Malaysia or Brazil, for example, made it difficult for Indonesian companies to take advantage of this situation, especially in the fourth quarter of 2020 and in 2021.

5.7 Widespread support of FLEGT Indonesia trade survey

The IMM Indonesia correspondent conducted annual surveys of stakeholders, including private companies, trade associations, civil society organisations and government agencies between 2017 and 2020. In 2020, the IMM trade survey in Indonesia repeated a question first asked in 2017, to gauge trade opinion of FLEGT. The questions were answered by 44-47 companies (participation varied for each sub-question) in 2017 and 25 companies (all questions answered by all respondents) in 2020. In 2020, the option “not sure” was added to ensure that participants only voiced agreement or disagreement when they were sure of their perceptions. While the survey sample is very limited, given the size of the Indonesian timber industry, the strength of the overlap in both years at least gives some indication of the general opinion.

Figure 5.7.1 shows that support among the trade for implementing SVLK has remained high from one reporting period to the next, even though immediate benefits in terms of higher sales to the EU or price increases were limited, as concluded earlier in this chapter. There was also a strong majority of respondents in both years who felt that FLEGT was helping to improve forest management and governance in Indonesia.

In 2020, a new sub-question was added, asking companies whether FLEGT licensing was becoming more important now that more export markets are regulating their timber imports. A very strong majority of more than 80% of respondents perceived an increasing importance of FLEGT in this context.

5.8 Developing markets for Indonesian legal and sustainable timber products

IMM survey respondents and trade consultation participants in EU27+UK countries frequently mentioned lack of awareness of the Indonesian FLEGT VPA and what it means on the ground, inconsistent messaging about VPAs and FLEGT licensing, and uncertainty on where FLEGT Licences stand in the legality/sustainability hierarchy, as factors affecting market development for FLEGT-licensed timber products. Since 2019, activities to support the market development of FLEGT-licensed timber have been stepped up in Europe – with activities largely concentrated in the UK (see Section 6.3) – as well as in Indonesia.

On the Indonesian side, the ‘Promotional campaign for the Indonesian legal and sustainable timber standard’, is being developed with the UK-funded Multi-stakeholder Forestry Programme, MFP4, with rollout of the programme scheduled from 2021. The campaign was launched in 2019, when the MFP4 team hosted a workshop for Indonesian forest sector stakeholders to identify the communications priorities for promoting the country’s FLEGT licensing programme, and the SVLK timber legality assurance system, which underpins FLEGT and is the guarantor of legal timber supply to the Indonesian domestic market and exports to the rest of the world. Participants agreed that a clear communication strategy was needed to explain the FLEGT/SVLK system and standard, the improvements in forest governance it has enabled and to promote it to timber buyers.

In 2020, communications consultants were contracted to develop the two key strands of the strategy. The first strand focuses on increasing understanding and buy-in for the SVLK system among the domestic Indonesian audience. The objective of the second strand is building recognition and demand for Indonesia’s FLEGT-licensed timber products in foreign markets.

In the fourth quarter of 2020, MFP4 had recruited public affairs and strategic communications operations Kiroyan in Indonesia and Kreab in Brussels to manage the campaign. Their role includes establishing a

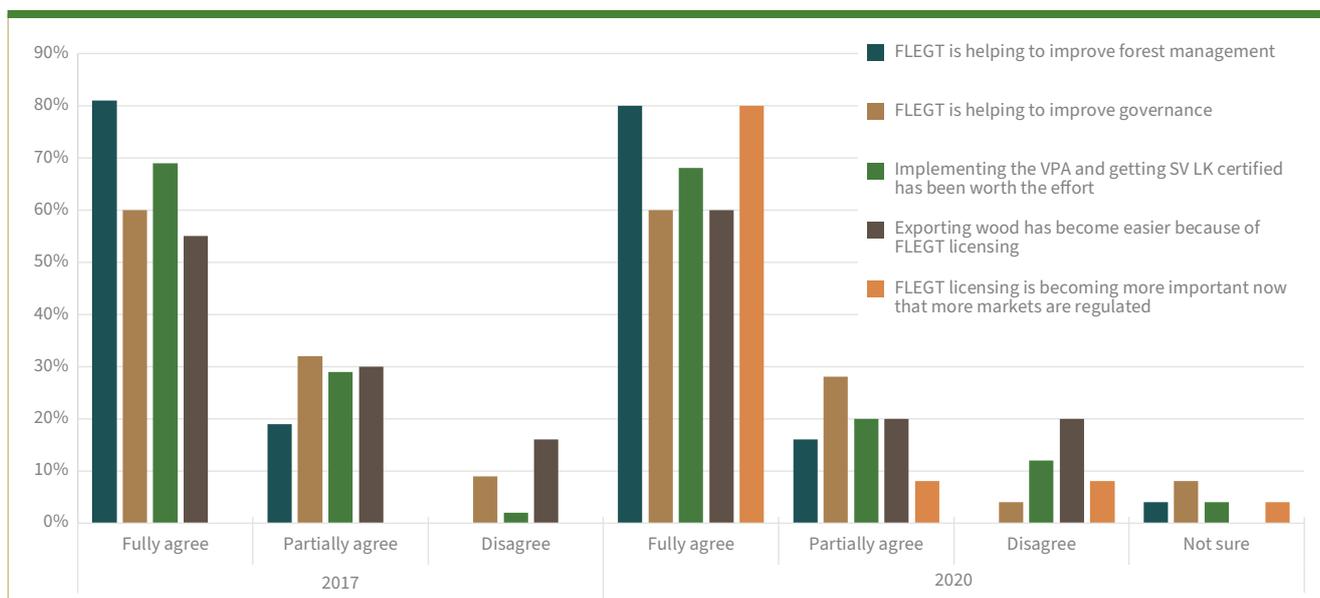


Figure 5.7.1: Indonesia trade opinion in 2017 and 2020. Source: IMM Indonesian trade survey

secretariat team to coordinate, develop and support the delivery of communications outputs by key forest sector stakeholders in Indonesia, from government, private sector and civil society. The secretariat will ensure messages are strategically aligned, assembling relevant communications experts, advisors and project managers to deliver the campaign programme in close collaboration with key forest sector stakeholders.

Key initial tasks of the campaign managers include development of a communications plan based on the strategy developed. They will also create a “coherent brand for Indonesian SVLK certified timber”.

The domestic campaign’s primary focus are national timber businesses, exporters, and the Indonesian government. Its objective is to raise the level of awareness of the global benefits of SVLK implementation and sustainable forest management among national stakeholders and thus to increase buy-in and support for the system.

Besides general information materials such as videos, factsheets and booklets, a key output of the campaign will

be a central “knowledge management platform”, which will enable stakeholders to access the latest information, for example on regulatory changes, standards, trade data, and relevant events. It will be integrated in the Indonesian government’s official timber legality information system database (SILK).

The international campaign targets direct importers as well as wholesalers, retailers, manufacturers, and specifiers of Indonesian timber products in the EU and other regulated markets.

Key items of the campaign include:

- To refresh the branding of Indonesian timber products; and
- Develop events and campaign materials for international audiences

The strategy for rolling out the campaign as well as proposals regarding an Indonesian timber brand were under development at the time of writing of this report. Consultation of international audiences regarding input to the key message house and branding options were also planned for 2021.

6 Creating a favourable market position for FLEGT-licensed timber in the EU

6.1 Introduction

All FLEGT VPAs that were 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 agreements⁶⁴. 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 an independent market monitor to assess “the impact of market-related measures taken in the Union on the demand for Indonesian FLEGT-licensed timber”⁶⁵ as well as “progress with and impact of the implementation of policy measures to tackle trade in illegally harvested timber in the Union”.

This chapter analyses EU trade perceptions of competitive advantages for FLEGT-licensed timber created by the implementation of the EUTR and exemption from due diligence for FLEGT-licensed timber. It also provides an update on recognition of FLEGT in wood promotion

programmes, public and private sector timber procurement policies, ecolabels and green building standards in EU27+UK countries.

6.2 Competitive advantages for FLEGT-licensed timber created by EUTR

6.2.1 Background

The EUTR requires that operators⁶⁶ exercise due diligence when placing timber or timber products on the EU market. Exercising due diligence means undertaking risk management 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. For this reason, monitoring of EUTR-related market impacts features highly both in the IMM indicators⁶⁷ and the IMM terms of references contained in the VPA between the EU and Indonesia⁶⁸.

64. 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.

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

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

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

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

Besides less complex administrative procedures and related cost savings for European importers⁶⁹, IMM survey respondents highlighted the fact that their own risk of infringing the law was reduced to zero when importing FLEGT-licensed timber as particularly important in this context.

However, a large proportion of 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 that 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 and some impacts on trade flows are also reflected in trade statistics (see section 6.2.4).

Moreover, significant variations from country to country in sanctions for EUTR infringements, enforcement regimes, as well as financial and human resources dedicated to EUTR implementation and enforcement are also documented by reports published by the European Commission⁷⁰, the UN Environment Programme World Conservation Monitoring Centre (UNEP-WCMC)⁷¹, the Environmental Investigation Agency⁷², and Client Earth⁷³, for example. And a report by the European Court of Auditors concluded in October 2021: “Reporting under the Timber Regulation does not provide the information with which the Commission can analyse the quality of Member States’ monitoring activity, the national rules defining illegal logging or the procedures used for checks. Nor does it require Member States to substantiate their replies with supporting documents that would allow it to verify the accuracy or completeness of the information⁷⁴.”

6.2.2 EUTR implementation and enforcement state of play

For suppliers of FLEGT-licensed timber products to reap the full benefit of exemption from EUTR due diligence, the EUTR must be effectively implemented and enforced throughout the EU. The EC has commissioned UNEP-WCMC to monitor EUTR enforcement and publish information on a regular basis. Information, for example on substantiated concerns

and action taken by Member States, EUTR infringements, and relevant political and policy developments, are published by UNEP-WCMC in the form of Briefing Notes⁷⁵ every two to three months. UNEP-WCMC also provides “background analysis” to the EC’s own biennial reports on EUTR implementation and enforcement⁷⁶.

In addition, the European Commission has published biennial reports on EUTR implementation and enforcement for the periods 2015–2017⁷⁷ and 2017–2019⁷⁸. In 2020, the EC switched to annual reporting on EUTR implementation, with an annual overview report on 2019 published in September 2020, in addition to the biennial report March 2017–February 2019, which was published in October 2020. The new format of reporting also includes publication of links to EU Member States national reports⁷⁹ on EUTR implementation, insofar as such reports were submitted to the EC⁸⁰. At the time of writing of this report in July 2021, 11 out of the 27 EU MS had submitted national reports on EUTR implementation for 2020, according to the list made available on the EC website. However, only 3 reports were accessible through the links provided.

The EC’s 2017–2019 biennial report highlights progress in EUTR implementation, with all countries complying with the formal requirements of the EUTR⁸¹. Checks remained at the same level as in the previous reporting period for domestic operators but increased for importing operators. There was a decline in sanctions for violations of the EUTR relative to the number of checks performed.

However, the report also states that, despite progress, continuous efforts would be needed to “ensure a uniform and effective application of EUTR across countries”. The number of checks, the report continues, “remained relatively low compared to the number of operators and it is doubtful whether such a low number of checks can have a truly dissuasive effect across the industry”. The Commission also maintained that “the current level of technical capacity and resources (both human and financial) allocated to the Competent Authorities often does not correspond to the needs and must be strengthened in most of the Member States in order to increase the number and quality of compliance checks”.

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69. 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)
70. 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 products on the market (the EU Timber Regulation). (COMM 2020) <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1601880684249&uri=COM:2020:629:FIN>
71. 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>
72. “Does well, could do better. EIA’s recommendations for the EUTR Fitness Check.” (EIA, 2021) and “The Italian Job. How Myanmar timber is trafficked through Italy to the rest of Europe despite EU laws” <https://eia-international.org/report/the-italian-job-how-myanmar-timber-is-trafficked-through-italy-to-the-rest-of-europe-despite-eu-laws/>
73. *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)
74. *Special Report 21/2021: EU funding for biodiversity and climate change in EU forests: positive but limited results* <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=59368>
75. <https://www.unep-wcmc.org/resources-and-data/briefing-notes-on-the-implementation-of-the-eu-timber-regulation>
76. Background analysis of the 2017-2019 national biennial reports on the implementation of the European Union’s Timber Regulation (Regulation EU No 995/2010) (UNEP/WCMC 2020) <https://ec.europa.eu/environment/forests/pdf/EUTR%20Analysis%202017-2019.pdf>
77. <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1538746572677&uri=COM:2018:668:FIN>
78. <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1601880684249&uri=COM:2020:629:FIN>
79. <https://ec.europa.eu/environment/forests/pdf/EUTR/EUTR-national-reports-from-Member%20States%20for%202020.pdf>
80. According to the EC’s overviews, 8 countries submitted national reports in 2019 and 11 countries in 2020.
81. Designated Competent Authority; legislation on penalties for breaching the EUTR; and checks on operators.
-

The NGO reports mentioned in *Section 6.2.1* draw similar conclusions. Client Earth also mentions potential market distortion due to uneven implementation and criticises the level of transparency of administrative processes, which is described as “very low” in the report (Client Earth, 2020).

6.2.3 Advantages created by due diligence exemption – IMM surveys

The IMM surveys conducted between 2017 and 2020 in key EU27+UK country markets for VPA partner timber products (Belgium, France, Germany, Italy, Netherlands, Spain, and UK) indicate that there are advantages in terms of administrative processes involved in importing FLEGT-licensed timber versus EUTR due diligence. *Figure 6.2.3.1*⁸² shows a constant rise in the proportion of respondents who found the administrative process of importing FLEGT-licensed timber easily understandable and manageable from 2017 to 2020. The number of respondents highlighting challenges stagnated at a low level in 2020, after declining sharply in 2018 and again in 2019.

The positive trend in the overall perception of administrative processes involved in importing FLEGT-licensed timber was confirmed by the question addressed in *Figure 6.2.3.2* in all surveys since 2017. The proportion of companies fully agreeing that FLEGT Licences were making importing wood from Indonesia easier compared to EUTR due diligence rose by 6 percentage points to 66% in 2020, another 13% agreed partially, bringing the total to almost 80%. Less than 10% fully or partially disagreed, with the remaining companies voting “neutral”.

66% of respondents confirmed fully or partially that, where possible⁸³, they would give preference to FLEGT-licensed timber from Indonesia over unlicensed timber from competing sources (*Figure 6.2.3.3*).

Except for Belgium⁸⁴, where several IMM survey respondents highlighted difficulties and delays in customs clearance for FLEGT-licensed timber from Indonesia in 2020, a significant majority of IMM survey respondents in key EU27+UK countries also agreed that issues that had delayed imports at customs in the very early days of FLEGT licensing back in 2017, such as HS code or volume mismatches, have been largely resolved and are not creating market barriers.

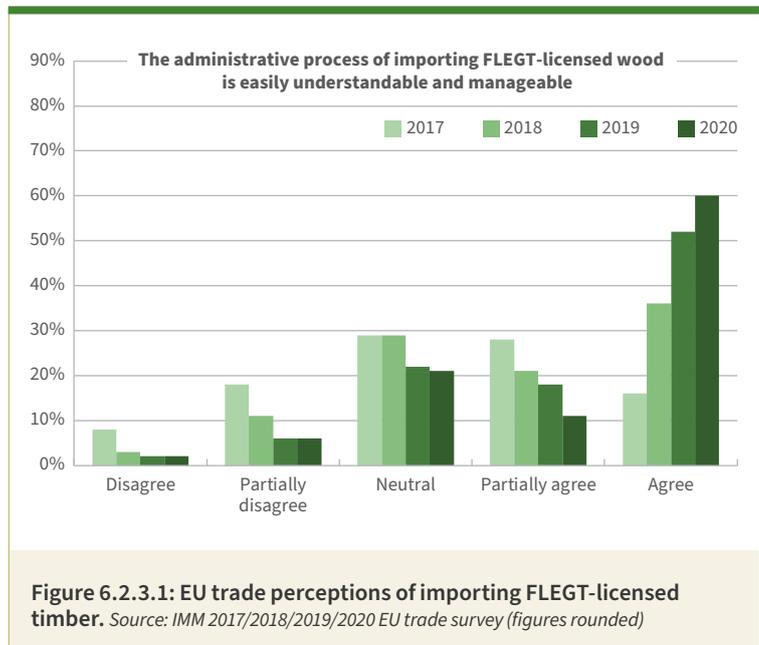


Figure 6.2.3.1: EU trade perceptions of importing FLEGT-licensed timber. Source: IMM 2017/2018/2019/2020 EU trade survey (figures rounded)

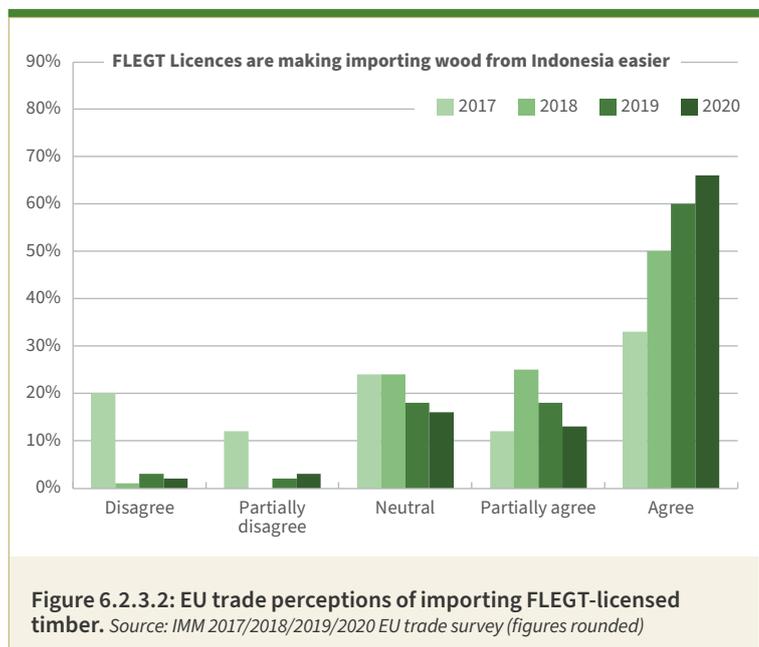


Figure 6.2.3.2: EU trade perceptions of importing FLEGT-licensed timber. Source: IMM 2017/2018/2019/2020 EU trade survey (figures rounded)

It can be assumed from the overall level of satisfaction with the speed of customs clearance for FLEGT-licensed timber in most key countries monitored by the IMM that customs authorities and/or FLEGT competent authorities tend to deal with any potentially remaining, obviously non-fraudulent FLEGT Licence mismatches in an unbureaucratic manner.

82. 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.

83. As a part of its Trade Consultations, IMM holds workshops on purchasing dynamics, decision making processes and where FLEGT licensing sits within these processes. At all Trade Consultations, participants remarked that they would consider business and commercial considerations first and foremost. Top of the list, alongside price, was ensuring that the supplier can deliver the product in the time frame required and in consistent quality and specification. Only once buyers are satisfied on the above points, does the focus move more to chain of custody, certification, sustainability, legality verification and capacity to provide EUTR due diligence information. As a result, FLEGT licensing can positively impact purchasing decisions, but only if the product is competitive at other levels as well.

84. Belgian survey respondents primarily blamed the delays in import clearance on inconsistent information from customs authorities on which HS Codes would be considered appropriate for certain products. Having shipments released for circulation would require payment of a fine. Importers and agents who focus on business with Indonesia and in some instances have invested significant resources in informing their clients of the FLEGT VPA process and supporting market development of FLEGT-licensed timber were particularly disappointed by this development, which, they say, does not help market development or trust building.

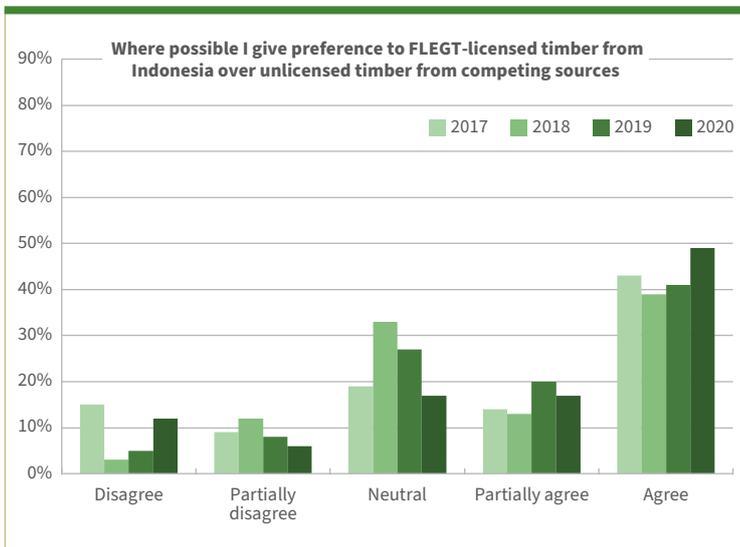


Figure 6.2.3.3: EU trade perceptions of importing FLEGT-licensed timber. Source: IMM 2017/2018/2019/2020 EU trade survey (figures rounded)

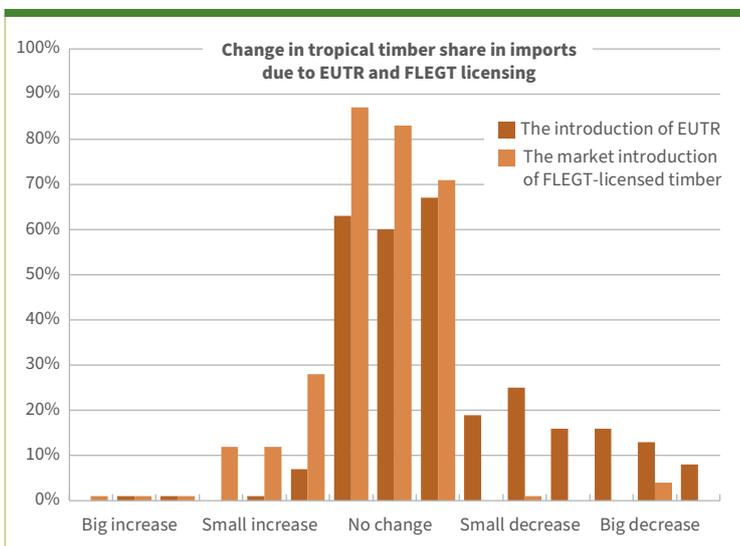


Figure 6.2.4.1: Impact of EUTR and FLEGT licensing on tropical timber imports. Source: IMM 2018/2019/2020 EU trade surveys

6.2.4 Trade and market impacts of EUTR implementation and enforcement – IMM surveys

IMM surveys and trade consultations undertaken in the leading EU27+UK country markets for VPA partner timber products found that there is a positive attitude overall in the European trade towards the EUTR and FLEGT licensing. Although between 24% and 38% of survey respondents, depending on the year, stated that the EUTR had led to decline in their tropical timber imports due to difficulties in obtaining due diligence documentation (Figure 6.2.4.1), a majority of respondents and also participants at IMM trade consultations stated that they were in principle in favour of “a regulatory approach involving increased supply of FLEGT-licensed tropical timber linked to consistent and effective enforcement of EUTR to remove illegal wood”⁸⁵. Trade Consultation participants were expecting this strategy to bring long-term reputational benefits to the sector.

On the impact of the market introduction of FLEGT-licensed timber, the number of IMM survey respondents reporting small increases in timber and timber product imports due to FLEGT licensing rose sharply to 28% in 2020; this compares to 12% in both 2018 and 2019. Respondents mentioned Indonesia gaining market share from South American and Malaysian suppliers, for example. 71% reported “no change” and there were no companies reporting declines in tropical timber imports due to FLEGT licensing in 2020.

Survey respondents said that the EUTR had contributed to levelling the playing field between legal and illegal trade at national level in most EU27+UK countries monitored by IMM. Moreover, in some countries there was the impression among survey respondents that the political agenda was to make EUTR compliance without FSC or PEFC certification very difficult.

Survey respondents reporting negative impacts of EUTR indicated that due diligence requirements had narrowed their supply base in tropical countries. An increasing concentration of tropical timber and timber product import trade in the hands of “specialist” exporters and importers was also noted. This means that overall volumes traded are not necessarily declining, but the number of companies involved in trade is, with larger companies typically taking over from smaller competitors. Respondents also indicated that EUTR had caused the sector to reconsider its supply chain relationships, which sometimes resulted in increasing substitution of tropical hardwoods with alternatives, including temperate hardwoods and chemically or thermally modified timber.

This trend was also driven by companies focussing on certified timber only or increasing percentages of certified timber in their overall purchases – sometimes as a part of EUTR due diligence and sometimes independently of EUTR. Several respondents replaced tropical timber with temperate species or other substitutes in the process of buying more certified product, which is at least partly due to a lack of supply of certified tropical timber.

In 2019 and 2020, IMM repeated the question first asked in 2018, if 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 three years, most respondents mentioned that they perceived differences in EUTR enforcement between Member States. The proportion of respondents who saw their business directly affected by these differences ranged between 41% and 50% over the 2018 to 2020 period (Figure 6.2.4.2).

In some of the reputedly more environmentally sensitive markets, respondents based in and selling primarily to these markets felt that companies wanting to sell in these

85. <https://timber.org/news/project-news/imm-survey-substitution-economic-crisis-and-diversion-of-supply-main-drivers-of-eu-timber-market-decline/> and <https://timber.org/news/project-news/dutch-and-belgian-trade-comment-on-drivers-of-tropical-timber-demand/> and <https://timber.org/news/project-news/barcelona-workshop-1-trends-in-the-eu-market-for-vpa-partner-timber/>

markets needed to be able to prove legality and frequently also “sustainability” of their products. Companies with lower standards were often not regarded as competition by respondents selling only to reputedly more environmentally sensitive markets. Moreover, operators in these markets had frequently implemented timber procurement policies and due diligence procedures before EUTR entered into force and thus felt no or little additional burden on their day-to-day business. In fact, several felt EUTR had levelled the playing field at least at a national level.

However, companies re-exporting from the reputedly more sensitive and stricter countries in terms of EUTR enforcement, or companies in countries which are reputedly strict in terms of EUTR enforcement but where the market is less environmentally sensitive at trader or consumer level, frequently reported impacts on their business due to price undercutting by less diligent operators in other EU27+UK countries. The latter benefited from having lower costs of implementing due diligence as it only had to be to a minimum standard, broader supplier bases because of these lower due diligence standards and, consequently, a broader choice of materials.

A number of respondents also reported that trade flows were redirected via other countries, mostly in east and southeast Europe. Teak from Myanmar was repeatedly mentioned as an example. These allegations are reflected in trade statistics for 2018–2020, which show virtual cessation of imports from Myanmar into some EU27+UK countries, especially Belgium, Germany, and the Netherlands, while they continued at a relatively high level in Italy, which remained by far the most important EU importer of Myanmar teak in 2019 and 2020 (Figure 6.2.4.3). At the same time, there was a sharp increase in imports in Croatia and growth in imports to Sweden, which indicates that import trade was redirected. Imports to Croatia declined again from the second half of 2019 onwards. However, imports to Greece started rising at the same time, suggesting that the phenomenon persists, only the point of entry has shifted⁸⁶.

6.3 Efforts to promote/raise awareness of FLEGT-licensed timber and VPAs in EU27+UK countries

6.3.1 Background

IMM undertook a baseline study of the level of support for FLEGT licensing in European wood promotion campaigns in 2019⁸⁷. A main conclusion of the study was that FLEGT licensing was not actively promoted by existing public-private, pan-European initiatives aimed at developing the market for tropical timber products. That is partly because licensed tropical timber was perceived to compete with certified, which is these campaigns’ primary focus. For the same reason and because tropical timber is regarded as competition for local alternatives, most national timber

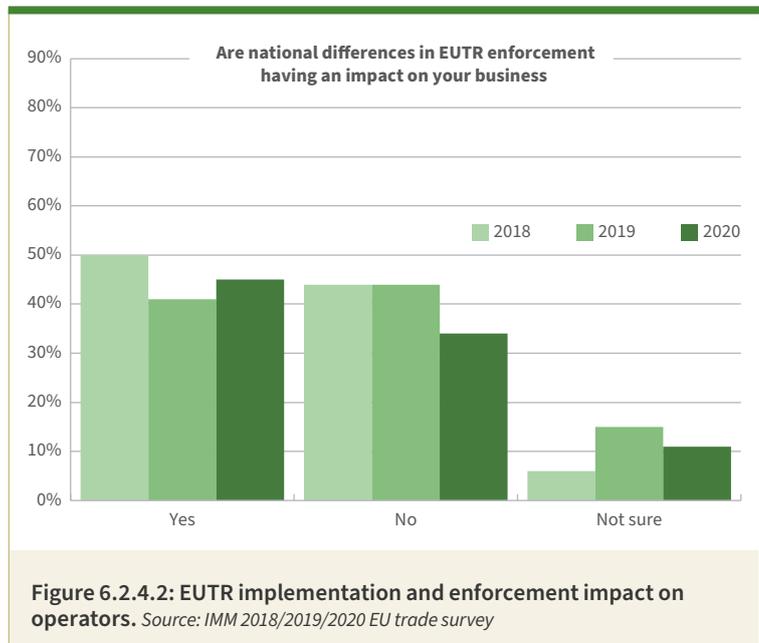


Figure 6.2.4.2: EUTR implementation and enforcement impact on operators. Source: IMM 2018/2019/2020 EU trade survey

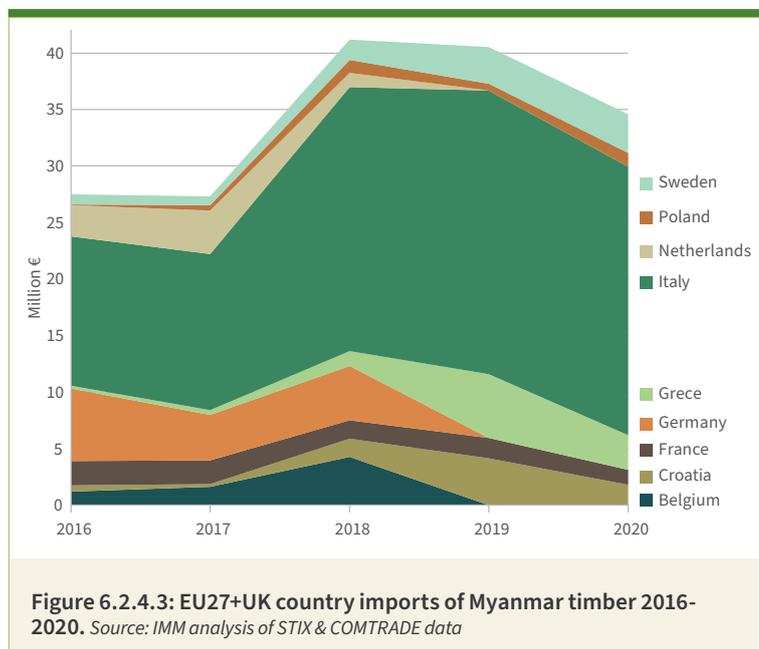


Figure 6.2.4.3: EU27+UK country imports of Myanmar timber 2016-2020. Source: IMM analysis of STIX & COMTRADE data

trade federations, identified by the Study as important communicators and influencers of the timber sector, were also only cautiously promoting FLEGT-licensed timber.

At the same time, the topic of the most recommendations IMM has received in the last four years has been the need for improved communication on FLEGT VPAs and FLEGT-licensed timber, as well as greater endorsement and ownership of the FLEGT VPA programme and the concept of FLEGT-licensed timber⁸⁸.

This chapter provides an update on the positions on FLEGT of European wood promotion campaigns, as well as those of timber trade federations and NGOs, which were identified by the IMM promotion study as a second key group of influencers⁸⁹.

86. www.stix.global

87. EU Wood Promotion Programmes and their Recognition of FLEGT (April 2019). Authors: Mike Jeffree/George White. <https://bit.ly/3ApzWUj>

88. A comprehensive list of recommendations can be found in ANNEX 1 of this report.

89. Efforts in Indonesia to promote the country’s FLEGT-licensed products in EU27+UK countries and to promote the concept of FLEGT licensing within Indonesia are discussed in Section 5.8

6.3.2 EU wood promotion campaigns' positions on FLEGT

Europe's two international tropical timber promotion and market development campaigns have continued to evolve, including in terms of their stance on and support for FLEGT. The European Sustainable Tropical Timber Coalition (STTC)⁹⁰ and Fair&Precious⁹¹ share a core goal; to grow the European market for "verified sustainably sourced" tropical timber in order to incentivise uptake of sustainable forest management (SFM) in tropical countries.

By "verified sustainable" both campaigns initially meant certified under FSC or PEFC schemes. The last couple of years, however, have seen the STTC increasingly highlighting the contribution of FLEGT to achieving forest and timber sector sustainability. As an organisation it has become more focused recently on collating trade data to inform sustainably sourced timber market development and in its 2019 report, "Unlocking Sustainable Tropical Timber Market Growth Through Data"⁹², it included analysis of "exposure to FLEGT licensing" of EU imports of tropical timber, as well as "exposure to certification". Its slant was that FLEGT VPAs could lay the groundwork for sustainability. "A fully implemented (and licensing) FLEGT VPA lowers the barrier to achieve certified SFM in a producer country and we recognise the large impact it has; in the case of Indonesia, covering a country's entire forest area and all timber imports," it stated.

However, how the STTC's position on and activities relative to FLEGT will develop is currently unclear as its wider role is itself under review. It was founded and has been mainly funded by IDH-The Sustainable Trade Initiative, which works with public and private sectors to "realise sustainable trade in global value chains". IDH is now "rethinking its own tropical timber strategy", according to Willem Klaassens, Director for Markets.

"Recently, IDH tried to contribute with a strategy of more direct engagement with European countries at national level. However, having been disappointed by the collective failure to grow the market for sustainable tropical timber and the general lack of sustainability impact that was created around the world in the past five years, we are rethinking how we can revitalise our strategy and start to create impact once more," he said. "We hope the European Green Deal, together with a more prominent carbon agenda will drive new European interest in sustainable tropical timber."

This review, he added, includes a rethink on the STTC. "It lately took a more data driven approach, which has worked well and we believe it is useful to continue this effort, so that others can benefit from the data," said Mr Klaassens. "But, with the declining market value and volume of tropical timber in Europe, the whole sector needs to work harder and smarter to counter [its negative image] and maintain its business relevance. This is where Europe's leverage can be maintained. We're not sure yet what the future of the STTC will look like [in this context] but will start to develop that vision in the near future."

According to the International Tropical Timber Technical Association (ATIBT), which launched and runs Fair&Precious, the campaign's core focus is "talking about sustainable forest management certification in the Congo Basin". However, said ATIBT Managing Director Benoît Jobbé-Duval, it recognises "a very strong synergy between FLEGT and certification".

"Forest certification can prepare and consolidate an enabling environment for the implementation of the FLEGT action plan and climate-sensitive projects. As such, we would like to see improved recognition of private certification in VPAs," he said. "It is clear to us too that the FLEGT initiative is a way for tropical timber-producing countries to move towards sustainable management." "We need to support FLEGT," he said. "We want to see the fight against illegal timber continue, reinforced, and the EU's position on this issue not to be unclear."

6.3.3 EU Timber Trade Federations' positions on FLEGT

In terms of European market influencers and communicators for the timber industry, the 2019 study assigned a key role to national timber sector associations and federations. They are involved in wider promotion campaigns and relay their messaging through their own communications channels. They also conduct their own campaigns and highlight the industry's efforts to assure legality of timber placed on the European market and to combat illegal logging, notably via meeting the requirements of the EU Timber Regulation and associated due diligence.

When it comes to FLEGT licensing and the FLEGT VPA initiative, differences between the European timber trade federations in terms of attitudes, activities and messaging identified by the Study persisted in 2020. Generally, all the associations can still be said to be supportive of the wider VPA process and its associated benefits. Beyond this, the level of tangible support around communicating the message has remained variable. The UK Timber Trade Federation (TTF) was identified as early as 2019 as representing one extreme, with its Timber Transformer exhibition⁹³ launched in 2018 and early promotion of FLEGT licensing as an equivalent of certification for public procurement. The other extreme is only cautious support, even when it comes to promoting EUTR compliance advantages of FLEGT-licensed timber.

Table 6.3.3.1 updates a similar table from the Promotion Study to reflect the increasingly leading role of the UK Timber Trade Federation; in the original table the UK TTF was categorised as "mentioning FLEGT as evidence of legality and possibly sustainability".

The special role adopted by the UK federation has developed even more in 2020 and 2021 (see panel text below). Despite Brexit, the UK TTF says it wants to cooperate with European partners in taking its FLEGT initiatives forward and continues in its efforts to build a pan-European or even global communications drive.

90. <https://www.europeansttc.com/>

91. <https://www.fair-and-precious.org/>

92. https://www.idhsustainabletrade.com/uploaded/2020/10/IDH-Unlocking-sust-tropical-timber-market-growth-through-data_MM.pdf

93. <http://www.flegtim.eu/index.php/newsletter/flegt-market-news/90-uk-ttf-flegt-exhibition-nets-environmental-award>

Position on FLEGT licensing	Organisation
Promoting FLEGT (as operating at a scale necessary for sustainability). Undertaking a dedicated, government-funded communication programme for FLEGT, targeting policy makers, trade, specifiers, timber end-users and consumers	<ul style="list-style-type: none"> • UK Timber Trade Federation
Mentioning FLEGT as evidence of legality and possibly sustainability (i.e. there are potentially aspects going beyond legality mentioned)	<ul style="list-style-type: none"> • Fedustria
Promoting EUTR compliance advantages / Promoting FLEGT as evidence of legality	<ul style="list-style-type: none"> • AEIM • Le Commerce du Bois • Fedustria • UK Timber Trade Federation • CEI-Bois • Fedecomlegno • GD Holz • VVNH
Promoting EUTR compliance advantages though cautious that FLEGT Licences might gain share from third party certification	<ul style="list-style-type: none"> • Le Commerce du Bois
Promoting third party certification	<ul style="list-style-type: none"> • AEIM • Le Commerce du Bois • UK Timber Trade Federation • VVNH • Fedecomlegno • Fedustria • GD Holz
Table 6.3.3.1: European timber trade federations' positions on FLEGT.	

The UK Timber Trade Federation's FLEGT promotion programme

Other European timber trade federations do report on FLEGT issues and developments and provide background information on the initiative. However, the UK TTF was in 2020 the only European federation with a dedicated FLEGT promotion and awareness-raising programme. In fact, its FLEGT-related activities are government funded through the UK Foreign, Commonwealth and Development Office (FCDO) under its Forest Governance, Markets and Climate programme, with this support set to run through 2022.

In 2020, the TTF developed and sponsored a second design contest involving FLEGT-licensed tropical timber, following the Momentto architectural design competition in 2019⁹⁴. The 2020 contest, *Conversations about Climate Change*⁹⁵, challenged entrants to develop products that score on aesthetics and technical performance. But they must also be 'conversation pieces' that stimulate discussion around the part forests and wood play in mitigating climate change and the role of FLEGT in ensuring legal and sustainable forestry and timber supply. After completion of the contest, the TTF created an online exhibition of the entries⁹⁶. Alongside each piece or product was an explanation of the importance of governance, government reform and the linkage between establishing legal forest frameworks and attracting investment.

When it comes to B2B communication, the TTF has developed a series of E-Learning modules focusing around FLEGT, tropical timber and "the positives of VPAs", including a promotional video.

In 2021, the TTF is planning FLEGT-related activities around the COP26 UN Climate Change Conference in Glasgow.

To coincide with the Conference, it has organised the World of Wood Festival (WOW). This comprises six weeks of exhibition and events at the Building Centre in London, backed with a major digital communications programme, particularly targeting the COP26 audience. Topics will include the key role of forests and the use of wood, particularly in construction, in carbon storage and climate regulation.

In addition, the TTF is working on a Tropical Timber Accord in association with other industry bodies around the world, including in VPA partners where it has held a number of workshops on the topic in conjunction with trade organisations. The Accord will underline that increased recognition of the central importance of forests is essential in the climate change debate. It will also further highlight that proper systems of governance are vital to ensuring forest maintenance. The aim is both to increase engagement in the conversation from the wider international timber market beyond the EU and to incentivise supplier countries to progress through their FLEGT VPAs to reach FLEGT licensing stage.

94. <https://flegtim.eu/news/policy-news/london-architectural-showcase-flags-up-flegt/>

95. <https://flegtim.eu/news/market-news/uk-ttf-gets-creative-in-flegt-communication/>

96. https://www.buildingcentre.co.uk/whats_on/conversations-about-climate-change-the-virtual-exhibition

6.3.4 EU ENGOS' positions on FLEGT

A representative of one organisation described the leading ENGOS as 'critical friends of the FLEGT initiative'. They have been the source of adverse comment on the pace at which partner countries have progressed through their VPAs and that, consequently, FLEGT has not had the international market impact it should or could. The WWF has questioned claims for FLEGT VPAs as a form of sustainability validation and said that there should be clear differentiation between FLEGT and certification. Greenpeace has stated that, in its view, uneven implementation of the EUTR threatens to undermine the FLEGT process, while the Environmental Investigation Agency (EIA) queried aspects of one VPA country's timber legality assurance system.

Despite these occasional criticisms, however, the ENGOS seem broadly supportive of the concept of FLEGT. Two in particular, Fern and the EIA, have come out strongly in favour of developing and strengthening the initiative after preliminary findings from the EC's FLEGT and EUTR Fitness Check aroused concern about the EU's future commitment to FLEGT in its current format.

The final conclusions from the Fitness Check are set to be made public by the EC late 2021, but initial findings were discussed at an EC multi-stakeholder meeting on deforestation and forest degradation in February 2021.

They also formed the basis of a presentation by EC Directorate General for Environment during a Fern-hosted webinar on March 17 2021, 'Enforcing a due diligence-based regulation for forest risk commodities'⁹⁸.

The key initial criticisms of FLEGT arising from the Fitness Check included that the VPA process was slow and costly, with just one country so far completing it and starting FLEGT licensing. Its effect on illegal logging was also questioned.

Fern's response was unequivocal. It ran an article on its website headlined 'Abandoning FLEGT Licences would harm forest governance and the legal timber trade'⁹⁹. In this it pointed out that input into the EC's Fitness Check from outside Europe, notably from FLEGT partner countries, had been low. It said subsequent comment that the EC was 'considering getting rid of FLEGT Licences was heard by civil society in VPA partners with alarm and a sense of betrayal that years of good faith efforts could be abandoned'.

Fern also said 'dropping VPAs would likely increase pressure on forests from illegal logging, reverse governance gains...and undermine the EU's commitments under the European Green Deal'.

FERN reported too that the key message from NGOs from the EU, the Americas, Asia and Africa at a 'virtual

NGO / CSO	Summary of position
WWF	<ul style="list-style-type: none"> • Describes legality assurance as prerequisite of timber and forest sustainability. • Stresses that differentiation between FLEGT and sustainability certification should be made clear. • Questions whether FLEGT in current form is sufficient to address sustainability holistically. • Cites governance improvement and stakeholder engagement as FLEGT's major achievements. • Sees opportunities for advocating FLEGT more via social media • Recommends supplier countries consider joining the VPA process. • Urges communication of the FLEGT initiative outside the EU.
FERN	<ul style="list-style-type: none"> • Describes FLEGT as most effective functioning process to increase forest governance and combat illegal logging. • Sees FLEGT as helping to meet the EU's wider objective to encourage sustainable forest management • Recommends EU bring together NGOs to coordinate and support their FLEGT communications. • Backs proposition that FLEGT is more than just proof of legality and communicates stakeholder engagement, forest governance reform and social and economic benefits resulting from VPA process. • Produces six monthly updates on countries' VPA progress. • Urges more institutional communication of FLEGT from EU. • In response to preliminary findings from the EC's EUTR/ FLEGT Fitness Check, urged the EU to continue its commitment to FLEGT VPAs and licensing.
Earthworm (formerly TFT)	<ul style="list-style-type: none"> • Describes legality assurance as prerequisite of timber and forest sustainability. • Remains broadly supportive of FLEGT's objectives and approach. • Because no longer active in FLEGT-related projects tends not to communicate initiative.
Greenpeace	<ul style="list-style-type: none"> • Says continued uneven implementation of EUTR could undermine FLEGT process. • Warns EU against taking shortcuts in VPA process to get more countries to licensing stage.
Environmental Investigation Agency	<ul style="list-style-type: none"> • States FLEGT licensing is superior to third party certification and that this isn't adequately communicated. • Describes FLEGT and FLEGT licensing as useful and effective instruments that have driven positive changes in timber-producing countries. • Published reports about Viet Nam's progress through its VPA.⁹⁷ • Maintains EUTR must be effectively enforced to ensure FLEGT-licensed timber has the market advantage it is supposed to have. • Backs countries entering EU FLEGT VPAs. • Describes VPAs as critical tool in combatting illegal logging and FLEGT licensing as a necessary incentive in VPAs. • Maintains wider economic, social and environmental aspects of VPAs inadequately communicated, including in EC post-FLEGT/EUTR Fitness Check comment.

Table 6.3.4.1: Summary of NGO views on FLEGT and VPAs. Source: IMM analysis

97. <https://eia-international.org/report/the-Viet-Nam-european-union-voluntary-partnership-agreement-a-work-in-progress/>

98. <https://www.fern.org/publications-insight/enforcing-a-due-diligence-based-regulation-for-forest-risk-commodities-2294/>

99. <https://www.fern.org/publications-insight/flegt-fitness-check-abandoning-flegt-licenses-would-harm-forest-governance-and-the-legal-timber-trade-2320/>

informal dialogue¹⁰⁰) with the European Commission and Parliament was that FLEGT VPAs ‘must be maintained’. Participants at this 23rd March 2021 event, co-hosted by MEP Michèle Rivasi, FERN and other NGOs, ‘urged the EU to address the obstacles preventing VPAs from being effectively implemented in a more targeted manner, rather than relaxing or abandoning the innovative scheme’, FERN reported.

After this in April 2021 a total of 49 NGOs and Civil Society Organisations from around the world, including the EIA and FERN, put their names to a statement backing further development of the EU FLEGT initiative as a key tool in maintaining forests and their role in climate regulation. Titled ‘Raising the Bar: Strengthening EU biodiversity and climate leadership through FLEGT and Forest Partnerships’, the eight-page document urges the EU to ‘use the FLEGT Fitness Check to strengthen the FLEGT Action Plan and the EUTR and address obstacles that hamper their effective implementation’.

The concluding recommendations are that the EU:

- Continues to invest in VPAs;
- Keeps FLEGT licensing as a key element of VPAs;
- Strengthens enforcement of the EUTR to tackle risks;
- Steps up forest diplomacy and coordination in VPA countries;
- Promotes legality as the first step to sustainability.

6.3.5 Challenges for market development: lack of ownership, endorsement and branding

“It needs leadership, but I wouldn’t think any of us could name an individual or a specific organisation that is responsible, or takes ownership of FLEGT, or has a target for developing this policy framework”, said UK TTF Managing Director David Hopkins when presenting TTF FLEGT promotion activities during the June 2021 IMM webinar “Tropical Trade Trends and FLEGT Profile”¹⁰¹. This mirrors feelings among the trade in the leading EU markets, expressed during IMM surveys and trade consultations, that there has been too little positive communication and endorsement from the EC, EU MS governments and public administration and no clear messaging regarding the FLEGT VPA process and Indonesia’s achievements in reaching FLEGT licensing stage. This reluctance, said survey respondents, is not helping when it comes to building trust in and developing markets for what is still a fundamentally new system and concept.

While an increasing number of EU27+UK countries recognise the existence of FLEGT-licensed timber in their public procurement policies, for example, most policies still either give preference to certified timber or are unclear on whether FLEGT-licensed timber is considered in the

context of purchasing policies as legality and sustainability is defined.

According to feedback from IMM survey respondents and trade consultation participants, this means that in practice FLEGT-licensed timber is hardly ever explicitly specified or even accepted upon request in public projects. It also means that FLEGT-licensed timber does not benefit from positive leadership effects that would be generated by wholehearted endorsement and demonstration of trust on the part of governments and public administrations.

As stated above, the public communication in March 2021 of initial findings of the FLEGT/EUTR Fitness Check by the EC created further uncertainty concerning both the future of the FLEGT VPA initiative and the perceived effectiveness of measures implemented as a part of FLEGT VPAs¹⁰². Trade feedback on these comments will be gathered as a part of the 2021 IMM survey and included in the 2021 IMM Annual Report.

6.4 FLEGT-licensed timber in EU27+UK country procurement policies, Ecolabels and Green Building rating systems

6.4.1 Updated IMM survey work and special studies

In the first quarter of 2021, IMM prepared an update on FLEGT recognition in public and private sector procurement policies as well as Green Building Rating Systems¹⁰³. The paper built on three earlier special studies published between 2018 and 2020¹⁰⁴. Moreover, in 2020 respondents to the IMM EU27+UK country trade survey were again asked for information regarding the role of FLEGT Licences in their procurement policies.

The 2021 paper on procurement and rating systems identified 136 initiatives that seek to influence private sector policies. The key aspects of the initiatives that have been assessed include:

- Does the source of influence specifically and positively refer to FLEGT licensing?
- Does the source of influence promote or advocate forest certification?

Out of 136 initiatives assessed, 74 are positive towards certification, with 40 identified as positive towards FLEGT licensing (*Figure 6.4.1.1*). Since 2018, acceptance of FLEGT licensing has grown within private sector-led or focused initiatives and a small sample of private-sector timber and timber product purchasing policies analysed by the 2021 study indicates that companies value such licensing and are willing to favour it by inclusion in their policy. These

100. https://www.fern.org/fileadmin/uploads/fern/Documents/2021/23_March_EU_CSO_virtual_dialogue_-_agenda_and_presentations.pdf

101. <https://flegtimm.eu/events/past-events/tropical-trade-trends-and-flegt-profile/>

102. <https://timber.org/news/policy-news/ec-raises-question-mark-over-flegt-vpa-process/>

103. The paper was compiled in early 2021 but is included in this report to allow for timely dissemination of information. The full paper, White, G. (2021) is available for download on the IMM website <https://flegtimm.eu/wp-content/uploads/IMM-EU-Public-Sector-Timber-Procurement-2021-ST3.pdf>

104. White, G. (2018) *EU voluntary private sector timber procurement policies & the role of FLEGT licensing*. https://www.flegtimm.eu/images/procurement/IMM_Procurement_Study_December_2018_ST3.pdf; White, G. (2019) *A study of EU public timber procurement policies, related guidance and reference to FLEGT*. https://www.flegtimm.eu/images/IMM_Public_Procurement/IMM-EU-Public-Timber-Procurement-Report---Final.pdf; White, G. (2020) *A study of EU architects’ perceptions and experience with FLEGT Licences - An IMM Study - November 2019*. https://www.flegtimm.eu/images/imm_indicators/IMM_Study_of_EU_Architects_Report_Dec19_st3.pdf

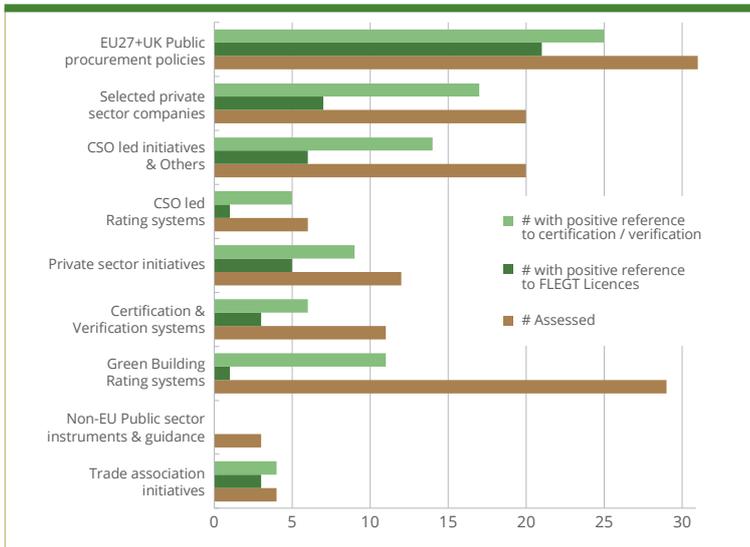


Figure 6.4.1.1 Analysis of initiatives and their relationship with FLEGT licencing and certification. Source: IMM 2021

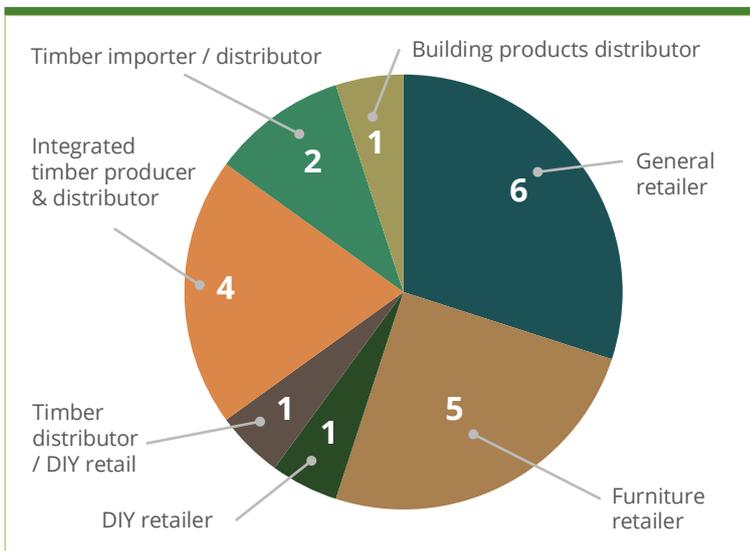


Figure 6.4.2.1.1 Sectors represented by the assessed companies. Source: IMM 2021

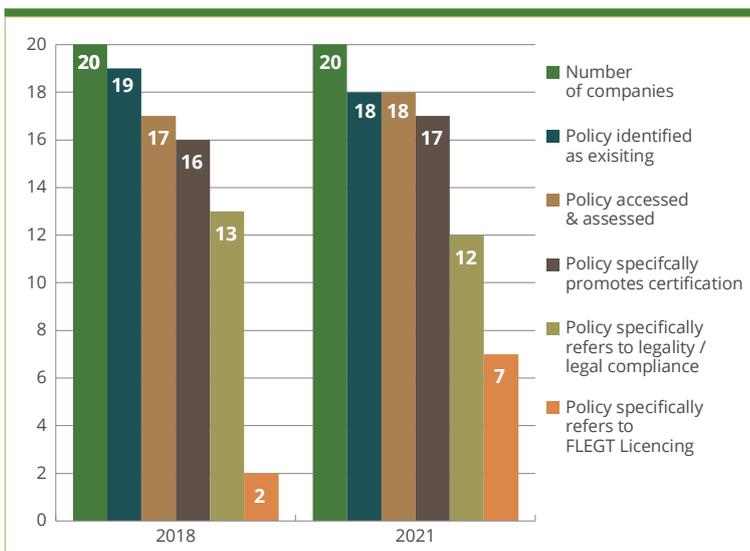


Figure 6.4.2.1.2 Purchasing policies of the 20 EU27+UK country operating companies – changes 2018 to 2021

results correlate to the results of the IMM annual surveys conducted in 2018, 2019¹⁰⁵ and 2020, which assessed a much broader range of over 100 companies per year across EU markets and also indicate increasing inclusion of FLEGT Licences in respondents' timber procurement policies between 2018 and 2020.

While often referencing it, EU Member States' green procurement policies continue to make only a modest demand for FLEGT-licensed material and their true potential remains to be unleashed. Lagging far behind are the green building rating systems – with almost no recognition of FLEGT licensing coupled with relatively low levels of recognition of certification.

6.4.2 FLEGT-licensed timber in private sector timber procurement policies

6.4.2.1 Content analysis of published corporate procurement policies

Examining individual company forest product purchasing policies at any representative scale is an enormous undertaking. For the purposes of the IMM procurement studies a small sample has been selected to provide some insight to the contents of a purchasing policy and also to identify the levels of recognition of FLEGT licensing.

In total 20 companies were selected for analysis from a variety of sectors (Figure 6.4.2.1.1). The rationale for the selection can be found in the 2018 report¹⁰⁶. At the time of writing of the 2021 study, all 20 companies continue to trade and the companies assessed are the same legal entities as those assessed previously.

The companies selected have combined annual sales of in excess of €518 billion. For the larger retailers within the list only a small percentage of this total will include wood-based products for resale or used within their infrastructure.

Since 2018 there are three notable changes in the content of the policies under consideration (Figure 6.4.2.1.2). The number of policies that were accessible decreased from 19 to 18. The number that explicitly supports forest certification has grown from 16 to 17. Of most relevance to this study though – the number that specifically and positively refers to FLEGT licensing has grown from a meagre two to seven. FLEGT licensing is becoming more widely adopted as an element of timber and timber product purchasing policies.

The average review date of the environmental policies assessed is 2019. Thirteen of the twenty companies have revised their environmental

105. Storck, S., Oliver, R. (2021) *FLEGT VPA partners in EU Timber Trade 2019: Main Report – November 2020*. Independent Market Monitor, International Tropical Timber Organization, Yokohama, Japan https://www.flegtimm.eu/images/2019_Ann_Rep/IMM-VPAPartners-EU_TimberTrade2019-Nov20St4F3_update_Feb21.pdf

106. White, G. (2018) *Op. Cit.*

policies as they relate to timber products since 2018. Of those that have revised their policies, nine have reviewed or revised their policies in the past year (between 2020 and 2021).

6.4.2.2 Results of IMM 2020 private sector survey

After a significant increase by 9 percentage points from 49% in 2018 to 58% in 2019, the number of IMM survey respondents that had timber procurement policies with other standards than those set by EUTR virtually stagnated (-2 percentage points) in 2020 (Figure 6.4.2.2.1). Most frequently mentioned as examples for higher standards were commitments to certification systems or association policies, e.g. aims towards achieving a certain proportion of “sustainable timber” purchases, with “sustainability” typically defined as FSC or PEFC certified. Other companies are having all timber product imports monitored by third parties or have introduced internal auditing systems with specific requirements.

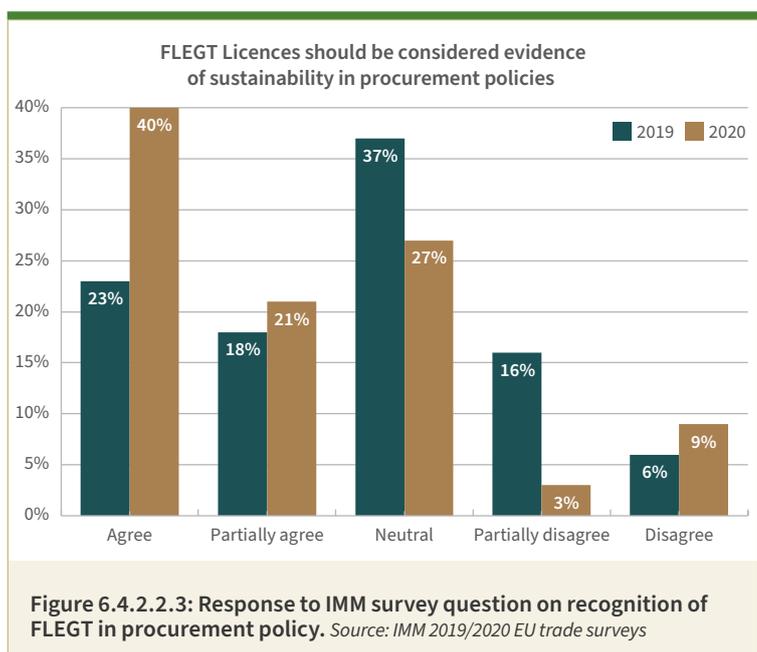
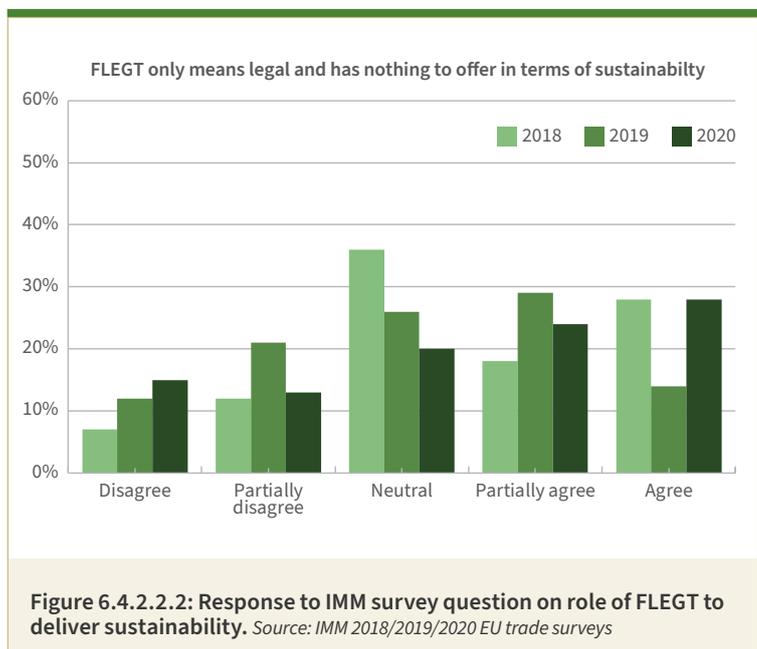
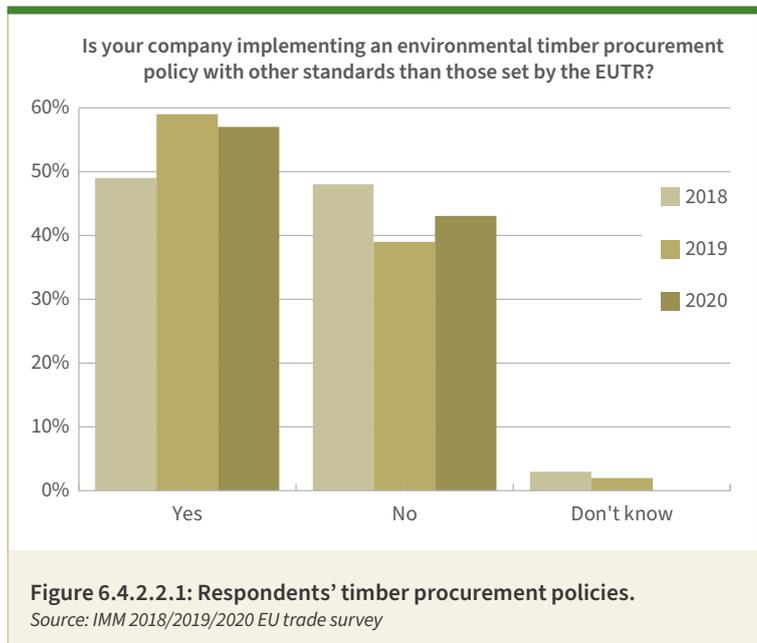
Where FLEGT is specifically mentioned in policies, respondents said, for example, that their official policy was to give preference to FLEGT-licensed timber over unlicensed or uncertified timber. Others said it was used to demonstrate “low risk” and compliance with EUTR. There was general acknowledgment among respondents – whether formalised in a policy or not – that FLEGT Licences provide a green lane and no further due diligence is required for licensed timber.

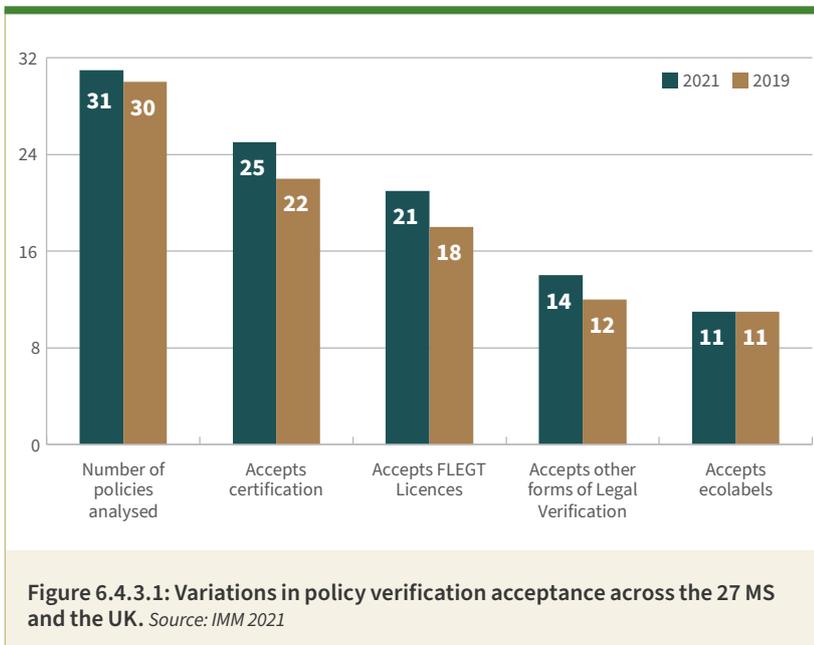
Where FLEGT has no role, respondents frequently don’t import from Indonesia and/or, as in previous years, say a formal role for FLEGT licensing in policies would only be considered once Licenses are available from a wider range of sources.

Many also felt that proof of wider achievements of VPA implementation and FLEGT licensing in terms of environmental, social and economic sustainability needed to be better documented and more widely communicated.

The question of what FLEGT had to offer in terms of proof of sustainability was one of the major issues of interest that emerged from the 2017 trade survey. To gauge EU trade perceptions of the question, IMM included the statement “FLEGT means ‘just legal’ and has nothing to offer in terms of sustainability” for assessment in 2018 and subsequent surveys.

2020 survey results on this question were more mixed than in 2019, when significant changes had been registered in the perception of FLEGT as proof of sustainability over 2018. The number of respondents disagreeing with the statement, i.e. acknowledging the existence of sustainability aspects of FLEGT, continued to grow to 15% (2018: 7%, 2019: 12%) in 2020. However, the proportion of companies fully agreeing with the statement also rose in 2020, after declining sharply in 2019 (Figure 6.4.2.2.2).





The 2021 analysis indicates that the coverage of green public procurement policies that reference timber products has increased across paper, furniture and timber used in construction since 2019 (Figure 6.4.3.1). Policies for paper have become most widely adopted (22) closely followed by furniture (21 policies). Timber used in construction has grown from fifteen to eighteen policies. Seventeen of the EU27 now have comprehensive policies that include all three end uses or material types.

The policies of the member states contain a variety of means of verification of compliance. The most common, in fact universal, acceptable means of proof of legality and sustainability is through certification, usually FSC or PEFC. The second most common acceptable form of verification is that of FLEGT Licences, specified or mentioned by name within the policies of twenty countries.

This highlights the still significant need for consistent communication on FLEGT and what it delivers. It also emphasises the need for improved direct communication (from EC or MS governments) about the benefits of the FLEGT process and achievements of FLEGT licensing and implementing countries.

Despite the still mixed feelings or levels of information on the wider benefits of FLEGT, an increasing number of IMM survey respondents felt that FLEGT Licences should be recognised as evidence of sustainability in procurement policies (Figure 6.4.2.2.3). This survey question was first introduced in 2019, when a total of 42% of survey respondents either fully or partially agreed that licensing should be recognised as evidence of sustainability. In 2020, this number rose sharply to 61%. Only 12% of respondents fully or partially disagreed to such a recognition in 2020, down from 22% the year before. The remaining respondents were neutral on the subject.

6.4.3 FLEGT-licensed timber in EU27+UK country public procurement policies

The importance of public procurement¹⁰⁷ to the marketplace makes government procurement policy a key instrument in attaining the vision set out in the Europe 2020 Strategy – the 10-year strategy proposed by the European Commission in 2010 for advancement of the economy of the European Union. It aims at “smart, sustainable, inclusive growth” with greater coordination of national and European policy.

Sustainable procurement is therefore about using public spending to achieve social and environmental objectives, and to strategically use the public sector’s economic power to catalyse innovation in the private sector.

Fourteen countries also allow for other forms of verification, ranging from third-party verification of legal compliance through to forms of self-declaration. Ecolabels, in particular the EU ecolabel and the Nordic Swan ecolabel also feature in the policies of eleven countries.

In terms of their definitions of ‘legal’ and ‘sustainable’, the procurement policies can be divided into **four** broad groups¹⁰⁸.

- 1) Those that take their **definitions from the EU’s common green procurement policy (GPP) criteria** where compliance with the EUTR is a basic condition¹⁰⁹.
- 2) Those that use the terms **‘legal’ and ‘sustainable’ without setting out detailed definitions** of exactly what these terms mean.
- 3) Those that have developed **detailed sets of criteria for ‘legal’ and ‘sustainable’**. The criteria derive from a variety of sources and inputs, including, generally, a multi-stakeholder consultation process, and they can be subject to revision in the light of developments. As reported by the Standing Forestry Committee¹¹⁰, in almost all cases certain social criteria are included and there is a focus on origin and production of wood and timber products, as opposed to life-cycle performance overall. All these countries have learned from one another’s experiences, and, sometimes, adapted their definitions accordingly¹¹¹.
- 4) The fourth group is just one country: Germany. It **accepts only products certified** by the two main global forest certification schemes, FSC and PEFC, or equivalent.

107. Simula, M. (2006) ‘Public procurement policies for forest products – impacts’, presentation at UN Economic Commission for Europe/Food and Agriculture Organization policy forum on public procurement policies for wood and paper products and their impacts on sustainable forest management and timber markets 5 October 2006.

108. Brack, D. (2014) *Promoting Legal and Sustainable Timber: Using Public Procurement Policy*. Chatham House

109. Van Bueren, E.L. (2016) *Comparison of selected TPP’s*. I S A F O R, Netherlands Ministry of Infrastructure & Environment

110. https://ec.europa.eu/agriculture/sites/agriculture/files/forest/publications/pdf/sfcci-report_en.pdf

111. For a detailed analysis see: Van Bueren, E.L. (2016) *Comparison of selected TPP’s*. I S A F O R, Netherlands Ministry of Infrastructure & Environment

It should be noted that member states differ in their approach to including timber accompanied by FLEGT Licences in their procurement policy. Acceptance of FLEGT licensing on equal footing to “sustainable” is the “*most generous*” option¹¹² and may be considered fair to the VPA countries, which after all made great efforts to implement a Legality Assurance System (LAS).

However, policy makers in a number of EU member states have flagged up difficulties with this approach, partly as VPA-related legislation and silvicultural norms and practices vary widely from country to country (and potentially even in different regions of the same country). Another practical difficulty raised was the lack of a FLEGT chain-of-custody system for tracking timber within Europe.

Accepting FLEGT timber as being second to sustainably produced / certified timber, or even less, merely as legal timber is almost certain to cause additional hurdles in the market. In practice, it means that FLEGT-licensed timber is unlikely to ever be specified in public projects.

For the purpose of its timber procurement policies, Luxembourg treats a FLEGT Licence as equivalent to ‘legal and sustainable’. A number of other member states with policies aiming at sustainability but without detailed definitions, including Austria, Finland and Lithuania, also list FLEGT Licences as acceptable means of verification of sustainability. Belgium, Denmark, Italy, the Netherlands and Sweden, however, treat FLEGT Licences as adequate proof of legality but not of sustainability (or, in Sweden’s case, of general ‘acceptability’)¹¹³.

The UK does not provide an explanation of why it treats FLEGT Licences as evidence of sustainability¹¹⁴, but the report¹¹⁵ that formed the basis for Luxembourg’s policy included the following argument: ‘*It is generally believed that FLEGT Licences are stand-alone tools and thus have to be differentiated from those means directly addressing sustainability at a forest management unit level, e.g. certification. It is important that the Member States provide incentives for joining the FLEGT process and this can be done through public procurement policies. It is therefore suggested that the Luxembourg Government also explicitly accept FLEGT-licensed timber as meeting the government requirements.*’

Most countries have not yet formally stated what status they will grant FLEGT-licensed timber in their procurement policy hierarchy.

6.4.4 FLEGT in Green Building Rating systems

A number of green building initiatives give credits for the use of certified timber; encouraging the use of sustainable timber in buildings and construction projects, and notable examples¹¹⁶ include: Green Building Initiative (GBI), Green Globes (ANSI Standard), Energy Star & Leadership in Energy and Environmental Design (LEED).

In overall terms with respect to recognition for FLEGT licensing in these initiatives, IMM’s analysis revealed no change during 2020. Ten of the 30 programmes continue to provide a positive appraisal for the inclusion of certified timber products within assessed projects. With respect to FLEGT licensing four schemes continue to infer that such licensing is acceptable though there continues to be no direct reference to the FLEGT process or FLEGT licensing directly. Typically these programmes state a preference for certified material followed by material that is from a legal and verified source.

The German DGNB programmes continues to not accept any timbers that are not certified under one of the leading certification schemes, such as FSC or PEFC: “*the use of tropical, subtropical or boreal woods that lack certification constitutes a failure to meet this minimum standard. In this case, no points will be awarded.*”

The Norwegian and UK BREEAM standards are examples of programmes that do not directly reference FLEGT Licences but do *infer* it being acceptable. The inference arises through the examples of compliance which include “*legally harvested*” where “*evidence of compliance with the EUTR (EU’s Timber Regulation)*”. Whilst not a clear reference to FLEGT-licensed material, such material would clearly be acceptable due to its acceptability within the EUTR as “*authorities responsible for enforcing the EU Timber Regulation in EU Member States recognise FLEGT Licences as proof of legality*”¹¹⁷.

Of the 30 programmes considered it has been possible to assess the revision dates of 13 of them and the average revision date is circa 2018. On 15th November 2016, Indonesia started issuing FLEGT Licences to verified legal products it exports to the EU. To date FLEGT licensing has not made any inroads regarding specification or inclusion within any of the green building standards.

6.4.5 Conclusions from the 2021 procurement study

Overall, the growth in acceptance of FLEGT licensing across the wide range of initiatives is visible but remains modest. While the private sector and those seeking to influence their purchasing behaviour have begun to recognise it, many other areas have yet to revise their policies or to recognise FLEGT licensing’s value. The modest wider recognition matches a similar level of growth in recognition of certification.

The most fertile area with respect to renewal and re-evaluation of policy lies within the private sector. The selected companies have an average revision date of 2019 and CSO rating systems (targeting the private sector) have an average renewal date of 2020. Other private sector initiatives are also fairly up to date with an average renewal date of 2017 (i.e. post the introduction of FLEGT-licensed material to the market). The assessed green building rating systems are also targeting the

112. Van Bueren, E.L. (2016) *Comparison of selected TPP’s*. I S A F O R, Netherlands Ministry of Infrastructure & Environment

113. Brack, D. (2014) *Promoting Legal and Sustainable Timber: Using Public Procurement Policy*. Chatham House

114. The UK government’s commitment in 2009 was to consider FLEGT-licensed products as meeting the criteria for ‘legal and sustainable’ until April 2015. In July 2014 the deadline was extended indefinitely. It is understood that a review is planned to be undertaken in mid-2019 onwards.

115. ProForest (2012). *Support for the Development of Luxembourg’s Public Procurement Policy for Timber*, pp. 22–23.

116. The Green Building Initiative www.thegbi.org/about-gbi/

117. <https://www.flegtlicence.org/about-the-flegt-licence>

private sector and average a renewal date of 2018. Trade associations appear to lag the other private sector initiatives, though in reality those assessed were fast to embrace FLEGT and adapted their policies well in advance. Overall, the private sector initiatives as a whole have proven most willing to keep their policies current.

The public sector policy initiatives are more slowly evolving. With an average revision date of 2013 most EU member states green procurement policies are still in the process of broadening their scope with respect to timber products. Whilst around two thirds accept FLEGT Licences they continue to vary in their product or usage scope and often are not the powerful market driving tool that they might be.

Other trade policy interventions with relevance for VPA partners

7

7.1 Brexit

The long drawn-out process of the UK breaking ties with the EU, which started with the referendum of July 2016, entered its final stages in 2020. After formally leaving the EU on 31 January 2020, the UK's relationship with the EU was governed by the EU-UK Withdrawal Agreement. This allowed the UK to continue to trade on the same terms it had with the EU prior to departure during a transition period that ended on 31st December 2020.

These transition arrangements, not to mention the pressing effects of the COVID-19 pandemic during the year, meant the full effects of the UK's departure from the EU were still unclear in 2020. However, some immediate near-term effects were already evident in 2020. Even before the end of the transition period, in the fourth quarter of 2020, the turnaround time for timber and other construction materials delivered to the UK from the EU, previously only a few days, had extended into weeks. The pandemic was a factor, but equally important was the level of congestion at UK ports as distributors of all commodities and products rushed to build stocks before the end of the transition period. The problems UK distributors were experiencing in sourcing wood from their large EU-based suppliers contributed to timber stockholdings in the UK builders' merchant sector being much lower than usual at the end of 2020.

More broadly, the uncertainty created by the Brexit decision was also acting as a drag on economic growth in the UK even before the onset of the pandemic. The UK's Office of Budget Responsibility (OBR) reported in March 2020 that heightened uncertainty had resulted in "business investment even weaker than we expected immediately after the referendum". In each annual report issued following June 2016 when the Brexit referendum took place, OBR was forced to reduce the forecast level of growth in UK business investment. In 2016, OBR expected business investment in the UK to be 15% higher by the

end of 2019. In practice there was near zero growth. As a result, the level of productivity in the UK economy was flatlining and economic growth was well below the likely level had the UK remained part of the EU¹¹⁸.

Another near-term impact of the Brexit decision has been to weaken the value of the GB pound against other leading currencies. This seems to reflect the generally negative outlook among international investors for the UK's economic prospects outside the EU. At the end of 2020, the pound was approximately 15% weaker relative to the euro than it was on the eve of the Brexit referendum in June 2016 and 20% weaker than it was when the EU Referendum Act received Royal Assent in December 2015. The effect of Brexit was particularly evident immediately after the referendum result, as the pound experienced its largest fall within a single day in 30 years. From the perspective of FLEGT, it is noteworthy that in January 2017, just when the first Licences were being issued in Indonesia, one British pound was valued at only USD1.22, the second lowest level ever recorded (the lowest being in 1985). There were two further substantial and sustained falls in 2017 and 2019, bringing the value of the pound to new lows against the euro and the dollar in August 2019¹¹⁹.

Overall, therefore, it is likely that the Brexit decision, through its impact on the overall level of economic growth in the UK and to weaken the international value of the GB pound, was acting to slow overall UK imports of timber products well before the UK's scheduled departure from the EU single market on 31st December 2020. It was also a significant factor, in addition to the pandemic, contributing to severe volatility in UK timber imports during 2020.

More directly, Brexit involves a change in the regulatory framework for FLEGT-licensed timber in the UK market, although this change only became effective from 1st January 2021. In 2021, the EUTR is replaced in the UK by the UK Timber Regulation (UKTR). The scope of UKTR, in terms of regulated 'timber products' is the same as

118. In their March 2021 report, OBR estimate that implementation of the new trading relationship between the UK and EU (the 'Trade and Cooperation Agreement' or TCA) from 1st January 2021, would: temporarily reduce UK GDP by 0.5% in the first quarter of 2021; generate cost pressures for UK importers adding around a quarter of a percentage point to CPI inflation by the end of 2021; reduce long-run productivity by 4% relative to remaining in the EU; that around two-fifths of the 4% impact has effectively already occurred since the referendum as a result of uncertainty weighing on investment and capital deepening; both exports and imports will be around 15% lower in the long run than if the UK had remained in the EU; and that new trade deals between the UK and non-EU countries will not have a material impact (as most of these largely replicate deals that the UK already had as a member of the EU and, in any case, they are likely to have only a very small and gradual impact on GDP).

119. <https://www.economicsobservatory.com/how-has-brexit-affected-the-value-of-sterling>

EUTR. The requirements established for an “Operator” in the EUTR, defined as the first placer of the timber and timber product on the EU market, apply to the first placer on the UK market in UKTR. UKTR obligations are identical to EUTR, requiring operators to exercise due diligence to ensure negligible risk of illegal harvest when placing products on the UK market.

The “Green Lane” for products covered by FLEGT Licences and CITES certificates imported directly into the UK applies equally to UKTR. However, if a product is imported into the EU with a FLEGT Licence or a CITES certificate and then subsequently shipped to the UK, the UK operator is required to undertake due diligence with respect to that timber. This highlights that a significant change with respect to the scope of the UKTR relative to EUTR is that it imposes due diligence requirements on all UK timber and timber product imports, including those from inside the EU. The same applies to (much more modest) EU imports of timber products from the UK.

7.2 Indonesia ceases to qualify for GSP in 2020

From 1st January 2020, Indonesia no longer qualified for Generalised Scheme of Preferences (GSP) tariff rates on Wood and Wood Products in the EU. The GSP system has ‘graduation mechanisms’ for ascertaining a country’s eligibility for preferential duty rates. These include the value of its exports of specific goods to the EU as a percentage of all EU GSP imports of those products. According to the EU, Indonesia exceeded the ceiling of 57% under this calculation for three years and thereby lost its GSP status. Loss of GSP status has no effect on trade in those products, such as decking/mouldings and most wooden furniture, which are zero tariff for all EU imports. However, loss of GSP status meant higher tariffs for Indonesian plywood, veneers, and planed, sanded and finger-jointed sawn timber. For plywood, the most significant Indonesian wood product influenced by GSP status, the tariff increased from 3.5% to 7% at the start of 2020.

7.3 African log export ban

A meeting of ministers in charge of forests, industry and environment of the Economic and Monetary Community of Central Africa (CEMAC)¹²⁰ in September 2020, confirmed a decision to prohibit the export of timber in the form of logs by all the countries of the Congo Basin from 1st January 2022¹²¹. The objective is to encourage investment in local processing and create new employment opportunities in forestry and wood processing.

To support this decision, the Ministers also confirmed decisions to: create a regional committee for sustainable industrialization of the timber sector in the Congo Basin; establish special economic zones to set up primary,

secondary and tertiary wood processing industries; and adopt a regulation on the development of forest plantations. Ministers also recommend that the CEMAC Commission, in collaboration with COMIFAC, draw up harmonised directives on forest taxation that countries should incorporate into their national legislation.

7.4 EU timber trade policy interventions in Russia and Eastern Europe

7.4.1 Relevance for FLEGT-licensed and VPA partner timber

Some timber products from non-EU countries in Eastern Europe compete directly with VPA Partner products. This competition is probably most direct between film faced birch plywood from Russia and Belarus which has increasingly substituted for tropical hardwood plywood, notably from Indonesia, in recent years. There is also a degree of overlap in applications for tropical hardwood from African VPA partners and oak, beech and ash, notably from Ukraine, Bosnia and Serbia, particularly for manufacture of joinery and furniture products in the EU.

Eastern European countries outside the EU also supply an increasing share of wood furniture products into the single market. While there is little direct competition between Eastern European and VPA partner suppliers in the market for external furniture products, still often manufactured from more durable tropical hardwoods, there is increasing competition in the market for interior furniture products that have been a target for VPA partner market growth in recent years.

These areas of overlap, and the fact that there has been very significant growth in EU27+UK countries imports of timber products from countries in Eastern Europe neighbouring the EU in recent years, implies that timber trade policy interventions in the region have significant implications for the share of VPA partner timber in the EU27+UK countries market. More broadly, Eastern European countries, particularly Russia, are large suppliers of timber products into other global markets. Trade policy measures in these countries can have significant knock-on effects on demand, prices and competitiveness for VPA partner timber products in all parts of the world.

7.4.2 Russia’s log export prohibition

In September 2020, Russian President Vladimir Putin stated that raw wood exports of softwoods and valuable hardwoods (oak, beech and ash) should be banned. The ban is set to go into effect at the start of 2022¹²². The Russian government is also considering new regulations aimed at reducing the exportation of green softwood lumber. This regulation is loosely planned to also commence in 2022 and is intended to incentivize investments in kilns to produce dried lumber for

120. The six countries of the Central African Economic and Monetary Community (CEMAC) are: Equatorial Guinea, Republic of Congo, Gabon, Cameroon, Chad, and Central African Republic.

121. At a subsequent meeting on 28th July 2021, CEMAC agreed to postpone implementation of the ban until 1st January 2023 to provide more time for development of wood processing capacity in the region.

122. In May 2021, the government of the Russian Federation announced introduction of export duties of 80% on unprocessed logs and confirmed that a full ban would come into force on 1st January 2022.

exports. The stated goal of the export ban is to reduce illegal logging and grey-market wood sales and to increase investment and employment in wood processing in Russia¹²³.

Russia has a long history of attempting to restrict exports of unprocessed wood in order to boost investment in the Russian processing sector. In 2005, duties were first imposed on exports of raw logs when the intention was to rapidly ramp up the duties to such an extent that log exports would be unprofitable by 2009. However, after substantial duty increases in 2007 and 2008, the government was forced to back track with the onset of the global financial crises greatly reduced opportunities to attract new investment in processing capacity. When Russia became a member of the WTO in 2012, Russia was obliged to replace the blanket tariff on log exports with a quota system allowing other WTO members tariff-free access to a specified volume of raw logs each year.

In the peak years of 2005 to 2007, Russia exported about 50 million m³ of raw wood a year. In 2008–2009, exports fell by about 50%. Thereafter, exports settled at around 20 million m³ a year. In 2020, the pandemic contributed to a further fall in log exports, to around 15.5 million m³, or 7.2% of the total volume of harvested wood in 2020, according to the Federal Customs Service of Russia. While Russia's log exports have fallen, exports of processed products have increased. Most sawnwood exports consist of lumber that has only been marginally processed to avoid the export tariffs. However, more highly processed birch plywood exports have also increased rapidly¹²⁴.

The log export ban is expected to most significantly impact Eastern Russia where an estimated 10% of the timber harvest is exported in log form. In the short-term, the Chinese lumber industry will be most directly impacted as most log exports now derive from the Russian Far East and are destined for China. China will probably look to source more sawlogs from other regions of the world, including from Europe, Africa, Oceania and the US. The increased competition for logs in those markets will likely put upward pressure on sawlog prices. Longer-term, China is likely to evolve from importation of roundwood to importation of lumber. In Russia, the export ban may drive investment in new sawmilling, kiln drying, veneer and plywood capacity and thereby increase market access in Europe and North America¹²⁵.

7.4.3 EU anti-dumping proceedings on Russian birch plywood

On 14 October 2020, the EU announced a notice of initiation of an anti-dumping proceeding concerning imports of birch plywood originating in Russia. The complaint was lodged on 31 August 2020 on behalf of two EU producers representing more than 25% of the total EU production of birch plywood in 2019¹²⁶.

7.4.4 EU-Ukraine dispute over export prohibitions of wood products

Since 2005, Ukraine has had a permanent ban on exports of timber and sawn wood products of valuable and rare wood species: acacia, birch, cherry, pear, walnut, chestnut, common yew, sweet cherry, common maple and juniper. In 2015, Ukraine introduced a temporary 10-year ban on exports of all unprocessed timber of any species of trees except for pine, towards which the moratorium started to apply from 01 January 2017¹²⁷. According to Ukrainian advocates of these measures, the export prohibition seeks to restore the woodworking and furniture industries, create employment and refocus exports from wood raw materials towards products with a higher degree of processing¹²⁸. From a VPA partner trade perspective, the most relevant fact was the extension of the ban to include oak, beech and ash, the most commercially popular hardwoods which compete directly with VPA partner timber from Africa in some applications.

In January 2019, the EU filed a request to carry out consultations with Ukraine in relation to these export bans, observing that they are incompatible with Article 35 of the EU-Ukraine Association Agreement (AA) which forbids export prohibitions. No mutually agreed solution was reached further to the consultations. Consequently, on 20 June 2019, the EU formally requested the establishment of an arbitration panel, the first time the EU had activated the independent arbitration mechanism under a bilateral trade agreement. The Arbitration Panel was established in January 2020 and issued its final ruling in December 2020.

The Panel agreed with the EU that the export bans are incompatible with the provisions of the AA and that there is no justification for the total ban on exports of all unprocessed wood introduced in 2015. Only the 2005 measures on ten specific wood species of low commercial use, characterised as "rare and valuable", were found by the Panel to be partially justified under a plant life or health protection exception. Ukraine was required to take the necessary steps to comply with the arbitration ruling and to terminate the 2015 export ban as soon as possible¹²⁹.

123. International Forest Industries, June/July 2021, Russia's proposed log export ban in 2022 will have a far-reaching impact on global forest product markets.

<https://internationalforestindustries.com/2021/02/12/russias-proposed-log-export-ban-2022-will-far-reaching-impact-global-forest-product-markets/>

124. The Bank of Finland Institute for Emerging Economies, Russia to impose bans on raw wood exports, https://www.bofit.fi/en/monitoring/weekly/2020/vw202041_4/

125. World Resource International, O'Kelly Acumen, Focus Report Series, Russian log export ban in 2022 Implications for the Global Forest Industry, February 2021

126. In June 2021, the European Commission approved for 6 months the introduction of preliminary anti-dumping duties on birch plywood from Russia. Slightly lower duties are set for various cooperating Russian manufacturers of between 15.0% and 15.7% and 15.9% is set for all other Russian manufacturers.

127. Chambers & Partners, Online article: Arbitrators Recognize the Right of Ukraine to Restrict Exports of Timber Under Certain Circumstances, 16 December 2020, <https://chambers.com/articles/arbitrators-recognize-the-right-of-ukraine-to-restrict-exports-of-timber-under-certain-circumstances>

128. Integrated Executive Summary of the European Union submission to the EU-Ukraine Association Agreement Arbitration Panel in the dispute Ukraine – Export prohibitions on wood products, 7 October 2020

129. European Commission, Memo on the history of the EU-Ukraine dispute on wood export ban, DG Trade News Archive, accessed May 2021, <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2226>

7.5 Free trade agreements

7.5.1 EU-Viet Nam Trade Agreement and Investment Protection Agreement

The European Union and Viet Nam signed a Trade Agreement and an Investment Protection Agreement on 30 June 2019 which came into force on 1 August 2020. The EU-Viet Nam agreement is the most comprehensive trade agreement the EU has concluded with a developing country. The agreement aims to provide opportunities to increase trade and support jobs and growth on both sides, through: eliminating 99% of all tariffs; reducing regulatory barriers and overlapping red tape; ensuring protection of geographical indications; opening up services and public procurement markets; and making sure the agreed rules are enforceable.

The Agreement includes articles containing specific commitments on environmental standards, including in relation to forests setting the basis for bilateral cooperation on the transition to low greenhouse gas emissions and climate-resilient economies. The parties committed to prevent a race to the bottom on domestic labour and environmental laws and agreed not to lower labour or environmental standards to attract trade or investment. The parties agreed to involve independent civil society in monitoring the implementation of these commitments by both sides.

Article 13.8 of the Trade Agreement includes measures on “Sustainable Forest Management and Trade in Forest Products”. Each Party shall “encourage the promotion of trade in forest products from sustainably managed forests and harvested in accordance with the domestic legislation of the country of harvest”. It is noted that this may include conclusion of the FLEGT VPA¹³⁰. The parties agreed to “exchange information with the other Party on measures to promote consumption of timber products from sustainably managed forests and, where relevant, cooperate to develop such measures”. They also agreed to “adopt measures which are consistent with domestic laws and international treaties to which it is a party, to promote the conservation of forest resources and combat illegal logging and related trade”. Furthermore, they will “exchange information with the other Party on actions, as appropriate, to improve forest law enforcement and, where relevant, cooperate to maximise the impact and ensure the mutual supportiveness of their respective policies aiming at excluding illegally harvested timber products from trade flows”¹³¹.

7.5.2 Regional Comprehensive Economic Partnership

Fifteen countries, including VPA partners Indonesia and Viet Nam alongside Australia, Brunei, China, Colombia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea and Thailand signed the Regional Comprehensive Economic Partnership (RCEP) on 15th November 2020. The RCEP, which requires ratification by at least six ASEAN countries and three

non-ASEAN countries, has the potential to be one of the world’s largest free trade agreements.

Based on economic simulations, RCEP is expected to substantially contribute to annual GDP growth in the region, raising it by 0.4% by 2030 on a permanent base, which amounts to a raise in annual real income by USD 187 billion. Trade is expected to increase within the region by over 10% in the next five years. Main beneficiaries are expected to be China, Japan and South Korea as these are the main economic drivers of the region accounting for more than three quarters of the GDP of RCEP members. The benefits from the Agreement might lower the losses of China from the US-China trade war. If the tensions between the US and China continue, the benefits of RCEP are likely to be higher due to an even stronger focus of China on the Asian market leading to even more efficient supply chains within Asia. While more developed RCEP countries like China, Japan and South Korea are expected to experience an increase in the production of high-tech goods and focus stronger on the service industry, low income RCEP members are expected to see an increase in light manufacturing products (such as furniture). Multinational enterprises in high-income member states are expected to shift parts of the production from high-cost environments to lower cost locations¹³².

Although RCEP covers many trade topics, parties have decided not to include provisions related to the environment. This contrasts with the four EU-Asia agreements in which environmental provisions, including sustainable management of natural resources, biodiversity and forests, are present. Another contrasting feature is the focus on SMEs in the RCEP which is not the case in the EU-Asia agreements¹³³. RCEP introduces a platform to provide information on RCEP-related content (tariffs, rules, regulations) that will be accessible to SMEs. RCEP also aims to reduce paperwork for SMEs to promote better access to regional supply chains.

According to the EU DG for External Policies “Since RCEP is still modest in its ambitions in areas of non-tariff barriers and behind-the-border measures, there remains a potential opportunity for the EU to influence the creation and diffusion of standards in the region... There remains substantial scope for cooperation in the areas of labour, environment and good governance, where RCEP has been silent”¹³⁴.

The RCEP follows by two years the conclusion of negotiations over the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that replaced the proposed Trans-Pacific Partnership agreement after the United States pulled out of the negotiations. The agreement includes Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Viet Nam. The UK reportedly has applied to join the trade agreement.

130. In the event, the VPA between the EU and Viet Nam entered into force in June 2019.

131. https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1412 <https://trade.ec.europa.eu/doclib/press/index.cfm?id=1437>

132. Petri, Peter and Plummer, Michael (2020). “East Asia Decouples from the United States: Trade War, COVID-19, and East Asia’s New Trade Blocs.” (June 11, 2020). Peterson Institute for International Economics. <https://www.piie.com/system/files/documents/wp20-9.pdf>

133. An exception is the EU-Japan EPA which foresees the establishment a shared information database for SMEs.

134. EU DG for, Policy Department Briefing, Short overview of the Regional Comprehensive Economic Partnership (RCEP) EP/EXPO/INTA/FWC/2019-01/LOT5/3/C/06 EN, February 2021.

Conclusions

The main conclusions of the IMM 2020 Annual Report are:

Relating to FLEGT licensing:

- It is important always to emphasise that FLEGT policy measures are only one factor driving changes in market share and impacts are often obscured by other dominant factors on both the supply side (wood availability, logistics, labour rates, exchange rates etc) and demand side (changing distribution and composition of consumers, fashion changes, standards etc).
- There was an encouraging rise in EU27+UK country import value of Indonesian timber products in the immediate aftermath of FLEGT licensing between 2017 and 2019.
- However, there was no strong signal in trade data of significant market benefits due to FLEGT licensing during this period.
- Growth in imports from Indonesia coincided with a larger increase from other countries, mainly LMI countries not involved in the VPA process, the most consistent gains being made by Russia and other CIS countries, Turkey, and India.
- Identifiable gains in market share were restricted to a few niche markets such as doors to the UK and specialist papers to the UK and Greece.
- Trade in FLEGT-licensed timber products in 2020 suffered a downturn due to the COVID pandemic which disproportionately impacted on EU27+UK country imports from Indonesia alongside other South East Asia suppliers.
- IMM trade survey data paints a more positive picture of market impacts of FLEGT licensing, including that the green lane for FLEGT-licensed timber is making importing from Indonesia easier for EUTR operators and EUTR operators value the “zero risk” status of FLEGT-licensed timber and will give preference where other commercial product criteria are equal.
- While the trade data does not reveal any significant FLEGT licensing related growth in market share, the positive attitude of traders implies that FLEGT licensing may have contributed to stabilising this share in a difficult and competitive environment after a long period of decline.
- The private sector in Indonesia values the role played by FLEGT to improve forest management and governance.
- There is an increasing role for SVLK at a global level due to the growing number and expanding market dominance of regulated markets.
- While FLEGT licensing offers opportunities for market development these are not being fully realised due to:
 - inconsistent messaging and lack of endorsement in public procurement policies creates confusion about the value of FLEGT licensing and where licensed products sit in relation to definitions of “legal and sustainable” timber products;
 - inconsistencies in EUTR enforcement may have created loopholes that weaken the green lane advantage; and
 - a continuing lack of vigorous private sector initiatives actively promoting the concept in the majority of EU27+UK countries.

- The IMM recommendations need to be acted on to fully exploit the market opportunities created by FLEGT licensing.

Relating to FLEGT policy measures in wider trade:

- As a group, VPA partners now account for around one fifth of all timber products exports from LMI countries worldwide.
- While EU27+UK countries accounted for 17% of LMI country timber product exports in 2020, all regulating countries together accounted for 56%.
- These facts highlight the considerable reach and potential influence of FLEGT policy measures to help reduce the volume of illegal wood in global trade.
- The proportion of trade impacted by FLEGT and similar policy measures continued to rise in 2020, driven particularly by rising bilateral trade between Viet Nam and the United States.
- Viet Nam has significant potential both as a major importer of primary wood products from other LMI countries and as timber product exporter of increasing global significance, to further extend the influence of FLEGT policy measures.
- In Africa, progress by Ghana and the Republic of Congo to reform forest laws and implement procedures in line with VPA commitments is significant and needs further encouragement through measures to communicate the progress and promote a favourable market position for FLEGT-licensed timber.
- Cameroon continues to have a key role to play in FLEGT policy development. Considering EU27+UK country imports of primary wood products in 2020, Cameroon supplied in excess of 50% of all imports from VPA partners and 40% of all imports from the African continent. Cameroon also stands out for the large share (61%) of timber product export value destined for regulated markets in 2020.
- Timber product exports from all African and Latin American VPA partners were declining even before the pandemic and were disproportionately affected during the pandemic. Efforts to further develop timber legality assurance systems need to take account of and be responsive to the significant competitiveness challenges faced by timber industries in these countries.

Relating to COVID-19 impacts:

- The immediate impact of the pandemic was to seriously disrupt EU27+UK country imports of FLEGT-licensed and other VPA partner timber products in 2020.

- Overall timber production and exports from Indonesia and Viet Nam proved more resilient than expected early in the pandemic, but exports to the EU27+UK countries were particularly affected by lack of containers destined for Europe and the sharp rise in freight rates, starting in the second half of 2020.
- Exporters in both countries prioritised shipments to alternative markets, particularly the US which recovered more quickly than EUTR markets during the year.
- At the same time buyers in EU27+UK countries increased purchases from suppliers in the European neighbourhood
- The challenges of moving staff and materials and of maintaining equipment, alongside lack of containers and other freight problems, impacted heavily on supply and exports in VPA partner countries in Africa and Latin America during 2020.
- These and other economic challenges are likely to persist in VPA partner countries, which as LMI countries generally have lower levels of access to economic support measures, vaccines and other health services.
- New market opportunities for FLEGT-licensed may emerge longer term in EU27+UK countries due to the strong focus on green growth measures in COVID recovery plans and possible measures by manufacturers and importers to diversify supply sources.

9 Recommendations

After four years of IMM surveys and special studies, little can be added in terms of additional recommendations. However, most recommendations made in previous reports are still valid and need to be reemphasised. Key recommendations in the three focal areas identified by IMM as well as some additional recommendations are listed below. A more detailed list of recommendations collected during the lifespan of IMM is included in ANNEX I.

Relating to consistent and effective enforcement of the EUTR

- An EU-wide standard for EUTR enforcement and implementation using best practice examples should be developed and implemented.
- Penalties/fines should be harmonised, and it should be ensured that they are effective, proportionate, and dissuasive.
- Competent Authorities should be sufficiently funded, staffed, and trained.

Relating to endorsement and promotion of FLEGT-licensed timber by relevant administrative bodies in the EU and MS

- FLEGT-licensed timber should be granted preferential status in procurement policies to demonstrate trust in the system and create a positive leadership effect.
- A favourable perception and reception of FLEGT-licensed timber in all EU MS should be ensured. IMM surveys indicate that this is not necessarily always the case. This should also include training of procurement officers and customs authorities.
- FLEGT-licensed timber should be included in national programmes to promote responsible sourcing.
- FLEGT licensing and forest certification should be promoted as complementary, rather than pitted against one another.

- EU MS should actively promote FLEGT-licensed timber and recognise Indonesia's achievements.
- Timber trade federations are important influencers and communicators in the timber industries; involving them in promotion gives access to important stakeholders.
- NGOs that are supportive of FLEGT should be more strongly involved in promotion.
- EU MS should use high-profile events to promote FLEGT-licensed timber (for example Paris Olympics where, sadly, the opposite is happening).

Relating to administrative procedures, bureaucracy

- EU MS authorities should handle application of different HS codes in Europe and Indonesia as well as any other obviously non-fraudulent mismatches in an unbureaucratic manner.
- CAs should have a good working relationship with the private sector.
- EC should ensure that no unnecessary bureaucratic hurdles are being created by MS for importing FLEGT-licensed timber.
- Dropping fees for processing FLEGT-licensed timber would send a positive signal to the market.

Relating to leverage/relevance of FLEGT licensing and VPA implementation processes

- EU should cooperate with other regulated countries to ensure that FLEGT-licensed timber is granted green lane status also in these markets. It should also cooperate with other countries where VPAs and other agreements aiming to ensure timber legality are implemented at the same time, to avoid duplication of efforts.

ANNEX I: IMM Recommendations 2017-2020

Recommendations for FLEGT-licensed timber market development¹	Freq.	Report/Event
Implementation/Enforcement of EUTR		
EU efforts to ensure consistent and effective enforcement of EUTR provide the most immediate, and likely most effective, market advantage for FLEGT-licensed timber in the EU and should continue to be prioritised. There is evidence that inconsistency in enforcement is causing market distortion and creating loopholes for potentially illegal timber entering the EU market.	8	Annual Report 2015/16 (published 2017) Annual Report 2017 Annual Report 2018 Annual Report 2019 IMM 2018 Promotion Study IMM 2018 Trade Consultation, Nantes IMM 2019 Trade Consultation, Antwerp IMM 2019 Trade Consultation, Barcelona
IMM should provide more in-depth analysis of EUTR enforcement and related market impacts.	1	IMM 2020 Feedback Survey
Communication/Marketing/Awareness-raising		
Actively engage the private sector in positive marketing of FLEGT-licensed timber. Target communication so that individual businesses in VPA partner countries, the EU and other export markets fully appreciate the role of licensing and the marketing and investment opportunities it creates. FLEGT communication and information strategy should also target timber promotion campaigns and trade bodies and to package information to their requirements. Improve B2B communication.	6	Annual Report 2015/16 (published 2017) Annual Report 2017 Annual Report 2018 Annual Report 2019 IMM 2018 Promotion Study IMM 2019 Trade Consultation, Barcelona
Improve communication and raise market awareness of the steps required to implement a FLEGT licensing system.	3	Annual Report 2015/16 (published 2017) Annual Report 2017 Annual Report 2018
FLEGT VPA countries should support FLEGT marketing to the EU through developing their own materials for their own benefit whilst supporting wider efforts within the EU.	2	IMM 2018 Promotion Study IMM 2019 Public Procurement Study
Build on public statements of support for the FLEGT VPA process by influential civil society groups in the EU to overcome market prejudice against tropical timber.	2	Annual Report 2015/16 (published 2017)
Communicate the scope and content of FLEGT licensing procedures in each partner country more effectively to better assist timber procurement officials, specifiers and buyers in the EU to assess where licenses sit in relation to other forms of verification.	4	Annual Report 2015/16 (published 2017) Annual Report 2017 Annual Report 2018 IMM 2018 Promotion Study
Civil society groups in the EU need to be aware of the fragility of EU markets for timber products from VPA partner countries and that their leverage in VPA processes is significantly dependent on ensuring that FLEGT Licences deliver real market advantages.	1	Annual Report 2015/16
Develop creative communications strategies involving topics such as sustainability, traceability, authenticity.	2	Annual Report 2015/16 (published 2017) Annual Report 2017
Professional bodies representing architects should be engaged to increase awareness of the FLEGT process. An important stakeholder group is daily making decisions on the choice of materials that has no understanding of the value and achievements of these processes.	1	IMM Architects Study 2019
Develop a targeted promotion programme for licensed timber products from IND in the EU.	4	Annual Report 2017 Annual Report 2019 IMM 2018 Furniture Study IMM 2018 Trade Consultation, Nantes
Demonstrate the business benefits of the FLEGT licensing scheme in Indonesia to build trust. Indonesian furniture producers, in particular, see the licencing process as a bureaucratic hurdle rather than as business opportunity. The current view is that it is not cost effective and any formerly promised market advantages are not tangible.	4	Annual Report 2019 IMM 2018 Furniture Study IMM 2020 Furniture Study IMM 2019 Trade Consultation, Antwerp
Encourage those companies not yet using FLEGT-licensed timber to do so. Awareness of EUTR varies among furniture businesses. Some potential buyers of FLEGT-licensed timber are almost certainly unaware of it, what it stands for and what the benefits are for their businesses. Increased awareness at the business-to-business level would add value to the "brand" of FLEGT- licensed timber.	2	IMM 2018 Furniture Study IMM 2020 Furniture Study
Promote the technical specifications of VPA partner timber to specifiers.	1	IMM 2019 Trade Consultation, Barcelona
Market recognition FLEGT-licensed products should be strengthened through branding and preferential treatment for licensed products.	2	Annual Report 2019 IMM 2019 Trade Consultation, Antwerp
FLEGT licensing should be promoted as a factor to improve the bank rating of forest sector enterprises in VPA countries and relevant actors should be included in the VPA processes.	1	IMM 2020 Investment Study
Link FLEGT licensing systems with LCA-based systems of environmental assurance like EPDs or PEFs to promote a market for environmentally friendly products and address environmental prejudice.	2	IMM London Trade Consultation 2018 IMM 2019 Trade Consultation, Barcelona

ANNEX I: IMM Recommendations 2017-2020

Recommendations for FLEGT-licensed timber market development¹	Freq.	Report/Event
Procurement policies + Certification, Rating Systems and Ecolabels		
Establish c-o-c procedures for FLEGT-licensed timber in the EU through cooperation with existing private-sector initiatives.	2	Annual Report 2015/16 IMM 2019 Trade Consultation, Antwerp
Achieve widespread acceptance of FLEGT-licensed timber as appropriate evidence of both “legality” and “sustainability” in EU member state public procurement policies. Encourage EU MS to regularly review their policies in the light of developments of the FLEGT process and ensure acceptance by all MS as evidence of both “legality” and “sustainability”. Government procurement policies shape private sector procurement and without its approval it is going to be difficult to build private-sector trust. Approval would strengthen the market position of FLEGT. Agreement is needed from all stakeholders on FLEGT’s sustainability credentials.	8	Annual Report 2015/16 (published 2017) Annual Report 2017 Annual Report 2018 Annual Report 2019 IMM 2018 Promotion Study IMM 2019 Trade Consultation, Antwerp IMM 2019 Trade Consultation, Barcelona IMM 2020 Investment Study
Encouraging recognition for licensed timber in due diligence legislation and in public and corporate procurement in large markets outside the EU should be a priority.	1	Annual Report 2015/16 (published 2017)
Build synergies between development of TLAS in VPA partner countries and international private certification systems to help simplify verification, reduce bureaucracy and costs.	1	Annual Report 2018
There is a specific need for engagement with FSC to address the current lack of recognition of FLEGT- licensed timber in the FSC Controlled Wood National Risk Assessment for Indonesia.	1	Annual Report 2018
Engage with the World Green Building Council to raise awareness of the value of FLEGT licensing with a long-term goal of gaining credits for its use in Green Building Council affiliated programmes. Certified green building projects are set to increase and such programmes play a key role influencing material choices. Whilst some standards currently encourage the uptake of certified wood only a small proportion allow solely FLEGT-licensed materials to be used.	1	IMM Architects Study 2019
Communicate results of independent reviews of the performance of the systems underlying FLEGT Licences. Undertake gap analysis between these systems and forest certification schemes.	4	IMM 2018 Procurement Study IMM 2018 Promotion Study IMM 2019 Public Procurement Study IMM 2018 Trade Consultation, Nantes
Actively engage CSOs and private sector organisations that seek to influence private sector procurement policies.	3	Annual Report 2018 IMM 2018 Procurement Study IMM 2019 Public Procurement Study
As private third-party forest certification has failed to gain traction in tropical countries, other solutions should also be pursued and supported.	1	IMM 2019 Trade Consultation, Antwerp
Administration/Processes		
Avoid FLEGT Licence mismatches through improved HS Code harmonization.	1	Annual Report 2017
CAs should make sure to flag up all FLEGT Licence mismatches to LIU in Indonesia.	1	Annual Report 2017
Drop fees for processing FLEGT Licences in EU MS (even though not considered a large market barrier in 2017/2018, more a reputational issue/negative perception).	2	Annual Report 2017 Annual Report 2018
Ensure good working relationships between CAs and private sector in EU MS to improve market acceptance of EUTR and awareness of the advantages of FLEGT-licensed timber.	1	Annual Report 2017
Minimize the bureaucracy involved in the process of importing FLEGT-licensed timber to maximize the business benefits for operators. Develop e-licensing.	3	IMM 2018 Furniture Study IMM Investment Study 2020 IMM Annual Report 2018
Other		
Avoid raising unrealistic expectations of the benefits of FLEGT licensing.	2	Annual Report 2015/16 (published 2017) Annual Report 2017
Licenses being available from only one country hampers market development. Prioritise completion of VPA implementation in other countries. There needs to be a larger variety of FLEGT-licensed product and sources for it to gain market traction	8	Annual Report 2017 Annual Report 2018 Annual Report 2019 IMM 2018 Furniture Study IMM 2018 Procurement Study IMM 2020 Furniture Study IMM 2018 Trade Consultation, London IMM 2019 Trade Consultation, Antwerp
Ensure that no shortages of regulated timber occur due to limitations for implementing the Timber Legality Assurance Systems (i.e. technical and personal resources to operate the system).	1	IMM Investment Study 2020
Cooperate with China in the development of regulatory approaches that give market advantage to FLEGT-licensed timber.	1	IMM 2018 Trade Consultation, Nantes
Work more closely with NGOs to change public perception/environmental prejudice against tropical timber.	2	IMM 2018 Trade Consultation, Nantes IMM 2019 Trade Consultation, Antwerp

1. Recommendations were phrased slightly differently over the years. Where there was a close similarity in content to a previous recommendation, small additions were made or the previous recommendation was counted twice rather than adding a separate, similar recommendation with different wording.



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