SUMMARY NEWSLETTER H2 / 2020

IMM News

Providing information on independent market monitoring of FLEGT-licensed timber

In this issue

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

MARKET News

COVID-19 induced upheaval in EU27+UK economy during 2020

The COVID pandemic led to upheaval in the EU27+UK wood market and wider economy in 2020. The first half of the year saw the deepest recession in history in both the EU and the UK. With strict lockdowns in place in many countries between March and June, the EU27 economy shrunk 14.6% in the first 6 months of the year, while UK GDP fell 22.3% Then between July and September, the economy picked up, with record growth of 11.5% in the EU27 and 15.5% in the UK (*Chart 1*).

Economic data for the last quarter of 2020 has yet to be published, but the signs are that the recovery came to a sharp end with a second wave of lockdowns starting in October. A "double dip" recession is expected, with another decline in GDP forecast in the first quarter of 2021.

The second waves of COVID infection across Europe during the winter months have grown to be significantly larger than the first waves last year. According to the Oxford "stringency index", which records the strictness of 'lockdown style' policies to limit the spread of COVID-19, since mid-October, most of the EU27 and the UK have been subject to restrictions as severe as those imposed in the first lockdown between March and June last year. It is expected that these renewed measures will be in force in most European countries at least until mid-February and probably much longer.

In the EU's Autumn Economic Forecast published in November, EU27 GDP is reckoned to have contracted by about 7.5% in total in 2020 and is forecast to rebound by 4% in 2021 and by 3% in 2022. This implies that output in the European economy will barely return to pre-pandemic levels in 2022. The depth of the recession in 2020 and the speed

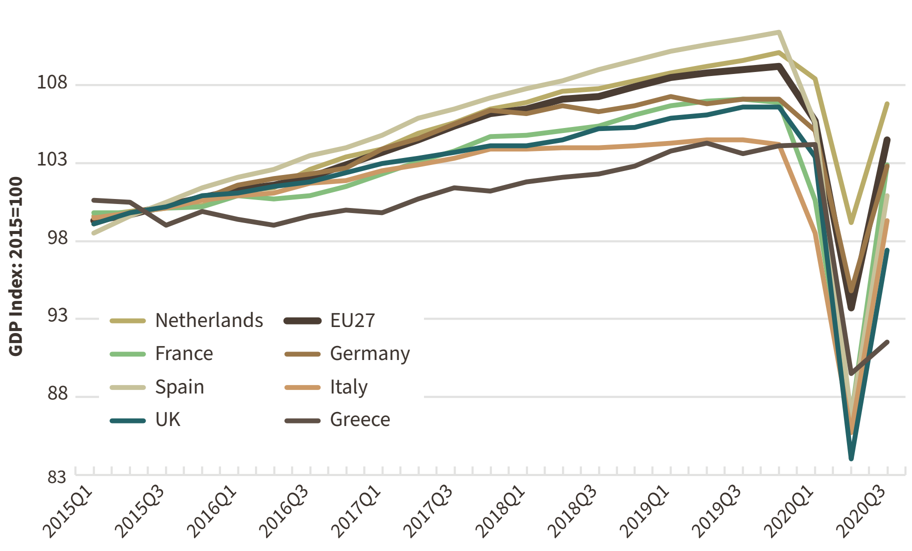


Chart 1: GDP index for the EU27, selected EU countries and the UK, Quarterly, Jan 2015 to Sept 2020. *Source: ITTO-IMM analysis of Eurostat*

of the recovery in 2021 and 2022 are expected to vary widely across member states. This reflects not only the severity of the pandemic and the stringency of containment measures, but also differences in economic structures and domestic policy responses.

Germany has benefited from its greater reliance on manufacturing, with factories staying open while government-mandated lockdowns shut non-essential shops and much of the hospitality sector. The EU's biggest economy probably managed to post some growth in the fourth quarter and may therefore avoid the "double dip" recession. In November, the EU forecast a relatively modest decline of 5.6% in Germany's GDP in 2020. The economic decline in the Netherlands, which implemented a less severe lockdown during the first wave of the virus, was also muted, the EU forecasting a decline of "only" 5.3%.

There were bigger declines in the economies of European countries like France, Italy, Spain and Belgium that are more reliant on services and where the first wave of the pandemic was particularly severe. The EU's latest projection is that the French, Italian, Spanish and Belgian economies shrank respectively 9.4%, 9.9%, 12.4% and 8.4% in 2020.

The UK's economy suffered severely in 2020, being amongst the countries most severely affected by the pandemic and heavily dependent on service industries forced to close during the lockdown, while also suffering from the added uncertainty of Brexit. The UK Treasury's independent spending watchdog, the Office for Budget Responsibility (OBR), latest forecast, released in November saw the UK economy contracting 11.3% in 2020 and not returning to its pre-crisis level until the end of 2022, at the earliest.

One relatively positive factor for the EU timber trade in 2020 was that the initial downturn in construction sector activity, which is a key driver of timber demand, during the first "great lockdown" was short and followed by a stronger rebound than other areas of the economy. Overall construction activity across the EU fell by around 20% between March and April but rebounded back almost to the pre-lockdown level by July (*Chart 2*).

In some EU27 countries with less stringent lockdowns, notably the Netherlands, commercial construction activity continued largely uninterrupted throughout 2020. The downturn in construction in France, UK, Italy and Spain was much greater, with activity falling by more than 50% between March and April last year. In the case of France, Spain and UK, construction had yet to reach pre-pandemic levels by October just when the second series of lockdowns was being imposed.

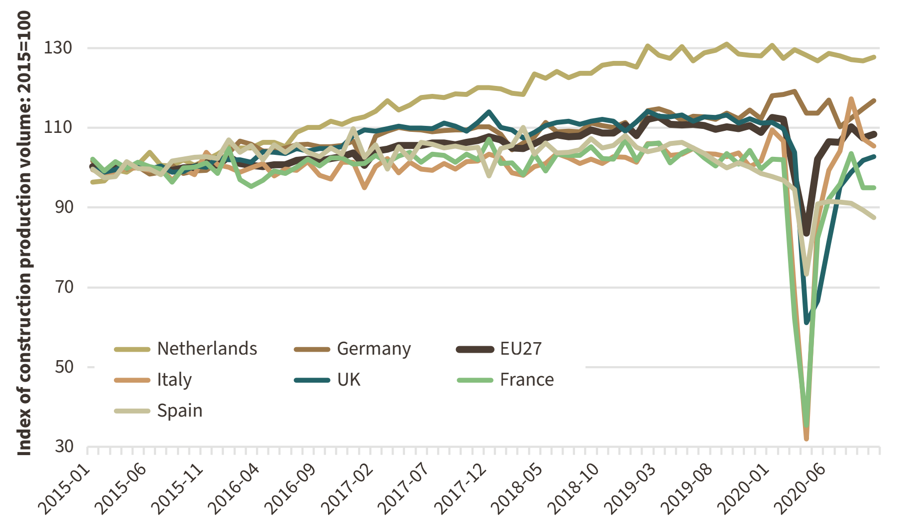


Chart 2: Construction activity in the EU27, selected EU countries and the UK, Monthly, Jan 2015 to Oct 2020. *Source: ITTO-IMM analysis of Eurostat*

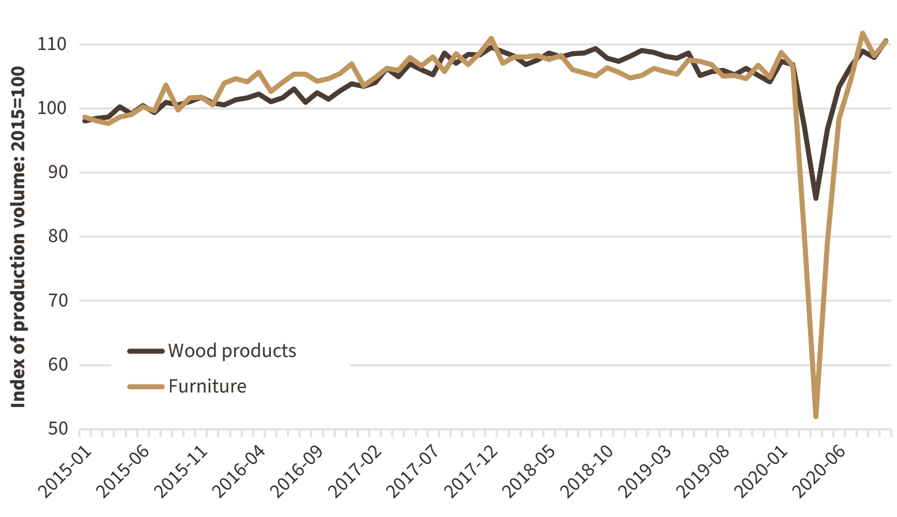


Chart 3: EU27 wood product and furniture manufacturing activity, Monthly, Jan 2015 to Oct 2020 *Source: ITTO-IMM analysis of Eurostat*

While commercial construction activity slowed in many EU27+UK countries during the pandemic, there were widespread reports of good demand for timber products from the DIY sector in the spring and summer months. DIY and hardware stores were allowed to open in many countries during the lockdown, being seen as essential services, and many people took the opportunity to carry out improvement work on their homes during this period.

The direct impact of the first lockdown on wood product and furniture manufacturing activity across the EU27 was short-lived (*Chart 3*). Both sectors seem to have adapted quite quickly to the new social distancing measures and were able to service the continuing demand from the construction and DIY sectors. Both sectors experienced a sharp dip in March and April but had rebounded to pre lockdown levels before the end of July. The downturn in EU27 wood furniture production was particularly sharp, falling around 50% across the region in the first lockdown, with production coming almost to a complete standstill in Italy, France and Spain during the period. However, even in these countries production was close to, and in some cases even exceeding, normal levels by July.

European countries have engaged in unprecedented and swift fiscal measures to tackle the economic crisis. On 21 July last year, EU leaders agreed on a €750 billion recovery effort, Next Generation EU, to help the EU tackle the crisis caused by the pandemic. Over the following six months, the recovery package went through the legislative steps to be ready in 2021. Alongside the recovery package, EU leaders agreed on a €1 trillion long-term EU budget for 2021-2027. Among other measures, the budget will support investment in the green and digital transitions and economic resilience. Together with the €540 billion of funds already in place for the three safety nets (for workers, for businesses and for member states), the overall EU's recovery package amounts to €2.36 trillion.

At the same time, individual European governments have adopted a range of fiscal measures in a desperate bid to protect business, workers and families from the worst of the pandemic-induced pain. Bruegel, the European economic think tank, estimates the total value of these measures in the EU and UK to be at least €4.2 trillion, including €800 billion of additional government spending and/or foregone revenues (such as tax breaks), €900 billion in tax deferrals and €2.5 trillion in other liquidity and loan guarantees for companies with financing problems.

These extraordinary measures are helping support essential business and social infra-structure during the pandemic and should provide a boost to economic activity in the medium term. They do however come at the cost of a much larger debt burden in the long term. And with the reintroduction of lockdown measures across much of the EU27 and the UK in November, they have yet to be translated into sustained recovery.

Forward looking indicators show that economic momentum in the EU27 is unlikely to pick up pace in the first quarter of 2021. The IHS Markit Eurozone PMI Composite Output Index rose from 45.3 in November to 49.1 in December. However a score below 50 indicates that a majority of those surveyed recorded a decline in purchasing during the month. Services were the principal drag on economic output, with activity here falling for a fourth successive month in December. Manufacturing remained the principal bright spot of eurozone economic performance, expanding for a sixth successive month and at a faster rate than in November.

The latest PMI data for eurozone construction is also not encouraging. IHS Markit, who undertake the survey, commented in their 6th January report that "Eurozone construction companies reported a continued downturn in activity during December, while incoming business also fell at a solid, albeit softer pace. Concerns surrounding the longer term impact that the pandemic will have on the wider construction sector, alongside a lack of new projects in both the public and private sector being brought to tender, resulted in an extension to the pessimistic outlook held by eurozone-based builders for a fifth month in a row".

IHS Markit noted in relation to individual countries that "France and Germany continued to report further declines in construction activity, with the former signalling the steepest fall since May. Italian firms on the other hand registered marginal growth for the first time since September."

IHS Markit PMI data for UK construction in December was more positive, showing that the rebound in UK construction activity continued during the month, primarily due to another rise in house building. According to IHS Markit, new order levels for UK construction increased for the seventh successive month. However, the PMI value of 54.6 for December implies only slow recovery from the very steep declines recorded earlier in the year.

Also according to IHS Markit, the combination of the pandemic and Brexit meant that supply chains to the UK construction sector were "groaning at the seams and delivery times increased to the most dramatic extent for six months. Low availability for finished products and raw materials as a result of port disruptions added to builders' woes as suppliers named their price for goods in acutely short supply and input price inflation increased to its highest level since April 2019".

Most economists now predict that it will be the second quarter before a recovery in the EU27+UK economy ultimately gets under way. Looking positively, the bounce-back could be sharp, at least initially, once restrictions are eased and infections subside, as more of the population is vaccinated. Pent-up demand could see a chunk of the hundreds of billions of euros of consumers' involuntary savings being unleashed. By the second half of the year, the EU's unprecedented recovery fund and multi-year budget together with additional measures at national level should be supporting growth.

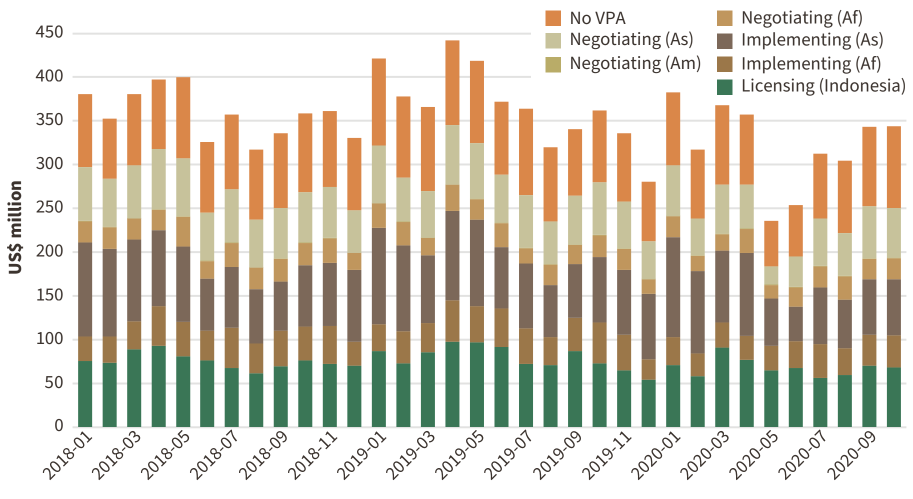


Chart 4: Monthly EU+UK imports of tropical wood* & furniture by VPA status, Jan 2018 to Oct 2020. *Source: ITTO-IMM analysis of Eurostat COMEXT *excludes fuelwood, chips & waste wood*

2020 decline EU27+UK imports of VPA partner wood products

The pandemic led to a sharp fall in EU27+UK imports of wood products from VPA Partners and other tropical countries during 2020, although the immediate effects were concentrated in the second quarter of the year and varied widely between product groups and countries. The downturn in 2020 also followed on from a significant rise in trade in 2018 and 2019 and the overall effect was to reduce trade to the level of two years before. The early signs are that the COVID downturn in EU27+UK tropical wood imports will be less dramatic, and more short-lived, than the downturn following the financial crises in 2008-2009 which effectively halved the size of the trade over the long term.

Chart 4 shows that while EU27+UK imports of tropical wood and wood furniture products fell sharply in May and June last year, there was a strong rebound in July. Although imports declined again in August, they were still quite high in a month which is traditionally very slow during the European summer vacation period, and then recovered well in September and October. During the summer and autumn last year, EU27+UK imports were given a boost by easing of lockdown measures, good demand in the DIY sector, and the relative strength of the euro on international exchange markets, the euro-dollar rate rising sharply from a low of 1.06 in March to 1.22 by the end of the year. The dollar's weakness was due to political uncertainty during and after the presidential elections and the continuing severity of the pandemic in the United States.

Chart 5 highlights that while there was no sharp dip in EU27+UK imports of Indonesian FLEGT Licensed products in the second quarter of 2020, the first lockdown period coincided with a time of year when trade with Indonesia is typically quite strong. There was also no compensating uptick in imports from Indonesia in the third quarter when lockdown measures were eased. Exporters in Viet Nam, the only VPA implementing country in Asia, were slightly more fortunate in the sense that the first lockdown period came at a time of year when European imports from Viet Nam typically decline (most usually arrive in the first quarter). However, the second quarter fall in imports from Viet Nam in 2020 was particularly sharp and, as with Indonesia, there was no rise in the third quarter to offset the decline. EU27+UK imports from VPA negotiating countries in Asia, led by Malaysia, also fell rapidly in the second quarter of last year, but made more of a recovery in the third quarter.

EU27+UK imports from VPA implementing and negotiating countries in Africa stand out for their relative stability in 2020, all the more surprising as the African timber trade is usually quite volatile. The data indicates that the African trade was less affected by COVID-related supply side problems than other regions in 2020. This trade was particularly buoyed by the continuing stability of EU imports from Gabon, notably of veneers destined for France.

Tropical wood and wood furniture imports into the EU+UK from countries not engaged in the VPA process fell sharply in the second quarter last year but also rebounded strongly in the third quarter. Imports of furniture from India fell particularly rapidly in the second quarter but were showing signs of recovery in the third quarter. Imports of tropical sawn hardwood and decking from Brazil, and of tropical hardwood plywood from China, began to fall in the second half of 2019 well before the pandemic impacted on the market, and the downward trend accelerated during the lockdown period. However, imports from both countries showed signs of recovery in the third quarter last year. Imports of sawnwood also continued to rise from Ecuador throughout 2020, driven mainly by demand for balsa wood for manufacture of wind turbines, particularly in Denmark and Germany.

Chart 6 highlights that while imports of tropical wood and wood furniture products fell in all the largest European markets in the second quarter of 2020 and rebounded in the third quarter, these trends were much more pronounced in the UK than other countries. The higher level of volatility in the UK seems indicative of extreme levels of market uncertainty in a country hit particularly hard by the first wave of the pandemic, while at the same time dealing with the fallout from Brexit. The UK's relatively

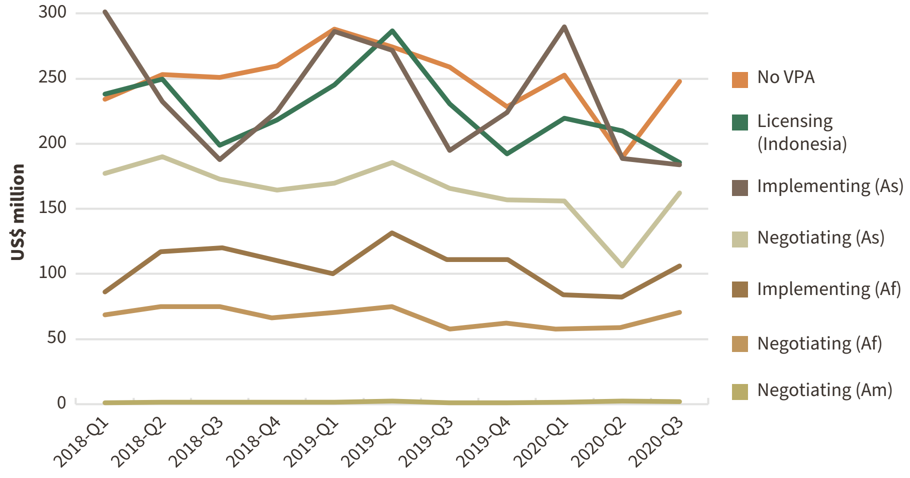


Chart 5: Quarterly EU+UK imports of tropical wood* and furniture by VPA status, Q1 2018 to Q3 2020.
*Source: ITTO-IMM analysis of Eurostat COMEXT *excludes fuelwood, chips & waste wood*

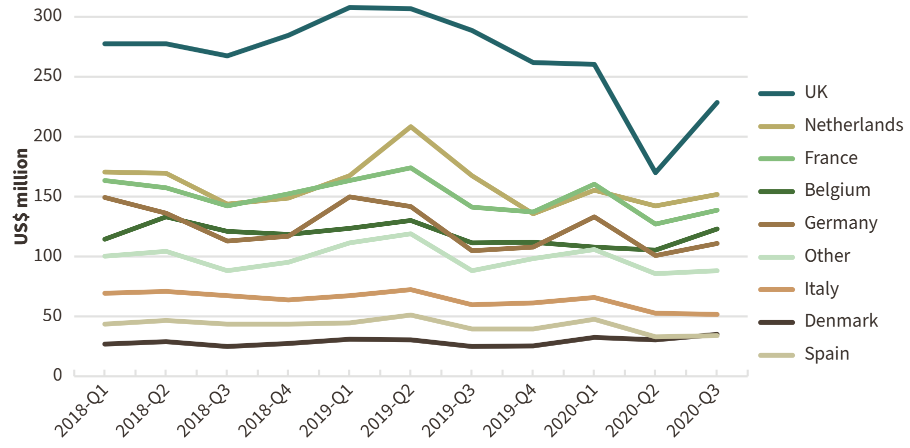


Chart 6: Quarterly imports of tropical wood* & furniture by EU+UK countries, Q1 2018 to Q3 2020.
*Source: ITTO-IMM analysis of Eurostat COMEXT *excludes fuelwood, chips & waste wood*

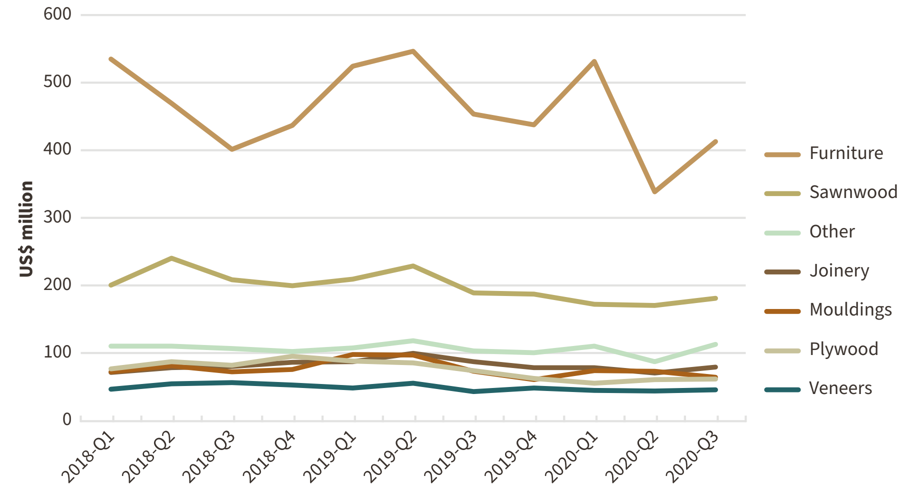


Chart 7: Quarterly EU+UK imports of tropical wood* and furniture by product group, Q1 2018 to Q3 2020.
*Source: ITTO-IMM analysis of Eurostat COMEXT *excludes fuelwood, chips & waste wood*

high level of dependence on trade with China and Viet Nam, where there was particularly serious disruption to supply chains early on the pandemic, also contributed to the extra trade volatility.

Chart 7 shows that the downturn in EU27+UK imports of tropical wood products in the second quarter of 2020 and the rebound in the third quarter was concentrated mainly in furniture. However, it also shows that the level of quarterly volatility in the EU+UK tropical furniture trade last year was not significantly different to the previous two years. The impact of the 2020 lockdown barely registers in total EU+UK trade in tropical sawnwood, joinery, mouldings, plywood and veneer.

Recent decline in EU27+UK tropical wood imports predates the pandemic

Chart 8 puts into long term context the impact of the COVID-19 on the EU27+UK tropical wood and wood furniture trade in 2020. It shows twelve monthly rolling total US$ value of imports to iron out short term seasonal changes and fluctuations during lockdowns. This highlights that the decline in EU27+UK imports from VPA partners and other tropical countries predated the pandemic. After hitting a high of US$4.48 billion in October 2019, the 12-month rolling total had already fallen to US$4.30 billion in February last year.

All the EU's largest economies deteriorated at the end of 2019 and in the first quarter of 2020. Total EU GDP increased only 0.2% between September and December 2019 and fell 3.3% in the first quarter of 2020. Various factors contributed, including continued Brexit uncertainty, slumping global trade, which hit European exports, widespread strikes in France over President Macron's pension reforms, and weaker domestic demand for goods and services in Italy, alongside continuing political difficulties. During this period, the euro was weakening against the US dollar, eroding the purchasing power of European importers.

Then the pandemic hit leading to widespread lockdowns and the 11.3% decline in EU GDP and 19.8% decline in UK GDP. The 12-month rolling total of EU27+UK tropical wood and wood furniture imports fell rapidly from US$4.30 billion in March to US$3.92 billion in June before stabilising at around US$3.85 billion between July and October. In effect this takes the total value of trade back down to levels last seen in early 2017 before the recent uptick in 2018 and 2019.

Chart 9 shows that the trend in import tonnage mirrors the US$ value trend, and so is not entirely exchange rate-driven, although the downturn after the first lockdowns in the spring is more pronounced in tonnage terms. The 12-month rolling total quantity of EU27+UK tropical wood and wood furniture imports fell from a peak of 2.41 million tonnes in August 2019 to 2.27 million tonnes in February 2020, just prior to the first lockdowns, and to 2.08 million tonnes by June. It then stabilised at around 2.05 million tonnes between July and October. In tonnage terms, these are levels last seen in early 2014 when the EU economy was at its lowest ebb during the eurozone debt crisis.

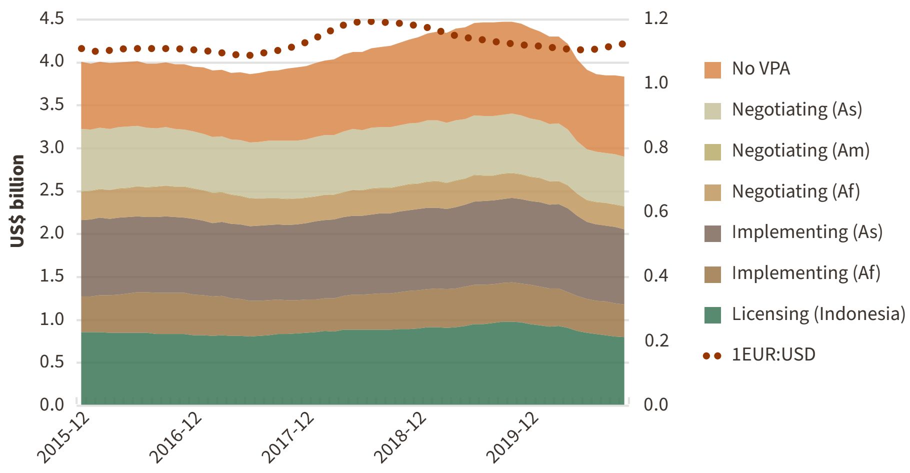


Chart 8: EU+UK imports of tropical wood* and furniture products by VPA status, 12 month rolling total Dec 2015 to Oct 2020.
*Source: ITTO-IMM analysis of Eurostat COMEXT *excludes fuelwood, chips & waste wood*

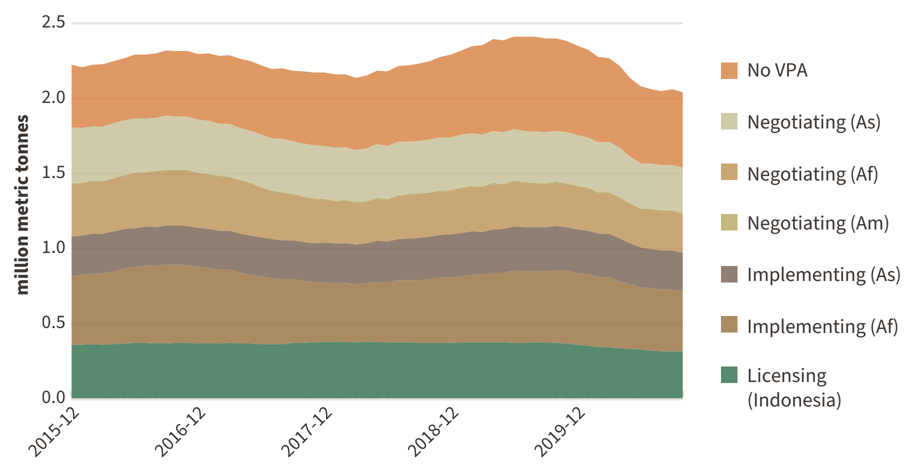


Chart 9: EU+UK imports of tropical wood* and furniture products by VPA status, 12 month rolling total Dec 2015 to Oct 2020.
*Source: ITTO-IMM analysis of Eurostat COMEXT *excludes fuelwood, chips & waste wood*

Indonesia's exports of forest and wood products better than expected in 2020

Indonesia's exports of forest and wood products to all destinations held up better than expected in 2020. According to a statement in January 2021 by Bambang Hendroyono, the Secretary General in the Indonesian Ministry of Environment and Forestry, Indonesia's 2020 export target for forest and wood products was projected to be exceeded despite the impact of the corona pandemic on production and trade. Early in 2020 the export target was lowered from US$10 billion to US$7 billion to take account of the anticipated disruption of business. However, export earnings in 2020 were expected to exceed US$11 billion, even more than the original target and only 5% below that of 2019. The Secretary General emphasised that Indonesian Government incentives and relaxation of regulations helped achieve this success.

Indonesian forest products export data (available at **www.stats.flegtimm.eu**) shows that in the first 10 months of 2020 Indonesia's worldwide exports of forest products were already close to US$10 billion and only 3% down on the same period in 2019. HS44 (wood) were down 3% to US$3.10 billion, HS47 (pulp) fell 10% to US$2.11 billion, and HS47 (paper) fell 4% to US$3.54 billion. Indonesia's exports of wood furniture were actually 10% higher at US$1.23 billion. The gain in Indonesia's exports last year were mainly made in China and the United States.

In contrast, the pandemic had a severe effect on EU27+UK imports of forest products from Indonesia in 2020, effectively wiping out the significant gains made during the previous two years. In the first 10 months of 2020 compared to the same period in 2019, EU27+UK imports of all forest products from Indonesia fell 22% to US$933 million, with HS44 (wood) products down 24% to US$388 million, wood furniture down 20% to US$290 million and paper down 23% to US$255 million.

For wood furniture, a big decline in EU27+UK imports of Indonesian occurred in April and May, exactly coinciding with the first lockdown period. The value lost during this period was also almost exactly equivalent to the gains made in 2019 so that trade in the third quarter was back to 2018 levels (*Chart 10*).

EU27+UK imports of Indonesian joinery, mouldings/decking, and plywood were already falling in the six months prior to the pandemic and the downward trend continued during the lockdown in the second quarter of 2020. However there was slowing in the pace of decline in the third quarter. EU27+UK imports of other wood product groups from Indonesia, including marquetry/ornaments, flooring, S4S sawnwood and veneers, while still low in 2020, did not experience any significant downturn during the year.

The 2019 upturn and 2020 decline in Indonesian wood furniture imports into the EU27+UK was mainly driven by trade with the Netherlands. The Netherlands market remained resilient throughout 2019 and into the first quarter of 2020 but slowed dramatically in the second and third quarter last year.

Imports of Indonesian wood and wood furniture into the UK, Germany, and Belgium were already weakening in the last quarter of 2019 and first quarter of 2020. In the case of the UK, the sharp downturn continued throughout the second and third quarter of 2020. However, the pace of decline in imports into Germany and Belgium slowed in the second quarter and trade stabilised in the third quarter. Imports of Indonesian wood products into other major EU markets, including France, Italy, Spain, and Denmark remained reasonably stable in 2019 and 2020 (*Chart 11*).

Recent trends in EU27+UK paper imports from Indonesia appear less

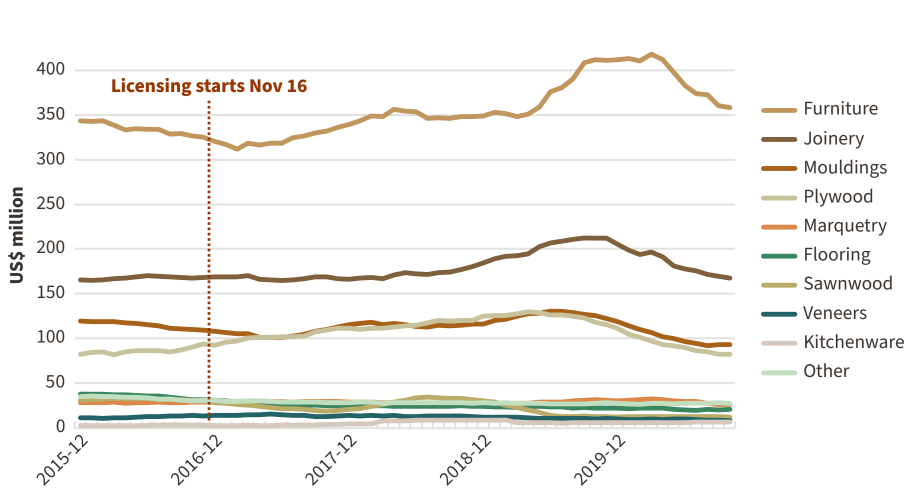


Chart 10: EU27+UK imports of wood* and wood furniture products from Indonesia by product 12 month rolling total, Dec 2015 to Oct 2020.
*Source: ITTO-IMM analysis of Eurostat COMEXT *excludes fuelwood, chips & waste wood*

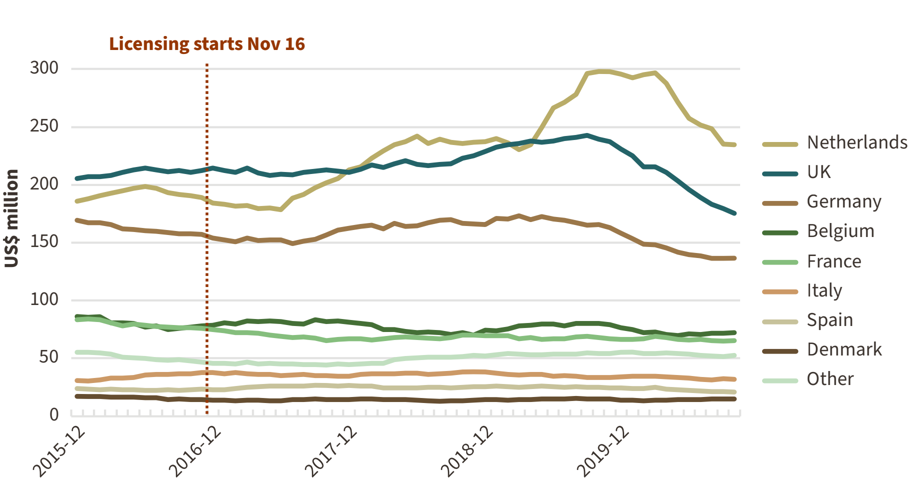


Chart 11: EU27+UK imports of wood* and wood furniture products from Indonesia by destination, 12 month rolling total, Dec 2015 to Oct 2020.
*Source: ITTO-IMM analysis of Eurostat COMEXT *excludes fuelwood, chips & waste wood*

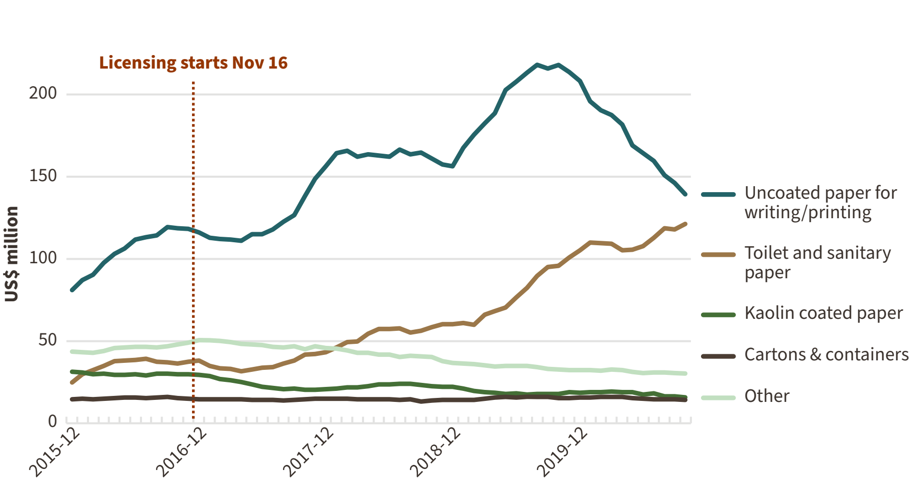


Chart 12: EU27+UK imports of pulp and paper products from Indonesia by product, 12 month rolling total, Dec 2015 to Oct 2020.
Source: ITTO-IMM analysis of Eurostat COMEXT

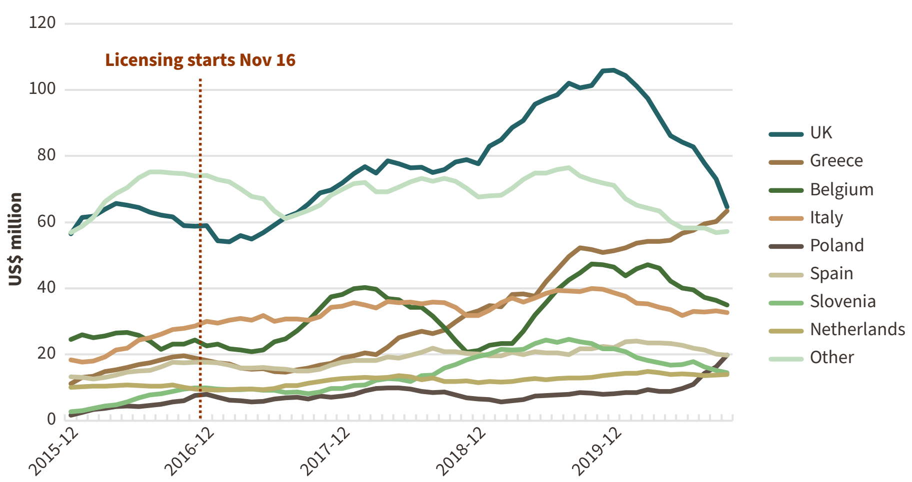


Chart 13: EU27+UK imports of pulp and paper products from Indonesia by destination, 12 month rolling total, Dec 2015 to Oct 2020.
Source: ITTO-IMM analysis of Eurostat COMEXT

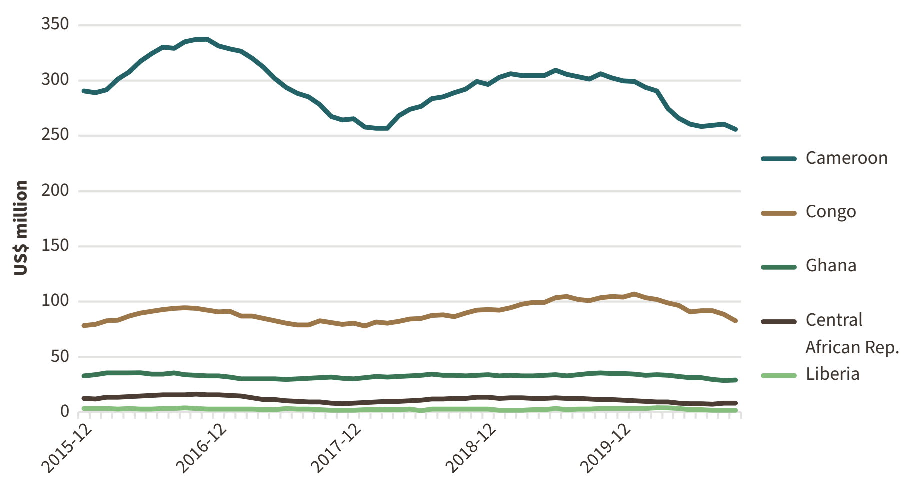


Chart 14: EU27+UK imports of wood* and wood furniture products from VPA implementing countries in Africa, 12 month rolling total, Dec 2015 to Oct 2020.
Source: ITTO-IMM analysis of Eurostat COMEXT

influenced by the COVID pandemic than other market factors. Imports of uncoated paper products for writing/printing were rising strongly between the start of 2017 and the middle of 2019, but then began to decline sharply in the second half of 2019 well before the pandemic impacted on the market, a decline which continued last year. Throughout this whole period imports of toilet and sanitary papers from Indonesia continued to rise, with a only a slight and brief slowdown in the second quarter last year. EU27+UK imports of other paper products from Indonesia were flat or declining between 2017 and 2019 and these trends continued last year (*Chart 12*).

EU27+UK imports of uncoated paper products for writing/printing are destined mainly for the UK, Belgium, Italy and Slovenia. Imports into all these markets peaked in mid-2019 and were declining even before the pandemic. However the UK market was particularly volatile. The rising quantity of Indonesian toilet and sanitary paper imported into the EU27+UK between 2017 and 2019 was destined mainly for the UK and Greece. In 2020 imports into the UK declined sharply but imports into Greece continued to rise and Poland also emerged as a more important market (*Chart 13*).

Pandemic reverses gain in EU27+UK imports from African VPA partners

Although there was a sharp decline in EU27+UK wood product imports from Cameroon in 2020, trade with the leading African supply country was not noticeably more volatile than in previous years (*Chart 14*). In the 12 months to October last year, EU27+UK imports from Cameroon were US$256 million, down from US$306 million in the previous 12-month period. Most EU27+UK trade with Cameroon comprises sawnwood destined for Belgium. The last time imports from Cameroon were at this low level was in 2017 when shipments via Douala port were severely affected by dockyard workers strikes, delays in VAT reimbursements and other red tape.

EU27+UK imports from the Republic of Congo (RoC) were rising consistently throughout 2018 and 2019 but slowed significantly in 2020. Rolling 12-month imports increased from US$78 million in January 2018 to a peak of US$107 million in January 2020 before sliding back to US$83 million in October 2020. This trend is driven mainly by Belgian imports of logs and sawnwood and French imports of veneers from the RoC.

The gains made in EU27+UK imports from Ghana in 2018 and 2019, mostly of sawnwood and veneer, were lost in 2020. The EU27+UK 12-month rolling total import from Ghana increased from US$32 million in March 2018 to US$35 million in December 2019 but then slowed to US$29 million in October last year. Imports from Ghana were rising into Germany, Belgium and the UK in 2019 but declined into all three countries in 2020. Imports from Ghana into Italy were also sliding in 2020, continuing a longer-term downward trend that started in 2018.

EU27+UK imports from Central African Republic (CAR), recovered from an annualised low of US$8 million in November 2017 to US$13 million in October 2018, where there remained level for the next three quarters. However, between the middle of 2019 and October 2020, annualised imports fell back again to US$8 million. EU27+UK imports of 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 imports from Liberia, while still low, were rising quite rapidly in the last quarter of 2019 and first quarter of 2020, the annualised value increasing from US$2.9 million in September 2019 to US$4.0 million in March 2020. However, imports from Liberia were negligible in the second and third quarters of 2020 and the annualised value had fallen to only US$2 million by October 2020.

Vietnam overcomes immediate market challenges of pandemic

Viet Nam appears to have overcome the immediate market challenges of the COVID pandemic remarkably quickly. In April 2020 in the immediate aftermath of lockdown measures in the US and Europe, the Vietnam Timber and Forest Product Association (VTFPA) issued a statement that the wood industry in the country faced a 'disaster' as 'many Vietnamese wood processing enterprises have had orders cancelled of suspended,' that they were 'sitting on 100s of containers of finished goods that cannot be shipped and must be stored in warehouses at considerable cost for an unknown length of time', while also 'facing sharp rises in input prices for wood and other materials' and freight costs that 'have increased $500–1,000 per container'.

However, the situation seems to have been transformed before the end of the year. According to a report in the ITTO MIS (1–15 January 2021), in the first 11 months of 2020, Viet Nam's total wood and wood products exports amounted to US$11.023 billion, 15.6% more than the same period in 2019. At US$6.37 billion, exports to the United States were 35% greater than the same period the previous year. Exports also increased to China (+4% to US$1.08 billion), South Korea (+1% to US$728 million) Canada (+15% to US$196 million), Australia (+11% to US$154 million) and Germany (+3% to US$104 million). These gains were only partly offset by declining exports to Japan (-4% to US$1.16 billion), the UK (-27% to US$207 million), France (-17% to US$95 million) and the Netherlands (-8% to US$64 million).

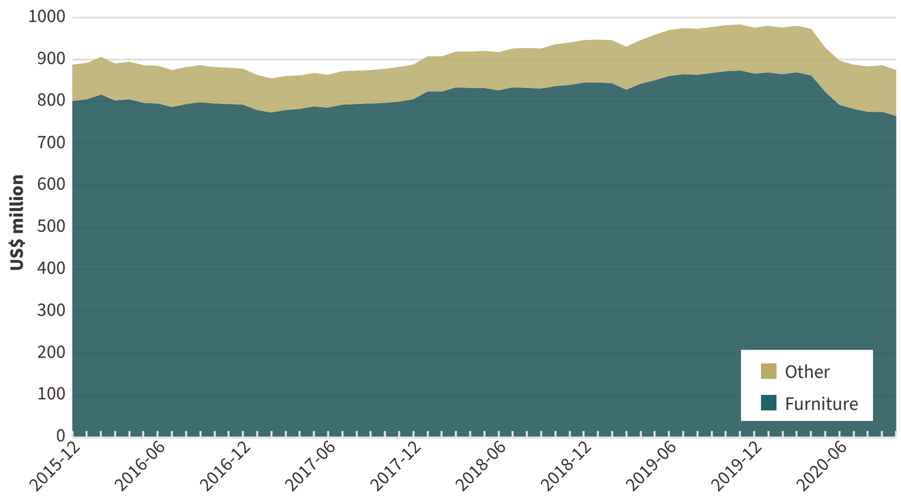


Chart 15: EU27+UK imports of wood* and wood furniture products from Viet Nam, 12 month rolling total, Dec 2015 to Oct 2020.
*Source: ITTO-IMM analysis of Eurostat COMEXT *excludes fuelwood, chips & waste wood*

The downturn in Viet Nam's exports to the EU27+UK in 2020 was longer lasting than the downturn to the United States, falling very sharply in May and June and barely recovering even by October. This is particularly true of the UK, still the largest market in the EU27+UK for Vietnamese wood products, which was particularly hard hit during the first wave of the pandemic and where the market faced added uncertainties due to Brexit. 12-month rolling total wood and wood furniture imports into the EU27+UK from Vietnam were US$876 million in the year ending October 2020, down from US$982 million in the previous 12-month period. EU27+UK imports from Viet Nam in 2020 were around the level last seen in 2016 (*Chart 15*).

STTC Conference identifies increasing recognition of wider benefits of FLEGT

Speaking at the November 2020 Sustainable Tropical Timber Coalition (STTC) Conference, Iwan Kurniawan of The Borneo Initiative recommended greater collaboration and synergy between FSC and the EU FLEGT programme in Indonesia to streamline auditing and improve the economics of certified sustainable forest management. "The current average annual cost of auditing separately for FSC and SVLK is around $49,000," said Mr Kurniawan. "Joint auditing could cut this by 31%. He added that a motion proposing joint FSC and SVLK audits would be discussed at the 2021 FSC general assembly.

According to the official conference report, Mr Kurniawan also expressed the opinion that "a large part of the criteria of FSC certification, SVLK – the timber legality assurance system underpinning FLEGT – and Indonesia's PHPL SFM system are broadly equivalent". This statement demonstrates significant changes in perception over 2019, when Jesse Kuijper of the Borneo Initiative had said during the STTC Conference that he had seen legality and sustainability schemes in operation and FSC would be the only one that raised standards on the ground.

The 2020 online STTC Conference, which attracted a worldwide audience of 150, was titled 'Holding the line and moving forward: Roots for green recovery'. Its focus was the need to halt tropical forest loss and associated adverse climatic impacts and wider environmental degradation and to incentivise implementation of sustainable forest management (SFM) by expanding the market for verified sustainable tropical timber. The complementary core theme was the growing understanding that, to tackle the environmental crisis more broadly, society globally needs to adopt a circular bioeconomic model, a core element of which is greater and more efficient use of sustainably produced natural raw materials. It's a view recently given greater currency, with post-pandemic economic reconstruction seen as a major opportunity to accelerate this transition.

Sustainable tropical timber supply, said speakers, must be presented as integral to achieving this 'green recovery' and the bioeconomic switch. Several speakers highlighted the importance of setting clear criteria for "sustainability" with respect to timber usage. They also pointed out the relevance of public policies for driving responsible and sustainable consumption.

The official Conference report can be **found here**.

The day before the Conference, STTC also released its latest report on "verified sustainable" tropical timber trade in Europe. Like its 2019 predecessor, the report focusses primarily on FSC and PEFC certified timber, but also includes FLEGT-licensed timber as an indication of responsible sourcing. The report uses the "exposure to certification method" pioneered by the IMM project with own variations. It estimates that in 2019 28.5% of EU imports of primary tropical wood products and 33% of secondary wood products were exposed to certification. 11% and 42%, respectively, were exposed to FLEGT-licensing.

The report can be **downloaded here**.

Engage SMEs in responsible timber trade initiatives, urges Global Timber Forum

National and international efforts to ensure a legal and sustainable global timber trade, including the EU FLEGT initiative, should engage more with micro and small to medium-sized businesses (SMEs). That's the conclusion of a briefing paper from the Global Timber Forum (GTF) – **Enhancing the Development of a Responsible SME Forest Products Sector**: Recommendations and Call to Action for National and International Policies and Programmes.

The GTF is a not-for-profit operation focused on 'building the responsible trade capabilities of forest and wood-based organisations'.

It maintains that SMEs are the 'backbone' of the forest products industry worldwide, accounting for 50% of global employment in the sector. So their involvement is essential to 'drive market norms that value and demand responsibly produced timber'.

Establishing these norms, in turn, is key if the international market is to move successfully to a lower environmental impact bioeconomic model, where greater emphasis is placed on use of renewable natural resources.

"SMEs play a vital role in building a thriving and responsible forest and wood-based products sector that contributes to entrepreneurship, economic growth, innovation and job creation, while having the potential to address illegal logging and deforestation driven by land conversion," says the GTF.

Currently, it adds, a range of challenges restrict SMEs' ability to play their part in and benefit from development of a responsible timber trade:

- Lack of access to [legally] verified wood
- Lack of support to develop understanding of and compliance with government policy
- Lack of understanding of international market requirements
- Lack of finance to support investment and innovation
- And lack of marketing knowledge.

Small to medium sized businesses are a major force in the forest sectors of many countries. *Source: EFI FLEGT Facility*

The importance of getting SMEs on board with strategies to ensure a responsible, legal forest and timber trade has been recognised by the EU in connection with the FLEGT initiative, says the briefing paper.

It quotes the EU's 2016 evaluation of the EU FLEGT Action Plan as saying that, due to their lack of involvement, 'many SMEs are or risk being negatively affected by implementation of FLEGT Voluntary Partnership Agreements'. What was needed was 'stronger private sector involvement and simplification of procedures to comply with VPA/EUTR requirements in order to increase cost-effectiveness for forest businesses'.

The GTF also cites the EU FLEGT Facility's 2018 Highlights and Insights report. This stated that 'SMEs are a major force in the forest sectors of many timber exporting countries involved in FLEGT processes'. But it acknowledged that 'as VPA processes lead more countries to clarify their legal frameworks, increase law enforcement and change policy, smaller-scale entities could be vulnerable if their needs and challenges are not well understood'. More work needed to be done to understand this group of actors so that practical solutions could be developed to help integrate them into verifiably legal supply chains.

The GTF also maintains that SMEs are largely excluded from major national and international deforestation focused forums. "Their voices are drowned out by larger operators who have different priorities," it says.

VPA helps free up Thai smallholders to sell timber

One outcome of Thailand's EU Voluntary Partnership Agreement is a change in forestry regulation, freeing up smallholder farmers to sell timber from private land, according to a report from the European Forestry Institute FLEGT Facility (**www.euflegt.efi.int**).

Smallholders had been unintended victims of Thai strategies to combat deforestation, starting with a ban on logging in all natural forests in the late 1980s. This led to a decline in timber supply to the domestic market. Efforts were made to support communities and private land holders in providing an alternative timber supply. But the regulations stipulated that they could not cut or transport timber unless their land was registered with the Royal Forest Department then inspected and local authorities informed prior to harvest. The complexity of compliance – coming up with documentation to prove the legality of timber grown on their land – effectively blocked smallholders from the market.

But, according to the FLEGT facility report, the situation now looks set to improve following changes in forestry law in 2019 related to reforms coming out of Thailand's VPA. The issue has been highlighted by the Private Forest Plantation Cooperative (PFPC), which represents tree-growing farmers and private land owners.

"We were aware of limitations around harvesting and transportation of certain tree species and we've been pushing for amendments to forest laws to improve the situation for farmers," said Yingluk Patibhanthewa, Chair of the PFPC. "When the Government started to review the forest law in Thailand as part of timber trade negotiations with the EU, it was a good time for us to raise this topic again and we achieved some early results, positively impacting the lives of our farmers."

The change in the rules means that farmers can now legally harvest all trees on their land without having to inform the Royal Forest Department first. Following on from this, new mechanisms are being piloted to enable them to prove their timber originates from their land and is legally sourced. Farmers say that the reforms will incentivise them to plant more trees.

Major UK funding backs Colombian sustainable forest use

A £64 million support package from the UK for Colombia is aimed at improving forest governance and increasing uptake of sustainable forest and agricultural management. The grant finance has been awarded under the UK's International Climate Finance programme (ICF). It comes a year after the UK and Colombia concluded a 'Partnership for Sustainable Growth', which focuses on 'supporting the fight against deforestation and environmental crime and creation of sustainable economic livelihoods'.

The money will be spent on bolstering efforts to combat illegal logging and other environmental crimes in conflict-affected deforestation hotspots and on updating Colombia's 'cadastre' register of land ownership. "Better land registry records make property ownership clearer and help authorities make more informed decisions about which land to protect," said Colombia Environment Vice Minister Roberto Mario Esmeral. "It can be a source of information to conserve forests and plan sustainable use of the land."

Mr Sharma said that UK support will 'strengthen Colombia's land rights and criminal justice system, controlling deforestation, while building a fairer, greener and more resilient rural economy'.

The UK Department for Business, Energy and Industrial Strategy (BEIS) described Colombia as a 'leading South American voice' on environment issues, but said it had recently seen a spike in forest fires and deforestation in the wake of conflict and the Covid-19 pandemic.

Under the support programme, the 'cadastre' work will be conducted through the World Bank, and measures to combat environmental crime through the UN Office of Drugs and Crime, plus local partners working with communities to establish sustainable farming and forestry approaches and businesses.

In February, Colombia announced the creation of a special military unit, derived from the police and armed forces, to protect national parks and step up operations against armed groups involved in illegal logging and setting forest fires. Last year the government said 90 military operations were carried out in defence of the environment. Illegal timber was seized and 200 people arrested.

Under its 2016-2020 ICF programme, the UK committed to spend £5.8 billion to tackle global climate change. A fifth of this is going to forest and land use interventions and related carbon emission reduction. Colombian Minister for the Environment, Ricardo Lozano, said the UK funding was the biggest bilateral grant for environmental purposes awarded under the current Colombian administration.

Free trade deal set to boost Viet Nam's EU exports

Vietnamese wood-based panel and joinery exporters are among the beneficiaries of the EU-Viet Nam Free Trade Agreement (EVFTA).

Following approval by the Council of the EU on March 30, the EVFTA was ratified by the Vietnamese National Assembly in June 2020, clearing the way for its introduction this summer.

As of August 2020, 71% of existing duties on Vietnamese exports to the EU were axed, with the remainder to be phased out over the next three to seven years. At the same time, 65% of duties on EU exports to Vietnam will be abolished, with the rest eliminated over the next decade.

A large proportion of Vietnamese goods under HS code 44, wood and articles of wood; wood charcoal and HS94, furniture, including timber products, were already imported into the EU tariff-free.

Vietnamese timber and wood products exports to the EU in 2019 were worth $946.5 million, up nearly 10% on 2018. *Source: Nam Nguyen*

However plywood, veneered and 'similar laminated wood' panels, particleboard, oriented strandboard and fibreboard are currently subject to duties of 7% or 10%. Under the EVFTA tariff schedule, these will be eliminated over five years. Duty on various blockboard, laminboard and battenboard, now rated at 6% or 10%, will go in between three and five years.

Wood packaging products, windows and window frames, plus wood marquetry and inlaid products, mosaic flooring and wood ornaments subject to duty were zero-rated immediately.

According to the IMM Data Dashboard, Vietnamese timber and wood product exports to the EU in 2019 were worth €946.5 million, up from €862 million in 2018. Of the total, €788 million comprised wood furniture, €29 million joinery, €6.5 million plywood, and €59 million 'other wood products'.

Viet Nam Timber and Forest Product Association General Secretary Nguyen Ton Quyen said he expected the deal to help push the sector's exports to the EU through the €1 billion mark in 2020 and to accelerate growth in the years ahead .

He also highlighted that Viet Nam's manufacturers will benefit from the immediate axing or phasing out of tariffs that currently apply to imports of EU timber. These reached €217 million in 2018, up 5% on 2017, mainly comprising oak, ash, beech and walnut.

Viet Nam will also end duty on wood processing and manufacturing machinery from the EU. Nguyen Ton Quyen said this should help improve productivity and quality standards.

He predicted too that once implemented the EU-Vietnam Investment Protection Agreement (EVIPA), which has been ratified by the Vietnamese National Assembly, would incentivise foreign inward investment in the country's timber and wood products manufacturing sectors.

Viet Nam's biggest European market for wood products by some way is the UK, with exports worth €358 million in 2019. The EVFTA only applied to it until the end of its transition period to depart the EU on December 31 2020, however the UK is now in talks with Viet Nam to secure a similar bilateral trade deal.

"Following the transition period, EU trade agreements no longer apply to the UK, but trade continuity agreements will enter into effect as part of the UK's ability to pursue an independent trade policy," said a spokesperson for the UK Department for International Trade. "The UK and the Viet Nam Governments are working together to replicate the effects of the EVFTA to ensure continuity for UK businesses following the transition period."

Viet Nam's Ministry of Planning and Investment (MPI) forecasts the EVFTA will help grow the country's overall exports to the EU by 42.7% by 2025, increasing the country's GDP by 4.6% percent. In the short-term it is hoped it will help the Vietnamese economy regain momentum following the Covid-19 pandemic.

Bilateral trade between Viet Nam and the EU in 2019 was worth €53.4 billion, with €35.6 billion accounted for by Vietnamese exports. This makes the country the EU's second most important ASEAN trading partner, having overtaken both Indonesia and Thailand in the last few years.

Pandemic highlights need for new supply chain technologies

The Covid-19 pandemic has highlighted the value of new supply chain sustainability auditing technologies and could trigger their accelerated uptake for commodities including timber. That's the conclusion of journal articles co-authored by academics Cory Searcy of Ryerson University in Canada and Pavel Castka of the University of Canterbury in New Zealand. They say the pandemic has prompted a global rethink of supply chain business models. That includes in respect of sustainability certification and verification auditing. And the latter, they told IMM, potentially includes auditing under FLEGT VPA countries' timber legality assurance systems.

"Most audits have traditionally been on-site and heavily reliant on direct inspections and observations by auditors," said the academics in a London School of Economics blog on their reports. "COVID-19, however, has severely limited completion of on-site audits." Their previous research, they added, has focused on how 'technology enhanced auditing' (TEA) can fill the 'cracks in the foundation of supply chain risk management'. TEA, they explain, can include such technologies as chemical fingerprinting, blockchain transaction tracking and advanced machine learning. These are already in use in the forest and timber sector, with Global Forest Watch, for instance, using satellite imaging, cloud computing and social media to monitor deforestation. Mr Searcy and Mr Castka maintain they can also be used to support auditing for certification to 'voluntary sustainability standards (VSS)', such as those of the FSC and PEFC.

"In fact, FSC has been exploring use of satellite analysis and blockchain," they write, pointing out that the FSC has also published a report on its website on its aims to develop 'digital options' in its certification system to 'increase the credibility and lower the cost'.

The report authors' belief that the pandemic had potential to increase VSS certification bodies' use of auditing technology was reinforced by a study of 21 of them during the crisis.

"We found substantial uptake of remote auditing practices among them. This included use of information and communication technologies (ICTs) to gather data, interview auditees and so on when face-to-face methods are not possible or desired," they said.

There were caveats to certification bodies' use of remote auditing, however. It tended to be restricted to certain audit types, and users demanded enhanced provisions for data security. Most bodies consulted also assumed its exclusive use would be temporary.

This caution, say Mr Searcy and Mr Castka, underlines a need for suppliers and users of TEA systems to answer remaining questions about their use. These include finding the right balance of traditional auditing and TEA techniques, how to develop the necessary auditor competencies and meet the cost of new technologies.

But TEA, maintain the authors, can increase audit veracity and timeliness of data collection and analysis. "More use of blockchain, for example, could improve product provenance tracking, while big data applications could assist in identifying patterns and making predictions," they state.

Talking to IMM, Mr Castka said there were 'a lot of parallels between FLEGT VPAs timber legality assurance systems and other voluntary systems' discussed in his and Mr Cearcy's papers. "Looking for instance at VPA's focus on good [forest and supply chain] governance, matters around transparency and accountability can all be improved with the uptake of technology enhanced auditing technologies, such as block chain, satellite imaging or DNA testing," he said. "The overlap and applicability of the arguments from our work is clearly there for the FLEGT VPA initiative."

The pandemic, Mr Castka and Mr Searcy maintain , has clearly highlighted vulnerabilities in existing global supply chain systems and controls and that heavy reliance on on-site supplier auditing is 'untenable' in the event of such a crisis.

"Technology can be used to mitigate risks of limited or no on-site auditing – and remote auditing is just a start," they say. "There's also a need to embrace TEA to ensure continuity and credibility of supplier certifications. More broadly, technological advances need to be embedded in quality infrastructure and conformity assessment across the globe."

Mr Castka and Mr Searcy's full reports are titled **Technology-enhanced auditing in voluntary sustainability standards: The impact of COVID-19** and **Technology-enhanced auditing: Improving veracity and timeliness in social and environmental audits of supply chains**.

FLEGT communication by design

Entrants in the Conversations About Climate Change design competition, the latest manifestation of the UK Timber Trade Federation's government-funded FLEGT communication campaign, were given a demanding brief. They had to create a product or artwork entirely in timber from FLEGT VPA partner countries. It had to reflect the creator's concerns about the environment, and invite discussion about the key role of the forest in averting climate crisis, the part using legally and sustainably sourced timber plays in helping maintain the forest, and, of course, about FLEGT. The TTF acknowledges it laid down quite a challenge. But even before the online exhibition featuring the six winning designs went live on February 12, the conversation triggered by the project had gone global. It attracted over 100 entries from around the world.

"We publicized it through trade media, the trade itself and our channels with VPA partner countries, but we were thrilled with how far the message reached and the response," said TTF FLEGT Communications Executive Lucy Bedry. "We had entries from across Europe, South America, Asia, Africa and Australasia, including FLEGT VPA countries."

The TTF's objective was to highlight the range of tropical timber available from FLEGT VPA suppliers and their technical performance and aesthetic properties and also to tap designers' creativity to communicate the FLEGT initiative more broadly.

"People respond to objects and design at a different level than to words on a screen or piece of paper," said Bedry. "Our aim was to use that to help convey the FLEGT story."

At the outset, the competition required something of an education process.

"Some designers had heard of FLEGT, but most had quite a limited understanding or none at all," said Bedry. "We pointed them to material on FLEGT on our website and also took the time to do one on one calls. The objective of our communications on FLEGT is to present its impacts and benefits in the widest sense. First, the assurance a FLEGT licence can give that timber is legally sourced from sustainably managed forest, but also the positive social and economic aspects of the FLEGT Voluntary Partnership Agreement process in supplier countries. In particular, we stress the far-reaching, nationwide transformation these countries undergo in terms of forest governance, stakeholder participation and implementing legality assurance systems throughout the VPA before they get to FLEGT licensing stage. They're making such progress and changes every step of the way."

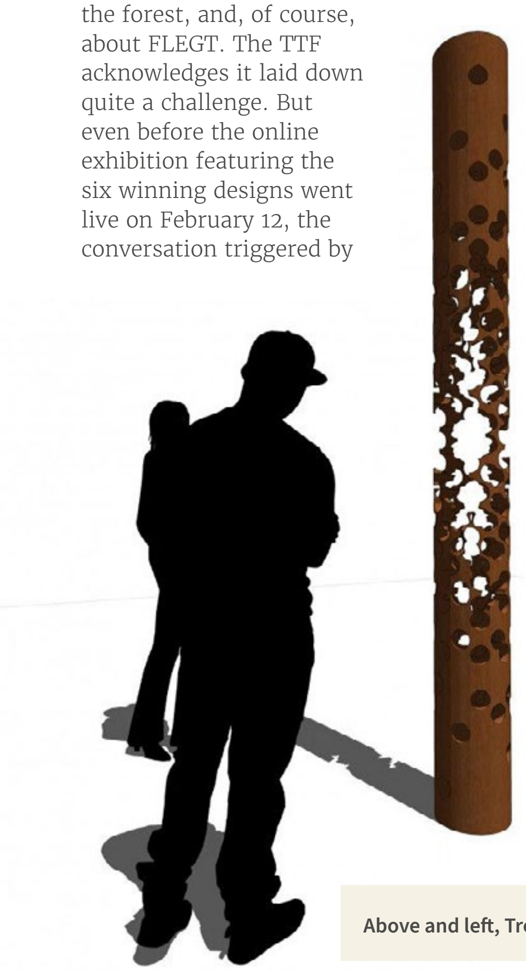
Once they'd been given the full picture, she added, designers commented that they would now consider specifying and using timber from VPA countries.

The sheer number of entrants made picking the winners difficult enough for the seven-strong panel of judges, who were drawn from across the timber and wood products supply chain; from the timber trade, construction, design, architecture and retail. The variety of entries, said Bedry, made it still more of a challenge. They included sculptures, ornaments, structures, furniture, toys and more besides. But eventually the winning six were chosen.

Sheryl Ang called her entry 'Tree Whisperer'. It comprises a range of highly tactile tree sculptures which emit pulsing beats. These reflect how different species respond to climate change – the faster the beat, the more distressed it is by rising global temperatures.

"If we safeguard the life cycles of trees, we go some way to safeguarding the planet," said Ang. "Global demand for commodities places greater pressure on land and natural habitats. Implementing legal reform and the measures to enforce this, towards sustainable and responsible forest management frameworks, goes some way to achieving this goal."

Another winner is the Sapele Sound Pavilion, by Jeremy Yu and Tomos Owen, described as a 'contemplative space creating a spectacle for the senses'. Sapele, they said, is traditionally used for musical instruments and the pavilion is a 'soundbox' playing a 'soundscape



Above and left, Tree Whisperer and Extraction. *Source: UK TTF* based on the lifecycle of the tree'. The emphasis is on the significance of the forest, not just in regulating climate, but also in social and cultural terms.

Extraction by Julia and Julian Kashdan-Brown comprises a sapele column with horizontal holes drilled through its heart. The piece represents the environmental instability that results from uncontrolled, unmanaged timber extraction and highlights the need for 'a drastic reduction in deforestation'.

Carbon Print by Joseph Pipal underlines the role of the forests and wood in sequestering and storing CO2 from the atmosphere. It comprises print blocks in meranti, sapele and iroko, made more durable by using the Japanese preservation technique of charring. "At times the scale of the challenge to protect forests and reverse global economic models built on mass extraction of materials seems overwhelming," said Pipal. "But I've been uplifted, as a maker, by the simple realisation that using sustainably sourced wood can help with the climate crisis."

Michael Westthorp's High Tide makes its impact through its starkness. It is a simple teak column marked with the sea level today and that projected for 2021 if man-made climate change continues at its present pace. "Viewers will hopefully start to think of the wider implication to the city they live in of global climate change," said Westthorp.

Finally, architect Tom Wilson's winning entry is a collection of miniature Forest Dweller models in multiple wood species. It's intended to underline the importance of forests as habitats and in preserving biodiversity. Wilson had previously 'steered clear' of using tropical timber, but was impressed with what he'd learned about FLEGT through the competition, notably its 'governmental level and holistic approach to sustainability, both environmental and economic'.

"I would now perhaps consider the use of tropical timbers more, provided I could be sure of the provenance and legality of the supply chain," he said.

All the timber for the winning designs has been responsible sourced through TTF members. Not all the species on the winners' wish list were available due to supply disruption caused by the pandemic, so importers provided alternatives that were technically and aesthetically similar. But this in itself underlined the importance of designers and makers specifying the range of species based on performance characteristics, rather than just habit or tradition, to make most sustainable use of the forest resource.

The winning entries are on display at the Building Centre in London for three months from February 12.

"As the Centre will initially be closed to the public due to the pandemic lockdown, the exhibition will be online in the form of a **360-degree tour** complete with commentary about FLEGT and interviews with the winning designers," said Bedry. "Hopefully, if the lockdown is relaxed, people will be able to actually visit later in March and April. The plan is then to take the exhibition on a European tour, in collaboration with colleagues in other national trade federations."

Forest Dwellers. *Source: UK TTF*

Such has been the success of Conversations About Climate Change, the TTF is now planning a further design competition. The intention is for the winners' exhibition to coincide with the COP26 UN Climate Change Conference in Glasgow in November to promote FLEGT and highlight the environmental significance of forests and timber to delegates.

"As part of our FLEGT communications programme, we also hope to have a pavilion in Glasgow with representatives of FLEGT VPA countries in attendance," said Bedry.

Data training aims to strengthen community voices on forest governance

Thai civil society groups have taken part in a data literacy training programme to strengthen their capacity to advocate for forest governance improvement, including through Thailand's FLEGT VPA process.

The February to June training course was run by the East-West Management Institute (EWMI), which is backed by a range of national and international donors, including the European Commission, World Bank and United Nations Industrial Development Organisation. It was tailored specifically for the forestry sector and covered reading, understanding and communicating with data and the insights that can be gained from it.

The eleven participants included representatives of community groups, the Thai Citizen Forest Network, the Raks Thai Foundation (formerly CARE International (Thailand)) and RECOFTC – the Center for People and Forests.All were sponsored by the Voices for Mekong Forests (V4MF), which helps indigenous people, private sector, local community and other civil society groups engage in and influence forest governance in Thailand, Cambodia, Lao PDR, Viet Nam and Myanmar.

Reporting on the training initiative, Open Development Thailand said it came at a key time for the country, as it negotiated its FLEGT Voluntary Partnership Agreement with the EU.

"It is important that stakeholders, such as non-state actors and civil society organisations, are able to better advocate in this process through the presentation of a compelling data story to advance forest governance," it said. "This program provided civil society and non-state actors with tools to further their advocacy."

Course participants worked on different projects to hone their data handling skills. One analysed the distribution of local land use certificates with the aim of protecting community rights and access to public services.

Another developed a data set to 'visualise and communicate insights' to the Citizen Forest Network to help it clarify the rights of smallholders to grow and sell their timber.

The EWMI has also run its data literacy training in Myanmar and Cambodia and started a course in Viet Nam in July 2020.

MFP4 communications project to refresh and harmonise SVLK brand

A brand refresh is among the tasks of a new communications drive for Indonesia's SVLK timber legality assurance system. The initiative, backed by the UK-funded Multi-stakeholder Forestry Programme (MFP4), aims to raise awareness of the value of SVLK certification at home and abroad.

Phase 1 of the project, to February 2021, will see development of an SVLK communications plan for 2021-2023. This will include the creation of two 'cohesive message houses', one each for domestic and international audiences. Respective roles of stakeholders in delivering communications will also be defined. Other activities include developing communications materials to raise the profile of Indonesia abroad as a source of low-risk timber and to promote SVLK on the domestic market. The objective is also to create a 'knowledge management platform' as a central point of information for SVLK. This opening phase will additionally address SVLK branding.

"The [SVLK] standard is currently described in different ways at different steps of the timber value chain; SVLK as a timber legality assurance system from harvesting through processing of wood products; V-Legal certification at the point of export out of Indonesia; and FLEGT-licensed timber upon arrival in the EU market," states the call for applications to manage the project. "This branding needs to be clarified and harmonised."

Phase 2 of the programme will focus on supporting Indonesian timber businesses and associations in their marketing and promotion. The objective is to 'convey messages and content about the [SVLK] standard's ability to reduce reputational and environmental risk for international buyers of tropical timber'. In support of this, buyers' procurement criteria will be analysed and promotional campaigns supported at trade fairs.

The Indonesian Ministry of Environment and Forestry (MoEF) will also be backed in delivering a domestic SVLK policy promotion programme targeting regulators and encouraging increased Indonesian media coverage of the system.

The project is effectively the execution of a communications strategy developed for SVLK and FLEGT-licensed timber under the MFP4 programme, in cooperation with MoEF, the Global Timber Forum and ID COMM. With the aim of increasing understanding and buy-in for SVLK among an Indonesian audience and building recognition and demand for FLEGT-licensed timber in export markets, this entailed extensive stakeholder interviews and needs assessment.

Tenders are being invited from communications and public relations experts to take on the role of managing and developing the communications project. The deadline for experessions of interest is September 23. Full details can be found on the website of Palladium, which implements the MFP4 with fellow international sustainability programme coordinators Systemiq.

PROJECT News

IMM investment study identifies correlation between FLEGT-licensing and rising investments

In 2020, IMM commissioned a follow-up study of FLEGT impact on forest sector investment in Indonesia and Viet Nam. The study identified correlation between a rise in forest sector investment and a shift in investment from the pulp and paper towards the wood processing and furniture manufacturing sector in Indonesia during the last decade.

The 2020 study was acting on recommendations from a baseline study published in 2019, which had included all VPA implementing countries. This study had concluded that further monitoring of correlations between the FLEGT VPA process and forest sector investment should be limited to countries with an operational FLEGT-licensing system, i.e. to countries issuing FLEGT-licenses, as in other countries the scope of reforms was considered insufficient to have any identifiable impact on forest sector investment.

Acting on this second recommendation, IMM commissioned an in-depth follow-up study of FLEGT impact on forest sector investment, the investment enabling environment and forest sector resilience to economic crisis in Indonesia. Viet Nam was also included for several reasons:

- Viet Nam is a regional competitor to Indonesia in the wood and forest products sector and a key processing hub.
- Availability and quality of investment data allows for monitoring of investment activity in Viet Nam over a relevant period of time.

Confirming research from the baseline study, the new study identified no clear correlation yet between milestones in the Vietnamese VPA process and investment activity in the forest sector (***Figure 1***). Other economic reforms were identified as the driving force between the rise in investment between 2010 and 2018. In 2010, for example, the country became partner of the Transpacific Partnership (TPP) and in 2011 the government enforced a series of resolutions which helped to stabilise the currency, curb inflation and improve the investment enabling environment.

However, a stakeholder survey included in the investment study identified high expectations among Vietnamese companies that the VPA, once fully implemented, would mitigate market risk, enhance capital mobilization and sector governance and thus improve the investment enabling environment.

In Indonesia, by contrast, where the VPA has been operational and FLEGT licenses issued since late 2016, the study did suggest a direct link between the VPA and forest sector investment, although other factors were also important (***Figure 2***). The long-term trend for Indonesia shows increasing investment volumes in the forest sector, with growing investment shares in wood industry and furniture since 2010.

While in the period 2000 to 2009, the total investment volume in the forest sector was ca. IDR 13.2 billion (most of it in the pulp and paper sub-sector), the investment volume in the period 2010 to 2017 more than doubled (IDR 30.4 billion). Stakeholder and enterprise interviews suggest that increasing investments in the wood industry and furniture during that period were partly triggered by the VPA process, which was improving forest sector governance and Indonesian market access in the EU, the US, Australia and other regulated markets. However, defining and quantifying the exact impact of the FLEGT VPA process on forest sector investments in Indonesia remains difficult.

Conclusions and recommendations

The 2019 baseline study demonstrated that a FLEGT VPA alone cannot compensate for the lack of market drivers for investments such as market potential, investment friendly environment, efficient production systems and favourable cost situations, for example. However, in countries where all or some of the above criteria are met, as is the case in Viet Nam and Indonesia, VPAs can be a stimulating factor in the investment-enabling environment in the forest sector by:

- Creating improved access to regulated markets;
- Improving access to capital and investors through formalisation/ improved credibility of forest sector enterprises;
- Eliminating market distortions through unfair / illegal competition;
- Establishing good forest governance, addressing social and environmental risk factors;
- Ensuring long term viability of operations by enhancing sustainable forest management practices.

To further strengthen the positive impacts of VPAs on forest sector investment, the study recommends considering the following aspects:

- Strengthen the pull effect of markets by expanding regulated market demand (i.e. support development of timber legality laws in additional countries e.g. China, India).
- Strengthen the competitiveness of FLEGT-licensed products through branding and preferential treatment for licensed products, for example in public procurement.
- Promote FLEGT licensing as a factor to improve the bank rating of forest sector enterprises in VPA countries.
- Speed up the formalisation of all market participants.
- Find ways to avoid additional cost for producers, e.g. by developing digital solutions.
- Ensure that no raw material shortages occur due to technical limitations of the TLAS.

The full investment study will be published on the IMM website in February 2021.

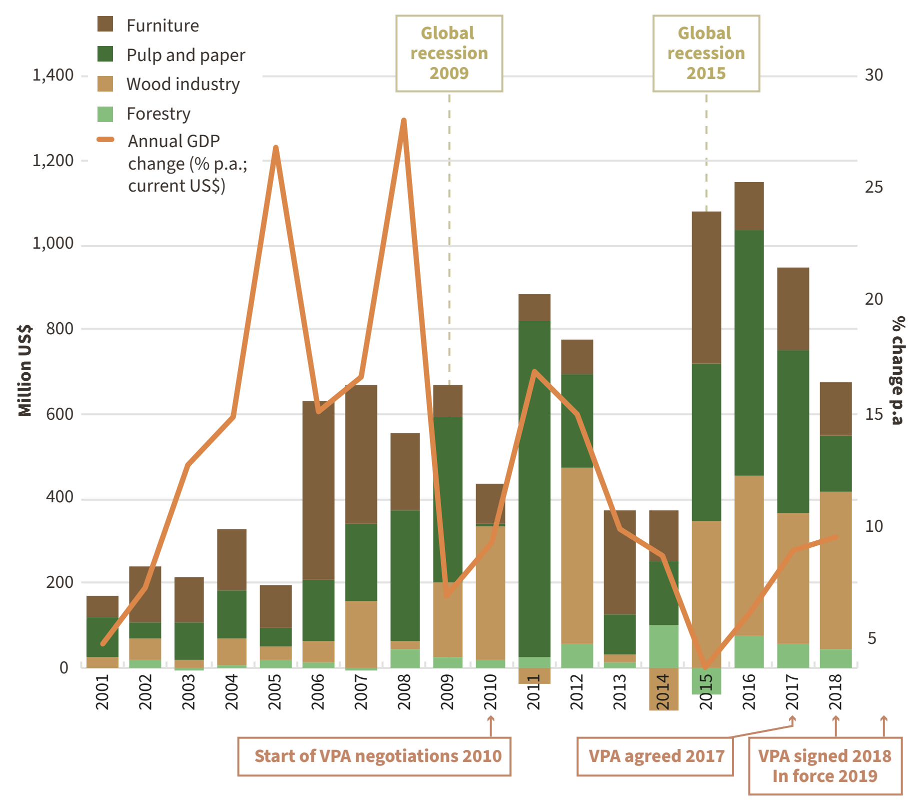


Figure 1: Annual increase/decrease of fixed assets in Viet Nam's forest sub-sectors 2000 to 2018. *Source: Annual Statistical Yearbooks for Viet Nam*

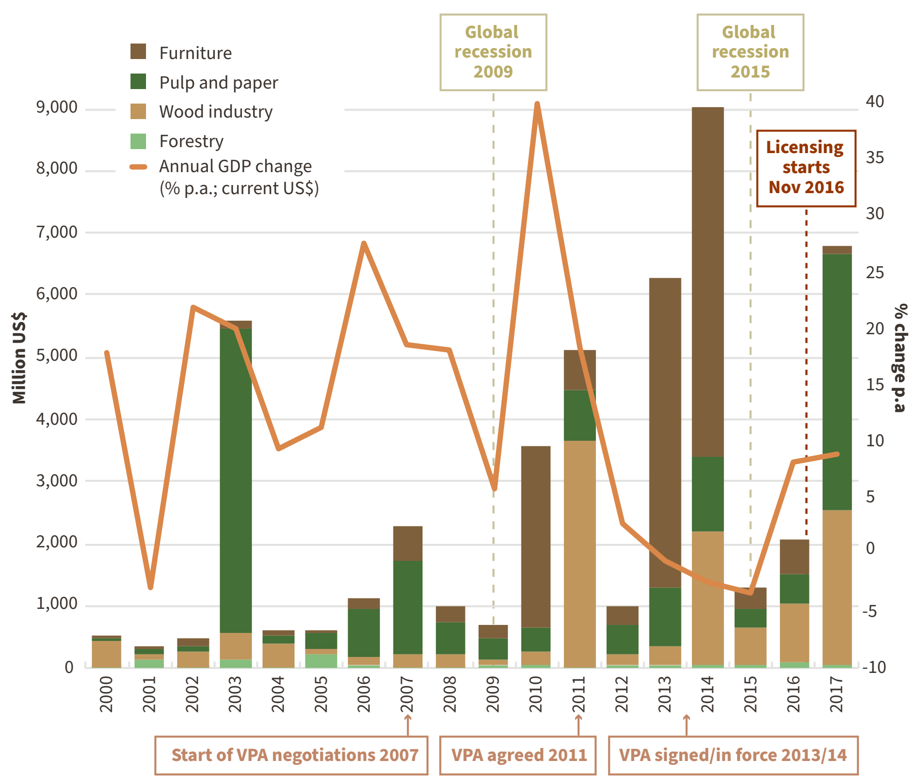


Figure 2: Annual increase of fixed assets in Indonesia's forest sub-sectors 2000 to 2017. *Source: Annual Statistical Yearbooks for Indonesia*

IMM furniture report flags need to boost EU FLEGT-licensed supplier options and producers' licensing buy-in

To grow and develop EU and UK demand for FLEGT-licensed furniture requires promotion in these markets of what a FLEGT Licence stands for and the business benefits in terms of assured legality and exemption from EUTR due diligence. It also demands that more FLEGT VPA partner countries join Indonesia and get to FLEGT licensing stage to boost the EU's choice of FLEGT-licensed products and supplier.

These are among findings of a new report commissioned by the IMM; "Assessing the impacts of timber legality on the European Union's wood-furniture sector and the associated VPA partner country timber trade". It concludes too that, to build furniture producer buy-in and trust, more needs to be done to demonstrate the commercial benefits of the FLEGT-licensing scheme for Indonesian manufacturers, with many currently seeing it as a 'bureaucratic hurdle rather than a business opportunity'.

A follow up to a 2018 report, the new study is based on interviews with 34 buyer companies in Belgium, France, Germany, Italy the Netherlands and UK. Fifteen trade furniture associations in Indonesia, India and Malaysia were also questioned, representing a total of 7,100 companies. Among the aims of the analysis were to examine factors determining relative furniture sector competitiveness of VPA partner and other producer countries and to 'provide commentary on the current and potential role of FLEGT licensing to improve market access in the EU and other regulated markets'. This includes looking at EU furniture importing sector experience with EUTR due diligence and the role of certification and other forms of third-party legality verification in the sector.

The international furniture business has taken a significant hit in the COVID-19 pandemic, states the report, but from 2016-19 EU+UK imports of wood furniture from VPA partner countries rose from $1.2 billion to $1.4 billion. Viet Nam accounted for 54% of EU27+UK imports in 2019, with the other lead suppliers comprising Indonesia (26%), Malaysia (16%) and Thailand (4%).

India was also included in the analysis as it is a rising competitor to VPA country manufacturers. It now ranks fifth largest global producer, with its total exports tripling in value since 2010.

Asked to rank purchasing priorities, European companies cited assurance of legality second most important after quality, with assurance of sustainability fifth most important after length of trading relationship and consistent availability.

FLEGT would gain market traction if more countries were licensing. *Source: Michael Buckley*

In terms of proving negligible risk of illegality, China was rated as the greatest challenge by importers, with Viet Nam third greatest of countries examined. But both China and Viet Nam were considered cost competitive and adept at developing new products. Indonesia was rated highly on providing proof of negligible risk of illegality. However interviewee comments included that 'demand [for their products] has declined recently due to cost and greater limitations on design than in Viet Nam'.

On EUTR compliance, most European interviewees cited obtaining relevant documentation for due diligence as their biggest challenge. 25% said FLEGT licensing influenced their purchasing decisions and 11% that they were importing more from Indonesia since it started licensing.

Asked for their views on the FLEGT initiative, the Vietnamese viewed it as providing greatest business value, both in existing export markets and in developing new ones.

Indonesian associations, however, principally saw its value as maintaining sales in existing markets. They felt the EU lacked urgency in prioritizing FLEGT and consequently one respondent commented "it does not even increase the value of sales or expansion of new markets".

Indonesian associations also felt there was inconsistency in EUTR enforcement between EU member states and some felt that providing documentation for compliance with EUTR due diligence systems was easier than becoming SVLK certified and exporting FLEGT-licensed products. The EU, they maintained, also has an obligation to promote licensed products to grow market acceptance.

The study concludes that EU and UK interviews revealed a 'generally positive outlook towards FLEGT licensing, a reasonable to good level of understanding of it and that importers appreciate its value in assuring negligible risk'. However, some potential buyers remained 'unaware of what it stands for and its business benefits'.

It also states that the 'clear message' from the European furniture sector was that FLEGT-licensed timber from a single country is insufficient to greatly increase its market momentum. "It reinforces the view that EU+UK companies will not re-source to Indonesia purely due to availability of licensed [products]. Purchasing decisions are complex and, whilst easier compliance with the EUTR is a factor, it is not sufficiently important in its own right to drive a switch," says the report.

It also maintains that the fact Indonesian furniture producers felt they were not benefiting commercially from FLEGT licensing and that it was insufficiently promoted in the EU+UK needed addressing.

"From the perspective of the furniture industry, a successful FLEGT-licensing scheme would involve multiple countries offering FLEGT-licensed products and strong awareness within EU at business-to-business level," it says.

The full report can be **downloaded from the IMM website here**.

Goal of closing world markets to illegal wood well advanced

Analysis of trade data contained in the latest IMM Annual Report demonstrates that the goal of closing world markets to illegal wood products is already well advanced – even if recent steps towards regulation in China are discounted for now. In 2019, 66.5% (US$27.6 billion) of the total value (US$41.5 billion) of recorded tropical wood product exports worldwide were destined for countries with regulatory measures to eliminate illegal trade (*Figure 1*). This compares to 62.2% of tropical trade in 2018. The rise in the proportion of tropical wood products destined for regulated markets in 2019 was due primarily to the decline in imports by China, considered here an unregulated market, while US imports of wood products from tropical countries, particularly Viet Nam increased sharply during the year.

The proportion of wood product exports destined for regulated countries was even higher for VPA partner countries (*Figures 2 and 3*). In 2019, 79% of all wood products exports by FLEGT licensing and VPA implementing countries was destined for regulated markets. In addition to EUTR, which accounted for 12% of total exports by FLEGT licensing and VPA partner implementing countries in 2019, a large share of exports went to destinations regulated by the US Lacey Act

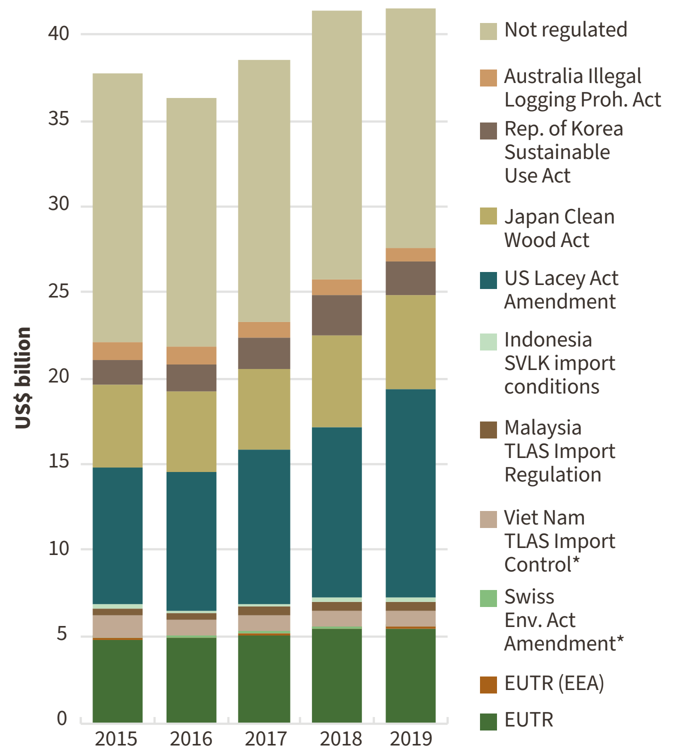


Figure 1: Value of global trade in tropical wood products, 2015-2019, by consumer country regulatory status. *Source: IMM-STIX*

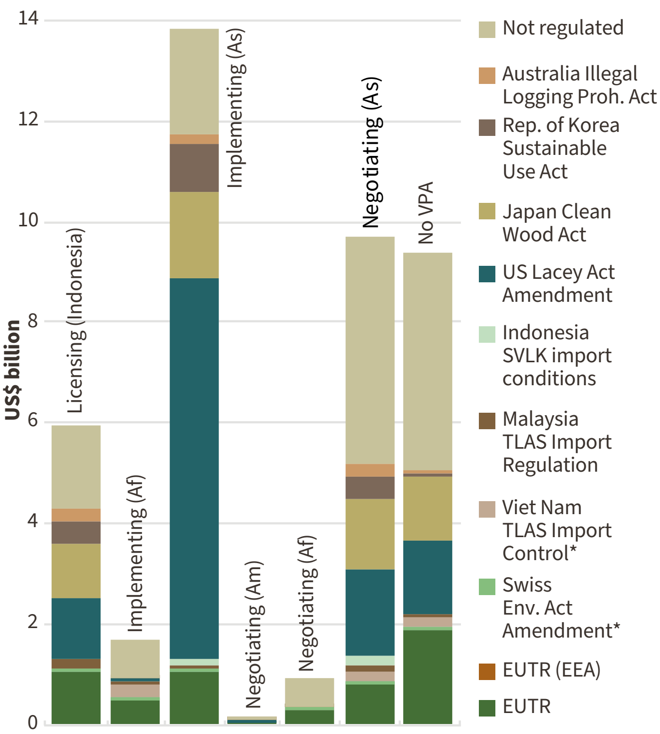


Figure 2: Value of global trade in tropical wood products in 2019 by FLEGT VPA status and consumer country regulatory status. *Source: IMM analysis of STIX trade data and national legislation (*legislation still in draft at end of 2019). As=Asian partners, Af=African partners, Am=Latin American partners*

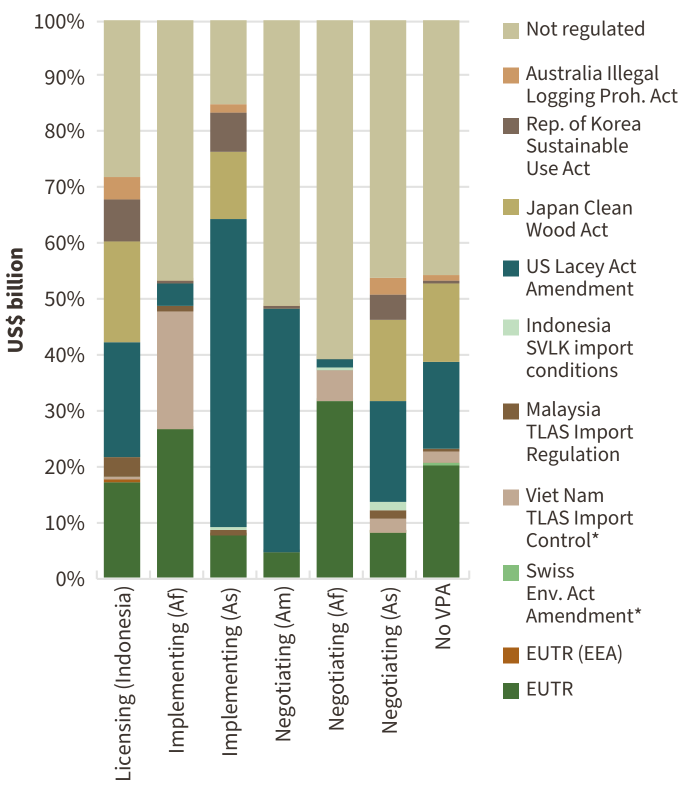
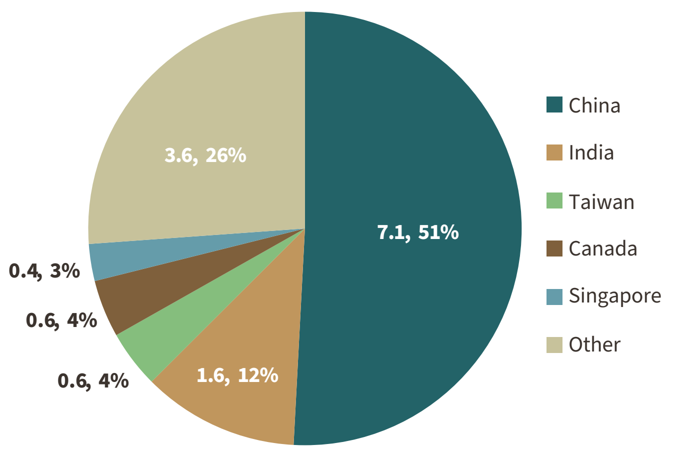


Figure 3: Share of global trade value in tropical wood products in 2019 by FLEGT VPA status and consumer country regulatory status. *Source: IMM analysis of STIX trade data and national legislation (*legislation still in draft at end of 2019). As=Asian partners, Af=African partners, Am=Latin American partners*

(42%), Japan Clean Wood Act (13%), Republic of Korea Sustainable Use Act (7%) and Australian Illegal Logging Prohibition Act (2%).

In 2019, the share of exports to regulated countries was particularly high for Indonesia (72%) and Viet Nam (85%). The share of exports to regulated markets was lower, but still significant, for VPA implementing countries in Africa (53%).

Around US$13.9 billion of tropical wood product trade in 2019, 33% of total recorded trade, was destined for countries without import regulations. More than half was destined for China (*Figure 4*).



Total unregulated imports: US$13.9 billion

Figure 4: Tropical wood product imports into unregulated markets by main importers –2019. *Source: IMM analysis of STIX trade data and national legislation*

IMM webinar on trade data tools attracts a large audience

To be of value to timber businesses, and other sector stakeholders, it's vital that industry trade data is both current and accessible – available in comprehensible, user-friendly and relevant formats. To this end, the **IMM's Data Dashboard** has recently been redeveloped to make it easier to navigate. New visualization tools have also been added, so users can select and present information specific to their needs.

Clearly underlining market interest in data, a recent webinar hosted by the IMM demonstrating the capabilities of the Dashboard and STIX attracted a capacity international audience of 100 – and the **webinar is now available to view**.

Clockwise: Rupert Oliver and Sarah Storck of the IMM and Steve Johnson of the ITTO during the webinar.

Besides being of value and use to the trade in following and analyzing market trends, IMM Trade Analyst Rupert Oliver explained that the Dashboard has various other remits.

"It supports the work of IMM correspondents, who undertake trade and specific sector surveys which feed into its annual report and sectoral studies, and also informs policy makers involved in the development of FLEGT and market strategies for the initiative," he said.

The Dashboard, which is updated monthly, covers product classified under HS codes 44 (wood), 47 (pulp), 48 (paper) and 94 (furniture) and uses the highest HS resolution, including multiple items within each product category.

It comprises two components, a Monitoring Board and Market Trends facility. The former gives a broad overview of the EU and UK's tropical timber trade, setting trade flows from FLEGT-engaged countries in the context of their wider tropical imports from all sources of supply. It also shows trends in the global tropical trade by import country, with the latter segregated by importers which operate market legality controls, such as the EU with the EU Timber Regulation and the US with the Lacey Act, and non-regulated countries.

The Market Trends facility allows users to break down statistics under various parameters, selecting, perhaps, imports of specific products by a particular EU country from a range of timber suppliers. The data can then be downloaded in raw tabular format, or graphically – and users can also create their own Sankey diagrams on the site.

Launched last year, the STIX website (**www.stix.global**) was developed under the IMM project as a joint initiative between the ITTO and Global Timber Forum. It obtains its monthly-updated data from Eurostat-Comext, UK HMRC and commercial provider Business and Trade Statistics Ltd. It harmonises value data into dollars and euros and also validates quantity data, using its own algorithm to remove errors and discrepancies.

It provides data under the same product codes as the Dashboard, but for 46 reporting countries. These include nearly all the world's leading timber importers and exporters, between them accounting for at least 90% of global trade.

Users can define data presented by importer and supplier country. They can select by product, value, or quantity and see the data in graphical and tabular format.

In the webinar, IMM Lead Consultant Sarah Storck also emphasized that both STIX and the Dashboard are undergoing continual improvement.

"Both facilities have feedback functions for users to share their thoughts on further developments," she said. "The more input we get, the better and more useful our data and analysis will be."

A recording of the webinar is now available. A longer version of this article first appeared in the UK Timber Trades Journal (**www.ttjonline.com**).

FLEGT taken into account in Indonesian NFSS FSC approval

The FSC has approved the Indonesian National Forest Stewardship Standard (NFSS) as compliant with its principles and criteria and says it took Indonesia's SVLK timber legality assurance system (TLAS), FLEGT licensing status and PHPL sustainable forest management system into account in the process.

The Indonesian NFSS, which has been several years in development, was approved by FSC International in Bonn in June and published in August 2020. It came into effect on December 1 and existing FSC-certified forests in the country have 12 months to transition to the new standard from then. The NFSS documentation was due to be available at the FSC Document Centre in English and Indonesian in December.

The FSC said the Indonesian standard was developed by adapting its principles and criteria version 5 and the FSC International Generic Indicators.

"This adaptation was based on the agreement of members of the National Standard Development Group facilitated by the Indonesian Ecolabelling Institute," it said.

It added that compliance with national legislation and regulation is a key pre-requisite for obtaining FSC certification. To this end, the operation of Indonesia's existing timber legality assurance and sustainable forest management framework were taken into account.

"Its SVLK system has been endorsed by EU FLEGT/EUTR [as the TLAS for Indonesia's FLEGT licensing scheme]," states the NFSS. "In addition, the Indonesian Ministry of Environment and Forestry also implements the sustainable production forest management certification system, the PHPL. The requirements of it and the SVLK, alongside other laws and regulations, were taken into consideration during development of the NFSS to ensure that forest management units comply with respective government [rules] on timber legality."

RoC adopts Forest Code, but Covid hampers TLAS roll-out

The promulgation of the Republic of the Congo's (ROC) new Forest Code (**Law 33-2020** July 8, 2020) marks a milestone for legal reform that started eight years ago.

The need for reform was partly prompted by negotiations for the entry into force of the country's FLEGT VPA with the EU, requiring that all timber products, both exported and sold domestically, be produced legally. The new Forest Code also 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 Forest Code includes provisions to strengthen LCIPs' rights over forest management and decision making. Arts 15-21 and 88 provide for establishment of community forests – an innovation in the RoC. Free, prior and informed consent is also now enshrined in the law and LCIPs and civil society representatives will serve on the commission tasked with assessing tenders for allocation of forest concessions (Art 134), and committees and commissions in charge of examining and adopting forest management plans (Art 85 and 86).

With regards to the timber sector, the two most impactful innovations will arguably be the production sharing scheme (Art 102; 104; 106-109), and the mandatory in-country processing of nearly all products prior to export (Art 97). Until now companies were required to process 85% of their logs. Heavy and hard timber species, "the machining of which requires specific technology", are the only exception to the newly introduced ban on log exports.

Under the production sharing scheme, terms of which remain to be specified, the annual log harvest of a concession will be split between the concession holder and the state. Companies under this system (to be implemented within three years of the concession contract award) will be exempt from direct state taxes, while remaining subject to local taxes. The scheme is of particular concern to companies with a high processing capacity, as it could alter their in-house raw timber supply, impacting competitiveness and efficiency.

An independent structure has also been proposed to manage a national forest certification system aligned with international standards (Art 70). Links between certification schemes and legality verification are envisaged and companies are expected to secure certification either for their concession management or the legality of their production (Art 72).

The law introduces a new type of logging right, the domestic harvest permit, which is subject to simplified management requirements and aims to ensure regular and sustainable supply of timber to the domestic market (Chapter 5). In contrast to the previous Forest Code, artisanal logging is now explicitly mentioned, underlining an ambition to formalise what has been a barely regulated, largely undocumented sector.

While the types of Forest Code infractions have remained broadly unchanged, most penalties are stricter. In particular, forgery or counterfeiting of any proof of legality is subject to fines fifty times higher than before.

Both NGOs and private sector representative bodies, such as **ClientEarth** and the **ATIBT** have welcomed the new Code, while noting that further work to assess its implications and to ensure that, through its implementing documentation, it is geared up to deliver on its ambitions.

Roll-out of the computerised Timber Legality Assurance System

Meanwhile, after the successful demonstration late 2019 of two modules of the RoC's computerised timber legality assurance system (TLAS), the Système Informatique de Vérification de la Légalité (SIVL), the roll-out of the tax module was initially expected to start by end of March 2020. However, this was delayed by COVID-19 measures. Subsequently the roll-out strategy was also amended to include e-learning to complement field-based training sessions.

Two such sessions took place in July, one in Pointe-Noire and Dolisie in the south, the other in Ouesso in the north. These targeted both representatives of the departmental directorates of the forestry administration (DDEFs) and forest company representatives. The focus of this first round, given jointly by the Ministry of Forest Economy and Ministry of Finance and Budget, was general SIVL functionalities and the tax module in particular. A second session, focussed on legality-related functionalities, will take place later this year.

SIVL users will be supported by the Forest Legality and Traceability Unit (CLFT), which is also undertaking a stocktaking exercise to assess the capacities in place to handle the system. Poor Internet connectivity, lack of adequate equipment and continued prevalence of paper-based administration are among the challenges faced by business and DDEFs.


The Congo. *Source: Interholco*

COVID-19 impact on the Congolese timber sector

Initial measures to contain the COVID-19 pandemic in RoC were strengthened on 31 March 2020 as the country went into lockdown, with the entire population, except essential workers, confined to home. Domestic travel was banned and national borders closed. In mid-May, some measures started to be eased for Brazzaville and Pointe-Noire and lifted for the rest of the country. In August 2020, borders reopened and international passenger flights resumed.

While the impacts of the pandemic on the country's timber exports and forest sector are yet to be assessed, a joint BVRio/ATIBT study looks at how best to support businesses and communities through the health crisis and recovery. This indicates that initial pandemic measures resulted in an average 70% reduction in the workforce of companies surveyed. There was a sharp divide between the north of the country, where business activity tended to continue, and the south, where most companies shut down altogether for a few weeks.

A total of 45% of respondents in the study thought the pandemic likely to pose a significant threat to the health of the sector, with disruption in global demand and supply chains.

According to **CTWPDA figures**, in April China's imports of hardwood logs from the RoC were down 61% year-on-year. EU imports of RoC sawnwood were 19% lower, although a downward trend had already been noted in the May 2020 **IMM EU market report** before lockdown measures were introduced in EU importing countries.


New Swiss regulation now 2022. *Source: HWS*

Swiss EUTR further delayed

Implementation of a new Swiss timber regulation, equivalent to the EU Timber Regulation (EUTR) has been further delayed, and now looks unlikely to happen before 2022.

Often referred to as the 'Swiss EUTR', the regulation has been in discussion for several years. Besides reinforcing Swiss efforts to combat illegal timber imports, the objective, in imposing similar legality due diligence requirements on Swiss importers and traders as their EU counterparts, is to streamline bilateral trade. It also has potential, say timber sector representatives, to simplify due diligence documentation for external suppliers exporting to both the EU and Switzerland.

The Swiss Environment, Spatial Planning and Energy Commission (UREK) approved a draft regulation from the National Council as an amendment to the country's Environmental Act in 2019. It also supported inclusion of a stipulation that traders inform consumers on type and origin of timber.

In association, UREK voted in favour of new rules to block imports of other raw materials if their cultivation, mining or manufacture adversely impacted the environment or 'significantly endangered sustainable use of natural resources'.

The regulation was subsequently passed by the Swiss parliament and implementing provisions were put out to consultation last year, with a deadline of August for responses. According to Michael Ruch, deputy secretary of UREK, it incorporates a 'legal authorisation' for the Federal Council to conclude an EU/Switzerland bilateral agreement to facilitate imports and exports.

However, said Mr Ruch, introduction of the new measure has now been further postponed.

"The industry needs more time to prepare for the changes," he said. "So it will not now come into force until the beginning of 2022."

He added that negotiations with the EU on implementation of a directive for the EU/Switzerland bilateral agreement were currently 'still blocked'.

IMM

Independent Market Monitoring of FLEGT-Licensed Timber

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