



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

FLEGT VPA Partners in EU Timber Trade 2017

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The views expressed herein are those of the consultant and the IMM and do not necessarily reflect the official opinion of the European Commission

List of Acronyms

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

List of Acronyms

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

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1 Introduction

1.1 Background

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

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

IMM monitors the flow of FLEGT-licensed timber to the EU and its use and acceptance in the EU market. For more details on IMM, visit www.flegtimm.eu.

1.2 Overview

This IMM report is the first to cover a period during which FLEGT-licensed timber was available on the EU market, after Indonesia started issuing licences in November 2016. It is also the first when IMM had access to a full network of country correspondents in the seven EU countries accounting for the bulk (i.e. consistently around 90%) of EU tropical timber and timber product imports from VPA partner countries. The seven "key" EU markets are Belgium, France, Germany, Italy, Netherlands, Spain and the UK. IMM also had a correspondent in Indonesia, the only FLEGT-licensing country, and Ghana, the country most likely to start FLEGT-licensing in the foreseeable future.

Expansion of the IMM network and the actual availability of FLEGT-licensed timber on the EU market means that this report not only updates pilot research on perception of FLEGT VPAs and FLEGT-licensing that was conducted in Germany, Spain and the UK in 2015, but expands coverage to the four additional EU markets.

The surveys conducted in 2017 also had a much broader scope, in terms both of content and target audience. European IMM correspondents interviewed 126 companies, the FLEGT/EUTR Competent Authorities in all seven countries as well as 15 EUTR Monitoring Organisations and timber trade federations. According to correspondents'

estimates, respondents to the IMM 2017 trade survey of EU companies accounted for about 75–80 % of annual tropical wood product imports (HS 44) into Belgium, France and the UK and around 50–60% in Germany. In the Netherlands, the correspondent estimated that around 40% of plywood imports and 65% of sawn timber products and roundwood were covered through the interviews. Coverage in Spain (30%) and Italy (20%) was lower, primarily because the markets are more fragmented.

Sections 2 of the Report focuses on the state of VPA implementation and negotiation in all VPA partner countries and section 3 provides an update on the share of VPA partner countries in global tropical timber trade in 2017.

VPA partner competitiveness (Section 4) is analysed in more detail than in previous reports, taking into account not only international indices of competitiveness but also IMM EU 2017 trade survey results and an EU Furniture Sector Scoping Study¹ commissioned by IMM in early 2018.

FLEGT-licensed timber is still a relatively new market reality and licensed timber is currently available from only one country. As a result, assessing market impacts and acceptance remains difficult. An attempt to shed some light on initial developments is made in Section 5 of this report, which updates last year's EU–Indonesia trade analysis and summarises findings of a scoping study conducted by the Indonesian IMM correspondent.

Sections 6–11 of the IMM Annual Report focus on the European markets. In section 6, the report updates key trade data contained in the previous IMM report "FLEGT VPA Partners in EU Timber Trade 2014–2016", which considered EU–VPA Partner trade flow trends during that period². As far as possible, this report does not duplicate analysis in the previous report, but rather updates trade data and includes a commentary on market trends in the 2017 reporting period.

The analysis of trade flows between VPA Partner countries and the EU contained in this report may be read in conjunction with the IMM Data Dashboard (<http://www.stats.flegtimm.eu/>). The Dashboard provides data visualisations and full access to statistics on EU imports of timber, paper and pulp from the 15 VPA partner countries. To facilitate broader market analysis, the IMM Data Dashboard also provides statistics on other countries which are leading suppliers of tropical timber into the EU and detailed technical explanation of data sources and validation procedures used by IMM.

¹ European Union Furniture Sector Scoping Study. Author: George White. ITTO/IMM 2018

² FLEGT VPA Partners in EU Timber Trade 2014–2016. (ITTO/IMM 2017) http://www.flegtimm.eu/images/2015_report/VPA_Partners_In_EU_Timber_Trade_2014_to_2016_IMM_Main_Report_Final.pdf

³ The 'level of exposure' is a rough measure to identify gaps in forest coverage of independent certification and legality verification systems. It is based on the percentage area of certified or legally verified commercial forest area in each individual supplier country. For example, if 40% of its forest area is known to be independently certified or legally verified, the level of exposure of a country's wood production and exports is also assumed to be 40%. The certified/verified forest areas are calculated by comparing data from the various certification and verification systems with UN FAO figures for areas of productive forest land.

⁴ The 28 EU member countries in July 2018 are Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

Section 7 looks into EUTR implementation and enforcement in the EU Member States, while sections 8 and Annex 2 consider market perceptions of FLEGT-VPAs and initial market reception in the EU, based on results of the IMM 2017 European trade survey.

In section 9-11, the report provides preliminary comments on the market position of FLEGT licensing in relation to private sector legality verification and certification initiatives and takes an initial look at FLEGT-licensed timber in EU wood promotion activities. Those issues will be analysed in more detail with dedicated special studies in 2018 or early 2019.

Drawing on research carried out by the Ghana correspondent and updating a pilot study conducted in 2015, Annex 1 of the report provides insights in the state of play of VPA implementation in Ghana.

The report concludes with recommendations for future monitoring by IMM and for FLEGT-related activities.

Unlike the previous report (ITTO/IMM 2017), this report does not cover forest sector trends in VPA partner countries. The analysis of forest area data will be updated by IMM at a five-year interval. FLEGT impact on forest sector investment will be looked at in detail by a separate scoping study to be commissioned during the second half of 2018 or in early 2019.

The report also does not feature an update on the level of “exposure”³ of EU timber and timber product imports to certification or legality verification. The exposure measure will be updated later in 2018 or early 2019 when IMM has obtained better-quality data from certification schemes.

The same is true for an estimate of the volume and value of timber imports from non-VPA countries considered potentially high risk from a perspective of illegal logging. Here, IMM is still fine-tuning the methodology and resolving data access issues.

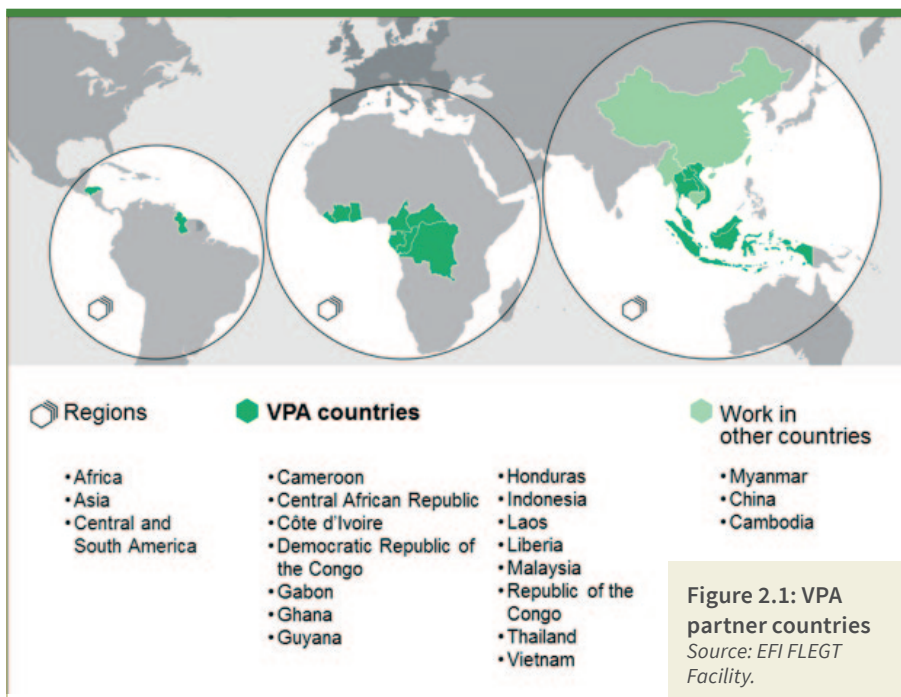
1.3 Scope and definitions

The report covers all products within the scope of existing or potential future VPAs and includes the following chapters (and parts thereof) of the international Harmonized Commodity Description and Coding System: all products in Chapter 44 (Wood); products identified as containing wood in Chapter 94 (Furniture); virgin wood-based pulp products in Chapter 47 (Pulp); and all products in Chapter 48 (Paper). Collectively, wood and wood furniture are referred to here as wood products and dealt with separately from pulp and paper.

The report focuses on the trade between the 28 EU member countries⁴ and the following 15 tropical timber-supplying countries at various stages of the VPA process in December 2017 which are collectively referred to as VPA partner countries:

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

VPA implementation and negotiation – state of play



2.1 Overview

In 2017, the FLEGT VPA initiative involved programmes in 15 tropical countries, which together supplied over 80% of the international tropical timber trade, by value. While the time taken by countries to reach the licensing stage has been a focus for criticism, a long lead time is inevitable for an initiative which aims to create robust and reliable systems, to engage with and secure the support of a wide range of stakeholders and to deal with complex political and technical issues. Progress varies between countries but there are many encouraging developments. A successfully implemented VPA authorises a country to start FLEGT-licensing and a

licence is an assurance that the timber it exports to the EU is legally sourced. VPAs also support the partner country in combatting illegal logging by improving forest regulation and governance. VPA negotiations and implementation require multi-stakeholder engagement, bringing government, civil society organisations, ENGOs, the trade and others to the negotiating table.

In November 2016, Indonesia became the first country to complete implementation and to start FLEGT licensing of timber product exports to the EU. In 2017, there were five countries at the VPA implementing stage, all in Africa, which was an initial focus for the VPA process: Ghana, Cameroon, Liberia, Congo and Central African Republic. The VPA in Viet Nam was “initialled” in 2017, which means negotiations between EU and Vietnamese authorities were complete and the country was progressing to ratifying and preparing implementation of the VPA. Another eight countries were negotiating a VPA with the EU in 2017: DRC, Côte d’Ivoire, Gabon, Guyana, Honduras, Lao PDR, Malaysia and Thailand. The Honduras VPA has since been initialled (in June 2018) and the Guyana VPA is likely to be initialled as well before the end of 2018. In addition, the EU was engaged in dialogue to inform and prepare for possible VPA negotiations with Myanmar, Cambodia and the Philippines.

Below follows a summary of details of where VPA negotiations or implementation stood in each of the partner countries in 2017. The status of each country will be updated during 2018.

FLEGT-licensing countries

2.2 Indonesia

Indonesia has been fully implementing the VPA and the underlying legality assurance system SVLK since 2016; the first FLEGT licences were issued on 15 November 2016. Full VPA implementation means that besides the national rollout of SVLK certification, Indonesia has structures in place to issue FLEGT licences as well as manage, monitor and evaluate the system. Monitoring and evaluation means that, although the VPA is fully implemented as negotiated with the EU, continuing multi-stakeholder processes ensure the system is working as envisaged and that an annual independent audit of the system is carried out to ensure its correct implementation. Moreover, monitoring and evaluation programmes propose improvements regarding the implementation and future development of the VPA.

VPA-implementing countries

2.3 Cameroon

The focus of VPA implementation has been on enabling legislation relating to the timber legality assurance system (TLAS) and on setting up the TLAS system itself. Moreover, government and civil society were working on implementing the transparency annex and on strengthening capacity to do independent observation

of forest governance. The pace of VPA implementation in Cameroon has slowed in recent years despite sustained support from civil society and private sector stakeholders. A key challenge in implementing the TLAS is setting up the web-based information system (SIGIF2), a second generation of the national timber legality verification tool. Once established, the SIGIF 2 still needs to be completed and rolled out nationally.

2.4 Central African Republic

The Central African Republic is at initial stages of VPA implementation; the process is gradually restarting after the 2013 crisis. Key actors still support the VPA but their knowledge has decreased. However, there are positive developments: an assessment of the forestry sector and stakeholders has provided a basis for developing a road map for implementation and EC aid projects. The FAO FLEGT programme has resumed technical support that has improved transparency through a central database on forest and the website www.apvrca.org in accordance with the requirement of the Agreement. However, conflict persisting outside Bangui, weak capacities and a lack of domestic resources make VPA implementation a challenge.

2.5 Ghana

Ghana is closest to finalising VPA implementation among all current implementing countries. A shipment test of FLEGT-licensed timber was initiated in September 2017 and the readiness assessment for licensing is planned to take place in 2018. New legislation to regulate conversion of timber harvesting permits to Timber Utilisation Contracts is being implemented.

2.6 Liberia

VPA implementation in Liberia is progressing. The Timber Legality Assurance System (TLAS) is under development and verification is being implemented in a more systematic way. The EC and other stakeholders are also noting improvements in transparency, with relevant documents being made available at www.fda.gov.lr. Institutional and technical capacities remain the main challenge for Liberia to tackle before the VPA TLAS is fully operational.

2.7 Republic of Congo

Major steps towards VPA implementation have been completed in the Republic of Congo. The Timber Legality Assurance Software is about to be rolled out nationally and mechanisms are being developed to recognise private forest management certification schemes in the context of their Timber Legality Assurance System. Civil society organisations are actively involved in VPA implementation through Independent Forest Monitoring and participation to legal reform. The Independent audit helps to make clear the situation of the implementation of the TLAS in the field and to identify the gaps to be addressed. It is a good opportunity for the Republic of Congo’s government to make progress in the FLEGT process visible and measurable.

⁵ Including countries that initialled their VPA in 2017.

VPA-negotiating⁵

2.8 Côte d'Ivoire

VPA negotiations in Côte d'Ivoire are progressing slowly, due in part to a lack of national vision for the forest sector and conflicting sectoral policies. The last round of VPA negotiations was held in June 2014. In March 2017, Côte d'Ivoire updated its VPA Roadmap and has been making steady progress in implementing it. In addition, government has taken steps to harmonize agricultural and forest policy for a coherent forest policy. Spurred by a letter from the primary donors (GIZ, AFD, FAO, UE) to support the development of a national vision for forests and a recent NGO exposé on the illegal origins of cocoa grown in forests, in September the Prime Minister proposed a pragmatic forest policy. The policy has the potential to more coherently govern the sectoral activities that take place in the forests. The forest code and regulations will be revised in light of the new policy. Meanwhile the EC is developing an approach for a stock take exercise to identify the most appropriate course of action for forest-related activity in Côte d'Ivoire.

2.9 Democratic Republic of Congo (DRC)

VPA negotiations with DRC have stalled since November 2013, although some progress at national stakeholders' level – including work on updating legality grids – has been noted in 2016 and 2017. In general, stakeholders in DRC are more focused on REDD (Central African Forest Initiative), legal reforms and economic issues than on the VPA process. Moving forward, the EC is encouraging stakeholders in DRC to expand their considerations beyond the VPA to look at the broader FLEGT Action Plan and its links with REDD+ initiatives, including through work on developing a national forest policy.

2.10 Gabon

The last session of VPA negotiations between the EU and Gabon was held in October 2011; the process has since been stalled. However, technical sessions involving Gabonese stakeholders were relaunched in 2015 and 2016 and the VPA process has enabled stakeholders to come together and work on the forest law reform process. A new forest code is expected to be approved soon. This might help build a new dynamic for forest governance in the country and possibly lead to renewed dialogue with the EU, including around VPA negotiations.

2.11 Guyana

The country's timber legality assurance system was field-tested in 2017, meaning that stakeholders were given the opportunity to assess the practicality and credibility of the VPA's legality definition and legality verification procedures, as well as the readiness of government agencies to implement the Guyana timber legality assurance system. Technical work on the VPA in Guyana is being finalised. The Parties have reached political agreement on the content of the VPA, which should be initialled by the end of November 2018 and which would mark the official end of the negotiations. The VPA process in Guyana also faces several challenges including maintaining momentum and commitment and ensuring continued stakeholder participation as well as support to related issues.

2.12 Honduras

On June 14, 2018, the Parties initialled the VPA. Stakeholder engagement in Honduras is high, with a remarkably wide participation. Hopes are that this high level of momentum can be maintained and VPA implementation can begin as soon as the Agreement is initialled. Main challenges facing VPA implementation in Honduras include regularisation of land tenure, informality of the SME sector and institutional capacities.

2.13 Lao PDR

The first VPA negotiation session in Lao PDR was held in April 2017. There is a strong political commitment to the VPA process in the country and synergies exist between the FLEGT process and an order to improve forest governance and fight deforestation issued by the Prime Minister (PM order No. 15). Initial discussions on the timber legality definition and product scope are ongoing. Major challenges facing the VPA process in Lao PDR include forest conversion, capacity limitations, and limited direct trade with the EU.

2.14 Malaysia

Malaysia has been negotiating a VPA with the EU since 2007. The timber legality assurance system has mostly been developed for Peninsular Malaysia and Sabah. However, negotiations have been on hold since 2015 as further movement is not possible without a firm commitment and a defined timeline from Sarawak to be party to the VPA. Nonetheless, technical developments take place in all three regions.

2.15 Thailand

The VPA process in Thailand was launched in September 2013. However, first negotiations were only held in June 2017; the process had previously been heavily affected by political turmoil in the country. A national consultation process and work at technical level has been ongoing since 2013 coordinated by a multi-stakeholder ad-hoc working group. An advanced draft Legality Definition has already been developed. There is also progress in addressing challenges facing the VPA process in Thailand such as regulating timber imports as well as smallholders and community forests.

2.16 Viet Nam

The EU and Viet Nam signed the VPA in October 2018, after it had been initialled in May 2017. The process of ratification, in parallel to which VPA implementation is already being prepared, is ongoing. The Vietnamese Timber Legality Assurance System (TLAS) will cover exports to all markets as well as the domestic market. The system will also require Vietnamese timber importers to conduct due diligence for their imports. Due to the diversity and size of the Vietnamese wood industry, VPA implementation is expected to take several years. In November 2017, the EU and Viet Nam held the first Joint Preparatory Committee, which agreed the Joint Implementation Framework to guide and monitor the implementation of the agreement.

3 VPA country export trade – 2017 update

3.1 Scope

This section reports on the share of VPA partner countries in global tropical timber trade in 2017. This is to ensure that trade flows between VPA Partner countries and the EU are considered in their appropriate global context.

The section considers the relative contribution of VPA Partners in total global trade in tropical timber in 2017. It considers the changing composition of products in the tropical timber trade and changing regional supply and demand during the year. It also considers the role of VPA Partner countries in the global pulp and paper sector. The section builds on and does not repeat the more detailed analysis of long-term trends already covered in previous IMM reports.⁶

3.2 VPA partner share of global tropical wood-product trade in 2017

The value of global trade in tropical wood products increased 5% to US\$34.4 billion in 2017, reversing the declining trend between 2014 and 2016 (*Figure 3.2*).

The rise in trade in 2017 was largely driven by China and the United States. The Chinese economy recovered ground after the slowdown in 2016 and the waning effects of the bursting of the speculative bubble in rosewood in 2015.

In the United States, the economy continued to grow strongly in 2017 and there was a further rise in imports of wood furniture products from Viet Nam⁷ and, to a lesser extent, Malaysia.

The combined share of the 15 VPA partner countries in global tropical wood products trade was 79.1% in 2017, slightly down from 79.4% the previous year.

The export value of Indonesian wood products was US\$5.71 billion in 2017, marginally less than \$5.72 billion exported the previous year. Indonesia accounted for 16.6% of global trade in tropical wood in 2017, down from 17.1% the previous year and a return to the low level of 2014.

Total export value by the five African VPA-implementing countries was US\$1.24 billion in 2017, down 4% from US\$1.29 billion in 2016. The five VPA-implementing countries accounted for 3.6% of global trade in tropical wood in 2017, down from 3.9% in 2016 and continuing a long-term slide from over 5% a decade before. Total export value of tropical wood products by the nine VPA-negotiating countries increased 4% from US\$19.5 billion in 2016 to US\$20.2 billion in 2017. The share of VPA-negotiating countries in global tropical wood trade was 58.9% in 2017, up from 58.4% the previous year. This also continued a long-term trend, largely driven by the increasing share of Viet Nam in global furniture supply.

The export value of wood products from tropical countries not involved in the VPA process increased 4% from US\$6.87 billion in 2016 to US\$7.18 billion in 2017. The share of these countries in global tropical wood product supply increased from 20.6% to 20.9% in the same period. The gains in export value and share by non-VPA countries were largely due to India (mainly furniture to USA, China and the EU), the Solomon Islands (logs to China), and Nigeria (rosewood to China).

3.3 Product mix of tropical wood trade

The global trade in tropical furniture and joinery products, which has been rising slowly and consistently in the last 15 years, contrasts with the trade in processed products which has been more volatile (*Figure 3.3*).

After declining sharply in the previous two years with the end of the speculative boom in rosewood and slowing of the Chinese market, in 2017 the value of global trade in tropical logs stabilised at US\$4.26 billion. The share of logs in the global tropical wood trade decreased from 12.8% in 2016 to 12.4% in 2017.

Global trade in tropical sawn wood (including decking and mouldings) increased 3% from US\$5.60 billion in 2016 to US\$5.78 billion in 2017. This was the first rise in the value of the global tropical sawn wood trade since 2014 at the height of the rosewood boom. The rise was driven primarily by Chinese imports from Thailand (mainly rubberwood), Indonesia (most likely plantation species such as acacia) and Gabon (a range of natural forest species).

After a downturn in the previous two years due to slowing imports of tropical plywood into Japan from the dominant suppliers, Malaysia and Indonesia, the global value of tropical plywood and veneer trade increased 2.2% to US\$4.82 billion in 2017. Much of the increase was destined for the United States where there was a partial recovery in imports from long-term suppliers Indonesia and Malaysia, and a big rise in new supply from Viet Nam and Cambodia. To some extent these increases were at the expense of imports of Chinese plywood that declined during the year.

In 2017, the value of wood furniture exports by tropical countries increased 5.5% to US\$10.93 billion. The share of wood furniture in total tropical wood trade increased from 30.9% in 2016 to 31.8% in 2017. This was driven almost entirely by rising US imports from South East Asia, particularly Viet Nam and, to a lesser extent, Malaysia and Indonesia. Much of the furniture exported by Viet Nam is likely manufactured using imported non-tropical hardwoods, such as oak and tulipwood, rather than tropical timber, but the exact proportion cannot be discerned from trade statistics.

The value of joinery and other value-added products exported by tropical countries declined 3% to US\$3.40

⁶ Longer-term trade trends are analysed in more depth in the ITTO-IMM reports 'Europe's changing tropical timber trade 2004 to 2014' published in 2015 and 'FLEGT VPA Partners in EU Timber Trade 2014 to 2016' published in 2017. All IMM reports are available at: <http://www.flegtim.eu/index.php/reports>

⁷ In 2017, 97% of wood product export value from Viet Nam to the USA comprised wood furniture for which it is not possible in trade statistics to differentiate tropical timber from temperate timber. A significant, but unknown proportion, of wood furniture exported from Viet Nam is manufactured from non-tropical timber much of which is imported from the USA and Europe.

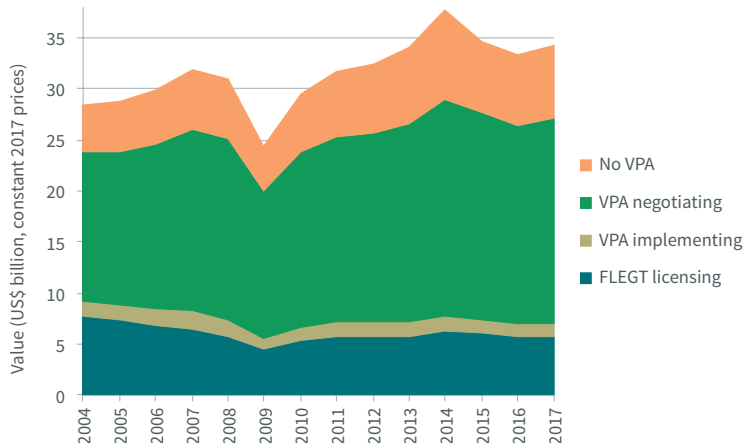


Figure 3.2: Global tropical wood-product trade, by VPA status of suppliers, 2004 to 2017 Source: ITTO IMM analysis of data from Eurostat COMEXT, UN COMTRADE and Global Trade Atlas

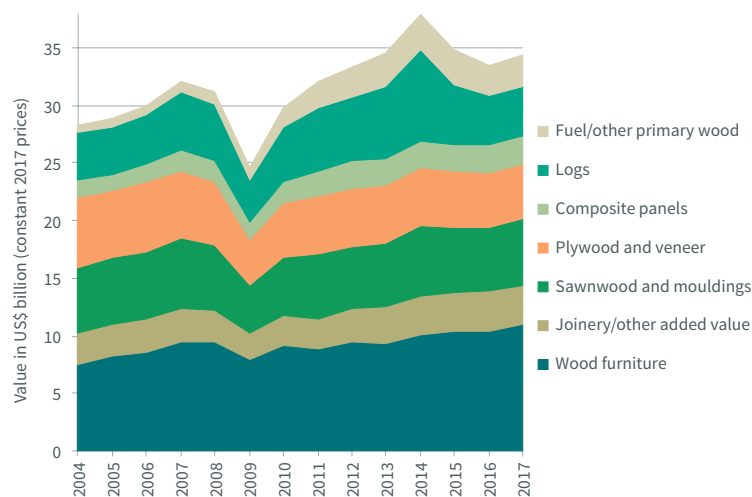


Figure 3.3: Global tropical wood-product trade, by product group, 2004 to 2017 Source: ITTO IMM analysis of data from Eurostat COMEXT, UN COMTRADE and Global Trade Atlas

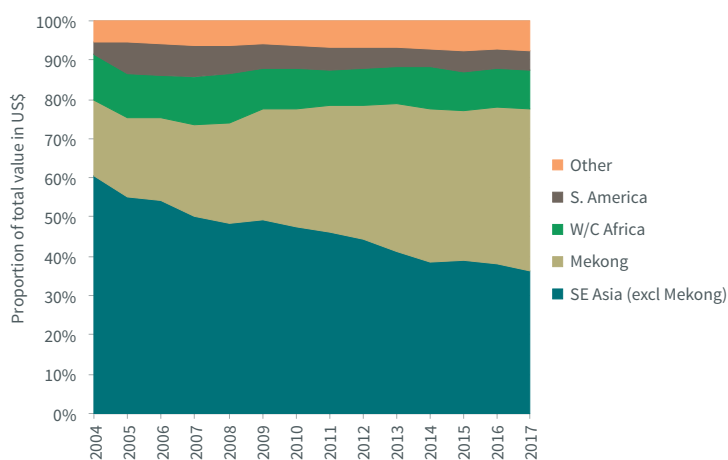


Figure 3.4.1: Share of global tropical wood-product trade, by export region, 2004 to 2017 Source: ITTO IMM analysis of data from Eurostat COMEXT, UN COMTRADE and Global Trade Atlas

billion in 2017, a reversal of the trend in 2016 when trade increased 4%. This decline hides wide variation in the performance of a large range of products and markets. US imports of joinery products like doors and flooring from tropical countries, led by Indonesia and, to a lesser extent, Viet Nam, were rising in 2017. In contrast, there was a significant decline in Japan's imports of joinery products from the Philippines during the year.

3.4 Regional supply of tropical wood products

During 2017, the long-term rising trend continued in wood product exports from countries in the Mekong region, mainly at the expense of countries in South East Asia. (Figure 3.4.1).

In 2017, the total value of exports from the Mekong region – which includes Cambodia, Lao PDR, Myanmar, Thailand and Viet Nam – increased 6% to US\$14.33 billion. A major contributing factor prior to 2015 was the surge in China's imports of rosewood logs from the Mekong region, a trend which eased in 2015 and 2016. However, the long-term rise in furniture exports by Viet Nam and rubberwood exports by Thailand continued throughout the period to 2017.

The value of exports from South East Asia, mainly from Indonesia, Malaysia and the Philippines, declined 2% to \$12.7 billion in 2017. This follows a larger decline in the previous two years, mainly driven by a big decline in exports of joinery products from the Philippines to Japan and falling Indonesian exports of plywood to China. The share of South East Asia in global tropical wood-product trade fell from 38.1% in 2016 to 36.3% in 2017. The value of tropical wood product exports from West and Central Africa increased 5% from US\$3.23 billion in 2016 to US\$3.40 billion in 2017. The share of West and Central Africa in global tropical wood products exports was 9.8% in 2017, up from 9.5% in 2016 but down from 10.3% in 2014 at the height of the rosewood boom.

There were significant shifts in wood products exports by African countries in 2017 (Figure 3.4.2). The value of exports by Cameroon, the largest exporter, declined 10% to US\$750 million. Exports also fell from Ghana and Côte d'Ivoire during the year. However, these declines were offset by a 44% rise in exports by Nigeria,

to US\$470 million which meant the country overtook Gabon to become tropical Africa's second largest wood product exporter. Nearly all exports from Nigeria comprise logs of rosewood destined for China. Zambia's exports of rosewood logs to China also increased rapidly in 2017.

The value of tropical wood product exports from Latin America increased 1% to US\$1.70 billion in 2017. This was mainly due to a rise in Brazilian exports of tropical sawn hardwood during the year, particularly to the USA, China and India.

Several countries outside these production regions increased share in global tropical wood products trade in 2017, notably India (mainly in supply of wood furniture, particularly to the USA), and the Solomon Islands (logs destined mainly for China).

3.5 Changes in regional demand for tropical wood products

In 2017, the tropical wood-products trade was considerably less volatile than in previous years. Tropical wood products imports recovered ground in China, continued to rise into North America, were stable Northeast Asia, and slowed into the EU and India (Figure 3.5).

In 2017, the value of imports of wood products from tropical countries into the EU fell 3% to US\$4.06 billion. The EU's share of global wood products imports from tropical countries declined from 12.4% in 2016 to 11.8% in 2017.

Meanwhile, imports of wood products from tropical countries into China increased 4% to US\$8.71 billion in 2017 following a sharp decline in the previous two years. The share of China in global tropical wood product imports increased from 24.9% in 2016 to 25.3% in 2017.

The Chinese wood-products market is undergoing a major structural change. It has shifted decisively from an export-oriented market to being driven almost entirely by domestic consumption. Data from the American Hardwood Export Council indicates that whereas in 2000, 85% of US hardwood imported into China was used to manufacture goods for export to global markets, this proportion had fallen to only 20% by 2016 with 80% used to manufacture goods consumed in China.

Although no equivalent data is available for tropical wood, the proportion consumed domestically in China is likely to be even higher than 80% given that, unlike American hardwood, tropical wood is unfashionable in western consumer markets but still strongly favoured for traditional Chinese furniture.

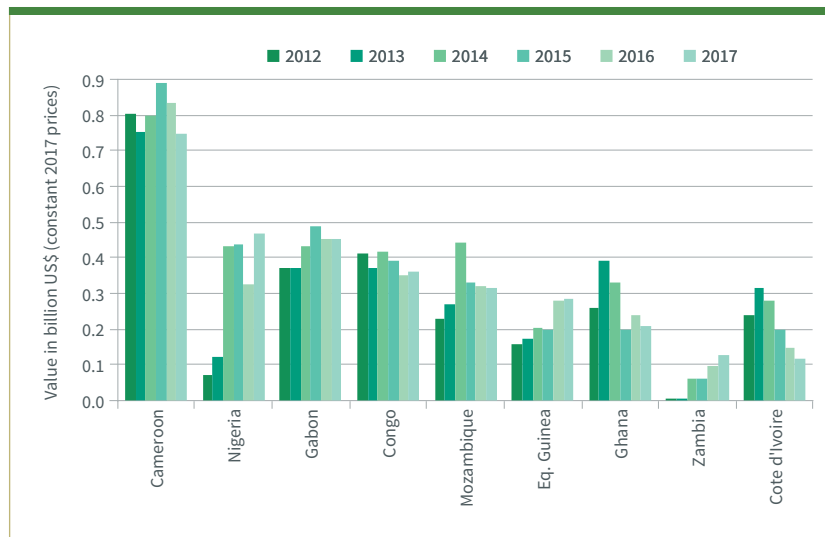


Figure 3.4.2: Tropical wood-product exports, by African countries, 2012 to 2017
Source: ITTO IMM analysis of data from Eurostat COMEXT, UN COMTRADE and Global Trade Atlas

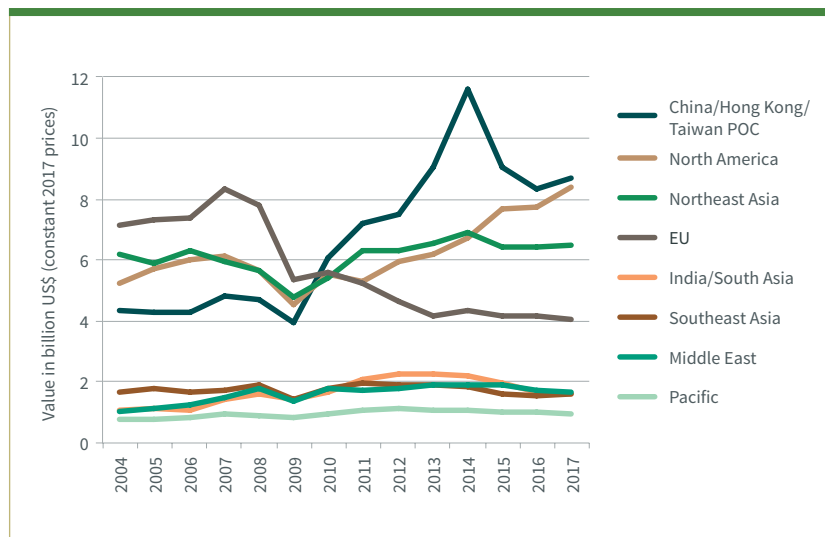


Figure 3.5: Global tropical wood-product trade, by import region, 2004 to 2017
Source: ITTO IMM analysis of data from Eurostat COMEXT, UN COMTRADE and Global Trade Atlas

At the same time rising costs of production in China, linked to both rising costs of labour and other inputs and changes in government policy designed to reduce pollution and financial risk, and the gradual appreciation of the Chinese currency, are making Chinese manufactured products less competitive in international markets. Policy measures in other countries such as anti-dumping measures targeting Chinese products and restrictions on log exports are also having an effect.

Overall, this is leading to a slowdown in China's log imports and a partial switch to sawn timber. Rising wealth in China is also opening the door to an increase in China's imports of more value-added wood products, such as higher end furniture and flooring from Europe.

Although the Chinese economy rebounded in 2017, with GDP growth of nearly 7% in response to heavy lending by state-owned banks, brisk government spending and strong exports, some analysts are now predicting that broader economic and policy trends will lead to a decline

in China's imports of logs and slowing imports of sawn timber, a process that could start in 2018⁸.

An immediate issue for tropical timber in the Chinese market is the future of the rosewood market following the crash in 2014. In the years just before the crash, prices for rosewood were doubling every twelve months – partly because unscrupulous traders were highlighting the scarcity of the timber as a means of increasing demand. Furniture sets manufactured in rosewood were selling for as much as 500,000 yuan (US\$75,757). Prices trended upwards as wealthy individuals followed the hype and hoarded rosewood furniture as a form of long-term investment

The rosewood bubble finally burst in 2014 as unsustainable sky-high prices ran up against the reality of an economic downturn. Buyers were also actively discouraged by President Xi Jinping's anti-corruption campaign which kicked-off in 2012 and specifically targeted outward displays of extravagance, including expensive household goods. Furthermore, as more people came into possession of rosewood products, its value as a status symbol diminished.

In 2014, manufacturing output and the number of rosewood businesses in China fell by more than 30%. The industry continued to shrink in 2015 and 2016, albeit at a slower pace.

In 2017, although faced with a slump, Chinese entrepreneurs were yet again expanding their search for rosewood, and rosewood substitutes. As global awareness and CITES and national controls on rosewood exploitation and trade have been increased, the focus of trade has switched to countries where implementation is more lax, particularly in Africa. However, some regional trade analysts suggest it's unlikely that the earlier mania in the trade will return, observing that the hype surrounding rosewood in China has diminished and most Chinese consumers have become aware of the risks of speculation in rosewood furniture.⁹

In 2017, imports of wood products from tropical countries into North America increased 8% to US\$8.37 billion, a significant increase in pace compared to 1% growth the previous year. The share of North America in global tropical wood product imports increased from 23.1% in 2016 to 24.3% in 2017.

Much of the increase in North American imports from tropical countries comprised wood furniture from Viet Nam destined for the United States, which alone increased 13% from US\$3.95 billion in 2016 to US\$4.48 billion in 2017. US imports also increased from Indonesia, by 6% to US\$986 million (furniture, plywood and joinery products), from Malaysia, by 7% to US\$988 million (furniture and plywood), and from India, by 16% to US\$424 million (furniture, marquetry and tableware).

In 2017, imports of wood products from tropical countries into Northeast Asia, which includes Japan and South Korea,

increased 1% to US\$6.50 billion following zero percent growth in 2016 and a 7% decline in 2015.

Japan's imports of wood products (mainly plywood) from Malaysia and Indonesia were flat in 2016 and 2017 following a significant decline in preceding years in response to supply constraints and a shift away from tropical plywood in favour of alternative panel products. However, the decline in Japan's tropical plywood imports was partly offset by a rise in imports from Viet Nam, particularly of hardwood chips. Japan imports nearly 3 million metric tons of wood chips with a total value of US\$450 million from Viet Nam every year. This is driven partly by demand from the pulp sector and partly by energy policy initiatives introduced by Japan's Ministry of Economy, Trade and Industry aimed at reducing the nation's dependence on fossil fuels.

A similar situation exists in South Korea, although in this case a rise in hardwood chip imports from Viet Nam has been accompanied by rising plywood imports from Viet Nam and a recovery in plywood imports from Indonesia in the last two years.

In South East Asia, Viet Nam's role as a wood processing hub continued to rise during 2017. Viet Nam is increasingly recognised as the primary location in South East Asia for supply of mid-range interior furniture and has become a major competitor to China in this sector. Viet Nam's imports of wood products are rising to supply the export-oriented furniture manufacturing sector as well as rising domestic demand.

According to Viet Nam government statistics,¹⁰ in 2017, the value of Viet Nam's wood product imports increased 17% to US\$214 million from Cambodia, 13% to US\$103 million from Thailand, and 0.4% to US\$94 million from Malaysia. These gains offset a 47% decline in imports from Lao PDR, to US\$42 million and a 16% decline in imports from Indonesia, to US\$18 million. UN COMTRADE data indicates that the value of imports of timber products from Cameroon increased 24% from US\$143 million in 2015 to US\$177 million in 2016, making Viet Nam Cameroon's second largest export market after China.¹¹

A significant, but unknown, proportion of wood products exported from Viet Nam is manufactured using imported temperate wood. In fact, US exports of sawn timber to Viet Nam increased from US\$163 million in 2016 to US\$199 million in 2017, while US exports of logs to Viet Nam increased from US\$44 million to US\$58 million in the same period.

In 2017, the value of wood products imported from tropical countries into the "South Asia" region, which is dominated by India, declined 4% to US\$1.60 billion. This follows a cumulative 30% decline in the previous three years owing to the rapid decline in availability of teak logs from Myanmar and meranti logs from Sarawak.

⁸ See 'China's 2017 Log and Lumber Imports Set Records, But Period of Rapid Growth is Over' on the latest edition of RISI's China Timber Supply Outlook – <https://www.risiinfo.com/press-release/2017-china-timber-supply-outlook-press-release/>

⁹ For example, see <http://www.atimes.com/article/chinese-attempts-reignite-rosewood-market-will-fail/>

¹⁰ From GOVIET, the journal of the Viet Nam Timber and Forest Product Association. http://goviet.org.vn/upload/aceweb/content/Go%20Viet%20No.97_Jan_Feb.2018.pdf

¹¹ UN COMTRADE data for Viet Nam imports in 2017 is not available at time of compiling this report and 2017 Viet Nam government statistics reported in GOVIET do not list Cameroon separately.

India has only partially compensated for this supply shortfall by importing more logs from Papua New Guinea, Suriname and the Solomon Islands, sawn timber from Malaysia, veneer from Myanmar, and plywood, veneer and mouldings from Indonesia.

3.6 VPA partner countries in global pulp trade

Global trade of wood pulp was 62.0 million MT in 2017, a 3% increase from 60.2 million MT the previous year. This continues the long-term trend resulting primarily from increasing dependence of the large paper manufacturing sectors in Europe, North America and China on hardwood chemical pulp produced from expanding eucalyptus plantations in the southern hemisphere (Figure 3.6.1).

Tropical countries play only a small role in total global pulp trade but exports from the tropical zone are rising overall. Pulp exports from tropical countries increased 16% from 4.47 million MT in 2016 to 5.21 million MT in 2017 (Figure 3.6.2).

Almost all tropical pulp exports derive from Indonesia. Indonesia's exports increased 30% from 3.53 million MT in 2016 to 4.59 million MT in 2017. This rise was driven almost exclusively by China, for which Indonesia's exports increased from 2.17 million MT in 2016 to 3.27 million MT in 2017. Most of the rest of Indonesia's pulp is destined for South Korea, India, Bangladesh and Japan.

Thailand and Singapore were the only other tropical countries exporting anything other than negligible quantities of pulp in 2017. Exports from Thailand were 138,000 MT during the year, 14% less than in 2016, mostly destined for China, although 28,000 MT went to France. Exports from Singapore are volatile from year to year and in 2017 were 469,000 MT, down from 767,000 MT in 2016. It's likely that most of this volume is in transit from Indonesia. Singapore imported 347,000 MT of pulp for Indonesia in 2017, and the export destinations from Singapore are the same as for Indonesia – mainly China, Bangladesh and India.

In practice, Indonesia's main competition in export markets for pulp comes not from other tropical countries but from suppliers in the sub-tropical region, notably Brazil and Chile. Brazil's exports of pulp were 13.84 million MT in 2017, 2% more than in 2016 and continuing a long term rising trend. Brazil's exports consist almost exclusively of hardwood chemical pulp mostly destined for the EU, China and the U.S.A. Chile's exports of pulp were 4.49 million MT in 2017, 3% less than the previous year. Chile's exports are mix of hardwood and softwood

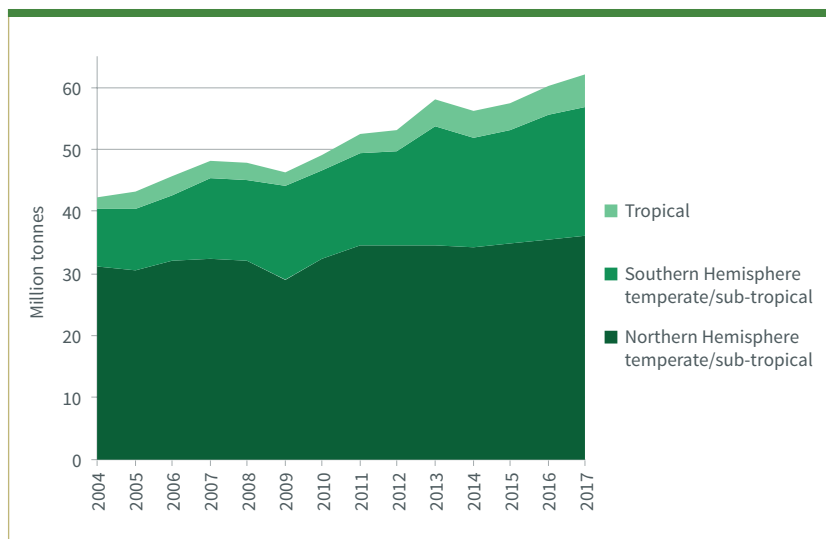


Figure 3.6.1: Global wood pulp trade, by export region, 2004 to 2017

Source: ITTO IMM analysis of data from Eurostat COMEXT, UN COMTRADE and Global Trade Atlas

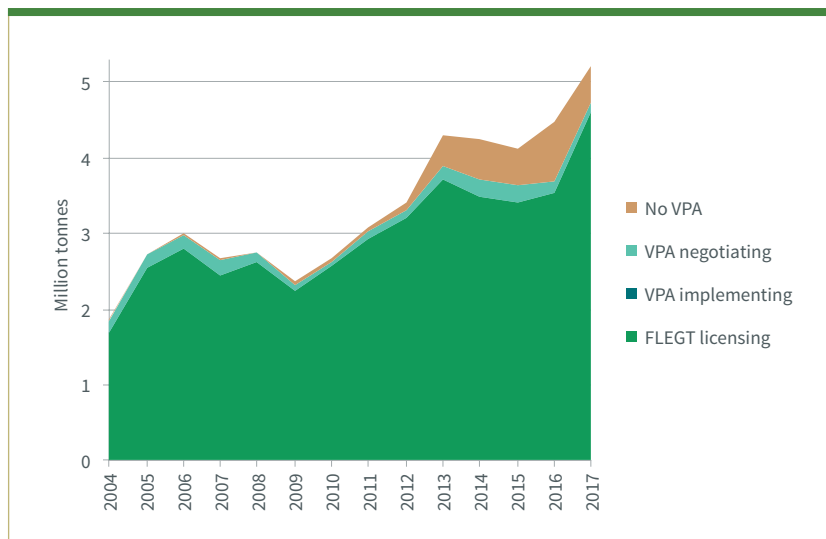


Figure 3.6.2: Tropical wood pulp trade, by VPA status of suppliers, 2004 to 2017

Source: ITTO IMM analysis of data from Eurostat COMEXT, UN COMTRADE and Global Trade Atlas

chemical pulp with most destined for China, and smaller volumes for South Korea and the EU.

3.7 VPA partner countries in global paper trade

The paper sector is highly capital intensive. It is less attracted to locations with low labour costs and more to countries where there is low commercial risk and ready access to a large and relatively stable electricity supply and other essential infra-structure. It also benefits from the presence of relatively undifferentiated forest resources, best supplied by fast-growing plantations or northern boreal forests. In many parts of the world, it is becoming increasingly dependent on recycled fibre and an efficient supply chain for this material. Finished products are bulky and prone to damage during transport, while customers are unwilling to carry stock and require quick turnaround times, generally favouring location close to consumers.

Total value of global trade in paper products (excluding internal EU trade) increased 3% from to US\$92.78 billion

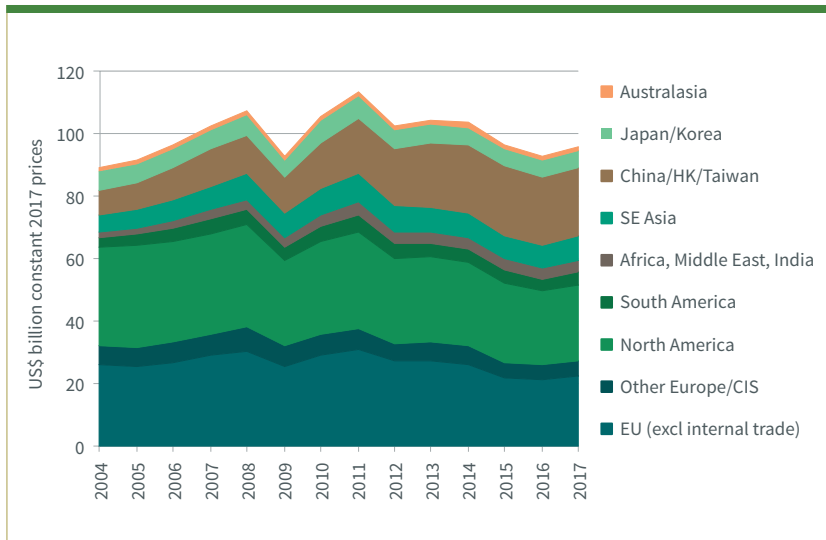


Figure 3.7.1: Global paper product trade, by export region, 2004 to 2017
 Source: ITTO IMM analysis of data from Eurostat COMEXT, UN COMTRADE and Global Trade Atlas

began in 2011 (Figure 3.7.2). Exports from Indonesia, the world’s largest tropical exporter of paper products, increased 9% to US\$3.80 billion in 2017. In tonnage terms, Indonesia paper exports increased from 4.1 million MT in 2016 to 4.7 million MT in 2017. This was mainly driven by a near three-fold increase in Indonesia’s paper exports to China from 240,000 MT in 2016 to 640,000 MT in 2017. This meant China overtook Japan to become Indonesia’s largest paper export market.

While China and Japan are the leading export markets, Indonesia sold paper products into nearly 170 countries in 2017. Indonesian national statistics indicate that exports to EU countries were 308,000 MT in 2017, a 21% rise compared to the previous year, with most gains in the U.K., Belgium and Italy.

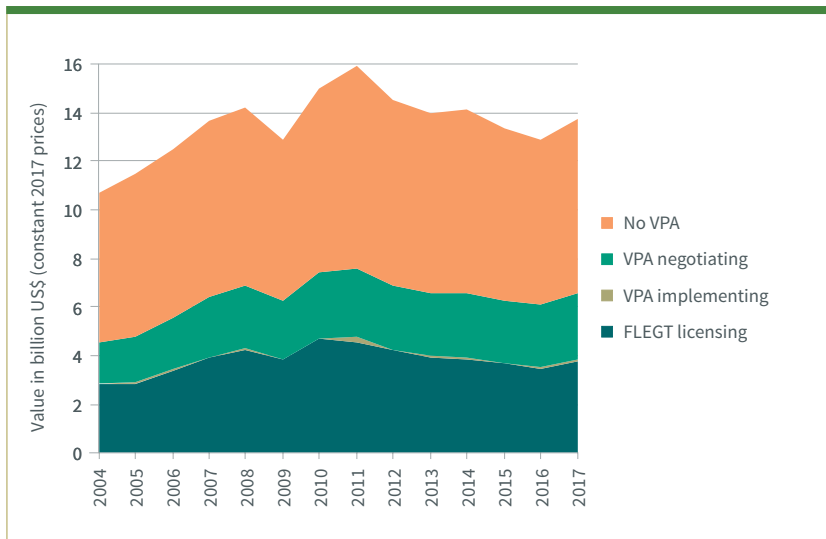


Figure 3.7.2: Tropical paper product trade, by VPA status of suppliers, 2004 to 2017
 Source: ITTO IMM analysis of data from Eurostat COMEXT, UN COMTRADE and Global Trade Atlas

Paper product exports from countries implementing VPAs – all in Africa – are negligible, totalling no more than US\$10.6 million in 2017, mostly from Ghana, although this was a 27% increase compared to the previous year.

Countries negotiating VPAs exported paper products with total value of US\$2.74 billion in 2017, 6% more than the previous year. These exports derive mainly from countries in South East Asia including, in 2017, US\$1.5 billion from Thailand, US\$0.9 billion from Malaysia and US\$0.5 billion from Viet Nam. The only VPA-negotiating country outside South Asia exporting a significant amount of paper is Honduras with exports of US\$230 million in 2017.

Paper product exports from tropical countries not engaged in the VPA process increased 6%, from US\$6.81 billion in 2016 to US\$7.19 billion in 2017. The largest tropical exporters of paper with no VPA process, which together accounted for around US\$4.47 billion of exports in 2017, are Singapore, Mexico, and India. A large proportion of exports from Singapore are re-exports (it has very limited paper manufacturing capacity and imports a large quantity of paper from Indonesia).

in 2016 to US\$95.86 billion in 2017 (Figure 3.7.1). The gain in trade in 2017 reversed the decline of the previous 3 years and was apparent in nearly all global regions. The value of paper exports increased 6% in the EU, 6% in the CIS, 2% in North America, 2% in South America, 7% in Africa and the Middle East, 8% in South East Asia and 3% in Northeast Asia. Only China recorded a slight (1%) fall in exports as the country is diverting less product to export markets and consuming more internally.

The data for total paper trade hides significant shifts in the composition of products. Increased digitization is leading to a decline in global demand for printing and writing papers and newsprint. However, demand for tissue and wrapping papers, both of which are dependent on household consumption, has been more resilient. Packaging is also benefitting from the rise in e-commerce.

Paper product exports from tropical countries increased 7% to US\$13.74 billion in 2017, reversing the decline which

billion in 2016 to US\$7.19 billion in 2017. The largest tropical exporters of paper with no VPA process, which together accounted for around US\$4.47 billion of exports in 2017, are Singapore, Mexico, and India. A large proportion of exports from Singapore are re-exports (it has very limited paper manufacturing capacity and imports a large quantity of paper from Indonesia).

Brazil is not classified in this analysis as an exporter of tropical paper products because most paper manufacturing in Brazil is outside the tropical region. Brazil is a moderately large trader in paper products but, unlike for wood pulp, exports have declined in recent years. The value of Brazil’s exports was US\$1.9 billion in 2017, the same as in 2016, of which US\$150 million were destined for the EU, down from US\$179 million in 2016.

4 VPA partner competitiveness

4.1 Relative international competitiveness of VPA countries

Some VPA partner countries are exploiting competitive advantages to develop markets for further-processed wood products in Europe. Both the IMM Baseline report¹² and the report “VPA Partner Countries in EU Timber Trade 2014-2016”¹³ observed that several VPA partner countries ranked highly in international competitiveness indices – Indonesia, Malaysia, Thailand and Viet Nam have the most developed wood-processing sectors and are significant exporters of value-added wood products to the EU. VPA partner countries that are poorly connected to international trade routes and are rated as challenging places in which to do business are more focused on the export of primary wood products.

The previous IMM reports used three indices, namely the World Bank’s “Ease of Doing Business”¹⁴ (EDB), the World Economic Forum Global Competitiveness¹⁵ (GC) Index, and the UNCTAD Liner Shipping Connectivity Index¹⁶ to identify trends in VPA partner country competitiveness between 2013 and 2016. This analysis is updated to 2017/2018 below:

- Indonesia’s position on the GC Index remained stable at 41st in 2017. At the same time, ranking on the EDB Index continued to increase sharply from 120th in 2013 to 91st in 2016 and 72th in the 2017/2018 report. The country made significant progress on a number of items including “starting a business”, “access to electricity”, “paying taxes”, “trading across borders”, “protecting minority interests”, “access to credit” and “registering property”. Indonesia’s connectivity remains a problem, being considerably lower than key competitors including China, Malaysia, Viet Nam and Thailand. However, while the connectivity rating for Malaysia, Thailand and Viet Nam has trended slightly downhill recently, Indonesia’s rating has improved during 2015-2017 and the gap to Viet Nam and, in particular, to Thailand has narrowed. Malaysia and China remain far better connected though.
- Malaysia remained by far the top performer amongst VPA Partner countries across the indices. In spite of the recent fall in the Connectivity Index, it remains among the world’s five most connected countries. However, Malaysia continued to fall slightly – from rank 23 to 24 (2013: 6) – on the EDB index. Compared to other VPA partner countries this still is a very good rating though. On the GC Index Malaysia also lost ground – from 18th to 25th position in 2017.
- Between 2013 and 2016, Thailand fell from 18th to 46th on the EDB index, due to range of issues including “construction permits”, “registering property”, “paying taxes”, “trading across borders” and “enforcing contracts”. However, most of the lost ground was regained in 2017/2018, when Thailand rose to 26th rank. At the same time, Thailand’s Connectivity Index declined slightly from 2016-2017 and on the GC if fell from 32th to 34th rank.
- Viet Nam’s ranking on the GC index increased from 70th in 2013 to 60th in 2016 and 2017. Viet Nam’s EDB index ranking increased from 99th in 2013 to 82nd in 2016 and again to 68th in 2017/2018 as the country made ground on several issues including “access to electricity”, “access to credit”, “trading across borders” and “enforcing contracts”. Viet Nam’s Connectivity Index softened slightly in 2017 after a sharp improvement in 2016.
- Lao PDR’s overall performance is weak compared to other Asian VPA partner countries. The country’s ranking on the GC index fell from 81st in 2013 to 93rd in both 2016 and 2017. Ranking on the EDB increased from 159th in 2013 to 139th in 2016 before falling again to 141st in the most recent report. Lao is not listed on the Connectivity Index.
- Cambodia’s competitiveness ranking increased slightly between 2013 and 2016, from 95th to 89th on the GC index and from 137th to 131st on the EDB index. The GC rating remained stable in 2017 but the EDB rating dropped again to 135. The country’s Connectivity Index remains extremely low by international standards.
- Ghana slipped sharply down the EDB index from 67th in 2013 to 108th in 2016 and then further to 120th in 2017/2018. In 2016 ranking was down significantly on several issues including “dealing with construction permits”, “access to electricity”, “registering property”, “access to credit”, “protecting minority investors”, “paying taxes”, “trading across borders”, “enforcing contracts” and “resolving insolvency”. In 2017, the country apparently only made progress on the issue of “construction permits”. However, ranking on the GC index was stable at a low level (114th) between 2013 and 2017. On the Connectivity Index Ghana fell behind Gabon in 2017 and remained slightly lower than Congo and Côte d’Ivoire.
- Côte d’Ivoire’s competitiveness is still low but showing some signs of improvement. The country’s ranking on the GC index increased from 126th in 2013 to 99th in 2017. During the same period, ranking on the EDB index increased from 167th to 142nd in 2016 and then again to 139th in 2017/2018.
- Congo’s Connectivity Index increased between 2013 and 2017 to a significantly higher level than that of Ghana and Côte d’Ivoire; however, it remains very low

¹² ITTO/IMM (2015) Europe’s Changing Tropical Timber Trade 2004-2014. [http://www.flegtimmm.eu/images/baseline_report/TS%2045%20\(web\).pdf](http://www.flegtimmm.eu/images/baseline_report/TS%2045%20(web).pdf)

¹³ ITTO/IMM (2017) VPA Partner Countries in EU Timber Trade 2014-2016. <http://www.flegtimmm.eu/index.php/reports/11-flegt-vpa-partners-in-eu-timber-trade-2014-to-2016>

¹⁴ World Bank, Ease of Doing Business (2018) <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB18-Chapters/DB18-DTF-and-DBRankings.pdf>

¹⁵ World Economic Forum, Global Competitiveness Report (2016-2017) http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

¹⁶ UNCTAD Liner Shipping Connectivity Index (2004-2017) <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=92>

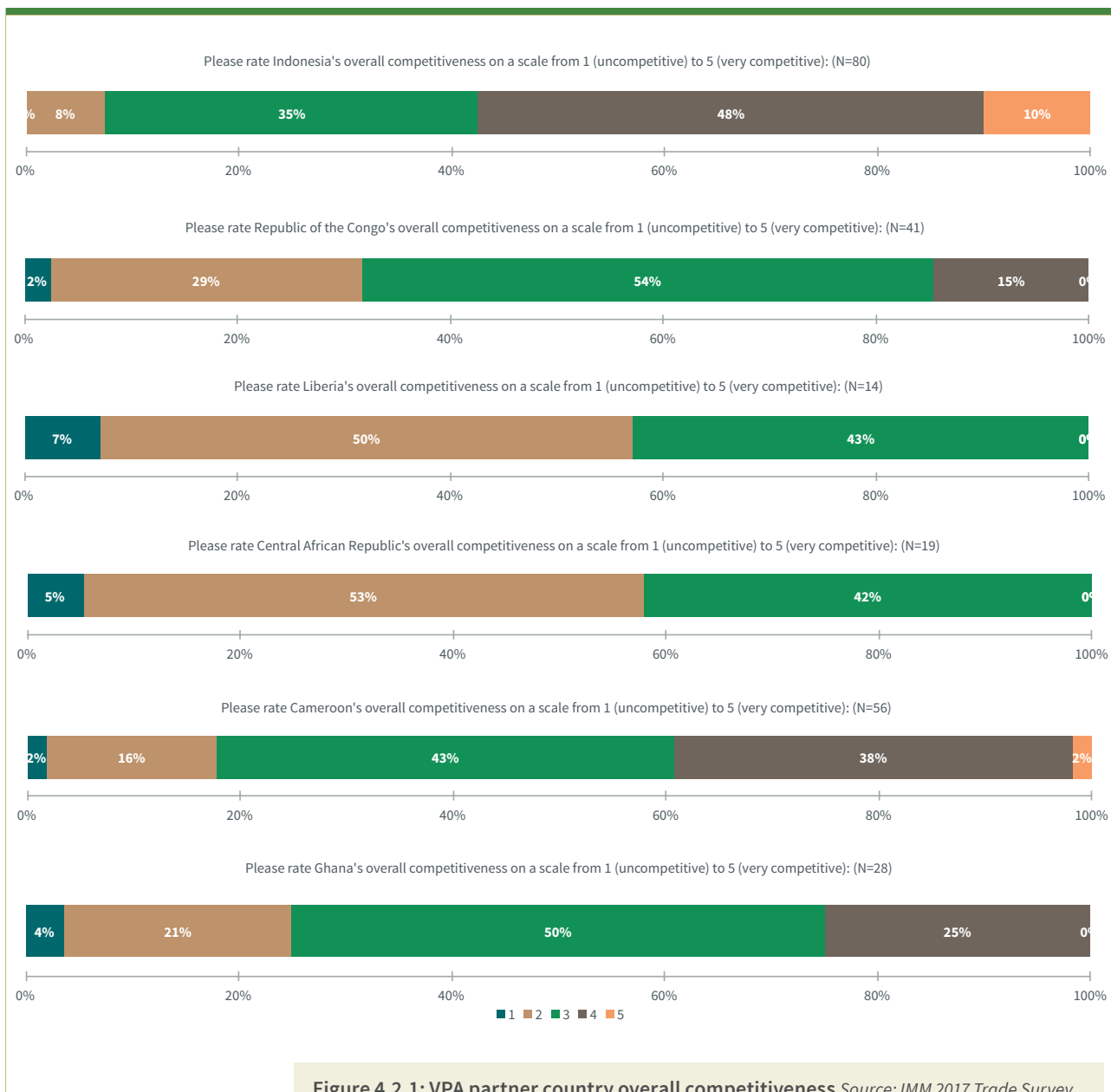


Figure 4.2.1: VPA partner country overall competitiveness Source: IMM 2017 Trade Survey

by international standards. There was also a slight improvement in Congo's ranking on the EDB index from 185th in 2013 to 179th in 2017/2018.

- Liberia's ranking on the EDB fell from 144th in 2013 to 174th in 2016 with a significant decline across a wide range of issues including "Dealing with construction permits", "Access to electricity", "Access to credit", "Paying taxes", "Protecting minority investors", and "Trading across borders". It improved again slightly to 172th in 2017/2018. Liberia's Connectivity Index remains very low also compared to the other African VPA partner countries. On the GC it fell from rank 129 to 131 between 2015 and 2017.
- Cameroon slipped from 114th to 119th rank in the GC Index between 2015 and 2017. The 2017/2018 EBD report listed some improvements in "starting a business" and "access to credit" last year but Cameroon still only held 163th place in the EBD ranking. Cameroon's Connectivity Index improved slowly over the last few years and is now relatively close to Ghana's or Côte d'Ivoire's but still clearly lower than Congo's.
- There was little or no change in the very low level of competitiveness and connectivity exhibited by other VPA partner countries in Africa including Central African Republic, DRC and Gabon.
- Between 2013 and 2016, Honduras ranking on the GC index increased from 111th to 88th, where it remained in 2017. Honduras ranking on the EDB increased from 127th to 105th between 2013 and 2016 and then fell back again to 115th. Honduras' Connectivity Index has recently improved a little but is still at a low level, comparable to that of Ghana or Côte d'Ivoire.
- Guyana's ranking on the GC index fell from 117th in 2014 to 121st in 2015; it was not listed among the 138 countries in the 2017 report. Ranking on the EDB fell from 115th in 2013 to 124th in 2016 and 126th in 2017/2018. Guyana's points on the Connectivity Index doubled in 2017, but the country's connectivity still remains lower than that of Honduras, Ghana or Côte d'Ivoire.

4.2 EU trade perceptions of VPA implementing partners' competitiveness

4.2.1 Overall competitiveness

As a part of the IMM 2017 European trade survey (Annex 2 of this report), respondents were quizzed about their own experience with VPA implementing partner country competitiveness. Respondents were asked to only give their opinion about partner countries they had direct experience with. The questions included an inquiry into perceived overall competitiveness of each country as well as competitiveness against a range of indicators including:

- Price
- Availability/Lead time/Logistics
- Technical performance
- Legality assurance
- Assurance of sustainability

As in the Indices in Section 4.1 Indonesia was ranked the most competitive by far among the FLEGT-licensing or VPA-implementing countries also by the European trade (Figure 4.2.1). A number of respondents remarked it was “playing in a different league” than the African VPA implementing countries.

90% of respondents rated Indonesia's overall competitiveness very good to satisfactory; 58% rated Indonesia's competitiveness “good” or “very good”.

The African VPA partner countries achieved satisfactory and good ratings primarily in the areas of “product range” and “technical performance”; while supplying primarily sawn timber and some logs to the EU markets, the African VPA countries deliver several commercial wood species that can be found nowhere else in the world.

Among the African partner countries, Cameroon was the only one to be ranked “very competitive” overall by a small number of respondents (2%). The country also achieved the best average rating of all African implementing countries, with only 18% of respondents ranking it “uncompetitive” or “very uncompetitive”.

Ghana and Congo Republic were ranked “uncompetitive” or “very uncompetitive” by 26% and 31% of respondents, respectively, and around 50% gave a “satisfactory” rating in each case. Both countries also had a number of “good” ratings.

Liberia and Central African Republic performed weakest among the African VPA implementing partner countries. 57% and 58%, respectively, of the European survey respondents ranked the two countries “uncompetitive” or “very uncompetitive” overall. No respondent rated Liberia and CAR “competitive” or “very competitive” overall.

4.2.2 Indonesia's competitiveness against separate indicators

A closer look at the different indicators of price, availability/logistics, technical performance, legality assurance and assurance of sustainability (Figure 4.2.2.1) shows that Indonesia performed particularly well in “legality assurance” (76% “competitive” or

“very competitive”), “technical performance” (58% “competitive” or “very competitive”) and “assurance of sustainability” (54% “competitive” or “very competitive”). Only a small number of respondents provided a rating of “1, uncompetitive” in terms of legality assurance. Possible explanations include:

- Frustration expressed by a number of importers about problems caused by FLEGT licence mismatches or administrative difficulties (some of which can be explained by difficulties in getting used to new import procedures).
- One big international retailer reportedly had pulled out of importing plywood from Indonesia, as he was unable to obtain information on the species mix used in production before placing the order; this information would only be supplied at a later stage. As this company has blacklisted some species in Indonesia, this made buying plywood impossible. The company transferred business to Malaysia.

The competitiveness rating for the “product range” may have been affected by a reportedly comparatively low level of commitment of some suppliers in the furniture sector to keep up with European product trends and fashion. One or two furniture importers remarked they were scaling back imports from Indonesia for this reason. IMM will look into the separate indicator of “adapting to (European) fashion trends” in the follow-up competitiveness ranking planned for 2019. At that time, more Asian partner countries will also be included in the follow-up ranking to enable comparison of Indonesia against its direct competitors.

Anecdotal evidence gathered during the first IMM Trade Consultations in spring 2018 indicate that Indonesia performs well in terms of “quality/technical performance” as well as “reliability/protection of intellectual property” against Asian competitors. However, Viet Nam and China, in particular, were often said to be one step ahead when it comes to “price”, “mass production”, and “adapting to trends”. Moreover, China, Malaysia, and Viet Nam were all reportedly performing better than Indonesia when it comes to “logistics”.

An EU furniture sector scoping study¹⁷ commissioned by IMM in spring 2018 looked into the competitiveness of furniture producers in selected VPA partner and competitor countries across a similar range of indicators. The trends registered by the furniture study broadly confirm above mentioned trends (Figure 4.2.2.2). Countries scored between 1 (very uncompetitive) and 5 (very competitive) in each category.

Main findings include:

- *Product range*: China was identified as having the widest range of products available. Among the VPA partner countries, Indonesia was leading, followed by Viet Nam, Thailand and Malaysia
- *Logistics*: Malaysia and Viet Nam lead the Asian producers in this category. However, Indonesia was ranked at a level with China and only slightly behind the two leading countries.

¹⁷ ITTO/IMM (2018) European Union furniture sector scoping study.

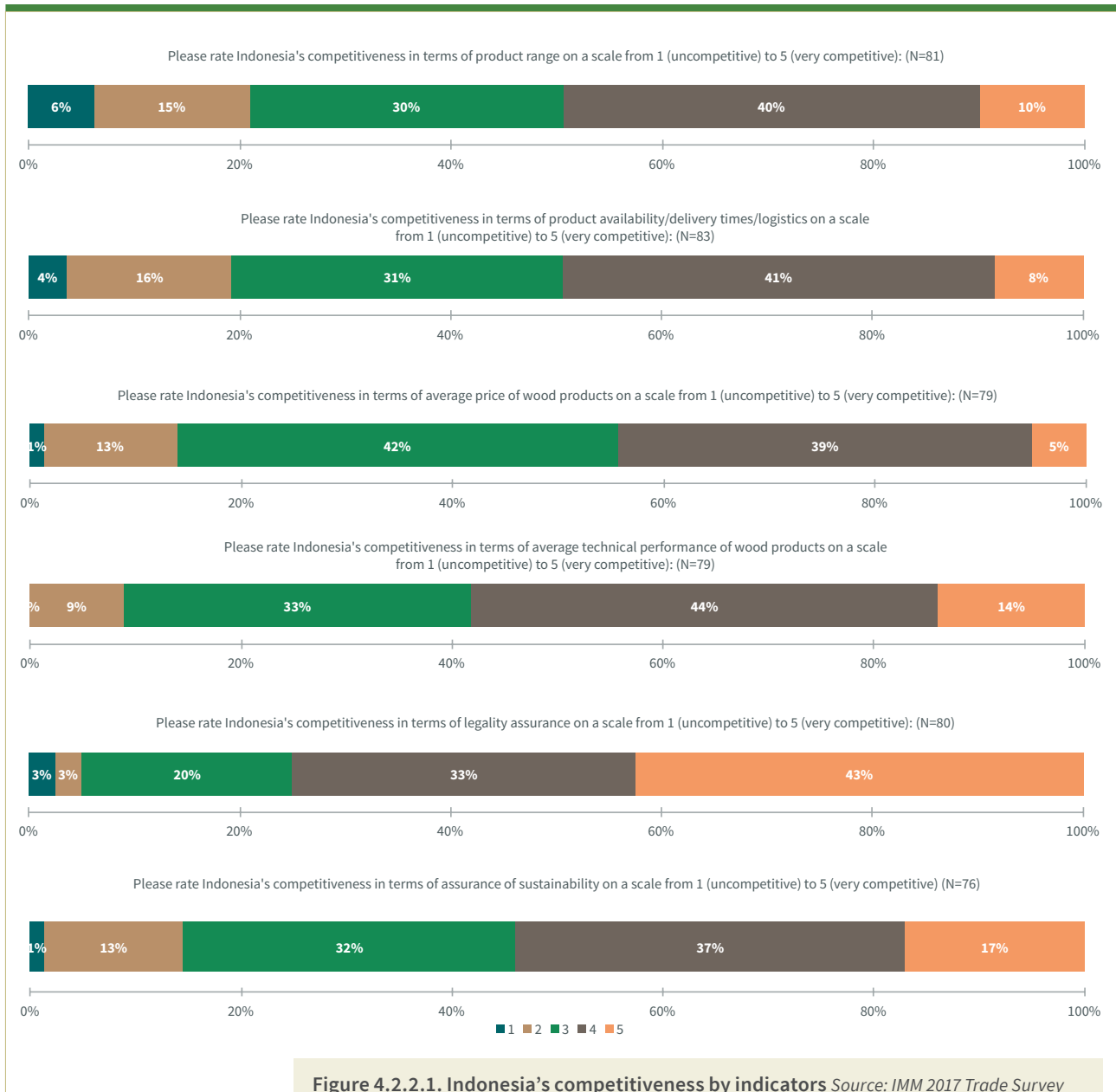


Figure 4.2.2.1. Indonesia's competitiveness by indicators Source: IMM 2017 Trade Survey

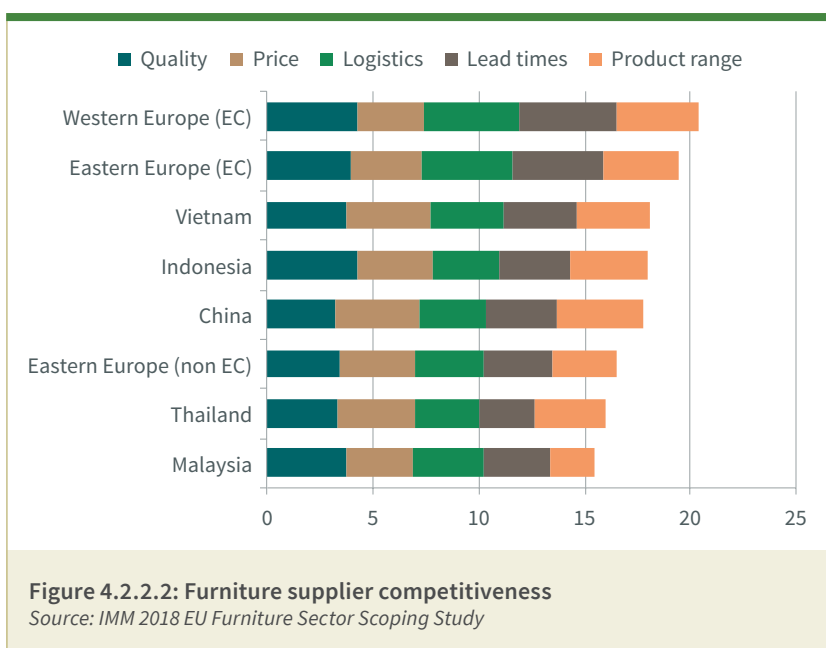


Figure 4.2.2.2: Furniture supplier competitiveness Source: IMM 2018 EU Furniture Sector Scoping Study

- **Lead times:** Viet Nam and China lead in this category. Indonesia was ranked slightly ahead of Malaysia.
- **Price:** Perceptions varied widely with Viet Nam perceived as offering lowest prices, closely followed by China, Thailand and Indonesia. Malaysia was perceived least competitive on price.
- **Quality:** Indonesia came out on top not only among the Asian producers, but was almost on a level with Western Europe and ahead of Eastern Europe. Malaysia was also well perceived, followed by Viet Nam and lastly Thailand and China.

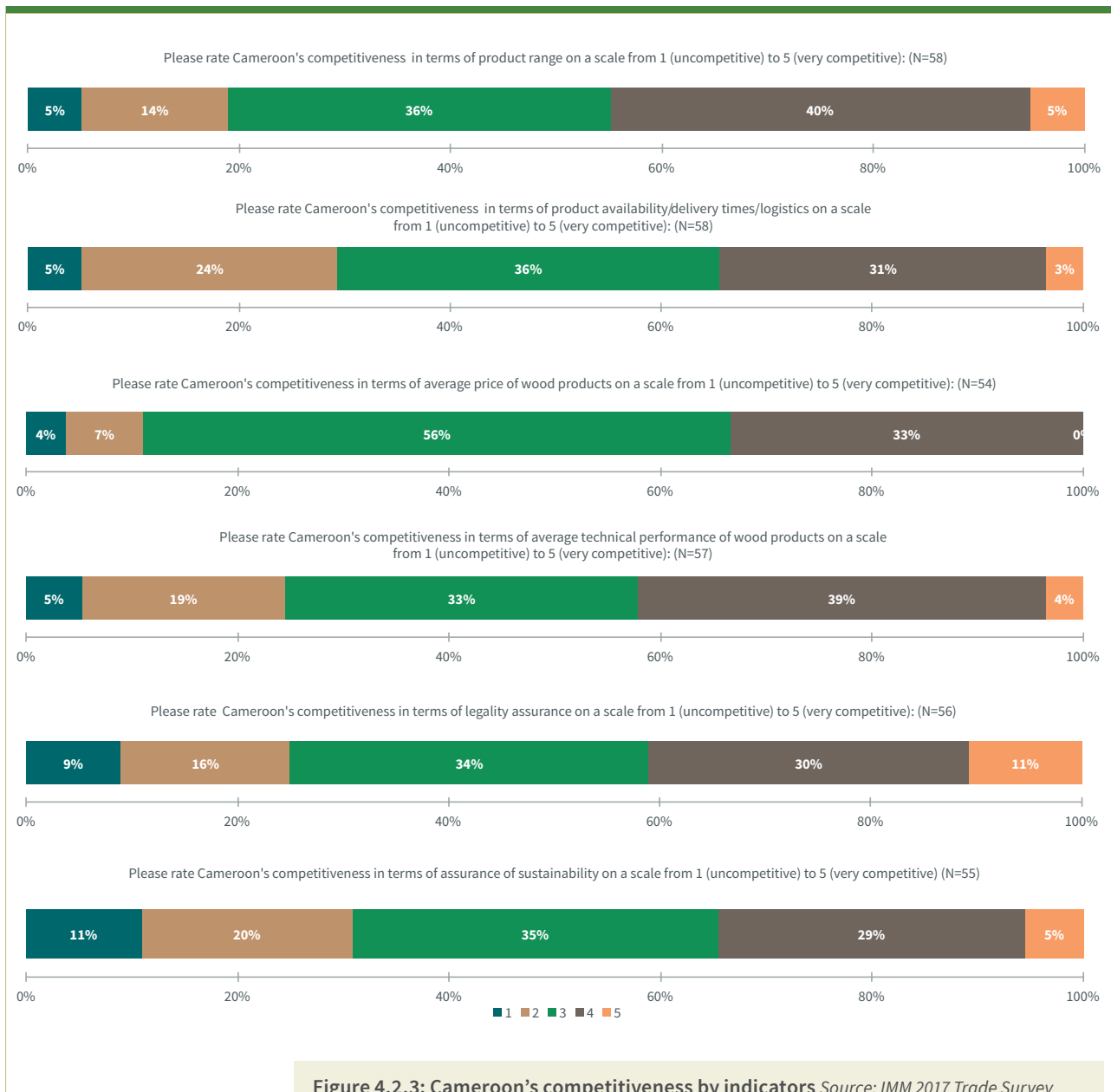


Figure 4.2.3: Cameroon's competitiveness by indicators Source: IMM 2017 Trade Survey

4.2.3 Cameroon's competitiveness against separate indicators

Figure 4.2.3 shows that Cameroon achieved comparatively good ratings in terms of “product range” (45% “competitive” or “very competitive”) and “technical performance” (43% “competitive” or “very competitive”).

The country exports mainly sawn timber to the EU. It offers a broad range of popular species including Sapelli (*Entandrophragma cylindricum*), Ayous (*Triplochiton scleroxylon*), Azobé (*Lophira alata*), Iroko (*Milicia excelsa*), Okan (*Cylicodiscus gabunensis*) and Tali (*Erythrophloeum suaveolens*), among others, and is the single most important supplier of tropical sawn timber to a number of the key EU markets. Cameroon performed better than all the other African VPA implementing countries against practically all indicators and was the only African VPA partner country to receive a small number of “very competitive” votes across all indicators.

Against the background of Cameroon's importance as a tropical timber supplier and the relative political stability in

the country, numerous European survey respondents called for a speedy completion of VPA implementation in the country.

4.2.4 Ghana's competitiveness against separate indicators

Analysis of the different indicators shows that Ghana performed relatively strongly in “assurance of legality” (48% “competitive” or “very competitive”). Here, the country has likely profited from the advanced state of VPA implementation and the related awareness of major exporters of the EUTR (Figure 4.2.4).

Ghana also performed relatively well in terms of “technical performance” – 40% of respondents gave a good rating here – and “assurance of sustainability” (33% “competitive” or “very competitive”).

The mainly satisfactory to low ratings in terms of “product range” and “availability/lead times” are not surprising given the loss of importance of Ghana as a tropical timber supplier for the EU market over the last decade and the relatively limited supply of commercial wood species.

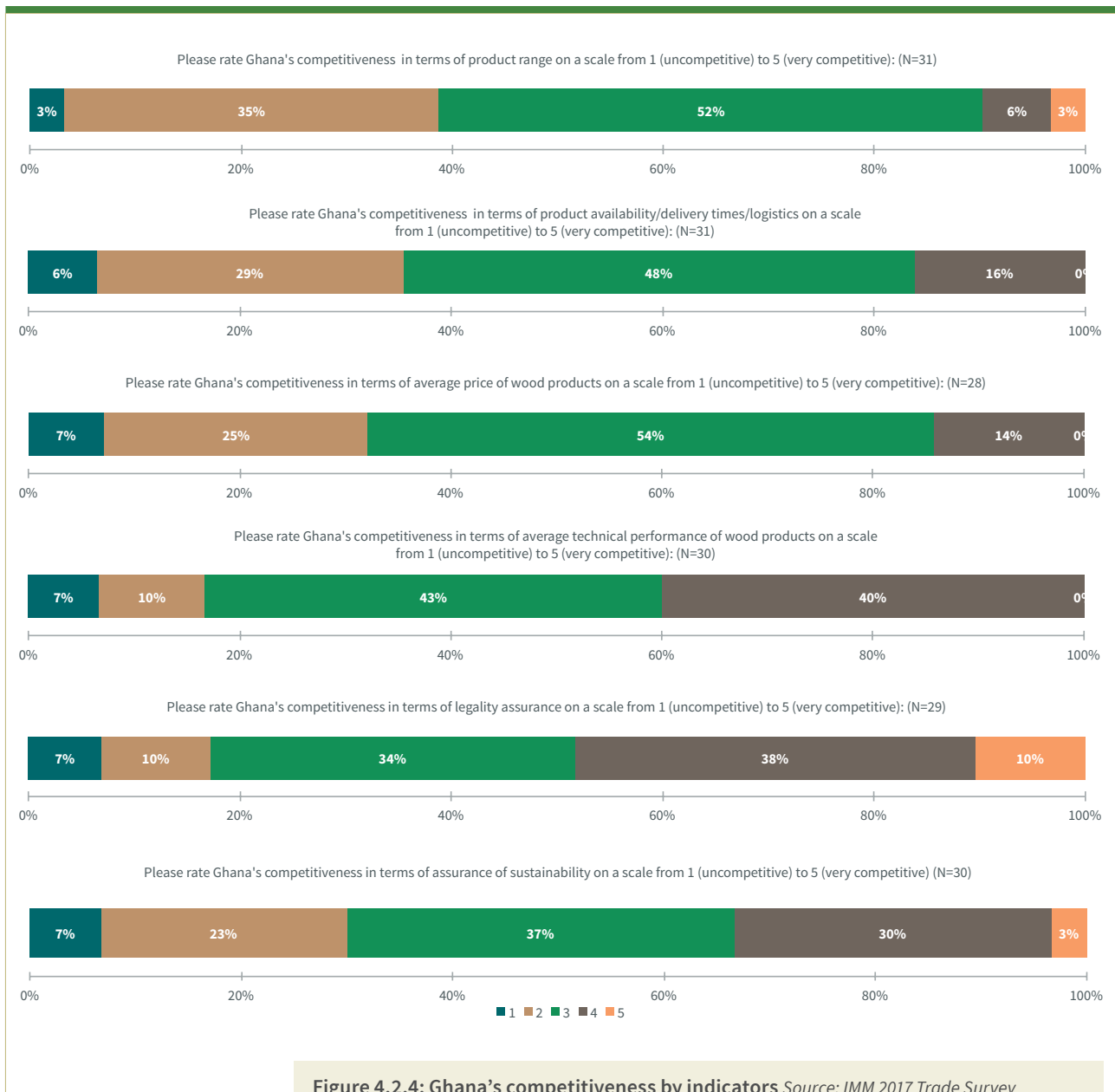


Figure 4.2.4: Ghana's competitiveness by indicators Source: IMM 2017 Trade Survey

4.2.5 Republic of Congo's competitiveness against separate indicators

RoC's ratings were lower on average than those of Cameroon and Ghana, but the country still had quite a significant proportion of average to very good ratings especially in terms of "price", "product range" and "technical performance" (Figure 4.2.5).

Like all other African VPA partner countries Congo Republic supplies primarily sawn timber to the EU markets. Within the EU, Congo Republic is an important supplier primarily for Belgium and France. For assurance of legality (and sustainability) buyers reportedly mostly rely on FSC certification in the Congo.

4.2.6 Central African Republic's competitiveness against separate indicators

The Central African Republic was rated relatively competitive in terms of "price" by a number of survey respondents. In most other categories, around two-thirds of respondent rated the country "uncompetitive" or "very uncompetitive" (Figure 4.2.6). According to comments from the IMM trade survey, the civil war and its aftermath

has made sourcing wood in CAR difficult – especially verified legal timber.

4.2.7 Liberia's competitiveness against separate indicators

Just like in the case of CAR, Liberia's main strength was identified in the area of pricing by the competitiveness ranking (Figure 4.2.7).

Surprisingly, given that obtaining legality assurance in Liberia was frequently described as particularly difficult during interviews with IMM correspondents, is the comparatively good rating for "obtaining proof of legality". One reason for this may be that only a relatively small number of survey respondents participated in the competitiveness ranking for Liberia (13-15 companies, depending on the indicator). By way of comparison, Indonesia was ranked by around 80 and Cameroon by 50-60 companies).

The small number of respondents engaged in Liberia may have specialised in sourcing from there and thus be used to carrying out risk assessment and mitigation in the country.

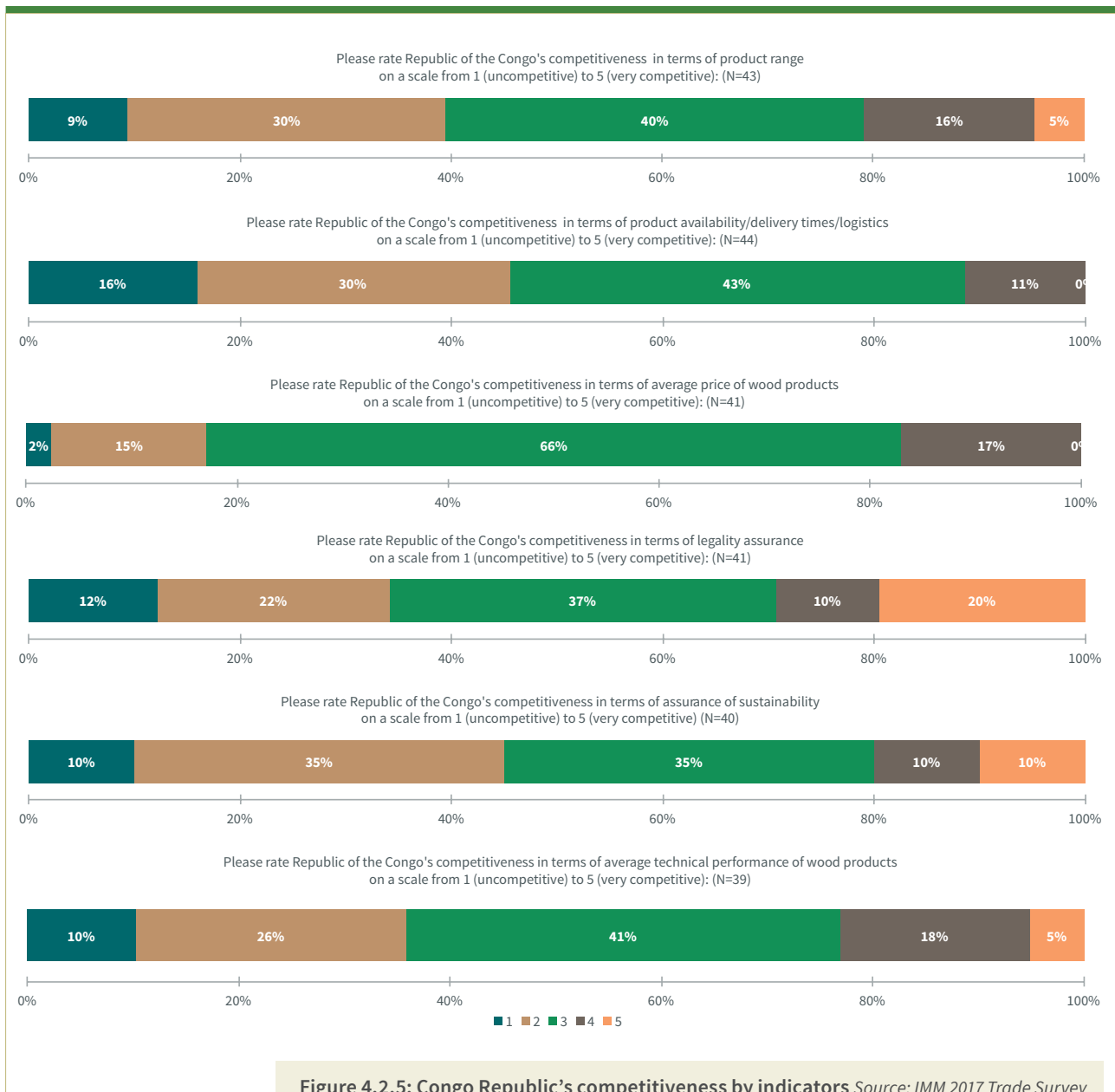


Figure 4.2.5: Congo Republic's competitiveness by indicators Source: IMM 2017 Trade Survey

Liberia's rating against the other indicators was weak.

4.3 Trends in substitute products from non-VPA countries

All IMM correspondents reported some degree of decline in the use of tropical timber in a variety of applications ranging from outdoor (decking, cladding, joinery) to indoor uses (flooring, furniture, interior decoration) over the last decade. Among the most important substitute products replacing tropical timber correspondents mentioned:

- Temperate hardwood – especially oak as a substitute in flooring, furniture, veneers, joinery;
- Plywood made of temperate wood species such as birch replacing tropical mixed-light hardwood products;
- Thermally or chemically treated softwood (or temperate hardwood) as substitute in production of decking, window frames, cladding;

- Plastic “rattan” replacing tropical wood in outdoor furniture;
- Wood-plastic composites – substitute in production of decking, in particular;
- Wood-based panels, laminate flooring and Luxury Vinyl Tiles (LVT) replacing tropical timber (and other solid timber) in furniture and flooring applications.

Not all of these substitute products are cheaper than tropical timber – in fact, many are in a similar price range or in some cases even more expensive.

IMM survey respondents and participants at the first two IMM Trade Consultations gave a variety of reasons for the loss of favour of tropical timber on key EU markets. Among the most frequently mentioned were:

- Importing tropical timber typically involves long lead times and complex logistics – fluctuations in supply



Figure 4.2.6: CAR's competitiveness by indicators Source: IMM 2017 Trade Survey

and limited shipping capacities, especially in Africa, are causing importers to withdraw.

- Just in time deliveries (which are preferred by European buyers) are possible for many substitute products but difficult for tropical wood.
- Tropical wood has a negative image for consumers – many don't want to buy it.
- Importing tropical timber involves reputational and legal risks.
- Due diligence for tropical wood products requires experience and is time consuming. It is often difficult to reduce risk to negligible level.
- Fashion trend favouring lighter surfaces, especially oak, has lasted for several years now. However, the IMM Furniture Sector Scoping study (ITTO/IMM 2018) identified initial signs for a potential comeback of darker surfaces.
- Strong purchasing competition (especially when buying in Africa): other markets (especially China, Viet Nam, India) are more lucrative/less demanding (in terms of quality and/or legality verification).
- EU markets that were hit hard by the economic crisis are seeing a trend towards cheaper, wood-based panel rather than solid wood-based furniture and flooring.

IMM will look into these trends in more detail with an update of the 2015 Review of Market Impact Factors¹⁸ to be carried out in 2018/2019.

¹⁸ ITTO/IMM 2015: Baseline Report Supplement: Detailed Review of Market Impact Factors. (ITTO/IMM 2015)

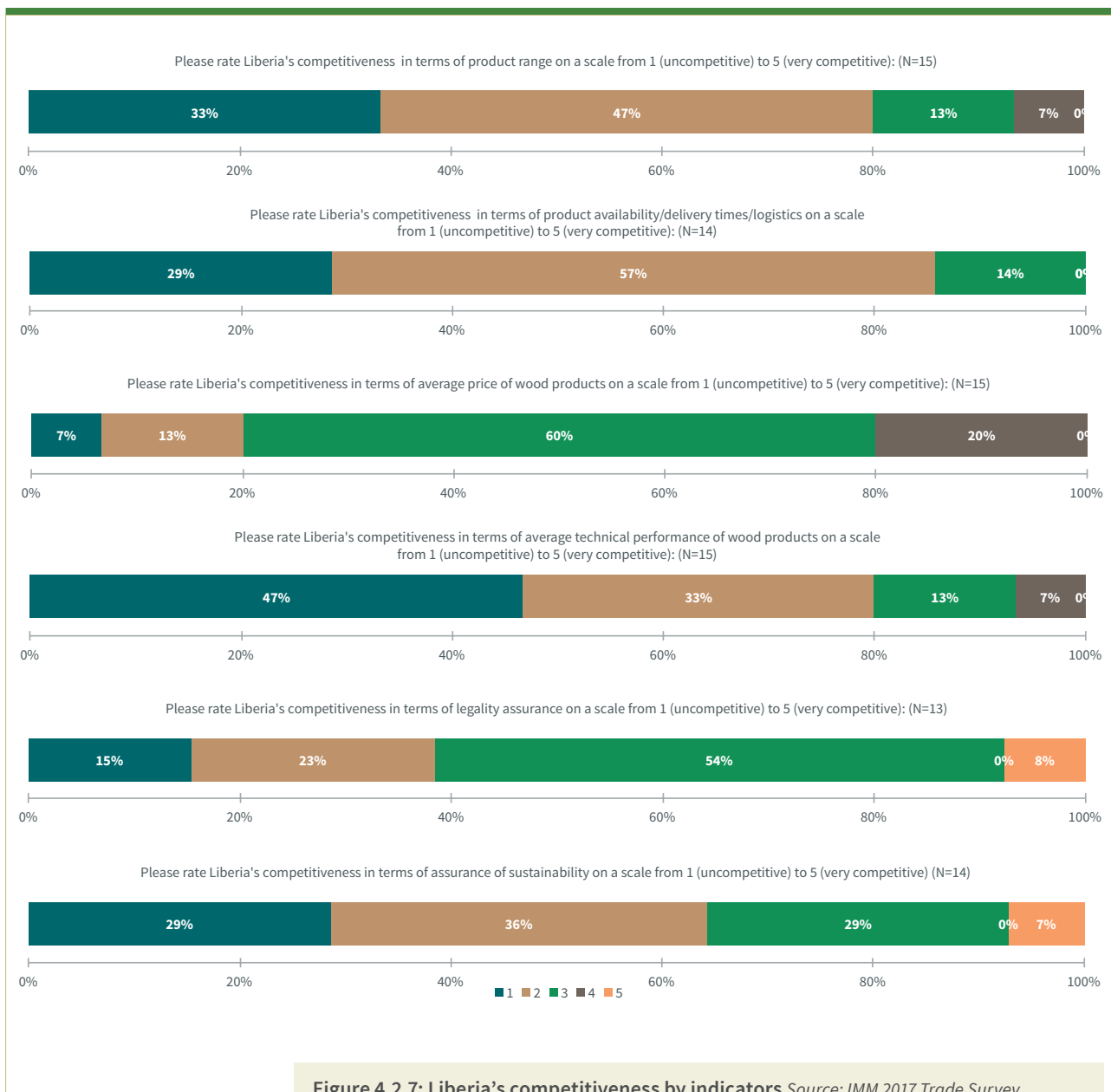


Figure 4.2.7: Liberia's competitiveness by indicators Source: IMM 2017 Trade Survey

4.4 Willingness to pay price premiums for FLEGT-licensed timber

Participants in the IMM 2017 EU trade survey were asked both whether they would be prepared to pay a price premium for FLEGT-licensed timber and whether their customers would be willing to pay such a premium. Both questions were answered by 50 of the 126 survey respondents.

The question whether they would be willing to pay a price premium themselves was answered affirmatively by 19 companies, i.e. roughly 40% of respondents to the question. Suggested premiums ranged typically around 5% or below. A very small number of respondents proposed premiums of 10% or more.

However, the majority of respondents said they would not be prepared to pay a premium for FLEGT-licensed timber. Some indicated that this was because their own clients would not let premiums be passed on to sales prices, others because "legality" was considered a "minimum standard" or "precondition for doing business" and not something they would pay a premium for.

Some respondents suggested that price premiums might be an option in the future, once the market understands FLEGT-licensing better. At the moment, the level of awareness further down the supply chain was described as too low. Respondents typically didn't believe that their clients would be prepared to pay extra for FLEGT-licensed timber.

Statements to this effect included:

- "FLEGT is not an issue for customers"
- "our customers don't know FLEGT"
- "it definitely adds value but customers are not willing to pay more for it"
- "we would not expect our customers to pay a premium for legal timber as by definition all our timber should be legal"

Especially this last comment shows that FLEGT VPAs, while having potential to help improve the image of tropical timber, need to be better communicated and explained to the wider market before they can be expected to deliver any meaningful contribution to improving the market situation of tropical timber from VPA partner countries in the EU.

5.1 Indonesia market scoping study

5.1.1 Background to scoping study

The IMM Correspondent for Indonesia undertook a scoping study to assess the market situation for Indonesian timber products in 2017, to provide a baseline for assessment of future impacts of FLEGT licensing. The scoping study included analysis of timber production and trade data alongside a survey of Indonesian government agencies, civil society organisations and timber industry representatives.

5.1.2 Indonesia trade survey results

The Indonesian trade survey covered 47 timber industry players exporting a wide range of products – including furniture and furniture parts, decking, mouldings and plywood as well as paper, fibre- and particleboard, doors, glulam and sawn timber – to the European Union and world-wide. Companies were quizzed about their main European export markets and the overall relevance of Europe as a sales market as well as their perception of the VPA process, FLEGT licensing and the EUTR.

Overall, Indonesian industry and trade representatives' perception of the FLEGT VPA process and experience with FLEGT licensing was very positive. All respondents fully (81%) or partially (19%) agreed that FLEGT is helping to

improve forest management in Indonesia and more than 90% said FLEGT was helping to improve governance (Figure 5.1.2.1). 98% of respondents fully (69%) or partially (29%) agreed that implementing the VPA and getting SVLK certified was worth the effort. 85% fully (55%) or partially (30%) agreed that exporting wood has become easier as a result of FLEGT licensing. And 76% of respondents fully (24%) or partially (52%) agreed that their exports to the EU had increased since the beginning of FLEGT licensing.

When it comes to assessing the impacts of the EUTR prior to the beginning of FLEGT-licensing, 5% of respondents stated that their exports to the EU had definitely decreased as a direct result of the EUTR. Another 30% partially agreed with this statement, whereas 65% of respondents didn't think the EUTR had had any direct impact on their export sales to the EU. 5% of the survey respondents also stated they had diverted products to other sales markets, as selling to the EU had become too complicated after the EUTR had entered into force. Another 17% of respondents partially agreed to this statement, while 78% did not divert products to other sales markets because of the EUTR.

The relative ease with which Indonesian companies seem to have been able to respond to the challenge of providing European customers with meaningful documentation to comply with the EUTR from 2013 onwards and the

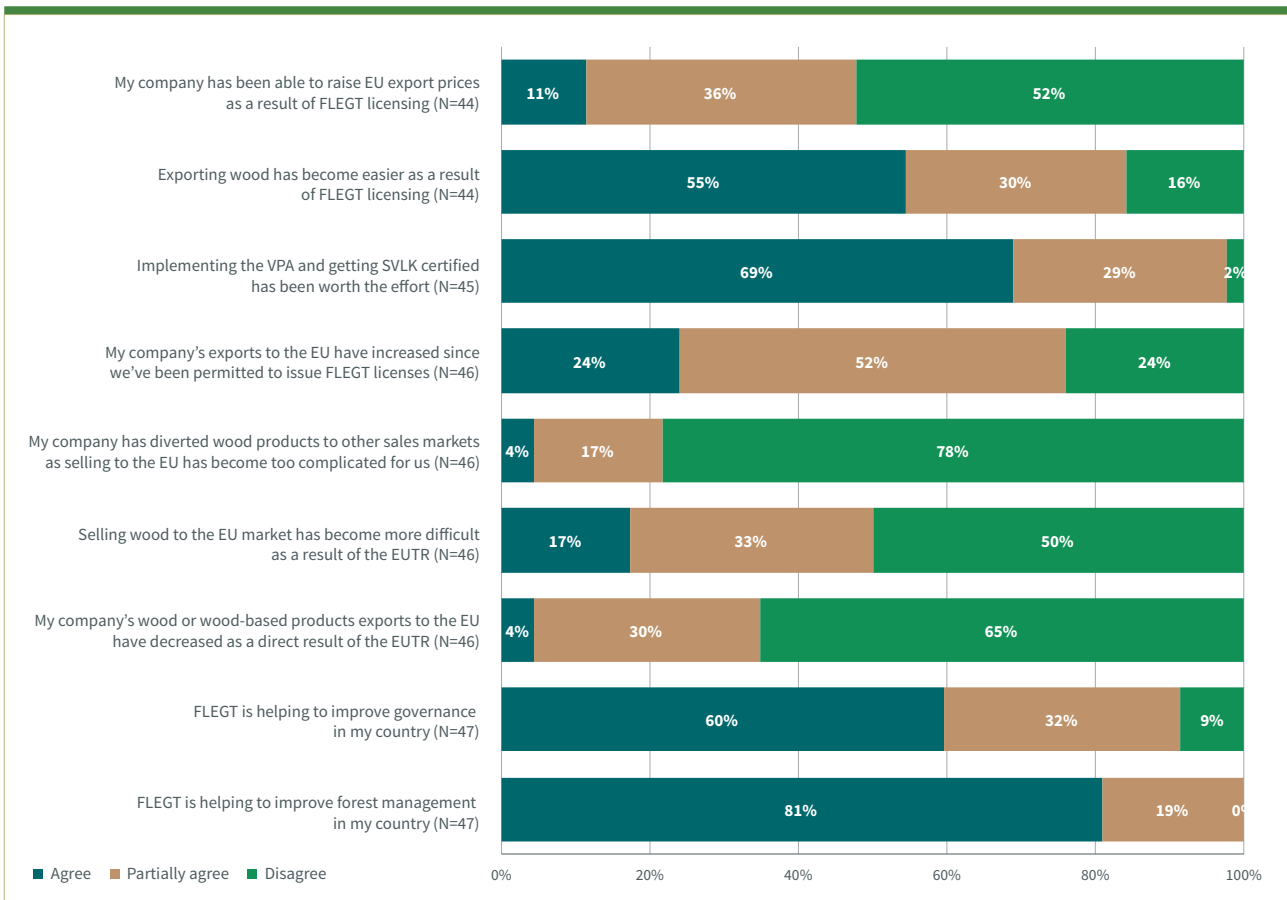


Figure 5.1.2.1: Indonesian private sector perceptions of the FLEGT VPA and EUTR
 Source: IMM 2017 survey of Indonesian trade representatives

¹⁹ <http://www.flegtim.eu/index.php/64-resources/newsletters/no-1-winter-2017-18/21-indonesian-wood-industry-acknowledges-advantages-of-flegt>

Destination	V-legal issued including FLEGT	Weight (1000 Ton)	FOB Value (million USD)
ASIA	112,037	12,675	7,814
NORTH AMERICA	38,751	944	1,286
EUROPEAN UNION	38,963	706	994
OCEANIA	14,708	350	436
AFRICA	6,464	431	331
SOUTH AMERICA	1,327	47	41
OTHER EUROPE	1,111	29	30
TOTAL	213,361	15,182	10,932

Figure 5.1.2.2: Number of FLEGT-licences (EU) and V-legal documents (other regions) issued in 2017

Source: <http://silk.dephut.go.id/index.php>

limited impact the EUTR has had on Indonesian sales to the EU can probably at least partly be attributed to VPA implementation. Many companies in Indonesia have been SVLK certified for a while and V-Legal documents, which were frequently considered as something similar to a FLEGT licence by European buyers, were issued from 2013.

The Indonesian VPA provides for all exports, not just those to the EU, to comply with the national timber legality assurance system (SVLK). Exports to the European Union have been accompanied by FLEGT licences since 15 November 2016. Exports to other international destinations continue to be accompanied by V-Legal documents, which were introduced in 2013 and, like FLEGT licences, are issued by Licensing Authorities and controlled by the Licensing Information Unit (LIU). LIU is a unit responsible for information exchange which receives and stores relevant data and information on the issuance of V-Legal Documents and which responds to queries from CAs or stakeholders.

Information on the number of FLEGT licences and V-Legal documents issued between January and December 2017 (Figure 5.1.2.2) shows how important the global coverage of VPA legality requirements is: the EU, while still an important market, is not the primary destination for Indonesian wood products.

Despite the positive overall attitudes and perceptions shown by most IMM survey respondents, Indonesian trade representative and government agencies also expressed some concerns and criticism of FLEGT licensing and their experience with the system.

One point of criticism voiced by companies during the IMM trade survey in Indonesia was that no perceptible increase in Indonesian sales to Europe had materialised in the first few months after the beginning of FLEGT licensing. However, disappointment in FLEGT licensing as an immediate means to boost demand can primarily be attributed to exaggerated expectations: FLEGT-licensing in isolation cannot hope to create any major surge in demand. This is especially true for high value sectors like

furniture and joinery, where the specific environmental features of Indonesian wood products have been less significant barriers to competitiveness than other issues such as relative labour costs, logistics, processing efficiency, innovation, and marketing. A detailed analysis of Indonesia's competitiveness against various indices and indicators can be found in Section 4 of this report.

However, Indonesian exports of lower-value products such as decking and plywood – where Indonesian products are familiar to EU importers and already favoured for their strong technical performance – have shown a quite significant upturn during the course of 2017, as outlined in Section 5.2.

That the zero-risk status of Indonesian timber is an incentive for European operators is further underpinned by respondents to the European trade survey, most of whom told IMM they would give preference to FLEGT-licensed timber over unlicensed timber from competing sources.²⁰

Additional points of criticism were the low level of acceptance of FLEGT-licensed timber by EU MS governments' green public procurement policies – only the UK and Luxembourg are currently accepting FLEGT as proof of sustainability and thus on equal footing with private third-party sustainable forest management certification schemes – as well as fees charged by a few Member States for processing of FLEGT licences. Indonesian stakeholders called for EU-wide acceptance of FLEGT-licensed timber in public procurement as evidence of sustainability and for fees to be abandoned. EU MS public procurement policies and considerations to include FLEGT-licensed timber are addressed in detail in Section 11 of this report.

Indonesian survey respondents also identified a small number of "teething troubles", which are discussed in detail on the IMM website,²¹ especially in the first months of FLEGT licensing. Indonesian Ministry of Environment and Forestry, the Licensing Information Unit (LIU) and the EC are working together to resolve these issues.

²⁰ <http://www.flegtimm.eu/index.php/64-resources/newsletters/no-1-winter-2017-18/15-trade-calls-for-more-information-on-indonesian-licensing-system>

²¹ <http://www.flegtimm.eu/index.php/64-resources/newsletters/no-1-winter-2017-18/14-tackling-flegt-licensing-teething-troubles>

²² There was zero recognition of the PHPL standard by EU companies surveyed by IMM in 2017, despite the PHPL system being Indonesia's largest SFM programme and the surveyed companies being targeted for their known or potential involvement in Indonesian timber trade.

5.1.3 Progress in sustainable forest management

Widely unnoticed by the EU timber trade,²² sustainable forest management (SFM) has made significant progress in Indonesia, in parallel to legality certification. The country's PHPL scheme is its largest SFM programme and it stands behind and further underpins the sustainability credentials of a significant proportion of Indonesian FLEGT-licensed exports.

Launched in 1998, the PHPL was made mandatory for commercial logging concessions, industrial timber plantations, state-owned community forests and private community forest in 2003. The scheme also became an integral element of Indonesia's SVLK timber legality assurance system. Forests for which PHPL is mandatory can initially be certified by the SVLK standard only, but in the follow period they will also have to comply with PHPL standards. Both the PHPL and the SVLK's forest legality standard have sets of standards for different forest types and are subject to annual audit by an accredited independent certification body.

Currently 11.8 million ha of natural forest concessions, out of Indonesia's total of 19.2 million ha, and 6.2 million ha of its 10.8 million ha of plantation forest, are covered by the PHPL. The Ministry of Environment's aim is to increase the PHPL area to a total of 22–23 million ha, or around 70% of these forest types.

In addition, three other certification schemes are active in Indonesia. The FSC issued its first certificate in Indonesia in 2001. The pace of uptake of FSC certification was slow before 2012 when certified area was only 1.25 million ha. However, the pace of uptake increased in the next five years and by 2017 3 million ha of natural forest concessions was certified to FSC principles and criteria, with a further 2.8 million ha accredited under the FSC controlled-wood scheme.

The LEI standard was launched under the auspices of the Ministry of Forestry in 1998, based on the ITTO criteria and indicators for SFM. However, the rate of uptake of LEI certification has been slow and by 2017 the scheme covered 2.6 million ha of various forest types, the majority (1.6 million ha) being forest plantation.

Finally, the Indonesian Forest Certification Cooperation scheme was set up in 2011. It was endorsed by the PEFC in 2014 and now covers 3.6 million ha of forest plantation.

National forest - HPH	Million hectar
Total area	19,2
PHPL certified	10,9
FSC certified	2,5
IFCC certified	0
LEI certified	1
FSC CW	0,2
Total	14,6 (76%)

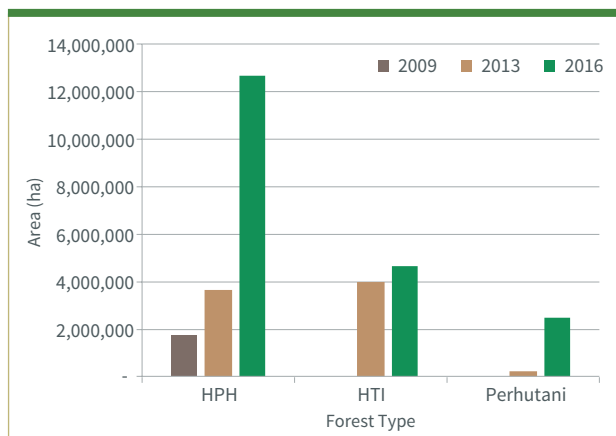


Figure 5.1.3.1: Forest Area certified by PHPL

Source: IMM 2018 analysis of SILK database

The total aggregate area of forest certified by all the various certification systems is 14.6 million ha of natural forest and 14 million ha of forest plantations. This implies that as much as 76% of natural forest area and 100% of forest plantation area could be certified under one system or another. However, a significant, but unknown proportion, of forests of both types is dual certified. In the case of forest plantations, where the aggregated certified area exceeds the total area by 30%, dual certification is evidently very widespread and this is probably also true of natural forest.

A closer look at the recent development of SFM certification in Indonesia reveals that all the schemes have recently continued to increase their forest coverage and their growth does not appear to have been adversely affected during the development of FLEGT licensing. VPA implementation has directly contributed to the roll-out of PHPL in Indonesia, while the pace of uptake of FSC and PEFC certification was also quite rapid in the five years up to 2017. However, it is too early to assess the longer-term interaction between mandatory PHPL and FLEGT licensing systems and private sector certification systems like FSC and PEFC in Indonesia.

Going forward, what may limit acceptance of PHPL certification as being on a level with PEFC or FSC, particularly by NGOs, is the certification of plantations on

Plantation forests - HTI	Million hectar
Total area	10,8
PHPL certified	5,7
FSC certified	0,5
IFCC certified	3,6
LEI certified	1,6
FSC CW	2,6
Total	14 (130%)

Figure 5.1.3.2: SFM certified area in Indonesia – all systems Source: IMM 2018 analysis

Main aspects	PHPL	FSC	IFCC/PEFC	LEI
Legal / SVLK compliance	✓	✓	✓	✓
Continuous improvement	-	✓	✓	-
Environmental impact assessment	-	✓	✓	-
Conservation of biodiversity	✓	✓*	✓	✓
Reduced impact logging (RIL)	✓	✓	✓	✓
Wood traceability	-	✓	✓	✓
Conflict resolution	✓	✓	✓	✓
Workers rights + health & safety	✓	✓	✓	✓
Respect of community rights	✓	✓	✓	✓
Certificate prohibits forest conversion	-, within HTI annual work plans	✓ for conversion after 1994	-, very strict criteria and max. 5%	-, depends on forest typology

* 10% conservation area, incl. 5% protected area

Figure 5.1.3.3: Comparison of SFM systems Source: IMM 2018

land converted from natural forest. FSC currently has a cut off point for certifying plantations converted from natural forest of 1994, and PEFC 2010. PHPL, like the LEI, has no such time-related restriction.²³

Given its current low profile, combined with general lack of recognition in Europe of SFM certificates other than those of the FSC and PEFC schemes, there is also a clear requirement for more communication and promotion of the PHPL scheme in the international market place. Wider understanding and awareness of the level and extent of SFM in Indonesia overall could also have the potential to prompt a reappraisal of the country's forestry and timber sustainability profile, and of the sustainability credentials of its FLEGT licensing scheme.

A detailed gap analysis between PHPL, FSC and PEFC would help companies in consumer countries to better understand the specific advantages and limitations of each system. IMM, with information supplied by the Indonesian Ministry of Environment and Forestry, undertook a preliminary comparison of the scope of standards for the four main certification systems operational in Indonesia (Figure 5.1.3.3).

5.2 Direct impact of fees and administration of FLEGT-licensed timber

5.2.1 Fees for processing FLEGT-licensed timber

Fees for processing FLEGT-licensed timber currently range between around €11 and €105.90/licence – with the UK, Italy, Belgium, Austria, Greece and Finland charging such fees (UNEP/WCMC 2018). Finland had initially charged a much higher fee of €390/licence but reduced it to €70 as of 1 January 2018. The highest fee is currently charged by Austria, with €105.90/licence and the lowest by the UK, with £9.60 (roughly €11)/licence.

Due to the relatively moderate amounts, European respondents to the IMM trade survey did not really perceive these fees as a trade barrier. However, it was felt by some that imposing fees for processing of FLEGT licences was sending a negative signal to the market, instead of providing support to the initiative and recognising the significant efforts made by Indonesia.

5.2.2 Procedures for importing FLEGT-licensed timber

In the seven EU countries monitored by IMM, procedures for importing FLEGT-licensed timber were described very similarly:

- Operators submit the FLEGT licence to the relevant Competent Authority for validation either via the EC's FLEGIT system or via their respective national systems.
- The original paper-based FLEGT licence has to be sent to the Competent Authority.
- The Competent Authority checks the FLEGT licence for authenticity and validates it. The FLEGT licence is compared with custom declaration and other shipment documents to confirm correspondence between the licence and the shipment.
- Customs check the licence copy accompanying the shipment against the copy on the system and release the goods for circulation.

Competent Authorities may carry out further checks or verification of shipments using a risk-based approach, for example in the case of FLEGT-licence mismatches.

Opinions given by IMM survey respondents about whether administrative procedures for importing FLEGT-licensed timber are straightforward varied, with 26% of respondents flagging up shortcomings or dissatisfaction (Figure 5.2.1).

²³ A related, and more immediate, issue for wider EU market acceptance of FLEGT licences, as opposed to PHPL certification, is the concern that timber from areas of forest converted into other uses (such as palm oil plantations) may enter the supply chain and receive a FLEGT licence.

²⁴ <http://www.flegtimm.eu/index.php/64-resources/newsletters/no-1-winter-2017-18/14-tackling-flegt-licensing-teething-troubles>

²⁵ Regulation (EC) No 2173/2005 of 20 December 2005 on the establishment of a FLEGT licensing scheme for imports of timber into the European Community. Annual synthesis report for the year 2016. (COM 2018.2)

The administrative process of importing FLEGT licensed wood is easily understandable and manageable (1 totally agree, 5 totally disagree) (N=85)

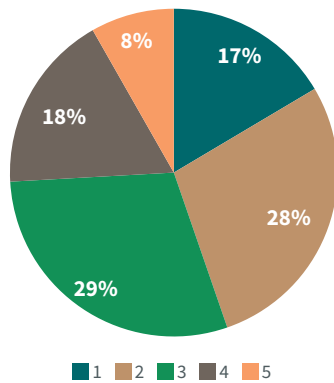


Figure 5.2.1: The administrative process of importing licensed timber is easily understandable
Source: IMM 2017 Trade Survey

The administrative process of importing FLEGT licensed wood is easily understandable and manageable (1 totally agree, 5 totally disagree) (N=48)

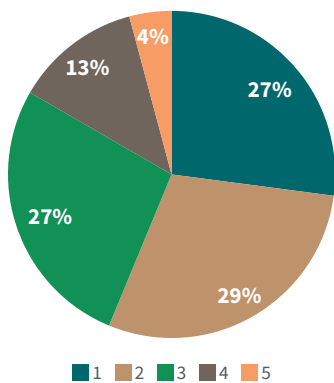


Figure 5.2.2: The administrative process of importing licensed timber is easily understandable (Germany, Netherlands, UK) Source: IMM 2017 Trade Survey

The administrative process of importing FLEGT licensed wood is easily understandable and manageable (1 totally agree, 5 totally disagree) (N=30)

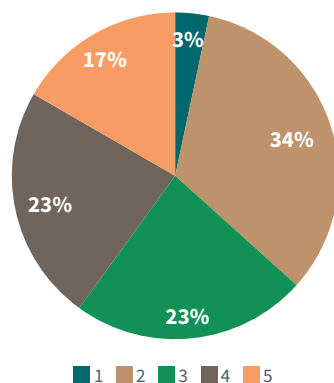


Figure 5.2.3: The administrative process of importing licensed timber is easily understandable (France, Italy, Spain) Source: IMM 2017 Trade Survey

Overall, it seems like the mixed ratings are less attributable to standard administrative procedures than to special situations:

- In some instances, initial difficulties using the FLEGIT system were flagged up. However, these seem to have been resolved shortly after the start of FLEGT-licensing.
- A number of companies attributed the weak ratings to difficulties in processing of shipments due to FLEGT licence mismatches.²⁴ These had led to delays in customs clearance and/or involved additional administrative effort.

The only improvement to administrative procedures referring to standard cases that was frequently suggested was to make the process fully electronic. In this regard, the EC is considering “exploring with Indonesia the possible integration of the respective IT systems and the possibility to move in the long-term towards a fully electronic-based licensing system”, according to the latest “Annual Synthesis Report on the Establishment of a FLEGT-licensing scheme”.²⁵

Companies in some countries said they wished the Competent Authority had cooperated more closely with the private sector before the start of licensing. In some cases, companies seem to have been taken by surprise by the start of FLEGT-licensing; and especially in countries where EUTR enforcement started relatively recently before the beginning of licensing, some companies seem to have felt overwhelmed by yet another set of administrative procedures to be followed.

The IMM survey indicates correlation between the quality of the relationship between the Competent Authorities and the private sector and the level of satisfaction with import procedures for FLEGT-licensed timber. *Figures 5.2.2 and 5.2.3* compare the perception of the administrative processes involved in importing FLEGT-licensed timber in Germany, Netherlands and the UK (where respondents typically seemed satisfied with the level of cooperation) and France, Italy and Spain (where statements were more mixed).

Figures 5.2.2 and 5.2.3 show that in the three northern European countries, only 17% of survey respondents seem to have had difficulties adapting to procedures; this compares to 40% in southern Europe. On the other hand, 27% in northern Europe rated the procedures “very easy” to deal with but only 3% in southern Europe.

IMM will follow up on the development of perceptions of the administrative processes in its 2018 trade survey.

5.2.3 Average time for EU Member State CAs to verify FLEGT licences

IMM analysed data extracted from the FLEGIT database through which EU Member States process FLEGT licences to assess the time required for processing of FLEGT licences by CAs covering the period December 2016 to June 2018. The data has certain limitations as not all Member States are using FLEGIT to handle FLEGT licences. In particular, three Member States (UK, the Netherlands, Spain) have developed and use their own national electronic systems. The UK’s national electronic system has already been interconnected with FLEGIT since the beginning of 2018, but it only passes on the

FLEGT-licences, without information about clearance. Work has also started to connect the Spanish system. Notwithstanding the limitations, the number of licences processed through FLEGIT allows for drawing some conclusions on the average time required for licence processing.

The database provided by FLEGIT contained entries of 13,722 FLEGT licences cleared by Member State CAs. For 6,510 of the listed licences there was no “submission date” available. This is partly because FLEGIT does not record submission dates for licences from the UK. In other instances, the submission date is missing because a CA and not an importer registered the licence on FLEGIT.

For an analysis of time required between submission of a licence and validation, IMM was thus able to take 7,212 licences into account. FLEGIT data shows that about 50% of these licences were validated by CAs the same day or the day after submission by the operator. In more than 70% of cases, validation was done within less than three days and almost 90 % of all licences were validated within 10 days

Of the 6,510 licences without submission date, those registered in the UK were likely also validated within a day or two – if no investigation was necessary – as the UK CA has committed to validating FLEGT licences within two working days after submission.

A validation period of ten days or more was registered in about 11% of cases on FLEGIT. Here it is likely that validation required some sort of investigation on the part of the Competent Authority, probably due to mismatches between the licence and customs documents. A validation time of 21 days, the timeframe foreseen by LIU for feedback, was exceeded for 149 or 2% of the analysed licences. The longest period of time recorded for validation of a licence was 93 days. However, a validation period of more than 40 days only occurred for 18 licences. As a result, most shipments that required further investigation by the CAs were likely also ready to be cleared by customs by the time of arrival in EU, given that licences can be submitted by operators before arrival of the shipments, and given an average shipping time from Indonesia of about five to six weeks.

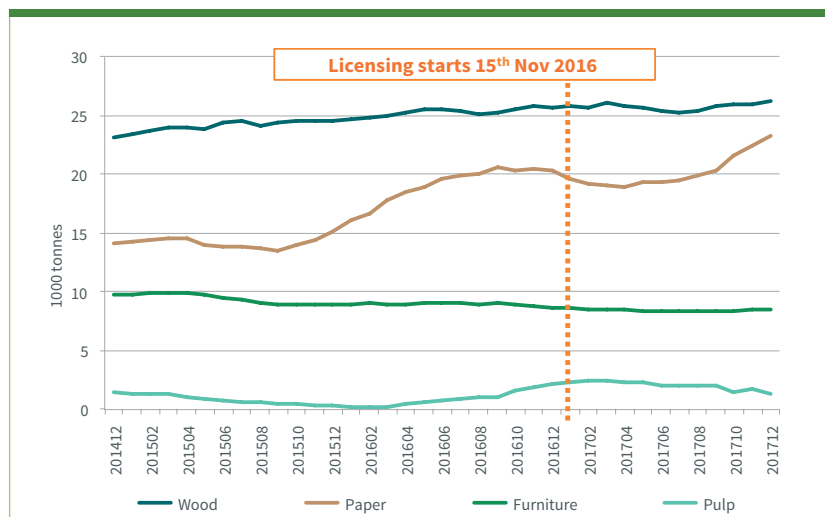


Figure 5.3.1: Tonnage of EU28 imports of timber and timber products from Indonesia by product group 12-month rolling average – January 2015 to Dec 2017
Source IMM analysis of Eurostat

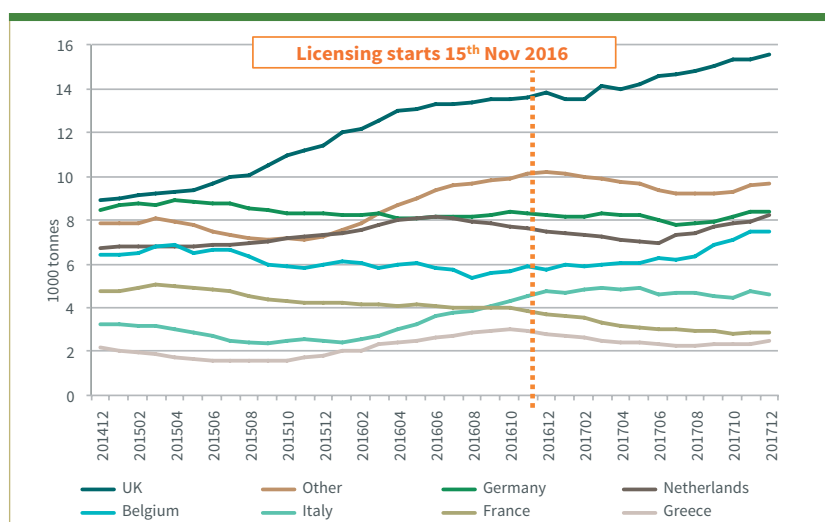


Figure 5.3.2: Tonnage of EU28 imports of timber and timber products from Indonesia by destination 12-month rolling average – January 2015 to Dec 2017
Source IMM analysis of Eurostat

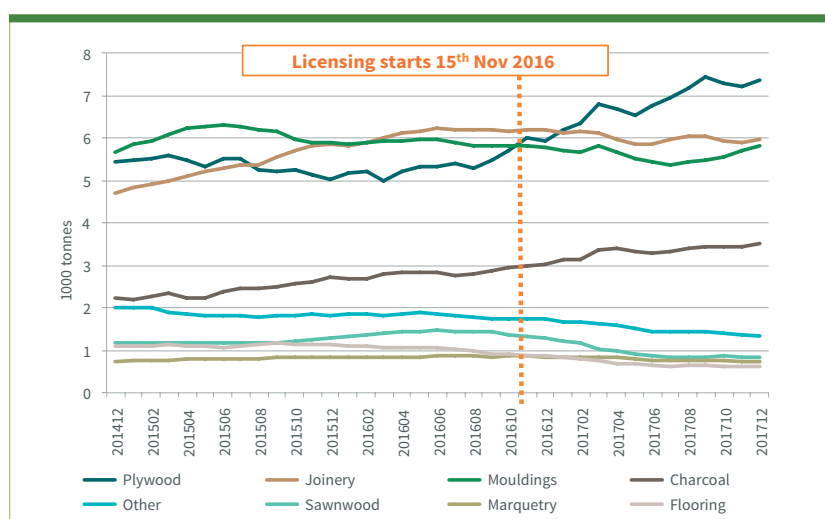


Figure 5.3.3: Tonnage of EU28 imports of wood products from Indonesia by HS 44 product 12-month rolling average – January 2015 to Dec 2017
Source IMM analysis of Eurostat

As a result, the average time required by MS CAs to verify FLEGT licences should not constitute a competitive disadvantage – certainly not in standard cases where no investigation is required.

5.3 Indonesia market position in the EU in 2017

5.3.1 Data sources and analysis of data discrepancies

Alongside surveys of market opinion to assess the market impact of FLEGT licensing, IMM implemented near real-time monitoring of trade flow statistics in 2017. Due to more regular access to data and IMM's long experience of analysing Eurostat data, during 2017 this system relied on data derived from the Eurostat COMEXT bulk download facility. Tonnage and other quantity data derived by IMM from Eurostat COMEXT was validated using algorithms developed internally by IMM to remove obvious inconsistencies in unit values.

Use of the COMEXT data has the added advantage of allowing assessment of Indonesia's share of specific sectors of the EU timber products market.

To provide added assurance of the accuracy of IMM conclusions on trade flow trends based on Eurostat data, in February 2018 IMM prepared a preliminary assessment of discrepancies between this data and export data derived from Indonesia National Statistics.²⁶

This assessment concluded that, overall there is quite an encouraging level of consistency between export and import data at an HS 4-digit level, particularly given the many assumptions, for example relating to the timing of shipments and the variety of exchange rates used to calculate product values.

This provides some assurance that IMM analysis based on either Indonesia National Statistics or Eurostat is an accurate insight into trade trends for broad product groups considered in aggregate.

However, there was much less consistency at HS 6-digit level suggesting that differences in detailed interpretation between Indonesian export authorities and EU importing authorities on appropriate product classifications were widespread in 2017. Specifically, the EU was using a wider range of codes on the import side compared to Indonesia on the export side.

The reasons for this are likely to be varied. In some instances, it is due to mismatches in product definitions between the EU and Indonesia. This is most obvious for finger-jointed laminated boards which are identified as "glulam" in EU imports under the joinery codes 441890/441899 but as 441294 (which covers blockboard, laminboard and battenboard) in Indonesia export statistics, which has no separate code for glulam (see section 6.11.5).

The differences in product codes used may be also partly explained by EU traders and customs officials being less familiar with the correct categorisation of products from Indonesia than their Indonesian counterparts.

Whatever the reason, this situation implies the need for caution in drawing far-reaching conclusions about trends in trade and changes in market share when looking at more specific product categories.

In time, the FLEGT licensing process itself is expected to improve the quality and consistency of trade flow statistics between the EU and Indonesia. In early 2019, IMM will have access to two full years of V-legal data from the Indonesian SILK system allowing direct comparison of trends in 2017 and 2018.²⁷ The VPA Joint Implementation Committee in Indonesia is also taking steps to ensure consistency in the product codes used on FLEGT licences and on EU customs forms on arrival into the EU.

5.3.2 Indonesia EU trade flow trends in 2017

IMM monitoring of Eurostat COMEXT data revealed that EU imports of a few Indonesian timber products began to trend upwards in the months following introduction of FLEGT licensing in November 2016, in some cases the rising trend was immediate, in others it only began to be apparent from around the middle of 2017.

However, the rising trend was not universal, and EU imports of some notable product groups from Indonesia, such as wood furniture, were flat or declining in 2017.

Figure 5.3.1 shows the trend of EU timber imports from Indonesia in MT by major product group as defined in the internationally harmonised system (HS) of product codes. The chart shows 12-month rolling average data to remove short-term variability and highlight long term trends.

In the 13 months following introduction of licensing, EU imports from Indonesia of wood products defined in HS chapter 44 were broadly flat, with a slight dip at the start of 2017 offset by an equivalent rise at the end of the year. EU imports from Indonesia of paper products defined in HS chapter 48 also started the year 2017 slowly but increased sharply in the last quarter.

In contrast, EU imports from Indonesia of wood pulp defined in HS Chapter 47 started the year 2017 strongly but then slipped back in the last quarter. Imports of wood furniture defined in HS Chapter 94 declined gradually for the first three quarters of 2017 and stabilised at the lower level in the last quarter of the year.

Figure 5.3.2 shows the trend in imports of timber and timber products (that is all products in HS 44, 47, 48, and 94) from Indonesia by individual EU member countries. In the 13 months following FLEGT licensing, EU imports from Indonesia were rising in the UK and Belgium, flat in Italy, and declining in France and Greece. Imports from Indonesia in Germany and the Netherlands and several smaller EU markets declined in the first half of 2017 but then recovered in the second half of the year.

Figure 5.3.3 reveals that the trend in EU imports of individual wood (HS 44) products has varied widely since introduction of licensing. There has been quite a sharp increase in EU

²⁶ Due to lack of comparable data and in line with the recommendation of the Indonesian authorities to use National Statistics for purposes of market monitoring at this stage, a detailed analysis of the volume and value of Indonesian V-legal exports to the EU as reported in the SILK system was not included in IMM's preliminary assessment of data discrepancies.

²⁷ Due to the phased introduction of V-legal requirements in 2015 and 2016, comparable annual Indonesian V-legal data capturing all product exports was not available in 2017 or 2018.

imports of plywood since November 2017, lending support to anecdotal reports of EU plywood importers being encouraged to stock more Indonesian product due to licensing. Imports of Indonesian charcoal also increased in 2017, interesting because charcoal is one product not currently covered by the licensing system. EU imports of moulding/decking products from Indonesia were sliding in the first half of 2017 but recovered sharply in the second half of the year.

EU imports of Indonesian joinery products (mainly doors and finger-jointed laminated boards) and marquetry were flat in the 13 months following licensing. EU imports of Indonesian sawn wood (all S4S to comply with Indonesian export regulations) and flooring continued to slide throughout 2017.

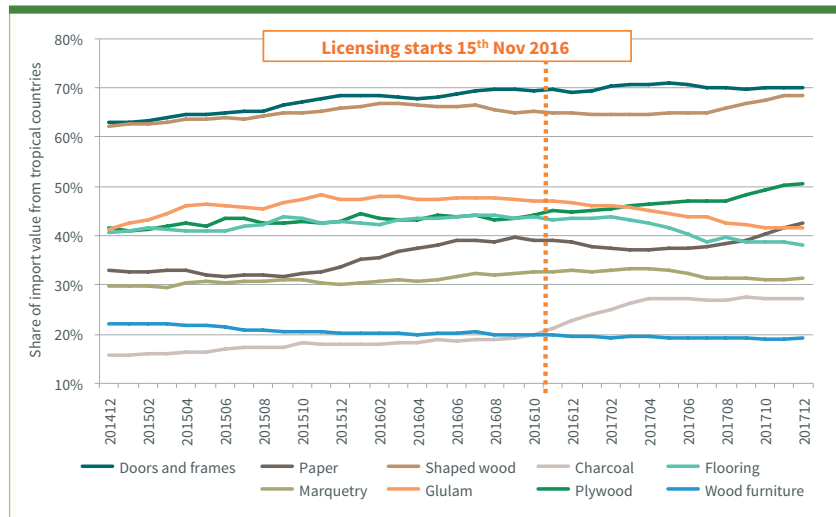


Figure 5.3.4: Indonesia share of EU imports from tropical countries by wood product group 12-month rolling average - January 2015 to Dec 2017
Source IMM analysis of Eurostat

Figure 5.3.4 shows the trend in % share of Indonesia in the value of EU imports (excluding internal EU trade) of various tropical timber products. This shows that in 2017

Indonesia's share of EU imports increased for tropical mouldings/decking, plywood, charcoal, and paper, was flat for doors, and declined in wood furniture, flooring, marquetry and glulam.

6 VPA partners in EU timber trade

6.1 EU market conditions in 2017

6.1.1 Overview

European market prospects were generally positive in 2017, with most countries' GDP, construction and wood product manufacturing sectors trending upwards during the year. However, the pace of market growth was slow amid signs that wood was losing share to non-wood alternatives in several end-use sectors.

EU timber products imports from Indonesia, all covered by FLEGT licences since 15 November 2016, fared better than imports from other tropical countries during 2017, slightly increasing in value overall and taking a larger share of total tropical imports. However, the major beneficiaries of the slow rise in EU demand in 2017 were domestic and other European suppliers rather than tropical suppliers for which share of the overall market continued to decline.

The declining share of tropical producers in the EU market during 2017 was partly supply related as producers focused more on supplying China and other emerging markets and North America. Supply problems were compounded in the EU as buyers continued to rely heavily on only a limited range of timber species and were becoming more dependent

on fewer exporting companies in the tropics to better manage risk, both regulatory and reputational, particularly associated with EUTR.

6.1.2 GDP growth

According to Eurostat, the EU economy grew at its fastest rate in 10 years in 2017, registering a 2.5% increase on the year before. That is the highest annual growth since 2007, when the economy expanded by 2.7%. EU economic growth was particularly strong in the final quarter of the year, rising 0.6%, mainly driven by good economic performance in Germany, Spain and France.

Economic growth was widespread throughout the EU during 2017 with robust growth in all seven of the large EU economies that together account for 90% of all EU tropical wood product imports from VPA countries (Figure 6.1.2).

6.1.3 Construction sector

Although the construction sector continued to underperform relative to other industrial sectors, the Eurostat Construction Production Index (CPI) shows that construction activity across the EU began to accelerate in 2017. The index increased 3.9% in 2017 with robust growth

²⁸ Includes windows, doors, "other (not elsewhere stated)" joinery products (such as fitted cabinets and kitchens, staircases, conservatories, skirtings and panelling), and kitchen furniture. The latter is included because, unlike other forms of furniture, only a negligible proportion of kitchen furniture is imported by EU countries and distribution is more closely related to the national joinery trades than the retailing sector. Often there is no clear distinction between "kitchen furniture manufacturers" and "joinery manufacturers". Concrete shuttering is excluded because it is primarily low-grade softwood and not relevant to the market for products from VPA partner countries. Wood flooring is excluded due to significant gaps in PRODCOM data for this product group.

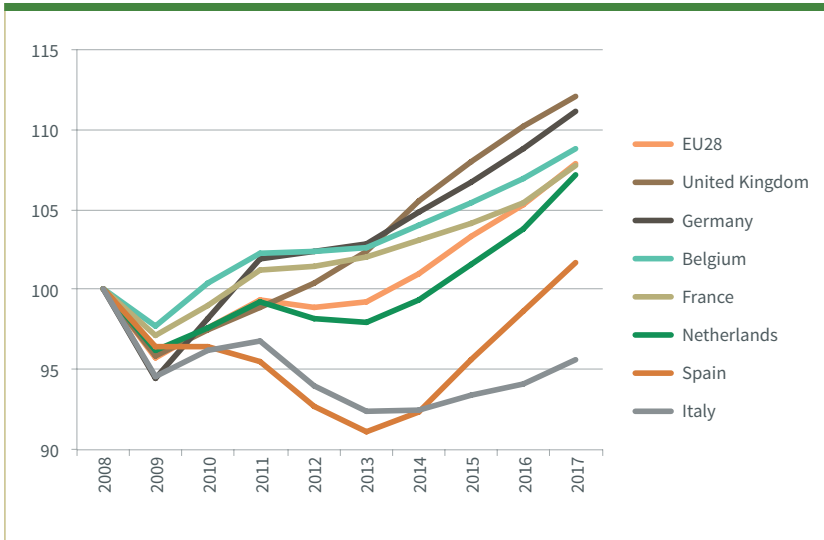


Figure 6.1.2: Change in GDP in the EU and selected EU countries (chain linked volumes index 2008=100) Source: ITTO IMM analysis of Eurostat

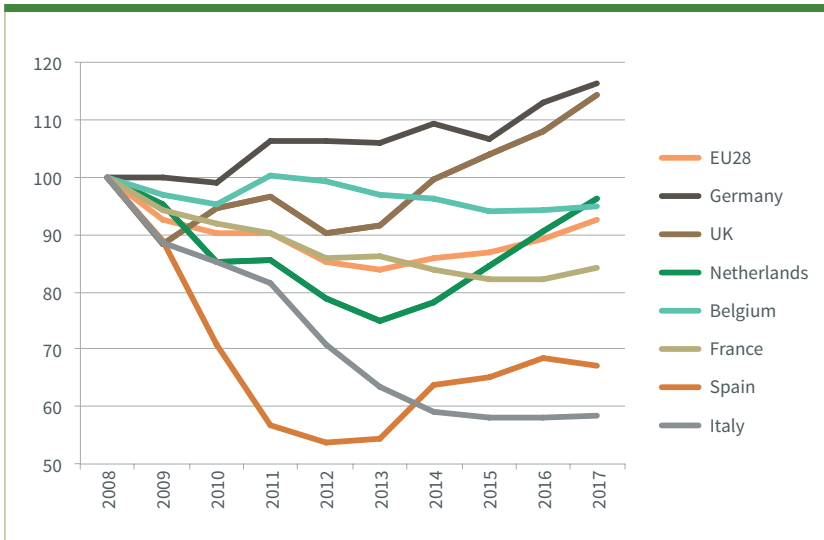


Figure 6.1.3: Change in construction production value in the EU and selected EU countries (2008 = 100) Source: ITTO IMM analysis of Eurostat



Figure 6.1.4.1: EU kitchen furniture and wood joinery production (excluding floors and shuttering) Source: ITTO IMM analysis of Eurostat

in the Netherlands, UK and Germany (Figure 6.1.3).

The independent research group Euroconstruct estimated that the value of construction activity increased 3.5% in its 19 focus European countries during 2017 and noted that the year was the first to record an ‘across the board’ increase in activity in all countries since 1989. Euroconstruct also noted that growth in a basket of construction market measures in 2017 was at the highest level since 2006.

Euroconstruct predicted that the EU building sector will see another 6% expansion by 2020, with civil engineering projects and refurbishment and maintenance sectors taking over from residential and non-residential building in providing most market momentum.

6.1.4 Wood joinery sector

While the pace of construction activity in the EU gained momentum in 2017, growth in the wood joinery sector was subdued. Eurostat PRODCOM data shows that the production value of wood joinery and related products²⁸ in the EU increased by around 1.7% to €34.3 billion in 2017 following growth of only 0.8% in 2016. The total value of joinery activity was still down more than 20% compared to the period before the global financial crises.

The value of production in the EU kitchen furniture sector declined 1.3% to €12.57 billion in 2017. However, this was offset by a 0.7% rise in the wood window manufacturing sector, to €6.04 billion, a 4.7% rise in the wood door sector, to €6.78 billion, and a 4.4% rise in manufacturing of “other” (non-specified) joinery products, to €8.91 billion (Figure 6.1.4.1).

The trend in wood joinery activity varied widely between EU countries in 2017 (Figure 6.1.4.2). After making strong gains in the previous two years, joinery activity in Germany levelled off at €8.28 billion in 2017. In the UK, joinery activity slowed a further 5% in 2017, to €4.51 billion, continuing the sliding trend of the previous year. However, the downturn in the UK was offset by gains in joinery activity in Italy (+7% to €5.61 billion), France (+3% to €3.17 billion), Spain (+12% to €1.05 billion), the Netherlands (+9% to €0.92 billion), and Poland (+5% to €1.66 billion). Part of the explanation for the slow increase in wood joinery activity in the EU compared to growth in the wider

construction sector and economy was increased substitution by alternative materials. This is revealed by comparing the total EU apparent consumption value of doors and windows in various materials²⁹ (Figure 6.1.4.3).

Since 2014, while the value of wood door and window consumption in the EU has risen slowly, the value of steel and aluminium door and window consumption has increased dramatically. Overall, the total share of wood in these sectors decreased from 30.2% in 2014 to 28.3% in 2017. During this period, the share of steel increased from 14.2% to 16.2% and share of aluminium increased from 24.8% to 28%. Plastics, like wood, also lost share in terms of total consumption value, from 30.8% in 2014 to 27.5% in 2017.

Comparing share of value (as opposed to quantity) is not ideal and a significant factor behind these changes is fluctuating commodity prices³⁰. Nevertheless, this is a reminder that markets for wood products in the EU should not be considered in isolation and without reference to markets for other materials³¹.

6.1.5 Furniture manufacturing

The Eurostat furniture production index indicates that manufacturing activity across the region was rising only slowly in 2017 and the total volume of furniture manufacturing was still down more than 10% compared to the period before the global financial crises. (Figure 6.1.5). The index also highlights shifts in the overall location of European furniture manufacturing, with much recent growth in activity concentrated in Eastern Europe, notably in Poland and Lithuania. Activity in Italy, still the largest European furniture manufacturing country, gained a little momentum in the second half of 2017, but activity in Germany, the second largest manufacturing country, was flat throughout the year.

6.1.6 Exchange rates

Due mainly to the European Central Bank policy of quantitative easing to boost the euro-zone economy, the euro value fell to a 14-year low against the U.S. dollar at the end of 2016. However, economic growth fed through into

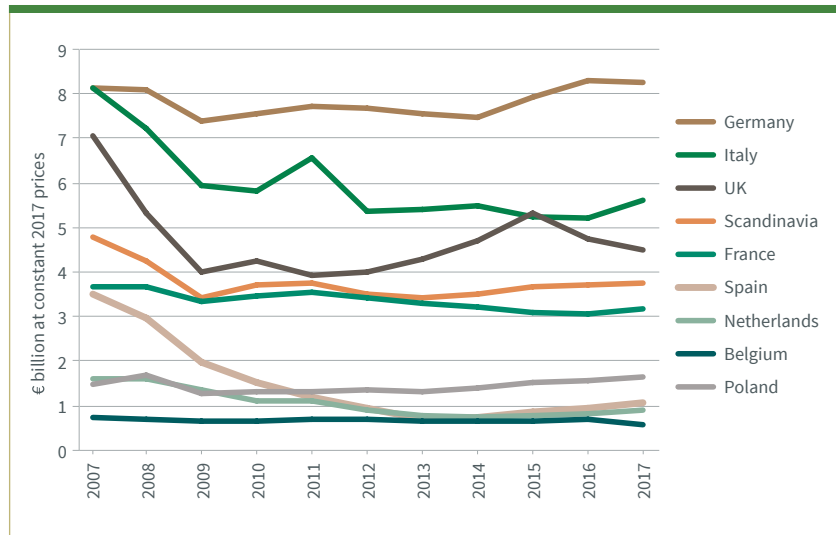


Figure 6.1.4.2: Kitchen furniture and wood joinery production (excluding floors and shuttering) in selected EU countries Source: ITTO IMM analysis of Eurostat

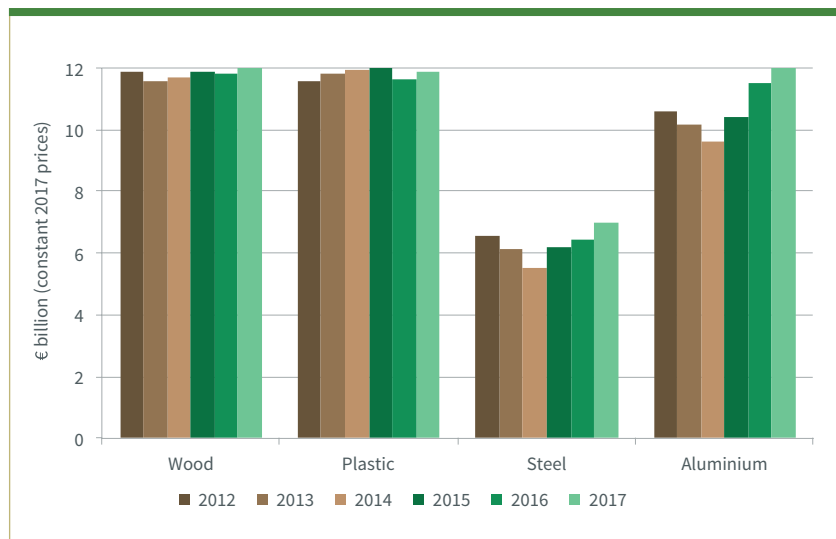


Figure 6.1.4.3: Total EU door and window consumption by material Source: ITTO IMM analysis of Eurostat

a rise in the value of the euro in 2017, which strengthened against the U.S. dollar by around 15% during the year. The value of euro-linked currencies like the Swedish krona and Polish zloty increased in parallel to the euro. In the 12 months to December 2017, the British pound strengthened 10% against the dollar – but remained at historically low levels against the US currency – and weakened 5% against the euro.

In 2017, the currencies of all the major EU timber consuming countries in western and central Europe

²⁹ Derived by IMM through analysis of PRODCOM data (NACE Revision 2 codes) on production, import and export value of doors and windows for wood (16231150, 16231110), steel (25121030), aluminium (25121050) and plastics (22231450).

³⁰ For example, global aluminium prices increased significantly in 2017 in response to efforts in China – which accounts for around 60% of global aluminium production - to reduce pollution through closure of around 25% of aluminium capacity in the country identified as illegal by the authorities. In contrast during this time plastics prices declined alongside oil prices. There is some evidence from other market reports that share of plastics, when measured by units installed rather than value, has continued to rise in the EU in recent years, partly at the expense of wood (see for example <http://www.interconnectionconsulting.com/en/news/147>). There is also evidence that share of aluminium is increasing in terms of units installed as well as overall market value.

³¹ The same can be said of environmental impacts as the alternatives to wood are also associated with legal and sustainable sourcing issues.

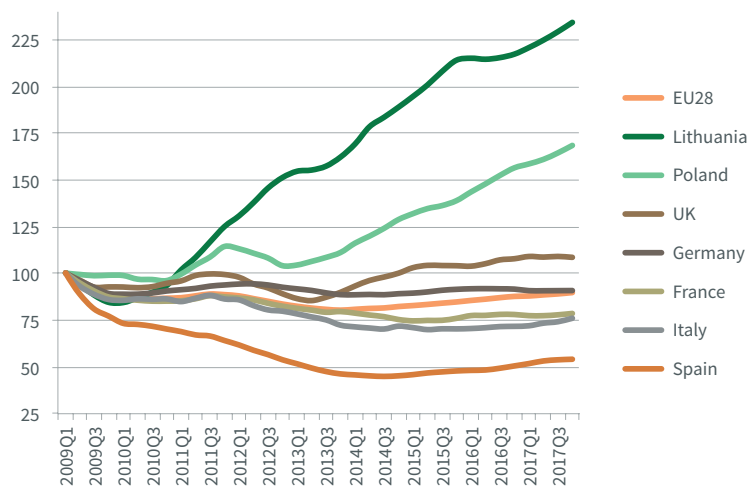


Figure 6.1.5.: Change in furniture production volume in selected EU countries 4th Qtr 2009 to 4th Qtr 2017 (2008= 100) Source: ITTO IMM analysis of Eurostat

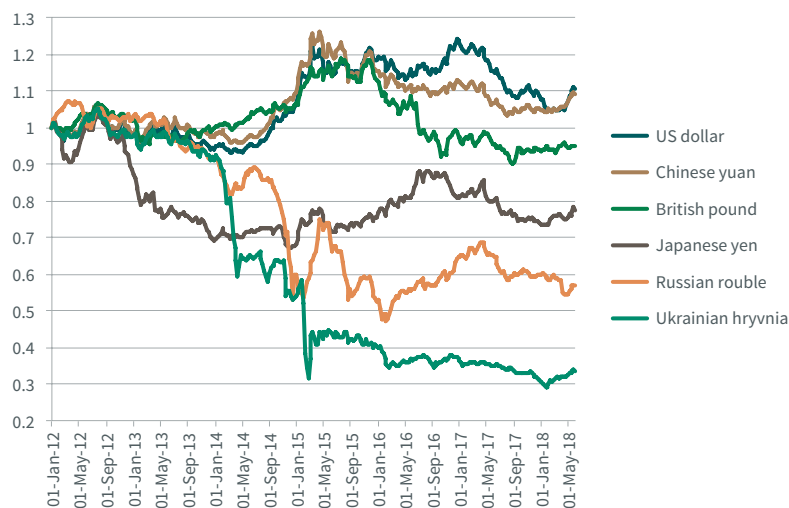


Figure 6.1.6.1: 5-year trend in Euro exchange rate, Jan 2012 to Mar 2017, 1 unit of currency = X € (Jan 12 = 100%) Source: ITTO IMM analysis of www.oanda.com

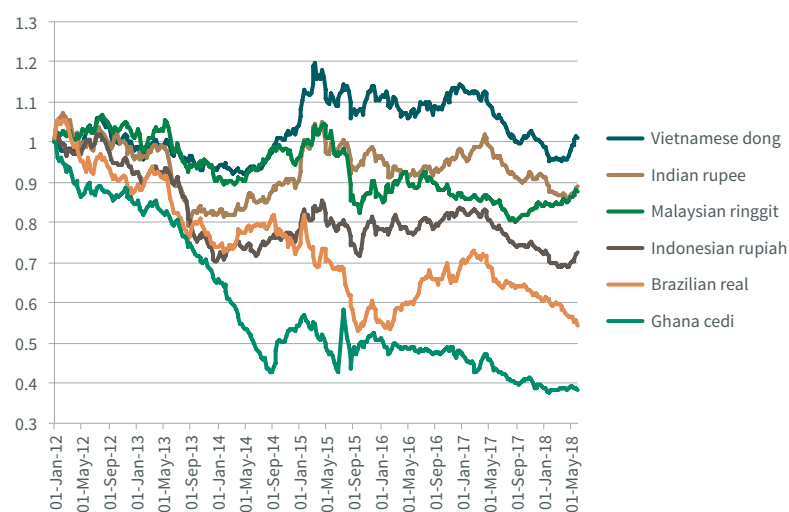


Figure 6.1.6.2: 5-year trend in Euro exchange rate, Jan 2012 to Mar 2017, 1 unit of currency = X € (Jan 12 = 100%) Source: ITTO IMM analysis of www.oanda.com

remained relatively strong in relation to the currencies of Russia and Ukraine, both important wood producing countries close to Europe. The Russian rouble and Ukrainian hryvnia fell respectively 40% and 60% against the euro in 2014 and were still at this lower level throughout 2017.

The Chinese yuan – which consistently strengthened against other currencies in the five years to 2014 – weakened against both the euro and US dollar between 2015 and 2017 (Figure 6.1.6.1).

During 2017, the euro strengthened against the currencies of most large tropical wood exporters (with the obvious exception of Central African countries using the euro-linked CFA) including the Indonesian rupiah, Vietnamese Dong, Brazilian real, and Ghanaian cedi. The euro remained at historically relatively high levels against all these currencies, with the exception of the Vietnamese dong during 2017 (Figure 6.1.6.2).

The trade effects of exchange rate trends during 2017 include:

- for importers in the eurozone, to help offset the general rise in global prices for timber products due to euro currency weakness in 2016 and strong demand in other regions including China, North America and the Middle East;
- to ensure continuation of relatively lower EU import prices for Russian and Ukrainian timber products, such as birch plywood, oak sawn timber and veneer;
- after the boost in 2016 from the weak euro, to slightly reduce the global competitiveness of finished timber products manufactured in the eurozone and of tropical wood imports from central African countries using euro-linked currencies (and where invoicing is usually in euros);
- to marginally offset other supply side factors which were leading to general price increases for Chinese products during the year; and
- for UK importers, to slightly reduce prices for dollar-denominated imports (from the Americas and Asia) but to increase prices for euro-denominated products (from the rest of the EU and Africa).

6.2 VPA partner share of total EU wood product import value

The total value of EU imports of wood products was €18.17 billion in 2017, 2.4% more than in 2016. This followed an increase of 1.3% to €17.74 billion in 2016. In 2017, EU import value was at the highest level since 2008 just before the global financial crises (Figure 6.2.1).

The gain in total EU imports of wood products during 2017 hides variations between product groups (Figure 6.2.2):

- following a 0.4% decline to €5.87 billion in 2015, the value of EU imports of wood furniture increased 7.2% in 2017 mainly due to a rise in EU imports from China, Hong Kong, USA, Ukraine, Bosnia and the UAE.
- the value of EU imports of sawn wood decreased 0.6% to €3.21 billion in 2017, with an increase in imports from Russia and Belarus offsetting a decline in imports from Cameroon, Gabon and the USA.
- EU imports of panels (mainly plywood) increased 9% to €2.79 billion in 2017, with imports rising from all the leading suppliers including Russia, China, Brazil and Indonesia.
- the long-term rise in EU imports of energy wood continued in 2017 but at a slower pace of 2.7% to top €2 billion for the first time, with imports increasingly dominated by pellets from the U.S. and CIS region.
- EU imports of other joinery products (mainly doors and glulam for window frames) decreased 0.9% to €693 million in 2017 with a decline in imports from China and Indonesia partly offset by rising imports from Russia and Ukraine.
- EU imports of wood flooring were flat at €554 million in 2017 with imports from China, by far the largest external supplier, remaining stable after a big fall the previous year.
- EU imports of “other processed products” (mainly from China and classified under HS 442190 and not separately identified) declined 6% to €1.94 billion in 2017.

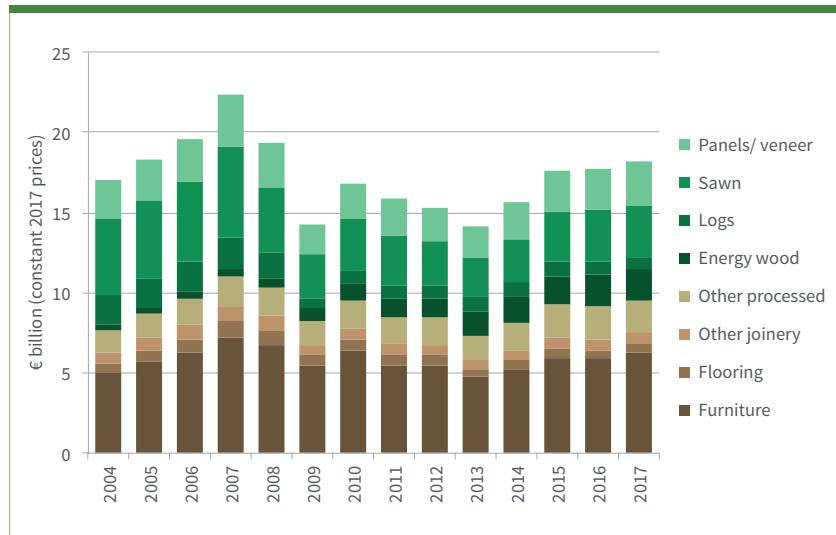


Figure 6.2.1: Value of EU imports of wood products, by product group, 2004 to 2017
Source: ITTO IMM analysis of Eurostat COMEXT

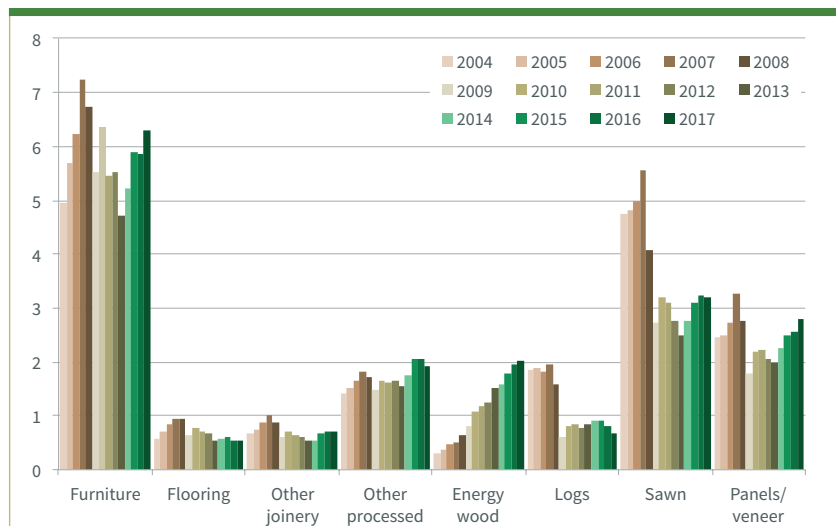


Figure 6.2.2: Value of EU imports of wood products, by product group, 2004 to 2017
Source: ITTO IMM analysis of Eurostat COMEXT

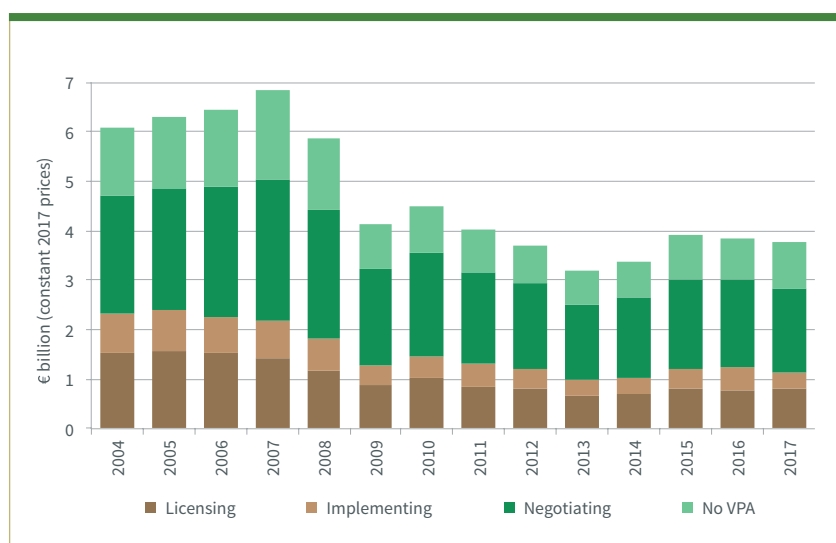


Figure 6.2.3: Value of EU imports of wood products from the tropics, by VPA status, 2004 to 2017
Source: ITTO IMM analysis of Eurostat COMEXT

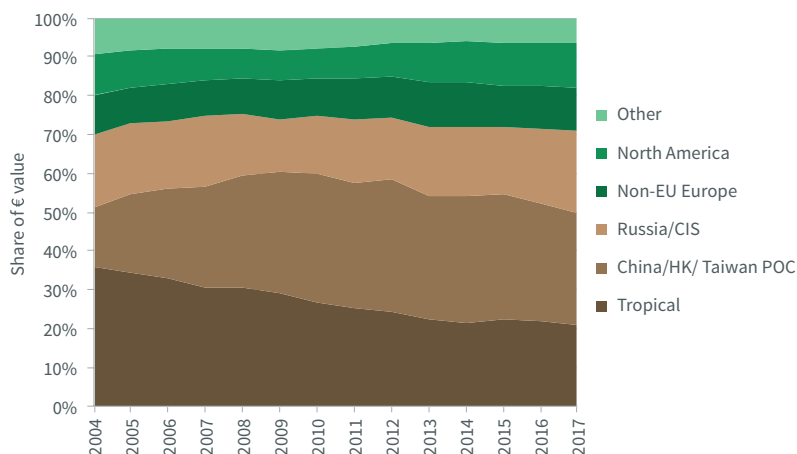


Figure 6.2.4: Value of EU imports of wood products, by source of supply, 2004 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

While the total value of EU wood product imports increased in 2017, imports from tropical countries decreased 1.8% to €3.78 billion. This follows a 1% fall the previous year. (Figure 6.2.3).

In contrast to the decline from most other tropical countries, imports from Indonesia increased 0.6% to €798 million in 2017. Indonesia accounted for 21.1% of the total value of EU tropical wood-product imports in 2017, up from 20.6% the previous year. Gains in EU imports of wood furniture, plywood, and charcoal from Indonesia offset declining imports of joinery products (mainly doors and glulam) and flooring.

Imports from the five African VPA-implementing countries decreased 20.5% to €345 million in 2017. The share of these countries in total EU tropical import value fell from 11.2% in 2016 to 9.1% in 2017. This was mainly due to a sharp decrease in EU imports of sawn timber from Cameroon during the year.

Imports from the nine VPA-negotiating countries decreased 4.2% to €1.70 billion in 2017 when they accounted for 44.9% of tropical wood product imports, down from 45.9% in 2016. EU imports from Viet Nam were stable during 2017, however a rise in imports from Malaysia was offset by a decline in imports from Gabon, Thailand, Côte d'Ivoire and Congo DR.

Wood product imports from non-VPA tropical countries increased 9.3% to €939 million in 2017. Share of total tropical wood product imports from non-VPA countries increased from 22.3% in 2016 to 24.9% in 2017. This was mainly due to rising wood furniture imports from India.

The share of tropical countries in the total value of EU wood product imports declined from 21.7% in 2016 to 20.8% in 2017, continuing the long-term decline (Figure 6.2.4).

China's share in total EU imports of wood products fell from 30.5% in 2016 to 28.9% in 2017, the lowest level since 2008. The share of Russia and other CIS countries increased from 19.3% in 2016 to 21.1% in 2017. In 2017, there was a slight increase in share of EU imports from non-EU European countries (from 10.9% to 11.0%) and North America (from 11.5% to 11.7%).

6.3 VPA partners in EU log supply

Continuing a slow recovery since 2013, the total supply of sawlogs and veneer logs to the EU increased 0.6%

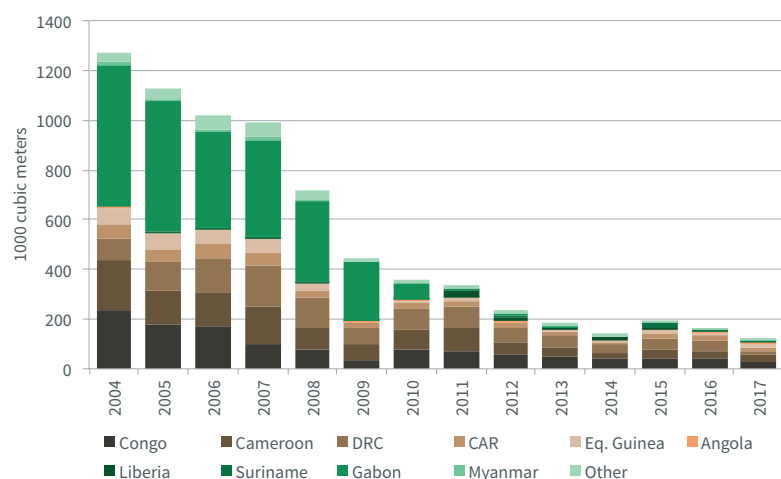


Figure 6.3.1: EU imports of tropical sawlogs and veneer logs, by country of origin, 2004 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

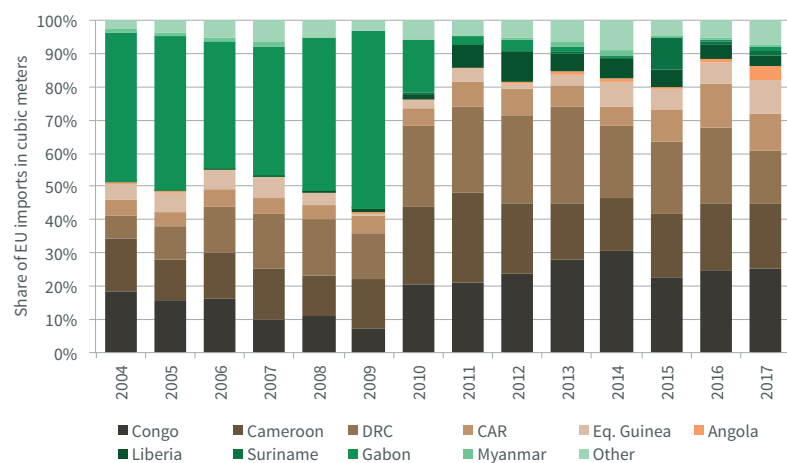


Figure 6.3.2: Share of EU imports of tropical sawlogs and veneer logs, by country of origin, 2004 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

to 200.6 million m³ in 2016. A 0.5% rise in production of softwood logs to 166.8 million m³ and a 2.9% rise in hardwood log production to 29.5 million m³ were sufficient to offset a 12% decline in log imports to 4.3 million m³.

Most of the decline in imports during 2017 comprised logs from Russia, Belarus and Ukraine and was driven by rising controls on log exports and efforts to boost domestic wood processing in these countries. In 2017, imports constituted only 2.1% of EU sawlog and veneer log supply, down from 2.5% the year before.

EU trade in tropical logs continued to follow a downward path in 2017. Imports totalled just 121,000 m³ during the year, 26% less than in 2016 (Figure 6.3.1).

In 2017, there was a significant fall in EU log imports from all those VPA partner countries still engaged in this trade. Imports fell 25% to 31,000 m³ from Congo, 29% to 23,400 m³ from Cameroon, 47% to 19,800 m³ from Congo DR, 40% to 13,400 m³ from CAR, and 48% to 3700 m³ from Liberia.

In contrast, there were increases in EU log imports from non-VPA tropical countries during 2017, including a 17% increase to 12,000 m³ from Equatorial Guinea and a near tripling of imports from Angola to 5,600 m³. The share of non-VPA countries in EU imports of tropical logs increased from 12% in 2016 to 21% in 2017 (Figure 6.3.2).

6.4 VPA partners in EU sawn wood supply

The supply of sawn wood in the EU increased 2.7% to 117.8 million m³ in 2016, comprising 97.7 million m³ (82.3%) domestic softwood, 10.2 million m³ (8.7%) domestic hardwood, 7.8 million m³ (6.3%) imported softwood, and 2.1 million m³ (2.0%) imported hardwood. Although still limited overall, the share of imports in total supply was rising slowly from 8% in 2015 to 8.4% in 2016. This was mainly due to rising imports from Russia, Belarus and Ukraine in response to currency weakness and tighter controls on log exports in those countries (Figure 6.4.1).

Between 2015 and 2016, share of tropical wood in total EU sawn hardwood supply was level at 9.2%, halting a long-term decline in share. The share of imported temperate hardwood declined from 10.4% in 2015 to 10.1% in 2016. Share of domestic production in EU sawn hardwood supply increased from 80.4% in 2015 to 80.8% in 2016 (Figure 6.4.2).

EU sawn hardwood production data for the full year 2017 is not yet published, but the European Sawmillers Organisation

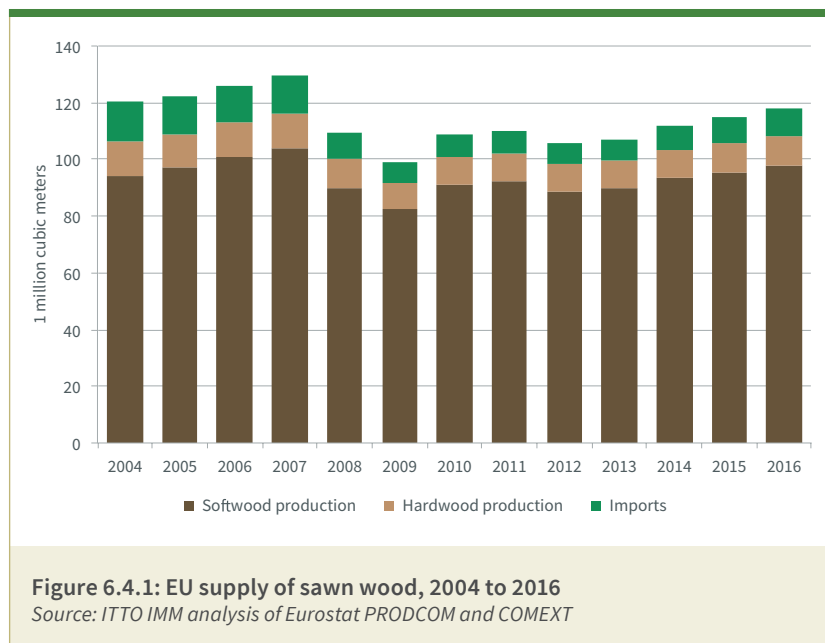


Figure 6.4.1: EU supply of sawn wood, 2004 to 2016

Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

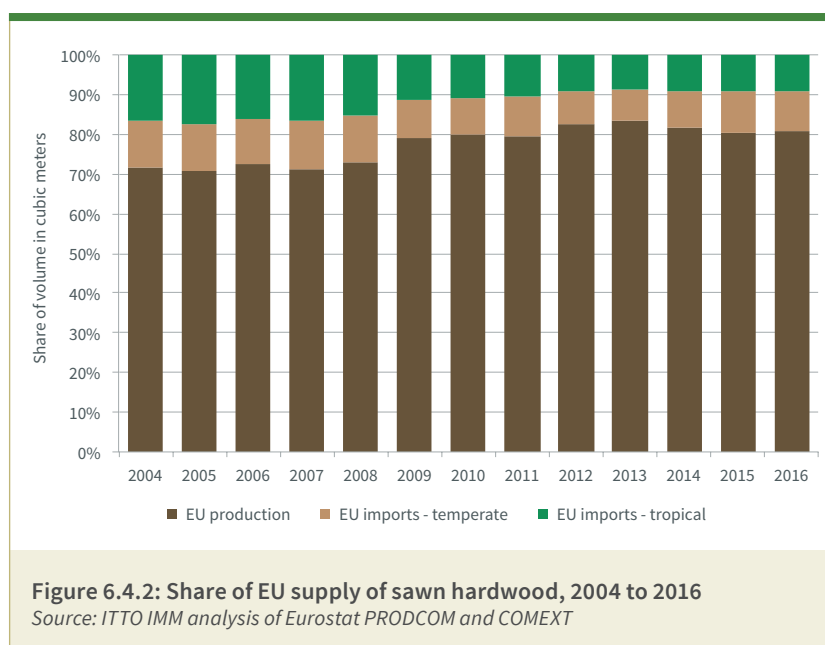


Figure 6.4.2: Share of EU supply of sawn hardwood, 2004 to 2016

Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

(EOS) forecast in November 2017³² that production was flat or even slightly declining during the year. While demand was rising in the EU in 2017, domestic sawn hardwood production was constrained by log supply shortages, particularly for oak which was the main focus for market demand.

EOS highlighted that lack of sawlogs remained a problem in Germany, France and Belgium, where about 30% of hardwood sawmills across the three countries closed in the decade before 2017. EU sawmills were also struggling to pay rising prices for hardwood logs in response to strong demand in China and Viet Nam. The EU exported 2.93 million m³ of hardwood logs in 2017, 19% more than in 2016, of which around 50% was oak, mostly destined for the two Asian markets.

Furthermore, supply problems in 2017 became more pronounced in Romania, where production was constrained both by declining log harvests and lack of

³² Presentation by EOS Board Member Nicolae Tucune to the International Hardwood Conference in Venice in November 2017

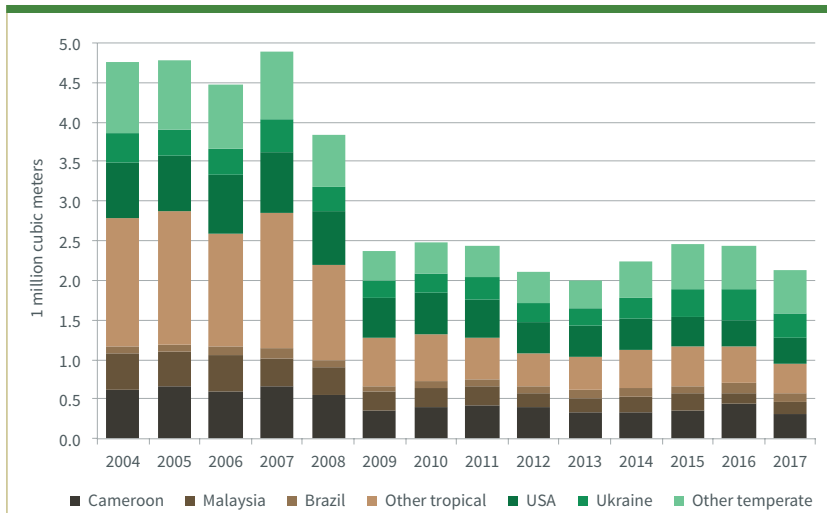


Figure 6.4.3: EU imports of sawn hardwood, 2004 to 2017

Source: ITTO IMM analysis of Eurostat COMEXT

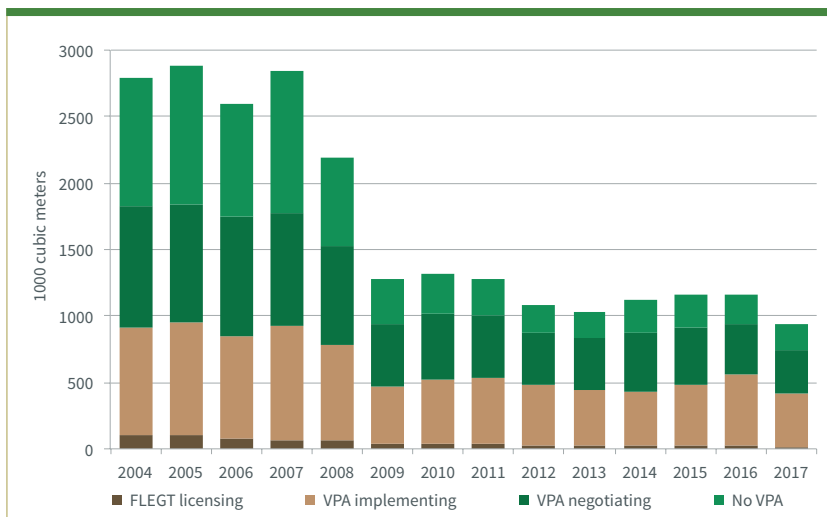


Figure 6.4.4: EU imports of sawn hardwood from tropical countries, by VPA status 2004 to 2017

Source: ITTO IMM analysis of Eurostat COMEXT

finance for investment in wood processing, and in Croatia where the government implemented a ban on exports of oak logs and lumber over 20% moisture content for phytosanitary reasons.

Despite improving economic conditions and constraints on domestic supply, EU imports of sawn hardwood fell sharply in 2017. The EU imported 2.04 million m³ of sawn hardwood from outside the region in 2017, 13% less than the previous year (Figure 6.4.3).

Although the decline in sawn hardwood imports in 2017 was partly due to a stock adjustment – as EU distributors worked their way through excess stock built the previous year – it may also imply loss of market share for sawn hardwood compared to other wood and non-wood materials.

EU imports of tropical sawn hardwood were 875,000 m³ in 2017, 18% less than the previous year. Imports of tropical sawn hardwood during 2017 were the lowest ever recorded by the EU, below the previous low of 930,000 m³ in 2013

during the euro-zone crises, and only around a third of the level prevailing before the global financial crises. The value of EU imports of tropical sawn timber decreased by 16% to €653 million in 2017. The average unit value of tropical sawn hardwood imports into the EU in 2017 was €746 per cubic meter, up from €728 per cubic meter the previous year.

In 2017, EU imports of temperate sawn hardwood fell 8% to 1.16 million m³. The more rapid pace of decline in imports from the tropics meant that the share of tropical in total EU sawn hardwood imports fell from 46% in 2016 to 43% in 2017, an acceleration in the long term downward trend.

EU imports of sawn hardwood from Indonesia were negligible in 2017 due to Indonesia limiting exports to “surfaced four sides” (S4S) products since 2004. EU imports of sawn hardwood from the five VPA-implementing countries declined 25% to 403,000 m³ in 2017. Imports from VPA-negotiating countries fell 15% to 327,000 m³. VPA partner countries accounted for 79% of EU tropical sawn imports in 2017, down from 81% the previous year (Figure 6.4.4).

Following a surge in 2016, EU imports from countries in the Congo region declined sharply in 2017. Imports decreased by 24% from Cameroon to 316,000 m³, by 22% from Gabon to 99,000 m³, by 17% from Congo to 54,000 m³, and by 51% from Congo DR to 16,000 m³ (Figure 6.4.5).

The long-term decline in EU imports of sawn hardwood from West Africa continued in 2017. Imports fell by 21% to 48,000 m³ from Côte d’Ivoire, and by 23% to 20,000 m³ from Ghana.

In contrast to African trade, EU sawn hardwood imports from Brazil and Malaysia were stable in 2017, although only a shadow of earlier levels having already declined significantly in previous years. In 2017, the EU imported 148,000 m³ of sawn hardwood imports from Malaysia, 2% more than the previous year, and 105,000 m³ from Brazil, 1% less than in 2016.

The decline in imports of tropical sawn hardwood during 2017 was widespread in EU countries occurring in Belgium (down 29% to 266,000 m³), France (down 26% to 105,000 m³), Italy (down 25% to 103,000 m³), Spain (down 22% to 56,000 m³) and Germany (down 21% to 40,000 m³). Imports increased 5% to 145,000 m³ in the Netherlands, after a sharp decline the previous year. Imports in the UK declined only 1% to 88,000 m³ (Figure 6.4.6).

The increasing concentration of trade in the hands of a small number of large companies close to EU ports, and

their role to distribute tropical sawn timber throughout the EU, make it more difficult to relate import trends with changes in consumption at national level in the EU.

In practice, the recent decline in tropical imports into the EU is better seen as a region-wide phenomenon driven mainly by supply side trends. In 2017, a range of factors conspired to result in extremely low tropical sawn hardwood imports across the EU. These include:³³

- On-going serious problems and delays with shipping out of Douala port in Cameroon.
- Overstocking in the EU at the end of 2016 following arrival all at once of a large volume of delayed shipments from Africa.
- Diminishing commercial availability of tropical hardwood species of interest to European buyers.
- Delayed payment of VAT refunds by African governments, partly linked to low oil prices, which created additional financial challenges for operators in the region.
- Good demand and willingness to pay higher prices for tropical hardwood in other regions including Asia, the Middle East, and North America.
- Reduced focus on supply of sawn timber to the EU by many tropical suppliers, particularly encouraged in Africa by strong demand for logs from China, and in South East Asia by on-going efforts to move into higher value products such as furniture.
- Continued substitution of tropical hardwoods for a range of plantation-grown and modified temperate wood species and alternative non-wood products. For example, in 2017 demand for *Eucalyptus grandis* from South American plantations was rising in both sawn and engineered form. Modified timber, notably Accoya and Kebony brands, have become 'staples' in certain EU markets and wood-plastic composites continue to gain in popularity, particularly for external applications, such as cladding, decking and outdoor furniture.
- Fashion changes, particularly the strong trend towards the oak look in EU and the fact that there is very little demand for redwood finishes in the EU interiors sector.

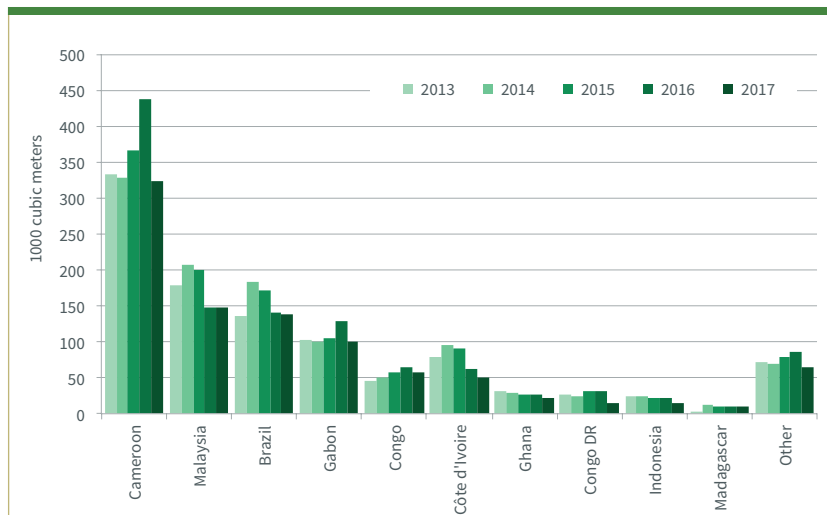


Figure 6.4.5: EU imports of sawn hardwood from tropical countries, by country of origin, 2013 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

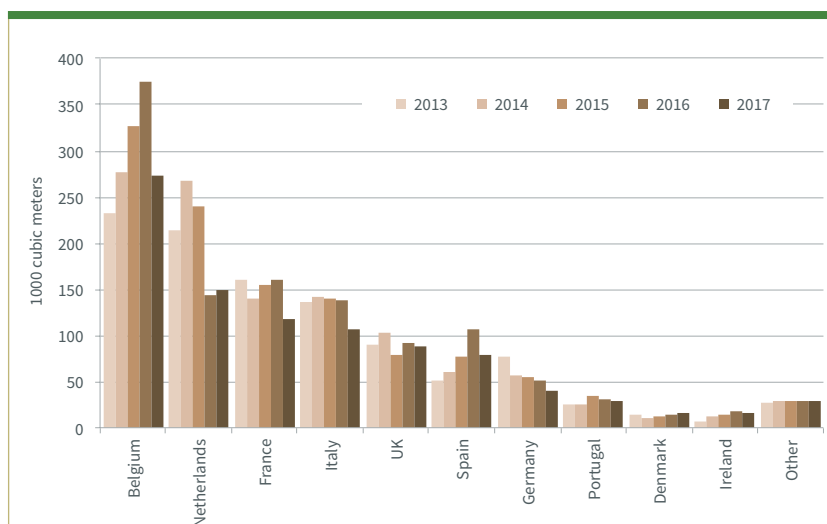


Figure 6.4.6: EU imports of sawn hardwood from tropical countries, by destination, 2013 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

- The on-going trend towards prefabrication in construction which favors tightly specified engineered wood products more readily accessible from domestic manufacturers than the tropics.
- Improved enforcement of EUTR across the EU and the challenges and expense of legality due diligence in some tropical countries.

Considering individual species and products, importers in several EU countries reported particularly good demand for African sapele in 2017, with prices firming as a result. Supplies of iroko were limited in 2017, while framire/ idigbo from Côte d'Ivoire was being replaced on the EU market due to widespread inability of mills to satisfy EUTR

³³ These factors are compiled from comments received during IMM trade consultations in the UK and France in the first half of 2018, IMM interviews with trade representatives, and regular market monitoring in the EU by the ITTO Market Information Service.

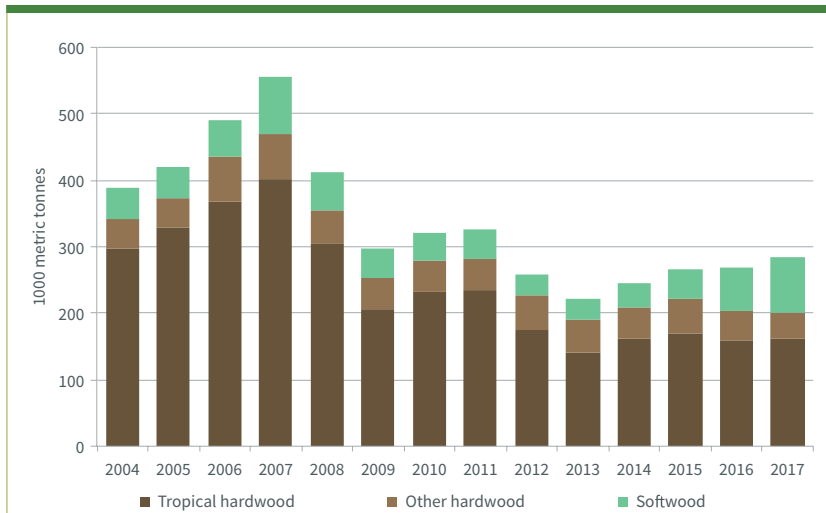


Figure 6.5.1: EU imports of continuously shaped wood, by species type 2004 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

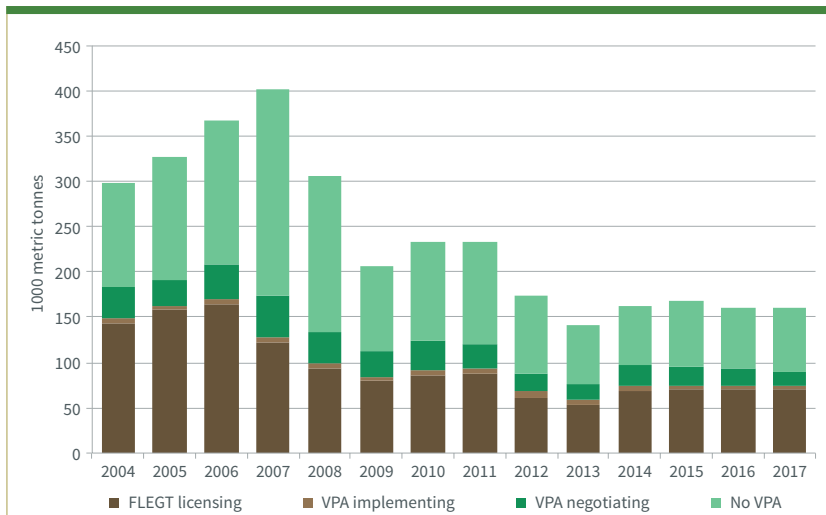


Figure 6.5.2: EU imports of continuously shaped wood, by VPA status 2004 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

information requirements. Particularly tight supply and firm prices were also reported for afzelia/doussie, ayous, tali, padouk and azobe.

Malaysian meranti availability declined towards the end of 2017, with prices in the last quarter up by 9–12% according to EU importers. Meranti lead times were also reported to be four to five months. Brazilian ipe supply was said to be increasingly short too.

According to feedback received by IMM from traders, supply of teak from Myanmar was extremely limited in 2017 and constrained by concerns about the reliability of legality assurances which triggered EUTR enforcement agencies in several countries to take legal action against importers and requiring that teak be more effectively tracked to forest of origin in Myanmar. However this feedback is not entirely borne out by trade statistics which show a 25% rise in EU imports of sawnwood from

Myanmar in 2017, although at 6000 MT, the total quantity is still quite limited.

Efforts to introduce more lesser-known tropical species to the EU were reported to be meeting some success, with movingui highlighted by several importers during 2017.

6.5 VPA partners in EU mouldings and decking supply

EU imports of “continuously shaped” wood (HS code 4409) include both decking products and interior decorative products like moulded skirting and beading. Total EU imports under this heading increased 6.2% to 284,000 MT in 2017. Most of the import gain was in softwood, which increased 31% to 83,000 MT, mainly from Russia and, to a lesser extent, Belarus and Ukraine (Figure 6.5.1).

Imports of “continuously shaped” tropical hardwood were 160,400 m³ in 2017, only 0.1% more than in 2016. Of tropical imports in 2017, Indonesia accounted for 44%, VPA-implementing countries for 3%, VPA-negotiating countries for 9%, VPA-preparing countries for less than 1%, and non-VPA countries for 39%. (Figure 6.5.2). Of VPA partner countries, Indonesia was by far the largest supplier of this commodity into the EU in 2017. This is due both to Indonesia’s trade in bangkirai, a particularly popular decking timber in Europe, and to Indonesia’s long-term ban on rough sawn exports encouraging greater focus on profiled products.

Imports from Indonesia were still at historically low levels in 2017, although there was some slight growth from 69,500 MT in 2016 to 70,000 MT in 2017

(Figure 6.5.3). While there was robust EU demand in 2017, supply was a limiting factor with availability of bangkirai decking declining and prices rising by up to 17% in the last quarter of the year according to EU importers.

Brazil has access to several Amazonian species like ipe, garapa and massaranduba that perform well as decking timbers. Following a 9% decline in 2016, EU imports from Brazil rebounded 5% to 59,800 MT in 2017.

China’s trade in this commodity with the EU has been declining in recent years owing both to rising costs of production in China and declining availability of raw material. Imports from China fell a further 10% to 18,000 MT in 2017. China depends on imported tropical timber with a strong preference for teak in the decking sector. China also supplies small quantities of interior hardwood mouldings to the EU market.

While total EU trade in decking and similar garden products has been gradually increasing in recent years due to a slow improvement in EU construction activity, tropical timber faces intense competition from substitute materials in this sector, notably Wood Plastic Composites (WPC), thermally and chemically modified European hardwoods and softwoods, and preservative-treated softwoods. Tropical hardwood decorative mouldings for interior use are also being replaced by European timbers and MDF.

6.6 VPA partners in EU veneer supply

EU consumption of veneer accelerated in 2016, rising nearly 10% to 1.85 million m³. Much of the rise was driven by EU production which increased 10% to 1.42 million m³, although there was also 9% increase in imports to 582,000 m³. The share of imports in all veneer supplied into the EU was level at 29% in 2015 and 2016 (Figure 6.6.1).

The upturn in EU imports in 2016 continued into 2017. The EU imported 608,000 m³ of veneer from outside the region in 2017, 5% more than in 2016. After making gains in the previous 2 years, EU imports of veneer from the tropics fell 6% to 316,000 m³ in 2017. The share of tropical veneer in total EU veneer import volume fell from 60% in 2016 to 54% in 2017. EU imports of tropical veneer are well below volumes close to 500,000 m³ per annum prevailing before the global financial crises.

EU veneer imports from Indonesia were stable at around 5,500 m³ in 2016 and 2017 and accounted for less than 2% of all tropical veneer imports. Imports from the five VPA implementing countries in Africa increased 2% from 58,000 m³ in 2016 to 59,300 m³ in 2017. During the same period imports from VPA-negotiating countries decreased 9% from 251,000 m³ to 230,000 m³ (Figure 6.6.2).

EU imports of veneer from Gabon, the leading tropical supplier, declined 9% to 152,000 m³ in 2017. EU veneer imports also declined from Côte d'Ivoire in 2017, by 12% to 69,000 m³. Imports from Cameroon were stable at 32,000 m³ in 2017, but increased 3% to 18,000 m³ from Congo, 9% to 10,000 m³ from Ghana, and 11% to 11,000 m³ from Equatorial Guinea (Figure 6.6.3).

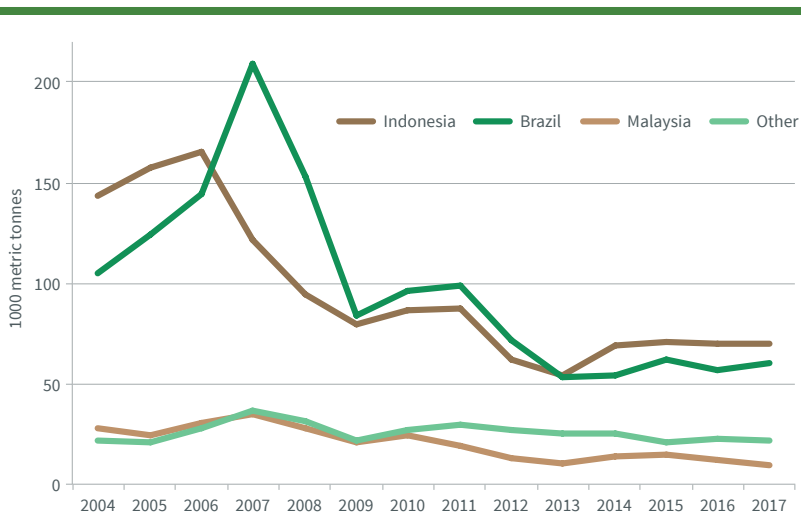


Figure 6.5.3: EU imports of continuously shaped wood, by main supply countries 2004 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

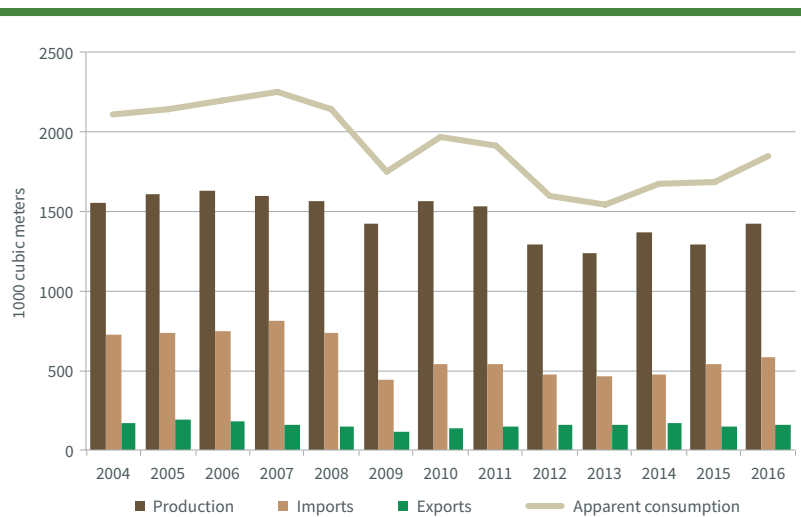


Figure 6.6.1: EU production, trade and consumption of veneers 2004 to 2016 Source: ITTO IMM analysis of Eurostat COMEXT and FAOSTAT

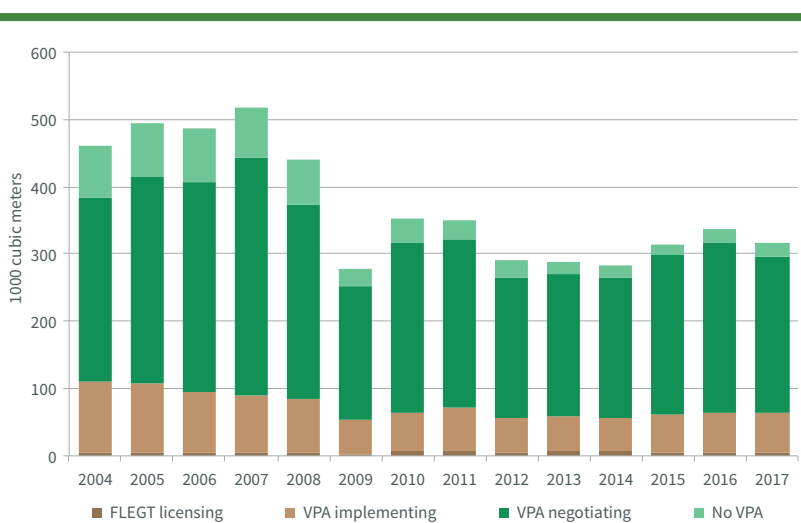


Figure 6.6.2: EU imports of tropical veneers, by VPA status 2004 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

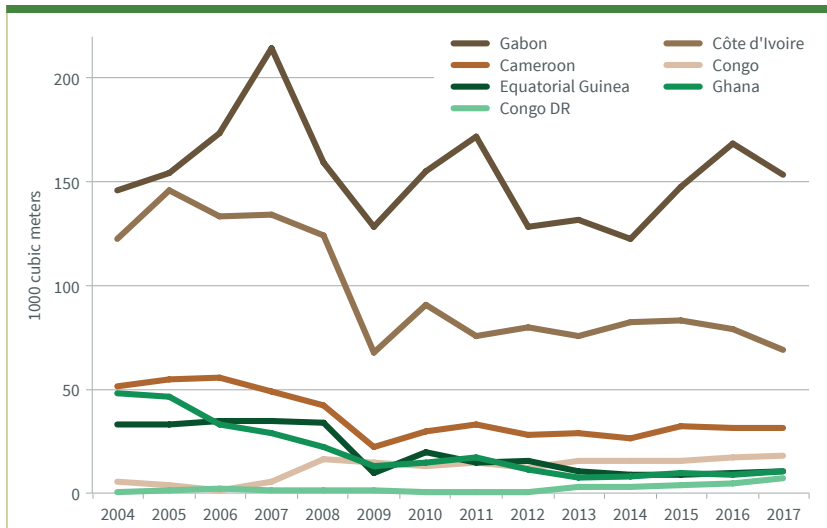


Figure 6.6.3: EU imports of tropical veneers, by main supply countries 2004 to 2017
Source: ITTO IMM analysis of Eurostat COMEXT

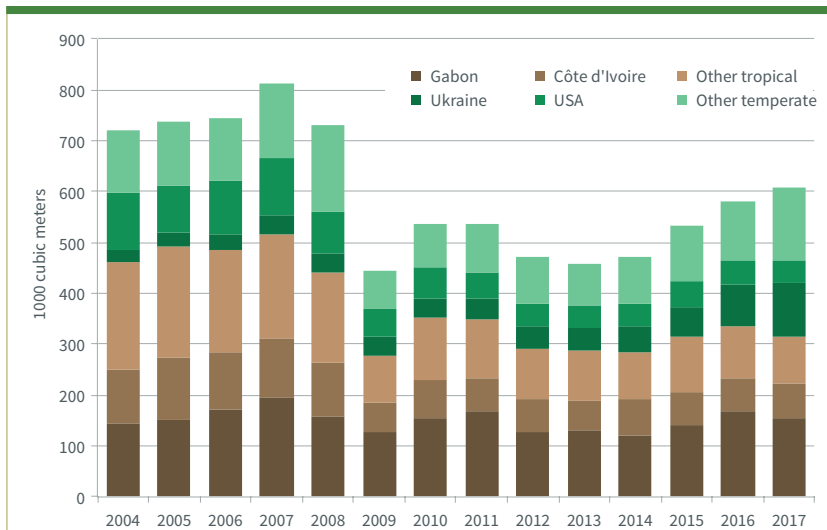


Figure 6.6.4: EU imports of veneers, by main supply country 2004 to 2017
Source: ITTO IMM analysis of Eurostat COMEXT

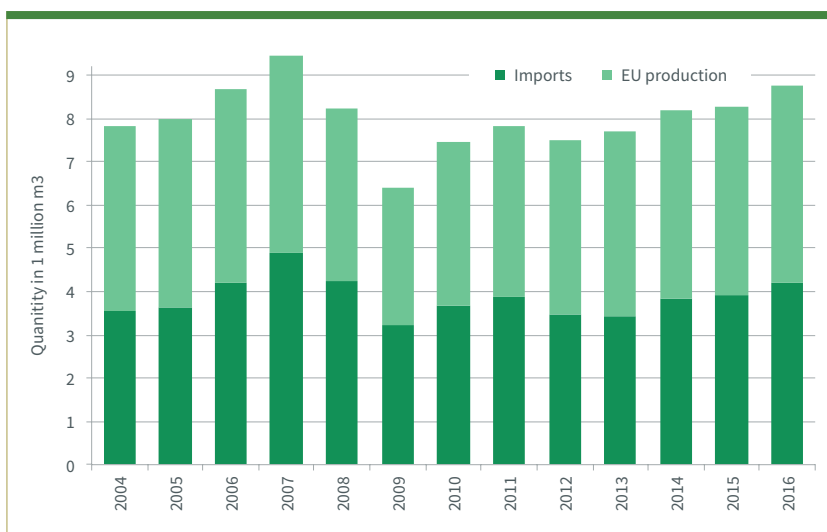


Figure 6.7.1: EU supply of plywood, 2004 to 2016
Source: ITTO IMM analysis of Eurostat COMEXT and PRODCOM

The downturn in EU imports of tropical veneer during 2017 was concentrated in France, Italy and Germany. Imports fell 17% to 113,000 m³ in France, 7% to 69,000 m³ in Italy, and 26% to 12,000 m³ in Germany. These falls were partially offset by rising imports in Spain (+4% to 49,000 m³), Greece (+27% to 25,000 m³), and Romania (+28% to 16,000 m³).

The decline in EU imports of tropical veneer contrasts with a significant rise in imports of veneer from temperate countries which increased 19% to 293,000 m³ in 2017 (Figure 4.6.4). Imports from Ukraine increased 29% to 107,000 m³ in 2017, while imports from Russia increased 43% to 60,000 m³.

These increases in veneer imports from Eastern European countries during 2017 were driven partly by very weak exchange rates in the region, which has increased export competitiveness, and partly by policy measures to limit log exports and increase wood processing capacity in these countries.

6.7 VPA partners in EU plywood supply

The supply of plywood in the EU increased 5.5% to 8.73 million m³ in 2016. Imports increased 7.4% to 4.21 million m³ while domestic production increased 3.8% to 4.52 million m³. Imports increased share of total plywood supply from 47.4% in 2015 to 48.2% in 2016 (Figure 6.7.1).

In 2017, EU imports of plywood decreased from the decadal peak of 4.21 million m³ recorded the previous year, to 4.10 million m³. While imports of softwood plywood increased 5.2% to 1.49 million m³, imports of hardwood plywood declined 6.7% to 2.61 million m³.

The biggest decline was due to Chinese “other hardwood” plywood, for which EU imports fell 20% to 801,000 m³. This was partly owing to revision of customs product codes in 2017 which saw a large number of species previously labelled ‘other hardwoods’ now identified as ‘tropical’. As a result, the decline in imports of “other hardwood” plywood was partially offset by a 73% increase in imports of tropical hardwood plywood from China to 215,000 m³. Altogether imports of hardwood plywood from China declined by 10% in 2017, to 1.02 million m³ (Figure 6.7.2).

In total, EU imports of tropical hardwood plywood increased 24.4% to 585,000 m³ in 2017. This includes the 215,000 m³ imported from China. The EU's direct imports of hardwood plywood from tropical countries increased 7% to 370,000 m³ in 2017.

Almost of the gain in direct imports were due to Indonesia, which increased 23.9% to 159,000 m³ during 2017. Imports from the five VPA implementing countries in Africa also increased, but by only 2.6% and the volumes involved were small, totalling 3,200 m³ in 2017. Imports from VPA-negotiating countries declined 4.3% to 169,600 m³ in 2017, mainly due to slowing imports from Malaysia and Gabon (Figures 5.7.3 and 5.7.4).

The share of direct imports from tropical countries in total EU plywood imports increased from 8.2% in 2016 to 9.0% in 2017, reversing a long term downward trend. The share of plywood from China identified as being faced with tropical hardwood increased from 3.0% in 2016 to 5.2% in 2017. The share of "other hardwood" plywood from China (which includes birch plywood and mixed light hardwood made with plantation grown poplar and eucalyptus) declined from 23.9% in 2016 to 19.5% in 2017.

Meanwhile between 2016 and 2017 the share in EU imports of Russian birch plywood decreased from 25.0% to 24.3%, while share of hardwood plywood from other non-tropical countries fell from 6.3% to 5.5%. The share of softwood products, mainly from Brazil with small quantities from Chile, Russia and China, increased from 33.7% to 36.4% (Figure 6.7.5).

Interviews with EU importers suggest that the decline in total EU plywood imports in 2017 was driven by supply-side rather than demand side-factors. Consumption and demand for plywood in the EU was strengthening during the year, underpinned by growth in construction and greater consumer confidence which fuelled rising sales in other market sectors such as packaging and furniture.

EU demand for plywood is being given added impetus by a design trend to use plywood as the sole manufacturing material, with faces and edges expressed, even unfinished, to reveal its structure and achieve an 'industrial look'. Birch is the favoured species

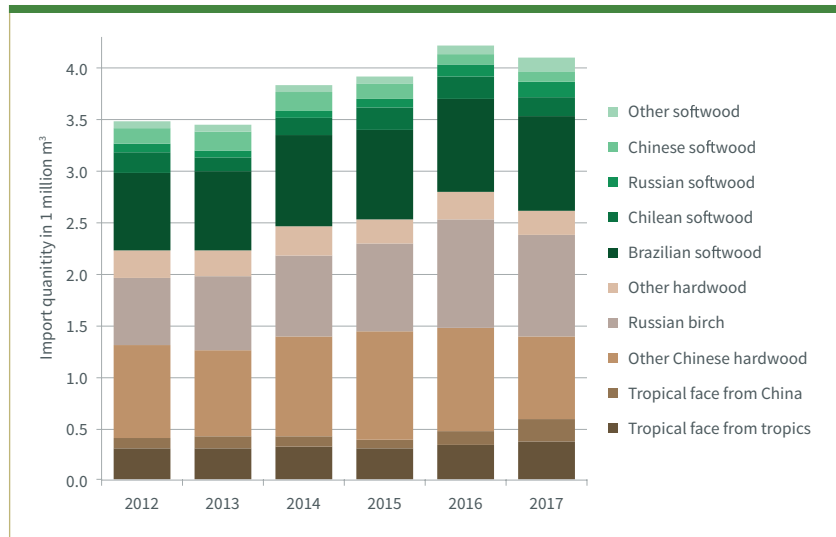


Figure 6.7.2: EU imports of plywood by product type, 2012 to 2017

Source: ITTO IMM analysis of Eurostat COMEXT

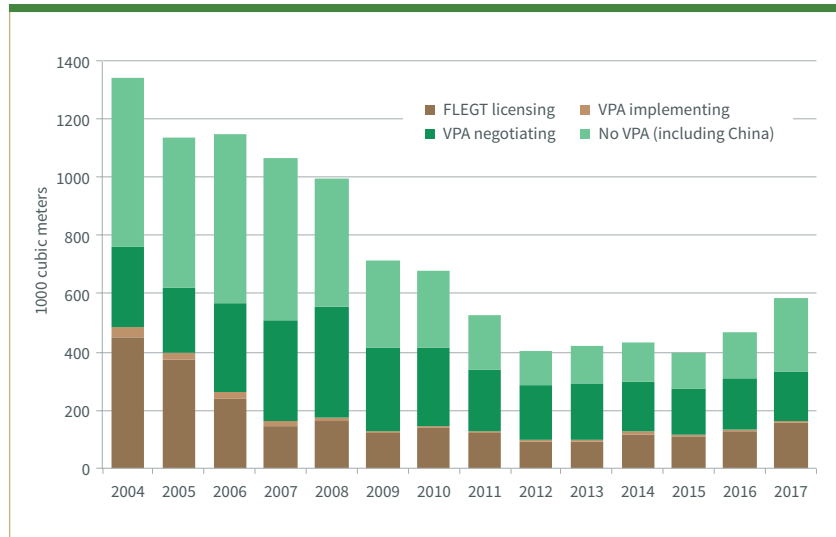


Figure 6.7.3: EU imports of tropical plywood (both direct and indirect), by VPA status 2004 to 2017

Source: ITTO IMM analysis of Eurostat COMEXT

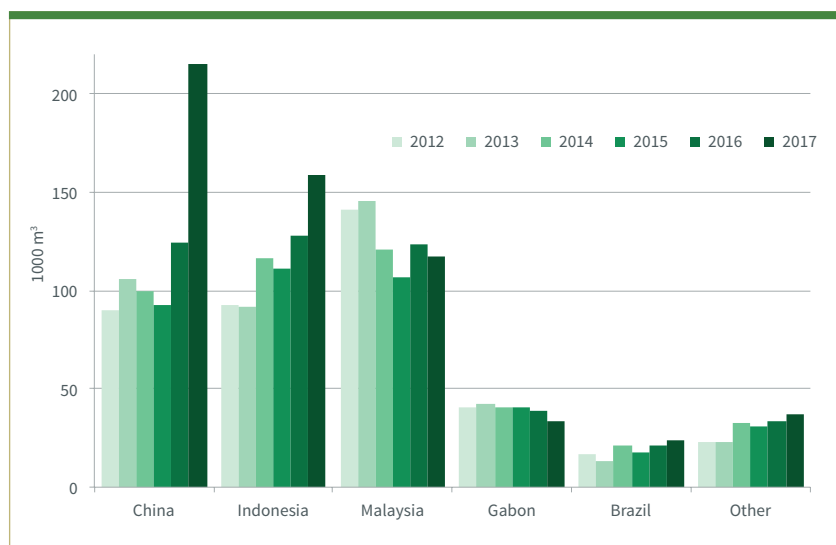


Figure 6.7.4: EU imports of tropical plywood (both direct and indirect), by supply country, 2012 to 2017

Source: ITTO IMM analysis of Eurostat COMEXT

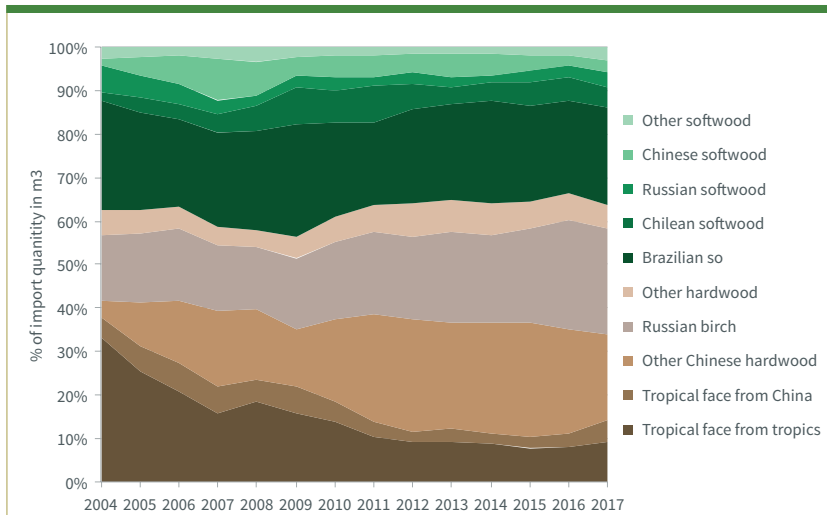


Figure 6.7.5: Share of EU imports of plywood by product type, 2004 to 2017

Source: ITTO IMM analysis of Eurostat COMEXT

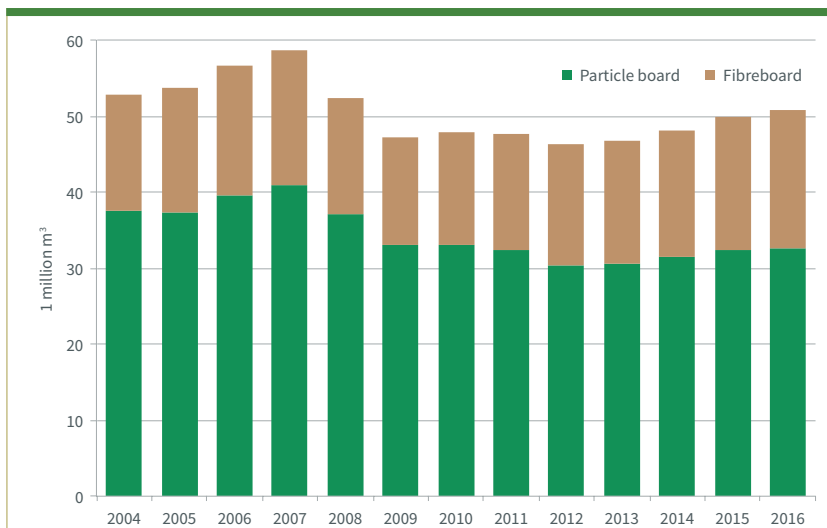


Figure 6.8.1: EU production of composite panels, 2004 to 2016

Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

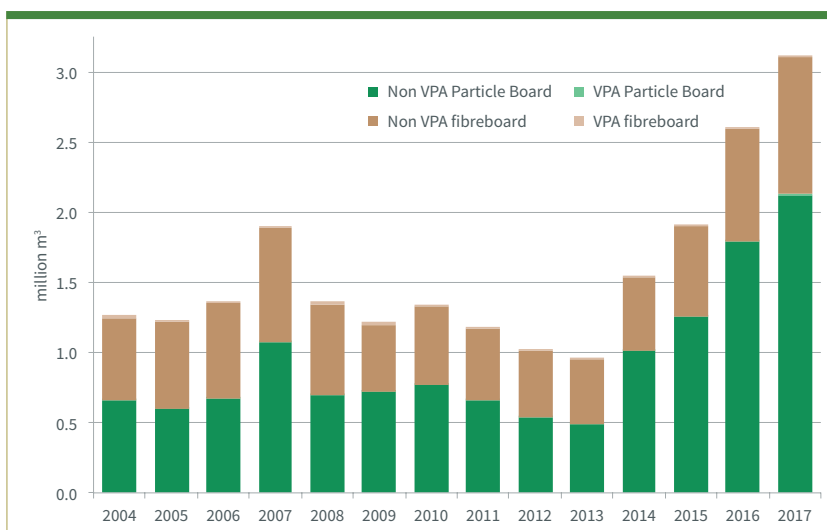


Figure 6.8.2: EU imports of composite panels from VPA and non-VPA countries, 2004 to 2017

Source: ITTO IMM analysis of Eurostat COMEXT

in these applications, but there are reports of manufacturers exploring the use of darker-faced tropical species.

While plywood demand has been strong, various factors have constrained supply in all the major exporting countries. These supply problems became more pronounced because of changes in the European trade. In response to the EUTR and tightening quality standards for structural products in the EU since passage of the Construction Products Regulation in 2013, plywood distributors have focused procurement more heavily on a limited number of known reliable suppliers with which they have long-term relationships.

In the short term, a sharp rise in prices during 2017 in response to good demand and tight supply also led many importers to order more just-in-time, little and often to hedge against the risk of the ‘market bubble’ bursting.

During 2017, these factors worked to the benefit of Indonesian suppliers that could exploit both their ability to deliver FLEGT-licensed product and reputation for supply of high quality plywood. According to EU importers, the rise in trade with Indonesia may have been even greater if more product had been available. Supply problems began to emerge in Indonesia towards the end of 2017 with the onset of heavy rains. In the first quarter of 2018, some EU importers reported they could obtain no more than 50% of normal deliveries.

Supply problems also limited the ability of plywood exporters in other regions of the world to exploit the rise in demand in the EU during 2017. Production output of Chinese suppliers was affected by tough new environmental and health and safety regulations which forced Chinese producers to invest heavily in new production and pollution control technology. Some manufacturers were forced to restrict or even stop production while installation work was underway.

The new rules in China also forced out of business many small-scale, family-run, rotary cut veneer plywood manufacturers. These smaller operators principally served the domestic market, so now domestic customers are also turning to the bigger export producers, adding another supply pressure.

On the softwood plywood side, the timing and volume of trade is influenced by the EU's duty-free quota set at 650,000 m³ per year, which tends to lead to a lot of imports from outside the EU being deferred to the beginning of each year. At the same time, while mills in Brazil, the EU's largest external supplier of softwood plywood, reported strong production in 2017, a larger proportion was being diverted to the US, Mexico and markets in the Caribbean.

In response to restricted supply and rising demand, plywood prices rose strongly in the second half of 2017. EU importers report that prices for Malaysian and Chinese tropical plywood increased 25% and 20% respectively, while the price for Brazilian *elliottii* (slash) pine plywood increased by more than 30% during this period.

6.8 VPA partners in EU composite-panel supply

The composite panels sector in Europe is mainly of interest to VPA Partner countries for the important role it has played to drive development of tropical wood substitutes. The sector remains a key source of innovation in the international forest products industry and continues to extend applications into new areas, often at the expense of tropical wood products. After a dip 2012 when total production of composite panels in the EU fell to 4.6.2 million m³, production increased consistently in the following four years to 50.8 million m³ in 2016. During this period, particle board production increased from 30.4 million m³ to 32.5 million m³ while fibreboard production increased from 15.8 million m³ to 18.2 million m³ (Figure 6.8.1).

EU imports of composite panels increased rapidly between 2013 and 2017 but remain only a very small component of total supply. Imports of particle board increased from 0.49 million m³ in 2013 to 2.12 million m³ in 2017, mainly due to rising trade with Belarus, Russia and Ukraine. Imports of fibreboard increased from 0.47 million m³ to 0.99 million m³ during the same period, in this case with nearly all the gains from Belarus and Russia (Figure 6.8.2).

EU imports of composite panels from all countries engaged in the VPA process are negligible; no more than 11,000 m³ per year between 2013 and 2015, rising to 15,000 m³ in 2017. This consisted almost exclusively of fibreboard, mainly from Malaysia and Thailand, with a very small volume (less than 1000 m³) from Indonesia and Viet Nam.

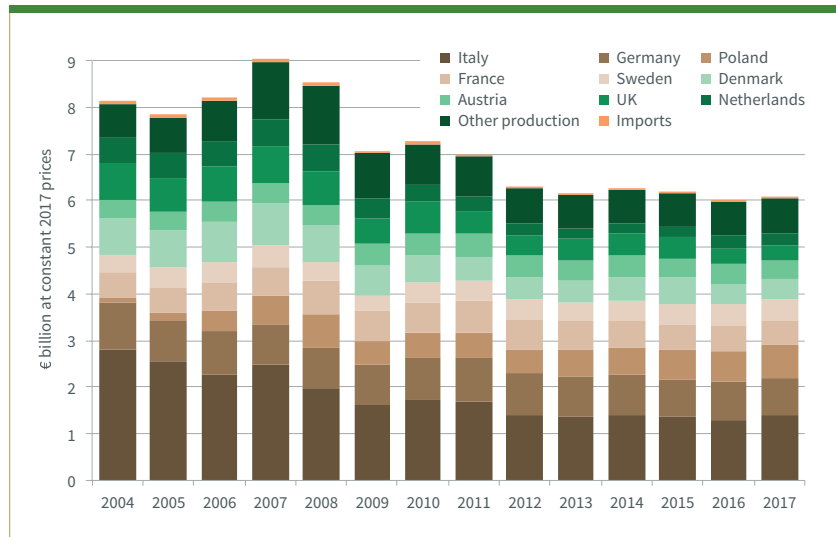


Figure 6.9.1: EU supply of wood windows, by country of production 2004 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

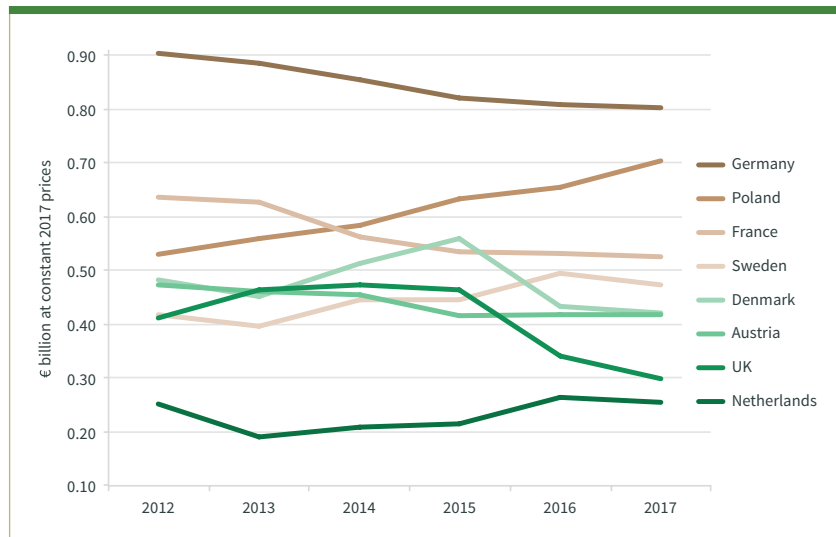


Figure 6.9.2: Production of wood windows in selected EU countries (NB excludes Italy the largest producer), 2012 to 2017 Source: ITTO IMM analysis of Eurostat PRODCOM

6.9 VPA partners in EU wooden window supply

The market for wood windows in the EU was low and flat in 2016 and 2017. The total value of wood windows supplied to the EU increased only 0.7% to €6.07 billion in 2017 following a 2.8% decline the previous year (Figure 6.9.1).

Supply of wood windows to the EU is overwhelmingly dominated by domestic production which increased 0.7% to €6.07 billion in 2017. Imports from outside the EU accounted for only 0.5% of total EU wood window supply in 2017.

Italy has maintained its position as the largest window manufacturer in the EU, with production rising around 7.2% to €1.39 billion in 2017. Production in Poland continued to rise during the year, by 7% to €704 billion. In contrast, wood window production in most large western European markets declined in 2017, including Germany (-1% to €802 million), France (-1% to €525 million), Sweden (-5% to €420 million), UK (-12% to

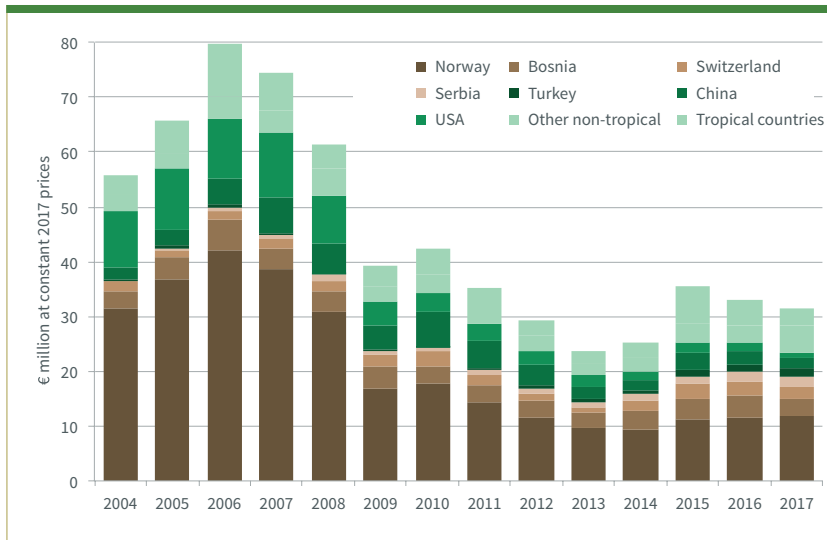


Figure 6.9.3: EU imports of wood windows, by country of origin 2004 to 2017
 Source: ITTO IMM analysis of Eurostat COMEXT

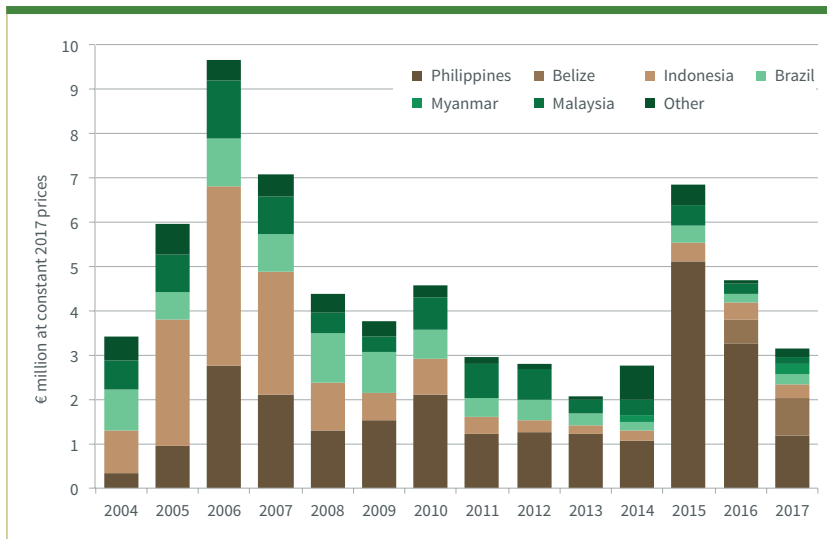


Figure 6.9.4: EU imports of wood windows from tropical countries, by country of origin 2004 to 2017
 Source: ITTO IMM analysis of Eurostat COMEXT

€299 million) and the Netherlands (-4% to €254 million (Figure 6.9.2).

Imports of wood windows from outside the EU fell by 5.3% in 2017 to €31.4 million, continuing the downward trend of the previous year. EU imports of wood windows derive mainly from neighbouring European countries, including Norway, Bosnia and Switzerland (Figure 6.9.3).

Only a very limited, and highly variable, quantity of wood windows is imported into the EU from tropical countries. The value of EU imports of wood windows from tropical countries fell 32% to €3.17 million in 2017. Typically, 50% to 70% of wood windows imported in the EU from the tropics each year derive from the Philippines and are destined for France and Belgium. Of VPA Partner countries, only Indonesia, Malaysia and Viet Nam supply wood windows to the EU, all in negligible quantities with value of less than €500 000 per year. (Figure 6.9.4).

While VPA partner countries are not engaged in the EU market for finished windows, this sector is of interest as a source of demand for tropical wood material. From this perspective, a notable trend in the EU window sector is towards use of engineered wood in place of solid timber. This is particularly true of larger manufacturers producing fully-factory finished units that buy engineered timber by the container load.

Increased use of engineered wood is closely associated with efforts by window manufacturers to meet rising technical and environmental standards, provide customers with long lifetime performance guarantees and recover market share from other materials. Increased focus on energy efficiency means that triple-glazed insulating window units with very low U-factors are now more common than double-glazed units in Europe. These units demand thicker, more stable and durable profiles that in practice can only be delivered at scale using engineered wood products.

The quality and engineering of wood windows has undergone a revolution in the EU in recent years so that manufacturers are now able to deliver products with many of the benefits previously reserved only for the best quality tropical hardwood frames using softwoods and temperate hardwoods. Factory-finished timber windows are given a specialist spray-coated paint finish for even and durable coverage which might only need redoing once a decade. The lifespan of factory-finished engineered softwood frames is now claimed to be about 60 years, while thermally or chemically modified temperate woods can achieve around 80 years.

Nevertheless, smaller independent joiners producing bespoke products in low volumes still tend to rely on solid timber purchased from importers and merchants to manufacture window frames. Tropical woods such as meranti, sapele and iroko continue to supply a high-end niche in this market sector, competing directly and often successfully with oak, Siberian larch, and western red cedar.

Furthermore, some suppliers of tropical timber – notably in Indonesia and Malaysia – have exploited the trend towards engineered wood and supply laminated window scantlings particularly to the Netherlands and Belgium. However, in this market they face stiff competition from treated European softwood scantlings, oak scantlings, and Siberian larch scantlings.

Wood generally, and tropical wood specifically, has come under significant competitive pressure from non-wood materials in the wood window sector. Aluminium is

becoming a particularly prominent competitor. Aluminium has always remained the default windows product in the commercial market but over the last 5 years the material has enjoyed considerable resurgence within the residential window and door market. The main driver behind this has been aluminium bi-fold and sliding doors as consumers demand greater space and light within living areas

6.10 VPA partners in EU wooden door supply

Apart from Indonesia and Malaysia, which have successfully penetrated the EU market for door panels and finished wood doors, the EU door sector is mainly significant to VPA countries as a driver of imports of wood raw materials.

The total value of wood doors supplied to the EU increased by 5% to €7.12 billion in 2017. Despite the increase, the value of wood doors supplied to the EU in 2017 was still more than 25% down on the level prevailing before the global financial crises (Figure 6.10.1).

Most new wood door installations in the EU comprise domestically manufactured products. EU wood door production increased 4.9% to €6.78 billion in 2017. There was significant variation in the performance of the wood door sector in EU countries in 2017. Production in Germany, the largest wood door manufacturing country, was stable at €1.30 billion during the year while production in the UK continued to slide, by 2% to €840 million. However, production increased sharply in Italy (rising 12% to €910 million), France (rising 5% to €640 million), Spain (rising 14% to €540 million), Poland (rising 10% to €510 million) and the Netherlands (rising 30% to €250 million – Figure 6.10.2).

The value of wood door imports into the EU increased by just 0.3% to €341 million in 2017. Imports accounted for 4.8% of the total euro value of wood door supply to the EU in 2017, down from 5.0% the previous year (Figure 6.10.3).

Most of the gains in EU door imports in 2017 were from other temperate countries including Norway (+7% to €16 million), South Africa (+16% to €12 million), Bosnia (+29% to €7 million) and Ukraine (+50% to €7 million). Imports from UAE, which is becoming more important as a wood processing hub, increased from negligible levels to €5.4 million. However, imports from China, the largest external supplier, fell 2% to €111 million in 2017.

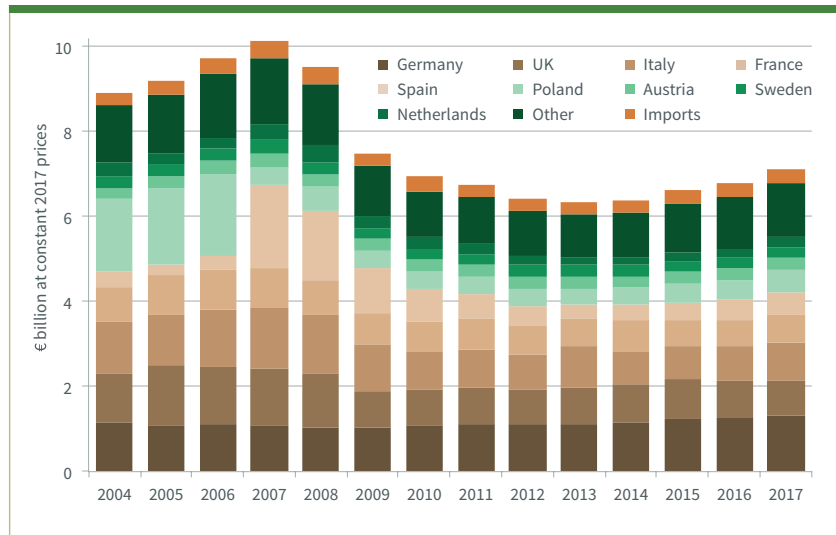


Figure 6.10.1: EU supply of wood doors, by country of origin 2004 to 2017
Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

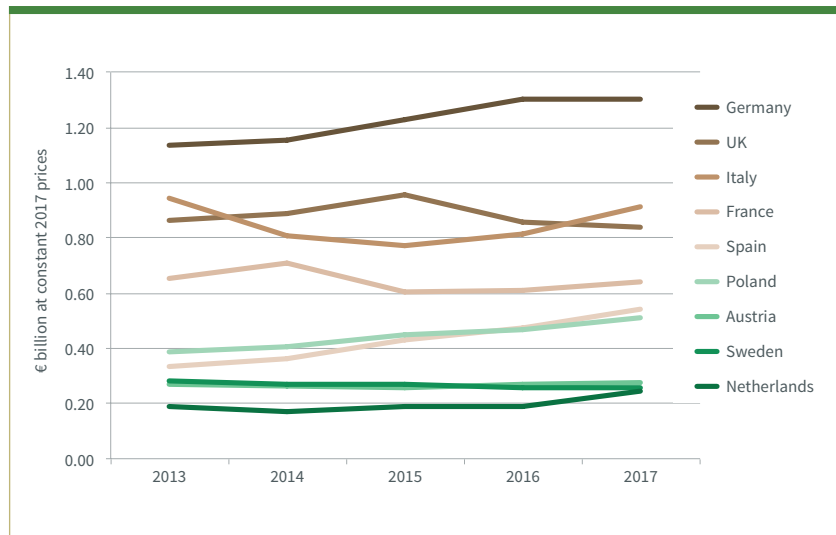


Figure 6.10.2: Production of wood doors in main EU producer countries 2004 to 2017
Source: ITTO IMM analysis of Eurostat PRODCOM

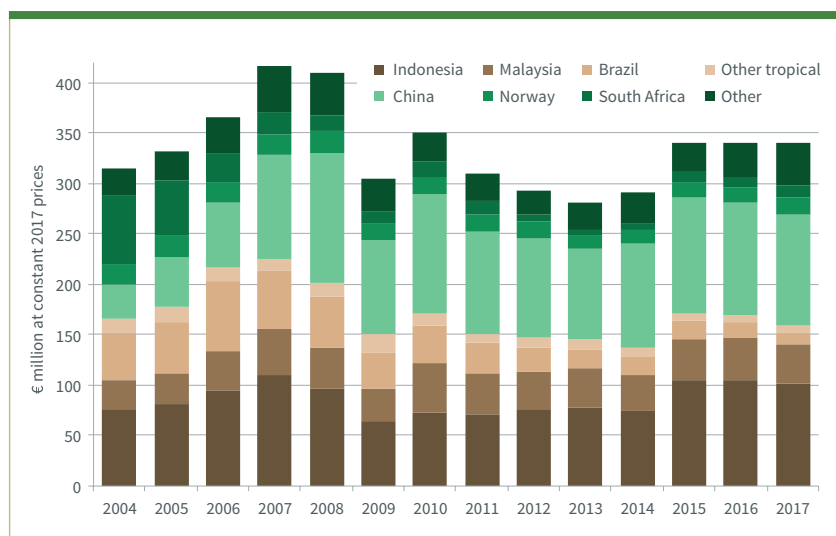


Figure 6.10.3: EU imports of wood doors, by principal supply country 2004 to 2017
Source: ITTO IMM analysis of Eurostat COMEXT

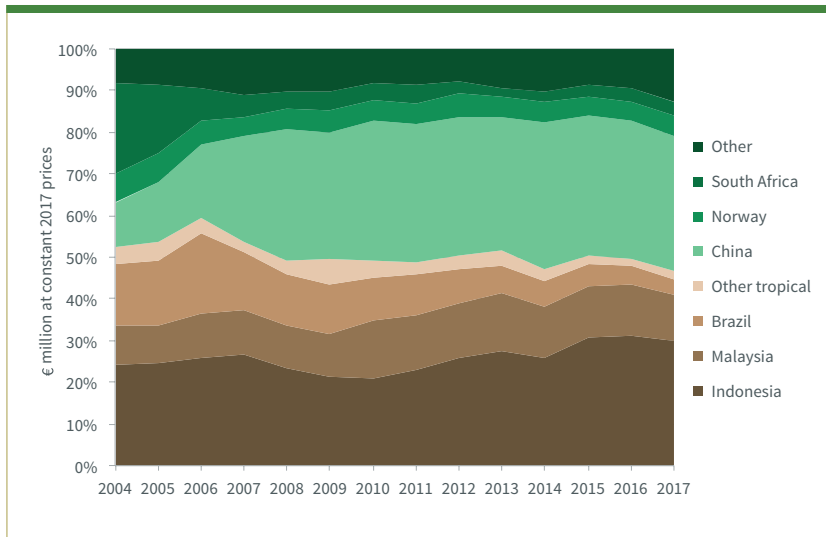


Figure 6.10.4: share of EU imports of wood doors, by principal supply country 2004 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

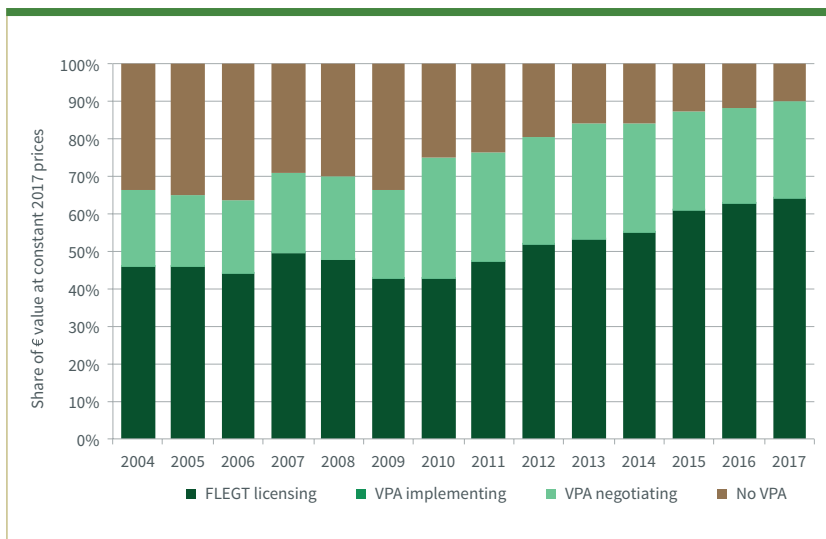


Figure 6.10.5: EU imports of wood doors from tropical countries, by VPA status 2004 to 2017 Source: ITTO IMM analysis of Eurostat COMEXT

The total value of EU imports of wood doors from the tropics fell 6% to €159 million in 2017. The share of tropical countries in total EU imports of wood doors fell from 49.8% in 2016 to 46.6% in 2017, continuing the decline of the previous year. This was mainly due to a decline in imports from Malaysia (-9% to €38 million) and Brazil (-19% to €13 million). The value EU wood door imports from Indonesia also fell, but by only 3.8% to €102 million in 2017.

The share of Indonesia in the total value of EU door imports fell from 31.1% in 2016 to 29.9% in 2017. The share of Malaysia fell from 12.3% to 11.1% during the same period (Figure 6.10.4).

However, Indonesia's share of total EU door imports from the tropics increased from 62.6% in 2016 to 64.1% in 2017. Imports from VPA negotiating countries, nearly all from Malaysia and a small quantity from Viet Nam, declined 6.5% to €41 million in 2017. Imports from VPA implementing countries were negligible in 2017 (Figure 6.10.5).

Like the windows sector, the European wood door industry is now dominated by products manufactured using engineered timber driven by requirements to comply with higher energy efficiency standards and efforts to provide customers with more stable products and long-life time guarantees.

Another key trend is towards composite doors with a steel-reinforced uPVC outer frame with an inner frame combining hardwood and other insulation material. These new products are designed to combine strength, security, durability, high energy efficiency, with a strong aesthetic.

There may be a place for tropical hardwoods in the design of these products with manufacturers looking to combine high quality, consistent performance, and good environmental credentials with a competitive price. However, another requirement is regular and consistent availability which may prove more challenging for many suppliers of tropical hardwoods.

6.11 VPA partners in EU supply of modern Engineered Wood Products (EWPs)

6.11.1 EWP scope

“Modern” engineered wood products (EWP) include glue-laminated lumber (glulam), laminated veneer lumber (LVL), and ‘massive’ or cross-laminated timber (CLT) which are becoming more widely available in the EU.³⁴

6.11.2 Emerging opportunities for EWPs

Modern EWPs have numerous advantages compared to other traditional building materials. The defects due to knots and other internal variations are removed and randomized within layers so that EWPs are stronger, straighter, more uniform and less prone to shrinkage and splitting than traditional sawn timber. EWPs can also carry loads over longer spans.

³⁴ The term “modern” is used here to distinguish between older EWPs such as plywood and OSB developed many decades ago which are now well established in the global timber market. The modern EWPs covered in this section are all those most relevant to the EU market. Other modern EWP's - such as parallel strand lumber (PSL), laminated strand lumber (LSL), and prefabricated I-beams - are sourced mainly from North America and, although used quite widely for timber building systems in parts of the EU, have recently become less widely available in the EU due to a preference for LVL and supply chain considerations. A more detailed description of modern EWP's of most relevance to the EU and their market prospects is included in the 2015-2016 IMM report.

When integrated with other wood and non-wood components into prefabricated building systems, EWPs offer numerous commercial advantages. Rising interest in using engineered wood for high density urban construction is driven mainly by cost-savings and reduced time of construction.

To take one example, the new BskyB building, the tallest commercial timber structure in the UK, was designed and constructed in less than one year, half the normal time of a project this size. The building comprising a glulam frame with cross laminated timber (CLT) floor, roof and stability walls, weighs considerably less than an equivalent concrete building, therefore greatly reducing the costs and time required for delivery of materials on-site.

EWPs also deliver higher yields and allow transformation of smaller dimension and lower grade wood in high quality structural products. Yields are further enhanced by manufacturers through a focus on accurate moisture content and visual defect and ultrasound wood grading to ensure each individual timber board or veneer is utilised for the most appropriate component or product application.

Modern EWPs offer significant potential to expand the market for wood, add value to wood fibre, contribute to sustainable forest management and efficient use of wood, and minimise environmental impacts, particularly those associated with material and energy consumption in construction.

Developing demand for EWPs, both in the EU and wider global markets, are likely to offer specific opportunities for VPA partner countries. These may arise in the supply of raw material to EWP manufacturers in the EU and other industrialised countries and, even better for adding long-term value, through further development of EWP manufacturing capacity and demand in the VPA partner countries themselves.

6.11.3 Challenges of accessing EWP markets

While the opportunities exist, there are significant challenges for tropical producers seeking to access EU markets for modern EWPs, whether to supply wood materials to EWP manufacturers or finished products to the building sector.

EWP manufacturers tend to prefer utilising local timbers that are readily

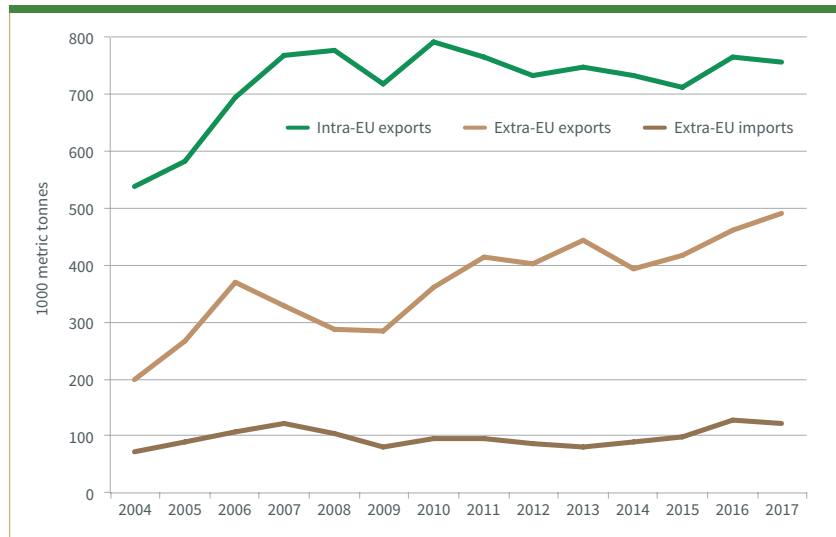


Figure 6.11.5.1: EU internal and external trade in glulam, 2004 to 2017
Source: ITTO IMM analysis of Eurostat COMEXT

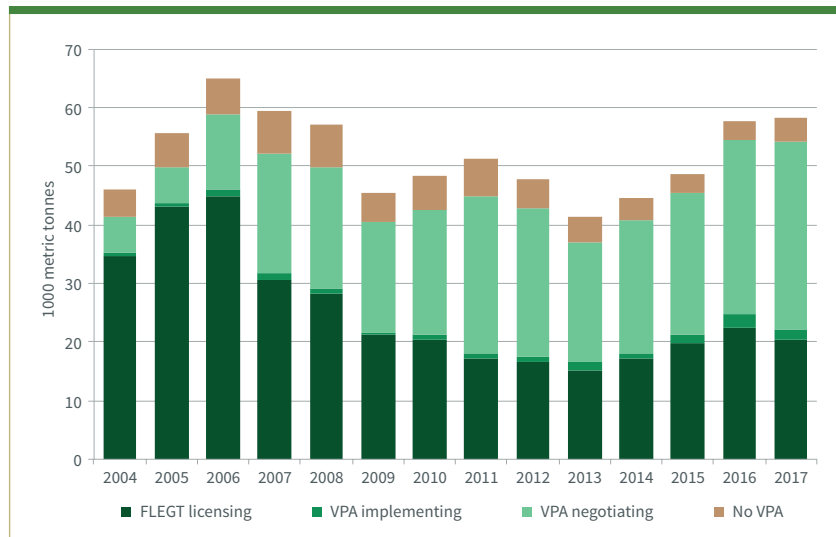


Figure 6.11.5.2: EU imports of glulam from tropical countries, by VPA status 2004 to 2017
Source: ITTO IMM analysis of Eurostat COMEXT

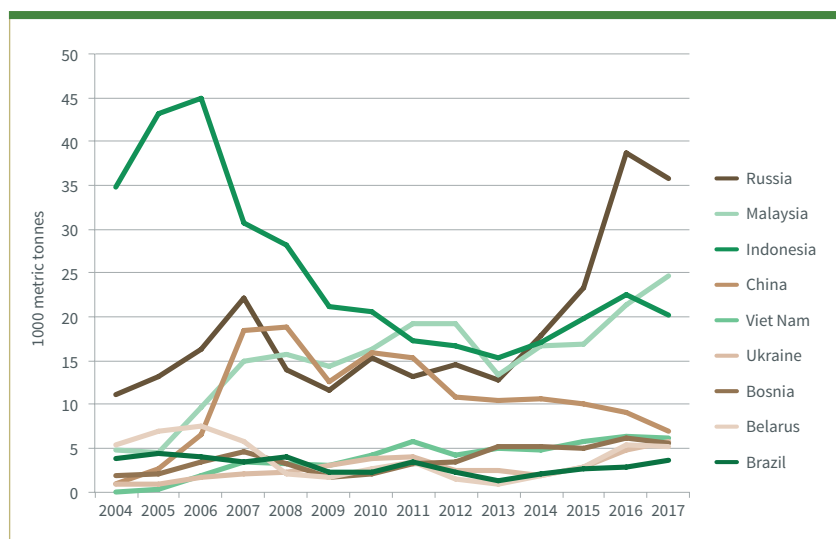


Figure 6.11.5.3: EU imports of glulam from main supply countries, 2004 to 2016
Source: ITTO IMM analysis of Eurostat COMEXT

available in consistent volumes and qualities. For example, CLT manufacturers in the EU will purchase only square-edged fixed-width timber which is often not supplied as standard in the hardwood industry, unlike the softwood sector which is more accustomed to supply large volumes in fixed dimensions.

Bringing EWP products to market requires a heavy capital investment, not only in plant, machinery and new skills, but also in technical testing and a commitment to working with standards bodies to ensure that individual species are accepted for use in specific products and applications. Even relatively well-resourced organisations like the American Hardwood Export Council (AHEC) have so far struggled to persuade EU standards bodies dominated by softwood interests to approve imported hardwoods for use in structural panels.

There are signs that this situation is beginning to change, less because of direct industry lobbying of European committee members, and more due to architects and engineers demanding that the relevant standards be changed so that they can fully exploit the specific technical advantages of hardwood EWPs. These can be considerable; for example, technical work supported by AHEC has demonstrated that American tulipwood CLT panels are three times stronger than spruce panels of equivalent size and weight.

This is not to suggest that hardwood will replace softwood in large volume production of EWPs, at least in the EU. Compared to softwoods, hardwoods are much less readily available in large consistent volumes and grades at competitive prices. However, there is potential to develop specialist grades of EWPs using hardwoods for applications where high strength, durability or aesthetic character are needed.

6.11.4 Limited EWP market data

Another challenge when developing markets for modern EWPs is the relative lack of market data. No modern EWP is identified separately in EU production data and only one – glulam – is identified separately in EU trade data³⁵ Even in this instance, analysis of market share for glulam is impaired by lack of a harmonised international code so equivalent data cannot be derived for non-EU countries.

This lack of harmonisation created an immediate issue for FLEGT licensing. The Indonesian licences identify finger-jointed laminated boards (which include window and door scantlings and kitchen tops) under the customs code 441294 (which covers blockboard, laminboard and battenboard) whereas the EU importers typically record these products under the 441890/441899 codes for glulam. The Indonesian FLEGT Joint Implementation Committee took steps at their meeting on 1st March 2018 to resolve this issue by agreeing that FLEGT licences for all finger-jointed laminated boards will in future be issued under HS 441899.

However, this situation highlights how the lack of unique internationally harmonised codes for modern EWPs can potentially create trade barriers and add to the uncertainty in monitoring of trade flows. It also highlights the need to ensure that, in future, any potential discrepancies between product codes used by VPA Partners and the EU are resolved before the start of FLEGT licensing. Longer term, these potential problems could be best resolved, and analysis of this market sector greatly improved, with amendments to the international Harmonised System (HS) of product codes.³⁶

Due to these data limitations, in practice it is not yet possible to assess with any degree of accuracy the share of VPA partner countries in supply of these more modern EWPs to the EU market. However, a brief survey of the data available on each product is provided below.

6.11.5 VPA Partners in EU glulam supply

Glulam is at present the largest volume modern EWP supplied into the EU market. Recent production is not available but estimates by the ECE Committee on Forests and the Forest Industry indicate EU annual production in the region of 2.5 million m³ and that the EU accounts for 50% to 60% of global consumption of glulam.

Anecdotal reports indicate that the glulam sector in Europe has struggled with over-supply and low margins in recent years. This is also indicated by data on EU trade in glulam (*Figure 6.11.5.1*). Intra-EU trade in glulam remained flat at around 750,000 MT per year for the whole period between 2007 and 2017. At the same time exports of this products from the EU have been rising, increasing 6% in 2017 to 490,000 MT following a 10% increase the previous year. Meanwhile imports, which increased only slowly between 2013 and 2016 to peak at 129,000 MT, fell back 4% to 123,000 MT in 2017.

Taken together these trends suggest relatively poor prospects for external suppliers to expand glulam sales in the EU market. Due to the investments required, the challenges of complying with EU standards for structural products, and competition from domestic manufacturers, most glulam products imported from outside the EU are more specialised small dimension products for non-structural applications.

Imports of tropical glulam have remained reasonably buoyant in response to improved demand in specific niche sectors, notably for durable laminated window scantlings in the Netherlands and kitchens in several European countries. Total imports increased 1% to 58,300 MT in 2017 following a 19% increase in 2016 (*Figure 6.11.5.2*).

Of VPA Partner countries, only Indonesia, Malaysia and Viet Nam are significant suppliers of glulam products to the EU. Small and irregular quantities (less than 1000 m³ in each case) are imported from Côte d'Ivoire, Congo, Ghana,

³⁵ The Eurostat COMEXT code for glulam from 1st January 2017 was 44189910 and 44189010 prior to that date.

³⁶ In 15 March 2016, the UN Intersecretariat Working Group (IWG) on Forest Sector Statistics proposed amendments to the HS system including introduction of a new set of codes (at HS 6-digit level and therefore globally harmonised) to include modern EWPs. In submitting the proposal the IWG observed that at present in the EU "Combined Nomenclature" (CN) system, modern EWP products are distributed across tariff codes as follows: glulam is the only product separately identified and is listed as a joinery product under 44189010 (updated to 44189910 from 2017); CLT is included under 4421 with all other unspecified wood products; and LVL is included under 44129, an unspecified "other" laminated board. Adding to the complexity – and not mentioned by IWG – is that some laminated wood panels with thick cores used for door manufacturing may be classified under 441820 for door products

and Cameroon each year with no clear sign of a long-term trend, either upward or downward.

After rising 13% in 2016, imports of glulam from Indonesia fell 10% to 20,300 MT. This downturn is at least partly due to the classification of products imported from Indonesia previously identified as glulam as plywood following introduction of FLEGT licensing.

In contrast, imports of glulam from Malaysia increased a further 16% to 24,800 MT in 2017 following a 26% increase the previous year. Imports from Viet Nam fell 4% to 6100 MT in 2017 after rising 8% the previous year.

In 2017, EU glulam imports also fell 8% from Russia to 35,800 MT and 24% from China to 6,900 MT. But there was a 22% increase in imports from Ukraine to 5,800 MT (Figure 6.11.5.3).

6.11.6 VPA Partners in EU LVL supply

According to machinery manufacturer Raute, global LVL production increased from 2.5 million m³ in 2014 to around 2.8 million m³ in 2016. Most production is in North America. However, the EU had at least 690,000 m³ of operational LVL capacity in 2017, with another 65,000 m³ planned.³⁷ The majority of production is softwood, but there is a large 180,000 m³ plant in Germany utilising beech.

At least three VPA Partner countries – Indonesia, Malaysia and Thailand – are known to be producing small volumes of LVL utilising a range of species, notably rubberwood, meranti, and sengon.³⁸ Work to test the technical performance of LVL manufactured in a wide range of tropical species – both from plantations and natural forests – has been undertaken in South East Asia. This work seems to be gaining momentum and is generally highlighting the strong potential for LVL to extend the range of applications for tropical hardwood, particularly fast-growing plantation species for structural applications.³⁹

EU trade statistics indicate that some tropical LVL may be entering the EU market. The volumes must be small but may be rising. In 2017, imports from tropical countries of “other veneered panels” covered under HS/CN code 441290/441299 into the EU – which includes LVL alongside products like blockboard, laminboard, and battenboard – were 15,700 MT, 25% more than in 2016 and more than five times the quantity

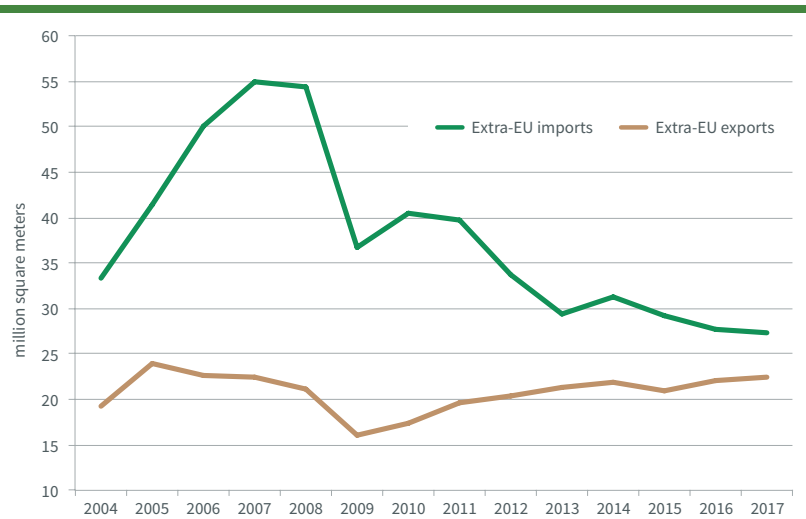


Figure 6.12.1: EU internal and external trade in real wood flooring, 2004 to 2016
Source: ITTO IMM analysis of Eurostat COMEXT

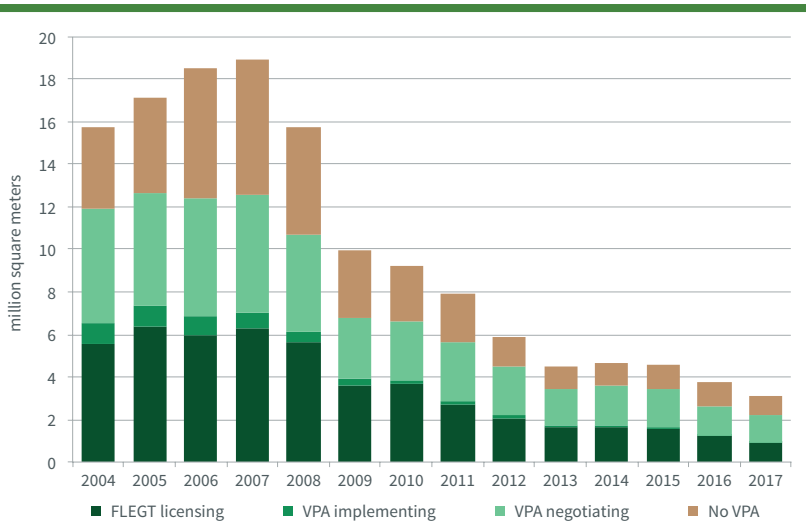


Figure 6.12.2: EU imports of real wood flooring from tropical countries, by VPA status 2004 to 2016
Source: ITTO IMM analysis of Eurostat COMEXT

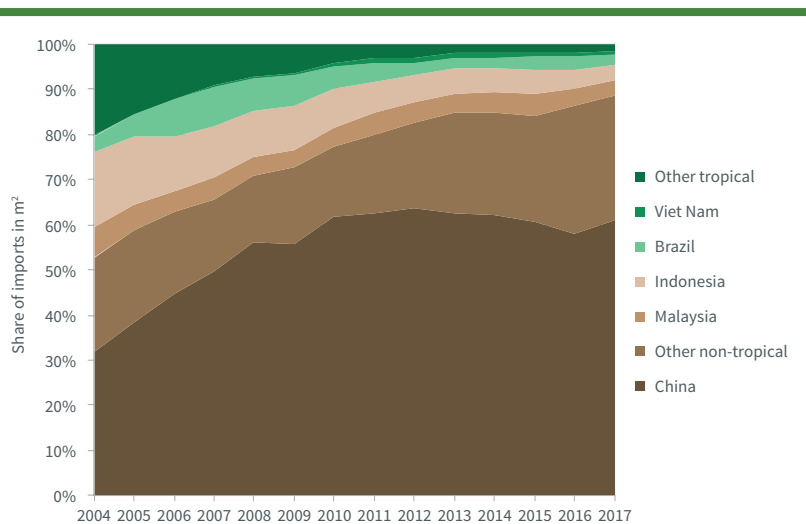


Figure 6.12.3: Share of EU imports of real wood flooring, by main supply countries 2004 to 2016
Source: ITTO IMM analysis of Eurostat COMEXT

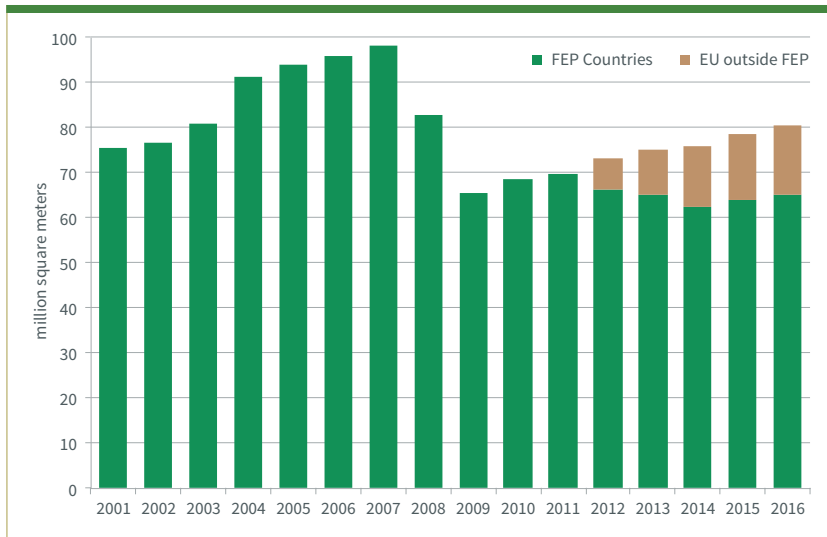


Figure 6.12.4: EU production of real wood flooring, 2001 to 2016
Source: ITTO IMM analysis of FEP

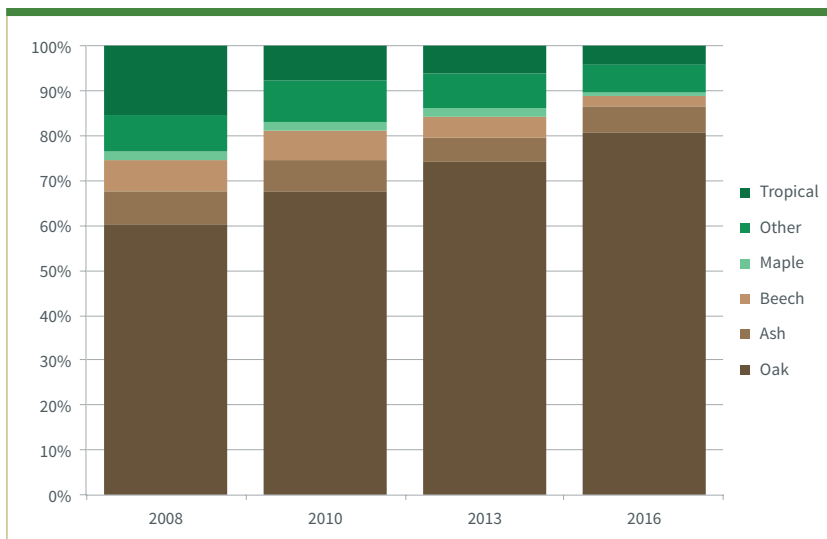


Figure 6.12.5: Share of species used for real-wood flooring surfaces by FEP members, 2008 to 2015 Source: ITTO IMM analysis of FEP

in 2009. Nearly all was derived from Indonesia (6364 MT), Malaysia (5500 MT) and Thailand (3500 MT).

6.11.7 VPA Partners in EU CLT supply

Nearly all global CLT production is in the EU where capacity is expected to reach 1 million m³ in 2018. All commercial volume production is softwood. To date only a very small volume of hardwood CLT has been manufactured in the EU to supply high-end bespoke projects, notably a health centre completed in the UK in 2017 claiming to be the world's first hardwood CLT building.

While at present only temperate hardwoods are being considered for use in CLT in the EU, some larger tropical suppliers have expressed interest in exploring the opportunities for tropical hardwood in this sector, given the high strength to weight ratio of many tropical species, and their durability (implying competitive advantages for tropical hardwoods in CLT elements exposed to the weather).

6.12 VPA partners in EU real-wood flooring supply

Strengthening of the euro and euro-linked currencies against the US dollar helped to marginally improve the competitiveness of external suppliers of real-wood flooring to the EU market in 2017. However, excepting a few suppliers in neighbouring European countries, this only slowed the overall decline in share of external suppliers into the EU and did not lead to any significant improvement in sales.

Total imports of real-wood flooring into the EU fell 1.8% to 27.24 million m² in 2017. Meanwhile EU exports continued to rise slowly, an indication of the global competitiveness of the EU's domestic real-wood flooring manufacturing sector. The EU's trade deficit in real-wood flooring, which expanded rapidly before the financial crises with a flood of product arriving from China, continued to narrow in 2017, falling from 5.61 million m² in 2016 to 4.75 million m² (Figure 6.12.1).

EU imports of real-wood flooring from China, still by far the largest external supplier accounting for around 60% of total imports, increased 3% to 16.6 million m² in 2017. Imports also increased 10% from Switzerland to 1.35 million m² and 5% from Bosnia to 1.29 million m² in 2017. Imports from Ukraine fell 15% to 3.49 million m².

EU imports of real-wood flooring from tropical countries fell again in 2017, by 16% to 3.13 million m², deepening the long-term decline. In 2017, imports fell 28% from Indonesia to 874,500 m² and were down 53% from VPA implementing countries to a negligible level of only 10,500 m². Imports from VPA negotiating countries fell

³⁷ In 2017, known LVL capacity in the EU includes 230,000 m³ operated by Metsä in Finland, 100,000 m³ capacity operated by Stora Enso in Finland, 80,000 m³ operated by Steico in Poland, 180,000 m³ operated by Pollmeier in Germany. In December 2017, Metsä decided to build a new line with additional 65,000 m³. In addition, MLT in western Russia had 150,000 m³ of installed capacity in 2017.

³⁸ *Paraserianthes falcataria*, a fast-growing timber species native to Indonesia

³⁹ For example: (a) Laminated Veneer Lumber (LVL) Sengon: An Innovative Sustainable Building Material in Indonesia, International Journal of Integrated Engineering, Vol. 10 No. 1 (2018) p. 17-22, Corresponding author: ali.awaludin@ugm.ac.id; (b) Physical-Mechanical Properties of Glued Laminated Timber Made from Tropical Small-Diameter Logs Grown in Indonesia, Rahma Nur Komariah, Article in Journal of the Korean Wood Science and Technology, March 2015; and (c) Structural Characteristic Laminated Timber of Indonesian Timber, Sri Handayani et al, International Journal of Innovative Research in Advanced Engineering (IJIRAE), Issue 12, Volume 2 (December 2015).

1% to 1.37 million m² in 2017, but this followed a 25% fall the previous year (Figure 6.12.2).

The share of tropical countries in total EU imports of real-wood flooring was only 11.5% in 2017, down from 13.4% the previous year and over 30% before the financial crises. China's share of real-wood flooring imports increased from 58.1% in 2016 to 60.9% in 2017, regaining some of the share lost in the previous 5 years. The total share of other non-tropical suppliers declined from 28.4% in 2016 to 27.6% in 2017, mainly due to a downturn in imports from Ukraine (Figure 4.12.3).

Data published by the European Association of Parquet Flooring Manufacturers (FEP) shows that real-wood flooring production in the EU increased 2.3% to 80.4 million m² in 2017 following a 3.6% gain the previous year (Figure 6.12.4).

FEP data indicates that consumption of real-wood flooring in Europe is rising more slowly than production. Total real-wood flooring consumption in Europe increased only 1% in 2017, a slowdown compared to the 1.7% increase reported in 2016. This implies that overall in 2017 the EU consumed around 101 million m² of real-wood flooring, 70% from domestic manufacturers and 30% from imports.

The moderate progression was mainly a result of a decline in consumption in Germany, the biggest EU market for real-wood flooring. In contrast, all other EU countries benefited from positive trends in the construction sector and rising consumer confidence.

FEP data highlights the increasing reliance on oak in the EU wood flooring sector, a factor which is both a result of, and serves to reinforce, the dominance of domestic suppliers in the EU market. The share of oak surfaces in European real-wood flooring production increased from 77.7% in 2015 to 80.8% in 2017. During the same period, the share of tropical timber fell from 4.5% to 4.1% (Figure 6.12.5). This focus on a single species is beginning to have a negative effect on total consumption. FEP report that the slow pace of increase in European wood flooring consumption is partly owing to difficulties in procurement of oak.

Wood flooring faces stiff competition in the European market from laminates and non-wood materials. Europe's laminate flooring industry is large and sophisticated with sales dwarfing those of the real-wood sector. However, even this industry is now losing share in the EU to a range of non-wood flooring products such as luxury vinyl tiles, porcelain tiles, and products made of recycled materials and other renewables like bamboo and cork.

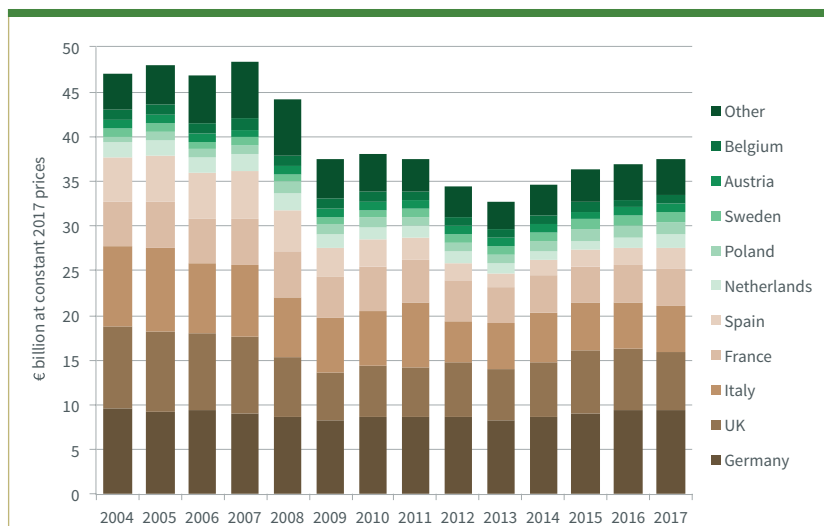


Figure 6.13.1: EU consumption of wood furniture, by main consumer country 2004 to 2017 Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

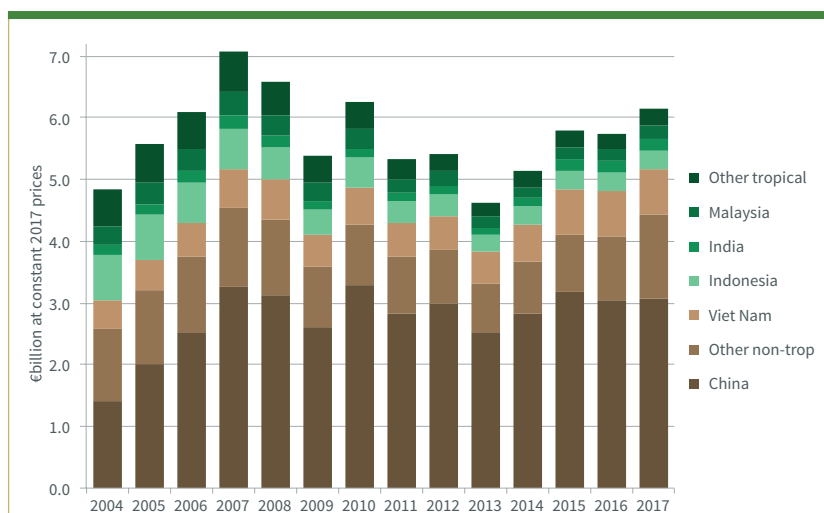


Figure 6.13.2: EU imports of wood furniture, by main supply country 2004 to 2016 Source: ITTO IMM analysis of Eurostat COMEXT

According to the Association European Producers of Laminate Flooring total European sales of laminate flooring were 346 million m² in Europe in 2017, around 1% less than in 2016. Sales in Eastern Europe increased 2% to 128 million m². However, this was insufficient to offset a decline in sales in Western Europe, by 2% to 218 million m².

Meanwhile there are signs that the carpet sector, which remains dominant in European flooring despite the recent trend to harder and cleaner flooring types, is now responding more effectively to the competition. Annual sales of carpets in Europe are still around 700 million m². Carpet manufacturers are concentrating on improved durability and performance, and are exploiting the wide variety of designs, styles, and colours, and benefits of noise reduction. They are also responding to rising environmental concerns in Europe by investing in development of biodegradable and more sustainable products.

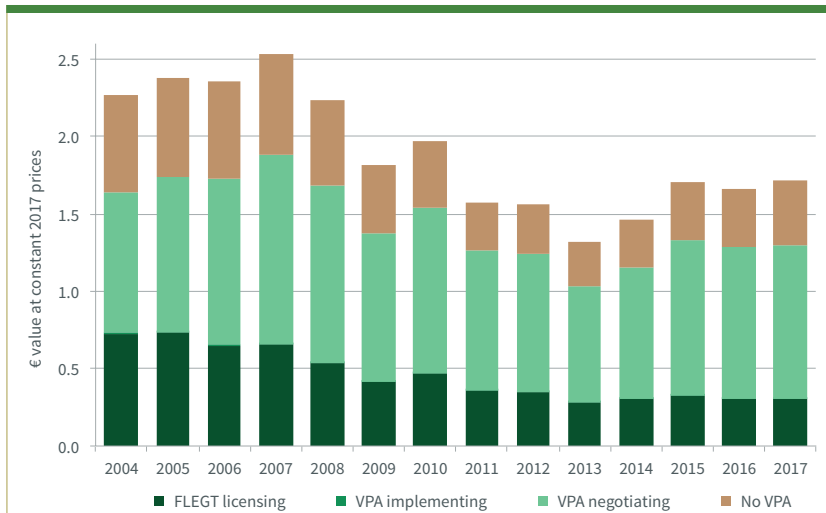


Figure 6.13.3: EU imports of wood furniture from tropical countries, by VPA status 2004 to 2016 Source: ITTO IMM analysis of Eurostat COMEXT

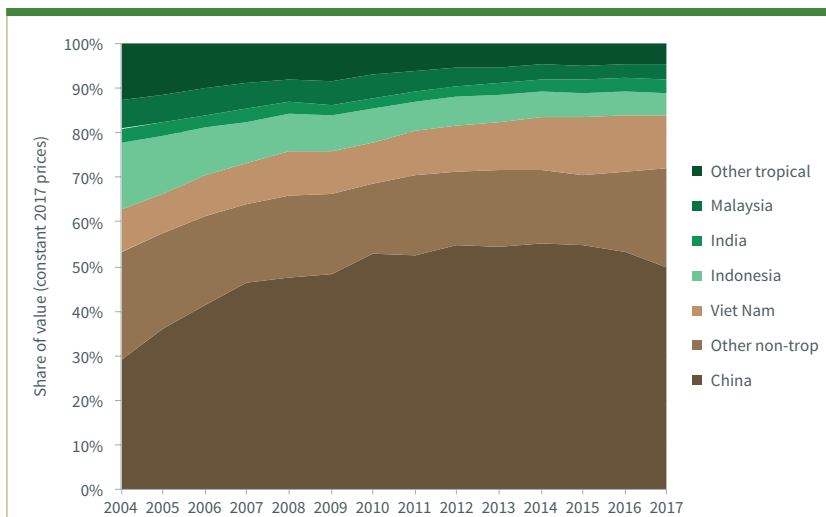


Figure 6.13.4: Share of EU imports of wood furniture, by supply country 2004 to 2016 Source: ITTO IMM analysis of Eurostat COMEXT

6.13 VPA partners in EU wood-furniture supply

Demand for wood furniture in the EU is rising but competition is also intensifying. EU manufacturers, particularly in Eastern Europe, are producing more at a time when domestic consumption is growing only slowly and exports to other parts of the world are weakening.

External suppliers to the EU made gains in 2017 but most of the beneficiaries were in temperate rather than tropical countries. Tropical wood furniture suppliers face significant competition from domestic manufacturers and manufacturers in Eastern European countries outside the EU, as well as in China. India is also emerging as a competitor to VPA partner countries in supply of wood furniture to the EU.

Eurostat data indicates that EU consumption of wood furniture was €37.6 billion in 2017, a gain of 2% compared to 2016. During 2017, consumption was stable (at €9.4

billion) in Germany, the largest market, and rising in Italy (+3% to €5.2 billion), France (+1.5% to €4.3 billion), Spain (+7% to €2.2 billion), Netherlands (+30% to €1.5 billion), Poland (+15% to €1.4 billion) and Sweden (+2.5% to €1.1 billion). However, wood furniture consumption fell 6% to €6.5 billion in the UK and 5% to €870 million in Belgium (Figure 6.13.1).

After flatlining in 2016, the value of EU imports of wood furniture from non-EU countries increased 7% to €6.16 billion in 2017 (Figure 6.13.2). Most gains were made by non-EU European countries including Ukraine, up 67.7% to €133 million, Bosnia, up 14.9% to €218 million, and Serbia, up 13.7% to €127 million.

Underlining the competitiveness of the EU furniture market, even China has recently struggled to increase sales. EU imports of wood furniture from China rose 12% to €3.17 billion in 2015, but then plateaued at that level in 2016 and 2017. IMM survey work suggests that furniture prices in China are generally regarded as competitive in the EU although, as in other sectors, rising domestic demand and the new laws designed to control pollution in China are raising prices from previously low levels. Quality of product imported from China is also highly variable.

EU imports of wood furniture from tropical countries increased 3.5% to €1.72 billion in 2017, reversing a 2.5% decline the previous year (Figure 6.13.3).

EU imports of wood furniture from Indonesia increased 2% to €309 million in 2017, following a 6% decline the previous year. EU imports from the five

VPA-implementing countries were negligible in 2017 with total value of only €550,000. Imports from VPA-negotiating countries increased by 0.6% to €985 million in 2017 after falling 3% the previous year.

Of VPA-negotiating countries, Viet Nam is the dominant supplier of furniture to the EU, although imports were flat in 2016 and 2017 after rising 40% in the previous two years. Imports from Viet Nam decreased 0.7% in 2016 and then increased just 0.5% to €724 million in 2017.

In contrast, imports from Malaysia increased 11% to €180 million, EU imports from Malaysia recovered 10.7% to reach €203 million last year. Imports from Thailand decrease 3.4% to €61 million.

VPA partner countries accounted for 75% of EU tropical wood furniture imports in 2017, down from 77% in 2016. The slight decline in share is due mainly to a 13% rise in imports from India to €202 million in 2017. EU imports

from Singapore, which is mainly channelling furniture to the EU from elsewhere in South East Asia, also doubled to €28 million in 2017. After relatively static performance for four years, EU imports from Brazil declined 5.3% to €112 million.

The total share of tropical countries in EU wood furniture import value declined from 28.9% in 2016 to 27.9% in 2017. (Figure 6.13.4).

IMM survey work highlights that, to some extent, direct competition between furniture suppliers in the various South East Asian countries is limited by market differentiation. With the rapid decline of availability of natural forest teak from Myanmar, Indonesia is now best placed to supply a wide range of outdoor furniture products, particularly due to relatively abundant plantation teak supplies. Indonesia's long woodworking tradition has also meant it has gained a reputation for supply of good quality specialist hand-made furniture, a niche market in the EU where it competes most directly with India.

By contrast, the Vietnamese furniture sector has gained a reputation for supply of large volume mid-range products, both for exteriors and, increasingly, for interior use, and is importing a wide range of wood from around the world to feed this production. The Vietnamese furniture industry is regarded as technically more evolved than most other Asian producer countries and increasingly able to supply products to high European quality standards. Malaysia also supplies high quality products but offers a much smaller range than Viet Nam with a heavy focus on rubberwood and other plantation species.

While these various external suppliers now play an important role in specific sections of the EU furniture market, the domestic industry remains very dominant. The share of domestic manufacturers in total EU furniture supply declined only slightly between 2013 and 2017. In 2017, domestic manufacturers accounted for 86.7% of the total value of wood furniture supplied into the EU market, down from 87.5% in 2016 and 88.6% five years before.

The value of EU wood furniture production was €40.3 billion in 2017, no change from the previous year and still 20% down on the level prevailing before the financial crises in 2008. A slowdown in production in the UK offset gains in Poland, Spain, and Lithuania. Production in Italy and Germany, the two largest manufacturing countries, and in France and Romania was broadly flat in 2017 (Figure 6.13.5).

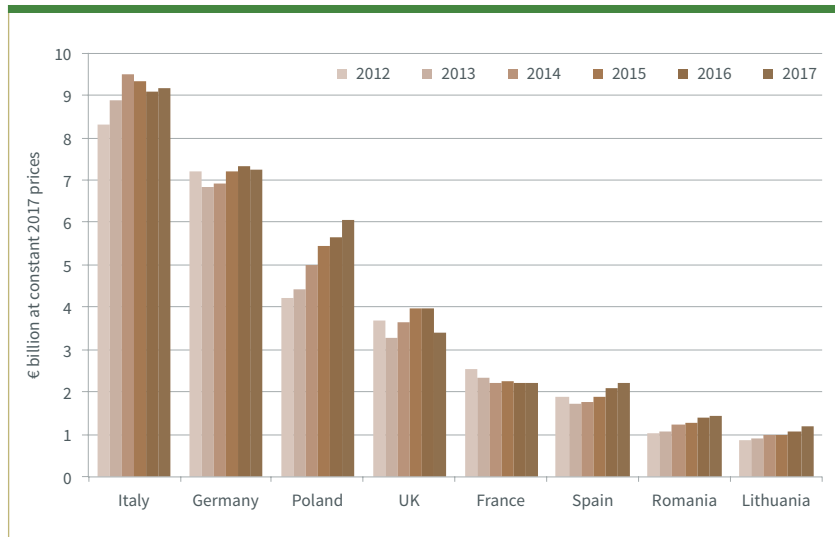


Figure 6.13.5: Production of wood furniture in main EU producer country 2012 to 2016 Source: ITTO IMM analysis of Eurostat COMEXT

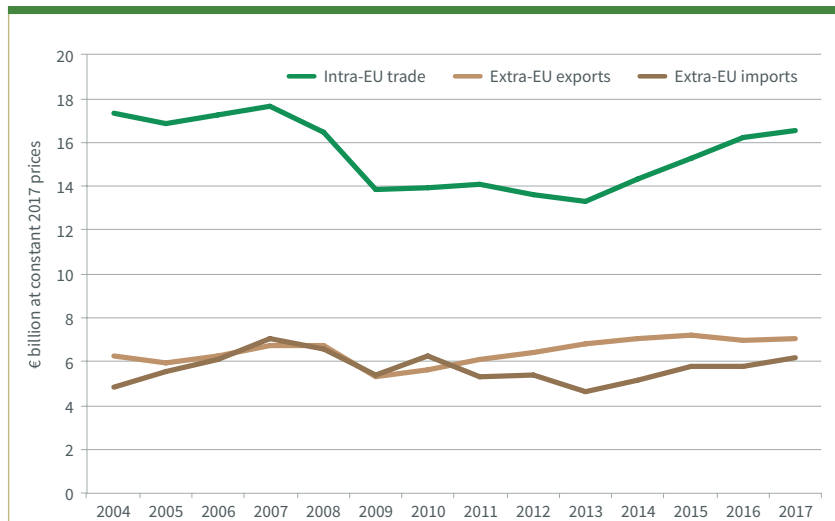
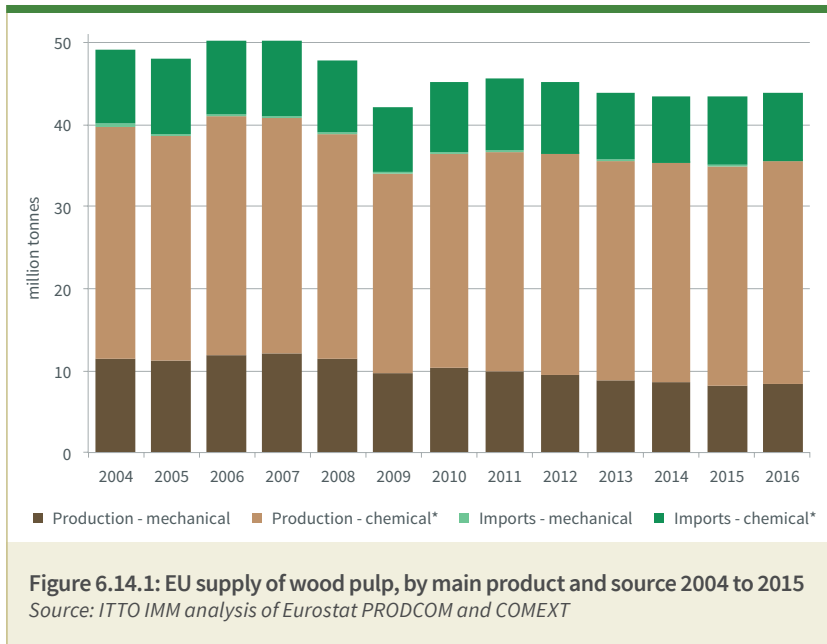


Figure 6.13.6: EU internal and external trade in wood furniture, 2004 to 2016 Source: ITTO IMM analysis of Eurostat COMEXT

Analysis of Eurostat trade data reveals that internal EU trade in wood furniture was €16.5 billion in 2017, 2% more than the previous year and continuing a rising trend of the previous three years. This trend is driven both by the slow rise in EU consumption and by rising dependence of the internal EU market on manufacturers located in lower cost member countries of Eastern Europe, particularly Poland, Romania, and Lithuania.

The EU has maintained a trade surplus in wood furniture since 2011 when exports to non-EU countries overtook imports from outside the EU. However, this surplus has been narrowing, falling from €2.18 billion in 2013 to €0.89 billion in 2017 (Figure 6.13.6).

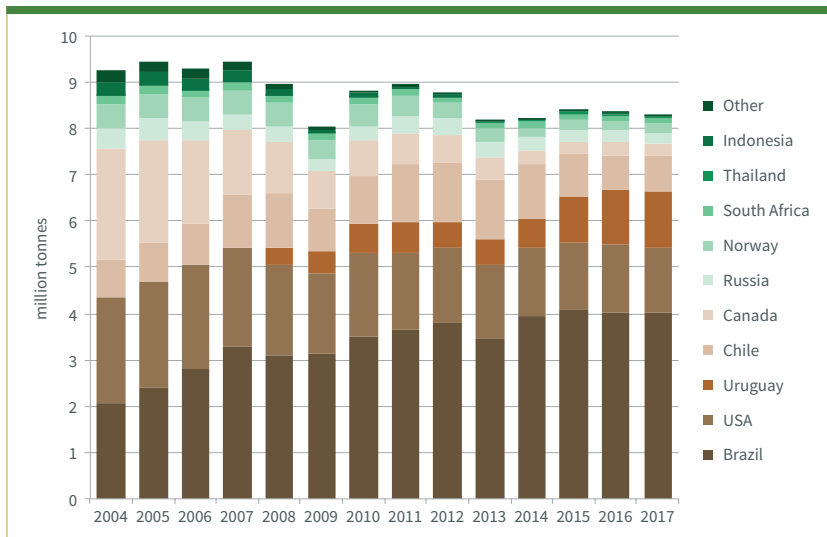
There are many reasons for the continuing dominance of domestic manufacturers in the European wood furniture sector. Although labour costs are quite high in Europe relative to China and South East Asia, furniture manufacturers in the EU are making a virtue of their



shorter supply chains which not only reduce transport costs but also allow products to be delivered more rapidly.

The large investment by Western European furniture manufacturers in Eastern European countries, particularly since their accession into the EU from 2004, is now maturing. From being principally production satellites for large western European brands, Eastern European manufacturers are now developing their own identity and market momentum.

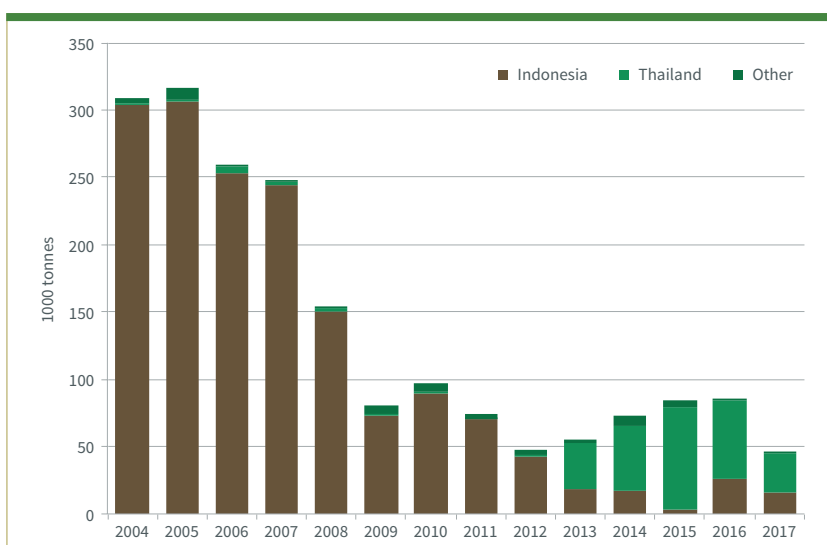
Increasingly advanced computer-controlled and automated manufacturing has also benefited European producers, boosting their productivity, cutting overheads and reducing the relative labour cost advantages of competitors, such as those in the Far East.



The relative high degree of fragmentation in the European retailing sector tends to complicate market access for overseas suppliers who are often reliant on agents and lack direct access to information on fashions and other market trends. The progressive migration of European furniture sales online is also tending to favour local manufacturers better placed to meet the short lead times demanded by internet retailers and consumers.

6.14 VPA partners in EU pulp supply

Eurostat data shows that, after five years of decline, wood pulp supply to the EU increased 1.3% to 43.9 million MT in 2016. Pulp production increased 1.7% to 35.5 million MT, with production of mechanical pulp rising 0.6% to 8.3 million MT and chemical pulp rising 2% to 27.3 million MT. Data from the Confederation of European Paper Industries (CEPI) indicates that pulp production increased a further 2.2% in 2017, again with stronger growth in production of chemical pulp than mechanical pulp.



The rise in pulp production in 2016 and 2017 was driven both by improved EU demand, particularly in the packaging sector, and investment in new capacity. The trend toward greater use of chemical wood pulp is driven by the need for greater strength as European papermakers are blending more less costly and weaker mechanical pulps and recycled paper fibres into the furnish they use to make paper (Figure 6.14.1).

EU imports of wood pulp, consisting almost exclusively of chemical pulp, declined 1.2% to 8.3 million MT in 2017, following a 0.2% fall the previous year. Imports accounted for 18.4% of total EU pulp supply in 2017, down from 19.1% in 2017.

Imports are almost all from South and North America, with a negligible volume from the tropics. Brazil's pulp supplies are derived from plantations mostly located in sub-tropical regions of the country. Brazil's share of EU wood pulp imports was 48.5% in 2017, up from 48.1% the previous year. The share of Uruguay increased from 14.1% in 2016 to 14.9% in 2017. US share declined from 17.3% to 17.1% and Canada's share fell from 3.6% to 3.2%. The rise in share of Uruguay and Brazil at the expense of the US and Canada in 2017 continues a long-term shift from supplies in North to South America (Figure 6.14.2).

Indonesia and Thailand are the only tropical countries supplying pulp to the EU and the volumes involved are extremely low. EU pulp imports from Indonesia, consisting entirely of chemical hardwood pulp, declined 37% to 16,000 MT in 2017 after a short-lived recovery the previous year. Indonesia's pulpwood plantations consist primarily of *Acacia mangium* with smaller quantities of *Acacia crassicarpa*, *Gmelina arborea* and *Eucalyptus deglupta*.

Pulp imports from Thailand fell 51% to 28,000 MT in 2017. Thailand's pulpwood plantations comprise mainly *Eucalyptus camaldulensis* (Figure 6.14.3).

In 2017, the EU's export of wood pulp to VPA partner countries exceeded imports from those countries. In total, the EU exported 247,000 MT of wood pulp to VPA partners in 2017, 16% less than in 2016. 165,000 MT were destined for Indonesia and 53,000 MT for Thailand.

The EU's total exports of wood pulp, mainly comprising softwood chemical product, have been rising in recent years, from 3.48 million MT in 2015 to 4.44 million MT in 2017, with over half this volume destined for China. Indonesia is currently the EU's fourth largest wood pulp export destination after China, Turkey and India.

6.15 VPA partners in EU paper supply

After a period of stagnation, according to CEPI, European paper and board production increased by 1.5% from 90.0 million MT in 2016 to 92.3 million MT in 2017. New capacity and upgrades more than compensated for closures during the year. CEPI suggest that paper production measured

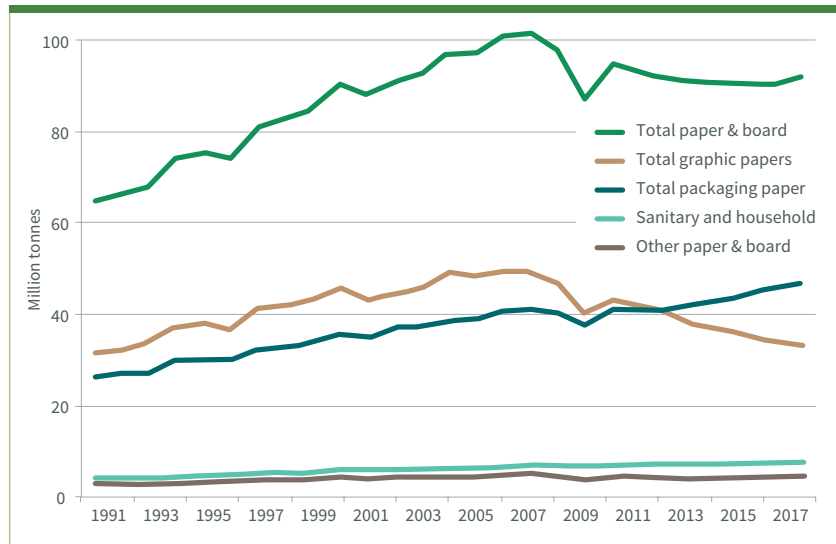


Figure 6.15.1: Production of paper and board in CEPI member countries, 1991 to 2017 Source: Confederation of European Paper Industries (CEPI)

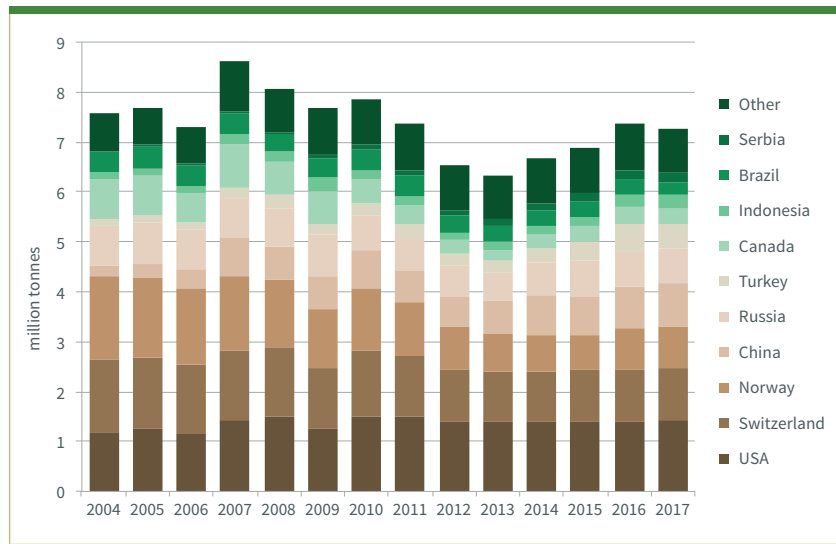


Figure 6.15.2: EU imports of paper, by main supply country, 2004 to 2016 Source: ITTO IMM analysis of Eurostat COMEXT

in MT under-estimates the actual level of market improvement in recent years due to the ongoing trend towards light-weighting in response to efforts to improve resource efficiency in the sector. CEPI also highlight significant changes in the composition of products manufactured in the EU (Figure 6.15.1).

According to CEPI, the divergence in European production trends of graphic grades against packaging grades continued in 2017. A slow decline in the production of graphic grades was mirrored by growth in the output of packaging grades.

Packaging grades accounted for 51.2% of total European paper and board production in 2017, up from 50.2% in 2016. In the packaging sector, production growth was strongest in case materials (mainly used for transport packaging and corrugated boxes), followed by carton board, with only s

⁴⁰ Woodfree paper is created exclusively from chemical pulp rather than mechanical pulp. Although chemical pulp is usually derived from wood, most of the lignin is removed and separated from the cellulose fibres during processing and therefore the paper is described as woodfree.

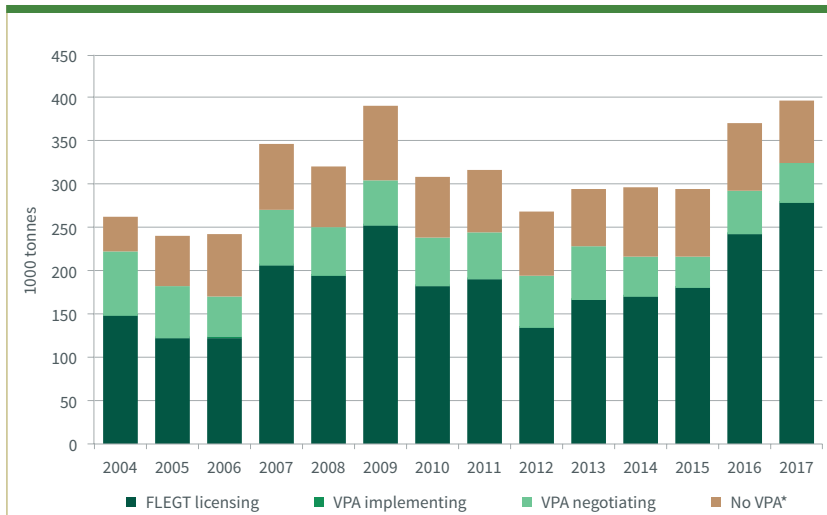


Figure 6.15.3: EU imports of paper from tropical countries, by VPA status 2004 to 2016 Source: ITTO IMM analysis of Eurostat COMEXT

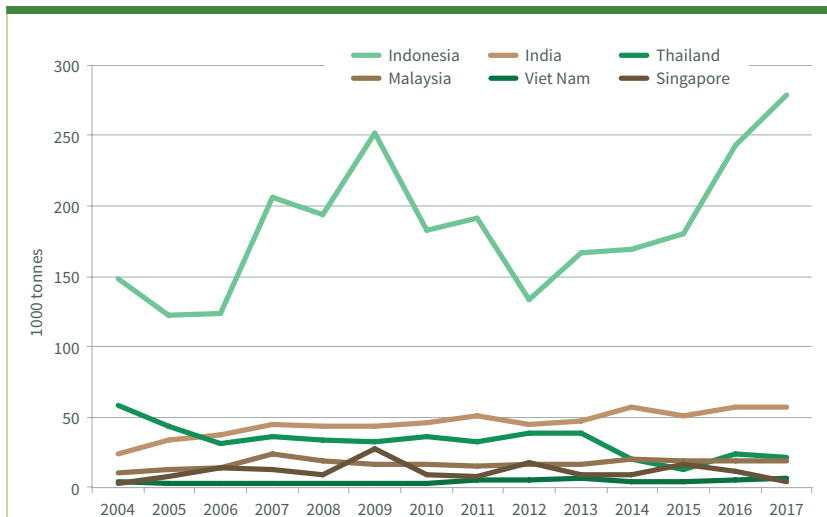


Figure 6.15.4: EU imports of paper from main tropical countries, 2004 to 2016 Source: ITTO IMM analysis of Eurostat COMEXT

slow growth in wrapping grades (used for paper bags production).

Graphic grades accounted for 36.2% of total European paper and board production in 2017, down from 37.3% in 2016. Within the graphics sector, production of higher quality coated woodfree⁴⁰ paper (for magazines, catalogues and similar) was rising slowly, but this was offset by larger falls in production of uncoated office papers and newsprint.

Sanitary and household manufacturers' output is estimated by CEPI to have increased by about 1.1% in 2017 compared to 2016 and accounted for 8.0% of total production, the same proportion as the previous year. Output of all other grades of paper and board - mainly for industrial and special purposes - increased by 2.5% in 2017 when they accounted for 4.6% of total production, up from 4.5% in 2016.

Following a 7% increase the previous year, imports of paper products to the EU declined 2% from 738 million

MT in 2016 to 7.27 million MT in 2017. The decline in imports in 2017 was mainly driven by a 21% fall from Brazil, a 12% fall from Canada, a 7% fall from Turkey, and a 2% decline from Russia. Imports from the largest external supply countries - the USA, Switzerland, Norway, and China - were either stable or slightly rising in 2017 (Figure 6.15.2).

EU paper product imports from tropical countries increased 7% in 2017, but at 397,000 MT represented just 5.5% of total imports (5% in 2016) and 0.4% of total paper supply to the EU (0.4% in 2016). EU imports from all VPA partner countries increased 11% to 325,000 MT in 2017 (Figure 6.15.3).

The trend in EU imports of paper products from tropical countries is driven primarily by Indonesia, by far the largest supplier amongst tropical countries. EU imports from Indonesia increased 14% from 244,000 MT in 2016 to 279,000 MT in 2017, exceeding the previous peak of 252,000 MT in 2009.

In 2017, Indonesia accounted for 70% of all paper products imported by the EU from tropical countries, up from 66% in 2016. Products imported from Indonesia consist primarily of uncoated papers for writing and printing, together with kaolin-coated papers for a variety of printing applications.

The only other tropical countries supplying non-negligible quantities of paper to the EU are India, Thailand, Malaysia, Viet Nam and Singapore (the latter most likely re-exports from other Asian countries). In 2017, EU imports of paper were stable from India (57,000 MT) and Malaysia (19,000 MT). EU paper imports declined 13% to

21,000 MT from Thailand and 70% from Singapore to 4,000 MT. EU imports from Viet Nam increased 33% to 7,000 MT. (Figure 6.15.4).

As in the pulp sector, EU paper exports to VPA partner countries exceeded imports in 2017, although the volumes involved were still quite limited. In 2017, the EU exported 791,000 MT of paper to VPA partner countries, 6% more than the previous year. The EU exported paper to all VPA partner countries, although the majority went to Malaysia (199,000 MT), Thailand (156,000 MT), Indonesia (145,000 MT), and Côte d'Ivoire (98,000 MT).

The rise in EU exports to VPA partner countries in 2017 forms part of wider rise in exports to non-EU countries. Total EU exports outside the EU increased 8% to 19.6 million MT in 2017, with particularly large gains in exports to USA (+6% to 2.2 million MT), Turkey (+9% to 1.8 million MT), Russia (+6% to 1.11 million MT), China (+37% to 951,000 MT) and India (+18% to 744,000 MT).

7 Implementation of the EU Timber Regulation

7.1 Overview

Consistent enforcement of the EU Timber Regulation was frequently mentioned during IMM European surveys as a means to provide an immediate and effective market advantage for FLEGT-licensed timber. Indonesian trade and government representatives also expressed interest in progress made in EUTR implementation and enforcement during IMM visits to the country and during the Indonesia trade survey.

In the first half of 2018, the EC⁴¹ and UNEP/WCMC⁴² produced reports that in combination with IMM 2017 survey results allow for an update of the preliminary assessment of the impact of the EUTR in previous IMM reports (ITTO/IMM 2015&2017).

Overall, both the EC Biennial Report as well as IMM surveys identify significant progress in EU-wide EUTR implementation since 2015. However, various shortcomings, notably unequal levels of EUTR enforcement and penalties were still flagged up by private sector respondents. IMM surveys also suggest that in a number of countries a certain level of uncertainty remains among private sector players regarding the specific actions required to demonstrate compliance with EUTR due diligence requirements. Nonetheless, the underlying message is largely positive.

There is widespread support for EUTR in the private sector, recognition that it is an appropriate response to the challenges of illegal timber trade, and evidence that it is extending more responsible sourcing policies in the EU and altering operators' behaviour. The fact that the UK has decided to incorporate the EUTR and FLEGT-licensing rules in its statutes post-Brexit also indicates that the Regulation is considered an appropriate tool for supporting legal timber and forest industries.

The following sections look in more detail into the state of play of EUTR implementation against the IMM set of indicators.

7.2 Application of EUTR compliant due diligence systems by operators in MS

According to the EC's March 2015-February 2017 Biennial Report, all reporting countries (EU MS + Norway) provided details regarding the designated Competent Authorities, the range of penalties for potential infringements of the EUTR and have started checks on operators.

Figure 7.2.1 shows that most MS carried out a significant number of checks on operators. The table also indicates that in a number of countries the focus of checks was placed on domestic timber, which reflects the importance of domestically-produced timber for EU markets. However,

Country	Type of timber	Pln. Desk	Perf. Desk	Pln. Doc	Perf. Doc	Pln. Prod	Perf. Prod	Pln. Comb	Perf. Comb	Total planned	Total performed	Ratio
Austria	domestic		133		424		141		165	979	863	88%
	imported		6		17				5	50	28	56%
Belgium	domestic											
	imported		3		14				2		19	[100%]
Bulgaria	domestic	141	180	100	144	14	40	355	361	610	725	119%
	imported	7	4	9	11			32	26	48	41	85%
Croatia	domestic											
	imported							46	46	5	46	920%
Cyprus	domestic							62	64	124	130	105%
	imported				15			44	31	92	106	115%
Czech Republic	domestic							113	119	113	119	105%
	imported							70	68	70	68	97%

Figure 7.2.1: Number of different types of checks planned and performed by countries Source: COM 2018

⁴¹ EC: Report from the EC to the European Parliament and The Council. Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market (EU Timber Regulation), Biennial Report for the period March 2015-February 2017. (COM 2018)

⁴² UNEP/WCMC: Background analysis of the 2015-2017 national biennial reports on the implementation of the European Union's Timber Regulation (UNEP/WCMC 2018)

Country	Type of timber	Pln. Desk	Perf. Desk	Pln. Doc	Perf. Doc	Pln. Prod	Perf. Prod	Pln. Comb	Perf. Comb	Total planned	Total performed	Ratio
Denmark	domestic			1							1	[100%]
	imported			58	9					24-40	58	145%
Estonia	domestic							1135	794	1135	794	70%
	imported			20	15					20	15	75%
Finland	domestic							20	20	20	20	100%
	imported							30	32	30	32	107%
France	domestic							30	30	30	30	100%
	imported							320	171	320	320	100%
Germany	domestic											
	imported	1	1	190	190			118	118	309	309	100%
Greece	domestic	62	40	26	52			149	117	237	209	88%
	imported	4	2	3	4	1	1	78	66	86	73	85%
Hungary	domestic	2000	3950	10	15	10	10	10	10	2010	3965	197%
	imported	50		10	25	10	25	10	25	60	25	42%
Ireland	domestic											***
	imported	318	318	20	20			20	20	358*	358*	100%*
Italy	domestic							53	53	53	53	100%
	imported							107	107	107	107	100%
Latvia	domestic											
	imported		2	20	19			4	3	24	24	100%
Lithuania	domestic			8	8			52	7256	60	7264	12107%
	imported			155	227					155	227	147%
Luxembourg	domestic	13			12					13	12	92%
	imported	17	17							17	17	100%
Malta	domestic											
	imported	9	9							9	9	100%
Netherlands	domestic											
	imported							100	62	100	74**	74%
Norway	domestic			24	30					24	30	125%
	imported		3		5			10	15	10	23	230%
Poland	domestic			25	25			9	9	45	45	100%
	imported			49	49			13	13	73	73	100%
Portugal	domestic								152		152	
	imported							77****	166	77****	166	413%****
Romania	domestic	1593	599		104	1133	230	866;118	402	3759	1492	40%
	imported	24	19			12	31	45	9	126	79	63%
Slovakia	domestic							1200	1328	1200	1328	111%
	imported											
Slovenia	domestic		356		38				20	400	424	106%
	imported			26	29					26	29	112%
Spain	domestic		26		1				38	75	65	87%
	imported		170						47	425	217	51%
Sweden	domestic			14	14					14	14	100%
	imported	5	9	66	62					71	71	100%
United Kingdom	domestic											
	imported	55						184	184	184	184	100%

for IMM the inspections referring to timber imported from non-EU countries are particularly relevant, which is why only checks on operators importing timber in the EU will be looked at in the following analysis.

Of the seven key countries monitored by IMM, Belgium, France, Germany, Italy, and the UK fully met their targets in terms of checks on operators importing timber from outside the EU between March 2015 and February 2017 (Table 1). Spain reached 51% of its target and the Netherlands 74%. However, targets varied greatly. Belgium, for example, while reaching its target, still only inspected 19 companies in the reporting period. This was deemed insufficient by the EC, which launched legal action against the country for not enforcing the EUTR properly in October 2017.

France checked on 320 companies importing timber, Germany 309, Italy 107, Spain 217, the UK 184 and the Netherlands 74.

The CAs in most key countries have since kept up the high frequency of checks; more timely information about EUTR enforcement than in the Biennial Reports can be found in UNEP/WCMC's bimonthly EUTR Briefing Notes and the overview of Competent Authority EUTR checks published on a six-monthly basis.^{43,44}

The number of checks in relation to the number of cases where subsequent enforcement action was initiated may give an idea of the level and quality of EUTR due diligence systems applied by operators. However, such figures should be read with caution, given that the quality of checks may vary from country to country.

Figure 7.2.2 shows the number of checks on operators importing timber in the seven key countries and enforcement action related to Due Diligence obligations initiated as a result between March 2015 and February 2017.

Germany, Netherlands and the UK – countries that had started EUTR enforcement almost immediately after the Regulation entered into application in March 2013 and where checks are demanding and carried out by well qualified staff as a rule, according to the IMM 2017 survey – all continued to conduct significant numbers of checks on operators between March 2015 and February 2017. The CAs also initiated a significant number of enforcement actions: Germany in around 39% of all cases, Netherlands in 41% and the UK in 42%.

This does not necessarily mean that the timber sectors in these three countries have a particularly low performance with regards to EUTR due diligence. In fact, it is more likely an indicator of a combination of in-depth checks and the CAs focussing not only on high-risk products but also on high-risk operators, meaning also smaller operators, importers of composite products and companies that do not belong to the core timber trade, but deal in products containing wood only as a component, such as furniture or tools, for example. In Germany, for example, a supply chain specialist stated that the CA's approach was extremely rigid and showing little room for auditor's judgement. The Authority would, for example, insist on fully documented

supply chains also for "waste" timber such as rubber and mango wood or MDF made of poplar or softwoods, even with an official wood analysis confirming "low risk" species. As such, it would be difficult for importers of composite products or furniture to pass CA audits.

Moreover, according to anecdotal evidence collected as a part of IMM 2017 surveys and 2015 pilot research, awareness of the EUTR and related Due Diligence obligations tends to be lower outside the core timber trade, which in a number of MS had started preparing for the EUTR well before 2013.

Major tropical timber importers in Germany, the Netherlands and the UK interviewed as a part of the IMM 2017 trade survey showed a comparatively high level of satisfaction with the work of their CAs, with the majority stating that the Authorities had reached a high level of competence and were cooperating relatively closely with the private sector. Given that the IMM trade survey covered operators importing between 40% and 65% (depending on the product group) of tropical wood products in the Netherlands, about 80% in the UK and 50-60% in Germany (details in Annex 2), this is another indicator that the "big players" in Dutch, German and UK tropical timber trade have functioning due diligence systems in place and that the countries' CAs are making progress on also ensuring non-core sector and small-company EUTR compliance.

In France, Italy, and Spain EUTR enforcement only started during the reporting period of the EC's second Biennial Report. However, all three countries checked on a significant number of operators between March 2015 and February 2017. Italy carried out a major reform of *Corpo Forestale*, its Competent Authority, which had a major impact on the country's inspection capacity.

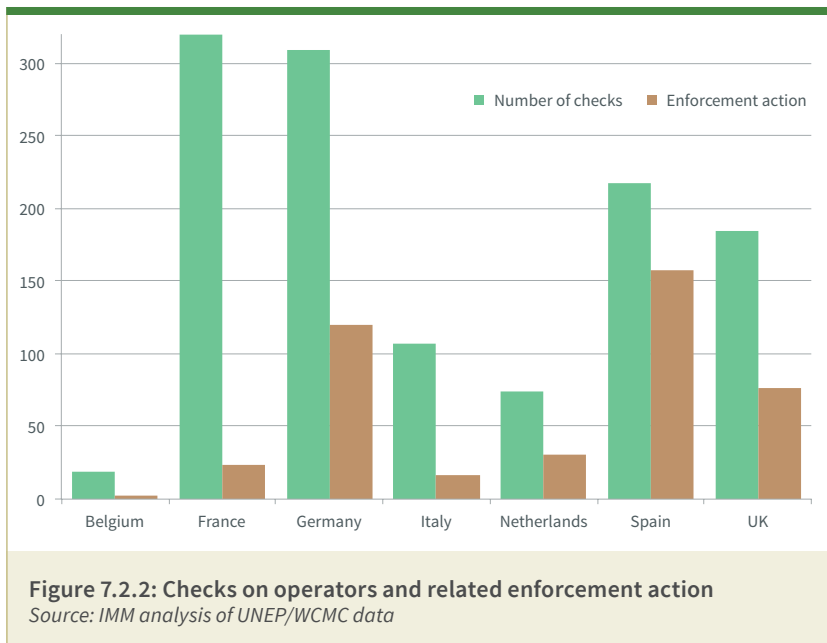
The comparatively low number of enforcement actions in France and Italy can likely be attributed to an unofficial "grace period" granted by the CAs in the early days of enforcement. Operators that need to refine certain aspects of their due diligence system are granted a short period of time to fill the gaps. Enforcement action is only initiated in cases where operators fail to implement the requested improvements.

In Spain, the number of checks (217) and enforcement actions (157, 72% of checks) were both high; the central CA for EUTR enforcement said Spanish authorities were not granting a grace period. However, of the 157 enforcement actions reported to the EC, 150 were under the category of "other action", which, according to the central CA, means that operators were merely asked to have another look at their due diligence system and make sure it was fully compliant, but no particular changes were requested and no fines or other penalties were imposed. This strategy indicates a certain level of insecurity on both sides, as the CA apparently had mixed feelings about the due diligence systems but was unable to point out any specific shortcomings.

In all three countries – France, Italy, and Spain – comments from IMM survey respondents suggest that a number of

⁴³ https://www.unep-wcmc.org/system/dataset_file_fields/files/000/000/519/original/Overview_of_CA_checks_June-Nov2017_FINAL_30_04_2018.pdf?1525181749

⁴⁴ <https://www.unep-wcmc.org/resources-and-data>



companies are still struggling with the concept of EUTR due diligence. Several survey respondents stated, for example, that they were aware of their due diligence obligations and were “collecting documents”. At the same time, however, they also voiced doubts about the benefit of collecting such documents and called for improved guidance.

The idea that “collecting documentation” – without a clear concept of how these documents could contribute to risk assessment and/or mitigation – would be enough to satisfy due diligence requirements, was one of the most frequently heard misconceptions about EUTR due diligence during the course of the survey. Another one was that CAs were believed to be mistaken or staff “showing limited understanding of certification systems” when not accepting FSC certification as an alternative to conducting due diligence.

Overall, the EC’s Biennial Report, UNEP/WCMCs Background Analysis and IMM surveys all suggest that significant progress has been made in EUTR implementation and enforcement in six of the seven countries monitored by IMM between 2015 and 2017. The vast majority of larger operators in these countries can be expected to have due diligence systems in place – although they may not yet always be fully compliant with EUTR requirements.

Belgium – against which, as mentioned above, the EC has initiated infringement proceedings – has to be considered separately. The limited number of checks (19) and enforcement actions (2) over a period of two years as well as the CAs lack of knowledge of data on the number of operators or a structured approach for future checks, as reported in the EC’s Biennial Report, indicate a very low level of priority given to EUTR enforcement in the period between 2015 and 2017. At the same time, FLEGT awareness among key players in the Belgian tropical timber trade is high, according to the IMM trade survey, and judging by comments made by companies during the

IMM survey the indications are that a majority of large importers of tropical timber products have functioning due diligence systems in place.⁴⁵ Several of these companies also voiced criticism of the enforcement situation in Belgium and felt they were being put at a competitive disadvantage as no pressure would be applied on non-compliant actors to set up (costly and time-consuming) due diligence procedures.

EU import statistics show that Belgium has emerged as by far the largest importer of tropical sawn hardwood in the EU (see section 6.4), which makes it particularly important that the country enforces the EUTR for several reasons:

- Belgium is the single largest point of entry for tropical timber in the EU; the country acts as a major distribution hub.

- As the EUTR is more strictly enforced throughout the EU, more small importers are likely to withdraw from importing directly and will look to other European players for supply. Should Belgium gain a reputation as a potential EUTR loophole, this may incentivise less compliant companies to become more active there.
- Having a key country in the European tropical timber importing business reputed an EUTR loophole will have a negative impact on the image of tropical timber in general – and reputational/image risks were already named as one of the main factors putting pressure on European demand for tropical timber in IMM surveys and Trade Consultations.

As mentioned above, the EC has responded to shortcomings in EUTR enforcement by issuing a letter of formal notice to Belgium. The Belgian authorities have responded quickly to the opening of proceedings by raising the number of staff dedicated to EUTR enforcement and significantly increasing the number of checks in 2018. The IMM report for 2018 will feature an update on the enforcement situation in Belgium.

7.3 Sanctions imposed on/prosecution of non-compliant operators

According to the EC’s Biennial Report 2015-2017, all countries have now established penalties for potential infringements of the EUTR. These range from notices of remedial action (21 countries), seizure of timber (19 countries) and fines (25 countries) to imprisonment. The bandwidth of fines is very broad, ranging from as little as €14 to unlimited fines (Figure 7.3.1).

According to the Biennial Report “for the majority of countries reporting on comparable legislation (...) fines

⁴⁵ Most respondents to IMM’s survey of Belgium importers in 2017, which targeted the largest importers of solid tropical timber, stated that their EUTR due diligence systems had been checked and were found compliant by the CA. The IMM trade survey also revealed that awareness of FLEGT was almost as high in Belgium as in the UK, the Netherlands or Germany. Furthermore, it is notable that large Belgian companies surveyed by IMM were actively calling for effective, nation-wide EUTR enforcement, suggesting confidence in their own level of compliance.

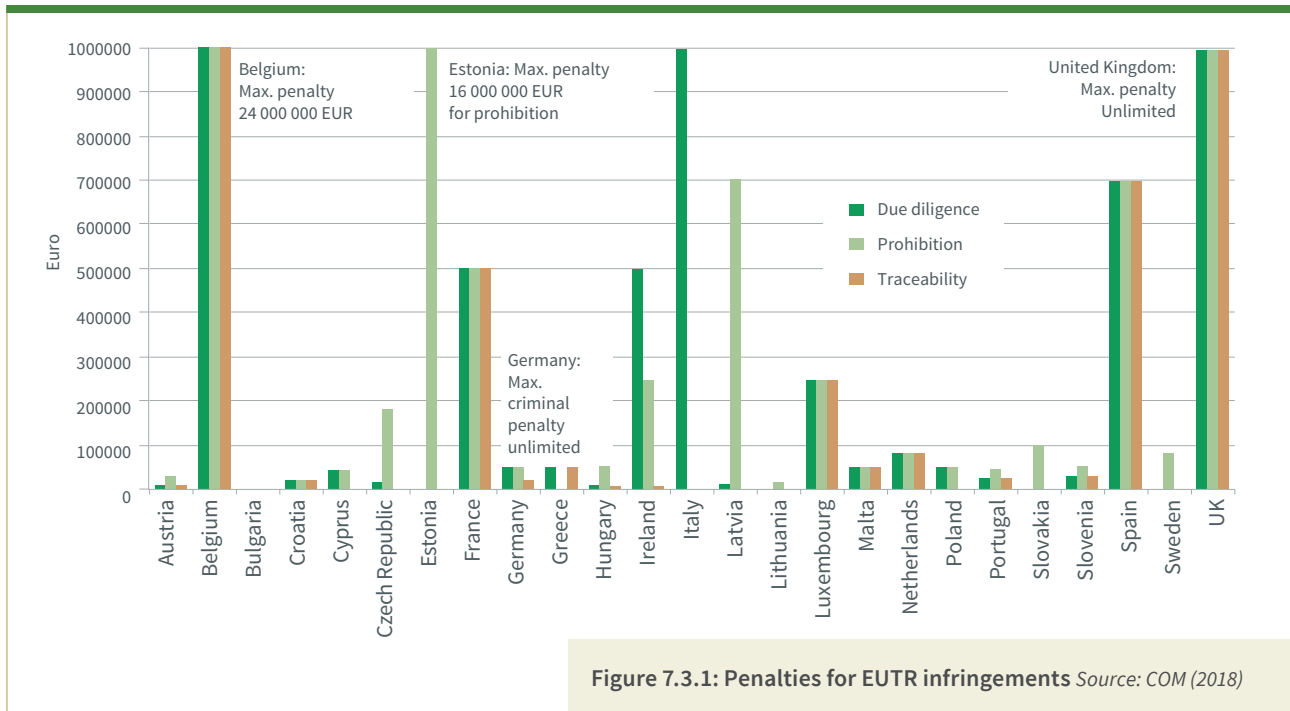


Figure 7.3.1: Penalties for EUTR infringements Source: COM (2018)

that can be imposed for comparable legal offences are of a similar level to those imposed for violations of the EUTR”.

According to UNEP/WCMC’s Background Analysis (UNEP/WCMC 2018), 185 penalties were issued for imported timber between March 2015 and February 2017. Most of the sanctions were imposed in the UK (77) and Denmark (28), followed by Germany, where only 4 cases had been completed at the time but another 23 were pending. Romania (17) and Italy (16) also recorded a significant number of penalties. Information on the most recent penalties can be found in UNEP/WCMC’s Briefing Notes.⁴⁶

7.4 Recognition that FLEGT-licensed timber requires no further due diligence

The IMM 2017 surveys of trading companies, associations, Monitoring Organisations and government agencies confirmed a clear understanding by interviewees that FLEGT-licensed timber covered by a valid FLEGT licence does not require any further due diligence. However, the scope of the 2017 survey was limited to companies currently engaged, or likely to be engaged in the Indonesian trade, with a focus on secondary processed wood products. Future IMM surveys will establish whether this recognition has been adequately communicated to a wider range of operators, including those that may not already be engaged in Indonesian trade. Widespread recognition that the due diligence obligations of EUTR do not extend to licensed timber may encourage more EU operators to trade in this timber, including those that are currently reluctant to import any timber products due to the costs and potential uncertainties associated with EUTR compliance.

7.5 Perceptions of EUTR impact

The majority of companies and organisations that shared statements on the EUTR during the IMM 2017 surveys or the first two IMM Trade Consultations welcomed the more

stringent and widespread EUTR enforcement as a step in the right direction. It was felt that progress had been made by 2017 in creating a level playing field – even though further improvements were still frequently called for.

On the positive side, some EUTR compliant players reportedly benefitted from companies withdrawing from direct importing either completely or from certain countries due to EUTR due diligence being enforced in their countries. These companies now tend to focus on distribution within Europe and are purchasing timber from other importers or agents or only in countries where they feel they are familiar enough with suppliers and circumstances to guarantee negligible risk of illegality.

On the other hand, some market players felt that the EUTR and related legal and reputational risks tended to have a negative impact on overall tropical timber consumption in Europe. Some said companies would focus more on substitute products to avoid risking EUTR infringements or negative press.

Moreover, it was felt that the negative connotation of the Regulation’s objective to “combat illegal logging and associated trade in illegal timber” might contribute to reinforcing prejudice against and the negative image of tropical timber. During the IMM trade consultation in London it was suggested that a more positive approach highlighting aspects such as support of legal forestry and good forest management practices, supporting and ensuring trade in legal (and sustainable) tropical timber, contribution of tropical timber trade to protecting tropical forests and climate change mitigation – would be helpful.

Regarding EUTR and FLEGT-licensing, a number of survey respondents emphasised that further improvements in and harmonisation of EUTR enforcement would be necessary for the “green lane” advantage of FLEGT-licensed timber to come to full effect.

⁴⁶ <https://www.unep-wcmc.org/resources-and-data/>

Perception of FLEGT VPAs in the EU

Image and perception was identified as an important factor impacting on trade in tropical wood and wood products in the EU during the IMM 2017 trade survey and the first two IMM Trade Consultations. Both produced evidence that the FLEGT VPA initiative has some potential to support changing the negative image of tropical timber. However, the view was also that the current impact was likely limited.

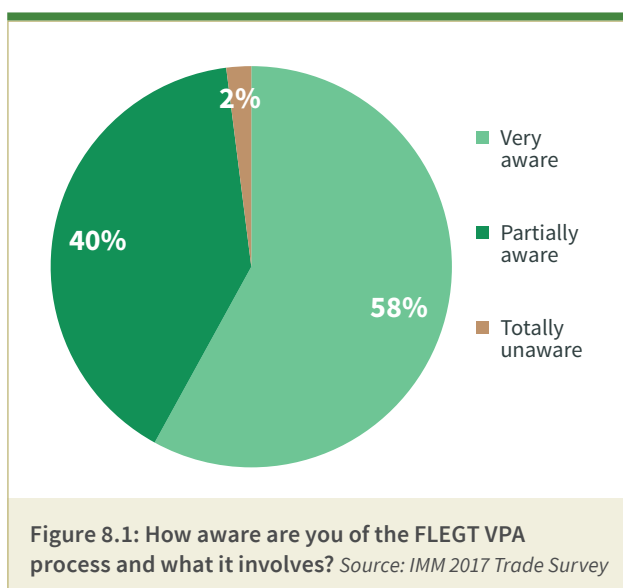
It was felt, for example, that licensing currently was not well suited to overcoming environmental prejudices as ‘sensitive’ sections of the EU market are already conditioned to favour FSC and/or PEFC certified forest products. There is also no consumer awareness of FLEGT licensing and even in the timber trade it was thought there is widespread belief that licensing is “legality verification” only and there is little understanding of wider governance reforms it entails.

The following sections will look in more detail at EU perception of FLEGT VPAs against the IMM set of indicators.

8.1 Awareness of FLEGT VPAs within the EU timber trading chain

As a part of the IMM 2017 trade survey, respondents were asked to rate their level of awareness of the FLEGT VPA process and what it involves. Survey respondents included importers, manufacturers and retailers. Even though 89% of them acted as operators as defined by the EUTR only 58% felt they were fully aware of the FLEGT process and what it involves; 2% said they were totally unaware (*Figure 8.1*).

Moreover, when IMM discussed the Indonesian and Ghana VPAs in more detail with trade representatives during the IMM Trade Consultation in London, even operators who had believed to be fully aware of the VPA process found that in fact their knowledge was more limited than they had previously thought. And, according to anecdotal reports from IMM survey respondents, awareness is much lower further down the supply chain.



More detail on awareness of FLEGT VPAs among the EU trade can be found in Annex 2 of this report.

Overall, the recommendation by IMM survey respondents and Trade Consultation participants was the FLEGT VPA process should be better communicated and communications would need to reach relevant audiences such as commercial users of tropical timber and, as far as possible, consumers.

8.2 Number of positive, negative and neutral media references to FLEGT VPAs

IMM has started monitoring media coverage of the FLEGT VPA process, the EUTR and more generally of forest law enforcement and forestry practices in VPA partner countries through a media monitoring service from mid-2018. Starting from July 2018, there will be a monthly analysis of media coverage on the IMM website.

The media monitoring programme enables retroactive analysis back to June 2017 and takes both print and all types of online/social media into account. IMM has split monitoring into three different topics:

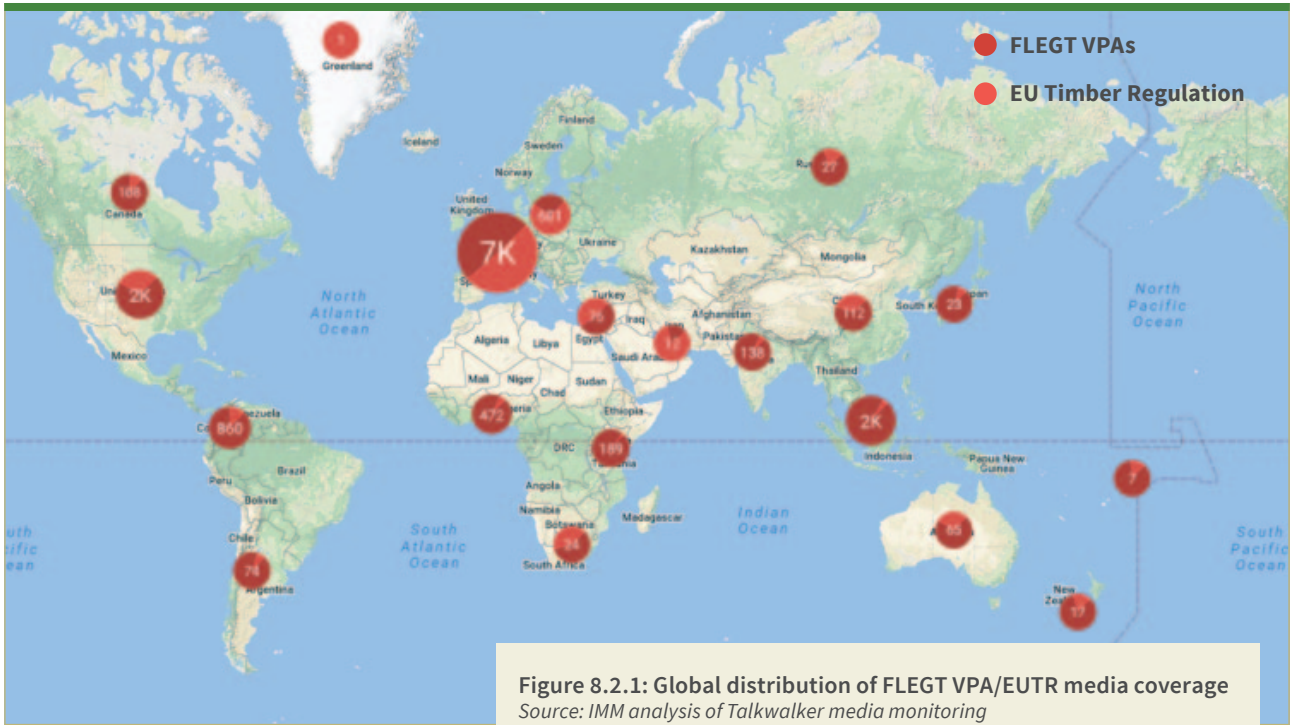
- FLEGT VPAs;** keywords: “Voluntary Partnership Agreement”, “FLEGT VPA”, “FLEGT”, “Forest Law Enforcement, Governance and Trade”
- EU Timber Regulation;** keywords: “EUTR” and “EU Timber Regulation”
- FLEGT Independent Market Monitoring;** keywords: “FLEGT Independent Market Monitoring”, “FLEGT IMM”, “Voluntary Partnership Agreement”, “FLEGT VPA”, “FLEGT”, “Forest Law Enforcement, Governance and Trade”, “Timber Legality Licensing”, “International Tropical Timber Organization”, “EUTR” and “EU Timber Regulation”, “illegal logging”, “illegal timber”, “sustainable forestry and tropical”, “forest certification”.

The third search is primarily used for daily press clipping. For this year’s retroactive analysis of FLEGT VPA media coverage, Topic 1 and 2 were taken into account. The period covered is June 2017 to May 2018.

The monitoring programme recorded around 13,300 media references for both topics together over the reporting period, of which 8,500 were accounted for by FLEGT VPAs and 4,800 by EUTR. *Figure 8.2.1* shows the global distribution of media coverage. The bulk (around 7,000 references) were registered in Europe, followed by Indonesia with 2,000 hits.

Within Europe, references were relatively evenly distributed between EUTR and FLEGT VPAs, with EUTR receiving slightly more coverage, whereas in most other regions and countries the map shows that more attention was given to FLEGT VPAs.

When it comes to media “sentiment” i.e. positive, negative and neutral references, the analysis shows that FLEGT VPAs received a slightly more positive/neutral coverage than EUTR (Charts 8.2.2 and 8.2.3). Overall, sentiment



expressed by media references regarding FLEGT VPAs was largely neutral. 12% of media references were assigned a positive connotation and 10% a negative one by the monitoring programme.

When it comes to EUTR, sentiment was negative in around 16% and positive in 11% of the references.

A closer look at the automatic assignments of references reveals that the monitoring programme tends to assign too many references to the “neutral” category. However, as this is true for both negative and positive references the proportions for positive and negative should tend in the right direction.

A comparison with FSC (Figure 8.2.4), which judging by IMM survey responses seems to be widely considered an equivalent of responsible and sustainable sourcing, shows a significantly more positive overall sentiment of media references.

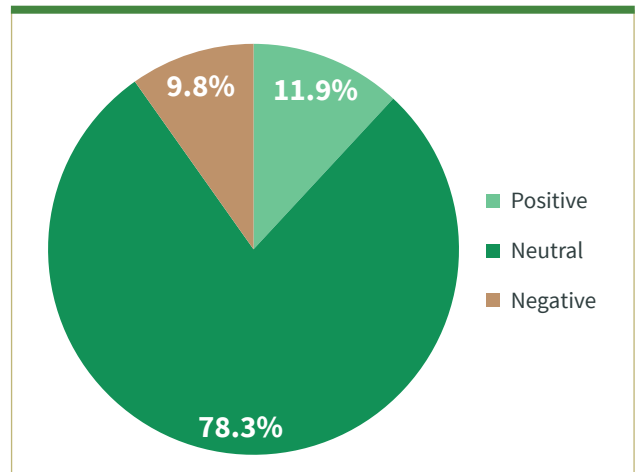


Figure 8.2.3: VPA share of media sentiment
 Source: IMM analysis of Talkwalker media monitoring

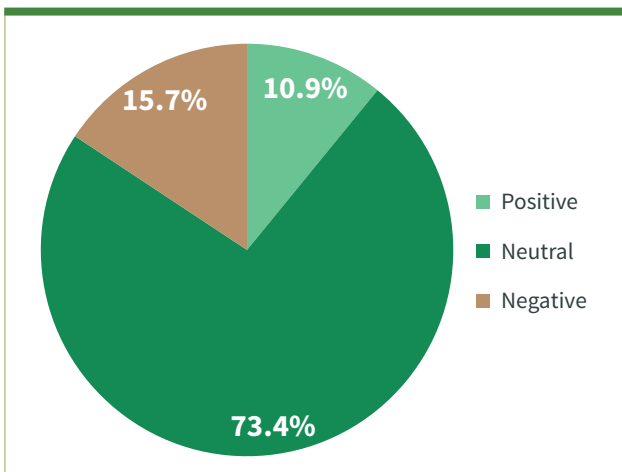


Figure 8.2.2: EUTR share of media sentiment
 Source: IMM analysis of Talkwalker media monitoring

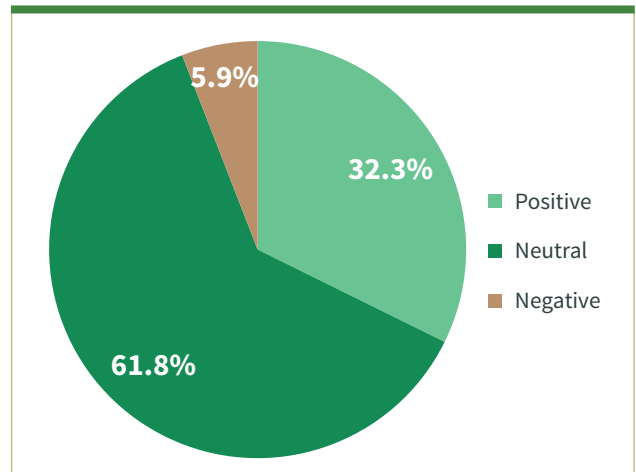


Figure 8.2.4 FSC share of media reference sentiment
 Source: IMM analysis of Talkwalker media monitoring

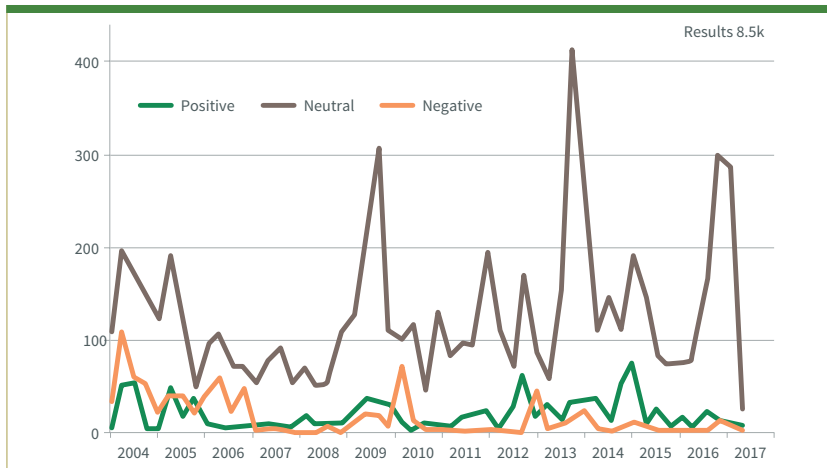


Figure 8.2.5: FLEGT VPA – sentiment over time
 Source: IMM analysis of Talkwalker media monitoring

Figure 8.2.5 shows spikes in media coverage for FLEGT VPAs in July 2017, the end of November 2017 and two more in April and May 2018. Coverage at the end of November/early December 2017 primarily celebrated the first anniversary of FLEGT-licensing in Indonesia. The spike in April/May 2018 was related to the Africa Climate Week as well as the release of several reports including by Client Earth and FAO, among other things. Interestingly, the anniversary of Indonesian licensing seems to have brought about more controversial media coverage than the latter events.

The relatively strong and controversial media interest in FLEGT VPAs in June/July 2017 was driven by Indonesian media. The main topics of these reports were meetings between Indonesian and various European politicians and mentioned the Indonesian VPA only as a side note.

An analysis of the most relevant global “influencers” regarding EUTR and FLEGT VPAs shows not only who is driving the discussion but also the main sentiments expressed by the different stakeholders. Figure 8.2.6 shows that FAO as well as a range of NGOs dominated coverage of FLEGT VPAs during the reporting period. In terms of private sector engagement, the UK Timber Trade Federation played a leading role.

As for EUTR, the Twitter account of @EUTimberRegulat played a leading role in driving communications in the reporting period, followed by European NGOs, PEFC, once more the UK Timber Trade Federation and FORDAQ as a trade and media platform.

Overall, FLEGT VPAs and the EUTR seem to have quite a significant media presence, but a look at the type of influencers involved reveals that media commentary, especially on FLEGT VPAs is very much public sector and NGO driven.

Influencers	Posts	Sentiment	Reach	Reach per mention	Engagement	Engagement per mention
FAO Forestry @FAOForestry	125 ▲ 12.4%		5.2M ▲ 13.7%	41.4K ▲ 10.2%	3.6K ▲ 11.4%	28.4 ▲ 8.4%
TTF Team @TimberTradeFed	96		311.8K	3.2K	225	2.3
Info Papua @infopapuan	65		437.8K	6.7K	0	0
CIFOR @CIFOR	53		2.1M	39.6K	184	3.5
Fem @Fem_NGO	51		173.9K	3.4K	182	3.6
CIFOR (Bahasa) @CIFOR_hutan	44		213.7K	4.9K	46	1
FAO Forestry. flickr.com	43		0	0	0	0
SoyForestal @SoyForestal	42		92.3K	2.2K	10	0.2
FAO Brussels @FAOBrussels	38 ▲ 3.7%		33.8K ▲ 6%	889.9 ▲ 60.3%	0	0
CIFOR, flickr.com	37		0	0	0	0

Figure 8.2.6: Top influencers FLEGT VPA⁴⁷ Source: IMM analysis of Talkwalker media monitoring

Influencers	Posts	Sentiment	Reach	Reach per mention	Engagement	Engagement per mention
EU Timber Regulation @EUTimberRegulat	262		322.5K	1.2K	0	0
Miguel Ángel Soto @NanquiSoto	96		351K	3.7K	383	4
NEPCoN @NEPCoN_	56		52.3K	933.9	212	3.8
ClientEarth Forests @Forests_CE	54		60.5K	1.1K	140	2.6
TTF Team @TimberTradeFed	52		167.6K	3.2K	100	1.9
product, fordaq.com	24		3.3M	138.8K	0	0
PEFC España @PEFCSpain	22		74.6K	3.4K	126	5.7
Eduardo Rojas Brule @EdRojasBr	22		20.8K	943.5	2	0.1
product, bois, fordaq.com	21		967.7K	46.1K	0	0
Valida fino a, legno, fordaq.com	21		91.2K	4.3K	0	0

Figure 8.2.7: Top influencers EUTR Source: IMM analysis of Talkwalker media monitoring

⁴⁷ IMM sent an inquiry to Talkwalker and asked the organisation to look into reasons for the apparently 100% negative sentiment expressed FAO Forestry Flickr.com

FLEGT-licensed timber in EU wood promotion

Improved communication and promotion were flagged by IMM surveys and during the first two Trade Consultations as key elements of market success for tropical timber in general and FLEGT-licensed timber in particular. A number of recommendations made by IMM survey respondents and Trade Consultation participants centre on this issue.

IMM will establish a baseline for future reporting against the IMM set of indicators under the headline “Support for FLEGT-licensed timber in EU Wood Promotion Campaigns” with a scoping study to be carried out during the course of 2018 and early 2019. This present report will initially merely look at two major programmes the IMM has been liaising with since April 2017.

Probably the largest pan-European programme promoting the use of sustainable tropical timber is the Sustainable Tropical Timber Coalition (STTC). A recent STTC report estimating the market share of “verified sustainable” tropical timber in Europe⁴⁸ mentions FLEGT VPAs and FLEGT-licensed timber “as an important tool for promoting sustainable forest management”.

The report makes several mentions of FLEGT-licensed timber. It describes FLEGT as “a powerful instrument in improving forest governance in FLEGT VPA countries and in promoting sustainable timber trade” and recommends a “combination of certified operators and a FLEGT-based legal system” as “the best assurance for sustainable forest management”.

At the same time, however, the report also emphasises “an urgent need for a concerted message to the market to avoid FLEGT-licensed material substituting certified tropical timber”. Similar concerns had been voiced by a number of IMM survey respondents – especially in the Netherlands – in 2017. In the absence of official trade data on certified tropical timber, which would allow for direct monitoring of trends and potentially attribution of changes to FLEGT-licensing, IMM has developed a method to estimate of the level of “exposure to certification and legality verification” of EU timber imports⁴⁹ to look into potential impacts of FLEGT-licensing on private certification schemes. The 2017 analysis will be updated and improved later in 2018, with input from certification schemes.

Another major organisation when it comes to tropical timber marketing in Europe, the Association Technique Internationale des Bois Tropicaux (ATIBT), has recently launched a new promotion programme “Fair & Precious – Much More than Timber” that also specifically aims to promote the use of sustainable tropical timber.⁵⁰ The campaign wants to raise consumer awareness and will be developed over five years. ATIBT presented the programme during a joint event organised by IMM and ATIBT in Nantes, France in May 2018.⁵¹ When the concept was devised, ATIBT had not been considering whether FLEGT-licensed timber was to have an explicit role. However, the organisation says it will now consider if and how FLEGT-licensed timber should be recognised.

There are a number of other European wood promotion campaigns, some specifically dedicated to tropical timber and some to timber in general, which IMM will examine in detail in the upcoming scoping study.

Overall, the initial look at the two major initiatives considered above as well as feedback from IMM survey respondents and Trade Consultations indicates that tropical timber promotion in Europe today highlights primarily aspects of “sustainability” and links the use of tropical timber to topics like preservation of tropical forests, protection of livelihoods and community rights or climate change mitigation.

As such, a need was established for explaining and raising awareness among the wider European trade and industry of where FLEGT VPAs stand in terms of contribution towards environmental, social, and economic sustainability. The focus on the general concept of “legality”, without creating understanding of what legality in connection with FLEGT VPAs means and the wider governance reforms it entails, was identified as a major weakness. Several respondents to the IMM 2017 survey and participants in Trade Consultations very clearly said that it was impossible to promote “legality” alone when marketing wood products.

⁴⁸ How sustainable are Europe’s Tropical Timber Imports (IDH/STTC 2018). Authors: Marc van Benthem, Jasprina Kremers, Jan Oldenburger, Nienke Stam, Nienke Sleurink.

⁴⁹ ITTO/IMM 2017 http://www.flegtim.eu/images/2015_report/VPA_Partners_In_EU_Timber_Trade_2014_to_2016_IMM_Main_Report_Final.pdf

⁵⁰ <http://www.fair-and-precious.org/en/>

⁵¹ <http://www.flegtim.eu/index.php/newsletter/flegt-market-news/63-brand-new-backing-for-tropical-timber>

FLEGT and voluntary private sector timber procurement policies

10.1 Overview

Since the early 1990s the private sector has been taking steps to ensure that they exclude unsustainable and illegal wood from their supply chains. Corporate procurement policies are now more prominent in developed countries and among companies with global reach. With time, these purchasing practices are becoming more and more integrated in corporate business practices and contained within a larger sustainability and/or corporate responsibility policy covering several other aspects.⁵²

Of the 126 companies participating in the IMM 2017 trade survey, 102 respondents answered the question whether their company had implemented a responsible sourcing policy with standards that go beyond mandatory requirements of the EU Timber Regulation.

28% of respondents or 29 companies replied with “no”, unfortunately frequently without specifying whether “no” meant that their company had no formal procurement policy in place or whether it meant they did have a policy, but with a focus on timber legality and EUTR compliance.

Of the 72% or 73 companies stating they did have a policy with additional standards, most made a commitment of preferring FSC certification – and in a smaller number of cases alternatively PEFC or other schemes – over uncertified wood. A number of companies has committed to increasing the proportion of certified wood in its imports on an annual basis, with various companies aiming to achieve 100% certified.

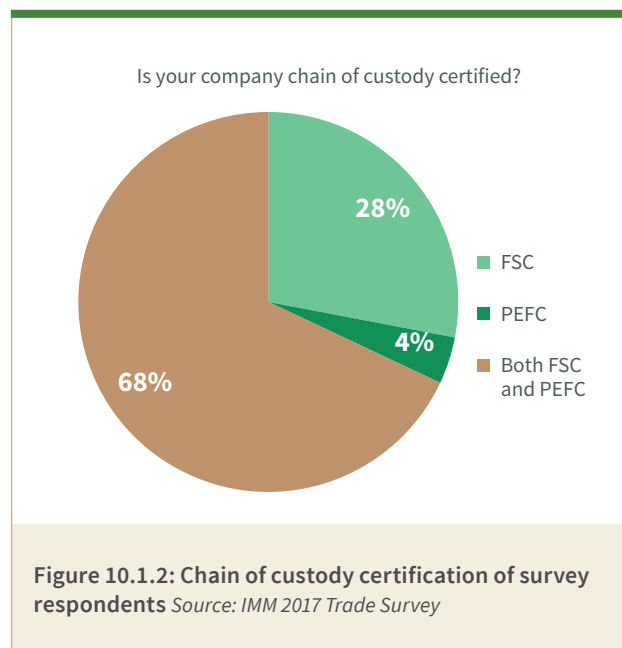
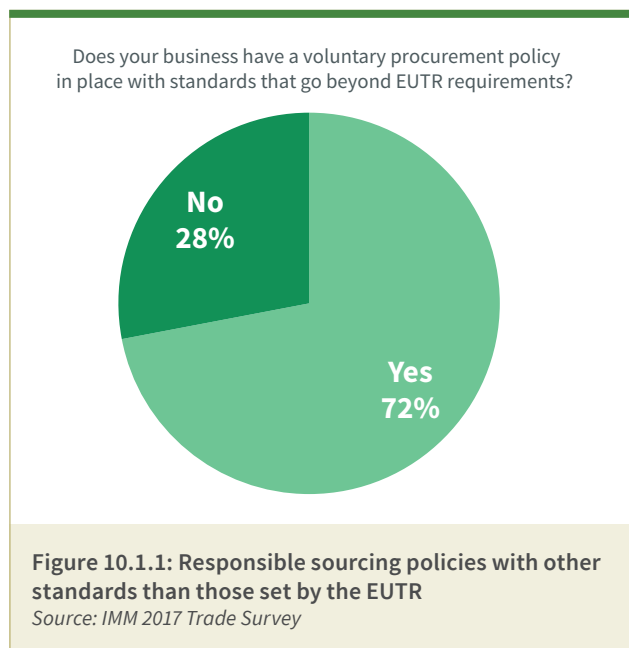
A small number of large companies stated they had separate “environmental” and “responsible sourcing policies” in place. Several companies signed up to policies advocated by timber trade associations or to the WWF’s Forest Campaign for sustainable sourcing.⁵³

103 of the 126 trade survey respondents were chain of custody certified by either FSC (29 companies, 28%), PEFC (4 companies, 4%) or both schemes (70 companies, 68%).

10.2 Role of FLEGT-licensed timber in private sector procurement

The IMM 2017 trade survey did not ask whether FLEGT-licensed timber was having any specific role in companies’ procurement policies, given that licensed timber had only recently been introduced to the market at the time the survey was conducted. However, the IMM 2018 trade survey will consider the role of FLEGT-licensed timber in these policies.

This issue was also considered in a survey of European furniture organisations undertaken in the first half of 2018 as part of an IMM EU Furniture Sector Scoping study. Furniture consistently accounts for about 40% of EU imports of timber and timber product from VPA partner countries. There is also some overlap in the EU retailing sector between distributors of furniture and other timber products (particularly DIY stores selling both garden furniture and building products), implying the results have relevance to the wider EU market for FLEGT-licensed products.



⁵² Forest Legality Alliance (2015) Sourcing legally produced wood - A Guide for Businesses. Edited by Ruth Nogueroñ and Loretta Cheung

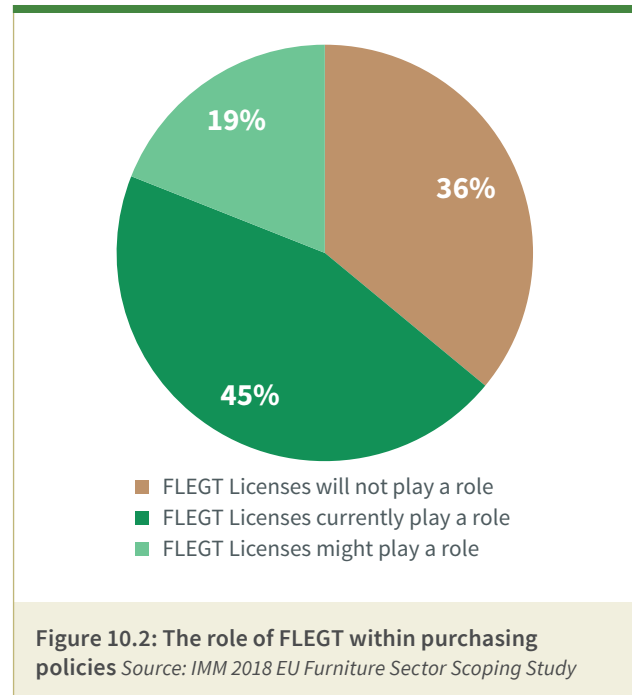
⁵³ http://assets.wwf.org.uk/downloads/wwf_business_and_economic_case_report.pdf?_ga=2.30128119.959103884.1530262650-805286774.1530262650

⁵⁴ ITTO/IMM European Union Furniture Sector Scoping Study. Main Report. Author: George White. (ITTO/IMM 2018)

Interviewees of the IMM Furniture Sector Scoping Study were asked about the role FLEGT-licensed timber currently plays, or might in the future play, within their purchasing policy or purchasing decisions. 45% responded positively, stating that FLEGT-licensed products are already traded or that their purchasing is geared towards such licensed material where it is available. 19% responded that they would view licensed material favourably if it was available also from other countries. 36% of respondents stated that licensed timber currently does not feature and that it will not feature in their purchasing decisions. Generally, the interviewees were positive in outlook towards FLEGT-licensed materials (Figure 10.2).

Moreover, according to a short survey conducted among the participants of the IMM Trade Consultation in London in March 2018, several companies are now planning to look actively into sustainability credentials of FLEGT-licensed timber and where it might fit within their existing procurement policy.

IMM will examine the current and potential role of FLEGT-licensed timber in private sector timber procurement policies with a special study to be conducted later in 2018/early 2019.



11 EU Member States public procurement policies

According to the IMM's 2017 surveys of CAs and government agencies as well as information gathered during IMM Trade Consultations, most key EU countries monitored by IMM had adopted some sort of green public procurement policy for timber and timber products by 2017. Spain has developed and is expecting to start implementing such a policy in the foreseeable future. In France, the IMM country correspondent was still working on obtaining information on the state of play at the time this report was published.

In the countries that have adopted a procurement policy, these policies are either based on a catalogue of criteria or they provide for only certified timber to be used in public projects.

11.1 State of play in key EU countries monitored by IMM

Of the seven key countries for tropical timber imports in the EU, the UK is currently the only one to recognise FLEGT-licensed timber as proof of legality and sustainability in its timber public procurement policy. Outside the group of countries monitored by IMM, Luxembourg also accepts FLEGT as proof of legality and sustainability. A number of other member states with policies aiming at sustainability but without detailed definitions, including Austria, Finland and Lithuania, also list FLEGT licences as acceptable means of verification.

The current situation in six of the seven key countries is summarised below:

- In the UK, FLEGT-licensed timber, like FSC and PEFC, is considered evidence of legality and sustainability, with the latter due to the SFM credentials of the Indonesian FLEGT VPA timber legality assurance system. Its TPP status is detailed on the Department of Environment (Defra) website, with more active communication to suppliers/contractors currently being 'scoped'. During the IMM Trade Consultation in London, the UK Timber Trade Federation expressed interest in working with Defra on spreading the message.
- In Italy FLEGT licensing is not referenced in Ministry of Environment Minimum Environmental Criteria (MEC) for public procurement, which lists only FSC, PEFC and "comparable" certificates as evidence of sustainable sourcing. The key factor seems to be lack of chain of custody (CoC) behind FLEGT-licensed timber to track it once it has been placed on the EU market.
- In Belgium there is reported to be little reflection on whether FLEGT-licensed timber products should be accepted under public procurement criteria. The Belgian government's efforts currently focus more on supporting increasing the share of timber certified by private certification schemes through an agreement between the Belgian Ministry of Environment and the private sector, which stipulates that signatories will increase the share of certified timber imports every year.



- In Germany, only FSC and PEFC, or “comparable” certificates are currently accepted as proof of sustainability in federal TPP. NGO opposition and lack of chain of custody are seen as potential obstacles to altering this position, but there is discussion on the topic with a view to possibly also recognising FLEGT in the future. However, currently not all of the four ministries involved in developing the procurement policies seem to be in favour of including FLEGT.
- In the Netherlands, there is some debate among government agencies on inclusion of FLEGT licensing in TPP and currently it is not. Given that a large proportion of the timber market is estimated to be certified sustainable and the public and private sector debate is moving on from sustainable sourcing to such topics as low carbon and the circular economy, there also seems to be little appetite to address the issue.

In Spain a green public procurement policy has been developed under a 2015–2018 action plan. The policy is expected to enter into force soon. For timber and timber products, it accepts FSC/PEFC or “equivalent” certification as proof of legality and sustainability. FLEGT-licensed timber is recognised as proof of legality, but not sustainability.

The French IMM correspondent was still waiting to receive information on the situation in his country at the time this report was published. IMM has so far also been unable

to obtain statistical information on amounts and types of tropical timber and timber products used in public projects in EU countries. However, during the IMM Trade Consultation in London it became apparent that irrespective of the direct relevance of the public sector as a tropical timber consumer, government recognition of FLEGT-licensed timber as evidence of legality and sustainability is a significant reputational benefit.

One solution suggested at the Trade Consultation for supporting increased recognition of FLEGT-licensed timber was communicating the extent to which FLEGT VPAs timber legality assurance systems extend beyond legality and meet key sustainability criteria. There was a recommendation too to establish a European-wide procurement-monitoring group looking at uptake of sustainably certified and FLEGT-licensed timber in the public sector. Backing FLEGT-licensed products with CoC, for example, based on the ISO standard, and introducing a FLEGT licence brand were also discussed as options.

Other ideas included undertaking ‘reduced scope’ procurement monitoring case studies centred on procurement and use of FLEGT-licensed timber and wood products. These, it was suggested could be: product level, focused on a particular product category, such as timber for marine work; project level, involving, for

instance, a specific construction project; or company level, working with a specific retailer, architect or other business on procurement.

Another route forward was considered to be for the EU to advise member states to include FLEGT licensing in their TPPs in some capacity.

11.1.1 European Commission guidance relevant to FLEGT in public procurement

The EU FLEGT Action Plan encourages EU member states to adopt public procurement policies to promote legal timber. As part of its efforts to promote the adoption of such policies, the European Commission has developed voluntary common EU green procurement policy criteria, including for timber-based products such as paper, construction timber, wall panels and furniture. Legal origin of the timber is a core criterion and the guidelines explicitly mention the FLEGT licence as one way to comply with this criterion.

In 2016, an independent evaluation of the EU FLEGT Action Plan reported that 22 EU member states have developed timber public procurement policies. These policies vary in scope and approaches. However, FLEGT licences are generally considered as proof of legality. Some member states (Denmark, Luxembourg and the United Kingdom) also consider FLEGT licences as documenting ‘sustainable’ timber sources.

Recommendations

12.1 Recommendations for future IMM monitoring

In 2017, IMM has started to significantly widen the scope of its survey work and its information sources, drawing on experience from the 2015 scoping studies and four years of trade statistics analysis. The following recommendations are made for future monitoring:

- The IMM dashboards, which currently make cleaned EU COMEXT trade flow data regularly and easily accessible on the IMM website, will be further improved and expanded to include other data sources and types relevant to allow effective and accurate assessment of FLEGT market impacts. This has been a significant focus of recent IMM work and will remain a focus for the foreseeable future.
- The 2017 studies confirmed the impression from 2015 that information on market conditions and on corporate and other organisation attitudes to FLEGT licensing is best acquired using semi-structured interviews undertaken by national correspondents using a standard, but flexible template, prepared centrally by IMM. This approach will be continued.
- IMM will continue to work with the network of country correspondents in existing key countries; the network will be further expanded as more VPA partner countries approach the licensing stage.
- IMM country correspondents will make a continuous effort to capture all types of operators – large and small – while at the same time covering a significant proportion of their countries' tropical timber trade.
- The 2017 studies identified several key sectors for consumption of tropical timber in Europe as well as several key issues potentially impacting on demand for FLEGT-licensed timber. IMM will commission special studies to look into these sectors and issues in more detail. A first study of the EU furniture sector has been completed in the first half of 2018.
- Taking a closer look at FLEGT impact on investment flows has been identified as a priority, particularly given that the EU has diminished in relative importance as a market for tropical timber products. IMM will commission a special study later in 2018/early 2019 to establish a baseline for future monitoring.
- There are still significant gaps in existing statistical data limiting the ability of IMM to reliably assess the trade and competitiveness impact of FLEGT licensing. For example, there is no data on the actual volume of trade in timber, which is independently certified or legally verified through non-VPA mechanisms, and a need for more reliable indices of forest governance risk in non-VPA supplying countries. IMM needs to continue liaison with relevant agencies, including the certification bodies, with the aim to improve data quality and develop methodology.

- IMM will continue its efforts to improve the quality of trade flow data by analysing both supply side and consumer side data.
- There is on-going need for IMM to maintain strong links with other agencies engaged in FLEGT work – most notably EFI, FAO and UNEP/WCMC – as well as agencies doing related work – such as Chatham House or STTC – to avoid duplication and improve the flow of information.
- The first two IMM Trade Consultations proved to be a useful tool for direct dialogue and information exchange with the private sector. IMM will continue to organise Trade Consultations in the second half of 2018 and in 2019. The concept will be fine-tuned for future events with an even stronger focus on the workshop aspect and fewer presentations.

12.2 Recommendations for FLEGT licence market development

Drawing on contacts and interviews with a wide range of interests in government, industry and civil society during IMM activities in 2017, the following observations are made with respect to future strategies for market development of FLEGT-licensed timber. Some of the recommendations were already made in the 2016 IMM report but are mentioned again as they remain valid:

- Targeted communication was again identified as a priority:
 - As implementation of a VPA stretches over a fairly long period of time, there should be more information about the different stages and the transformative processes in countries and local timber sectors. Such information should be presented in an accessible way, ideally in the form of tools for operators to use in business-to-business dialogue and, in the case of implementing countries, as tools for risk assessment and mitigation in EUTR due diligence.
 - Communication materials should appeal to and reach a broad target audience in the EU, including retailers, architects and specifiers, for example, and not just operators.
 - Against the backdrop of European tropical timber promotion as well as companies' procurement policies focusing on "sustainability", a need was established for explaining and raising awareness among the wider European trade and industry of where FLEGT VPAs stand in terms of contribution towards environmental, social, and economic sustainability. The focus on "legality", without creating understanding of what this means in the context of FLEGT VPAs, was identified as a major weakness. A gap analysis between the Indonesian SVLK/PHPL and FSC and/or PEFC might be useful. This should be placed in the wider context of a debate on how sustainable management of forest resources can be best achieved in tropical countries.



- FLEGT-licensed timber only being available from one country was identified as a factor significantly limiting its market traction. A wider geographic spread would make licensed timber more relevant and help establishing it on the market. Completion of VPA implementation, especially in key supplier countries such as Cameroon or Viet Nam, for example, should be a priority.
- EU efforts to ensure consistent and effective enforcement of EUTR provide the most immediate, and likely most effective, market advantage for FLEGT-licensed timber and should continue to be prioritised. In a number of countries, the private sector would benefit from improved guidance for complying with EUTR due diligence.
- IMM surveys identified correlation between the quality of Competent Authority-private sector relationships and FLEGT awareness as well as ease of dealing with licensed timber import procedures. Competent Authorities should reach out to the private sector as much as possible.

- Administrative procedures for importing FLEGT-licensed timber were mostly felt to be straightforward in standard cases. However, FLEGT licence mismatches were repeatedly mentioned as creating administrative burden. The EC and Indonesia should continue to invest in resolving the differences in HS Code application as a matter of priority. Moreover, awareness-raising in Indonesia regarding problems caused by volume/weight/unit number mismatches should continue.
- The main point of criticism raised by operators regarding standard procedures for importing licensed timber was that the process was not fully electronic. The government of Indonesia is already looking into the feasibility of e-licensing and making it possible would help maximising the green lane benefit of FLEGT-licensed timber.
- Indonesian authorities seem to be aware of only a part of licence mismatches registered by EU MS. LIU was working from the assumption of mismatches occurring in less than 1% of cases in 2017, according to data presented at the March 2018 JIC, whereas data collected by UNEP/WCMC suggest a proportion in the range of 5%. CAs should make sure to flag licence mismatches to Indonesian authorities to help them communicate the magnitude of the problem to the Indonesian private sector.
- Some EU MS are imposing fees for processing FLEGT licences. While not currently considered a significant market barrier, they were felt to send a negative message to the market. Abandoning such fees would help maximise the benefit of FLEGT-licensing.
- Market development for licensed timber would benefit from more widespread acceptance of FLEGT licensed timber as evidence of both “legality” and “sustainability” in EU member state public procurement policies, recognising the wider governance reforms required for licensing. Public sector policies are important not only for their direct influence over government procurement but also for the signal they send out to the wider market.
- The FLEGT licence is a credible endorsement and an essential underpinning for market development in the EU, but is unlikely to deliver significant or sustained increases in market share in isolation. Imported timber products, not just from the tropics, are struggling to compete with domestic suppliers and non-wood substitutes in the EU. All actors need to avoid raising expectations of immediate market gains in what is better presented as a long- term process of market transformation. FLEGT partners also need to consider how FLEGT licences fit within their broader timber industry and export development strategy.
- The Indonesian timber industry might benefit from a targeted promotion programme for their licensed wood products and their VPA in the EU.
- The private sector both in VPA Partner countries and in the EU needs to be actively engaged in the positive market development of FLEGT-licensed timber. Timber trade federations, for example, could play a leading role and have already started doing so in some countries.

Annex 1: Summary of Ghana 2017 Report

The IMM Correspondent for Ghana undertook a scoping study to assess the market situation for Ghanaian timber products in 2015, to provide a baseline for assessment of future impacts of FLEGT licensing. The scoping study was updated in 2017; the follow-up included analysis of timber production and trade data alongside a survey of Ghanaian government agencies, civil society organisations and timber industry representatives.

The 2017 report shows significant progress in VPA implementation over 2015. Most importantly, Ghana passed new legislation on Timber Resource Management and Legality Licensing (LI 2254) in November 2017. The law will regulate “the identification of land and conditions for the grant of timber rights as well as providing for a legality licensing scheme”. With the new legislation in place, the Final Joint Assessment of the Ghana VPA was put out for tender and is to begin in May 2018.

Furthermore, Ghana and the EU field-tested shipment procedures for FLEGT-licensed timber from Ghana to Europe in 2017. The test showed that the Ghanaian system works well in principle, even though some administrative processes need fine-tuning. In March 2018, the Forestry Commission launched an Action Plan to address all issues raised from the test.

Capacity-bottlenecks in Ghana’s Internet infrastructure, which affected flawless functioning of the Ghana Timber Legality Assurance (GhLas) and Wood Tracking Systems (WTS), were also removed by the end of 2017. The electronic version of the WTS is now fully rolled out and online, real-time wood tracking has been enabled since February 2018.

An IMM survey conducted in Ghana in 2017 showed that most respondents from all stakeholder groups (trade/industry, government and civil society) are in principle supportive of the VPA process. The majority of respondents believed that VPA implementation has a positive impact on forest governance and management, controlling illegal logging, forest revenue mobilisation, as well as transparency and accountability.

When it comes to private sector engagement in the VPA process, the Correspondent identified contrasting attitudes between large exporters and smaller enterprises supplying primarily the domestic market. Exporting companies were found to be generally supportive and saw the VPA as a way to address illegal logging, improve efficiency and promote sustainable forest management. Those companies also perceived “green lane” access to the EU market as a considerable benefit. On the other hand, smaller companies and informal businesses serving the domestic market would be more concerned about raw material availability, increased production costs, and skills and capacity needed to comply with the new systems.

Especially where smaller businesses are concerned, the Report sees a need for further capacity building.

Government agencies and civil society organisations perceived VPA implementation as an opportunity for domestic market reform. The Report emphasises the importance of domestic market reform as a part of VPA implementation. Roughly 600,000 m³/year would be traded on the domestic market, which is significantly more than the volume of exports in 2017 (379,000m³). Numerous chainsaw logging and lumber operations would still account for more than 80% of timber traded on the domestic market. The number of large, exporting companies, by contrast, is limited; the Report suggests that export sales are mostly handled by five major companies.

Both industry and civil society organisations believe that addressing timber supply problems of companies supplying the domestic market will be crucial for successfully halting illegal logging. The Government of Ghana has therefore included a provision for small-scale Timber Utilisation Contracts in LI 2254, which is to give small companies access to legal timber rights.

Key challenges in terms of forest resources and industrial capacities identified by the 2015 scoping study persisted in 2017 – not only for small, informal players but also for industrial-scale companies: availability of the most desirable wood species such as sapele, odum/iroko or wawa has fallen considerably due to past over-exploitation and their being substituted with Lesser Known Species (LKTS) is only partly able to fill this gap – especially in business with Europe, where acceptance of LKTS is relatively low.

The Report suggests that the shortage in commercially valued species entails further competitive disadvantages such as underutilisation of plant capacity and increased costs of sourcing materials over long distances. Private sector respondents to the IMM survey raised the question as to whether FLEGT-licensing would give them a competitive advantage as long as other issues affecting competitiveness – primarily the shortage of raw materials – would not be resolved. Against this background, they also called for improved promotion of LKTS, which now account for a large proportion of Ghana’s timber harvest.

Ghana’s timber exports continued to decline significantly, by 16% in value and 15% in volume, in 2017. The fall in exports was to practically all countries and regions and occurred at a time of generally rising global demand. It is thus likely that the trend was due to supply-side factors.

The Government of Ghana has launched several activities to secure long-term timber supply including development of forest plantations on degraded forestland. Trade associations and trade groups are promoting the idea of timber imports, for example from Liberia.

⁵⁵ <http://www.flegtim.eu/index.php/64-resources/newsletters/no-1-winter-2017-18/17-vpa-implementation-in-ghana-on-the-home-stretch>

⁵⁶ <http://www.flegtim.eu/index.php/newsletter/flegt-policy-news/48-final-joint-assessment-of-ghana-vpa-to-start-in-may>

⁵⁷ <http://www.flegtim.eu/index.php/newsletter/flegt-policy-news/46-ghana-demonstrated-an-impressive-technical-capacity-says-shipment-test-report>

⁵⁸ <http://www.flegtim.eu/index.php/64-resources/newsletters/no-1-winter-2017-18/18-imm-survey-of-ghanaian-industry-confirms-flegt-improves-governance>

Expanding plantation area is mentioned by the Report as one of the main fields of recent investment in the Ghanaian timber sector. Other investments would include technology – primarily software – and human resources for compliance with the GhLas and the WTS as well as investment in private sector forest management and chain-of-custody certification, primarily FSC.

A number of foreign countries have invested in/supported the Ghanaian wood sector over the last decade. The investments include developing aid for industry capacity building and commercial investment for plantation development. The

largest international donors/investors in the decade 2005–2015 were Denmark and China, according to the Ghana Investment Promotion Centre (GIPC). Danish money was primarily invested in developing fuel wood production in Ghana, which may explain the one-time spike in fuel wood exports from Ghana to Denmark in 2014, whereas Chinese investments primarily went into developing production capacities. Other major investors/donors were India, South Korea and the UK.

IMM will look into forest sector investment and potential FLEGT impacts on this area in a detailed study in 2018/early 2019.

Annex 2: European scoping studies

A2

A2.1 Methodology and sample

In 2017, the European IMM team undertook scoping studies in seven key countries accounting for more than 90% of EU imports from VPA partner countries. In the Germany, Spain, and the United Kingdom (UK) these studies built on pilot research conducted in 2015. At the same time, the IMM network was expanded to include Belgium, France, Italy, and the Netherlands.

The scoping studies covered the private sector as well as government agencies. Results were collected in an online survey tool. However, in the majority of cases respondents did not fill in the survey alone but were guided through the process by the IMM country correspondents. This approach allowed for discussion of comments and gave IMM much more detailed insights than simply analysing responses.

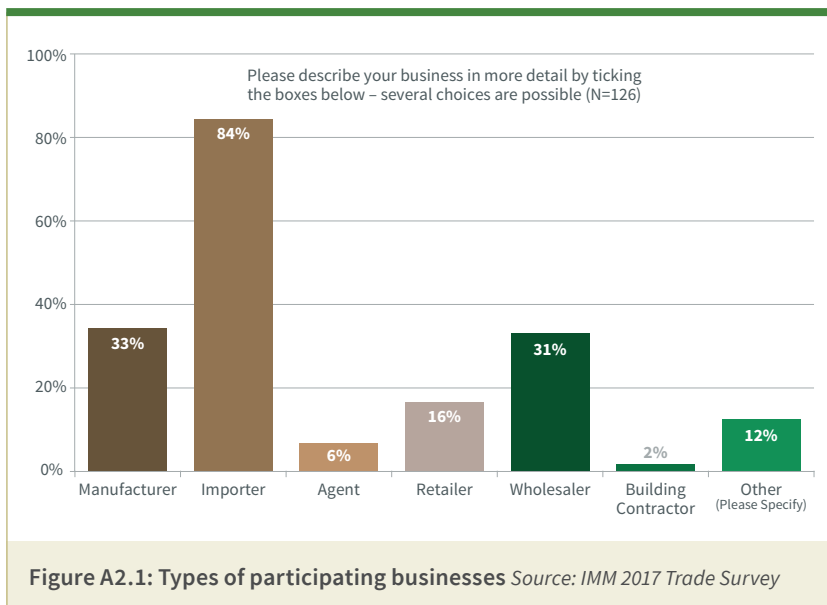
The European IMM correspondents approached around 200 timber sector operators and traders for the 2017 EU

trade survey, of which 126 agreed to be interviewed and contribute to the online survey. The companies were selected by the respective national correspondents for their known engagement in trade with timber and timber products from VPA partner countries, in particular from Indonesia as the only country currently issuing FLEGT licences. The 126 companies interviewed included importers of sawn timber, decking, plywood, mouldings logs, veneers, furniture, doors, windows and other products from VPA partner countries. 89% of respondents acted as operators and 11% as traders according to the EUTR definition.

According to the EC's Biennial Report 2015–2017, Competent Authorities are estimating that around 14,000 operators are importing timber into France, 25,000 in Germany, 4,900 in the Netherlands, 11,000 in Spain and 6,000 in the UK; Belgium and Italy did not report figures to the EU Commission. Against this backdrop, 126 companies may not seem an impressive sample. However, the

Competent Authorities' figures include all companies that are known to have imported timber in the respective countries i.e. a large proportion of these operators will only import very small amounts and on rare occasions.

As indicated above, the IMM 2017 trade survey had a strong focus on the core products imported from VPA partner countries. According to estimates by the IMM country correspondents, the survey covered a significant proportion of trade in tropical sawn timber/mouldings, joinery, plywood and decking in each of the key countries, with the smallest coverage of around 20% and 28% of imports, respectively, recorded in Italy and Spain. In the Netherlands, the survey captured companies accounting for about 65% of imports of tropical sawn



⁵⁹ <http://www.flegtimm.eu/index.php/newsletter/flegt-market-news/55-supply-side-factors-hit-ghana-exports>

⁶⁰ COM 2018

Would your organisation give preference to FLEGT-licensed timber over unlicensed timber from competing sources? (N=119)

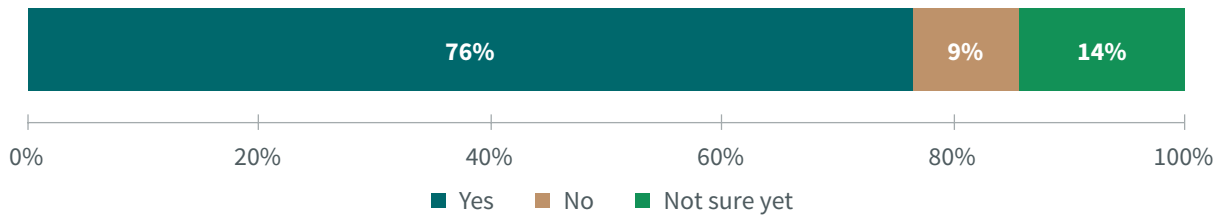


Figure A2.2.1: Share of respondents giving preference to FLEGT-licensed over unlicensed timber Source: IMM 2017 Trade Survey

Is your organisation giving preference to timber from VPA implementing countries over timber from non-VPA partner countries? (N=116)

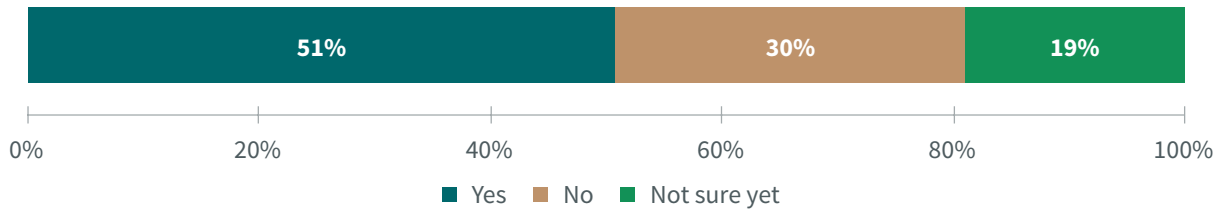


Figure A2.2.2: Share of respondents giving preference to timber from VPA implementing countries over timber from non VPA countries Source: IMM 2017 Trade Survey

Where possible I give preference to wood and wood products from Indonesia over products from unlicensed sources as this reduces my risk under the EUTR to zero (1 totally agree, 5 totally disagree) (N=88)

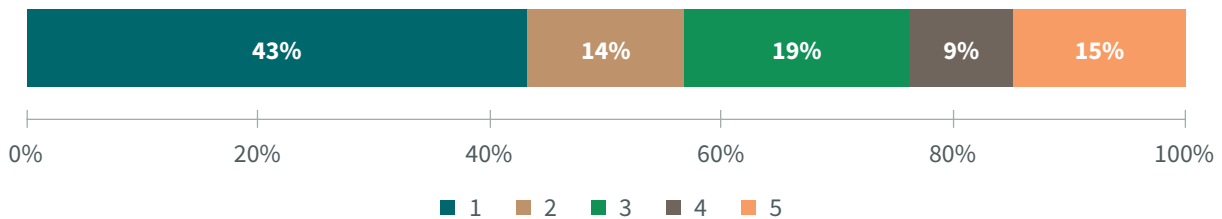


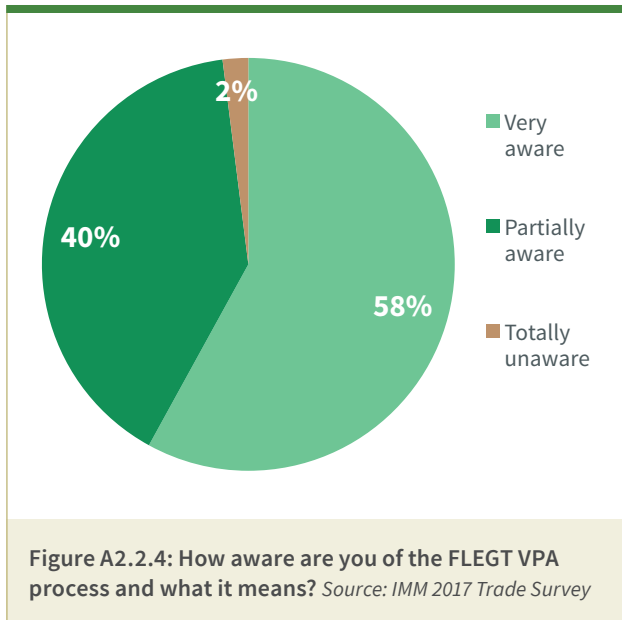
Figure A2.2.3: Share of respondents giving preference to wood products from Indonesia over competing products from unlicensed sources Source: IMM 2017 Trade Survey

timber products and 40% of tropical plywood. The Belgian correspondent estimates that IMM survey respondents are responsible for about 75% of Belgium's timber imports from the tropics; in France and the UK the estimate was around 80% and in Germany around 50–60%.

As a result, the survey can be considered representative where tropical wood products (HS 44) are concerned. On the other hand, coverage was definitely much lower when it comes to furniture and furniture components as well as pulp and paper and any results referring specifically to these product groups may not be representative.

A2.2 Summary of results in all key countries

Overall, the European IMM correspondents found that trade sentiment towards FLEGT VPAs was more positive in 2017 than it had been in 2015; the start of FLEGT-licensing in Indonesia was found to have revived trade interest in FLEGT. In all key countries, the almost uniform message from importers was that FLEGT-licensing was a significant benefit with regards to EUTR compliance, replacing the need for additional risk assessment and risk mitigation to fulfil the latter's due diligence obligations, which is still widely seen as an administrative burden.



Most importantly, operators' risk of infringing the EUTR is reduced to zero when importing FLEGT-licensed timber.

As a result, more than 90% of IMM survey respondents said they would give or are considering giving preference to FLEGT-licensed timber over unlicensed timber from competing sources.

Moreover, more than 70% of respondents said they would give or are considering giving preference to timber from a country engaged in implementing a VPA over timber from non-VPA countries.

The picture looks slightly more diverse when respondents were quizzed regarding existing FLEGT-licensed timber from Indonesia. Less than 60% of all survey participants confirmed they would currently, as far as possible, give preference to wood products from Indonesia over competing products from unlicensed sources. Another 19% were undecided and 24% stated they would tend not to give preference.

Respondents giving a rating of 3 or higher in the chart above were asked to share reasons for the current reluctance to give preference to Indonesian FLEGT-licensed timber, in spite of the widely acknowledged advantages in terms of EUTR compliance.

The most frequently quoted reasons included:

- Some, especially larger, stock-exchange listed companies said they would at least for now continue exercising due diligence and/or demanding private third-party certification for wood products from Indonesia in addition to FLEGT licences until they felt better informed about the system and the system had proven its robustness over some time.
- Some companies interviewed generally give preference to timber certified by private third-party schemes due to their internal responsible sourcing policies. These policies would have to be adapted to include FLEGT and respondents felt they would need more information and time to consider doing so.

- Some companies voiced concerns related to the credibility of a state-controlled Indonesian legality assurance scheme due to the country's relatively low rating in Transparency International's Corruption Perceptions Index (37 points in 2016).
- Companies were often unsure how much – if anything – FLEGT-licensed timber has to offer in terms of sustainability and called for more information.
- Some companies, especially furniture importers, said other commercial factors, such as limited flexibility in adapting to fashion trends, limited machining capacity/labour intensive production processes compared to other Asian countries, comparatively strong seasonal workforce fluctuations as well as high interest rates would outweigh advantages provided by FLEGT.
- FLEGT licence mismatches – both related to variations in HS codes and in terms of mismatched volume/weight/unit numbers – in the early stage of licensing have caused delays and/or difficulties in customs clearance.
- Some companies said adapting to the new administrative tasks involved in importing FLEGT-licensed timber would have made importing from Indonesia more complicated at the moment.

Some of these challenges, especially adapting to the administrative processes and licence mismatches, are likely to be resolved in the near future. IMM is following up the respective developments in its 2018 surveys. Others will require active engagement in market development and awareness raising measures both on the part of Indonesia and of European stakeholders.

The fact that FLEGT awareness, even in the key European markets, is not as high as it should be is reflected in the following charts.

Even though 89% of IMM survey respondent were operators, only 58% felt they were fully aware of the FLEGT process and what it involves and 2% said they were totally unaware of the FLEGT process. According to anecdotal reports from respondents, awareness is much lower further down the supply chain.

A closer look at the different regions in Europe reveals that FLEGT awareness is much higher in Northern Europe than in the South. In Belgium, Germany, Netherlands and UK, 75% of respondents said they were fully aware of the FLEGT process, 25% said they were partially aware and there were no "unaware" responses.

In Spain, Italy and France, by contrast, only 39% of respondents said they were fully aware of the process, 56% felt partially informed and 5% said they were totally unaware. The three southern European countries have been less involved in supporting the FLEGT VPA process than the UK, the Netherlands, or Germany. They also started EUTR enforcement later than the Northern European countries. This suggests that there is a correlation between the level of private sector awareness and the level of priority given to the FLEGT process, especially to the speed and thoroughness of EUTR enforcement, in the respective countries.

Judging by statements collected as a part of interviews conducted with European traders, an issue of particular concern for many European companies seemed to have been a lack of information on how exactly the Indonesian system works and how it is controlled before the beginning of FLEGT licensing.

Regarding FLEGT in general, information on sustainability aspects and whether FLEGT should be considered a “step backwards” compared to private third-party certification and would pose a threat to the further development of such schemes also appears to be an important issue. Details on sustainable forest management progress in Indonesia can be found in Section 5 of this report. An initial assessment conducted by IMM shows that VPA implementation and FLEGT licensing in Indonesia seems not to have had any negative impact on private third-party forest certification in the country; in fact, SFM certification by both FSC and PEFC has kept growing in recent years.

IMM survey respondents in the southern European key countries, in particular, where timber imports from Africa play a much bigger role than those from Indonesia, are now hoping for new momentum in VPA implementation processes in the African partner countries. Expectations are that experience gathered and lessons learned from full VPA implementation and the early stage of FLEGT-licensing in Indonesia might help speed up processes in other implementing countries.

The long duration and uncertain outcome of VPA implementation processes, especially in the African partner countries is currently seen as one of the main factors potentially limiting the success of FLEGT licensing. As long as licenced timber is only available from one country – and thus only for limited volumes of timber and product ranges – it remains difficult to communicate its existence and benefits to the wider EU market. It also means that buying FLEGT-licensed is not an option in a number of countries where it would make tropical timber procurement much easier for European operators. As a result, operators continue to have to find other ways for carrying out risk assessment and mitigation with the possible consequence that they will continue to withdraw from certain countries or product groups.

A2.3 EU scoping studies – 2017 market trends in key EU countries

A2.3.1 Belgium Economic trend

The Belgian economy is expected to grow by 1.6 % and 1.5% in 2018 and 2019, respectively, according to the National Bank of Belgium. Around 115,000 new jobs are forecast to be created over the period 2017–2019, while the unemployment rate is expected to drop to 7.2%. The public deficit, estimated at 2.6 % of GDP in 2016, should fall to 2.0 % in 2017, but is not expected to decline much after that.

Against the background of these positive overall perspectives, Belgian consumer confidence, which had still been below EU average in 2016, has improved noticeably in 2017.

Timber sector economic trend

Various sectors of the Belgian economy that are relevant to the timber trade, notably construction and furniture,

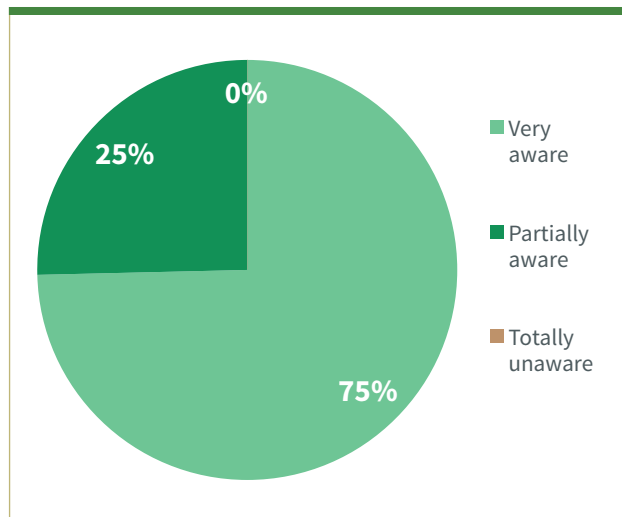


Figure A2.2.5: How aware are you of the FLEGT VPA process and what it means? (responses from Belgium, Germany, NL, UK) Source: IMM 2017 Trade Survey

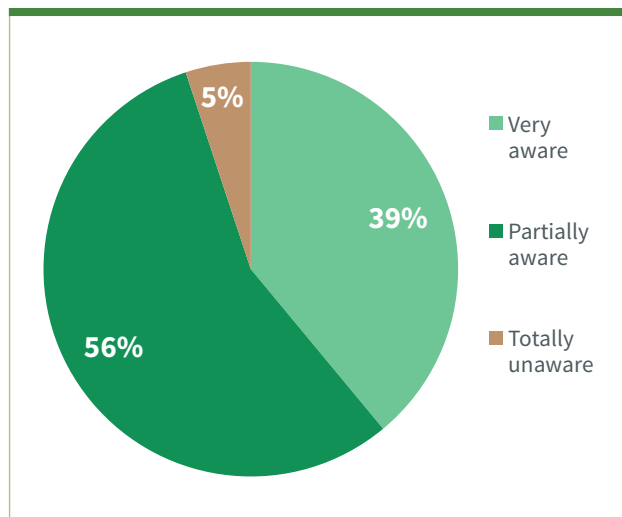


Figure A2.2.6: How aware are you of the FLEGT VPA process and what it means? (responses from Italy, France, Spain) Source: IMM 2017 Trade Survey

have performed well recently. The Belgian construction sector grew by 3.5% in 2016, mainly due to the good performance of new housing in Flanders and the non-residential sector thanks to special incentives to improve building energy performance. However, these incentives were not renewed in 2017.

When it comes to furniture, all product groups recorded an increase in sales in 2016. Office and store furniture achieved the largest increase in sales (+ 7.1%). The most important product group, furniture for residential use (chairs and seats, dining room, bedroom, garden and terrace furniture), grew by 2.0%. Furniture exports rose by 4.8% in 2016, while imports increased by 3.0%. The Belgian panel industry – including laminate flooring – achieved a 12.8% plus in turnover in 2016.

Trade with VPA partner countries

Belgium serves as a distribution hub for wood products, including from VPA partner countries, into the EU

markets. So, beyond the requirements of its own domestic market Belgium's deliveries to other EU market must be taken into account when examining its trade statistics.

Belgium imports a wide range of tropical wood products from VPA partner countries; top of the list are tropical sawn hardwoods from African countries, primarily Cameroon, Gabon and the Congo Republic. The close relationship between Belgium and these African states is linked to the country's colonial past; and some Belgian operators still have production facilities in Cameroon.

The Congo Republic, Cameroon, the Democratic Republic of Congo and the Central African Republic are also Belgium's main VPA partner country sources for tropical logs.

When it comes to tropical plywood more than 80% of Belgium's imports from VPA partner countries came from Indonesia in 2016. Other suppliers are Malaysia and Gabon, but volumes involved are small. Belgian tropical plywood imports from a variety of sources, including Indonesia and Malaysia, but also China, increased sharply in 2017.

Belgian furniture imports from outside the EU also come primarily from Asia. Indonesia, followed by Malaysia and Viet Nam are the main VPA partner country sources. However, the primary supplier is China, which delivered more furniture to Belgium than Indonesia, Viet Nam and Malaysia taken together in 2016.

In terms of joinery, Viet Nam currently supplies the lion's share of Belgian imports from VPA partner countries, followed by Malaysia and Indonesia. Belgium also imports glulam joinery from the Democratic Republic of Congo (DRC). Indonesia is Belgium's main supplier of mouldings, followed by Gabon, Côte d'Ivoire, Malaysia and Cameroon.

Traditional markets for tropical hardwoods in Belgium are external joinery, external cladding and decking, gardening and garden furniture as well as flooring where their natural high density and class of durability meets with technical requirements. Over the last decade, tropical timber has come under increasing pressure from substitute products made of treated softwoods or wood plastic composites. However, tropical hardwoods have kept a niche in the decking market and quite a substantial share in the timber external joinery market. In flooring, tropical timber has lost market share to Eastern European and Chinese hardwood flooring as well as to moisture-resistant laminate flooring.

A2.3.2 France Economic trend

In summer 2017, French business climate reached the highest level since 2011 and in some categories even the highest level since 2007, before the financial crisis. French exports have picked up in the second half of 2017 and domestic demand is expected to remain buoyant, especially for capital goods. The French unemployment rate is also slowly coming down again (9,5% in mid-2017) and this combined with slight wage increases should strengthen consumer confidence and purchasing power.

Business activity is thus forecast to continue to show solid growth, with GDP forecast to rise by 1.8% in 2017, after

only around +1% in each of the three previous years.

Timber sector economic trend

Just like the economy overall, the French timber sector is also showing signs of improvement this year. Timber merchants reported a buoyant start, but sales subsequently slowed and growth for the full year is expected to reach just under 1%.

The solid wood furniture sector started to grow as early as last year, with +4.5% in domestic sales and +6% in exports. French solid wood flooring manufacturers reported growth in domestic turnover by +3% and 6% at export level in 2016.

The French building sector, a large consumer of timber, has grown considerably in 2017, with a rise in building permits for single family homes by 14.4% and for multi-family homes by 17.5% up to the end of August. On the other hand, domestic market sales of industrial packaging, a large consumer sector of plywood, stagnated and exports declined 1%.

After two years of slight improvements in 2014 and 2015, the trade balance of the timber sector deteriorated again in 2016. The deficit increased by 2% to €5.9 billion; imports reached €15.3 billion and exports €9.4 billion. Especially in wooden furniture and paper and cardboard, imports were higher than exports.

Trade with VPA partner countries

In 2016, France imported 63,180 MT of tropical sawn hardwood, which was also the most frequently quoted tropical wood product mentioned by IMM 2017 survey respondents. France also still imports quite a significant amount of tropical logs. Other relevant products imported from VPA partner countries are veneer, joinery – including gluelam and decking –, plywood and mouldings. France also imports significant volumes of wood furniture from VPA partner countries, primarily from Asia.

France's most important suppliers of wood and wood products (without furniture) among the VPA partner countries is Gabon, which is a key supplier of okoumé veneers to French importers and plywood producers. Cameroon is the country's main supplier of sawn softwood, followed by Malaysia, Gabon and Côte d'Ivoire.

Logs are sourced primarily from the Congo Basin, with the Democratic Republic of Congo, the Congo Republic and the Central African Republic acting as main suppliers. Smaller quantities also come from Liberia and Cameroon.

The lion's share of France's joinery imports comes from Malaysia, with some volume also imported from Viet Nam and Indonesia. Small quantities of less than 1,000 MT in each case also come from African VPA partner countries (Côte d'Ivoire, Cameroon, Ghana).

Unlike the Northern European IMM key countries, which source tropical hardwood plywood primarily from Indonesia and Malaysia, France's main source is Gabon, followed by Malaysia. However, it is likely that some of the Indonesian tropical plywood imported into Belgium ends up in France.

France does not import much pulp from VPA partner countries. The key VPA supplier of pulp is Thailand, with

58,356 MT in 2016. The other VPA countries play no role here. By way of comparison, Brazil supplied 450,589 MT of pulp to France in 2016.

Indonesia is the most important VPA country supplier of wood furniture to France. According to the IMM 2017 survey, Indonesia delivers more high-end, hand crafted furniture to France, whereas China and Viet Nam tend to supply mass markets.

Key users of tropical timber from VPA partner countries in France include the timber and furniture trade as well as builders' merchants, building contractors – especially for bespoke joinery projects where tropical hardwoods still maintain a high-end niche market –, door and window manufacturers as well as boat builders.

Overall, the use of tropical hardwoods in France has declined over the last decade. Tropical timber products are increasingly competing with treated softwoods and temperate hardwoods both from EU Member states (Czech Republic, Poland, Rumania, Hungary, Slovenia) and producer countries outside the EU, such as the Ukraine. These substitute products have been gaining market share in recent years due to fashion trends, easier availability and corporate policies; several major operators have committed to reducing the share of tropical timber in their product mix due to pressure from ENGOs.

A2.3.3 Germany **Economic trend**

Germany has seen solid and steady economic growth in the last few years. The climate for consumer purchases in the country has been very good. According to the statistical office (Statistisches Bundesamt), a notable reason for the strong recent growth in public spending was the costs for the accommodation of refugees. This also played a positive role for the timber sector and companies supplying products such as flooring or interior panels.

Germany's foreign trade also grew notably; both 2016 exports and imports exceeded the previous peak levels of €1,193.6 billion (exports) and €949.2 billion (imports) recorded in 2015. Compared to the previous year, 2016 exports grew by 1.2% and imports by 0.6% respectively.

Timber sector economic trend

Following on a very good year in 2015 (+3.1%), German wood industry turnover increased by another 2.4% to €35bn in 2016. The upward trend is also reflected in employment figures; the wood industry – comprising almost 1,000 companies – employs about 150,000 people (+1%).

Growth in German wood product exports was just 1.9% in 2016 and thus below average. Timber-sector growth was primarily driven by strong domestic sales, which rose 2.6%. The industry segments benefitting most from high domestic consumption were wood construction (+8%), wooden packaging (+5.1%), as well as the wood flooring (+4.2%) and furniture industry (+3.2%).

Trade with VPA partner countries

Germany imports a broad product range from VPA countries including sawn timber, hardwood mouldings, sheet materials – in particular tropical hardwood plywood

–, furniture and furniture components, as well as some tropical veneer, flooring and decorative products.

The most important supplier of wood products to the German market among the VPA countries is Indonesia, which delivers mouldings, joinery products and decking, plywood, furniture and furniture components, as well as some sawn timber, flooring and decorative products to Germany. Malaysia and Viet Nam deliver a similar product range, but the overall volume is smaller. Malaysia supplies more sawn timber than Indonesia, but smaller quantities of further processed goods. Viet Nam and Indonesia are the largest furniture supplier to the German market among the VPA countries.

From the African VPA countries Germany imports primarily sawn timber; the biggest suppliers are Ghana and Cameroon. Smaller quantities are sourced from Democratic Republic of the Congo and the Congo Republic and volumes below 1,000 m³/year from Côte d'Ivoire and Gabon. Cameroon and Ghana also supply hardwood mouldings and the small quantities of tropical logs still imported into Germany primarily come from Liberia and Congo Republic.

Generally speaking, the German market for tropical wood products, including from VPA partner countries, has been on a steady decline over the last decade. According to the IMM 2017 survey, traditional markets for tropical wood have been facing severe competition from substitute materials for several years now. Wood Plastic Composite (WPC) decking is taking up more and more market share, although not being cheaper compared to tropical hardwood decking. WPC also replaces African hardwoods in joinery (e.g. door frame components) and has increased its product range to include poles, fences, blinds and other articles. Chemically modified timber also replaces tropical wood in decking, cladding or window frames; and wooden garden furniture is being replaced with plastic "rattan" furniture.

The remaining markets in Germany concentrate on joinery, windows and exterior constructions, gardening and landscaping as well as marine constructions.

A2.3.4 Italy **Economic trend**

Italy has been hit particularly hard by the financial crisis: in fact, the country's average real GDP growth was nil over the period 2001–2015. A minor uphill trend was seen after 2014, with GDP growth of 0.9% in 2016 and 0.7% in 2015. In 2017 and 2018, Italy's economy is again expected to grow modestly, by about 1% each year, primarily due to stronger export demand. This means that the Italian economy continues to lag behind most of the rest of the Eurozone.

The building sector was among the industry segments most severely affected by the economic crisis. Growth in this area started only in 2016, after eight years of recession.

Timber sector economic trend

Just like the Italian economy overall, the Italian wood and forest products sector has started to recover over the last two years. When compared to 2015, the total turnover of the Italian wood and forest products sector



has increased by 2.2% in 2016 and Italian timber exports increased by 5%.

In absolute terms, in 2016 the level of Italian export of timber products (85% of which are accounted for by furniture) almost reached the pre-crisis level, i.e. around €14 billion. More than 50% of timber products exported from Italy are destined to the European Union, with France being the primary destination. However, the importance of China and the US has increased in recent years.

Trade with VPA partner countries

Sawn timber is the most important product imported by Italy from VPA partner countries; in 2016 sawn timber accounted for almost 34% in value and 37% in weight of Italy's total imports from VPA countries. Veneer represents the second most important product in terms of value, whereas pulp is the second most important product in terms of weight.

Over the period 2004-2016 Cameroon was the major supplier of sawn wood and logs to the Italian market among VPA partner countries, whereas Indonesia was the main supplier of pulp, plywood and flooring. Other relevant VPA country suppliers were the Republic of Congo and Ghana.

Overall, Italian imports from VPA partner countries have declined sharply in recent times: between 2004 and 2016 they decreased by 58.6% in value and 70.1% in weight. Paper and paperboard (+52% in value/ +55% in terms of weight) was the only product group to show growth

during that period. Imports of all other product groups – wood products (-61%/-72%), pulp (-78%/-82%) and wood furniture (-62%/-81%) – declined sharply.

The plunge in pulp deliveries is due to Indonesia having been replaced by Brazil as Italy's main supplier of pulp from the tropics. Where furniture is concerned, China has won market share from Indonesia. Indonesia has also lost share to another VPA country, Viet Nam.

A2.3.5 Netherlands

Economic trend

The Dutch economy is now recovering rapidly from the economic crisis. GDP grew by 2.2% in 2016, domestic industrial production increased by 2.8% and exports by 3.4%. At the same time, unemployment decreased further to 6.0% in 2016, which also had a positive impact on purchasing power and consumer spending (+1.0%).

CPB (Netherlands Bureau for Economic Policy Analysis) forecasts that the Dutch economy will grow by 3.3% in 2017 and 2.5% in 2018, driven by higher exports, more corporate investment (mainly in housing and transport) and higher private consumption. Consumer confidence is expected to remain high, with unemployment forecast to drop to just 4.3% in 2018.

Timber sector economic trend

The very positive economic situation in the Netherlands is also reflected in the performance of all wood industry sectors. According to data from Statistics Netherlands, wood industry production volume and turnover increased by 3% in the second quarter of 2017, compared to the year before.

In line with developments in the building sector, producers of building materials show an increase of almost 4% in production volume in the second quarter of 2017 and turnover was up by more than 6%. Turnover generated by Dutch furniture producers also increased by 3% in the second quarter of 2017, even though the production volume fell by almost 2% in that same period.

Trade with VPA partner countries

Sawn wood (including mouldings and frames) as well as wood furniture are the main types of products imported from VPA partner countries by the Netherlands. The first product group accounts for 35.7% of Dutch imports from VPA countries in terms of value; wood furniture accounts for another 27.6%. Other important product groups are joinery (16.8%) and veneer (8%).

With a share of more than 60% in 2016, Malaysia is the main country of origin of the imported sawn tropical hardwood from VPA partner countries. Cameroon (19%) and Indonesia (9%) follow at a distance. When it comes to wood furniture, Indonesia (50%) and Viet Nam (46%) are the main countries of origin among the VPA partner countries.

Historically, Meranti is by far the most imported tropical hardwood species imported by the Netherlands and this is still the case, although Meranti has lost market share to other species. Species that were frequently mentioned during the IMM 2017 survey include Azobé, Merbau, Bangkirai/Balau, Sapele, Ayous/Obeche, Teak, Cumaru, Kapur, Okoume, Keruing and Iroko.

The Dutch market for tropical hardwoods can be divided into two subsectors: 1) the construction sector, including



DIY and gardening and 2) the market for waterworks (civil engineering). The first sector is currently growing due to recovery of the housing sector. Growth is expected to continue in the foreseeable future, as completion of new homes is still lagging behind the sharp rise in the number of building permits. Timber may additionally benefit from increasing environmental awareness among consumers and architects and an increasing availability of Life Cycle Analyses supporting the use of timber.

Demand for hardwood from the civil engineering sector, on the other hand, shows a slower and steadier trend. Civil engineering suffered less than housing construction during the economic crises and there is less pent-up demand now as a result.

The hardwood market - both for tropical and temperate wood - is expected to show further growth in 2017 and 2018. However, tropical timber is coming under pressure from competing materials, including from temperate hardwoods. In the wood furniture and flooring sectors, for example, a lot of European oak has been used in recent year and this material continues to be in fashion.

A2.3.6 Spain

Economic trend

Spain has started to recover from the economic crisis and the economy has been picking up fast in 2017. GDP is forecast to grow by 2.2-2.3% and thus much faster than in most other EU countries.

The building sector, which was under immense pressure during the economic crisis, has grown for three consecutive years, with the number of housing permits climbing by as much as 26.5% in 2016. However, while this is a positive sign, the number of new homes built still only amounted to 60,000, compared to 800,000 in 2007, before the economic crisis.

Timber sector economic trend

Spanish imports of tropical sawn timber, the main product Spain imports from tropical countries, decreased slightly from 2016 to 2017. Imports of other timber and timber products remained more or less stable.

Trade with VPA partner countries

70% of Spain's tropical timber imports come from Africa and are primarily made up of sawn timber. That's why Spanish wood industry representatives expressed strong interest in FLEGT-licensed from the African continent.

A2.3.7 United Kingdom

Economic trend

After a sustained period of growth, forecasts on UK economic development are currently dominated by uncertainty over Brexit negotiations and the deal the UK will strike for future trade relations with the EU on its departure. The UK still enjoys some strong fundamentals, including 4.3% unemployment, but Brexit uncertainty is reportedly deterring investment.

Figures from the British Chambers of Commerce (BCC) show third quarter 2017 growth actually ahead of expectations at 0.4%, supporting forecasts of an annual figure of 1.6%. 2018 growth forecast was revised downward slightly from 1.3% to 1.2% and 2019 prediction from 1.5% to 1.4%. However, these predictions are based on the

UK making a “smooth exit from the EU”, according to the BCC. A more “sudden departure would trigger a far more marked weakening in economic conditions”.

Timber sector economic trend

Overall UK housing recovery has reportedly already slowed amid Brexit uncertainty. However, on a more positive note for the wood industry, timber-based construction is on the increase. The sector’s trade body, the Structural Timber Association, estimates that it could account for 33.9% of the UK new build housing market by 2020. It is thought this shift could also lead to increased sales of timber joinery, fittings and furniture, including in hardwood.

According to the October 2017 statistics update from the UK Timber Trade Federation (TTF), timber imports were up 11% (630,000m³) in the first seven months of 2017 compared with the same period in 2016. But growth in some product categories slowed from July as prices continued to rise. Breaking this down, solid wood imports were up 10% in the year to July, panel products up 12%.

For this period, softwood imports rose 9.6% to 4,040,000m³ (total imports in 2016 were 6,219,000m³). Hardwood imports rose 18% to 310,000m³, against last year’s annual total of 427,000m³.

Changes in customs product codes, said the TTF, may lead to readjustment of figures later, but on current reading, the US remained the biggest hardwood supplier, although its market share slipped from 25% to 18%. Estonia’s share was up from 10% to 15%, France remained on 8%, Italy went from 9% to 8% and Cameroon from 7% to 6%.

Hardwood plywood imports in from January to July fell 3% to 608,000m³ (total imports in 2016 were 1,028,000m³). Increases in hardwood plywood imports from tropical countries, especially Indonesia (+13%) and Malaysia (14%), were unable to offset falls from China, Russia and Finland. In terms of market share, China took 55% of UK imports, Malaysia 9%, Finland 7%, Russia 7% and Indonesia 6%.

Most import product categories have experienced price rises through 2017, said the TTF, due to the fall of the pound against Euro and Dollar.

Trade with VPA partner countries

Indonesia is the biggest VPA country exporter to the UK, followed by Malaysia, then Cameroon, Thailand, Congo Brazzaville and Côte d’Ivoire. Combined UK imports of wood and wood products (without furniture) from these countries totaled around €305 million in 2016, of which more than one-third (€138 million) was accounted for by Indonesia and €112 million by Malaysia. For comparison, UK non-VPA tropical wood imports were worth €5 million, Chinese wood and wood product imports €738 million and Brazilian €92 million.

In terms of product type the key category IMM survey respondents said they imported on a regular basis from VPA partner countries, was sawn timber. Also significant were decking, mouldings, doors and plywood. Less frequently imported by these companies were glulam and LVL, logs, furniture components and windows. In terms of timber species from VPA supplier countries, the key varieties mentioned by respondents were sapele, iroko, meranti, bangkirai/balau, idigbo/framire, ayous/wawa/

obeche, ekki/azobe, okoume, mengkulang and jatoba and ipé. Also highlighted were bosse/guarea, kaja and wenge.

In sawn tropical timber, Cameroon was the UK’s biggest supplier, followed by Malaysia on and Congo Brazzaville. In terms of tropical logs in 2016, Democratic Republic of Congo was the biggest VPA country UK supplier, followed by Cameroon. Biggest VPA country supplier of mouldings was Malaysia followed by Indonesia and Viet Nam.

Lead tropical hardwood plywood supplier was Indonesia and next Malaysia. The biggest VPA supplier of other hardwood plywood was Malaysia followed by Indonesia. However, both countries only supply a fraction of what the leading supplier, China, delivers to the UK market in this product category.

Doors are another important product category for VPA countries on the UK market. The biggest VPA country door supplier to the UK in 2016 was Indonesia, followed by Malaysia and Viet Nam.

Flooring is only delivered to the UK in small quantities from VPA partner countries. A dominant supplier here is China.

Respondents to the IMM questionnaire said their key customer sectors in the UK were timber and builders merchants and distributors, who will sell on to the spectrum of timber end users, including joiners/manufacturers, builders, furniture makers, craft workshops, picture framers and shop fitters. They also sell direct, with the biggest customer sector in this respect being the general joinery trade, which can range from SME to large-scale door, window, staircase, flooring and mouldings producers to workshops picture framers and shop fitting producers.

Market trends for timber from VPA countries are clearly shaped by growing competition from rival material and products, some of which are strongly marketed as tropical timber substitutes, notably on their environmental credentials. These include American hardwoods, especially once they have been modified to increase their suitability for exterior use and structural application in the form of thermo-treated and engineered wood products, including cross laminated timber (CLT). The Americans have also focused on providing alternative proof of their environmental credentials given that certification has gained so little traction in its highly fragmented hardwood forest sector. The UK is a major consumer of European hardwoods too, led by European oak, beech and ash.

Treated softwood is another key substitute product and treatment producers have worked on market acceptance with development of more environmentally benign chemicals.

After a long period of market development, modified timber is also gaining market momentum. Leading varieties in the UK include Lignia, Kebony and Accoya. Applications range from interior furnishings and joinery, to doors, windows, cladding, decking and garden products.

More recently still, wood plastic composites have made ground, proving particularly popular for decking, cladding and outdoor furniture, and performing well in consumer, public and commercial markets.



IMM

Independent Market Monitoring of FLEGT-Licensed Timber

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