



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

FLEGT VPA Partners in EU Timber Trade 2018

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Executive Summary

The IMM's latest Annual Report, "FLEGT VPA Partners in EU Timber Trade 2018", shows that the combined share of the VPA partner countries in global tropical wood products trade (all products in HS 44 and wood furniture products in HS 94) was 78.8% in 2018, slightly down from 78.9% in 2017 and 79.4% in 2016. This trend is set in the context of an 8% rise in global tropical wood products trade in 2018, to US\$39.8 billion.

The rise in global trade in 2018 continues the 2017 rebound from the dip in 2016, which had occurred during a period of slowing growth and the end of the speculative rosewood boom in China. Unlike the 2009 to 2014 period, when rapid trade growth was driven largely by China's imports of primary wood products, recent growth is mainly due to rising wood furniture exports, notably from Viet Nam and India destined for the United States. The year 2018 also saw a big rise in the value of the tropical plywood trade, particularly from Indonesia destined for the US, Japan, South Korea, the EU, and Australia. Exports from the Congo region of Africa increased 17%, while exports from East and West Africa declined.

In the EU, timber market prospects deteriorated again in 2018, after a positive development in 2017. The pace of GDP and construction sector growth slowed, while activity in the wood product manufacturing sectors levelled off after trending upwards the previous year. During 2018, there was some evidence of wood regaining a little of the share lost to substitute materials in recent years, although the competitive pressure from these alternatives was still intense.

The major beneficiaries of a significant rise in EU imports in 2018 were other European suppliers, notably Russia, Ukraine and Belarus. The share of VPA partner suppliers in total EU imports continued to decline in 2018, although at a slower pace than in the past. In 2018 China's share in EU imports fell to the lowest level since 2007.

Overall EU timber trade with VPA partner countries fell in 2018. However, imports from Indonesia, all covered by FLEGT Licences since 15 November 2016, increased slightly, by 0.1%, to €815 million in 2018. There was a notable rise in imports of doors and plywood from Indonesia during the year. There was also a rebound in imports of sawn wood and logs from VPA implementing countries in Africa in 2018. EU imports of wood furniture, flooring and glulam from VPA partners in Asia continued to slide.

IMM surveys of trader opinion in 2018 identified the drivers of the lasting downturn of EU consumption of wood products from VPA partner countries including "substitution by other materials", the main driver, followed by the "economic downturn 2008-2013" and "diversion of supply to other markets", closely linked to "competition from China for material access and in markets for finished goods". "Environmental prejudice and uncoordinated marketing" was ranked by respondents as the fourth most important driver.

Nearly all respondents to the IMM EU trade surveys in 2018 said that FLEGT-licensing was making importing wood products from Indonesia easier compared to EUTR due diligence. The IMM 2018 survey of traders in Indonesia also confirmed a high overall level of support, with more

than 90% of respondents still fully (56%) or partially (38%) confirming that achieving SVLK certification was beneficial to their operations.

Despite 40% of EU respondents stating, in the IMM 2017 trade survey, that they would be willing to pay small price premiums for FLEGT-licensed timber, the 2018 survey indicates that in practice no such premiums are being paid. The perception amongst many importers that licensing is no more than an assurance of "legality", which is expected anyway, continues to limit willingness to pay market premiums. Some suggested that price premiums might be an option in the future, once FLEGT licensing and its wider benefits are better understood.

Analysis of trade statistics shows that performance of Indonesian wood products in the EU market has remained mixed in 2018. Broadly consistent with the Indonesian export data, the EU import value of Indonesian timber and timber products increased by a further 6% to US\$1.25 billion in 2018. However, in quantity terms, EU imports from Indonesia decreased 5% to 678,000 tonnes in 2018. EU import volume of Indonesian wood (HS 44) products increased consistently each year between 2014 and 2018, rising from 277,000 tonnes to 325,000 tonnes during this period. However, import volume of furniture declined during the same period, falling 2% to 102,000 tonnes in 2017 and 3% to 99,000 tonnes in 2018. EU imports of paper products have been more volatile, rising 15% to 278,000 tonnes in 2017 before falling back 9% to 252,000 tonnes in 2018.

Overall the data indicates that FLEGT licensing has had little impact on the market share of Indonesian products in the EU and has not overridden the on-going effects or direction of larger economic trends. Equally, licensing does not seem to have had any detrimental effect on import share.

The 2018 report provides an update on market constraints to FLEGT-licensed timber identified in the 2017 report. The number of both HS code and other FLEGT Licence mismatches related, for example, to shipments' weight or volume has been reduced in 2018 and there has also been progress to introduce e-licensing, with plans to pilot a tool and make a final decision in 2020. Several organisations stepped up their communication and marketing of FLEGT Licences in the EU during 2018, but FLEGT's profile is still low compared to forest certification initiatives such as FSC and PEFC.

An analysis of private sector and EU Member States' public procurement policies shows that third party certification initiatives are the preferred mechanism to demonstrate the "sustainability" of timber products. However, 18 public procurement policies in the EU analysed recognise FLEGT-licenses in some capacity.

The report finds that acceptance of FLEGT Licences (or equivalent documents issued by FLEGT licensing VPA partner countries for exports to non-EU countries) as evidence of legality in non-EU countries has potential to provide new opportunities for market development, which are more significant against the background of the EU's falling share in VPA partner exports and the emergence of other dominant consumer markets and processing hubs, notably China and Viet Nam.

The view sometimes expressed that the movement to develop Timber Legality Assurance Systems (TLAS) in VPA partner countries may be distracting from efforts to promote third party certification in these countries is not supported by data analysed in the report. This indicates that progress towards certification in most cases was very slow before VPA implementation began; by far the most rapid recent progress to achieve third party certification in the tropics has been made in Indonesia, the one country that was also the first to achieve FLEGT licensing; and there has been no uptick in third party certification in non-VPA tropical countries, even where their exports to the EU have been rising in recent years (as is the case, for example, for furniture from India, charcoal from Nigeria, and decking from Peru and Bolivia).

While there has been a shift in EU trade towards supply regions with higher identifiable access to various forms of legality verification, there are continuing high levels of EU import from countries and regions with low access, notably China and India, raising questions relating to the forms and credibility of legality assurances being offered by suppliers in these regions. IMM survey data suggests that much of this may be covered by third party legality verification systems operated by individual certification companies and agencies, but there is no centralised and consistent data published on these systems, either relating to the standards used, the operators covered, or the costs involved.

Analysis of data on trade flows, access to certification, and feedback from IMM surveys suggests that the challenges of obtaining reliable legality assurances has been a contributory factor behind the decline in tropical timber's share of the EU market. It also highlights that FLEGT licensing has a critical role to play in helping to reverse this trend, particularly for suppliers in Africa and South East Asia. Furthermore, the FLEGT licensing process may be particularly beneficial for smaller operators that have struggled to engage in private sector certification systems.

There may also be strong opportunities created by the FLEGT and third party certification initiatives working more closely together, a fact increasingly recognised by stakeholders involved in both initiatives, to help simplify verification, reduce the bureaucratic burden, limit duplication, improve cost effectiveness, improve market access, and prevent unnecessary competition between systems. An immediate market issue, that can only be resolved through closer dialogue, is that the FSC Controlled Wood National Risk Assessment for Indonesia does not acknowledge FLEGT-licensed wood as "low risk" on the FSC legality criteria with significant potential to cause market confusion in the EU (where around 20,000 companies hold FSC chain of custody certificates). Ultimately, if the aspiration of VPA partner countries is to achieve market recognition for TLAS timber products beyond regulatory compliance to EUTR and other consumer country laws, the most efficient way to achieve this may be to find an accommodation with PEFC or FSC.

The report concludes with a series of recommendations to build on the market opportunities presented by FLEGT licenses and to help overcome existing market constraints.

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 2018, the following observations are made with respect to future strategies for market development of FLEGT-licensed timber. These recommendations are directed to the EC and EU member states, VPA partner country governments, the private sector, as well (and as relevant) to partners like ITTO, FAO and others.

- Support the efforts of the private sector within FLEGT countries, especially those with operational TLAS systems, to promote the benefits and positive impacts of these systems. FLEGT licensing and the supporting TLAS systems are regulatory tools and systems which presently are not widely understood and whose benefits are either not known or poorly communicated. European buyers need to be able to see and believe the value of processes, but they need to hear this message from their peers within the countries with active TLAS systems. Authentic communications originating within the VPA countries designed for a business audience are vital to building trust in the system.
- Communicate results of independent reviews of the performance of the systems underlying FLEGT Licences in a non-technical way. Use reports of VPA monitoring and evaluation initiatives to identify the performance and value of FLEGT licensing and address the concerns of users and stakeholders with respect to its real value and impact in-country.
- 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. ENGOs that are open to supporting the FLEGT/VPA process and commercial use of tropical timber should also be more actively engaged.
- Actively engage those civil society organisations and private sector organisations that seek to influence private sector procurement policies. Whilst many influential organisations already support FLEGT licensing many others can be potentially influenced to be more supportive in their advocacy. Continued dialogue and trust building based on communication of the evidence-based benefits and realistic limits to the value of the VPA process and FLEGT licensing in particular is essential.
- Encourage EU MS to regularly review their policies for public procurement of timber and timber products in the light of developments in the FLEGT process. 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.

- High political priority (backed by public money) should continue to be attached to promoting development of credible TLAS systems in VPA partner countries. There is an underlying frustration within the private sector that FLEGT-licensed timber from a single country is insufficient for market needs and insufficient to convince industry that VPA are successful and that FLEGT-licensed timber is a serious contender in the marketplace. The wider availability of FLEGT-licensed timber would build the commercial proposition and offer choice in the marketplace.
- Concerted efforts should be made to build on the potential synergies between the development of TLAS in VPA partner countries and international third party forest certification systems to help simplify verification, reduce the bureaucratic burden, limit duplication, improve cost effectiveness, improve market access, and prevent unnecessary competition.
- There is a specific need for engagement with FSC to address the current lack of recognition of FLEGT licensed timber in the FSC Controlled Wood National Risk Assessment for Indonesia.
- Some EU MS are imposing fees for processing FLEGT licenses. 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.
- 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 still benefit from improved guidance for complying with EUTR due diligence.

IMM future monitoring

In 2018, IMM widened the scope of its survey work and its information base, through the introduction of special studies and Trade Consultations. The project also draws on experience of five years of trade statistics analysis.

Future IMM monitoring priorities are as follows:

- IMM will continue to work with a network of independent country correspondents; the network will be further expanded as more VPA partner countries approach the licensing stage. Viet Nam and Congo were identified as priority countries for 2020 and the respective consultancy contracts advertised in July 2019.
- The 2018 studies confirmed the impression from previous years 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 country correspondents in the EU 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' trade in timber and timber products with VPA partner countries.
- The concept of special studies for monitoring specific IMM indicators and gaining access to some key

sectors/stakeholders for consumption of VPA Partner timber in Europe has provided interesting insights in 2018 and 2019 and will be continued and possibly expanded in 2020.

- There are still significant gaps in existing data limiting the ability of IMM to reliably assess the trade and competitiveness impact of FLEGT licensing and IMM will continue to liaise, and where possible and appropriate, co-operate with other agencies to help fill these gaps which include:
 - Lack of data on the actual value or volume of trade in timber which is independently certified or legally verified through non-VPA mechanisms;
 - Lack of systematic, consistent and comprehensive assessments of forest governance risk in non-VPA supplying countries;
 - Lack of centralised and consistent data on the level of EU market acceptance, the standards used, the operators covered, and the costs involved in third party legality verification systems operated by individual certification companies;
 - Lack of data on investment flows into the forestry and forest products sectors in VPA partner countries.
- In the absence of trade data from third-party certification and legality verification schemes, IMM's "exposure to certification/verification" measure will continue to be used to help assess the market position of FLEGT-licensed timber relative to alternative assurance mechanisms.
- IMM will continue its efforts to improve the quality, consistency, scope and regularity of access to reliable timber trade flow statistics for the purposes of FLEGT market monitoring through the Sustainable Timber Information Exchange (STIX) and the development of dashboards and other tools on the IMM website. As a priority, work to extend data validation routines and to provide standardised estimates of timber trade quantity, alongside value, in Eurostat COMEXT data will be extended to VPA partner trade flows with other regions.
- There is ongoing 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 full cycle of IMM Trade Consultations (one in each key country with the exception of the Netherlands, which "shared" a consultation with Belgium) will be completed in the first quarter of 2020. The Consultations provided extremely valuable insights into trade practices and priorities and a forum for direct exchange of information and opinions among key stakeholders. IMM will continue the Trade Consultations after completion of the first cycle, in a modified format to reflect experience gained in the first cycle and the evolving market for FLEGT licensed timber.
- IMM will continue monitoring market developments and market uptake of FLEGT Licences in the UK post-Brexit. It will also monitor potential impacts of Brexit on VPA partner countries.

List of Acronyms

\$	United States Dollar
€	Euro
ATIBT	Association Technique Internationale des Bois Tropicaux
CA	Competent Authority
CIF	Cost, Insurance and Freight (relates to shipping)
CIS	Commonwealth of Independent States
CN	Combined Nomenclature of the EU (relates to trade product codes)
CoC	Chain of custody
COMEXT	Eurostat External Trade database
COMTRADE	UN International Trade Statistics Database
CPD	Construction Products Directive
CPI	Construction Production Index
CPR	Construction Products Regulation
CWNRA	FSC Controlled Wood National Risk Assessment
DRC	Democratic Republic of Congo
EDB	Ease of Doing Business Index of the World Bank
ENGO	Environmental non-governmental organisation
EU	European Union
EUTR	European Union Timber Regulation
FAO	UN Food and Agriculture Organisation
FC	Forestry Commission of Ghana
FEP	European Parquet Flooring Federation
FII	Forest Industries Intelligence Ltd
FLEGT	Forest Law Enforcement, Governance and Trade
FOB	Free On Board (relates to shipping)
FRA	Forest Resource Assessment of the UN FAO
FSC	Forest Stewardship Council
FTA	Free Trade Agreement
GATS	USDA Global Agricultural Trade System database
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)

List of Acronyms

IMM	FLEGT Independent Market Monitoring project of the ITTO
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
TLAS	Timber Legality Assurance System
TRAFFIC	Trade Records Analysis of Flora and Fauna in Commerce
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP/WCMC	United Nations Environment World Conservation Monitoring Centre
USA	United States of America
USDA	US Department for Agriculture
VPA	Voluntary Partnership Agreement
WEF	World Economic Forum

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

In 2018, the network of IMM country correspondents continued to monitor market uptake of FLEGT Licences in the seven "key" EU countries¹ accounting for the bulk (i.e. consistently around 90%) of EU tropical timber and timber product imports from VPA partner countries. IMM also continued to employ correspondents in Indonesia, the only FLEGT-licensing country, and Ghana, the country most likely to be next to start FLEGT licensing. The two partner country correspondents produced update reports on their 2017 baseline studies (summarised in Chapter 5 and Annex 2 of this report) and acted as points of liaison between IMM and partner country authorities and organisations.

The EU trade survey conducted in 2018 again had a broad scope, in terms both of content and target audience. European IMM correspondents interviewed 96 (2017: 126) companies for the general trade survey and an additional 53 furniture importers, retailers and manufacturers, for the IMM Furniture Sector Scoping Study.² According to correspondents' estimates, respondents to the IMM 2018 trade survey accounted for between 15% and 65% of the key countries' total imports of tropical sawn timber, mouldings, joinery, plywood and decking, with high coverage (>50%) achieved in Germany, UK, Netherlands, and France and lower coverage (15% to 40%) in Spain,

Italy and Belgium. Correspondents also interviewed the FLEGT/EUTR Competent Authorities in their respective countries as well as 10 timber trade federations and EUTR Monitoring Organisations, representing a total of around 2700 companies. The EU trade survey is summarised in Annex 1 of this report.

Besides continuing and refining work initiated in 2017, IMM further expanded its scope of activities and outputs in 2018. Two special studies – the above-mentioned furniture sector study and a study of EU private sector timber procurement policies and the role of FLEGT³ – were published during 2018. Two additional studies on EU wood promotion programmes and their recognition of FLEGT⁴ and EU public timber procurement⁵ were also commissioned in 2018 and published early in 2019. Moreover, IMM organised a series of "Trade Consultations"⁶ in London, Nantes and Berlin in 2018 and in Antwerp in early 2019. Both the special studies and Trade Consultations provided significant contributions to this report. In order to ensure timely dissemination of information, IMM decided to include results of studies and Trade Consultations as well as information gathered by IMM during meetings up to mid-2019 in the IMM 2018 report. The statistics and market analysis cover the period up to the end of 2018.

1.3 Report Content

The report is structured as follows:

- Chapter 2 summarises the status of VPA implementation and negotiation in all VPA partner countries.
- Chapter 3 provides an update on the share of VPA partner countries in global tropical wood products trade in 2018.
- Chapter 4 updates the analysis of VPA partner competitiveness, taking account of international indices of competitiveness and IMM EU 2018 trade survey and Trade Consultation results.
- Chapter 5 focuses on Indonesia, updating the analysis of production and trade flows, both imports and exports, looks at recent trends in certified forest area, assesses changes in Indonesia-EU trade, and summarises findings of research undertaken by the IMM Indonesia correspondent and market perceptions derived from the EU trade survey and Trade Consultations.

¹ Belgium, France, Germany, Italy, Netherlands, Spain, UK. At the time of writing of this report the UK was still a Member State of the European Union and its future unclear. It thus continued to be counted among the key EU markets for tropical timber and timber products.

² "A tabling of views. Scoping study for assessing the impacts of timber legality on the European Union's wood-furniture sector and the associated tropical timber trade. G. White. (ITTO/IMM 2018_1) https://www.itto.int/direct/topics/topics_pdf_download/topics_id=5782&no=1&disp=inline

³ EU voluntary private-sector timber procurement policies and the role of FLEGT. G.White. (ITTO/IMM 2018_2) <http://www.flegtimm.eu/index.php/reports/105-eu-private-sector-timber-procurement-imm-study-identifies-attitudes-and-priorities>

⁴ EU Wood Promotion Programmes and their recognition of FLEGT. M. Jeffree/G. White http://www.flegtimm.eu/images/Mikes_folder/IMM-Promotion-Report---April-4-2019-ST3.pdf (ITTO/IMM 2019)

⁵ A study of EU public timber procurement policies, related guidance and references to FLEGT. G. White (ITTO/IMM 2019_1) <http://www.flegtimm.eu/index.php/reports/special-studies/163-imm-publishes-new-study-on-eu-member-states-green-public-procurement-and-flegt>

⁶ Trade Consultations are a series of meetings organised by the IMM programme in the EU key tropical timber consuming countries. The Consultations aim to gauge the trade's views and discuss opinions of relevant FLEGT-related topics identified as a part of IMM surveys. IMM also shares latest survey and study results with trade representatives during the Consultations. Consultations were held in London (March), Nantes (May) and Berlin (November) during 2018 and in Antwerp (Belgium) in April 2019, with more than 150 participants in total.

- Chapter 6 updates the analysis of trade flows between all VPA Partner countries and the EU to the end of 2018 and reports on trends and drivers in the full range of EU timber market segments.
- Chapter 7 considers EUTR implementation and enforcement in the EU Member States.
- Chapter 8 analyses existing EU wood promotion programmes and their level of recognition of FLEGT, drawing on the findings of an IMM special study.
- Chapters 9 and 10 consider recognition of FLEGT respectively in private sector and public sector timber procurement policies in the EU, also drawing on the results of IMM special studies.
- Chapter 11 analyses the evolving market position of FLEGT licensing in relation to forest certification and considers the implications for strategies to improve market access for FLEGT-licensed timber in the EU.
- Chapter 12 provides insights into potential impacts of the FLEGT VPA process and FLEGT-licensing on forest sector investment based on initial results of research commissioned by IMM in 2018.⁷
- Chapter 13 considers the links between the FLEGT VPA process and policy initiatives regulating trade in illegal timber in non-EU countries, considering both the content of these initiatives and their relative importance in VPA Partner trade.
- The Report concludes with recommendations for FLEGT License market development and plans for future IMM monitoring.

1.4 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 (HS) 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).

In this report, all the products identified above (wood, wood furniture, pulp and paper) are referred to collectively as “timber and timber products⁸”. Wood and wood furniture, when dealt with separately from pulp and paper, are referred to collectively as “wood products”.

The report focuses on the trade between the 28 EU member countries and the following 15 tropical timber-supplying countries at various stages of the VPA process in December 2018 which are collectively referred to as VPA partner countries:

- FLEGT licensing: Indonesia.
- VPA implementing:⁹ Viet Nam, Cameroon, Central African Republic, Congo, Ghana, and Liberia.
- VPA initialed:¹⁰ Guyana, Honduras.
- VPA-negotiating:¹¹ Côte d’Ivoire, the Democratic Republic of the Congo (DRC), Gabon, the Lao People’s Democratic Republic (Lao PDR), Malaysia, Thailand.

1.5 Data sources

Trade flow data for this report is derived from three sources, all providing the raw data ultimately sourced from customs and other national statistical agencies at the highest level of HS resolution which is compiled, validated where possible, and summarised by IMM:

- Trade data for all 28 member states is sourced from the Eurostat Comext bulk download facility.¹² This data is compiled by IMM every month and cleaned using a validation routine developed by IMM.
- Trade data on an additional 16 leading timber trading countries (Australia, Brazil, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, Norway, Switzerland, Taiwan, and United States) is purchased from BTS Ltd, a UK based company specialising in bulk provision of raw national trade flow data. IMM acquires and summarises this data monthly.
- Trade data on an additional 14 tropical trading countries (Bolivia, Côte d’Ivoire, Ecuador, Ghana, Guatemala, Honduras, India, Mexico, Panama, Paraguay, Peru, Philippines, Singapore) is purchased from HIS Markit, the company that now owns the Global Trade Atlas. IMM acquires and summarises this data annually.

IMM’s analysis of global trade flows involves combining data from all these sources into a single standardised database. Since 2018, the process of combining, validating and standardising data for IMM reports and other data sources is being managed through the Sustainable Timber Information Exchange (STIX), which links IMM work in this area with data validation routines developed as part of a project hosted by the Global Timber Forum in 2017 (see Section 1.6).¹³

Where necessary, additional data (structured using product categories of the Joint Forest Sector Questionnaire rather than the HS system) is derived from the ITTO

⁷ To be addressed in more detail in an IMM special study to be published in 2019

⁸ This aligns with usage of the term “Timber and Timber Products” in the FLEGT Action Plan and EU Timber Regulation.

⁹ For purposes of statistical analysis and charting in this report, the five African implementing countries are referenced collectively as “Implementing (Af)” and Viet Nam is referenced separately as “Implementing (As)”.

¹⁰ Countries that had negotiated and initialed a VPA in 2018 but yet to reach the implementing stage before the end of the year. For purposes of statistical analysis, and to provide a baseline for future monitoring, these countries are referenced separately as “Implementing (Am)” in this report.

¹¹ For purposes of statistical analysis and charting in this report, the three African countries are referenced collectively as “Negotiating (Af)” and the three Asian countries are referenced collectively as “Negotiating (As)”.

¹² <https://ec.europa.eu/eurostat/estat-navtree-portlet-prod/BulkDownloadListing?sort=1&dir=comext>

¹³ Data sourced from the STIX database is identified in this report as “IMM-STIX”.

Biennial Review¹⁴ and FAOSTAT¹⁵. Some data on additional countries is also sourced from the UN COMTRADE database.¹⁶ Occasionally data not regularly available through any of these international sources is derived from national sources, notably for Viet Nam.¹⁷

In addition to insights from IMM trade surveys, Trade Consultations, and IMM Special Studies, IMM interpretation of trade data and the commentary on market trends draws heavily on regular review of the ITTO Tropical Timber Market (TTM) Report,¹⁸ published every two weeks.

1.6 Access to supporting data

The market and trade flow analysis 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. For broader market insights, the 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.

Alongside the dashboard, IMM is developing a series of VPA Partner pages on the website (see www.flegtimm.eu for updates), providing comprehensive data both on imports

and exports, and market share by product group in the EU for each individual VPA partner country. The VPA Partner pages will also include details of the current status of VPA implementation and negotiation in each VPA partner country (drawing on Chapter 2 of this Report) alongside commentary of recent trade flow trends.

The IMM dashboard and VPA partner pages use trade flow data from the STIX database which is being regularly updated drawing on the most recent monthly data from the COMEXT bulk download facility for the EU and supplied by BTS Ltd for the additional 16 leading timber trading countries. Together these 44 countries are estimated to account for at least 90% of the total value of global timber products trade. A dashboard is being developed through the STIX initiative to provide more flexible and comprehensive access to this full data set.¹⁹ A key focus of work by STIX, supported by ITTO and IMM, is to progressively extend country coverage and to standardise reporting of data on trade quantity alongside trade value.

Acknowledgements

The authors thank the companies, organisations and institutions across Europe, Indonesia and Ghana who gave their time to provide some of the insights presented in this report.

2 VPA implementation and negotiation – state of play

In 2018, the EU FLEGT VPA process involved programmes in 15 tropical countries, which together supplied around 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 given that the process aims to create robust and reliable Timber Legality Assurance Systems (TLAS), 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.

Indonesia remained the only FLEGT-licensing partner country in 2018, but Ghana signalled readiness for launching the Final Joint Assessment of its GhLAS during the year. The Assessment has since been brought underway and Ghana is expected to be the next country to start FLEGT-licensing. Moreover, after Viet Nam in 2017, two additional countries, Honduras and Guyana, initialled their VPAs in 2018 and will soon officially reach

implementing stage. There follows a summary of where VPA negotiations or implementation stood in each partner country in 2018.

2.1 FLEGT-licensing partner countries

2.1.1 Indonesia

In 2016, Indonesia became the first country to start FLEGT licensing, having signed its VPA with the EU in 2011. Indonesia's established SVLK framework became the VPA timber legality assurance system. The V-Legal documentation and label was retained as legality assurance validation for exports to non-EU countries and the civil society organisation network, JPIK, was officially recognised as independent monitor. Under scrutiny by JPIK and EU and Indonesian authorities, the Indonesian licensing and assurance system has continued to evolve. Most recently, the EU FLEGT and REDD facilities have produced a working paper looking into the feasibility of amending the

¹⁴ https://www.itto.int/biennial_review/

¹⁵ <http://www.fao.org/faostat/en/#data/FT>

¹⁶ <https://comtrade.un.org/data/>

¹⁷ Viet Nam trade data is derived from <http://goviet.org.vn/bai-viet/viet-nam-xuat-nhap-khau-go-2018-mot-nam-nhin-lai-va-xu-huong-2019-8947>, an annual analysis of Viet Nam timber trade prepared by Forest Trends supported by various agencies.

¹⁸ https://www.itto.int/market_information_service/

¹⁹ A pilot version can be reviewed at <https://www.stix.eco/shiny/app/stix/>.

SVLK to apply to customary forests to support livelihoods and forest protection.²⁰ To date only a limited area has been recognised as customary forest, but it could extend up to 2 million ha. Since 2016 more than 50,000 FLEGT Licences have been issued by Indonesia's 25 independent licensing authorities. EU Competent Authorities and importers say, generally, the system has worked effectively and efficiently. One issue has been mismatches in HS customs codes between those applied on licences and those used by EU customs. However, this seems to have been largely resolved in 2018 through dialogue between EU and Indonesian authorities. The number of licences issued after consolidation of shipments, which tended to lead to errors, has also been reduced. To further streamline licence administration, the EU and Indonesia are also looking at the feasibility of implementing e-licensing.

2.2 VPA implementing partner countries

2.2.1 Cameroon

Cameroon started VPA negotiations in 2007, signed the agreement in 2010 and ratified it in 2011. However, the pace of VPA implementation has been slow in recent years. In January 2019 the Joint Annual Report (JAR) for 2017 on the VPA's development was released. In May 2019, both parties agreed to stop implementation of the SIGIF2 software, which was supposed to underpin the Legality Assurance System, and launch a new initiative as a part of the PAMFOR initiative (EDF programme). Revision of the legality definition is also underway. Moreover, the Ministry of Forest and Wildlife issued 18 certificates of legality to 16 timber processing unit operators and published a document explaining its system for collating certification documentation. Information about legal compliance with VPA legality requirements by logging companies can now also be accessed online through the Open Timber Portal (OTP) platform (<https://opentimberportal.org>).

2.2.2 Central African Republic (CAR)

VPA implementation in CAR regained some momentum in 2015–16 after democratic elections restored some stability. In February 2019, the 2017 joint EU–CAR Annual Report on VPA implementation was released.²¹ Among developments highlighted were; sanctions for mandated independent observation of forest law enforcement; further support for the WWF's private sector VPA capacity-building project; reinstatement of the Mobile Inspection Brigade, which controls forest, wildlife and fishing activity; launch of a collaborative database within the VPA Permanent Technical Secretariat (STP) to monitor timber transport from the forest and tax payment; and missions by FAO–EU FLEGT Programme consultants to support the STP in developing a VPA information website and timber monitoring database. As far as the fragile political situation is concerned, the CAR government concluded an accord with 14 armed groups in February 2019, leading to a peace agreement and appointment of a new 'inclusive government' on 24 March 2019. However, commentators say the security situation remains precarious.

2.2.3 Republic of the Congo (RoC)

The RoC has made significant steps towards completing implementation of the VPA over the last few years. By 2018, 29 forest concessions out of 60, comprising 10.4 million ha, or 68% of forest allocated to commercial use, had implemented or were developing sustainable management plans as a part of VPA implementation, according to the forest management stock study elaborated by TERE in 2018. In 2018, the EU and RoC released a 2018–22 implementation strategy,²² including VPA communication plans, and renewed focus by the Ministry of Forest Economy on 'optimising forest revenue collection' as part of reforms. Stakeholder engagement was strengthened by the country's Sustainable Forest Management Platform and a new Congo VPA Facebook page. A meeting of the JIC in November 2018, included a presentation on the status of the VPA's legality verification framework. Of 29 indicators for monitoring implementation of the system, six are in progress, with work on the others at an early stage or not started. The FLEGT VPA unit urged allocation of more funds to the process. There were also reports on forest code revision and the computerised legality and traceability verification system, which was ready for deployment. Ongoing problems with legality verification system (SVL) compliance due to regulatory capacity issues were reported by the Independent Auditor, (contract managed by the French auditing company SOFRECO). It also highlighted that many forest operations still lacked management plans. A new call to tender for the next independent audit contract will be published in 2019. The JIC meeting did underline continuing support for the VPA process from government ministries, with representatives highlighting potential outcomes, including tax gains and EU market development for further processed wood products.

2.2.4 Ghana

Ghana is widely expected to be the next VPA country after Indonesia to start FLEGT licensing. Ghana and the EU announced the launch of the Final Joint Assessment of Ghana's Timber Legality Assurance System in January 2019. Consultants carrying out the assessment have met with Ghana's Ministry of Lands and Natural Resources and representatives of other government divisions involved with the Ghanaian Legality Assurance System (GhLAS). The Ghana Forestry Commission's (FC) Timber Industry Development Division (TIDD) and the UN Food and Agriculture Organisation (FAO) also signed an MOU in March 2019 on funding for the project '*Enhancing Stakeholders interest in the Domestic Timber Trade Network (DOTNET) Process* to assess demand and supply of legal timber in the Ghanaian domestic market. The project is part of the FC's strategy to ensure wider international recognition and acceptance of Ghana's VPA and ultimately its resulting FLEGT-licensed timber and wood products. This, it says, requires a 'well-structured, regulated domestic market', which will also 'propel development and growth of the timber industry'. The DOTNET process will bring together players across the domestic market supply chain, including loggers, sawmills and sellers to promote

²⁰ <http://www.euflegt.efi.int/documents/10180/463214/Working+paper+-+Implementing+SVLK+in+customary+forests.pdf/8b9e3034-1b11-c0c9-e4b5-2b68d3ab5891>

²¹ <http://www.euflegt.efi.int/documents/10180/463576/CAR-VPA-AR-2017-EN.pdf/142aca6c-836e-806d-5aa8-72bac25e2084>

²² <http://www.euflegt.efi.int/documents/10180/438736/Congo+-+Rapport+annuel+conjoints+2017+.pdf/68e22f04-12d5-47ed-1157-3c06ced39023>

trade in legal timber, backed by a platform providing traceability of timber sources. The preparation phase will examine trade access to legal material and communication to the market on the GhLAS.

2.2.5 Liberia

Liberia started VPA negotiations in 2009, agreed and signed the VPA in 2011 and ratified and brought the VPA into force in 2013. In 2018, EU and Liberian representatives met for a briefing on the latest state of the VPA and to relaunch talks on implementation. Among discussion topics were Liberia's system for tracing timber from forest to point of export. It is acknowledged that the VPA process has increased stakeholder participation, including via the multi-stakeholder monitoring and JIC. The Liberian government is now in the process of taking over management of the Legality Verification Department (LVD) and the timber tracking system called LiberTrace from Société Générale de Surveillance (SGS) the service provider. The JIC, comprising government, private and civil society representatives met in February 2019. Discussions covered the government's delay, attributed to budgetary constraints, in disbursing the legally required share of land rental fees to the National Benefit Sharing Trust Board (NBSTB). EU representatives described Liberia's legal framework for sharing benefits with logging-affected communities as 'exemplary' and said stakeholders should cooperate in implementing it. The JIC concluded that a new mechanism was needed to expedite payments. The Liberian Forestry Development Authority (FDA) committed to make more information available to the public and the JIC also endorsed a communications strategy targeting forest stakeholders and the public about VPA-related issues, including progress achieved and areas for improvement.

2.2.6 Viet Nam

Viet Nam began VPA negotiations in 2010 and agreed a VPA in 2017. The agreement was signed in 2018 and ratified by the EU and Viet Nam in April 2019. The terms of the VPA were enshrined in Viet Nam's new forestry law which came into force in January 2019. The new law includes a commitment from the government to further increase cooperation in forestry with foreign partners to strengthen environmental protection and help meet sustainable development goals, climate change and other international commitments. Viet Nam published a plan in December 2018 with the objective of implementing a fully operational Timber Legality Assurance System (VNTLAS) by 31 December 2020. The plan is acknowledged to be ambitious and time scales and activities may need to be adjusted with experience. However, the initial plan envisaged completion within only 2 years of all required activities under the following headings: development of legislative documents and guidelines; establishment of technical infrastructure for VNTLAS operation; capacity building for relevant stakeholders; communications; implementation, monitoring and evaluation of the Agreement; and connecting activities supporting the VPA/FLEGT implementation regionally and internationally. Viet Nam is not only a significant timber producer in its own right but is also a major regional processing hub, importing wood from over 80 countries, tropical and temperate. VNTLAS will cover not only domestically produced wood, but also imports. Vietnamese operators will have to undertake due diligence on imports, assess the risk of illegality and undertake mitigation measures

if necessary. It is thought this could create a legality assurance ripple effect across the range of countries supplying Viet Nam.

2.3. VPA initialled partner countries

2.3.1 Guyana

Guyana initialled the VPA agreement with the EU in 2018, with one emphasis being its role in upholding indigenous Amerindian people's rights and interests. At the same time, a final draft of Guyana's Green State Development Strategy (GSDS) was developed with an aim to make the country a 'de-carbonised, resource efficient economy'. However, the GSDS had yet to be passed into law by the end of 2018. To help progress its VPA, Guyana launched formal consultations on new Forestry Regulations to receive input from private sector and civil society. In 2018, Guyana also formalised a compulsory Code of Practice for forest operations which is now incorporated into the legal framework. The new Regulations and Code of Practice allow for a more robust system of monitoring. As well as clarifying legal and administrative requirements applicable to the forest sector, the VPA process has led to other governance gains. It has strengthened government institutions responsible for forestry, tax, customs, environment, labour and land use, and improved coordination between them. And, in a boost for transparency, the Guyana Forestry Commission now publishes information about allocation of logging concessions on its website.

2.3.2 Honduras

Honduras was the first Latin American country to initial a VPA with the EU in 2018; implementation will begin once the Agreement has been ratified. The VPA has been characterized by broad stakeholder engagement, including public and private sectors, civil society and, in a FLEGT VPA first at the time, indigenous peoples' groups. The VPA includes in its legality definition an indicator stating that the Forest Institute will respect the right to free prior and informed consultation in the territories of the Indigenous and Afro-descendant Peoples of Honduras where commercial timber harvesting is intended to take place and by which those Peoples are directly affected. The timber legality assurance system will be based on Honduras' existing national strategy against illegal logging (ENCTI). Honduras has expressed an explicit desire to use the VPA to increase transparency in the forest sector. The Honduras VPA includes an annex on public disclosure of information that lists the information the government commits to making publicly available.

2.4. VPA negotiating partner countries

2.4.1 Côte d'Ivoire

Côte d'Ivoire entered VPA negotiations in 2013 as part of a strategy, also including governance reform, to combat serious deforestation, which has seen forest cover decline by 80% over the last century. In March 2017, Côte d'Ivoire updated its VPA Roadmap, with the government focused on harmonizing agricultural and forest policy. The Prime Minister proposed a 'pragmatic policy' to improve control of forestry activities. As a result of this, a new forest code was adopted by the National Assembly in July 2019, with the objective to accelerate the reforestation of the country by encouraging partnerships between small holders,

private sector and public sector. Sanctions are reinforced and new issues such as agroforestry, forest concession, independent observation and a participatory approach are introduced. The Code also clarifies customary rights in the land tenure context.

2.4.2 Democratic Republic of Congo (DRC)

Discussion about the VPA between the EU and DRC were brought back into focus late 2016, with the country's FLEGT Technical Commission continuing work on its legality definition. The draft of the latter for industrial forest concessions was produced in 2017 and was field-tested in December 2018. The FLEGT Technical Commission presented the results of that field-test during a consultation and information workshop in June 2019. In 2018 a national strategy on community forestry was adopted. Otherwise, the DRC has engaged more with the EU REDD initiative. Some of this engagement, including action on sustainable forest management, conservation and strengthening of forest carbon stocks, has seen the country progress towards FLEGT objectives. Pilot projects have included the Mai Ndombe Province Emission Reduction Program, which is trialling a legality strategy and compliance standard for monitoring logging companies with a view to rolling it out to the rest of the country. Work on updating legality grids was reported in 2016 and 2017 and the EC was planning to restructure FLEGT working groups and to focus not just on VPA specific issues but to participate in national forest policy development.

2.4.3 Gabon

Two VPA negotiations have been organised by Gabon and EU. The first was in September 2010 and the second in October 2011. In May 2012 a bilateral technical session was organised but then there was very little VPA-related activity until 2015 when the EU and Gabon agreed to a roadmap. However, no further negotiations have taken place since then and the road map has yet to be implemented. In the meantime, the Gabonese government has continued with legal reforms in the forestry sector, notably revision of the forestry code. This latter process started in 2011 and in 2016 a final version was submitted to the parliament for approval. Another action to reform the forest sector is the creation of the National Action Plan to Fight against Illegal Forestry Exploitation (PANEFI) in May 2013. This action plan is seen as a concrete measure to fight illegal logging through investigations, arrest operations and strict legal follow up with active cooperation between the Ministry of Forestry and the justice system. In 2018 a scandal related to the disappearance of several containers of CITES-listed keivazingo timber and subsequent government investigations led to the dismissal of the minister in charge of forest. A new minister, formerly the head of Gabon's National Parks Agency, was appointed in June 2019 and prioritised renewed efforts to stamp out illegal logging.

2.4.4 Lao PDR

Lao PDR began VPA negotiations in 2017 after first voicing interest in 2012 and opening a FLEGT standing office in 2013. The aim is to develop the forest sector and its skills levels and encourage technology transfer to the industry. Currently Lao PDR's main source of timber is

forest clearing for conversion to plantation and non-forest use, including hydropower generation and agriculture. Underlining its commitment to reform, in January 2019 a national consultation workshop was held to discuss the final draft of the Ministry of Industry and Commerce's policy for monitoring input and output across the wood processing and trade sectors. The aim of the latter is systematic timber supply chain monitoring and control to ensure legality. Lao PDR delegations have also joined study trips to other VPA countries, including Indonesia and Ghana, to see how timber legality assurance systems operate on the ground.

2.4.5 Malaysia

Formal VPA negotiations have been on hold in Malaysia since 2015 as further movement is not possible without a firm commitment and a defined timeline from Sarawak to be party to the VPA. No TLAS in Malaysia can be evaluated or accepted for FLEGT licensing until this situation is resolved. However, pending the eventual conclusion of a VPA, Peninsular Malaysia has implemented a TLAS (known as MYTLAS), beginning in February 2013, to facilitate timber industry compliance to the due diligence requirements of their customers. This system is subject to an Annual Compliance Audit by a third party monitor. Over 60,000 MYTLAS licenses had been issued by the Malaysian Timber Industry Board (MTIB) for products exported to the EU market by 31st May 2018. As part of MYTLAS, after a two year development process, Peninsular Malaysia began to fully enforce a timber import legality requirement from July 2017. A TLAS has also been implemented in Sabah since 2016 involving auditing against a TLAS standard by a third party appointed by the Sabah Forestry Department. The Sabah TLAS is itself assessed and monitored through internal audits conducted by other government implementing agencies. The Sarawak state government has also committed to implement a timber legality verification system (STVLS) requiring mandatory compliance from 2020 and involving auditing of forest and timber trade operators by a third party appointed by the state government.

2.4.6 Thailand

Thailand started VPA negotiations with the EU in 2017. Like Viet Nam, it is a significant regional wood products manufacturing hub and a major importer from other suppliers in the area including neighbouring countries with higher deforestation rates; Cambodia, Malaysia (Sarawak) and Myanmar. Thailand and the EU held their second round of VPA negotiations in mid-2018, the Thai government having initiated constitutional reform to introduce forest governance improvements, including public consultation for legal reforms, gender equality, public information access and a public right to participate and benefit from natural resource management. Thailand also reported progress on its TLAS through broad stakeholder engagement. An EU-Thai video conference took place in May 2019 for technical discussion and updates on the development of FLEGT VPA annexes. The third round of formal negotiations was scheduled for summer 2019.

3 VPA country export trade – 2018 update

3.1 Scope

The section considers the relative contribution of VPA Partners in total global trade in tropical wood products in 2018. It considers the changing composition of products in this trade and changing regional supply and demand during the year. This is to ensure that trade flows between VPA Partner countries and the EU are considered in their appropriate global context.

The section builds on and does not repeat the more detailed analysis of long-term trends covered in previous IMM reports.²³

3.2 VPA partner share of global tropical wood product trade in 2018

Global trade in tropical wood products (all products in HS 44 and wood furniture products in HS 94) increased 8% to US\$39.8 billion in 2018 (Figure 3.2.1). This continues the rebound from the dip in 2016, which occurred during a period of slowing growth and the end of the speculative rosewood boom in China. Unlike the 2009 to 2014 period, when rapid trade growth was driven largely by China's imports of primary wood products, particularly rosewood, recent growth is mainly due to rising wood furniture exports, notably from Viet Nam and India destined for the US. There was also a notable rise in wood products exports by Indonesia, particularly plywood for the US.

The 15 VPA partner countries together accounted for US\$31.4 billion of wood products exports in 2018, up from US\$29.1 billion in 2017. The share of

VPA partners in total tropical wood trade was 78.8% in 2018, a marginal decrease compared to 78.9% in 2017.

Indonesian wood products exports increased 9% to close to US\$6.5 billion in 2018 (Figure 3.2.2), with significant growth in exports to Japan, South Korea, Australia and the Netherlands, in addition to the US. Indonesia overtook Malaysia to become the second largest tropical wood product exporter in 2018, although now some way behind Viet Nam. Indonesia's share of global trade in tropical wood products increased slightly from 16.1% in 2017 to 16.2% in 2018.

In the closing months of 2018, Viet Nam became the second country in Asia, after Indonesia, to sign a VPA and enter the TLAS implementation stage. Viet Nam exported tropical wood products with total value of US\$11.6 billion in 2018,²⁵ an increase of US\$1.4 billion (14%) compared to a year earlier. Viet Nam's share of global trade in tropical

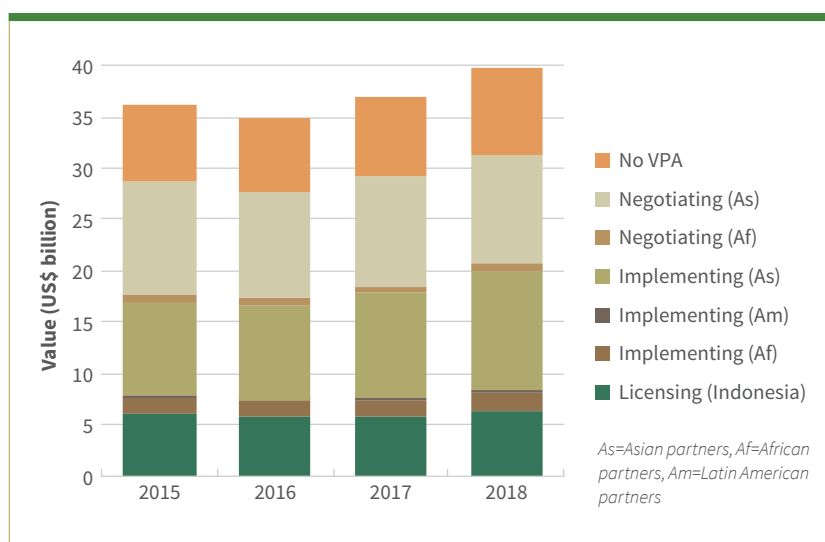


Figure 3.2.1: Global tropical wood-product trade, by FLEGT VPA status, 2015 to 2018. Source: IMM-STIX

²³ 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, 'FLEGT VPA Partners in EU Timber Trade 2014 to 2016' published in 2017, and 'FLEGT VPA Partners in EU Timber Trade 2017' published in 2018. All IMM reports are available at: <http://www.flegtimm.eu/index.php/reports>

²⁴ The Sustainable Timber Information Exchange (STIX) is a joint initiative of the International Tropical Timber Organization (ITTO) and Global Timber Forum (GTF), co-funded through IMM, to collect, organise, visualise, disseminate, and exchange data on global trade flows of timber and forest products, alongside the contextual information needed to monitor the impact of measures to promote legal and sustainable trade. STIX currently provides access to data on timber products trade as reported by the statistical agencies of 44 countries including nearly all the world's largest exporters and importers.

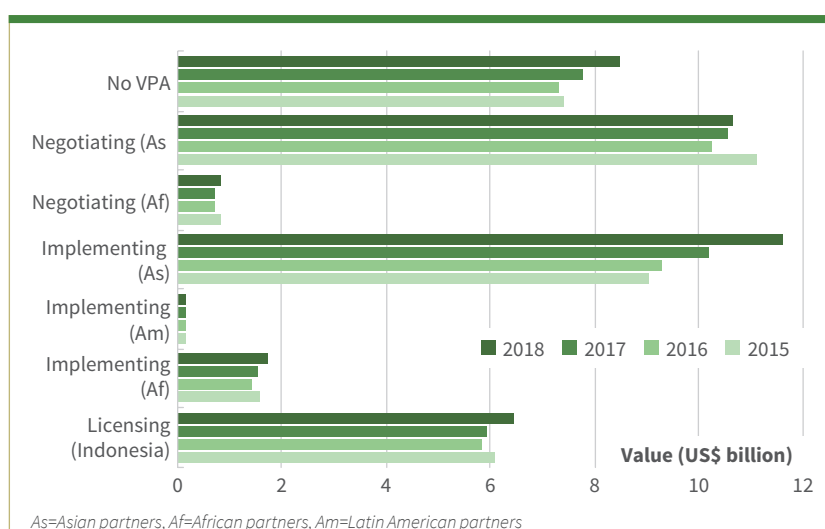


Figure 3.2.2: Tropical wood-product trade, by FLEGT VPA status, 2015 to 2018.²⁴ Source: IMM-STIX

wood products increased from 27.6% in 2017 to 29.1% in 2018. Nearly 50% of Viet Nam's exports in 2018 were destined for the United States, while nearly a third were destined for other Asian markets, mainly Japan, China and South Korea. Viet Nam's exports to the EU increased 5% to US\$ 997 million in 2018 when they accounted for 9% of Viet Nam's total exports.

In 2018, the five VPA implementing countries in Africa together exported US\$1.7 billion of wood products, 11% more than in 2017, and accounted for 4.3% of total global tropical trade, up from 4.2% in 2017. Exports increased sharply in Cameroon, RoC, CAR and Liberia and there was a small uptick in Ghana. The overall rise in exports was driven mainly by logs destined for China and, to a lesser extent, Viet Nam and India.

The two VPA implementing countries in Latin America exported US\$140 million of wood products in 2018, a decline of 1% compared to the previous year. Their share of total global tropical wood product exports remained stable at 0.4%. While both countries sold more product

into the US and China in 2018, Guyana lost sales in India while Honduras exports declined to neighbouring Latin American countries.

Exports by the three VPA negotiating countries in Africa increased 11% to US\$822 million and accounted for 2.1% of total global tropical wood products trade in 2018, up from 2.0% in 2017. All the gains were in Gabon, where exports of sawn wood and veneer increased sharply during the year (log exports have been banned since 2010), with most growth destined for China and India. Exports from DRC and Côte d'Ivoire continued a longer-term decline during 2018.

In 2018, the three VPA negotiating countries in Asia together exported US\$10.6 billion of wood products, a slight rise (+0.7%) compared to 2017. Share of these countries in total global tropical wood trade declined from 28.6% in 2017 to 26.7% in 2018. Malaysia's exports increased 2% during the year, with rising shipments to the EU, US, Japan and South Korea offsetting a significant decline (mainly of logs from East Malaysia) to India. Exports by Thailand and Lao PDR were flat during the year.

In 2018, countries not engaged in the VPA process exported US\$8.5 billion of tropical wood products, up 9% on the previous year, and accounted for 21.2% of total global trade, up from 21.1% in 2017. Most of the growth was due to a big rise in log exports by Papua New Guinea and the Solomon Islands to China.

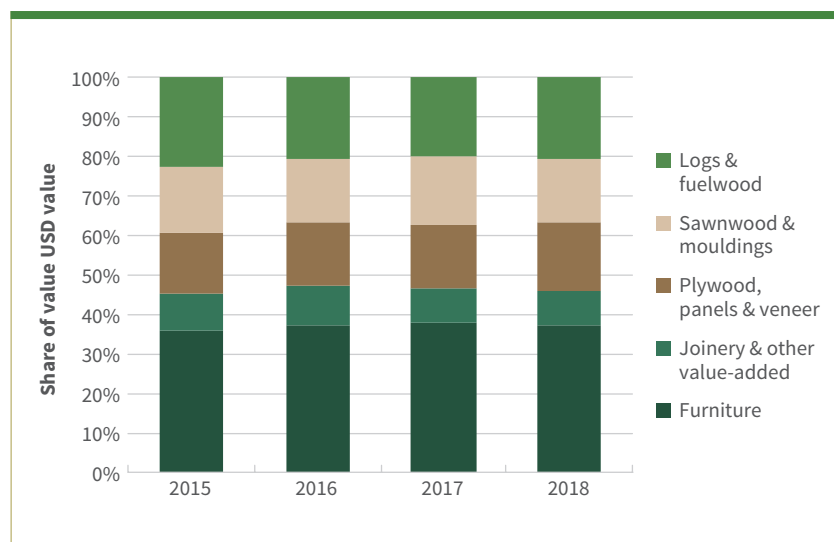


Figure 3.3.1: Share of global trade in tropical wood-products, by product group, 2015 to 2018. Source: IMM-STIX

3.3 Product mix of tropical wood trade

The most notable change in product mix of tropical wood in international trade in 2018 was a slight easing in the share of sawn wood and higher value-added products such as wood furniture and joinery at the expense of logs and plywood (Figure 3.3.1).

Between 2017 and 2018, the share of sawn wood declined from 17.1% to 16.1%, the share of furniture fell from 37.8% to 37.3%, while the share of joinery and other valued-added

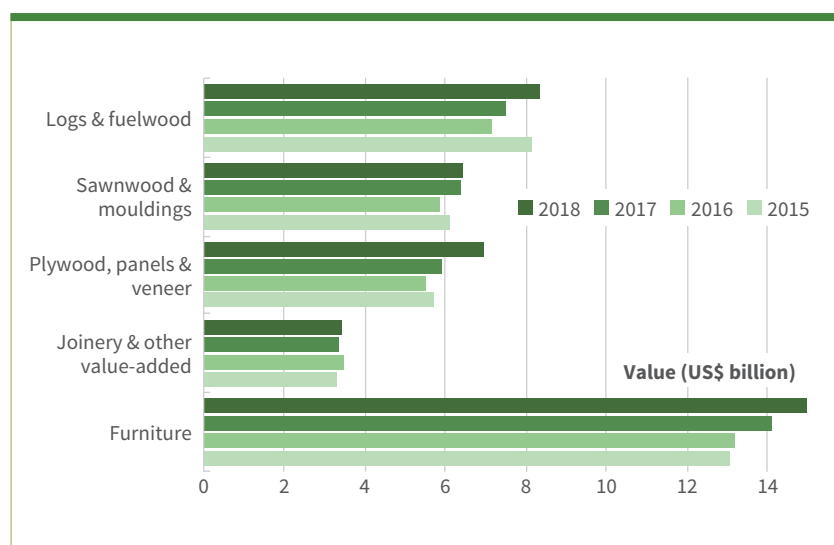


Figure 3.3.2: Global trade in tropical wood-products, by product group, 2015 to 2018. Source: IMM-STIX

²⁵ Figures reported here for trade by Viet Nam and several other tropical countries are higher than reported by national authorities in those tropical countries. This is mainly because the data used in this analysis is primarily derived from "mirror statistics", that is imports reported by major trade partners rather than exports reported by tropical countries, the latter being less readily available on a regular basis. Unlike export data, which is usually based on FOB values, import data is frequently reported in CIF values (i.e. also including freight cost) which will be higher. It is also not unusual for ownership of shipments to change hands during transit with the new owner adding a markup in the price. This also contributes to figures for import value tending to be higher than figures for export value.

products fell from 9.1% to 8.6%. In contrast share of logs increased from 20.1% to 20.7% and share of plywood increased from 15.9% to 17.3%.

Although these shifts in product mix in 2018 are relatively minor, and may not be sustained, they do reflect a slight reversal of the longer-term trend of wood furniture becoming more prominent in global tropical wood trade flows. While global exports of tropical wood furniture continued to rise in 2018, particularly driven by Viet Nam, there was also a significant recovery in log exports, notably to China, after two slower years in 2016 and 2017 (Figure 3.3.2).

The year 2018 also saw a big rise in the value of the tropical plywood trade, particularly from Indonesia destined for the US, Japan, South Korea, the EU, and Australia.

With new investment in plywood manufacturing in the Mekong region of Asia, and partly in response to the on-going trade dispute between the US and China, the US was importing significantly more plywood from Viet Nam, Cambodia, Thailand, and Malaysia during the year.

3.4 Regional supply of tropical wood products

3.4.1 Asia

In terms of value, Asian countries have dominated the tropical wood trade for many decades, a result of more rapid economic development and far-reaching steps up the value chain compared to other tropical countries. But while the overall share of Asian countries in global trade has remained level at around 82% in last half decade (Figure 3.4.1.1), significant changes are underway in the mix of countries and products involved in the trade.

In the four years between 2015 and 2018, total wood product exports by the five countries of the Mekong region (Cambodia, Lao PDR, Myanmar, Thailand, Viet Nam) increased from US\$13.7 billion to US\$16.5 billion. The Mekong region has emerged as the largest source of tropical wood product supply, overtaking South East Asia where exports were relatively flat, fluctuating around US\$14 billion, during the same period. While the Indian sub-continent now exports more tropical wood products than in the past, rising to US\$1.4 billion in 2018, it remains a comparatively smaller supplier to the rest of the world (Figure 3.4.1.2).

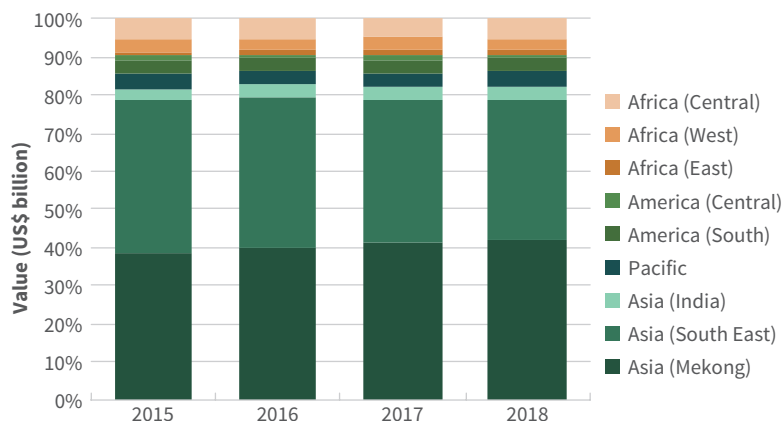


Figure 3.4.1.1: Share of global trade in tropical wood-products, by region of supply, 2015 to 2018. Source: IMM-STIX

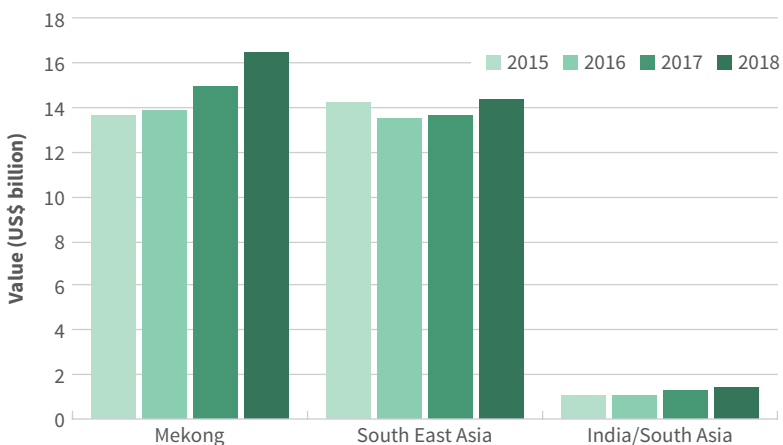


Figure 3.4.1.2: Tropical wood-products exports, by Asian region of supply, 2015 to 2018. Source: IMM-STIX

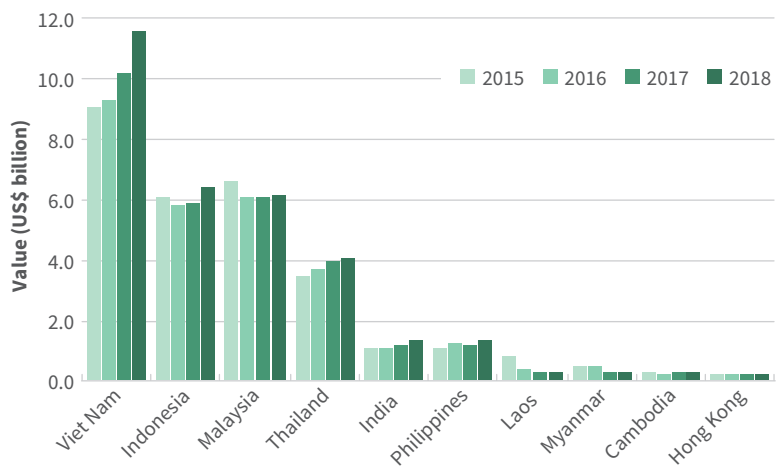


Figure 3.4.1.3: Trade in tropical wood-products, by Asian exporters, 2015 to 2018. Source: IMM-STIX

Trade by countries within the Mekong region itself is also shifting. Previously driven by a large and often unregulated trade in logs and rough sawn timber internally and to China and India, much comprising teak and rosewood, and by rising exports of plantation rubberwood and acacia from Thailand to China, recent growth is mainly due to Viet Nam's rising exports of furniture and plywood to the US and of biomass and chips to Japan, China and South Korea.

Thailand's exports, primarily of sawn wood from plantations, levelled off at a record level of just over US\$4 billion in 2017 and 2018. Cambodia, which previously exported large quantities of sawn wood to Viet Nam and China, is becoming more dependent on exports of plywood and furniture to the US. Cambodia exported around US\$327 million of wood products in 2018, slightly more than the previous year despite a continuing decline in exports to China and Viet Nam. In Myanmar, where forests are heavily degraded and log exports were banned in 2014, exports fell 4% to US\$308 million in 2018, still destined mainly for China and India but now focused on sawn wood, veneer

and charcoal. Exports from Lao PDR, comprising logs and sawn wood destined principally for China and Viet Nam, fell dramatically in 2016 and remained at a lower level of around US\$320 million in 2017 and 2018 (figure 3.4.1.3).

In South East Asia, exports from Indonesia recovered ground in 2018, rising 9% to US\$6.5 billion, mainly due to rising sales of plywood, and to a lesser extent furniture, joinery and charcoal, destined for the US, Japan, South Korea and Australia. Malaysia's exports also gained a little ground in 2018 after a dip in 2017, rising 2% to US\$6.2 billion, with growth in exports of furniture and plywood to the US, Japan, South Korea and the EU offsetting declining log exports to India.

3.4.2 Africa

Exports from Central Africa increased 17% in 2018, to US\$2.13 billion (Figure 3.4.2.1), with exports from Cameroon rising 22% to US\$690 million, Gabon rising 25% to US\$572 million, RoC rising 27% to US\$359, and CAR rising 94% to US\$72 million. These gains offset declining exports from Equatorial Guinea, down 21% to US\$ 353 million, Nigeria, down 8% to US\$ 340 million, and DRC, down 7% to USD 63 million (Figure 3.4.2.2).

These trends were significantly influenced by demand in China which accounted for 62% (US\$ 1.32 billion) of all wood products exports from Central Africa in 2018. While demand for rosewood in China has fallen, and controls on the trade in African rosewood increased following the CITES listing in 2016, China's imports of all wood products from Central Africa increased 22% in 2018.

Exports from Central Africa to the EU also increased in 2018, by 7% to US\$637 million, recovering some ground lost the previous year due to serious delays shipping out of Douala port in Cameroon, overstocking in the EU at the end of 2016, and delayed payment of VAT refunds by some African governments, partly linked to low oil prices.

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In contrast to Central Africa, exports from both East and West Africa declined in 2018 (Figure 3.4.2.1). In East Africa, exports from Mozambique fell 12% to US\$281 million as the government imposed higher reference prices for logs at the start of 2018, reduced legally sanctioned harvest levels, and totally banned harvesting of several species including *Pterocarpus tinctorius* and *Swartzia madagascariensis* (ironwood).

Falling exports from West Africa during 2018 were driven by Côte d'Ivoire where trade was down 9% to US\$157 million, continuing a long-term trend. After several years of decline, Côte d'Ivoire's exports to the EU increased 2% in 2018, to US\$77 million, but this gain was offset by falling

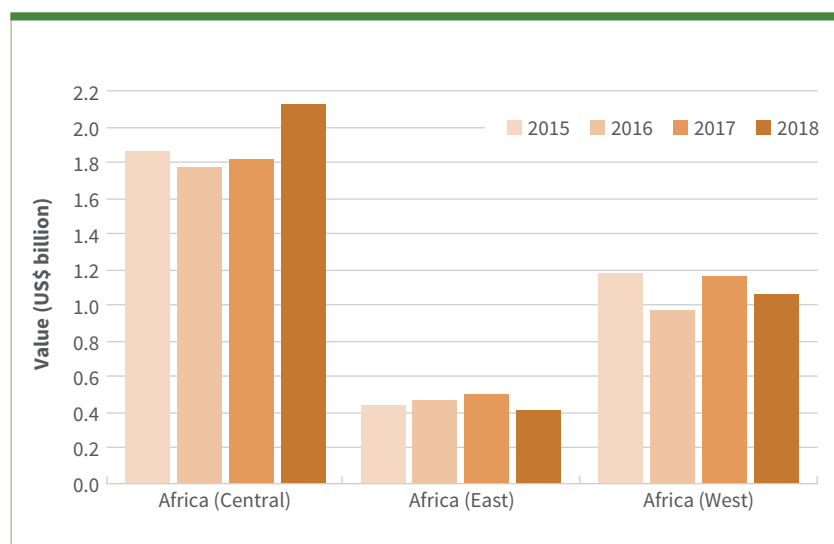


Figure 3.4.2.1: Tropical wood-products exports, by African region of supply, 2015 to 2018. Source: IMM-STIX

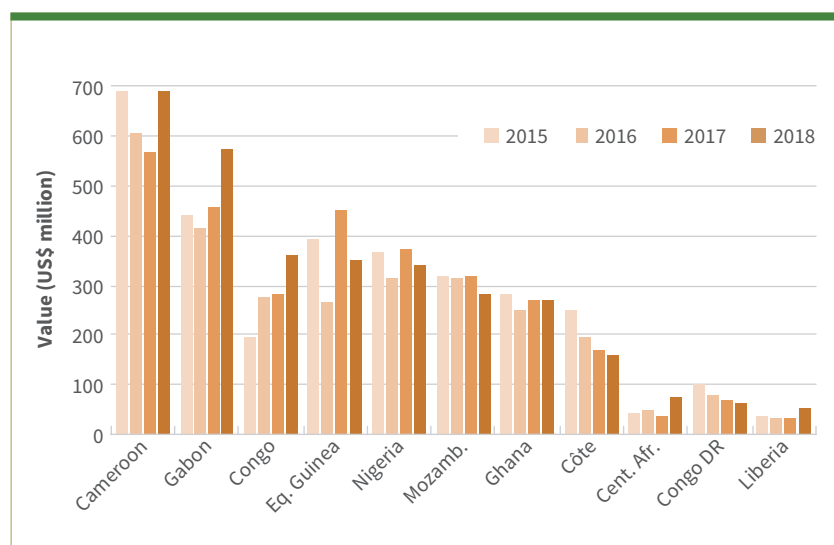


Figure 3.4.2.2: Trade in tropical wood-products, by African exporters, 2015 to 2018. Source: IMM-STIX

exports to Senegal and India. Ghana's exports increased 1% to US\$ 271 million in 2018, with exports of logs, mainly plantation teak, rising to India, and exports of sawn wood rising to the US and Viet Nam. Liberia's exports increased 57% to US\$51 million, all comprising logs with over 90% destined for China.

3.4.3 Pacific and Latin America

Tropical wood product exports from the Pacific region are dominated by logs from Papua New Guinea and the Solomon Islands destined almost exclusively for China, with the remainder destined for India, Japan, South Korea and Taiwan. After two slower years in 2016 and 2017, due to slowing demand in China, total exports from the Pacific region rebounded 31% to US\$1.62 billion in 2018 (Figure 3.4.3.1). Papua New Guinea exports increased 25% to US\$919 million in 2018 while Solomon Islands exports increased 15% to US\$662 million (Figure 3.4.3.2).

Tropical wood products exports by South American countries increased 13% to US\$1.37 billion in 2018 (Figure 3.4.3.1), with exports rising from several of the leading supplying countries including Ecuador, Brazil, Suriname, and Paraguay (Figure 3.4.3.2). Exports from Ecuador increased 12% to US\$460 million in 2018. Ecuador exports an increasingly diverse range of wood products including logs, sawn wood, plywood, and panels destined mainly for the US, China and neighbouring South American countries. Exports from Brazil²⁶ increased 11% to US\$335 million, with significant gains made in exports to the US and several EU countries including France, Belgium and Spain. Exports from Guyana, the only South American country engaged in the VPA process, declined 1% to US\$51.7 million in 2018 with a rise in exports to China and the US offset by a fall to India. Most exports from Guyana comprise logs and sawn wood destined for China, the US, and India.

Tropical wood products exports by Central American countries²⁷ fell 2% to US\$439 million in 2018 (Figure 3.4.3.1). Exports from Guatemala, the largest tropical wood exporter in Central America, were level at US\$97 million

²⁶ Due to the large proportion of Brazilian wood and wood furniture exports composed of softwoods and eucalyptus from plantations outside the tropical zone, unlike for most other tropical countries (where it is assumed all wood and wood furniture products are "tropical") the data reported for Brazil refers only to sawn wood, veneer, and plywood specifically identified as composed of tropical hardwood in the HS system of product codes. Trade data for all other product groups does not separate tropical from non-tropical wood and is therefore excluded. In practice this means that there may be significant under-reporting of Brazilian exports of tropical products, particularly of mouldings (HS4409) and furniture (HS94).

in 2018. Exports from Honduras, the only VPA country in the region, declined 1% to US\$88.7 million (Figure 3.4.3.2). Exports from Honduras to the US, the largest destination accounting for around 40% of total exports, fell back in 2018 after rising the previous year. Honduras' exports also fell to other leading markets in El Salvador and Nicaragua but increased to Guatemala. A large proportion of Honduras exports comprise sawn softwood.

3.5 Changes in regional demand for tropical wood products

After several years of zero growth, the value of EU imports of tropical wood products increased 7% to US\$4.5 billion in 2018. However, due to larger increases in imports in North America and North East Asia, the EU's share of total world trade fell slightly, from 11.4% to 11.3% (Figures 3.5.1 and 3.5.2).

Imports in North America increased 11% to US\$10.4 billion in 2018, mainly driven by the increase in US furniture imports from tropical countries, particularly Viet Nam and India, and plywood from Indonesia and other Asian

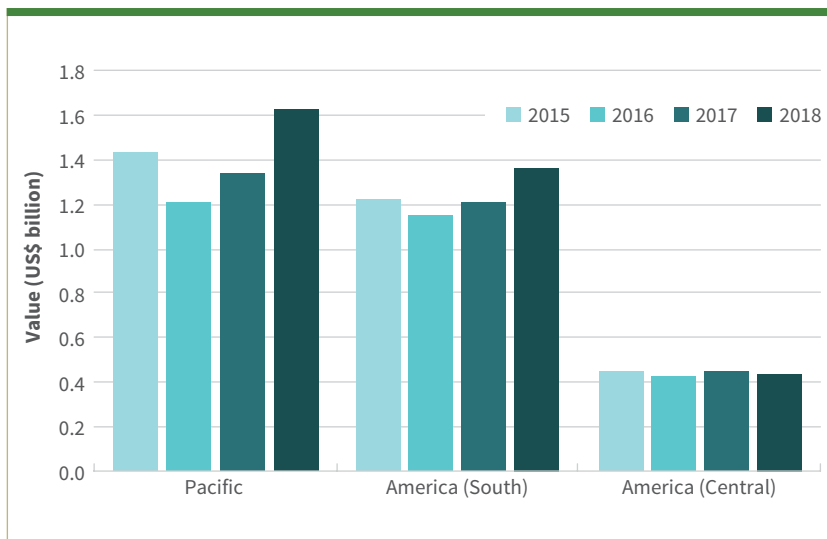


Figure 3.4.3.1: Tropical wood-products exports, by Pacific and American region of supply, by smaller VPA partner exporters, 2015 to 2018. Source: IMM-STIX

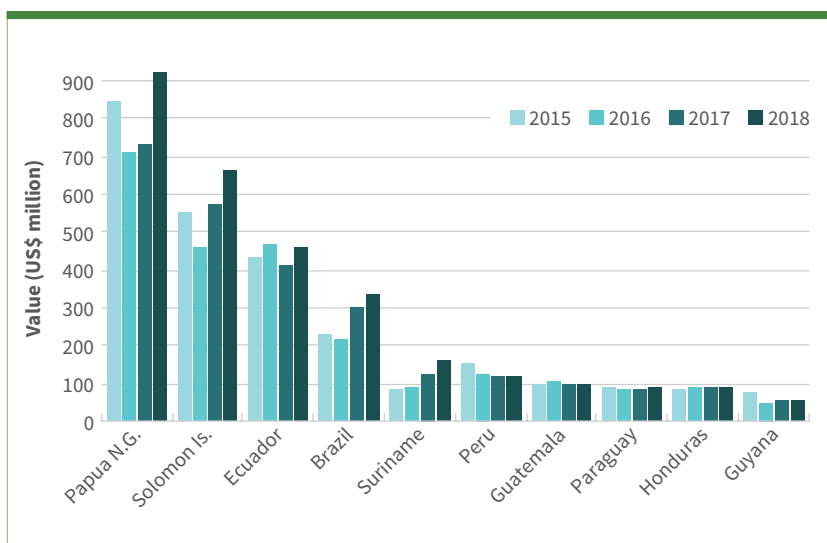


Figure 3.4.3.2: Trade in tropical wood-products, by Pacific and American exporters, 2015 to 2018. Source: IMM-STIX

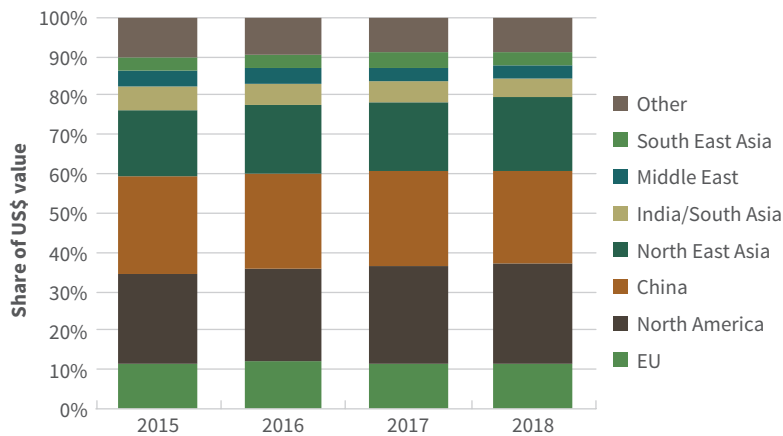


Figure 3.5.1: Trade in tropical wood-products, by region of import, 2015 to 2018. Source: IMM-STIX

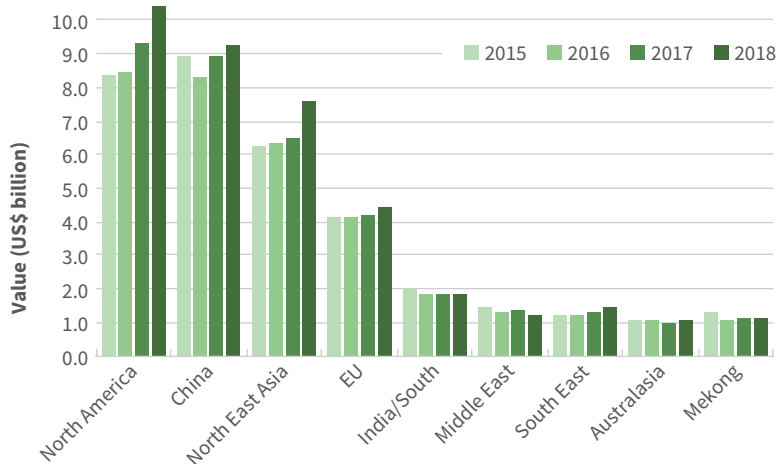


Figure 3.5.2: Trade in tropical wood-products, by region of import, 2015 to 2018. Source: IMM-STIX

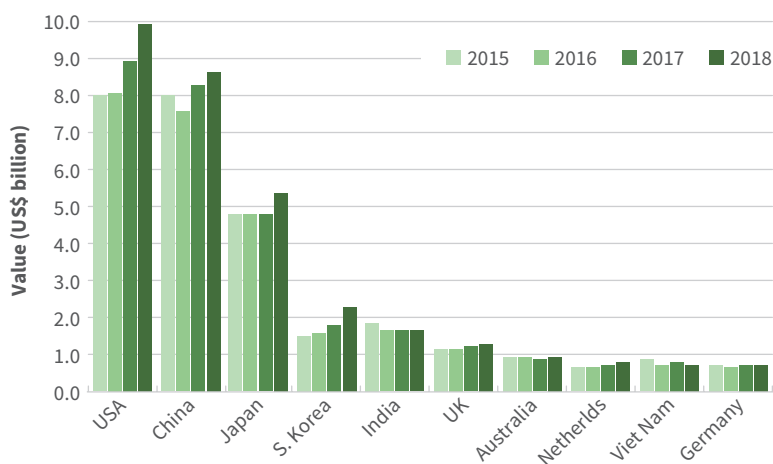


Figure 3.5.3: Top 10 importers of tropical wood-products, 2015 to 2018. Source: IMM-STIX

countries. The trade disputes between the US and China and the US and Mexico may encourage more US buying of furniture and plywood from tropical suppliers in Asia during 2019.

Tropical wood products imports in North East Asia increased 16% to US\$7.6 billion in 2018. Japan's imports of biomass and chips, wood furniture and plywood from Viet Nam, plywood from Indonesia and Malaysia, and joinery products from the Philippines all increased sharply in 2018. There was also significant growth in South Korea's imports of biomass and plywood from Viet Nam and plywood from Indonesia in 2018.

Imports of tropical wood products in China continued to recover in 2018, although at a slower pace than the previous year, rising 4% to US\$9.3 billion. During 2018, there was a rise in China's imports of logs from Papua New Guinea, the Solomon Islands, Cameroon and Equatorial Guinea, of sawn wood from Gabon, and biomass from Viet Nam. These gains offset a decline in China's imports of "other not elsewhere stated" wood products from Indonesia, logs (likely comprised mainly of rosewood) from Nigeria and Mozambique, logs (primarily okoume) from RoC, and plywood from Malaysia and Indonesia.

The trade dispute between the US and China contributed to a significant slowdown in China's imports of US hardwood in the last quarter of 2018, a trend which intensified in the opening months of 2019. This may increase China's reliance on imports of tropical hardwoods, notably from the Pacific and Congo regions, in the future.

Tropical wood product imports in the Southern Asian region, dominated by trade with India, increased 3% to US\$1.88 billion in 2018. While India's imports of tropical logs from Malaysia and Papua New Guinea declined during the year, and imports of veneer from

²⁷ Due to the large proportion of Mexican wood and wood furniture exports composed of temperate hardwoods and softwoods, including both domestic wood and imports from the US, the data reported for Mexico refers only to logs, sawn wood, veneer and plywood specifically identified as composed of tropical hardwood in the HS system of product codes. In the case of Mexico, these exports are negligible and represent only a tiny percentage of Mexico's total exports of wood and wood furniture which were in excess of US\$7.5 billion in both 2017 and 2018, the vast majority destined for the US (94%) and Canada (4%).

Myanmar also weakened, this was offset by a rise in India's imports of plantation teak logs from Ghana and Brazil, of other tropical logs from Solomon Islands and Surinam, and of veneer and plywood from Indonesia.

Tropical wood products imports in the South East Asian region increased 10% to US\$1.46 billion in 2018, driven by rising imports by Malaysia, Thailand and the Philippines. An indication of Malaysia's declining competitiveness in the international plywood trade is that the country was importing more plywood from both Viet Nam and Indonesia in 2018.

Tropical wood product imports in the Mekong region declined 2% to US\$1.1 billion in 2018. While Viet Nam's imports from Cameroon, RoC and Papua New Guinea increased during the year, imports continued to decline from Cambodia and Lao PDR, and also dipped from Equatorial Guinea and Gabon after a significant rise in 2017.

The mix of tropical wood products varies widely in each of the import regions (Figure 3.5.4). Imports into China, India, and the Mekong region continue to be led by logs although there are signs of increasing willingness to import more sawn wood and veneer in all regions as log availability has declined and controls on logs exports have been progressively tightened in some tropical

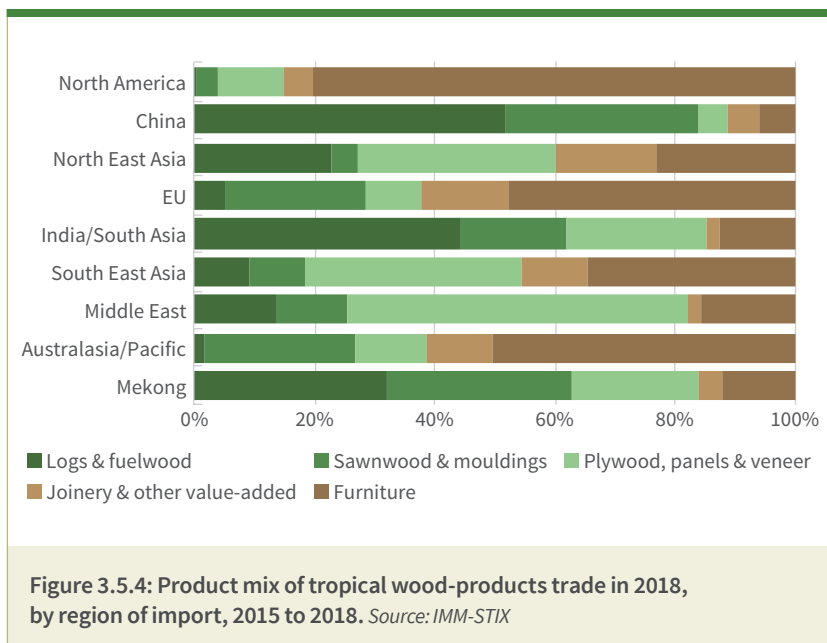


Figure 3.5.4: Product mix of tropical wood-products trade in 2018, by region of import, 2015 to 2018. Source: IMM-STIX

exporting countries. Rising processing costs in China are also making imports of sawn wood more attractive in that region. Imports of tropical wood products in North America are dominated by wood furniture. A large proportion of tropical wood products imports in the Middle East are of sawn wood (and much is lower grade judging from relatively low unit values). The EU, North East Asia, South East Asia and Australasia import a more diverse range of tropical wood products, from logs through to finished furniture.

4 VPA partner competitiveness

4.1 Relative international competitiveness of VPA countries

Previous IMM Annual Reports²⁸ observed that several VPA partner countries ranked highly in international competitiveness indices and that there is correlation between the ranking in these indices and the development of countries' wood processing industries. VPA partner countries that are poorly connected to international trade routes and are rated as challenging places in which to do business tend to be more focused on the export of primary wood products. Indonesia, Malaysia, Thailand and Viet Nam have the most developed wood-processing sectors among the VPA partner countries and are significant exporters of value-added wood products to the EU.

The previous IMM reports used three indices, namely the World Bank's "Ease of Doing Business"²⁹ (EDB), the World Economic Forum Global Competitiveness³⁰ (GC) Index,

and the UNCTAD Liner Shipping Connectivity Index³¹ to identify trends in VPA partner country competitiveness. Among the Asian VPA partner countries (Figure 4.1.1), Malaysia has performed best by far for several years, outranking not only the other VPA partner countries but also China on all indices except the Connectivity Index. Among the Asian VPA partner countries, Lao PDR is the only one with weak competitiveness ratings by international standards.

The African VPA partner countries all ranked much lower on all three indices. Some of the countries even dropped entirely out of the GC and Connectivity indices. Indonesia and China are included in Figure 4.1.2 for comparison.

The rankings achieved by the Latin American VPA partner countries in the international competitiveness indices are more comparable to the African than to the Asian VPA partners. And like the African partners, sawn wood and

²⁸ <http://www.flegtim.eu/index.php/reports/annual-reports> (IMM/ITTO 2015; IMM/ITTO 2017; IMM/ITTO 2018)

²⁹ World Bank, Ease of Doing Business http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf (WB 2019)

³⁰ World Economic Forum, Global Competitiveness Report (WEF 2018) <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

³¹ UNCTAD Liner Shipping Connectivity Index (UNCTAD 2018) <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

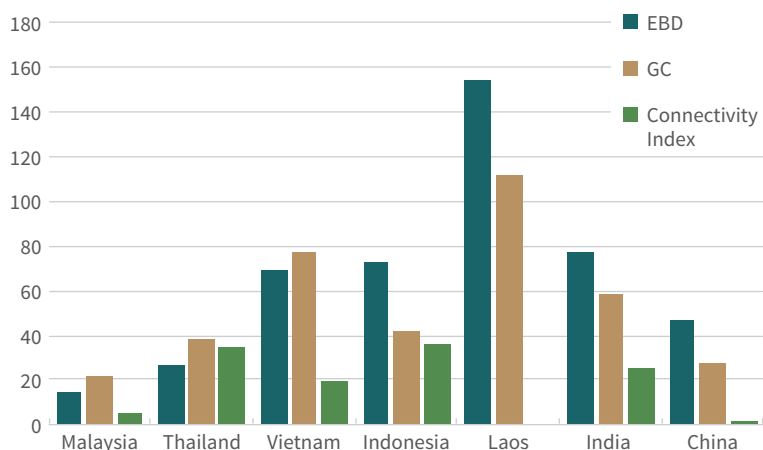


Figure 4.1.1: 2018 Ranking on competitiveness indices. Asian VPA partner countries vs regional competitors India, China.

Source: IMM 2018 analysis of EBD, GC and UNCTAD indices

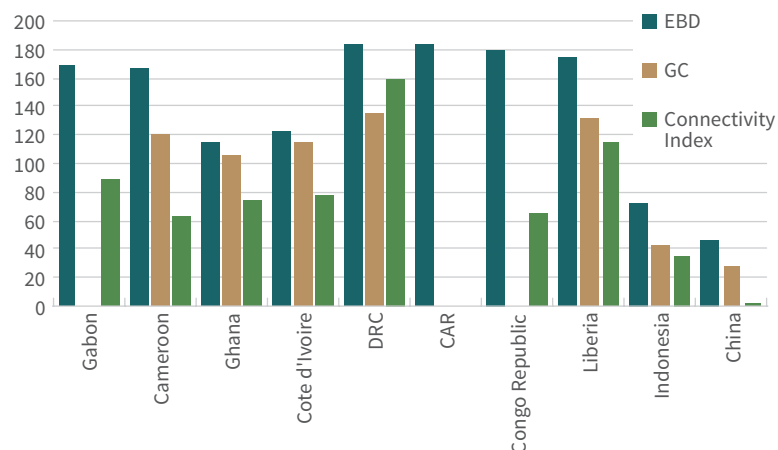


Figure 4.1.2: 2018 Ranking on competitiveness indices. African VPA partner countries vs Indonesia and China.

Source: IMM analysis of EBD, GC and UNCTAD indices

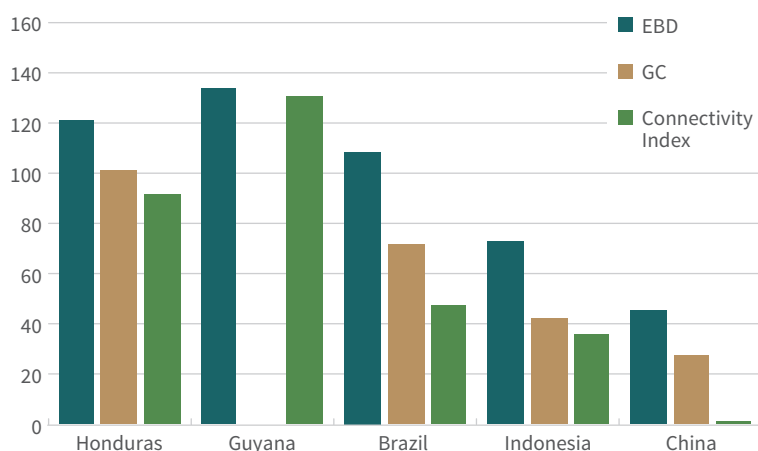


Figure 4.1.3: 2018 Ranking on competitiveness indices. Latin American VPA partner countries vs Brazil, China, Indonesia.

Source: IMM analysis of EBD, GC and UNCTAD indices

logs are dominant product groups supplied by Guyana and Honduras to the EU.³² In Figure 4.1.3, Brazil is included for comparison as a regional competitor and Indonesia and China as other international suppliers of tropical wood products.

The analysis against the three indicators by country is updated to 2018 below:

- Indonesia's position on the GC Index was 45th in 2018, with slightly higher scores than in 2017. It retained third place among the VPA partner countries, behind Malaysia (25th) and Thailand (38th). Of two main Asian non-VPA competitor countries, China (28th) ranked higher and India (58th) lower. On the EDB Index Indonesia ranked 73rd in 2018, after 72th place the year before. Malaysia (15th), Viet Nam (69th) and China (46th) all ranked higher than Indonesia, with India (77th) coming out lower. Indonesia's connectivity remains a problem (36th), being considerably lower than key competitors including China (1st), Malaysia (5th), and Viet Nam (19th). Indonesia's rating in the Connectivity Index continued to improve in 2018 when it was almost at the same level as Thailand (35th). However, Malaysia, China, Viet Nam, and India (25th) are all much more connected.
- Malaysia remained by far the top performer amongst VPA partner countries across the indices in 2018. It was one of the world's five most connected countries and ranked 15th on the EDB index, a significant improvement from 23rd in 2017. On the GC Index Malaysia retained the 25th position, as in 2017, and not only scored best amongst VPA partners but was also ranked higher than China.
- Thailand slipped slightly on the EBD in 2018 - from 26th to 27th. This is still the second-best ranking for a VPA partner country. Thailand's Connectivity Index ranking was also stable, improving from 36th to 35th in 2018. Thailand was also the second highest ranked VPA partner country on the GC index (rank 38), after Malaysia.
- Viet Nam's ranking on the GC index increased from 70th in 2013 to 60th in 2017 but subsequently dropped

³² IMM Data Dashboard. <http://www.stats.flegtimm.eu>

again to 77th in 2018. On the GC, Viet Nam scored lower than Malaysia, Thailand and Indonesia. On the EBD, Viet Nam (69th) scored slightly higher than Indonesia (73rd) but significantly lower than Malaysia (15th) or Thailand (27th). Viet Nam's Connectivity ranking (19th), remained unchanged in 2018; significantly lower than China and Malaysia but clearly higher than India, Thailand or Indonesia.

- Lao PDR's overall performance was weak compared to other Asian VPA partner countries. The country's ranking on the GC index fell from 93rd in 2017 to 112th in 2018. Ranking on the EDB increased from 159th in 2013 to 139th in 2016 before falling again to 141st in 2017 and 154th in 2018. Lao PDR is not listed on the Connectivity Index.
- Cameroon slipped from 114th to 119th rank in the GC Index between 2015 and 2017 and then again to 121st in 2018. The EBD ranking also continued to weaken from 163rd to 166th place. On the other hand, Cameroon is comparatively well connected, ranking higher (64th) on the Connectivity Index than any other African VPA partner country in 2018.
- RoC's Connectivity Index (65th rank) was the second highest of African VPA partner countries in 2018. The country isn't listed on the GC index and was 180th of 190 countries in the EBD ranking.
- Côte d'Ivoire's international competitiveness remains low. The country's ranking on the GC index fell back to 114th, after improving from 126th to 99th between 2013 and 2017. However, it gained some ground on the EBD index, where it ranked 122nd, after 139th in 2017. Côte d'Ivoire's connectivity is low by international standards (78th) but better than that of some other African and Latin American VPA partner countries.
- Ghana slipped sharply down the EDB index from 67th in 2013 to 108th in 2016 and then further to 120th in 2017. In 2018 it recovered slightly to rank 114. The country gained some ground in "dealing with construction permits" and "trading across borders", two of the indicators that had previously been responsible for the deteriorating rankings. Ghana's ranking on the GC also improved slightly to 106th (from 114th in 2017). On the Connectivity Index, Ghana (75th) remained below RoC (64th) and Cameroon (63rd) but was ahead of Côte d'Ivoire (77th) and Gabon (89th) in the 2018 ranking.
- Liberia's international competitiveness remains low both according to the EBD (174th) and the GC (132nd). The country's Connectivity Index ranking (115th) is similarly weak.

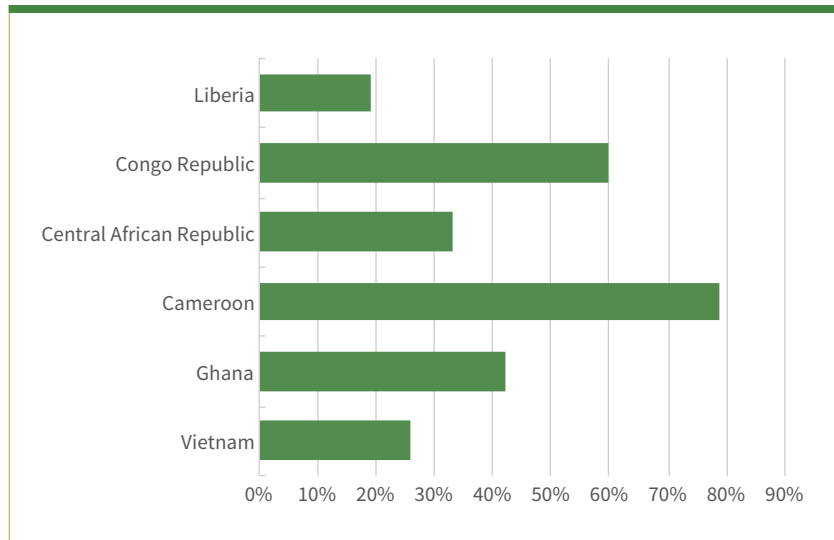


Figure 4.2.1: In which countries would FLEGT-licensing be particularly important? Source: IMM 2018 Trade Survey

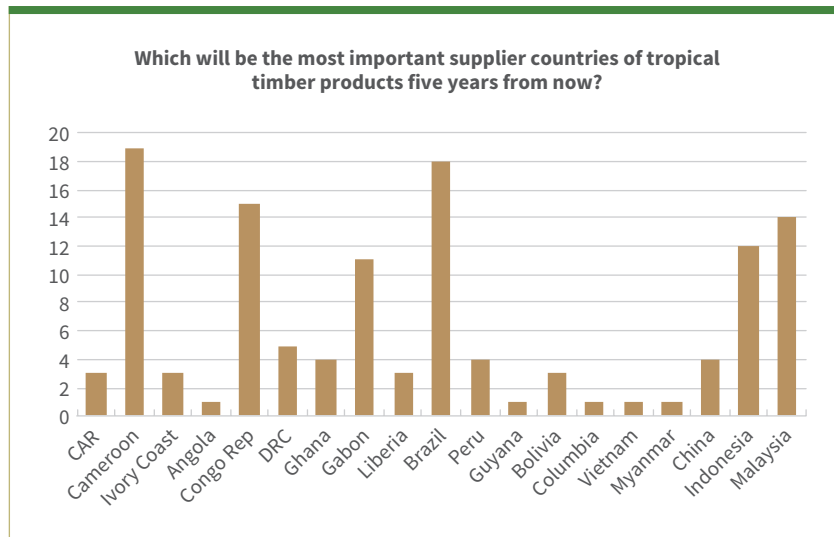


Figure 4.2.2: Future tropical timber supply. Source: IMM 2018 Trade Survey

- There was little or no change in the very weak rankings of the remaining African VPA partner countries. CAR and DRC were ranked 183rd and 184th (of 190 countries), respectively, on the EBD index and Gabon was ranked 169th. CAR didn't feature on the GC index or the Connectivity index, while DRC ranked 135th out of 140 countries on the GC and 160th on the Connectivity index. Gabon wasn't included in the GC index, but ranked 90th on the Connectivity index.
- Honduras' ranking on the GC index fell from 88th in 2017 to 101st in 2018. Honduras EBD ranking also continued to fall to 121st (2017=115th, 2016 = 105th). The country's connectivity is low, ranked 93rd on the Connectivity Index.
- Guyana's hasn't been listed on the GC since 2017, after slipping through the ranks in previous years. Ranking on the EBD fell from 126th in 2017 to 134th in 2018. The country has the second lowest connectivity of all VPA partner countries, ranking 131st.

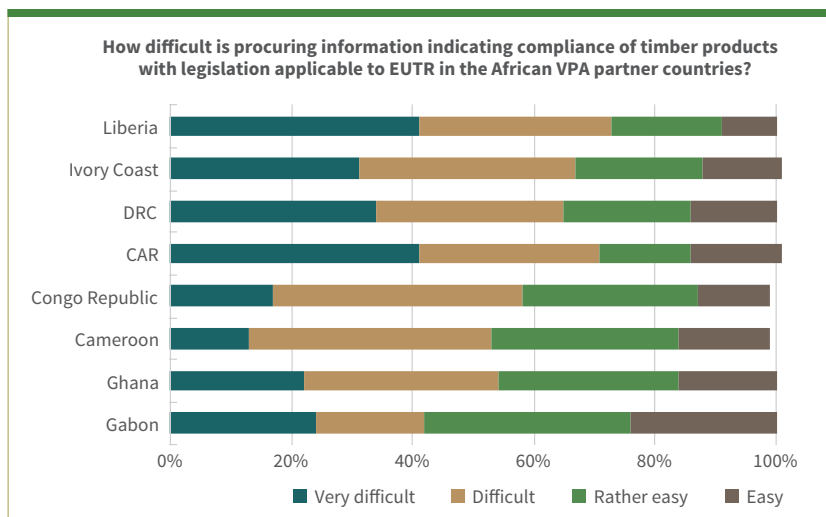


Figure 4.2.3: Conducting EUTR due diligence for timber from African VPA partner countries. Source: IMM 2018 Trade Survey (figures rounded)

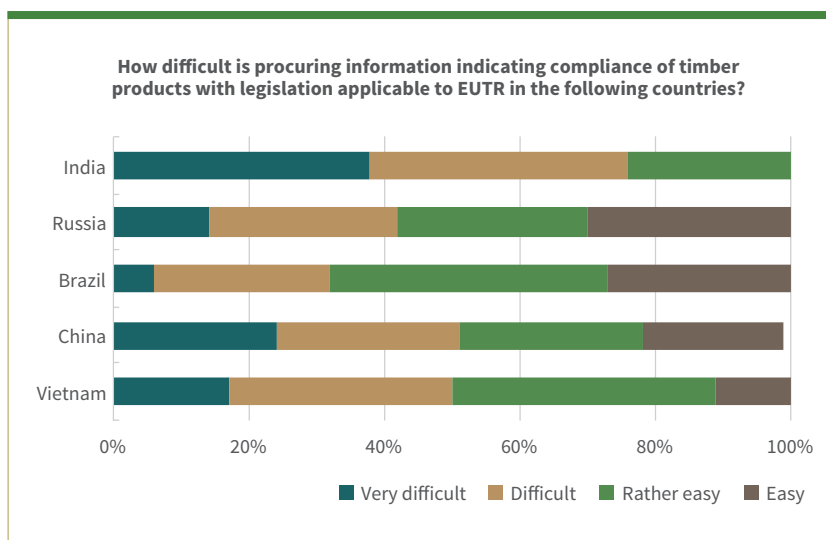


Figure 4.2.4: Conducting EUTR due diligence. Source: IMM 2018 Trade Survey (figures rounded)

4.2 Perceptions of VPA partner countries in IMM 2018 surveys and studies

In 2017 and early 2018, the IMM EU trade survey and the IMM Furniture Sector Scoping Study asked respondents to rate the competitiveness of VPA-implementing and FLEGT-licensing countries using a variety of indicators including product range, quality, lead times and price. Results from these surveys were included in the IMM 2017 Annual Report. This exercise was not repeated in the 2018 trade survey, as no major changes were expected to have occurred in such a short time. However, it will be repeated and extended as a part of the 2019 survey.

Instead of looking directly at indicators of competitiveness, the 2018 survey contained questions relating to: firstly, the VPA implementing countries for which the start of FLEGT licensing would be particularly important to respondents; secondly, respondent's views on countries most likely to be important suppliers of tropical timber to the EU in five years' time; and thirdly, the ease of obtaining information to satisfy

EUTR due diligence requirements in VPA partner countries compared to several other competing timber supplier countries.

The survey question on relevance of completing VPA implementation for EU markets (Figure 4.2.1) has its limitations, especially where Viet Nam is concerned. Viet Nam supplies primarily furniture to the EU markets, and furniture traders were not strongly represented in the general 2018 IMM trade survey as the majority had been contacted separately for the IMM furniture sector scoping study.

In relation to African countries, survey respondents were hoping for FLEGT-licensed timber to become available in Cameroon and Congo Republic, in particular. More than 40% of respondents also said that the start of FLEGT-licensing in Ghana would be very beneficial.

Cameroon was expected to be the most important tropical timber supplier for the EU markets five years from now, followed by Brazil, Congo Republic, Malaysia, Indonesia and Gabon (Figure 4.2.2). The low rating for Viet Nam may be due to lack of furniture sector respondents in this survey.

Several respondents forecast that securing tropical timber supplies will become increasingly difficult in the next five years. The following reasons were mentioned: strong and still growing competition for resources from China and other Asian countries; demographic trends and the related expected rise in domestic timber consumption especially in the African supply countries; and a perception in tropical countries that Europeans have become more demanding than customers in other regions due to both EUTR and very specific quality and technical requirements.

On the supply side, limitations in infrastructure development as well as political instability and conflict were mentioned as other factors likely to impact tropical timber supply in the next five years, especially in Africa. Some respondents expected a greater focus on South American suppliers, including in Bolivia, Peru, Guyana and Columbia – besides Brazil. Indonesia and Malaysia were widely expected to remain important sources of supply.

To establish how challenging it is for European buyers to source timber from VPA partner countries and several other important competing countries, the 2018 survey asked respondents about their experience of obtaining relevant information to demonstrate negligible risk of illegality in those countries. Russia was included in the rating as Russian birch plywood was frequently cited as a substitute for tropical plywood products, especially from Indonesia, in the 2017 survey.

Where the African VPA partner countries are concerned, Gabon was found to be the country where correspondents could most easily obtain information indicating compliance with the EUTR, followed by Cameroon and Ghana (Figure 4.2.3). Liberia and Central African Republic were perceived as most difficult.

For comparison, respondents were asked the same question with reference to Viet Nam, Brazil, China, India and Russia (Figure 4.2.4). India was considered the most challenging supplier by respondents, with credible evidence of legality more difficult to obtain even than in Liberia or Central African Republic. Brazil, Russia and China, by contrast, were perceived to be less challenging and Viet Nam was placed roughly at the same level as Gabon.

4.3 The role of FLEGT Licences in purchasing decisions

All four IMM Trade Consultations³³ organised in 2018 and early 2019 featured workshops on “Priorities and purchase dynamics for tropical wood products – development of supply chain relationships and the relevance or impact of FLEGT licensing”. Participants at all four Consultations agreed that while FLEGT can play a role, it is not a leading factor impacting purchasing decisions.

Participants identified a combination of price, technical performance/quality and availability/logistics as critical commercial considerations. For retailers, fashion trends were also considered of primary importance. Issues like legal compliance or environmental and social criteria were considered only after these other commercial issues were resolved.

When comparing the Indonesian timber industry against direct competitors, participants highlighted as commercial advantages the comparatively high quality and reliability of Indonesian suppliers. The risk of intellectual property theft was also believed to be lower in Indonesia than in some other countries, notably China.

There was almost unanimous agreement at all Consultations that FLEGT licensing has made importing from Indonesia easier compared to exercising due diligence. However, delegates also unanimously voiced criticism of the flow of information, particularly on the broader benefits of FLEGT licensing for forest and timber trade regulatory reform in VPA partner countries.

The consensus across the range of timber and wood

products businesses participating in IMM Trade Consultations was that the EUTR has shaken up EU importers’ supplier selection process, with long-term relationships with suppliers having become even more important than before in order to build mutual trust and understanding of one another’s requirements. On the significance of FLEGT licensing to a supply relationship, importers said it was constrained by the fact that the variety and availability of licensed products was currently restricted to Indonesia.

To demonstrate consideration of social and environmental criteria when sourcing in high-risk countries, most delegates said they would, where possible and if not too expensive, give preference to FSC-certified timber. Compared to FLEGT-licensed timber, FSC certification was said to have the advantage of availability from a variety of countries, plus widespread brand awareness and acceptance, including among European end-consumers.

To elevate FLEGT licensing as a purchasing preference or priority, the consensus was that more concerted efforts were required by all parties, including the EU and Indonesian authorities and Indonesian exporters and EU importers associations, to communicate the role and benefits of FLEGT licensing throughout the EU supply chain. A clear, consistent and widely agreed message on FLEGT’s sustainability credentials in terms of wider environmental, economic and social impacts was required.

Key findings from the workshops included:

- Importers place tropical timber supply relationships under greater scrutiny post EUTR.
- The tropical timber supply pool and product variety has reduced as a result.
- Market competitiveness and environmental requirements place even greater stress on maintaining strong, long-term supply relationships.
- FSC/PEFC certification remains a greater purchasing preference than a FLEGT Licence.
- Importers are not switching from other suppliers to Indonesia solely due to FLEGT licensing.
- There is still lack of awareness of FLEGT down the supply chain in the EU.
- Suppliers of FLEGT-licensed products must still compete on price, availability, quality and consistent delivery.

³³ Trade Consultations are a series of meetings organized by the IMM programme in the EU key tropical timber consuming countries. The Consultations aim to gauge the trade’s views and discuss opinions of relevant FLEGT-related topics identified as a part of IMM surveys. IMM also shares latest survey and study results with trade representatives during the Consultations. Consultations were held in London (March), Nantes (May) and Berlin (November) during 2018 and in Antwerp (April) and Barcelona (October) during 2019, with more than 180 participants in total.

5.1 Scope

The section considers timber production in Indonesia and analyses trends in Indonesia's timber and timber products trade spanning the period 2015 to 2018, covering two years before and after FLEGT licensing began in November 2016. Analysis of Indonesian production and export data places the EU in the wider market context for Indonesian timber products. EU import data is used to assess the changing scale, direction and share of Indonesia's trade in timber and timber products in the EU market.

The section also summarises the results of surveys of timber traders in Indonesia and the EU during 2018 to assess their views of the market impact of FLEGT licensing. It reports on steps taken during the year to overcome administrative and communication constraints to market development of Indonesian licensed timber and

considers price trends for Indonesian timber products in the context of FLEGT licensing.

5.2 Indonesia's timber supply

5.2.1 Production

After declining 3% to 48.4 million m³ in 2016, log supply in Indonesia increased 12% to 54.3 million m³ in 2017 and by a further 7% to 57.9 million m³ in 2018. Much of the increase in supply in 2017 and 2018 was due to a continuing rise in production from industrial plantations and, to a lesser extent, community forests. In 2018, 70% of Indonesia's log supply came from industrial plantations, up from 61% in 2014, while 15% came from community forests, the same proportion as in 2014. Between 2014 and 2018, the share of log supply from land clearing declined from 7% to 1%, and the share from natural forest concessions fell from 11% to 9% (Figure 5.2.1).

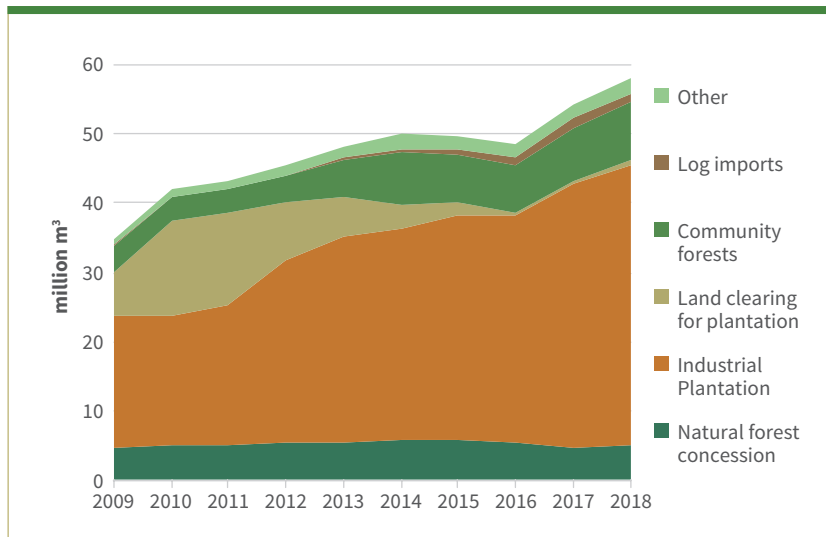


Figure 5.2.1.1: Indonesia log production, by forest type - Years 2009-2018.
Source: IMM analysis of Indonesian Ministry of Environment and Forestry data from RPBB website

Production from industrial plantations, mainly to supply the pulp and paper sector, increased 15% to 37.8 million m³ in 2017, and by another 7% in 2018 to 40.4 million m³. Production from community forests increased 11% to 7.8 million m³ in 2017 and by 10% in 2018 to 8.6 million m³. Production from natural forest concessions declined 11% from 5.5 million m³ in 2016 to 4.9 million m³ in 2017 before recovering 3% to 5.0 million m³ in 2018. Production from land clearance operations has fallen to negligible levels, only around 700,000 m³ in 2018. Log imports only contribute a small proportion to total log supply, around 800,000 m³ in 2018, 1.4% of the total.

Data on timber production published by the Indonesian Ministry of Environment and Forestry needs careful interpretation as it is not always clear the extent to which trends are due to changes in installed capacity and production levels or in the range of companies captured by the reporting process. The progressive roll-out of SVLK in Indonesia has coincided with, and is likely partly driving, a rise in the scope of the production units captured by the data.

The data indicates that the capacity of reporting production units in Indonesia increased for all the main primary timber product groups between 2014 and 2018, with a particularly dramatic increase in the sawn wood sector (figure 5.2.1.2). The sawmilling sector tends to be more highly fragmented, and challenging to monitor, compared to the plywood, veneer, and pulp sectors, so the roll-out of SVLK is likely to have played a

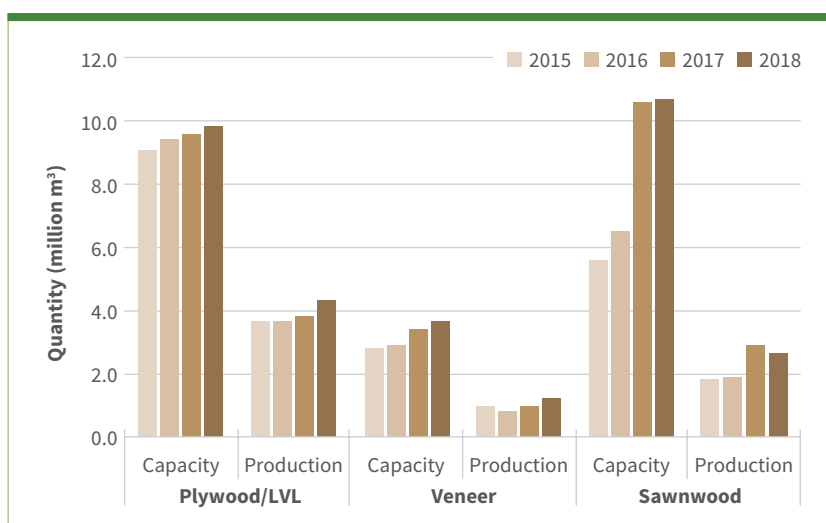


Figure 5.2.1.2: Capacity of reporting production units and production quantity of primary timber products in Indonesia, by product type - Years 2015-2018.
Source: IMM analysis of Indonesian Ministry of Environment and Forestry data from RPBB website

particularly significant role to improve data capture in this sector.

Given the data indicates a large rise in data capture in the timber sector during the 2014 to 2018 period, it may be too early to assign any great significance to the figures showing rising production during this same period. However, the rise in data capture implies more accurate monitoring of production trends in the future. For now, the data indicates total Indonesian production in 2018 of 4.31 million m³ for plywood/LVL, 1.26 million m³ for veneer, and 2.65 million m³ of sawn wood. For all products, production was significantly less than 50% of total installed capacity during 2018.

Data capture for pulp production appears already to be more stable, with figures for the three years 2016–2018 seemingly derived from the same group of (relatively large) production plants with total capacity of 11.33 million tons. During this period, recorded pulp production increased from 5.99 million tons to 7.62 million tons (Figure 5.2.1.3). The rising trend in Indonesian pulp production aligns with the increase in plantation log production.

Data on the production and consumption value of wood furniture in Indonesia is not readily accessible from official sources. Estimates from unofficial sources vary widely, probably due to the high degree of fragmentation in the sector and differences in the scope of products covered by the estimates. Annual revenue from sales of all furniture in Indonesia during 2018 has been variously estimated at US\$779³⁴ million and US\$1,243 million,³⁵ implying that domestic sales are smaller than export sales of around US\$2 billion. In contrast, a large-scale multi-client study of Indonesia’s furniture sector projects that Indonesia’s domestic market for all home and office furnishings will exceed US\$5 billion by 2021,³⁶ implying that the domestic market may already be significantly larger than export sales.

³⁴ Statista Revenue, <https://www.statista.com/outlook/255/120/furniture-homeware/indonesia>

³⁵ Cekindo (consulting company), <https://www.cekindo.com/sectors/handycraft-furniture>

³⁶ Ken Research, <https://www.kenresearch.com/consumer-products-and-retail/home-and-office-furnishings/indonesia-home-furniture-market/141094-95.html>.

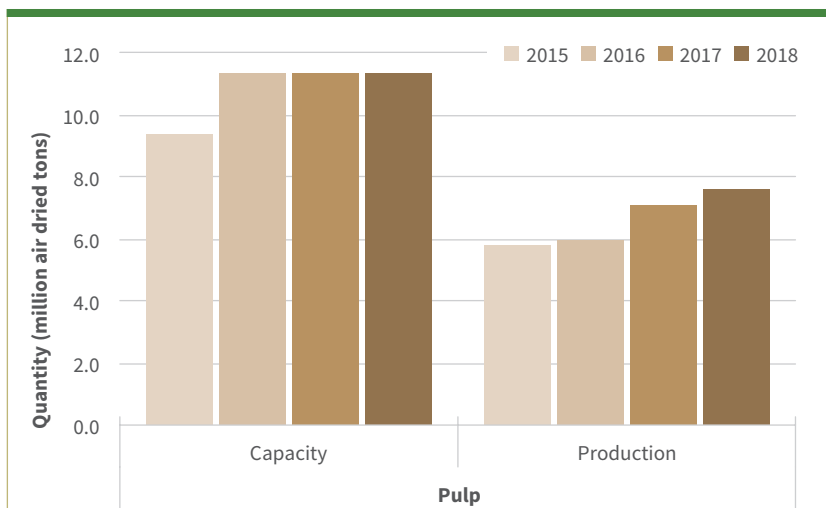


Figure 5.2.1.3: Capacity of reporting production units and production quantity of wood chips and wood pulp in Indonesia, by product type – Years 2015–2018.

Source: IMM analysis of Indonesian Ministry of Environment and Forestry data from RPBBI website

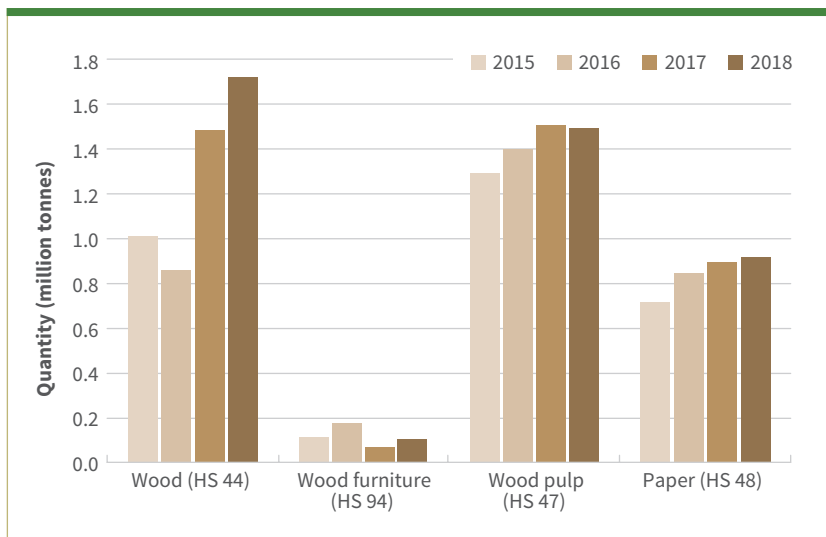


Figure 5.2.2.1: Indonesia timber import quantity, by product group – Years 2015–2018.

Source: IMM STIX

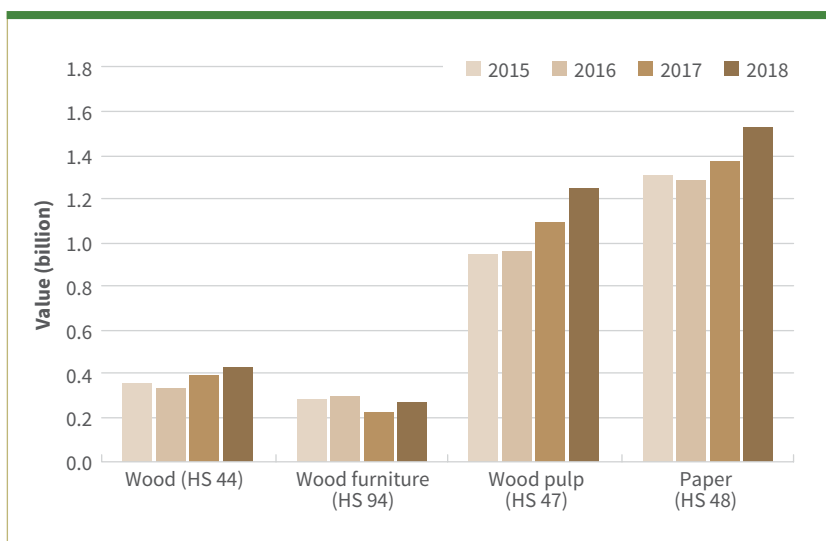


Figure 5.2.2.2: Indonesia timber import value, by product group – Years 2015–2018.

Source: IMM STIX

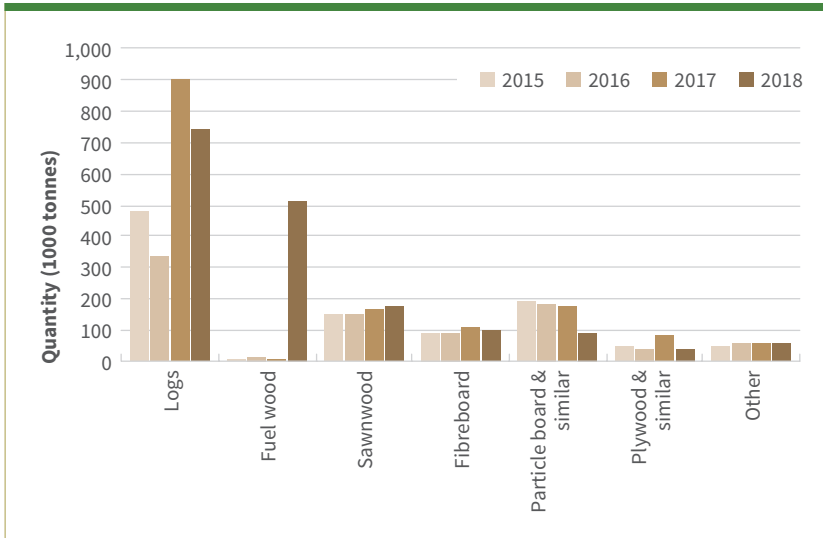


Figure 5.2.2.3: Indonesia import quantity of wood (HS 44) products, by product type – Years 2015-2018. Source: IMM STIX

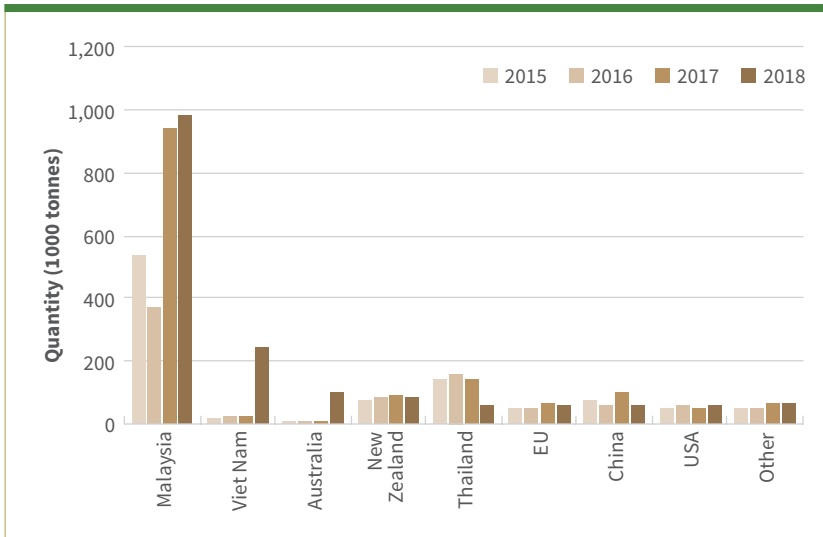


Figure 5.2.2.4: Indonesia import quantity of wood (HS 44) products, by supply country – Years 2015-2018. Source: IMM STIX

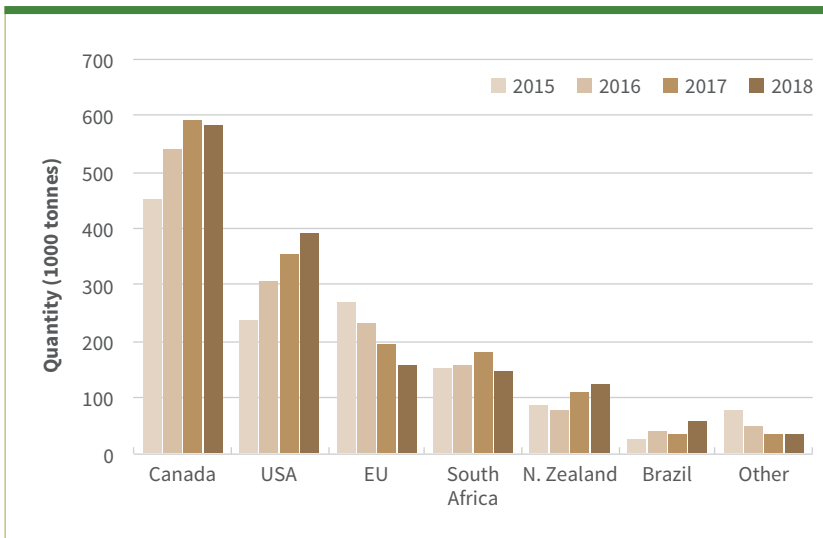


Figure 5.2.2.5: Indonesia wood pulp (HS 47) import quantity, by supply country – Years 2015-2018. Source: IMM STIX

5.2.2 Imports

While still dwarfed by domestic production and exports, Indonesia's imports of timber and timber products are rising in several product groups. Total Indonesian imports of timber and timber products increased 35% to 4.23 million tonnes between 2015 and 2018. In value terms, imports increased 16% to US\$1.52 billion. Much of the growth in import quantity has been concentrated in wood (HS 44) products, with a particularly dramatic increase during 2017 (Figure 5.2.2.1).

In value terms, the increase in Indonesia's imports between 2015 and 2018 was led by wood pulp and paper. There was only slow growth in import value of HS 44 wood products and import value of wood furniture was flat during this period (Figure 5.2.2.2).

The growth in the quantity of HS 44 wood products is driven by logs and fuel wood of low unit value. Imports of sawn wood and fibreboard were rising slowly between 2015 and 2018 but total volumes are still very restricted. Imports of particle board and plywood were declining during this period.

Indonesia's rising imports of logs between 2015 and 2018 were derived almost exclusively from Malaysia and comprised plantation logs destined mainly for the pulp sector. Chip and fuel wood imports derived from Malaysia, Viet Nam, with a smaller volume from Australia. Sawn wood imports comprised mainly hardwoods from the USA, France and Germany, and softwoods from New Zealand. Panel products were sourced almost exclusively from Thailand, Malaysia and New Zealand (Figure 5.2.2.4). There is little or no evidence to support anecdotal claims of wood from third countries (e.g. in Africa) being transited through Indonesia to obtain a FLEGT licence.

The rise in Indonesia's wood pulp imports between 2015 and 2018 came mainly from Canada and the USA, the two countries together supplying nearly 1 million tonnes of pulp to Indonesia in 2018. Indonesia's imports of wood pulp from the EU have fallen sharply in recent years and were no more than 155,000 tonnes in 2018 (Figure 5.2.2.5).

Indonesia's imports of paper products are sourced from a wide variety of countries, although only in relatively small volumes. The EU was formerly the largest external source, supplying around 150,000 tonnes per year

between 2015 and 2018, but recently has been overtaken by China, which supplied 200,000 tonnes in 2018. Only two other countries – South Korea and Thailand – supply in excess of 50,000 tonnes of paper to Indonesia each year (Figure 5.2.2.6).

China is the leading external supplier of wood furniture to Indonesia, with sales of \$128 million in 2018, 25% more than in 2017 but a decline compared to 2015 and 2016. Other leading external suppliers are Thailand and Japan, although neither country supplied in excess of \$40 million to Indonesia in 2018. Total wood furniture imports from the EU were €26 million in 2018 and showed no discernible upward or downward trend in the 2015 to 2018 period (Figure 5.2.2.7).

5.3 Indonesia timber product exports

5.3.1 Indonesia timber product export data sources

This analysis of Indonesian wood product exports and of EU trade with Indonesia draws on customs data³⁷ in preference to data compiled from V-legal certificates in Indonesia and FLEGT Licences in the EU for the following reasons:

- while data on Indonesian exports of V-legal timber is published on-line by the Timber Legality Information System (SILK) at <https://silk.dephut.go.id>, there is no comparable on-line system for regular publication of harmonized data on FLEGT-licensed imports in the EU;³⁸
- customs data is fully disaggregated by both country and product group at the highest level of HS resolution;

³⁷ Indonesian customs data is supplied to IMM by BTS Ltd, a UK-based company specialising in sourcing global trade flow data. EU customs data is derived by IMM from the Eurostat COMEXT system.

³⁸ That is not to say there is no reporting system, only that the system that exists is designed to assess regulatory conformance and not market impacts. Article 8(1) of the EU FLEGT Regulation requires all Member States to submit an annual report including information on imports of FLEGT-licensed products (quantity and number of licenses received) by HS headings specified in the VPAs (not necessarily at the highest level of HS resolution). Based on the information submitted, Article 8(3) of the Regulation requires the EC to prepare and make public a synthesis report covering the previous calendar year by 30 June.

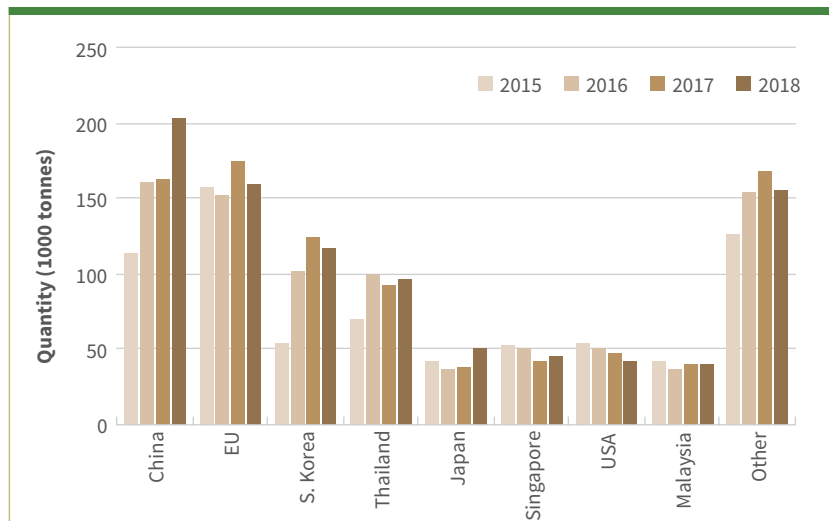


Figure 5.2.2.6: Indonesia paper import quantity, by supply country - Years 2015-2018. Source: IMM STIX

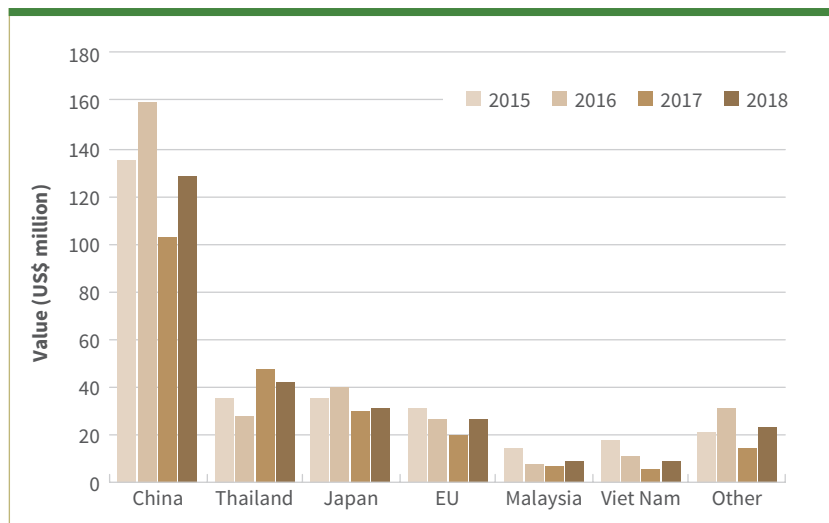


Figure 5.2.2.7: Indonesia wood furniture (HS 94) import value, by supply country - Years 2015-2018. Source: IMM STIX

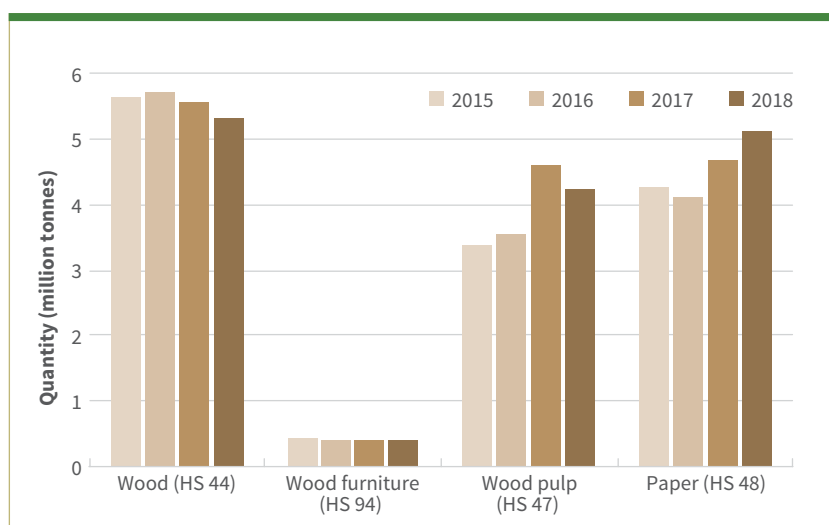


Figure 5.3.2.1: Indonesia export quantity of timber and timber products by product group - Years 2014-2018. Source: IMM STIX

- customs data provides a continuous time series, in contrast to the SILK data on V-legal exports which is available only from 2017 onwards;
- customs data covers all Indonesian exports, in contrast to the SILK data which doesn't capture all trade during the period of SVLK roll-out;
- customs data allows assessment of Indonesia's share of total EU imports relative to competing supply countries.

With completion of the SVLK roll-out, the SILK data should in time match Indonesia's customs data for product groups requiring V-legal certificates and may be used to help inform market monitoring in future IMM reports.

5.3.2 Indonesia timber products export by product

Indonesia's worldwide exports of timber and timber products totaled 15.0 million tonnes in 2018, a slight fall compared to 15.2 million tonnes in 2017 but still higher than 13.7 million tonnes in 2016.

Indonesia's exports were dominated formerly by wood (HS 44) products, but export quantity of these products has been

falling in recent years, while exports of wood pulp and paper have been rising. Wood (HS 44) product exports were 5.3 million tonnes in 2018, down 5% compared to the previous year. Indonesia's total exports of pulp and paper were 9.4 million tonnes in 2018, only 1% more than in 2017 but a 22% gain compared to 2017. Indonesia's worldwide exports of wood furniture were flat in quantity terms between 2015 and 2018 at around 400,000 tonnes (Figure 5.3.2.1).

In value terms, Indonesia's worldwide exports of timber and timber products increased dramatically in the two years following FLEGT licensing. Total export value increased 13% to US\$11.4 billion in 2017 and by another 13% to US\$12.9 billion in 2018.

While the quantity of Indonesia's worldwide exports of wood (HS 44) products declined in the last two years, export value increased, rising 3% to US\$4 billion in 2017 and a further 12% to US\$4.4 billion in 2018. The rise in export value of pulp and paper products was even more pronounced, increasing 24% to US\$6.2 million in 2017 and a further 15% to US\$7.1 billion in 2018. Export value of wood furniture also increased between 2016 and 2018, but

at a slower pace, rising 2% to US\$1.29 billion in 2017 and a further 4% to US\$1.34 billion in 2018 (Figure 5.3.2.2).

5.3.3 Indonesia timber products export by region

The value of Indonesia's timber and timber product exports increased to all regions in 2017 and 2018, but was most pronounced to China, the primary destination for Indonesia's pulp and paper products (Figure 5.3.3.1). The total value of exports to China increased 39% to US\$3.3 billion in 2017 and by an additional 9% to US\$3.6 billion in 2018. In 2018, China accounted for 28% of Indonesia's total export value and 36% of export quantity.

The value of Indonesia's timber and timber product exports to the EU increased 2.1% to US\$1.03 billion in 2017 and by a further 8.6% to US\$1.12 billion in 2018. In quantity terms, exports to the EU increased 5% to 732,000 tonnes in 2017 but declined 3% to 713,000 tonnes in 2018. In 2018, the EU accounted for 9% of Indonesia's total export value and 5% of export quantity.

The total share of Indonesia's export value in 2018 destined for countries with some form of regulation to mitigate the risk of illegal wood imports was 47%, including Japan (12%), the United States (11%), South Korea (6%), Malaysia (3%), Australia (3%), and Viet Nam (3%), alongside the EU (9%).

5.3.4 Third-party certified timber in Indonesia's exports

IMM monitors the proportion of forest and plantation area covered by FSC, PEFC or other independent forest certification framework in each VPA Partner country where FLEGT licensing is operational. The aim is to assess the

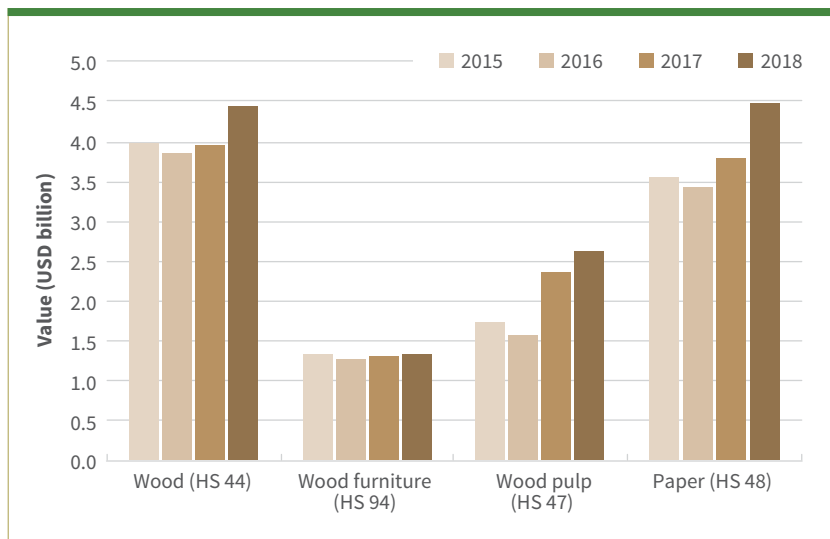


Figure 5.3.2.2: Indonesia export value of timber and timber products by product group - Years 2014-2018. Source: IMM STIX

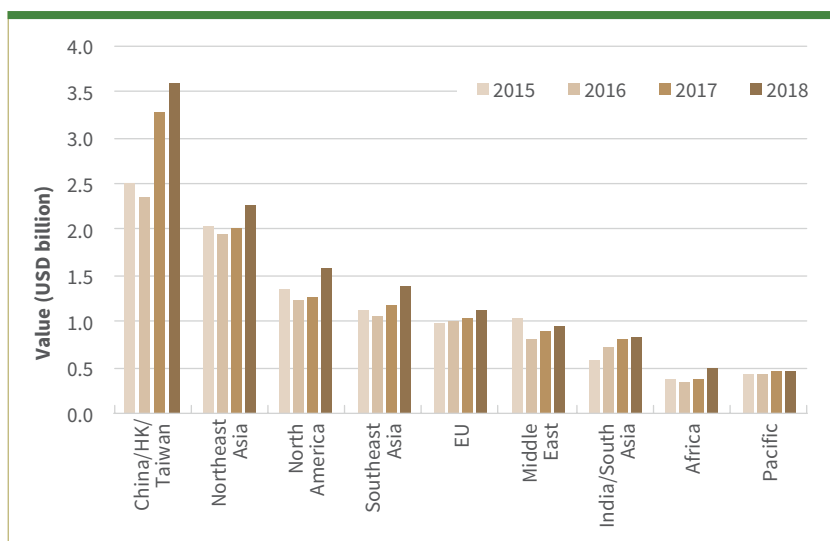


Figure 5.3.3.1: Indonesia export value of timber and timber products by destination - Years 2014-2018. Source: IMM STIX

extent to which licensing might provide preconditions for independent certification, and thereby encourage greater uptake or, alternatively, discourage further investment in forest certification by providing an effective alternative assurance mechanism.

An assumption behind this monitoring is that the timber legality assurance system developed as part of the VPA is something distinct from private sector certification initiatives. However, in the case of Indonesia, there is no clear distinction and some overlap between the government legality assurance framework and private sector certification.

In practice the SVLK system, on which FLEGT licensing is based and is required by law for all Indonesian wood product exporters, adopts many of the procedures pioneered by private sector forest certification. It requires, for example, on-site audits of forest management operations and chain of custody by third-party verifiers that are accredited by Indonesia's National Accreditation Committee (KAN) which operates under the guidance of the ISO/IEC 17011, the same procedure as required by PEFC certification.

SVLK is also regarded by the Indonesian authorities as a key policy measure to ensure implementation of sustainable practices at national level in all commercial forest operations and forest types. In line with this objective, a specific standard for sustainable management of Indonesian production forest – Pengelolaan Hutan Produksi Lestari (PHPL) – has been integrated into SVLK.

Originally 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. However, in practice, PHPL certificates only began to be issued on a large scale with the development and nationwide roll-out of SVLK.

Forests for which PHPL is mandatory can initially be certified to the SVLK legality standard only. The SVLK certificate is valid for 3 years and concessions must now demonstrate conformance to the PHPL standard by the end of that period. Both the PHPL and the SVLK's forest legality standard are subject to annual audit by KAN accredited independent verification body.

While certification to SVLK and PHPL does not preclude voluntary adoption of private sector initiatives by individual forest operators, the existence of a large and expanding mandatory framework raises questions relating to the costs and efficiency of other forms of certification in Indonesia. At this stage, there is no clear evidence from analysis of certification trends in Indonesia to indicate that the presence of the SVLK-PHPL framework has either encouraged or discouraged other forms of certification in the country (Figure 5.3.4.1).

Now driven by the SVLK framework, PHPL-certified forest area increased sharply from around 12 million hectares at the end 2016 to 22.16 million hectares at the end of 2018. With recent uptake of PHPL certification in Indonesia, it is not surprising that PHPL-certified wood already dominates in export supply. Of 16 respondents to the IMM 2018 survey in Indonesia, 6 claimed already to be using 100% PHPL-certified wood in their production. On average, 64% of all fibre sourced by respondents was PHPL-certified. All the remainder was, of course, SVLK-certified.

Despite efforts to promote FSC certification in Indonesia for over 20 years, FSC-certified area amounted to only 2.5 million hectares in November 2016 at the start of licensing. By the end of the following year, it had risen to 3.1 million hectares in 39 concessions but by December 2018 had fallen again to 2.6 million hectares in 36 concessions. LEI, a national forest certification system which began operations in the late 1990s (and for the five year period 2000 to 2005 was affiliated to FSC) had certified 2.6 million hectares by the end of 2016, declining to 2.5 million hectares in 2017, and to 2.3 million hectares in 2018.

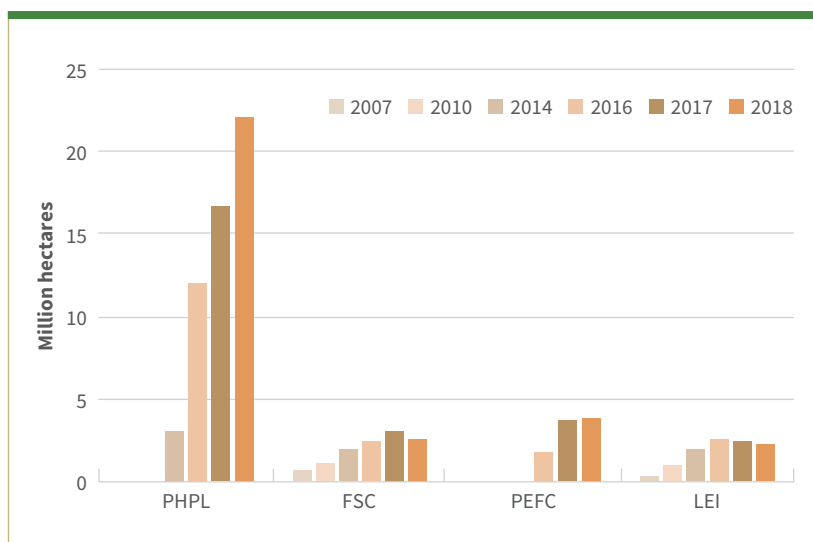


Figure 5.3.4.1: Indonesian certified forest area, by scheme, selected years 2007 to 2018. Source: Ministry of Environment and Forestry, FSC, IFCC/PEFC, LEI

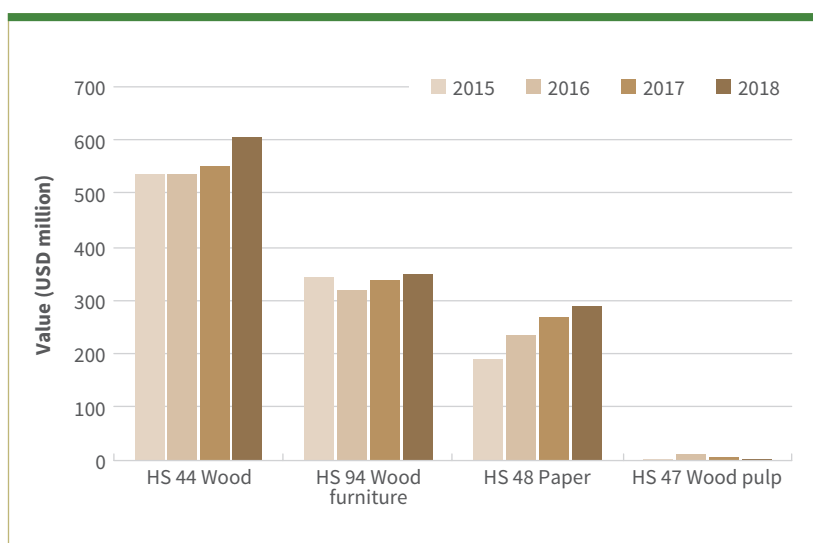


Figure 5.4.1.1: EU import value of timber and timber products from Indonesia, by product type – Years 2014-2018. Source: IMM STIX

Meanwhile, the Indonesian Forest Certification Cooperation (IFCC) launched in 2011 and endorsed by PEFC in 2014, had certified 1.8 million hectares in 2016, rising to 3.7 million hectares in 2017 and 3.9 million hectares in December 2018. Unlike LEI and FSC, for which certification is concentrated in natural forest, all PEFC certification to date in Indonesia is of plantations to supply the pulp and paper sector.

5.4 EU timber product imports from Indonesia

5.4.1 EU imports from Indonesia by product group

Broadly consistent with the Indonesian export data, the EU import value of Indonesian timber and timber products (derived from Eurostat COMEXT) increased 6% to US\$1.18 billion in 2017 and by a further 6% to US\$1.25 billion in 2018.³⁹ In quantity terms, EU imports from Indonesia increased 4% to 710,000 tonnes in 2017 but decreased 5% to 678,000 tonnes in 2018.

The value of EU imports of wood (HS 44) products increased 3% to US\$549 million in 2017 and by a further 10% to US\$603 million in 2018. Import value of wood furniture also

increased during this period, but at a slower pace, rising 5% to US\$349 million in 2017 and 3% to US\$359 million in 2018. Paper import value increased 15% to US\$272 million in 2017 and 6% to US\$288 million in 2018. EU imports of pulp from Indonesia are negligible and have declined in recent years, down 28% in 2017 to US\$9 million and falling a further 90% to only US\$1 million in 2018 (Figure 5.4.1.1).

The trends differ in quantity terms. EU import volume of Indonesian wood (HS 44) products increased consistently each year between 2014 and 2018, rising from 277,000 tonnes to 325,000 tonnes during this period. However, import volume of furniture declined during the same period, falling 2% to 102,000 tonnes in 2017 and 3% to 99,000 tonnes in 2018. EU imports of paper products have been more volatile, rising 15% to 278,000 tonnes in 2017 before falling back 9% to 252,000 tonnes in 2018. EU imports of Indonesian wood pulp were no more than 1,000 tonnes in 2018, having fallen from 26,000 tonnes in 2016 and 16,000 tonnes in 2017 (Figure 5.4.1.2).

5.4.2 Imports from Indonesia by EU Member Countries

Imports trends for Indonesian timber and timber products varied widely between EU member countries (Figure 5.4.2.1).

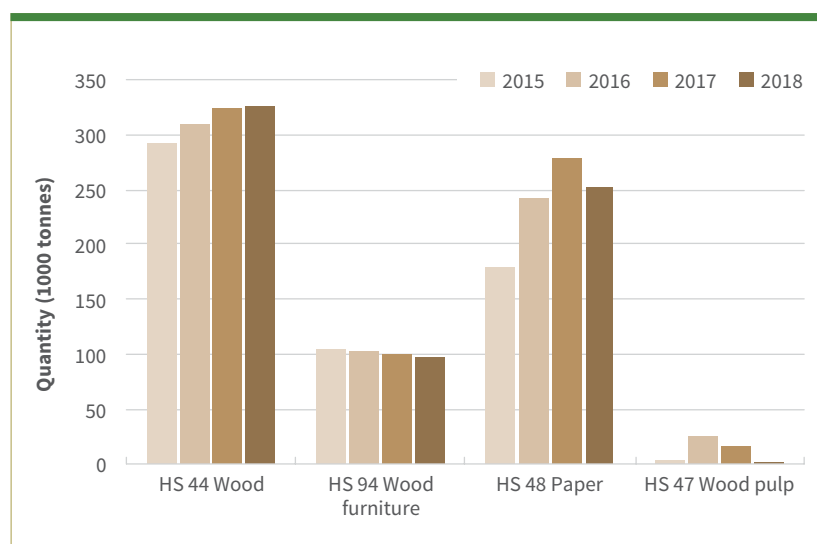


Figure 5.4.1.2: EU import quantity of timber and timber products from Indonesia, by product group – Years 2014-2018. Source: IMM STIX

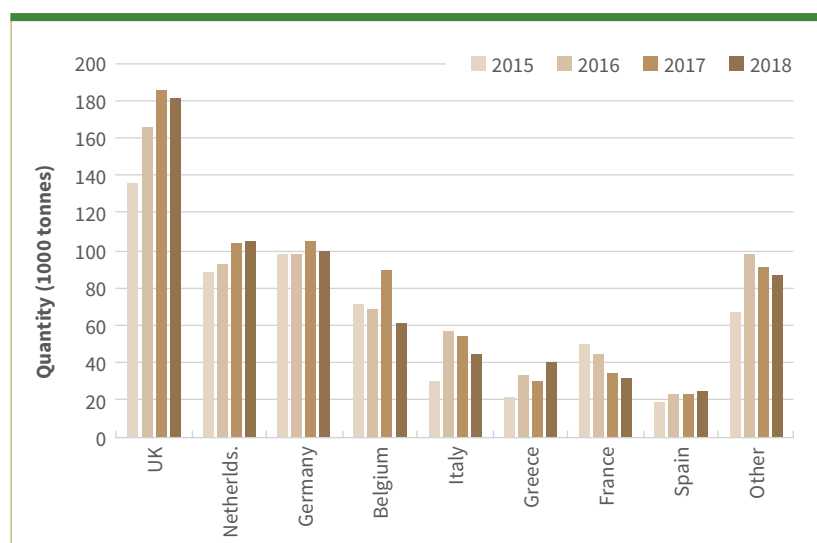


Figure 5.4.2.1: EU import quantity of timber and timber products from Indonesia, by destination – Years 2014-2018. Source: IMM STIX

United Kingdom

In 2018, the UK accounted for 25% of total EU import value and 27% of EU import tonnage of timber products from Indonesia. Imports in the UK increased rapidly from 106,000 tonnes in 2014 to a peak of 187,000 tonnes in 2017 before falling back to 182,000 tonnes in 2018. In value terms, the rise in UK imports from Indonesia showed no signs of slowing in 2018, increasing 8% to US\$311 million. UK import value of Indonesian products in 2018 was 34% more than in 2014. In 2018, the value of UK imports of Indonesian joinery products, mainly doors, increased 14% to US\$98.3 million while imports of plywood were up 19% to US\$52.6 million. These gains in 2018 offset a 4% decline in UK import value of Indonesian wood furniture to US\$58.6 million and a 3% decline in UK imports of mouldings/decking to US\$12.1 million. The UK is the largest single EU importer of paper products from Indonesia. In this sector during 2018, a 52% increase in UK import value of sanitary papers from Indonesia, to US\$32.2 million, offset a 11% decline in imports of uncoated writing/printing papers, to \$37.6 million.

Netherlands

In 2018, the Netherlands accounted for 21% of total EU import value and 15% of

³⁹ The higher import value reported by Eurostat compared to the export value reported in Indonesian export statistics is expected as the former is a CIF value, including freight costs, while the latter is an FOB value, excluding these costs. Differences in annual exports reported by Indonesia and annual imports reported by the EU are also partly due to the time lag between departure of shipments from Indonesia and arrival in the EU.

EU import tonnage of timber products from Indonesia. There has been a strong and consistent increase in EU imports of Indonesian timber products in the Netherlands, from 81,000 tonnes in 2014 to 104,000 tonnes in 2018, with particularly strong gains of 9% in 2017 and 7% in 2018. In value terms, the increase in the Netherlands was even more dramatic, with a total gain of 40% from US\$183 million in 2014 to US\$256 million in 2018, including increases of 17% in 2017 and 12% in 2018. Netherlands import value of wood furniture from Indonesia increased 8% to US\$81.7 million in 2018, building on a 32% gain the previous year. The import value of Indonesian joinery products increased 7% to US\$63.2 million in 2018, around half comprising doors and most of the remainder consisting of laminated window scantlings, kitchen tops, and flooring. There was a 61% increase in the value of Netherlands imports of Indonesian S4S sawn wood in 2018, to US\$25.8 million. Netherlands imports of paper from Indonesia were stable at around US\$11.6 million in 2017 and 2018.

Germany

In 2018, Germany accounted for 16% of total EU import value and 15% of EU import tonnage of timber products from Indonesia. Imports of Indonesian timber products in Germany were flat in quantity terms at around 100,000 tonnes per year between 2014 and 2018.⁴⁰ Import value declined from US\$208 million in 2014 to US\$181 million in 2016, but then rebounded 6% to US\$192 million in 2017 and by a further 5% to US\$202 million in 2018. Germany's import value of Indonesian wood furniture increased 5% to US\$50.1 million in 2018, while import value of mouldings/decking increased 6% to US\$46.7 million, plywood import value increased 6% to US\$25.8 million, and charcoal import value increased 18% to US\$15.4 million. These gains in 2018 offset a 26% fall in import value of joinery products to US\$10.8 million. Germany's import value of paper products from Indonesia increased 17% to US\$18.2 million in 2018.

Belgium

In 2018, Belgium accounted for 8% of total EU import value and 9% of EU import tonnage of timber products from Indonesia. Imports of Indonesian timber products into Belgium have been very volatile in recent years, falling from 77,000 tonnes in 2014 to 69,000 tonnes in 2016, before rebounding sharply to 90,000 tonnes in 2017 and then declining to only 61,000 tonnes in 2018. In value terms, imports declined from US\$129 million in 2014 to US\$104 million in 2016, rebounded to US\$124 million in 2017 and then fell to US\$103 million in 2018. The sharp spike in Belgian imports in 2017 is more likely related to supply side and stockholding issues than to changes in consumption in Belgium given the country's key role as a stockholder and distributor of timber products to other parts of the EU. The spike was particularly evident in paper products trade (mainly uncoated for printing/writing), for which imports increased 69% to US\$38.1 million in 2017 before falling back 44% to US\$21.1 million in 2018. Belgium's imports of Indonesian plywood were also volatile, rising 37% to US\$22.9 million in 2017 before falling 14% to US\$19.6 million in 2018. Belgium's imports of Indonesian wood furniture continued to decline at around 2% per year during this period, from US\$39.3 million in 2016 to US\$37.2 million in 2018.

France

In 2018, France accounted for 6% of total EU import value and 7% of EU import tonnage of timber products from Indonesia. France's imports of timber products from Indonesia declined 22% to 34,000 tonnes in 2017 and by a further 7% to 32,000 tonnes in 2018. In value terms, there was a 13% decrease to US\$76 million in 2017 followed by a 3% rise to US\$78 million in 2018. Despite a decline in trade in recent years, nearly two thirds of France's import value of timber products from Indonesia comprised wood furniture in 2018. France's imports of this commodity from Indonesia declined 15% to US\$47.0 million in 2017 and by a further 3% to US\$45.6 million in 2018. France's imports of paper products from Indonesia also declined during this period, from US\$12.2 million in 2016 to US\$8.0 million in 2018. However, these losses were partly offset by a gain in France's imports of joinery products from Indonesia, which increased 50% to US\$11.68 million in 2018. The upward trend affected a range of joinery products including flooring, doors, and various laminated products for window frames and kitchens.

Italy

In 2018, Italy accounted for 6% of total EU import value and 6% of EU import tonnage of timber products from Indonesia. Italy's imports of timber products from Indonesia increased sharply from 30,000 tonnes in 2015 to 57,000 tonnes in 2016, but then fell 3% to 55,000 tonnes in 2017 and by 19% to 45,000 tonnes in 2018. The trend in value terms was less volatile; after a 36% rise to US\$70 million in 2016, there was a slow increase to US\$71 million in 2017 and to US\$72 million in 2018. Most of the recent increase in import value has been due to paper products, which increased 30% to US\$27.5 million in 2017 and by a further 14% to US\$31.3 million in 2018. Italy is the only EU country that has imported anything other than negligible quantities of Indonesian wood pulp in recent years. Italy's imports of this commodity increased from US\$1.4 million (2,400 tonnes) in 2015 to US\$8.8 million (19,000 tonnes) in 2016, before declining to no more than US\$380,000 (500 tonnes) in 2018.

Italy's imports of wood furniture from Indonesia increased 13% to US\$18.9 million in 2017 before declining 2% to US\$18.5 million in 2018. Italy's imports of plywood from Indonesia declined 35% to US\$3.8 million in 2017 but then rebounded to US\$6.5 million in 2018.

Spain

In 2018, Spain accounted for 4% of total EU import value and 5% of EU import tonnage of timber products from Indonesia. Spain's imports of timber products from Indonesia increased by around 2% each year in 2017 and 2018 to close to 25,000 tonnes. The increase in import value was greater during this period, rising more than 13% to US\$47 million. Spain's timber imports from Indonesia are dominated by furniture and paper products. The value of Spain's imports of wood furniture from Indonesia increased 26% to US\$17.9 million in 2017 and remained at this level in 2018. In contrast, Spain's imports of paper products were flat in 2016 and 2017 at US\$17.6 million, but then increased 14% to US\$20.0 million in 2018. The total value of Spain's imports of wood (HS 44) products from Indonesia was less than US\$9.3 million in 2018, unchanged from the previous year, and consisted mainly of marquetry, charcoal and flooring.

⁴⁰ These figures may underestimate the actual quantity of Indonesian timber products imported into Germany. Based on more detailed analysis of German trade data at national level, there is strong evidence to suggest that an increasing proportion of tropical hardwood product entering the country comes indirectly via other EU countries, particularly Belgium and the Netherlands.

Greece

In 2018, Greece accounted for 4% of total EU import value and 4% of EU import tonnage of timber products from Indonesia. Greece's imports of timber products from Indonesia declined 12% to 30,000 tonnes in 2017 but then rebounded 36% to 41,000 tonnes in 2018. In value terms, imports were flat between 2016 and 2017, at US\$30 million but increased 60% to US\$48 million in 2018. The upward trend was nearly all due to a six-fold increase in the value of imports of Indonesian sanitary paper, from US\$2.2 million in 2017 to US\$16.3 million in 2018. Imports of Indonesian wood furniture also increased by 82% from a small base, to US\$5.9 million. Greece's imports of other Indonesian timber products were stable in 2018, including uncoated writing paper (US\$13 million), charcoal (US\$6 million) and kaolin coated paper (US\$2.7 million).

Other EU countries

Imports of timber products from Indonesia by the other Member States outside this core group of eight are relatively limited, accounting for no more than 10% of total EU import value and 13% of EU import tonnage. It is notable that of

the total US\$130 million imported from Indonesia by these other 20 EU countries in 2018, over half (US\$67 million) comprised paper products. The rest was split evenly between wood furniture (US\$33 million) and wood (HS 44) products (US\$30 million). Significant trends in these countries' trade with Indonesia in recent years include: a 95% increase in the value of Slovenian imports from Indonesia in 2018, to US\$19.8 million, all due to a big increase in imports of sanitary papers; a 25% increase in Romanian imports from Indonesia, to US\$18.1 million, mainly driven by rising trade in uncoated printing/writing papers; and a 38% increase in Ireland's imports from Indonesia to US\$9.7 million, driven mainly by rising imports of doors and uncoated printing/writing papers.

5.4.3 Indonesia share of EU timber product imports

While the value of EU imports of Indonesian timber products increased overall in the two years immediately after licensing began, Indonesia's share of total EU timber imports (*Figure 5.4.3.1*), and of EU tropical timber imports (*Figure 5.4.3.2*), did not increase for most product groups during this period. For most products, the increase in the value of Indonesian timber products was matched by equivalent rises in imports from other

timber supplying countries.

Despite relatively slow economic and consumption growth in the EU, 2017 to 2018 was a period of rising import growth in the EU, mainly driven by imports from neighboring countries in the European region, notably Ukraine, Russia, Belarus, Serbia, Bosnia and Turkey.

This was partly currency related. Slowing economic growth fed through into a fall in the value of the euro and the British pound in 2018, both of which weakened against the US dollar by around 8% during the year (in fact, in the months immediately following licensing, the British pound fell to close to the lowest ever level recorded against the US dollar since the currency was first issued in 1775).

However, EU currencies remained strong relative to currencies in several key Eastern European supply countries, including Ukraine, Russia, and Turkey. Both the euro and British pound strengthened by around 7% against the Russian rouble in 2018 and by over 25% against the Turkish lira. These exchange rate fluctuations generally favored EU imports from Eastern Europe and acted as a drag on imports from North America and Asia.

Overall the data indicates that FLEGT licensing has had little impact on the market share of Indonesian products in the EU and has not overridden the ongoing effects or direction of larger economic trends. There is only one timber product, charcoal (HS 4402), for which Indonesia has increased share of the EU market since licensing was introduced, and this is one of the few products for which licences are not

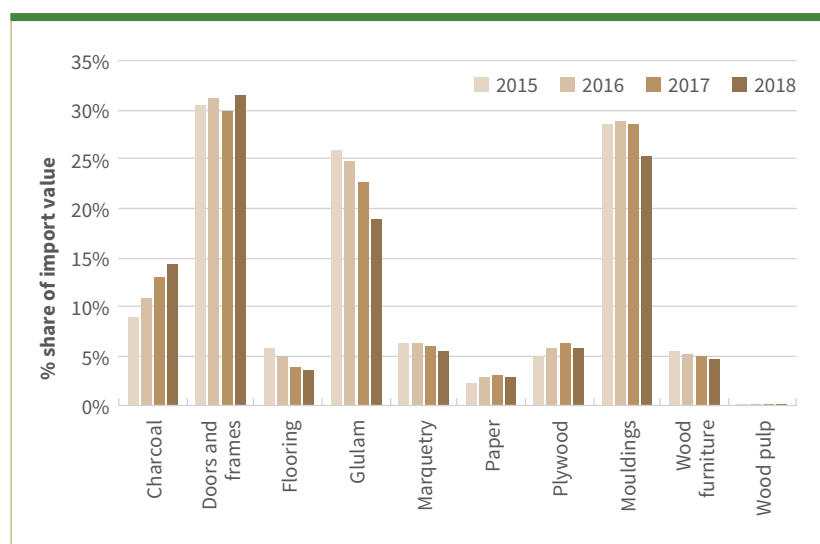


Figure 5.4.3.1: Indonesia's share of total EU imports, by timber product type – Years 2014-2018. Source: IMM STIX

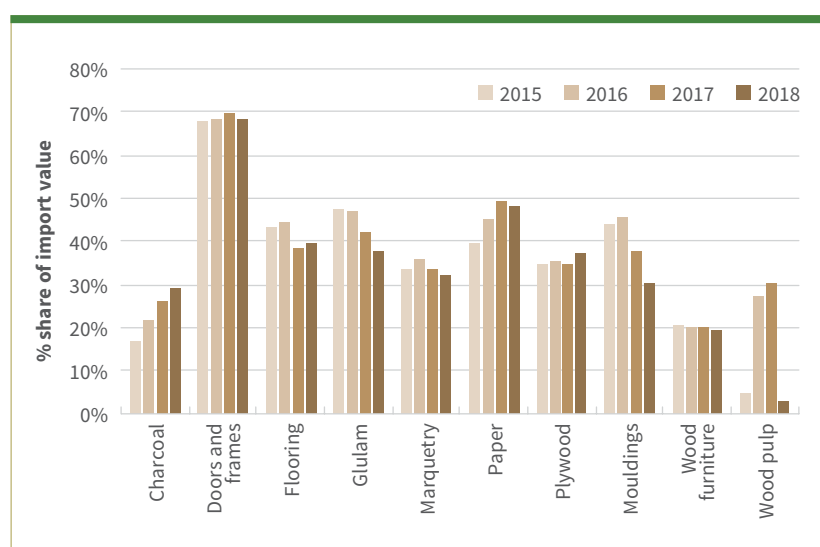


Figure 5.4.3.2: Indonesia's share of EU tropical imports, by timber product type – Years 2014-2018. Source: IMM STIX

actually required. Indonesia's share in this sector was also expanding well before licensing began.

Equally, licensing does not seem to have had any detrimental effect on import share. Where there has been loss of share for Indonesian products in the years 2017 and 2018 – for example for wood furniture, flooring, glulam, and mouldings – this is a continuation of a longer-term trend and is explicable by referring to other competitiveness factors, such as exchange rates, fashion trends, logistics, inward investment in neighbouring European countries, and technical development of competitors (such as thermally and chemically modified temperate timbers and wood plastic composites).

5.5 Overcoming market constraints to FLEGT-licensed timber

5.5.1 Background

The first IMM EU trade survey in 2017 identified several administrative issues that may have had an impact on the market for FLEGT-licensed timber in the early stages after implementation. First and foremost, there were delays in clearance of shipments for circulation on the European markets due to FLEGT Licence mismatches. Some companies also had difficulties adapting to the new administrative procedures involved in importing FLEGT-licensed timber and called for a fully electronic process to reduce administrative effort. Besides these administrative issues, lack of awareness of the Indonesian FLEGT VPA and what it means on the ground was frequently mentioned as undermining market development.

5.5.2 HS Code harmonisation and other License mismatches

The number of both HS code and other FLEGT Licence mismatches related for example to shipments' weight or volume has been reduced in 2018, according to both Indonesian sources (such as an early 2019 Joint Expert Meeting⁴¹ statement) and to respondents to the IMM trade survey and IMM Trade Consultation delegates. The EU and Indonesia have worked bilaterally on further harmonising HS codes for certain product groups since the issue first came up as a part of validation of FLEGT Licences.

Interviews conducted by the European IMM correspondents with ten European timber-sector associations and Monitoring Organisations representing more than 2700 companies confirm this assessment. Only one of the ten organisations flagged up a recent significant issue with FLEGT Licences from Indonesia. The case did not refer to a license mismatch but to a FLEGT-licensed shipment that had overstayed the original expiry date of the licence in a bonded warehouse. Obtaining an extension for the FLEGT Licence was described as difficult and time-consuming. This organisation also criticised and called for a change of the fact that FLEGT licensing currently doesn't take account of the timber trade's practice of keeping imported stock in bonded warehousing and breaking up shipments into individual lots as orders are placed. That way importers spread the cost of customs duty, which eases cashflow.

5.5.3 Electronic licensing

The EU and Indonesia decided to pilot an e-licensing tool; a final decision on using the e-licensing system will be made in early 2020.⁴² Bilateral work, with additional support of some individual EU Member States, on developing this system has been on-going for some time.

The fact that the process wasn't fully electronic had been the major general point of criticism raised by EU traders of the administrative procedures of importing FLEGT-licensed timber in 2017. IMM 2018 trade survey assessments of the administrative process are discussed in more detail below (*sections 5.6 and 5.7*).

5.5.4 Communication and marketing

In terms of promoting Indonesian timber with a FLEGT Licence to the EU market, the UK Department for International Development (DFID)'s latest phase of the Multi-Stakeholder Forestry Programme (MFP4), launched in 2018, contains a component that will provide background assistance to the MoEF and Indonesian stakeholders in "building confidence and demand" for Indonesian FLEGT timber.

One aspect of MFP4 will be a project in collaboration with the Global Timber Forum⁴³ to identify how best to promote specific FLEGT-licensed wood products within the EU. MFP4 will also examine prospects for a central online resource for information on Indonesian FLEGT achievements and news. The website www.legalwoodmarket.com was established as a market for legal and sustainable Indonesian timber and wood products under the previous project phase, MFP3, and a new Indonesian Wood Association platform is now currently being developed.

The Indonesian MoEF and the MFP3 programme also supported the UK Timber Trade Federation in developing and hosting the Timber Transformer exhibition, dedicated to the Indonesian FLEGT VPA and with a focus on environmental, social and economic benefits on the ground. The exhibition ran for four months in London and attracted hundreds of visitors, including journalists, timber businesses, NGO representatives, end users and members of the public. With the exception of the UK Timber Trade Federation, European associations interviewed by IMM in 2018 said they did not formally promote FLEGT-licensed timber. However, some had delivered training courses or were "encouraging" members to use FLEGT-licensed timber. A detailed analysis of timber association attitudes to FLEGT and their level of engagement in promotion can be found in *Chapter 8* of this report.

The EFI FLEGT Facility launched a new website⁴⁴ dedicated to timber buyers, which provides timber traders, specifiers, architects and retailers with information on business benefits of trading in FLEGT-licensed timber. It also demonstrates social, environmental and economic benefits that such trade brings to producer countries. The new resource explains what FLEGT licences are, how they benefit timber buyers in the EU, and how the advantages of FLEGT licensing extend beyond legality to encompass social, economic and environmental gains in producer countries. It includes links to multimedia stories that

⁴¹ Indonesia Joint Expert Meeting Minutes of 29 March, 2019.

⁴² Indonesia Joint Expert Meeting Minutes, 29 March, 2019.

⁴³ www.gtf-info.com

⁴⁴ <http://www.timberbuyers.flegtlicence.org>

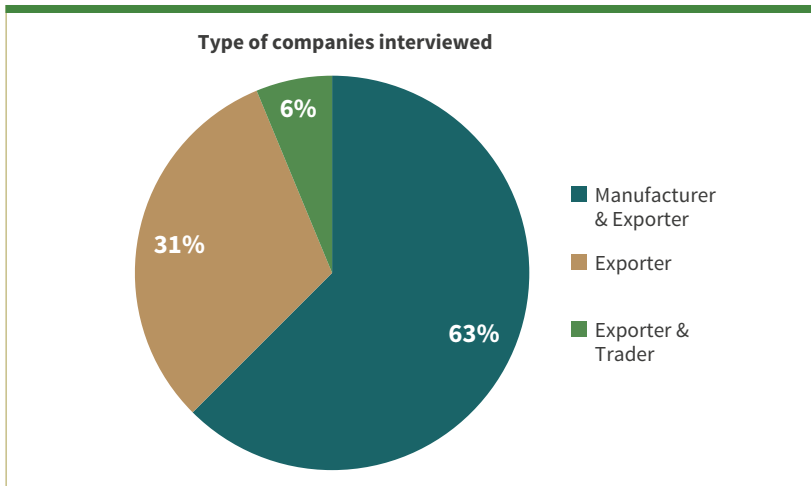


Figure 5.6.1: Companies interviewed, by company type.

Source: IMM Indonesia follow-up study 2018

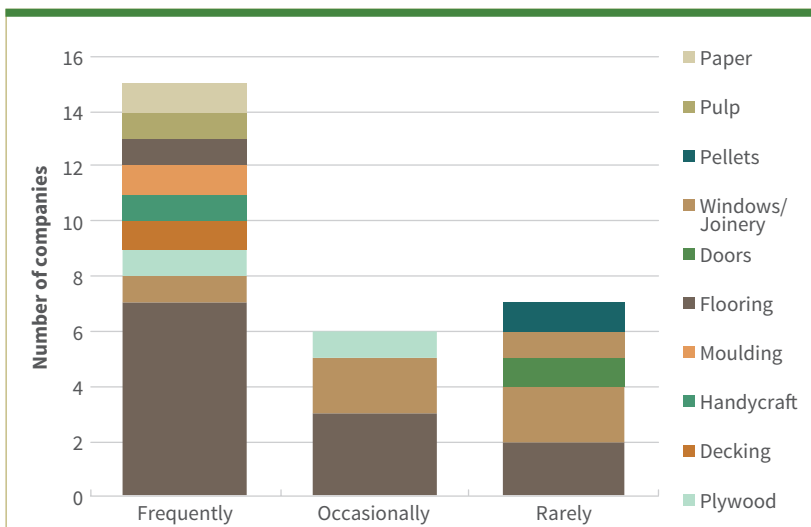


Figure 5.6.2: Products manufactured/traded by survey respondents.

Source: IMM Indonesia follow-up study 2018

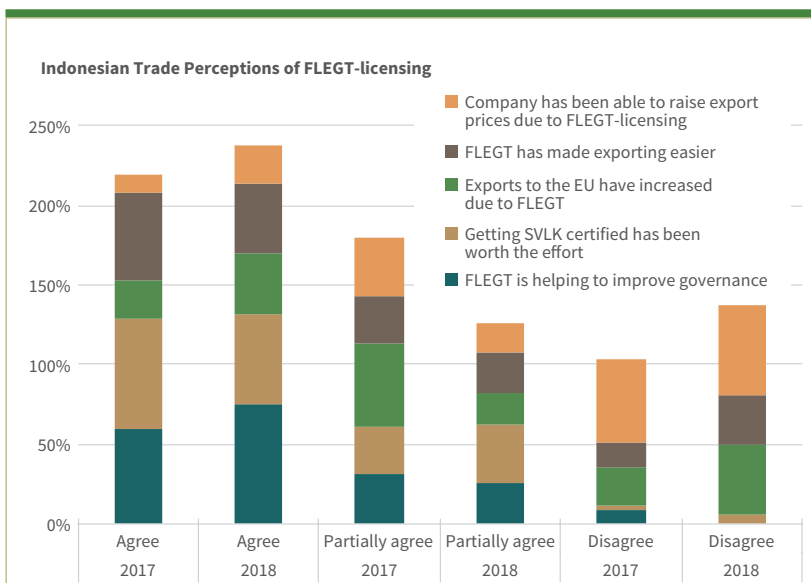


Figure 5.6.3 Indonesian trade perceptions 2017/2018.

Source: IMM Indonesia 2017/2018 reports

highlight the benefits of FLEGT licensing, and to downloadable resources that can help timber buyers to communicate about FLEGT-licensed products with their customers.

When trying to evaluate the levels of awareness and acceptance of FLEGT-licensed timber, it is useful to bear in mind that FLEGT licensing is a new concept, that has been available in the marketplace for less than three years and from only one country. Considering that private sector certification, for example, as a concept is now 25+ years old and yet, as demonstrated by the IMM private sector procurement study, it is not universally advocated or specified, FLEGT licensing can be expected to still have some way to go to achieve similar levels of acceptance.

Chapter 8 of this report takes a closer look at EU Wood Promotion campaigns and influencers and their support of FLEGT-licensed timber and the FLEGT VPA programme.

5.6 Indonesian trade views of the impact of FLEGT licensing

To follow up a pilot survey the previous year, in 2018, the IMM Indonesia Correspondent undertook interviews with 16 timber processing companies, exporters and timber traders to gain insights from the Indonesian side on the trade impact of FLEGT licensing following its introduction in November 2016. Interviewees included manufacturers with their own direct export activities, specialist timber exporters and companies that were both exporters and trading on the domestic market (Figure 5.6.1).

Respondents to the survey in 2018 produced and exported to the EU a wide variety of products, with a focus on furniture and furniture components as well as plywood. Other important export commodities were joinery products and, at a smaller scale, pulp and paper (Figure 5.6.2). Respondents exported timber and timber products to a total of 18 EU countries, the important EU destinations being the Netherlands, Belgium, the UK, Germany, France, and Denmark.

Comparing 2017 and 2018 trade perceptions of the VPA impacts has its limitations, as the survey samples differ in size and composition. However, Figure 5.6.3 shows that the overall level of support of the FLEGT VPA remained high in the Indonesian trade in 2018, with more than 90% of respondents still fully (56%) or partially (38%) confirming that achieving SVLK certification was beneficial to their operations. An even

higher proportion in 2018 than in 2017 found that implementation of the VPA had improved governance in Indonesia (75% fully agreed, 25% partially and no disagreement). But companies were still divided on whether FLEGT licensing has helped boost export volumes or prices and whether FLEGT has made exporting to the EU easier.

5.7 EU trade views of the impact of FLEGT licensing

The IMM 2017 trade survey produced a baseline for EU trade perceptions of the Indonesian FLEGT licensing system and day-to-day management of importing licensed timber. Repetition of the same questions in the IMM 2018 survey allows for some initial comparison over time.⁴⁵

The results shown in *Figure 5.7.1* is encouraging, given that a much higher proportion of respondents found the administrative process of importing FLEGT-licensed timber easily understandable and manageable in 2018 than in 2017. This confirms expectations from 2017 that the process would not be considered a major challenge once importers got used to it.

Results shown in *Figure 5.7.2* support this assessment. In 2018 practically all respondents said that FLEGT licensing was making importing wood products from Indonesia easier compared to EUTR due diligence. In 2017, a significant number of respondents had still partially (12%) or fully (20%) disagreed with this statement.

Responses to the question whether companies would give preference to FLEGT-licensed timber from Indonesia over unlicensed timber from competing sources remain more mixed (*Figure 5.7.3*). Respondents to the survey remarked that FLEGT licensing was a factor that could impact purchasing decision, but only where other product criteria were equal.

As a part of its Trade Consultations, IMM holds workshops on purchasing dynamics, decision making processes and where FLEGT licensing sits within these processes. At all 2018 Trade Consultations, participants remarked that they would consider business and commercial considerations first and foremost. Top of the list, alongside price, was ensuring that the supplier can deliver the product in the time frame required and in consistent quality and specification.

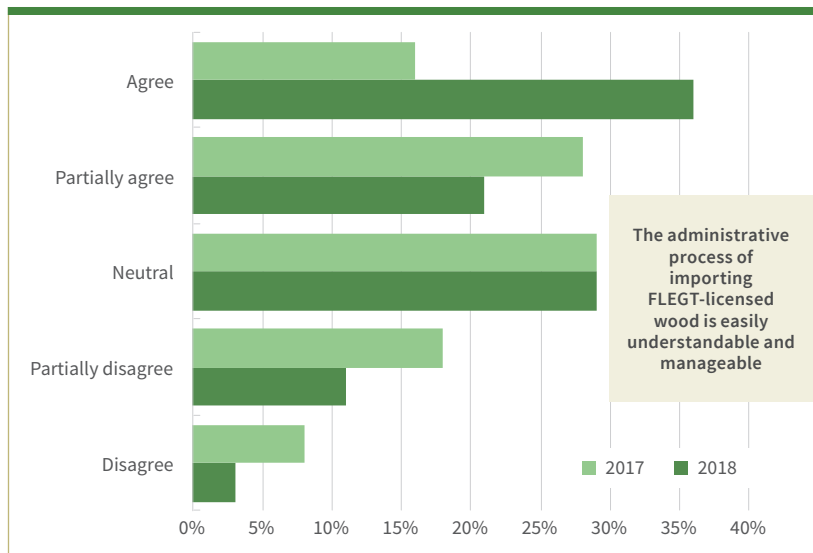


Figure 5.7.1: EU trade perceptions of importing FLEGT-licensed timber.

Source: IMM 2017&2018 EU trade surveys

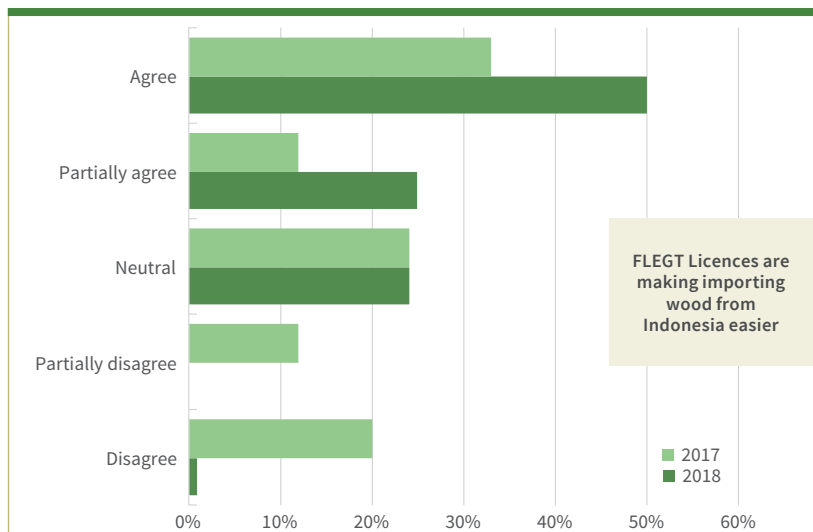


Figure 5.7.2: EU trade perceptions of importing FLEGT-licensed timber.

Source: IMM 2017&2018 EU trade surveys

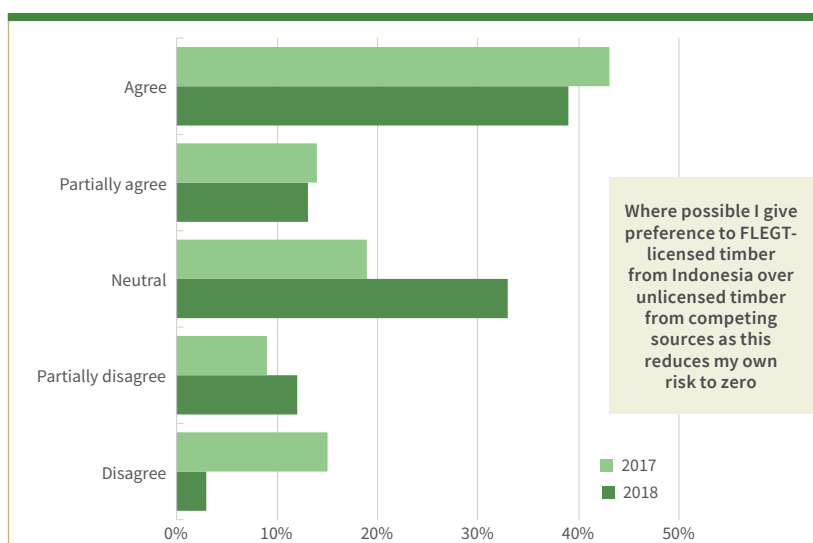
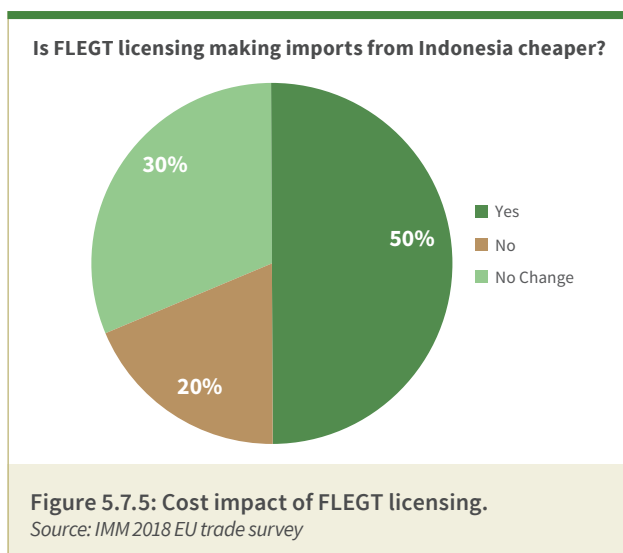


Figure 5.7.3: EU trade perceptions of importing FLEGT-licensed timber.

Source: IMM 2017&2018 EU trade surveys

⁴⁵ Scope and methodology of the IMM surveys in the EU is described in Annex 1



Only once buyers are satisfied on all these points does the focus move more to chain of custody, sustainability certification, legality verification and capacity to provide EUTR due diligence information. As a result, FLEGT licensing can be considered a factor that can positively impact purchasing decisions, but only if several other requirements are being met as well.

The 2018 EU trade survey looked in more detail into the level of information and awareness of the Indonesian FLEGT licensing system than the 2017 survey. *Figure 5.7.4* shows that there is a definite need for additional information on certain aspects, including the wider environmental, social and economic benefits of the VPA and the way it is implemented and monitored.

Roughly half of the respondents (46%) stated that they would be interested in receiving additional or different information. Where different information was requested, companies typically asked for simpler formats, ideally videos or animations.

Some of the companies that were not interested offered an explanation for their disinterest, with the main one being

that they were not importing from Indonesia and there was no licensed timber from other countries.

Only a small number of IMM 2018 trade survey respondents (20 of 96) commented on the question whether FLEGT licensing was making importing from Indonesia cheaper or more expensive compared to exercising EUTR due diligence (*Figure 5.7.5*). One or two of the companies replying “no change” commented that fees for processing licences were levelling out the small cost advantages achieved through licensing.

Other companies said that their supply chain management in Indonesia had been very well established before the EUTR entered into force and hence EUTR compliance came at very small extra costs; as a result, they didn’t register any significant cost benefits from licensing. One or two companies commented that their administration costs had increased due to FLEGT licensing.

The above-mentioned fees, which currently range between €11 and €105.90/licence, unchanged from the last IMM report, continue to be charged by a number of EU Member States. The lowest fees are charged in the UK (£9.60 – roughly €11 – per license), followed by Italy (€50), Belgium (€50), Finland (€70), Greece (€100) and Austria (€105.90). All other Member States process FLEGT Licences for free.

IMM survey respondents typically didn’t perceive the fees as a serious market barrier, due to the relatively modest amounts. It must be noted, however, that the countries charging the highest fees – Finland, Greece and Austria – are not included in the IMM survey.

Participants in the IMM 2017 EU trade survey were asked 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 typically ranged around 5% or below. However, the vast majority of respondents said their clients further down the supply chain would not be prepared to pay a premium for FLEGT-licensed timber.

The 2018 survey did not repeat this question as very little change was expected to have occurred over such a limited period. However, the question was discussed during all four IMM Trade Consultations in 2018 and early 2019. In direct dialogue, participants unanimously said that no price premiums were currently being paid for FLEGT-licensed timber from Indonesia.

The main reason given was that legality was considered a “minimum standard” or “precondition for doing

business” and not something they would be prepared to pay a premium for. Some delegates suggested that price premiums might be an option in the future, once FLEGT licensing and its wider benefits are better understood.

5.8 Price trends for indicator products from Indonesia

Monitoring price trends is always difficult, as fluctuations in prices can potentially be caused by a large variety

Case Study 1 -Trend in Indonesian plywood prices⁴⁶

The increase in Indonesian plywood prices for exports to Europe observed from late 2017 to mid-2018 was attributed by timber-sector media and by respondents to the IMM survey to a range of supply and demand factors, but generally not specifically to the start of FLEGT licensing.

One of the most frequently mentioned reasons was trends in competing Russian birch plywood assortments. Rising prices and supply shortages in Russia caused first demand and then prices for Indonesian plywood to rise too. The indices below demonstrate that while remaining stable or softening slightly on US\$-basis and rising slightly in Euros immediately after the start of Licensing, purchasing of Indonesian plywood for companies in the Eurozone became cheaper in early/mid-2017, giving Indonesian material an exchange-rate related competitive advantage. Another significant factor that drove prices upwards in 2017 and 2018 was overall growth in European demand for plywood, primarily due to more buoyant construction activity. Increased buying competition from the US was also mentioned as a factor that limited supply and pushed prices upwards. US buyers' increased focus on Indonesia was attributed to the US-China trade conflict, coupled with strong demand from the US construction sector, which led US buyers to explore new supply sources.

The start of FLEGT licensing was mentioned by a several media sources as having had – to some extent – a positive impact on demand for Indonesian plywood in 2017 and 2018. “Lower reputational risks” and “cost advantages compared to EUTR due diligence” were

mentioned as FLEGT-licensed timber’s advantages over unlicensed material by such reports. But none of the reports reviewed by IMM mentioned a direct impact on prices or price premiums being paid for FLEGT-licensed plywood.

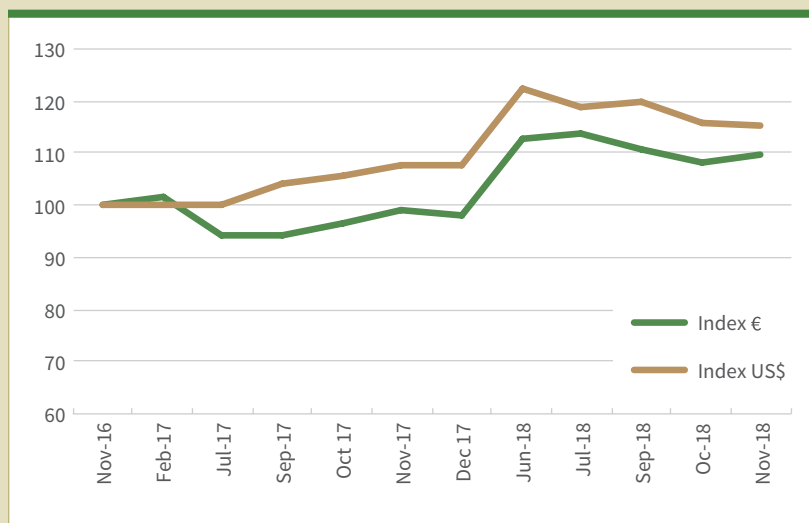


Figure 5.8.1: Price trend for Meranti plywood (film-faced, 18/21mm). Source: IMM

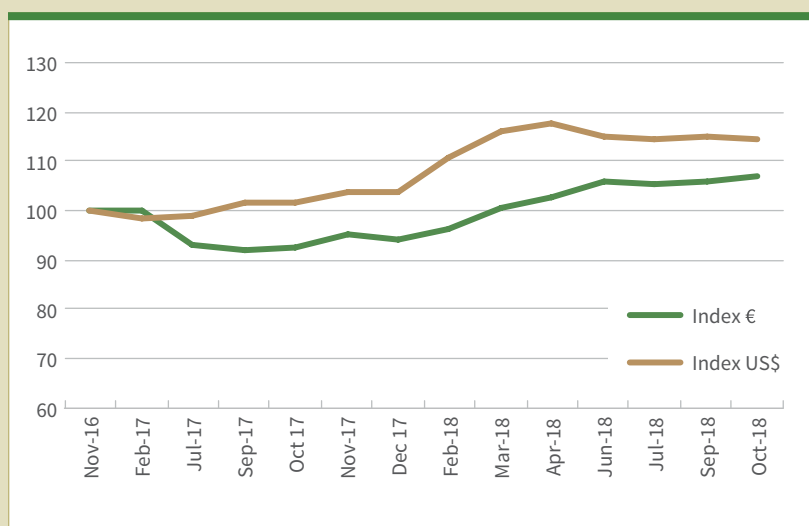


Figure 5.8.2: Price index for Meranti plywood (18 mm, BB/CC) Source: IMM

⁴⁶ The trend lines are indexed and based on analysis of ITTO data and timber-sector media reports. November 2016 = 100.

of factors including but not necessarily limited to:

- Demand trends in markets under observation and in competing markets (including changes in fashion trends, emergence of new products, etc.)
- Demand trends, availability and prices for substitute products
- Supply trends (capacity and weather related, suppliers' changing trading patterns and priorities etc.)
- Currency exchange rate trends
- Transport-related issues (freight capacities and prices)
- Other (including FLEGT licensing).

Moreover, given the growing levels of specification and diversification in several VPA partner countries' timber industries – including Indonesia – and increasingly specific requirements and needs of clients in consumer countries, only a limited number of products are still being traded as bulk commodities in comparable qualities and specifications from countries like Indonesia.

A small number of such products, including raw and film-faced plywood in standard dimensions, Bangkirai decking (standard+better) and Meranti window scantlings were identified by IMM for price monitoring.

The price indices in Case Studies 1 and 2 show that prices for these indicator products from Indonesia have increased since the start of FLEGT licensing. However, the price rises were not directly related to the beginning of FLEGT licensing. For most products, the strongest increases occurred in the first half of 2018 or in late 2017 at the earliest. Prices slipped again slightly towards the end of 2018.

Case Study 2: Trend in Indonesian joinery product prices⁴⁷

Timber sector media attributed the sharp price increases for Bangkirai decking in late 2017 and early 2018 primarily to strong procurement competition in raw material sourcing between Indonesian manufacturers and buyers from India, in particular, and related rises in raw material prices, which were passed on to finished product prices. Moreover, competition and weather-related raw material shortages also resulted in limited availability of finished goods. Especially in the spring of 2018, timber trade journals reported delayed deliveries

and supply shortages of Bangkirai decking in Europe.

Prices for window scantlings in Indonesia increased especially in the first half of 2018. This was also mainly supply-side related, with producers of window scantlings competing for raw material with plywood producers and related raw material price hikes and restrictions of production.

FLEGT licensing wasn't mentioned as a factor impacting the above price trends by media sources reviewed by IMM.

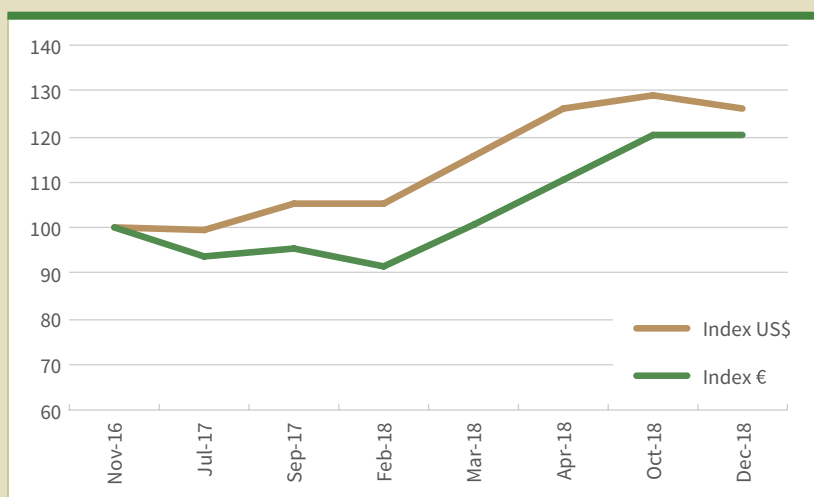


Figure 5.8.3: Price trend for Meranti window scantlings. Source: IMM

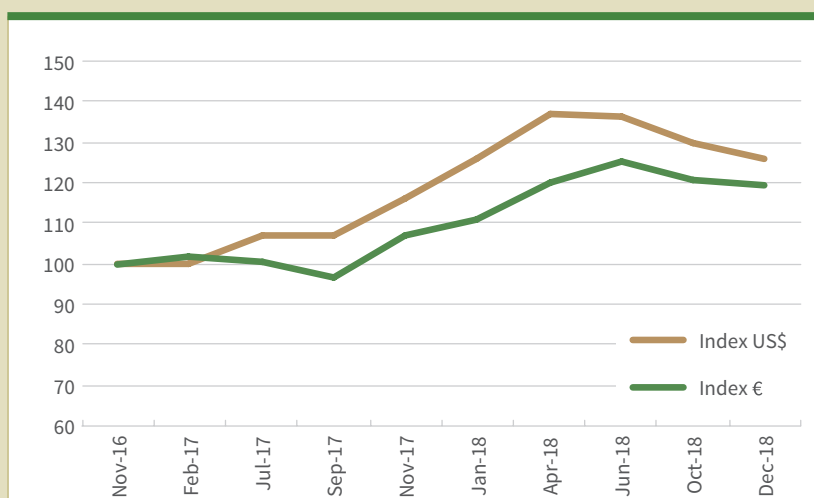


Figure 5.8.4: Price trend for Bangkirai decking. Source: IMM

⁴⁷ The trend lines are indexed and based on analysis of ITTO data and timber-sector media reports. November 2016 = 100.

6 EU timber market trends and VPA partner market share

6.1 Overview

This Chapter extends the analysis contained in Chapter 5 on FLEGT-licensed timber from Indonesia, to consider economic and timber sector trends in the EU and their impact on the competitiveness and imports of timber products from all VPA partner countries. Using various economic indices, the Chapter considers growth in the overall EU timber products market in 2018, the effect of exchange rate trends on the competitiveness of VPA partners relative to other supply countries, and VPA partner share of total EU wood product imports during the year. It then looks in more detail at the changing share of VPA partner countries in supply of products to each individual timber product sectors, where possible identifying the key factors driving recent trends.

After positive developments in 2017, European market prospects deteriorated again in 2018. The pace of GDP and construction sector growth slowed, while activity in the wood product manufacturing sectors levelled off after trending upwards the previous year. During 2018, there was some evidence of wood regaining a little of the share lost to substitute materials in recent years, although the competitive pressure from these alternatives was still intense.

The major beneficiaries of a significant rise in EU imports in 2018 were other European suppliers, notably Russia, Ukraine and Belarus. The share of tropical suppliers in total EU imports continued to decline in 2018, although at a slower pace than in the past. In 2018 China's share in EU imports fell to the lowest level since 2007.

Overall EU timber trade with VPA partner countries declined in 2018. However, imports from Indonesia, all covered by FLEGT Licences since 15 November 2016, increased slightly, by 0.1%, to €815 million in 2018. There was a notable rise in imports of doors and plywood from Indonesia during the year. There was a rebound in imports of sawn wood and logs from VPA implementing countries in Africa in 2018. Imports of wood furniture, flooring and glulam from VPA partners in Asia continued to slide.

There was an increase in total EU imports of tropical hardwood plywood and decking in 2018, but for these products most of the gains were made by non-VPA products (Chinese plywood and Brazilian decking).

India also continued to take a rising share of EU wood furniture imports from the tropics.

6.2 Overall market trends

6.2.1 GDP growth

According to Eurostat, the EU economy grew 1.9% in 2018, still robust but a slowdown in pace compared to 2.4% in 2017 when growth was at the highest level in 10 years. As in the previous year, economic growth was widespread throughout the EU during 2018 with robust growth in all seven of the large EU economies that together account for 90% of all EU wood product imports from VPA partner countries (Figure 6.2.1.1).

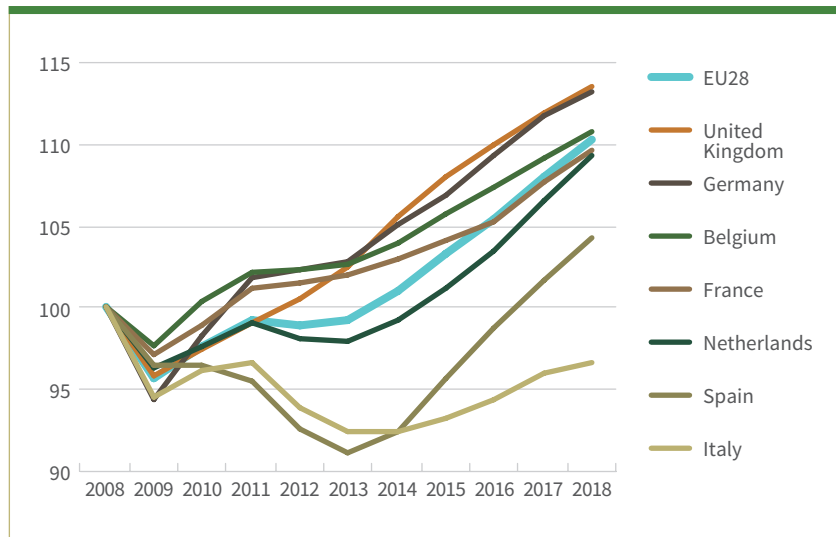


Figure 6.2.1.1: Change in GDP in the EU and selected EU countries (chain linked volumes index 2008=100) Source: ITTO IMM analysis of Eurostat

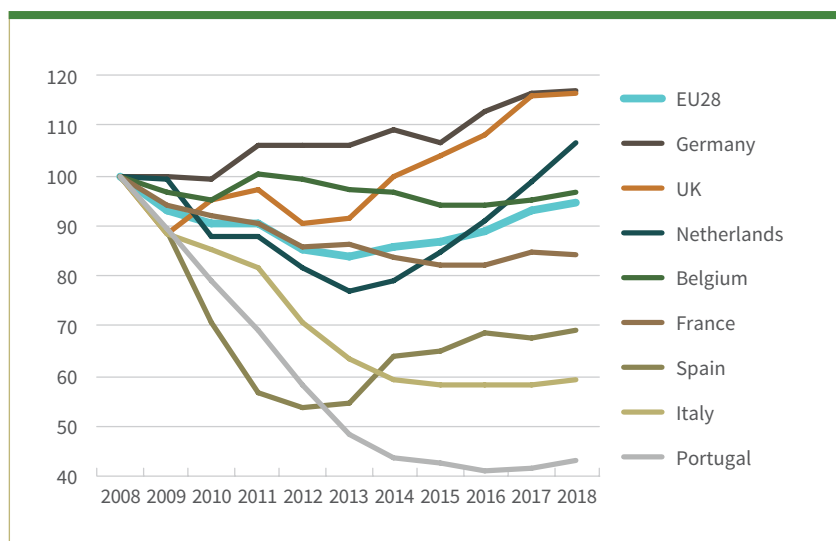


Figure 6.2.2.1: Change in construction production value in the EU and selected EU countries (2008 = 100) Source: ITTO IMM analysis of Eurostat

6.2.2 Construction sector

The construction sector in the EU continued to grow in 2018 but at a much slower pace than the previous year. The Eurostat Construction Production Index (CPI) increased 1.8% in 2018, down from 4.4% in 2017. While growth remained robust in the Netherlands, and recovered in Belgium, Spain and Portugal in 2018, it slowed dramatically Germany, the UK, and France. Construction sector growth in Italy remained consistent but very slow at 1% in 2018 (Figure 6.2.2.1).

The independent research group Euroconstruct estimated that the value of construction activity increased 3.1% to €1,610 billion in its 19 focus European countries during 2018, a slowdown compared to 3.5% growth in 2017. After five years of continuous growth, the total value of construction sector activity in the Euroconstruct countries is still far below peak levels prevailing before the financial crises in 2007.

The Euroconstruct forecast for future growth up to 2021 was progressively downgraded during 2018 and the

first half of 2019 in the context of weakening economic expansion. In June 2019, Euroconstruct forecast that the EU building sector will grow by a total of 3.4% in 2019 and 2020 (compared to 6% expansion forecast in June 2018).

Euroconstruct forecast that civil engineering projects and refurbishment and maintenance sectors will take over from residential and non-residential building in providing most market momentum in 2019 and 2020.

During this period construction activity is expected to grow more rapidly in Eastern Europe (+4% per annum) compared to Western Europe (+1% per annum). In Western Europe, construction growth is forecast to remain relatively robust (+4% per annum) in the Netherlands, Belgium, Spain, and Portugal, but to be very slow (less than 1% per annum) and with a risk of slight decline in the UK, Germany, France and Italy.

6.2.3 Wood joinery sector

Growth in the EU wood joinery sector stalled in 2018.

Eurostat PRODCOM data shows that the production value of wood joinery and related products⁴⁸ in the EU increased only 0.3% to €35.1 billion in 2018 following growth of 2.4% in 2017. Although 2018 marked a high point for EU joinery sector activity in the last 10 years, 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 increased 1.7% to €12.96 billion in 2018, rebounding after a 1.4% decline the previous year. However, this was offset by a 1.7% decline in the wood window manufacturing sector, to €6.14 billion, in 2018 and a 0.1% decline in manufacturing of “other” (non-specified) joinery products, to €9.01 billion. The value of production in the EU wood door sector was €7.00 billion in 2018, no change on the previous year (Figure 6.2.3.1).

The trend in wood joinery activity varied widely between EU countries in 2018 (Figure 6.2.3.2). After levelling off in 2017, growth in joinery activity in

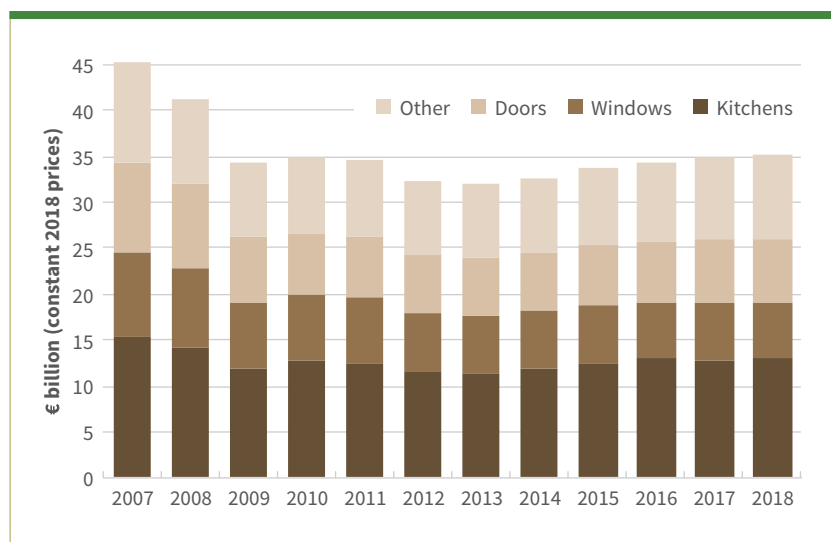


Figure 6.2.3.1: EU kitchen furniture and wood joinery production (excluding floors and shuttering) Source: ITTO IMM analysis of Eurostat

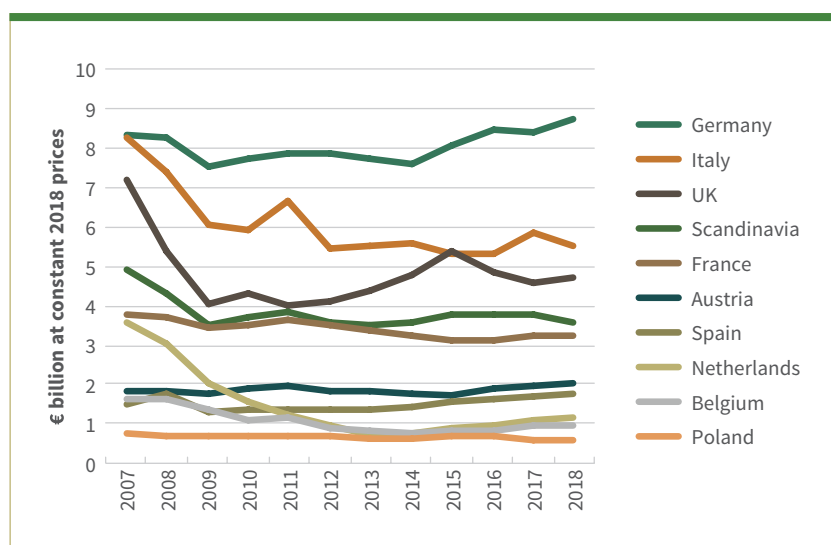


Figure 6.2.3.2: Kitchen furniture and wood joinery production (excluding floors and shuttering) in selected EU countries. Source: ITTO IMM analysis of Eurostat

⁴⁸ 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.

Germany resumed last year, rising 3.3% to €8.70 billion. After a brief bounce in 2017, joinery production in Italy fell back 6% to €5.52 billion in 2018, only just above the historically very low levels recorded in 2015 and 2016.

In the UK, joinery production increased 2.6% to €4.71 billion after slowing more than 5% the previous year. Joinery production declined in Scandinavia, by 5.6% to €3.57 billion in 2018. Joinery production in France increased only 0.3% in 2018, to €3.25 billion, after rising 3.7% the previous year.

However, there was more consistent growth in joinery production in several other EU markets in 2018 including Austria (+3.3% to €2.03 billion), Spain (+3.6% to €1.75 billion), the Netherlands (+8.5% to €1.17 billion), and Belgium (+1.5% to €0.95 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 is substitution by alternative materials. However, there is some evidence to suggest that the pace of substitution slowed in 2017 and 2018. This is revealed by comparing the total EU apparent consumption value of doors and windows in various materials⁴⁹ (Figure 6.2.3.3).

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.

Between 2014 and 2017 total EU consumption value for doors and windows increased 26% in aluminium and 28% in steel. The consumption value for wood increased only 4% during this period, while consumption of plastic stagnated. Overall the share of wood in the total value of EU door and window consumption fell from 30% to 28% between 2014 and 2017, while the share of aluminium increased from 25% to 28%, steel increased from 14% to 16%, and plastic decreased from 31% to 27%.

During this period, the growth in aluminium consumption in the EU windows and doors sector was particularly dramatic. Aluminium has always remained the default windows product in the commercial market but has enjoyed considerable resurgence within the residential window and door market. An important driver behind this has been aluminium bi-fold and sliding doors as consumers demand greater space and light within

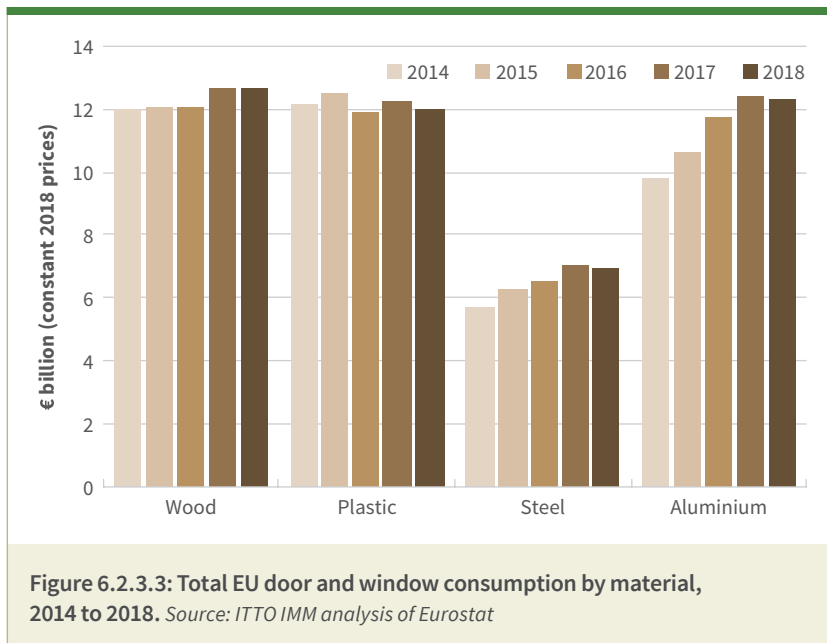


Figure 6.2.3.3: Total EU door and window consumption by material, 2014 to 2018. Source: ITTO IMM analysis of Eurostat

living areas. Another factor is the demand for lower maintenance and greater strength in light weight frames for high energy efficiency double and triple glazed units.

However, in 2018, the growth in consumption of steel and aluminium appears to have stalled. Wood even regained a little share, rising from 28% to 29%, at the expense of plastic for which share fell from 28% to 27%.⁵⁰

6.2.4 Furniture manufacturing

The Eurostat furniture production index indicates that manufacturing activity across the region increased only slightly in 2018 and at a slower rate than the previous year. The total volume of furniture manufacturing in the EU increased 0.3% in 2018 compared to a 1.9% rise the previous year. Manufacturing volume was still down more than 10% compared to the period before the global financial crises. (Figure 6.2.4.1).

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, declined 3.5% in 2018, while activity in Germany, the second largest manufacturing country, fell 1.3%.

6.2.5 Exchange rates

Slowing economic growth fed through into a fall in the value of EU currencies against the US dollar in 2018. After making gains of around 15% in 2017, the euro, British pound, Danish krona and Polish zloty all declined against the US dollar by around 8% during 2018. The Swedish krona fell even further against the dollar during 2018 and was down 4% against the euro by the end of the year.

⁴⁹ 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).

⁵⁰ The Eurostat data has limitations and the suggestion that wood may be regaining some market share is contradicted, at least in the window sector, by other more detailed studies (for example www.interconnectionconsulting.com/news/fenstermarkt-westeuropa/). A constraint of the PRODCOM data is that it does not distinguish products made wholly in wood or metals from those that are composites of both materials. The development of wood-aluminium composite window frames has been a key growth area in the EU in recent years. These products combine the strength and efficiency of aluminium with the thermal insulation and aesthetic properties of wood.

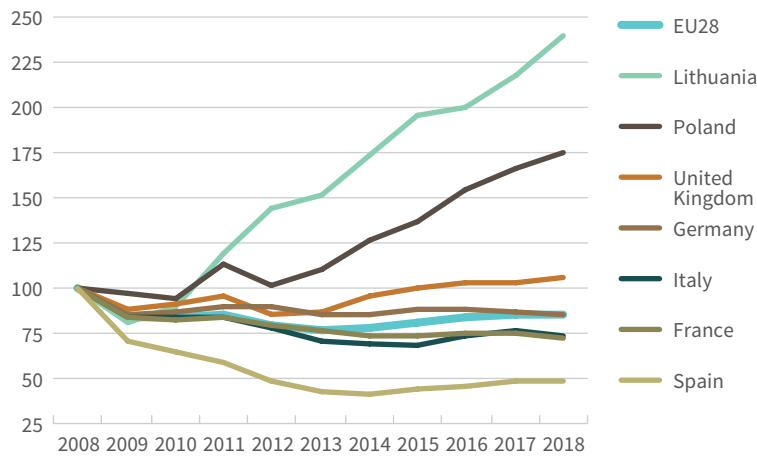


Figure 6.2.4.1: Change in furniture production volume in selected EU countries (2008= 100). Source: ITTO IMM analysis of Eurostat

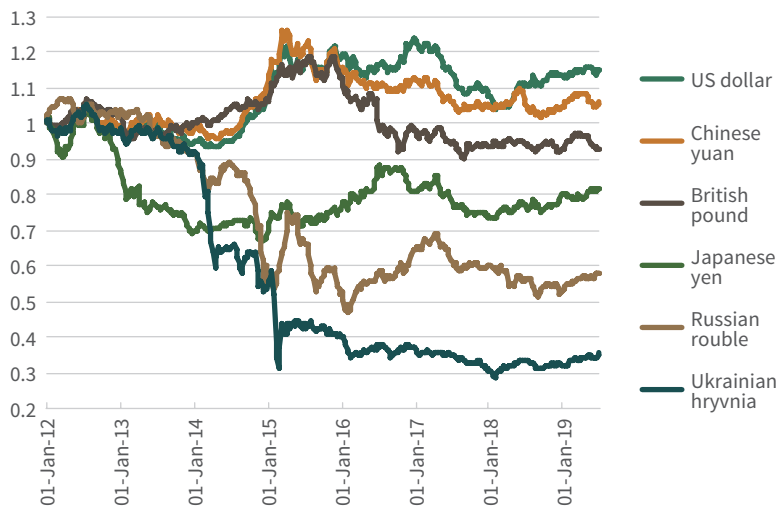


Figure 6.2.5.1: 7-year trend in Euro exchange rate, Jan 2012 to June 2019, 1 unit of currency = X € (Jan 12 = 100%). Source: ITTO IMM analysis of www.oanda.com

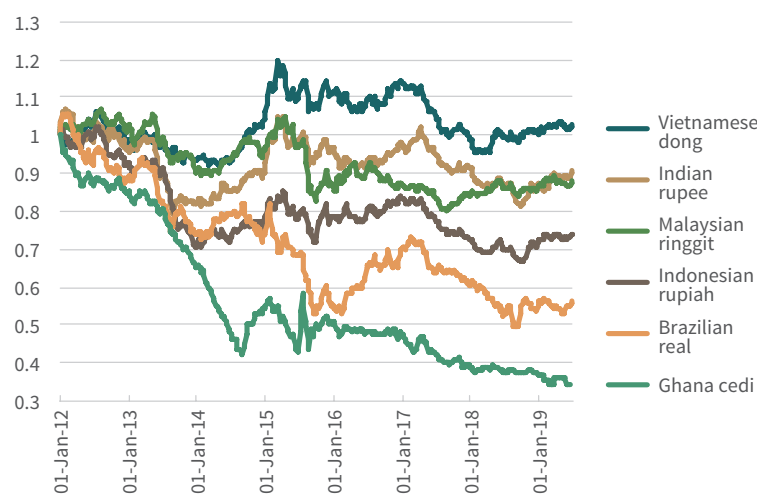


Figure 6.2.5.2: 7-year trend in Euro exchange rate, Jan 2012 to Jun 2019, 1 unit of currency = X € (Jan 12 = 100%). Source: ITTO IMM analysis of www.oanda.com

However, EU currencies remained strong relative to currencies in several key Eastern European supply countries, including Ukraine, Russia, and Turkey. Both the euro and British pound strengthened by around 7% against the Russian rouble in 2018 and by over 25% against the Turkish lira. The Chinese yuan weakened against the US dollar but was more stable against the euro during 2018 (Figure 6.2.5.1).

The currencies of several large tropical wood exporters - including Brazil, Indonesia, Malaysia and India - dipped against the euro in the first half of 2018 but recovered ground in the second half of the year. However, after suffering significant declines in the period 2014 to 2017, all these currencies were still trading at relatively low levels against the euro in 2018. The continuing relative weakness of the Indonesian rupiah and Brazilian real against the euro is particularly pronounced.

Having lost ground against the euro in 2016 and 2017, the Vietnamese dong gradually strengthened against the European currency in 2018 (Figure 6.2.5.2).

In Africa, the Ghanaian cedi was at a historically low level against the dollar, euro and other internationally traded currencies and slipped even further during 2018. All the other leading African timber supplying countries use the euro-linked CFA currencies and have stable exchange rates relative to EU currencies. Like these currencies, the CFA was weakening against the dollar in 2018.

The trade effects of exchange rate trends during 2018 include:

- to ensure continuation of relatively lower EU import prices for Russian, Ukrainian and Belarusian timber products, such as birch plywood, oak sawn timber, veneer and furniture;
- to slightly increase the global competitiveness of finished timber products manufactured in the EU and of tropical wood products from central African countries using euro-linked currencies (and where invoicing is usually in euros);
- to slightly increase EU import prices for timber products invoiced in dollars, including from North America and South East Asia;
- to facilitate the rise in exports from Brazil to the EU.

6.3 VPA partner share of total EU wood product import value

The total value of EU imports of wood products was €19.33 billion in 2018, 5.2% more than in 2017. This followed an increase of 2.3% to €18.38 billion in 2017 (Figure 6.3.1). In 2018, EU import value was at the highest level since 2008 just before the global financial crisis. In quantity terms, imports increased 14% to 45.6 million tonnes in 2018, following an 8% decline to 40.12 million tonnes in 2017.

The gain in total EU imports of wood products during 2018 hides variations between product groups (Figure 6.3.2):

- following a 7.2% increase in 2017, the value of EU imports of wood furniture decreased 0.9% to €6.21 billion in 2018, mainly due to falling import value from China, Viet Nam, Indonesia and Malaysia.
- in contrast to value, furniture import quantity increased 5% to 2.36 million tonnes. This was mainly due to a sharp rise in imports of relatively low value products from Ukraine, Belarus, Turkey and Russia during the year. The unit value of products sourced from Viet Nam and Malaysia also declined in 2018.
- the value of EU imports of sawn wood increased 9.8% to €3.59 billion in 2018 and import quantity increased 15% to 6.95 million tonnes, driven mainly by rising imports from Russia, Belarus, and Ukraine in response to tightening controls on log exports and weakness of national currencies relative to European currencies.
- the value of EU imports of panels (mainly plywood) increased 7.7% to €3.06 billion in 2018 and quantity increased 7% to 4.78 million tonnes, with imports rising from all the leading suppliers including Russia, China, Brazil, Chile, Indonesia, Belarus, and Ukraine.
- the long-term rise in EU imports of energy wood accelerated in 2018, import value increasing 20.5% to €2.49 billion and quantity rising 26% to 19.8 million tonnes. Imports of energy wood increased particularly sharply from the US and Belarus in 2018, but there were also gains from Russia, Canada, Ukraine, Uruguay and Brazil.
- EU imports of other joinery products (includes doors and glulam for window frames and kitchen tops but excludes flooring) increased 0.7% to €710 million in 2018 while import quantity increased 6% to 406,000 tonnes. Rising imports from China, Indonesia and Russia offset declining imports from Malaysia.

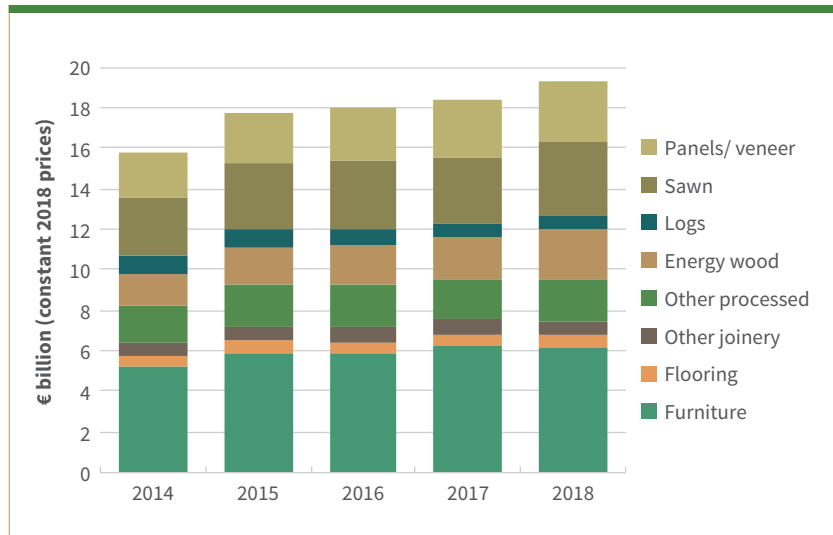


Figure 6.3.1: Value of EU imports of wood products, by product group, 2014 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

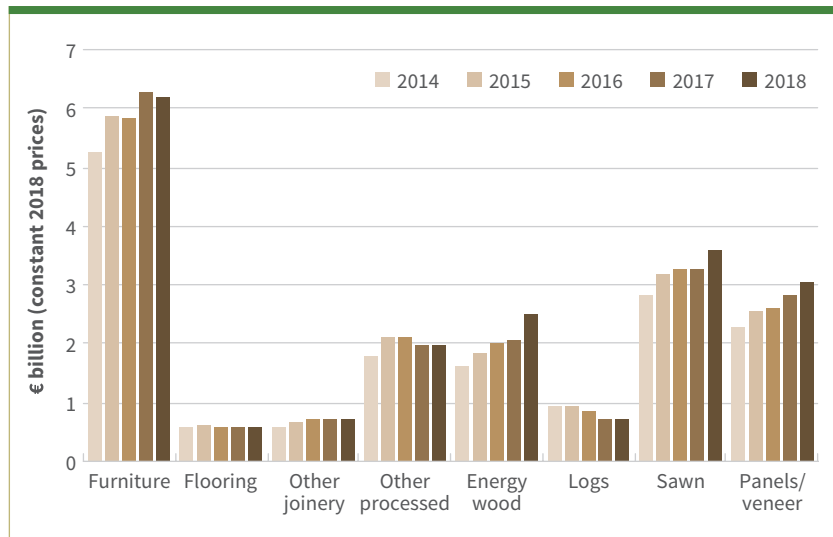


Figure 6.3.2: Value of EU imports of wood products, by product group, 2014 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

- the value of EU imports of wood flooring increased 2.8% to €579 million in 2018 while import quantity increased 5% to 247,000 tonnes, with imports from China and Ukraine, the largest external suppliers, recovering ground after two slow years in 2016 and 2017.
- the value of EU imports of “other processed products” increased 0.1% to €1.97 billion in 2018 while quantity increased 11% to 1.56 million tonnes. These products, classified under HS 442190 without being separately identified, were formerly sourced mainly from China and Norway but rising quantities are now being imported from Ukraine, Belarus, and Russia.

The total value of EU imports of tropical timber products (including direct imports and imports via third countries such as China) increased 2.1% to €3.85 billion in 2018. This follows a 2.7% fall in import value in 2017 (Figure 6.3.3).

Imports from Indonesia increased only slightly, by 0.1%, to €815 million in 2018. Indonesia accounted for 21.2% of

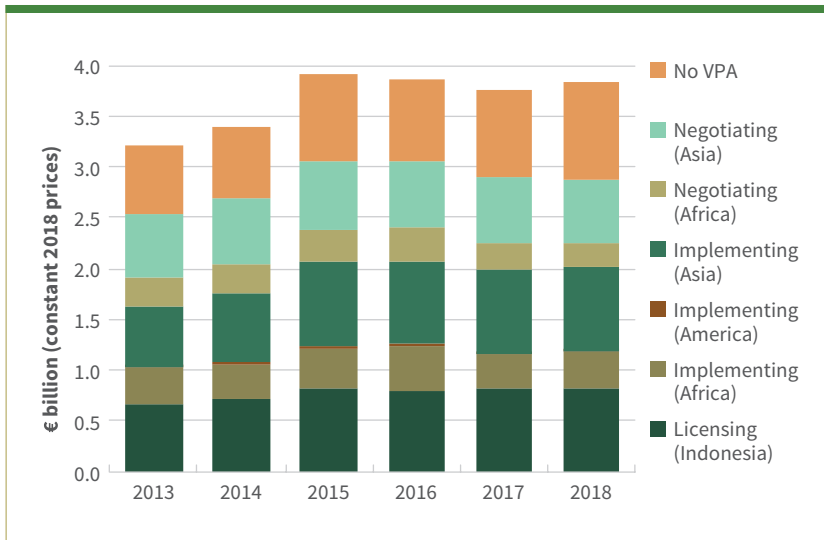


Figure 6.3.3: Value of EU imports of wood products from the tropics, by VPA status, 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

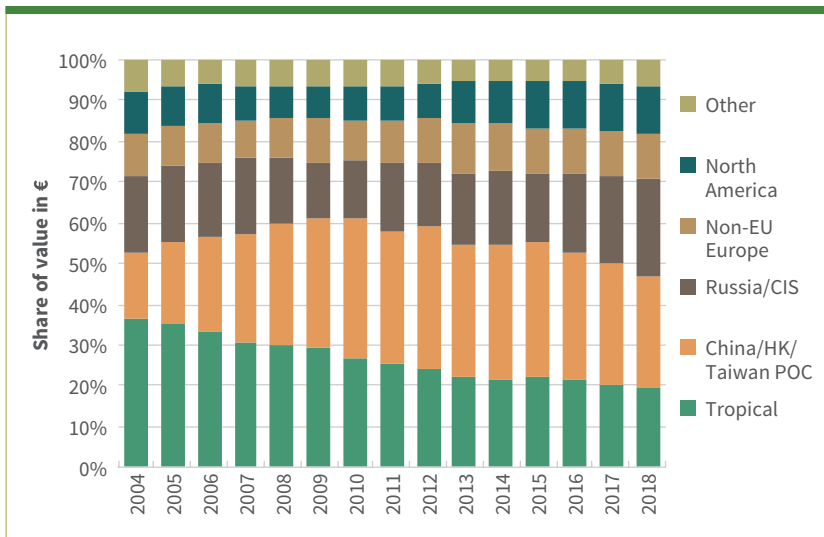


Figure 6.3.4: Share of EU import value of wood products, by source of supply, 2004 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

the total value of EU tropical wood-product imports in 2018, down from 21.6% the previous year. After making gains in 2017, the value of EU imports of wood furniture from Indonesia fell back in 2018, while imports of mouldings also declined. However, these declines were offset by rising EU imports of plywood, doors, charcoal and S4S sawn wood from Indonesia.

After a 20% fall in 2018, EU imports from the five African VPA-implementing countries increased 6.6% to €374 million in 2018. The share of these countries in total EU tropical import value increased from 9.3% in 2017 to 9.7% in 2018. This was mainly due to recovery in EU imports of sawn wood from Cameroon during the year.

The value of EU imports from Viet Nam declined 0.4% to €813 million in 2018 after falling 1.5% in 2017. A decline in the value of EU wood furniture imports from Viet Nam was only partly offset by rising imports of joinery products and plywood. Viet Nam accounted for 21.1% of the total value of EU tropical wood-product

imports in 2018, down from 21.7% the previous year.

The value of EU imports from the two VPA countries in South America that initialled a VPA in 2018 is negligible but rising, up 7.0% to €4.8 million in 2018, following a similar increase in value the year before. These countries accounted for 0.1% of the total value of EU tropical wood-product imports in 2018.

EU import value from the three VPA negotiating countries in Africa declined 4.9% to €255 million in 2018. These countries accounted for 6.6% of the total value of EU tropical wood-product imports in 2018, down from 7.1% the previous year. In 2018 there was a significant decline in EU imports of veneer and plywood from Gabon, and imports of sawn wood from Côte d'Ivoire continued to slide. These losses were only partly offset by rising imports of sawn wood and decking from Gabon and veneer from Côte d'Ivoire.

EU import value from the three VPA negotiating countries in Asia fell 4.4% to €609 million in 2018. Share of these countries in the total value of EU tropical wood-product imports fell from 16.9% in 2017 to 15.8% in 2018. EU wood furniture import value declined from both Malaysia and Thailand in 2018 while there was also a significant fall in the import value of Malaysian plywood. However, there was some recovery in imports of sawn wood from Malaysia during the year. Imports from Lao PDR were negligible.

EU imports from non-VPA tropical countries increased 11.2% to €975 million in 2018. Share of total tropical wood product imports from non-VPA countries increased from 23.3% in 2017 to 25.4% in 2018. This was

mainly due to rising tropical hardwood plywood imports from China, wood furniture imports from India, decking imports from Brazil, Peru and Bolivia, and charcoal from Cuba and Venezuela. Imports of charcoal from Nigeria also continued at a high level in 2018.

The share of tropical timber in the total value of EU wood product imports declined from 21.5% in 2017 to 20.8% in 2018. Although 2018 was the third straight year of declining share for tropical timber, the rate of decline is now much slower than in the decade prior to 2014 when share fell continuously from around 36% to 22% (Figure 6.3.4).

China's share in total EU import value of timber products fell from 29.4% in 2017 to 27.2% in 2018, the lowest level since 2007. The share of Russia and other CIS countries increased from 21.0% to 23.9%. In 2018, there was a slight decrease in share of EU import value from non-EU European countries (from 11.1% to 10.6%) and North America (from 11.7% to 11.6%).

6.4 VPA partners in EU log supply

The total supply of saw logs and veneer logs to the EU increased 5.5% to 221 million m³ in 2018, not far short of the highest levels achieved before the financial crisis in 2007–2008 (Figure 6.4.1). A 5.8% rise in production of softwood logs to 189 million m³ and a 4.2% rise in hardwood log production to 29 million m³ were sufficient to offset a 7% decline in log imports to 2.5 million m³. Much of the increase in EU log production in 2018 comprised softwoods in Germany and Finland. The largest increases in hardwood log production were in Germany and Romania.

The 7% decline in EU saw and veneer log imports in 2018 followed a 39% fall the previous year. Most of the decline in imports during 2017 and 2018 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 2018, imports constituted only 1.1% of EU saw log and veneer log supply, down from 2.1% in 2016.

There was a small rebound in EU imports of tropical logs in 2018 after a sharp decline the previous year. Imports totalled just 129,000 m³ during the year, 6% more than in 2017 (Figure 6.4.2).

In 2018, there was a significant increase in EU log imports from CAR, up 76% to 24,000 m³ following a 40% decline the previous year. Imports from the Congo Republic also bounced back 7%, to 33,000 m³ in 2018, after a 25% fall in 2017. Similarly imports from DRC recovered 18% to 23,000 m³ after a 47% drop in 2017. Imports from Liberia increased 79% in 2018, to 7,000 m³, following a 48% decline in 2017.

However, imports from Cameroon fell 8% in 2018, to 21,000 m³, following a 29% decline the previous year. Imports from Equatorial Guinea were also down 41%, to 7,000 m³, rising 15% in 2017. Imports from Suriname, which briefly surged in 2015 to 18,000 m³, were at negligible levels between 2016 and 2018.

6.5 VPA partners in EU sawn wood supply

The supply of sawn wood in the EU increased 3.7% to 123.7 million m³ in 2018, comprising 101.6 million m³ (82%) domestic softwood, 10.6 million m³ (9%) domestic hardwood, 9.3

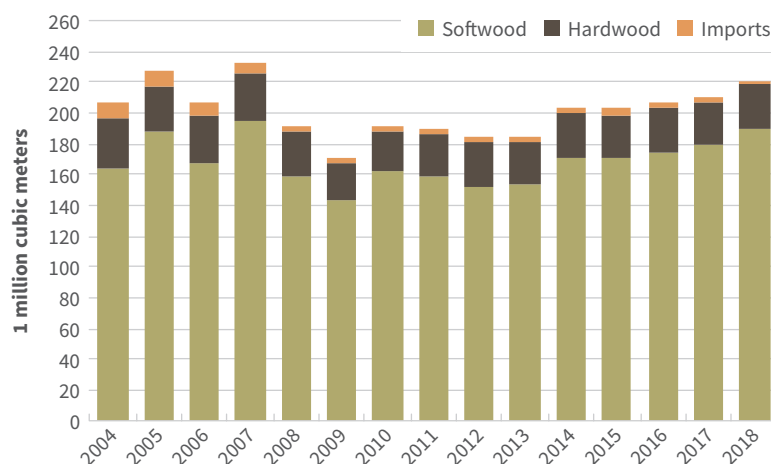


Figure 6.4.1: EU supply of saw logs and veneer logs, by species type, 2004 to 2018. Source: ITTO IMM analysis of FAOSTAT and Eurostat COMEXT

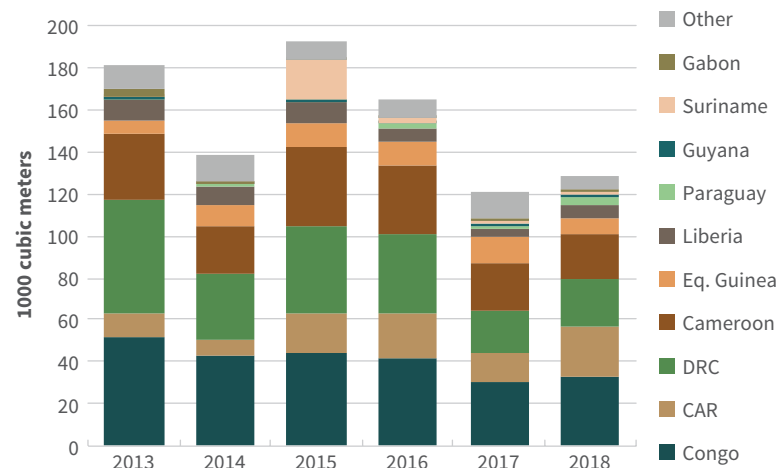


Figure 6.4.2: EU imports of tropical sawlogs and veneer logs, by country of origin, 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT



Figure 6.5.1: EU supply of sawn wood, 2013 to 2018. Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

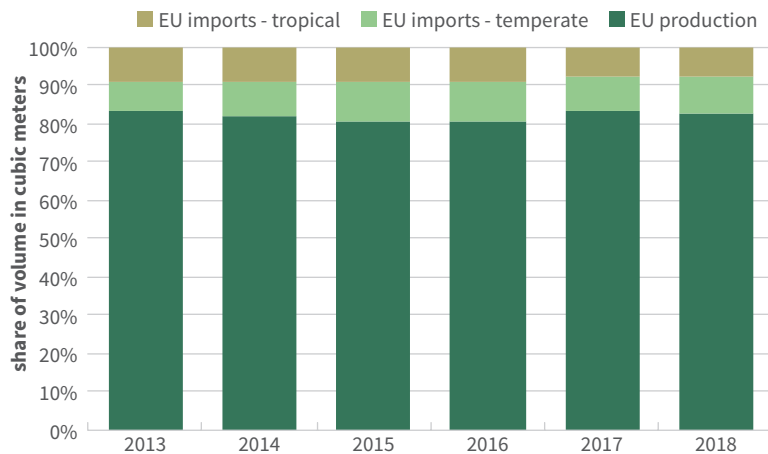


Figure 6.5.2: Share of EU supply of sawn hardwood, 2013 to 2018.

Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

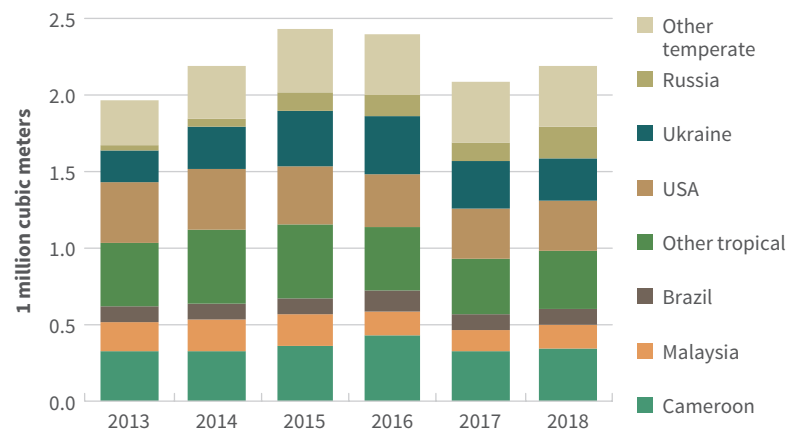


Figure 6.5.3: EU imports of sawn hardwood, 2013 to 2018.

Source: ITTO IMM analysis of Eurostat COMEXT

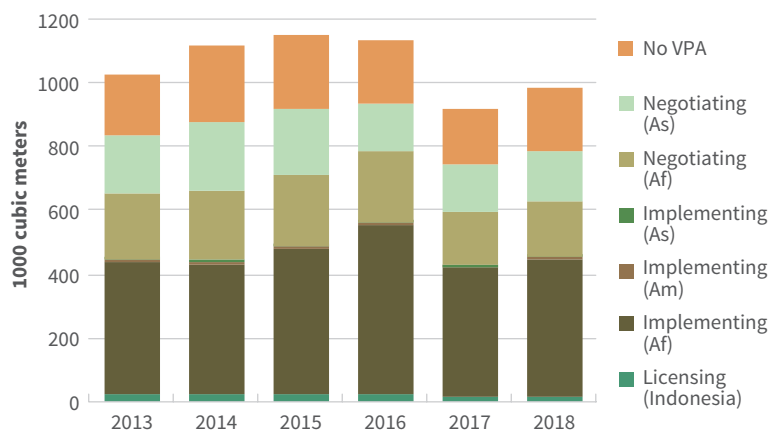


Figure 6.5.4: EU imports of sawn hardwood from tropical countries, by VPA status 2013 to 2018.

Source: ITTO IMM analysis of Eurostat COMEXT

million m³ (7%) imported softwood, and 2.2 million m³ (2%) imported hardwood. In 2018, EU production of both sawn softwood and sawn hardwood, and total sawn wood imports, were at the highest level since 2007 (Figure 6.5.1).

Although still limited overall, the share of imports in total supply increased slowly from 8% in 2015 to 9% in 2018, mainly due to rising softwood imports from Russia, Belarus and Ukraine in response to currency weakness and tighter controls on log exports in those countries. EU sawn softwood imports of 9.3 million m³ in 2018 were 19% more than the previous year and the highest level since 2004.

In EU sawn hardwood supply, the share of domestic production increased from 81.0% in 2016 to 83.3% in 2017 before falling to 82.9% in 2018. The share of tropical wood fell from 9.0% in 2016 to 7.4% in 2017 before recovering to 7.7% in 2018. The share of imported temperate hardwood declined from 10.0% in 2016 to 9.3% in 2017 and then recovered to 9.5% in 2018. (Figure 6.5.2).

Sawn hardwood production in the EU has been rising, up 2.0% to 10.6 million m³ in 2018 following a 2.4% increase the previous year. The supply constraints and rise in prices for oak, which is strongly favoured in the EU market for furniture, joinery and other finishing applications, began to ease in the second half of 2018.

Nevertheless, according to the European Organisation of the Sawmill Industry (EOS), in 2018 lack of hardwood saw logs, particularly oak, remained a problem in Germany, France, Belgium and Romania. EU sawmills were still struggling with the high prices for hardwood logs in response to strong demand in China and Viet Nam. The EU exported 1.64 million m³ of hardwood saw logs in 2018, 7% more than in 2017, of which around 50% was oak, mostly destined for the two Asian markets.

In 2018, the EU also exported 2.38 million m³ of sawn hardwood to countries outside the region, 3% less than the previous year, but still at a historically high level. While sawn hardwood exports were formerly focused on beech, particularly from Romania and destined for Egypt and other markets in the eastern Mediterranean, the majority now comprises oak destined for China and Viet Nam.

While typically regarded as a consuming market for sawn hardwood, it is notable that, since 2015, the EU has been running a surplus in this commodity as exports from the EU to other regions have exceeded imports.

EU imports of sawn hardwood increased 5% to 2.20 million m³ in 2018 following a 13% decline the previous year (Figure 6.5.3). In 2017 EU imports of tropical sawn hardwood declined 19% to 922,000 m³, the lowest level ever recorded. In 2018 imports rebounded 7% to 984,000 m³ but were still below the previous low of 1.03 million m³ recorded in 2013 at the height of the euro currency crises.

In 2018, EU imports of temperate sawn hardwood increased 4% to 1.21 million m³. The more rapid pace of increase in imports from the tropics meant that the share of tropical in total EU sawn hardwood imports increased from 44% in 2017 to 45% in 2018, a slight reversal in the long-term downward trend.

EU imports of sawn hardwood from Indonesia have been limited since 2004 when the country restricted exports to “surfaced four sides” (S4S). The EU imported 20,000 m³ of FLEGT-licensed S4S sawn wood from Indonesia in 2018, 37% more than the previous year but still down compared to 22,000 m³ in both 2015 and 2016.

VPA partner countries accounted for 79.5% of EU tropical sawn imports in 2018, down from 80.8% the previous year (Figure 6.5.4). The decline in share of VPA countries is mainly due to a recovery in imports of sawn hardwood from Brazil in 2018.

Following a sharp decline in 2017, EU imports of sawn hardwood from Africa made a partial recovery in 2018. Imports increased by 5% from Cameroon to 339,000 m³, 13% from Gabon to 114,000 m³, 8% from RoC to 61,000 m³, 8% from DRC to 17,000 m³, and 15% from Ghana to 24,000 m³. However, imports from Côte d'Ivoire fell 18% to 41,000 m³, continuing a long-term decline (Figure 6.5.5).

Feedback gathered by IMM from EU importers indicates that the 2017 decline and 2018 rebound in EU imports of African hardwoods is less due to changes on the demand side in the EU and more due to supply side factors which have led to very volatile trading conditions. There was overstocking of African sawn wood in the EU at the start of 2017 following arrival all at once of a large volume of delayed shipments from Africa, this contributed to a sharp decline in trade in 2017, and a rebound in 2018 when landed stocks were much lower.

Exports out of Douala port in Cameroon, the principal transport hub for the wider Congo region, have become extremely erratic due to reliance on old and unreliable equipment, management problems, and silting up of

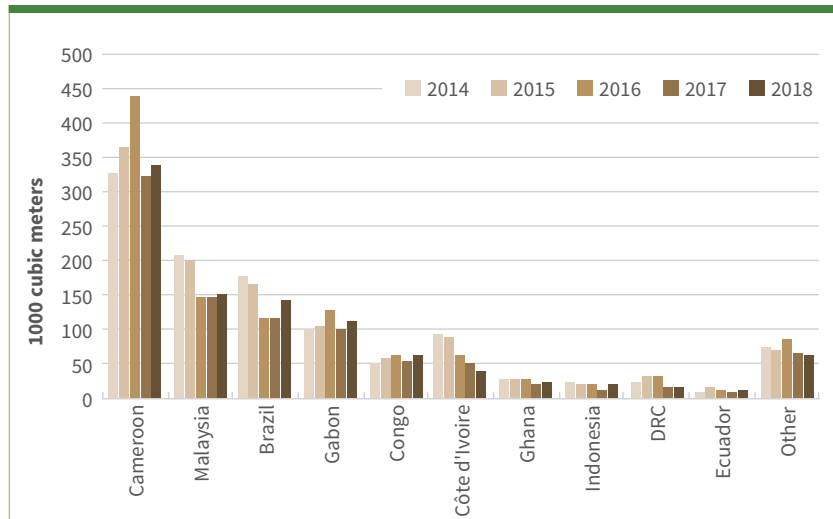


Figure 6.5.5: EU imports of sawn hardwood from tropical countries, by country of origin, 2014 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

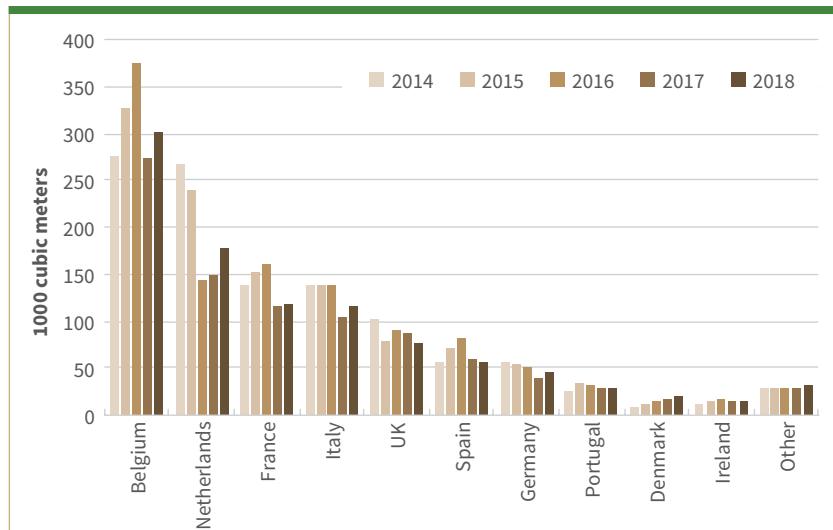


Figure 6.5.6: EU imports of sawn hardwood from tropical countries, by destination, 2014 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

access channels which means that larger, deep-draft vessels can't dock. Some shippers are exploring the possibility of using the new, Chinese-funded, deep-water port at Kribi, but this also has teething problems. Other problems include the diminishing commercial availability of tropical hardwood species of interest to European buyers, and delayed payment of VAT refunds by African governments, partly linked to low oil prices, which created severe financial challenges for operators in the region.

In 2018, prices for the African hardwoods preferred in the EU market, including sapele, sipo/utile, iroko and framire/idigbo were all rising against firm demand from Asia, the EU, and the USA, and supply shortages.

The problems in Africa contributed to rising EU sawn hardwood imports from Malaysia and Brazil in 2018. Imports from Malaysia increased 2% to 151,000 m³ despite rising prices, limited supply, and contrary exchange rates. There was an even more dramatic 23% increase in imports from Brazil during the year, to 143,000 m³, encouraged

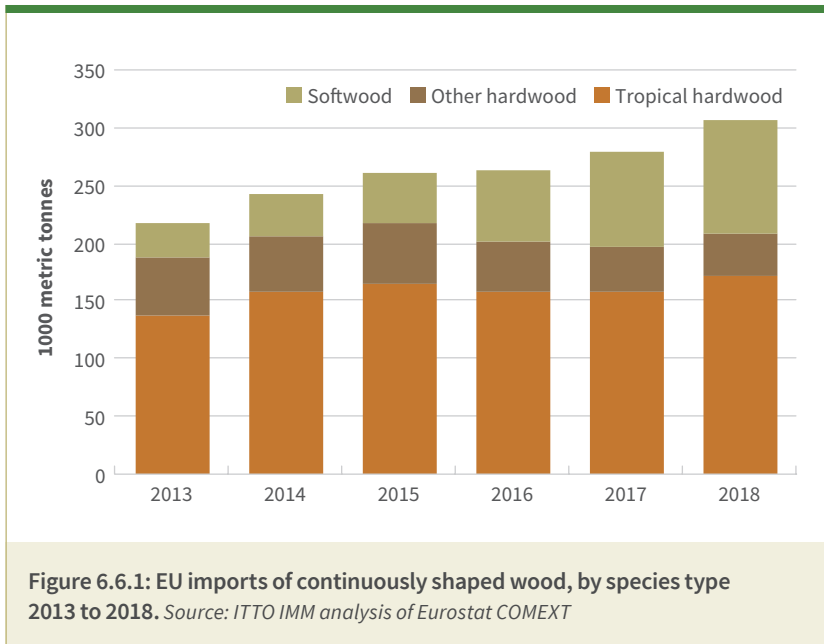


Figure 6.6.1: EU imports of continuously shaped wood, by species type 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

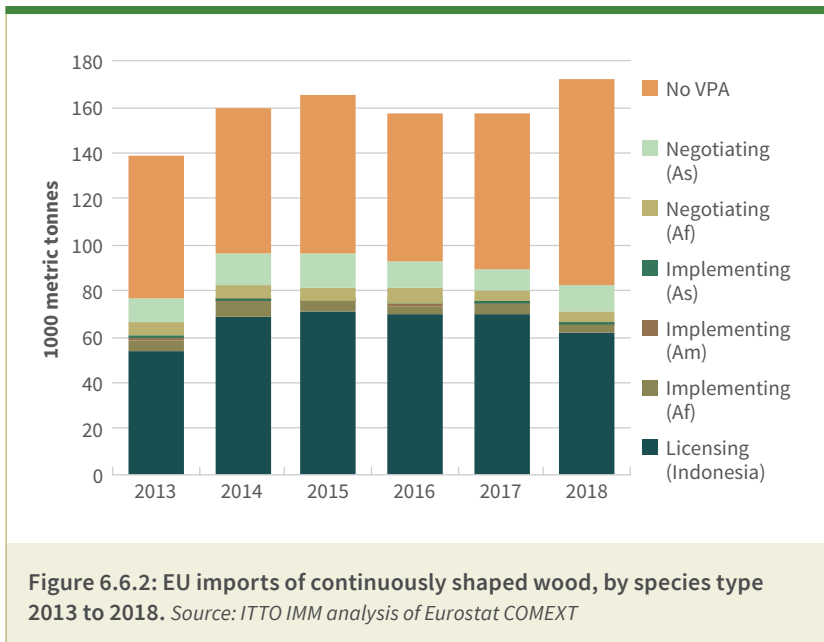


Figure 6.6.2: EU imports of continuously shaped wood, by species type 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

by the relative weakness of the Brazilian currency, slow domestic demand in Brazil, and supply problems elsewhere.

The rebound in imports of tropical sawn hardwood during 2018 was concentrated in Belgium and the Netherlands where imports increased 10% to 301,000 m³ and 21% to 179,000 m³ respectively (Figure 6.5.6). This trend reinforces comments made at IMM Trade Consultations that trade is increasingly concentrated in the hands of a few larger importers close to the major ports in the EU. This is driven both by logistics and the increasing focus on just-in-time trading, which is discouraging smaller distributors and manufacturers from sourcing direct from the tropics, and the wider range of services offered by larger importers, such as kilning, grading, finishing and taking responsibility for EUTR due diligence.

Feedback from IMM Trade Consultations and surveys indicates that a major reason for tropical wood's loss of market share in the EU is substitution by other materials. In the sawn wood sector, tropical hardwood faces

significant and growing competition from a range of chemically and thermally modified temperate wood species. Branded softwood-based products such as Accoya and Kebony have become 'staples' in certain EU markets. Wood-plastic composites continue to gain in popularity, particularly for external applications, such as cladding, decking and outdoor furniture. The American Hardwood Export Council is marketing a range of thermally modified timber species that are of low natural durability and also lower value such as tulipwood, soft maple and red oak for use in exterior applications formerly dominated by tropical hardwoods. EU demand for *Eucalyptus grandis* from South American plantations is also rising in both sawn and engineered form.

6.6 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 10% to 307,000 tonnes in 2018 following a 6% gain the previous year. Most of the import gain was in softwood, which increased 21% to 99,000 tonnes in 2018, mainly from Russia and, to a lesser extent, Belarus and Ukraine (Figure 6.6.1).

Imports of "continuously shaped" tropical hardwood were 172,000 tonnes in 2018, 9% more than in 2017 (Figure 6.6.2). In 2018, tropical hardwood accounted for 56% of all imports of "continuously shaped" wood into the EU. However, imports of FLEGT-licensed products from Indonesia fell 12% to 62,000 tonnes in 2018 and Indonesia's share of tropical imports declined from 45% to 36% during the year. The trend was partly supply driven with prices for Indonesian bangkirai rising sharply during 2018 due to limited availability.

While imports from Indonesia declined, imports from non VPA countries increased 31% to 90,000 tonnes in 2018, driven mainly by a 27% increase in imports from Brazil, to 72,000 tonnes. Imports also increased 68% from Peru, to 9,000 tonnes, and nearly doubled to over 5,000 tonnes from Bolivia (Figure 6.6.3). There are several Amazonian species, including ipe, garapa and massaranduba, that perform well as decking timbers and, encouraged by lack of supply in Asia and currency movements, these increased share in the EU market during 2018.

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 20% to 14,000 tonnes in 2018 and were only half the volume of

three years before. 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.

6.7 VPA partners in EU veneer supply

EU veneer consumption, which had been rising slowly since 2013, peaked in 2017 at 1.79 million m³ and declined 0.6% to 1.78 million m³ in 2018. EU veneer production fell 1.1% to 1.33 million m³ in 2018 following a very slight (0.2%) increase the previous year. After several years of strong growth, imports increased only 0.3% in 2018, to 610,000 m³. The share of imports in all veneer supplied into the EU was 34.2% in 2018, a marginal gain compared to 33.9% in 2018 (Figure 6.7.1).

After making gains in the previous 2 years, EU imports of veneer from the tropics fell 6% to 312,000 m³ in 2017 and were static at this level in 2018 (Figure 6.7.2). The share of tropical veneer in total EU veneer import volume fell from 57% in 2016 to 51% in 2017 and 2018. In 2018, EU imports of tropical veneer were well below volumes (of close to 500,000 m³ per year) prevailing before the global financial crises.

EU veneer imports from Indonesia were stable at around 5,500 m³ in 2016 and 2017 but fell 20% to 4,500 m³ in 2018 when they accounted for only 1.5% of all tropical veneer imports. Imports from the five VPA implementing countries in Africa increased 22% to 72,000 m³ in 2018. Imports from VPA-negotiating countries in Africa decreased 6% to 216,000 m³ in 2018. Imports from other VPA partner countries were negligible during the year. Imports from non-VPA tropical countries increased 5% to 18,000 m³ in 2018 due to a rise in direct imports from Brazil, Guinea and Nigeria and indirect

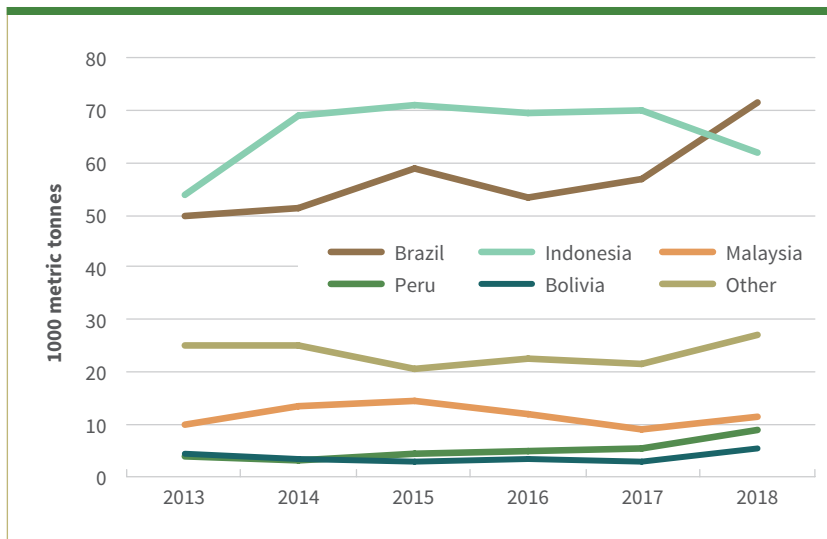


Figure 6.6.3: EU imports of continuously shaped wood, by main supply countries 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

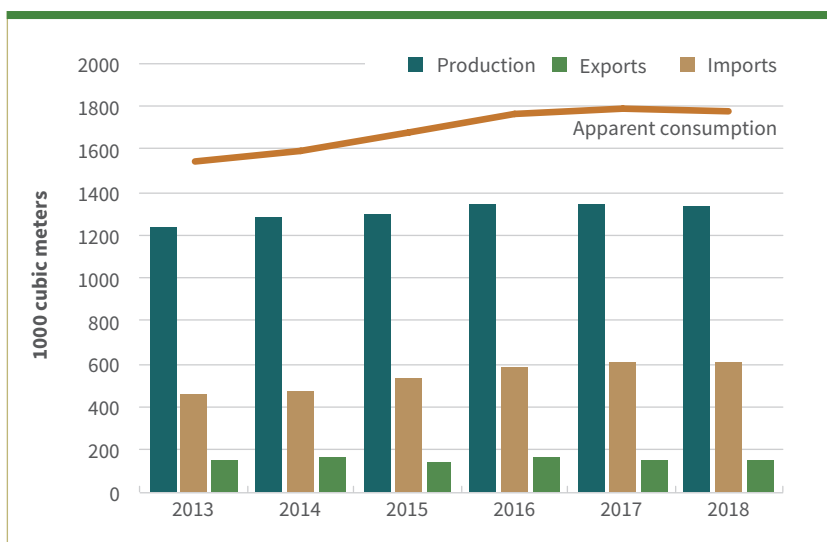


Figure 6.7.1: EU production, trade and consumption of veneers 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT and FAOSTAT

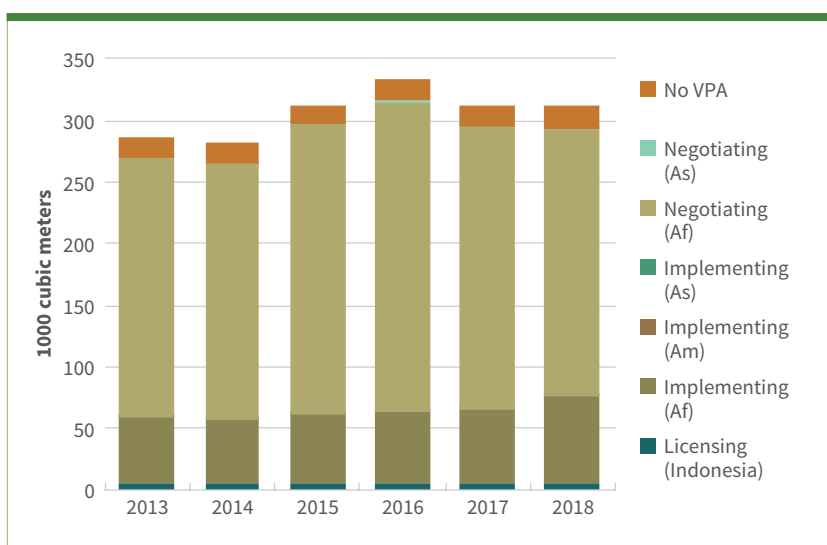


Figure 6.7.2: EU imports of tropical veneers, by VPA status 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

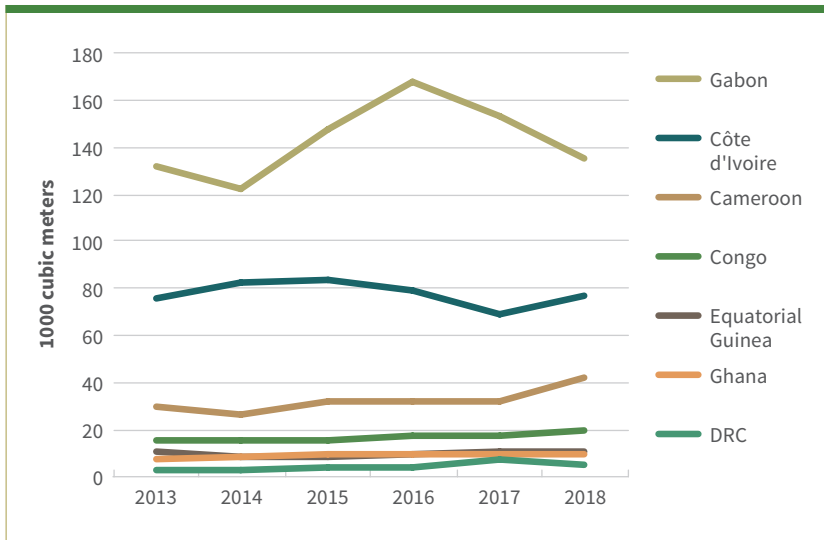


Figure 6.7.3: EU imports of tropical veneers, by main supply countries 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

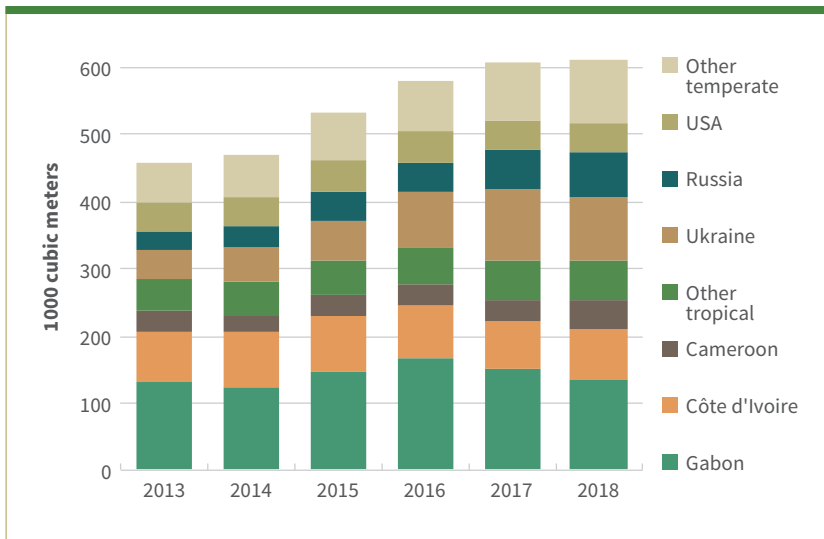


Figure 6.7.4: EU imports of veneers, by main supply country 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

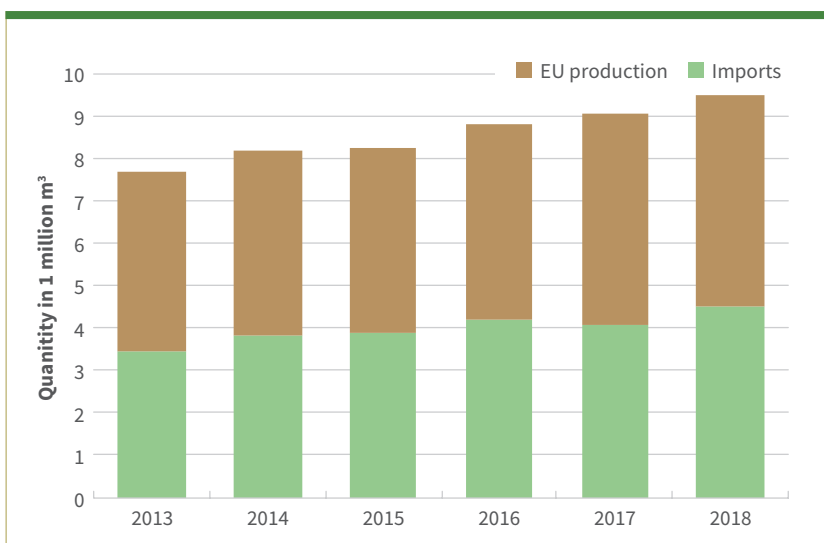


Figure 6.8.1: EU supply of plywood, 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT and PRODCOM

imports (all in relatively small volumes) from Turkey, Ukraine, and Russia.

EU imports of veneer from Gabon, the leading tropical supplier, declined 12% to 135,000 m³ in 2018. This followed a 9% fall the previous year and is linked to the financial difficulties and restructuring plan of the French-owned company Rougier, which is a leading player in the EU market for this product with large operations in Gabon.

After two years of decline, EU veneer imports from Côte d'Ivoire increased 11% to 77,000 m³ in 2018. Imports also increased 33% to 42,000 m³ from Cameroon and 14% to 20,000 m³ from RoC. These gains were offset by declining imports from Equatorial Guinea (-2% to 10,400 m³), Ghana (-1% to 10,000 m³) and DRC (-35% to 4,600 m³) (Figure 6.7.3).

In 2018, imports of tropical veneer in France fell a further 8%, to 104,000 m³, after a 17% decline the previous year. However, this decline was offset by a 4% increase in imports in Italy, to 72,000 m³, and a 21% increase imports in Spain, to 60,000 m³. Imports in Greece, the next largest EU market, were 25,000 m³ in 2018, the same level as the previous year.

Following average growth of 15% year-on-year between 2014 and 2017, EU imports of temperate hardwood veneer increased only 1%, to 299,000 m³ in 2018 (Figure 6.7.4). Imports from Ukraine fell 11% to 95,000 m³ in 2018, but this was partly offset by a 12% increase in imports from Russia to 68,000 m³, a 16% increase from Serbia to 45,000 m³, and a 49% increase from Turkey to 12,000 m³.

6.8. VPA partners in EU plywood supply

There has been an extraordinary resurgence in the EU plywood market in recent years, driven both by domestic manufacturers of mainly softwood and birch plywood, and by imports, particularly from Russia, China and Brazil. The total supply of plywood in the EU increased 4.6% to 9.50 million m³ in 2018, a level which exceeds the previous high-water mark in 2007 before the global financial crisis.

In 2018, while EU domestic production levelled off at 4.99 million m³, imports increased 10% to 4.52 million m³. Imports increased share of total plywood supply from 45% in 2017 to 48% in 2018 (Figure 6.8.1).

In 2018, EU imports of hardwood plywood increased 9.8% to 2.90 million m³, regaining ground lost in

2017 when imports fell 6%, mainly due to a short-lived downturn in trade in Chinese hardwood plywood. In 2018, EU imports of softwood plywood increased 10.2% to 1.61 million m³, building on a 4.4% rise the previous year (Figure 6.8.2).

EU imports of tropical hardwood plywood increased 2.4% to 588,000 m³ in 2018 following a 2.4% gain the previous year (Figure 6.8.3). This includes 250,000 m³ imported from China, the EU's largest single supplier of plywood products with a tropical hardwood face. Imports of tropical hardwood plywood from China increased 16% in 2018 following a 73% gain the previous year. In contrast to the upward trend in the wider market, the EU's direct imports of hardwood plywood from tropical countries declined 6% to 349,000 m³ in 2018 following a 7% increase the previous year.

In addition to imports, some plywood with a tropical hardwood face continues to be manufactured in the EU. Although EU production fell sharply in the 2005-2015 period as controls on log exports were introduced in Gabon and other African countries, and with the influx of large volumes of cheap product from China, there is evidence of a small upturn in production since 2015.

According to Eurostat, EU production of tropical hardwood plywood increased from 315,000 m³ in 2016, to 409,000 m³ in 2017 and 446,000 m³ in 2018. This comprised 177,000 m³ in Spain (10% less than in 2017), 114,000 m³ in France (+6%), 123,000 m³ in Italy (+54%) and 31,000 m³ in Estonia (+32%).

Altogether, including EU production and direct and indirect imports, 1.04 million m³ of tropical hardwood faced plywood was delivered to the EU market in 2018, 5% more than the previous year. This follows a 27% gain in 2017.

In 2018, imports of FLEGT-licensed plywood from Indonesia increased 7% to 170,000 m³ (Figure 6.8.4). This followed a 24% increase the previous year. Indonesia's share of total EU imports of tropical hardwood plywood was 27.2% in 2018, up from 26.1% in 2017 but still below 27.3% achieved in 2016. Indonesia's share of total tropical hardwood plywood supplied to the EU (including EU production) was 16.2% in 2018, up from 16.0% in 2017 but below 16.3% achieved in 2016. The lack of any increase in share is due the combined effects of

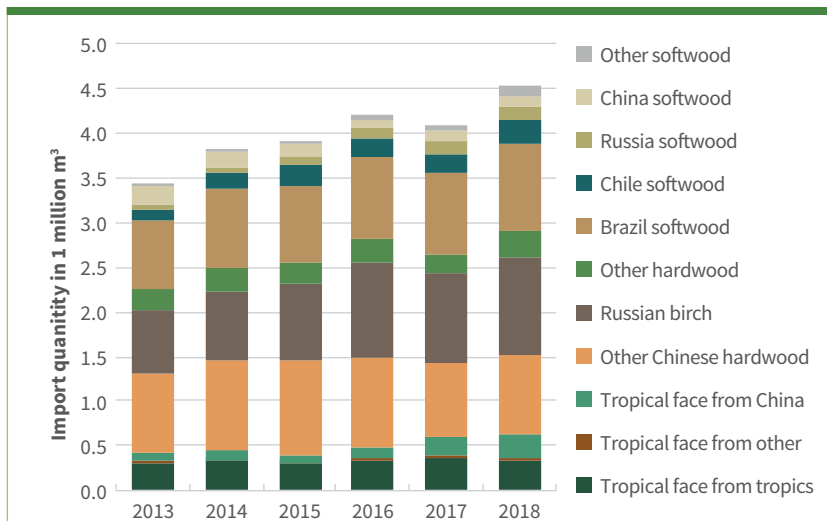


Figure 6.8.2: EU imports of plywood by product type, 2013 to 2018.

Source: ITTO IMM analysis of Eurostat COMEXT

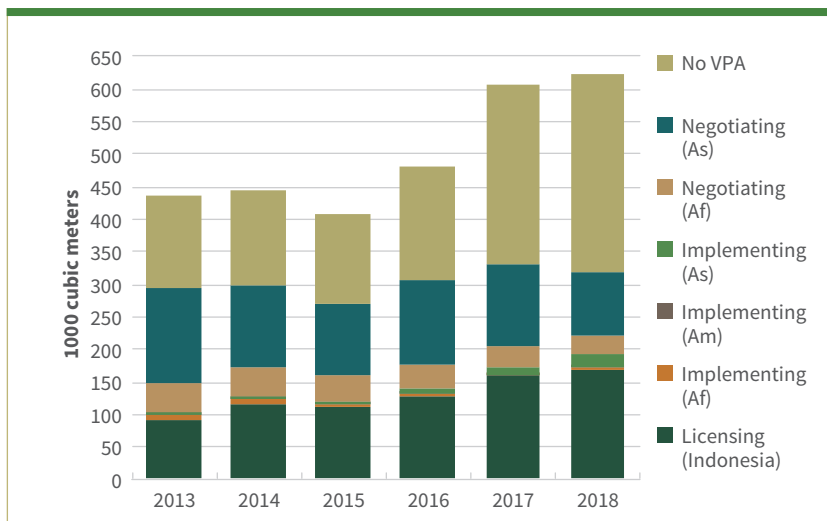


Figure 6.8.3: EU imports of tropical plywood (both direct and indirect), by VPA status 2013 to 2018.

Source: ITTO IMM analysis of Eurostat COMEXT

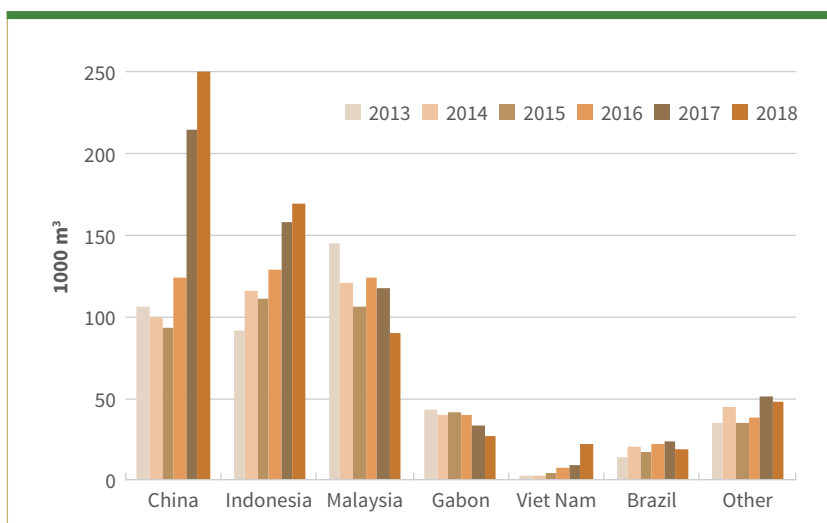
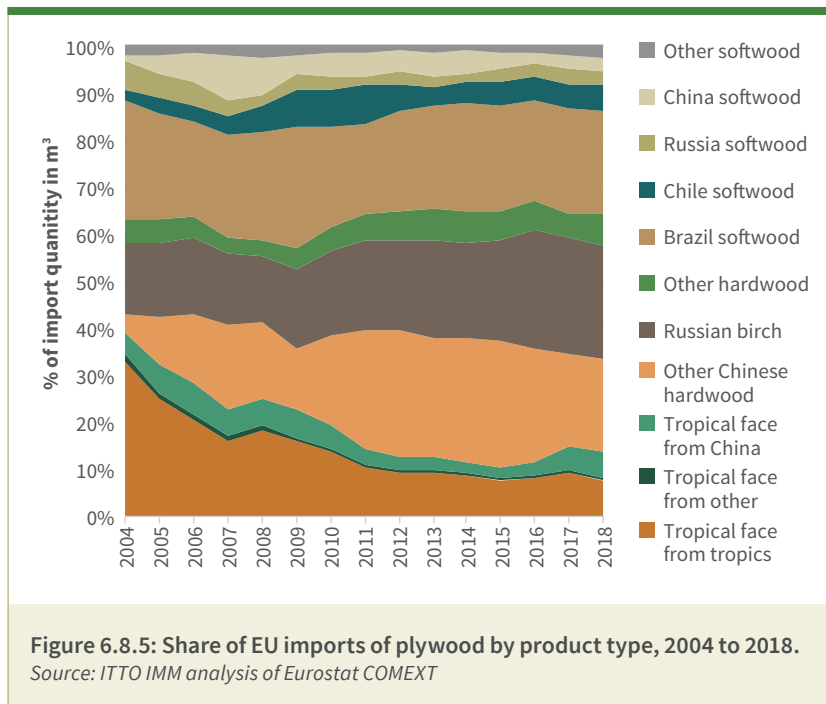


Figure 6.8.4: EU imports of tropical plywood (both direct and indirect), by supply country, 2013 to 2018.

Source: ITTO IMM analysis of Eurostat COMEXT



supply constraints in Indonesia and intense competitive pressure from alternatives, particularly Russian birch plywood and Chinese products.

While Indonesia at least maintained share in the EU plywood market, EU imports from Malaysia fell 23% in 2018, to 90,000 m³, the lowest level recorded since at least 1997. Imports from Gabon are also falling, down 21% to 26,500 m³ in 2018, following a 15% decline the previous year. Imports from the five VPA implementing countries in Africa are negligible, totalling no more than 3,160 m³ in 2018, 2% less than the previous year. In contrast, EU imports from Viet Nam are rising rapidly, although still small relative to the leading tropical suppliers. Imports from the country increased nearly three-fold in 2018, to over 21,000 m³.

Between 2017 and 2018, the share of total EU plywood imports from outside the region changed as follows: direct imports from tropical countries decreased from 9.0% to 7.7%; tropical hardwood faced product from China increased from 5.2% to 5.5%; other Chinese hardwood product (including birch, eucalyptus and poplar) decreased from 19.8% to 19.7%; Russian birch plywood decreased marginally from 24.5% to 24.3%; other hardwood products from other non-tropical countries increased from 5.4% to 6.5% (mainly due to a rise in birch plywood imports from Belarus and Ukraine); and softwood products (mainly Brazil, Chile, Russia and China) increased from 35.5% to 35.7% (Figure 6.8.5).

2018 was a year of two halves for the international and EU plywood market. A period of sharply rising prices due to limited supply in Russia, China, Malaysia and Indonesia and good demand in the first half of the year was followed by a period of sharply falling prices as the supply problems eased and market sentiment deteriorated.

The initial trigger for the change in mid-2018 was a sharp slowdown in demand in Turkey and other parts of the Middle East which led to more product being pushed onto

the EU market, particularly from Russia, at much lower prices. This in turn encouraged prices for products from other regions to be cut back.

Prices for Indonesian film-faced shuttering plywood, which competes directly with Russian film-faced birch plywood, were forced down to their lowest point for several years by the end of 2018. Malaysian prices were even lower, although the cheaper prices were only achieved by some mills substituting tropical timbers for rubberwood for core veneer.

By the end of 2018, prices seemed to have bottomed out and there were signs of strengthening across the board for tropical, Russian birch and Chinese hardwood plywood which encouraged more orders to be placed for 2019 shipment.⁵¹

EU demand for plywood has been 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 in these applications, but there are reports of manufacturers exploring the use of darker-faced tropical species.

Feedback from traders in IMM surveys and during IMM Trade Consultations suggests that EU plywood importers have generally responded to EUTR by narrowing the supply base and relying on more limited range of exporters more willing and better placed to meet their due diligence requirements.

6.9 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 in 2012 when total production of composite panels in the EU fell to 51.5 million m³, production increased consistently in the following five years to 58.4 million m³ in 2017. During this period, particle board production increased from 35.8 million m³ to 39.8 million m³ while fibreboard production increased from 15.8 million m³ to 18.6 million m³. In 2018 production of both particle board and fibreboard was stable at this higher level (Figure 6.9.1).

EU imports of composite panels also increased rapidly between 2013 and 2017 before stabilising at the higher level in 2018 of just over 3 million m³ (Figure 6.9.2). The share of imports in total supply increased from less than 2% in 2013 to 5.4% in 2018. The increase in volume and share of imports is due to rising trade with Belarus, Russia and Ukraine.

⁵¹ However, this optimism proved to be short-lived – there was a strong rise in EU imports in the first quarter of 2019 at a time when the market was slowing, leading to another downturn in prices.

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 but falling to 7,400 m³ in 2018. This consisted almost exclusively of fibreboard, mainly from Malaysia and Thailand, with a very small volume (less than 500 m³ per year) from Indonesia and Viet Nam. Imports from Thailand were level at 5,000 m³ in 2018, but imports from Malaysia crashed from 9,000 m³ to less than 2,000 m³ in 2018.

6.10 VPA partners in EU wooden window supply

The total value of wood windows supplied to the EU fell 1.6% to €6.18 billion in 2018 following a 2.8% increase the previous year (Figure 6.10.1). EU consumption of wood windows in 2018 was €6.14 billion, the second lowest level recorded in the last twenty years (when adjusted for inflation), only just exceeding the record low of €6.07 billion in 2016.

Supply of wood windows to the EU is overwhelmingly dominated by domestic production, which fell 1.7% to €6.14 billion in 2018. Imports from outside the EU accounted for only 0.6% of total EU wood window supply in 2018, the same proportion as the previous year.

Italy has maintained its position as the largest wood window manufacturer in the EU, although production fell 2.7% to €1.46 billion in 2018. Production in Germany increased 4% in 2018, to €850 million, rebounding after a 0.9% decline the previous year. Production in Sweden also rebounded in 2018, up 5.4% to €440 million, after declining 2.4% the previous year. Production in Poland continued to rise in 2018, by 2.9% to €740 million.

However, wood window production declined in most other leading EU producer countries in 2018 including France (-7.2% to €500 million), Denmark (-9.2% to €440 million), Austria (-2.2% to €420 million), UK (-10.8% to €270 million), and the Netherlands (-5.9% to €240 million) (Figure 6.10.2).

EU imports of wood windows from outside the EU increased by 13.1% in 2018 to €36 million, recovering ground lost in the previous two years. Imports increased 19% to €14 million from Norway, 8% to €4 million from Bosnia Herzegovina, and 154% to €4 million from Belarus (Figure 6.10.3).

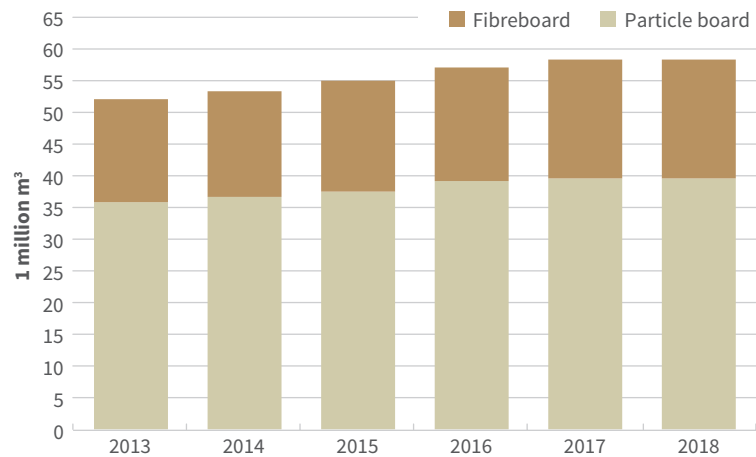


Figure 6.9.1: EU production of composite panels, 2013 to 2018.

Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

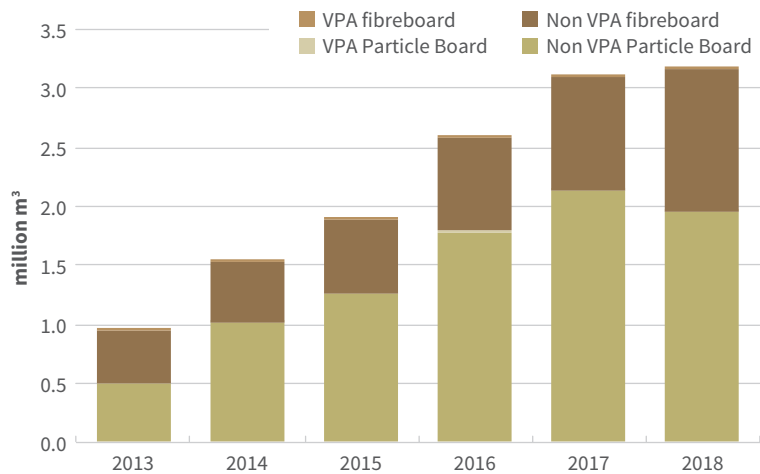


Figure 6.9.2: EU imports of composite panels from VPA and non-VPA countries, 2013 to 2018.

Source: ITTO IMM analysis of Eurostat COMEXT

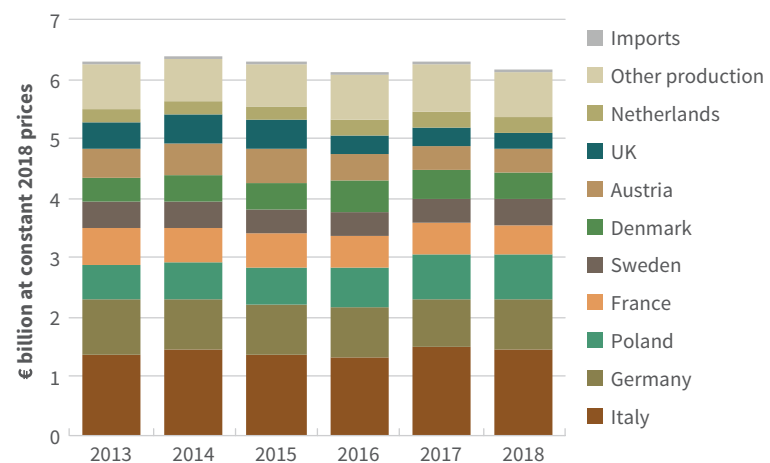


Figure 6.10.1: EU supply of wood windows, by country of production 2013 to 2018.

Source: ITTO IMM analysis of Eurostat COMEXT

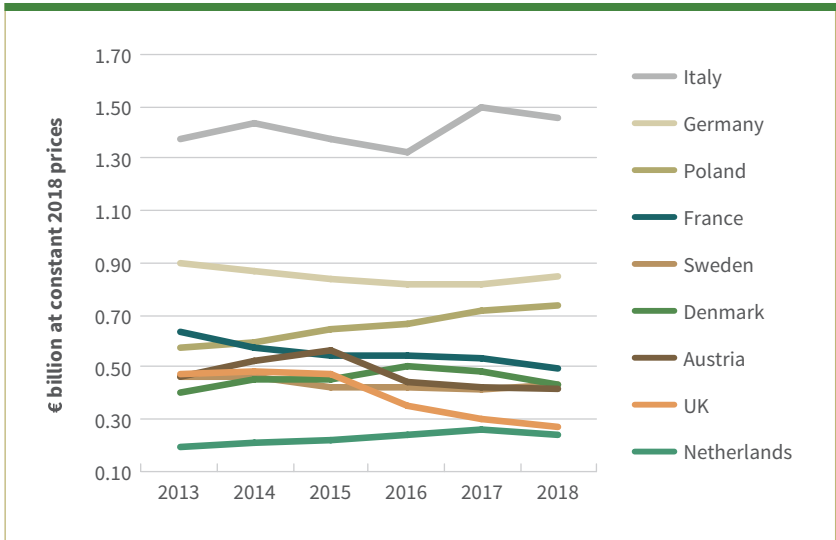


Figure 6.10.2: Production of wood windows in selected EU countries, 2013 to 2018. Source: ITTO IMM analysis of Eurostat PRODCOM

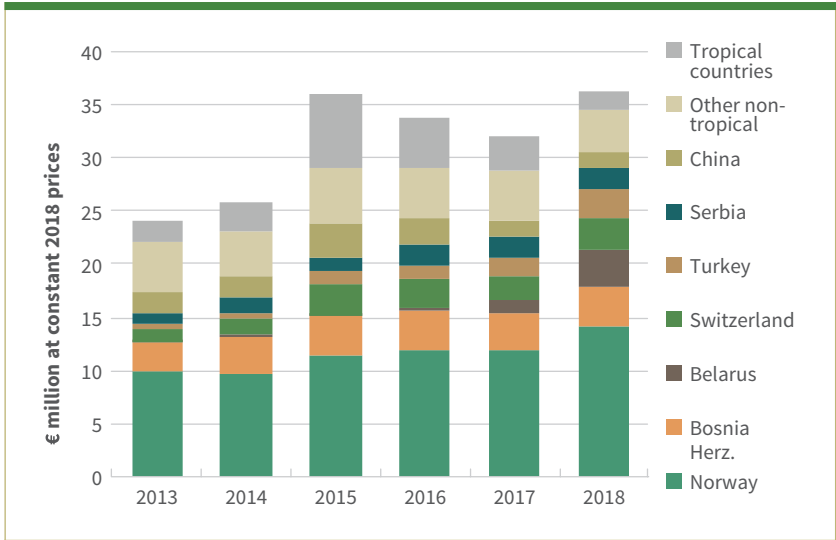


Figure 6.10.3: EU imports of wood windows, by country of origin 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

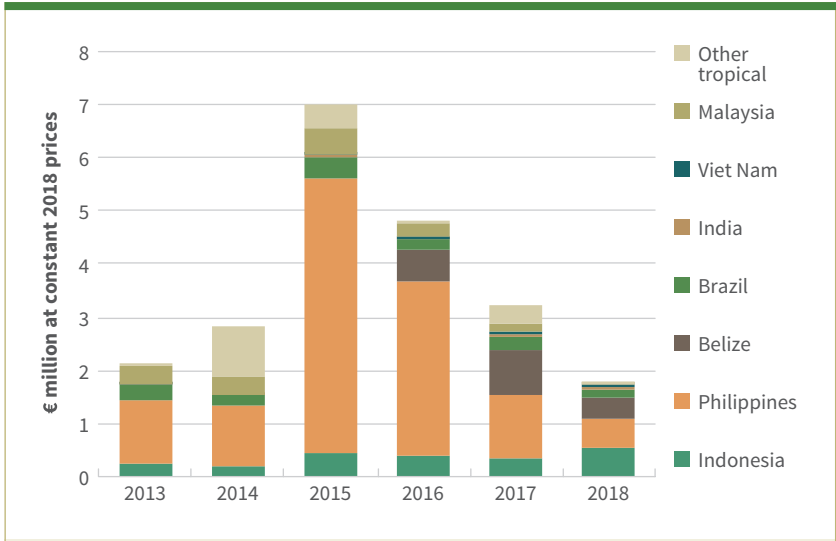


Figure 6.10.4: EU imports of wood windows from tropical countries, by country of origin 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

Only a very limited, and declining, quantity of wood windows is imported into the EU from tropical countries. After imports from tropical countries spiked at €7 million in 2015, mainly from the Philippines, imports fell continuously to only at €1.8 million in 2018 (Figure 6.10.4). Of VPA Partner countries, only Indonesia, Malaysia and Viet Nam supply wood windows to the EU. Imports from Indonesia increased 68% in 2018 but, with value of €548,000, have a negligible share of the total market. The EU imported windows with a value of only €28,000 from Viet Nam and €9,000 from Malaysia in 2018. Most EU wood window imports from tropical countries are destined for France and Belgium.

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 also come under significant competitive pressure from non-wood materials in the wood window sector.

6.11 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 value of wood doors supplied to the EU (EU-produced and imports) increased 0.1% to €736 billion in 2018. Most new wood door installations in the EU comprise domestically manufactured products. The EU's production was static at €7.0 billion in 2018 (Figure 6.11.1).

There was significant variation in the performance of the wood door sector in EU countries in 2018. Production in Germany, the largest wood door manufacturing country, increased 1.9% to €1.35 billion during the year. Production in the UK fell back a further 4.5% to €810 million in 2018 after declining 2% the previous year, the volatility being partly due to Brexit and partly to changes in the EUR-GBP exchange rate.

Door production in Italy has also been volatile, declining 7.5% to €940 million in 2018 after a 22% increase the previous year. Production in France fell 2.5% to €640 million after a 5% rise in 2017. Production in Sweden fell nearly 8% to €240 million. Elsewhere there were solid gains during 2018, with door production rising 6% to €580

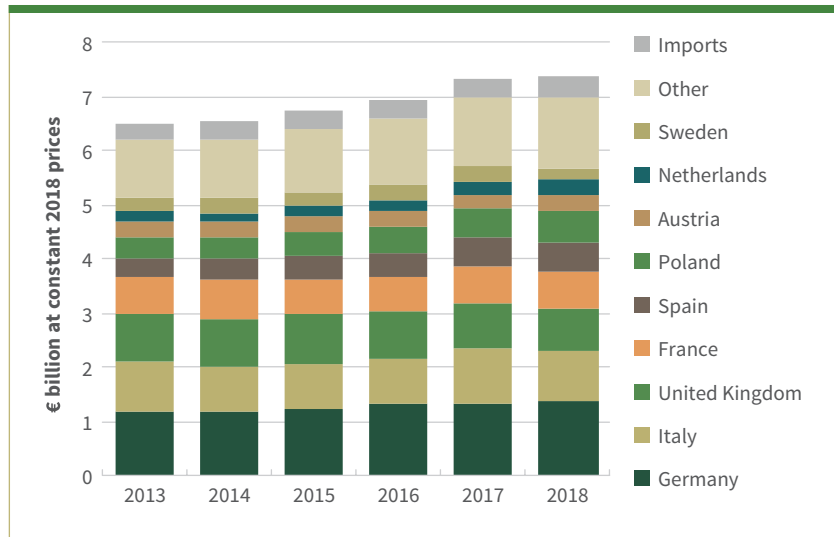


Figure 6.11.1: EU supply of wood doors, by country of origin 2013 to 2018. Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

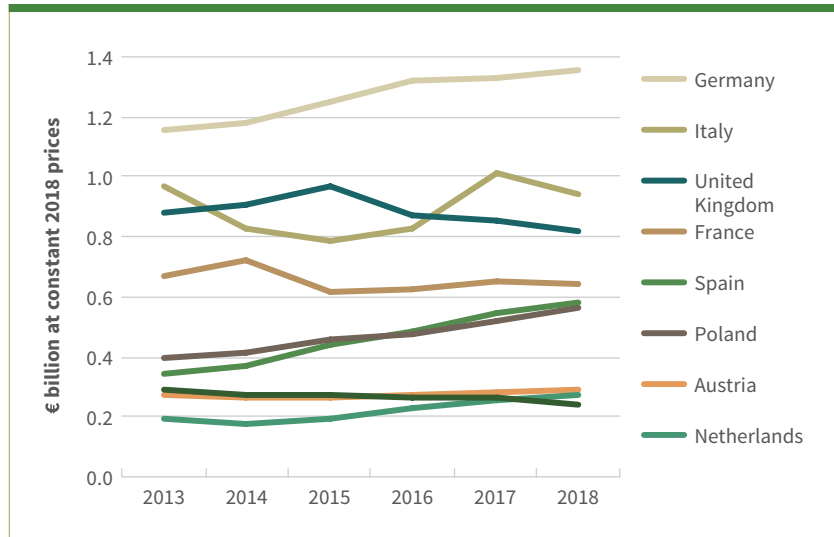


Figure 6.11.2: Production of wood doors in main EU producer countries 2013 to 2018. Source: ITTO IMM analysis of Eurostat PRODCOM

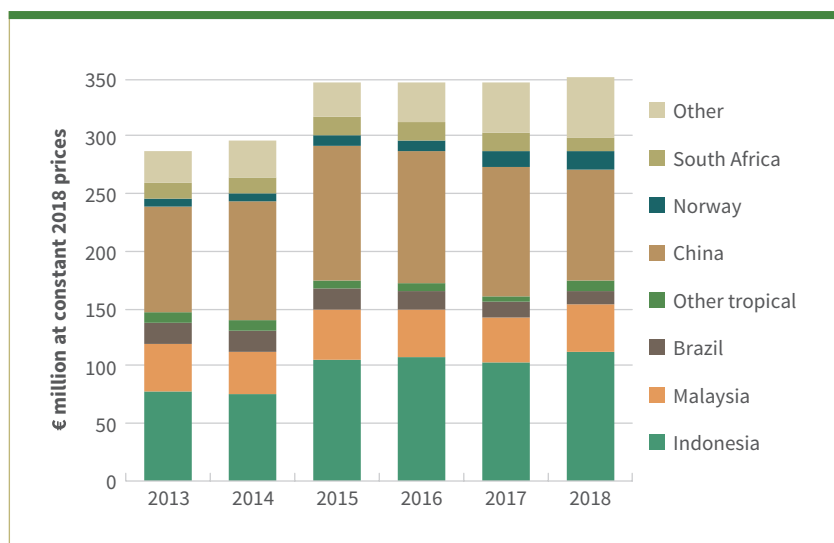


Figure 6.11.3: EU imports of wood doors, by principal supply country 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

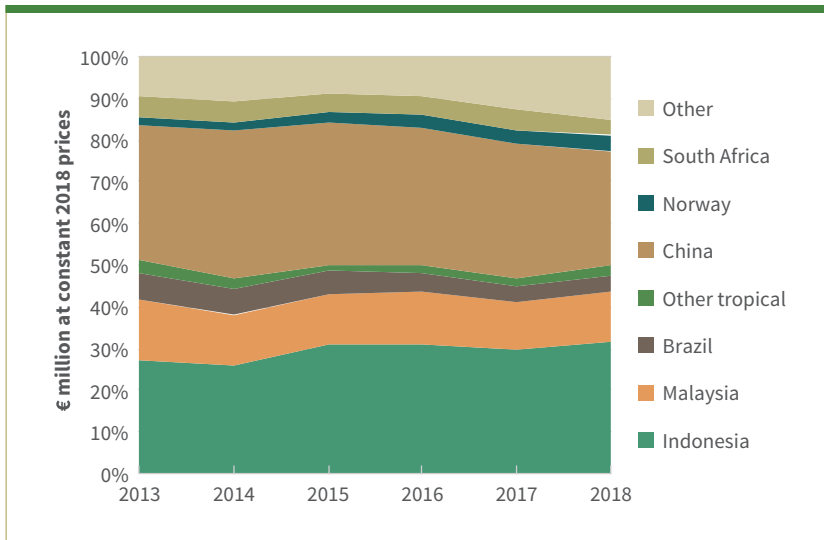


Figure 6.11.4: share of EU imports of wood doors, by principal supply country 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

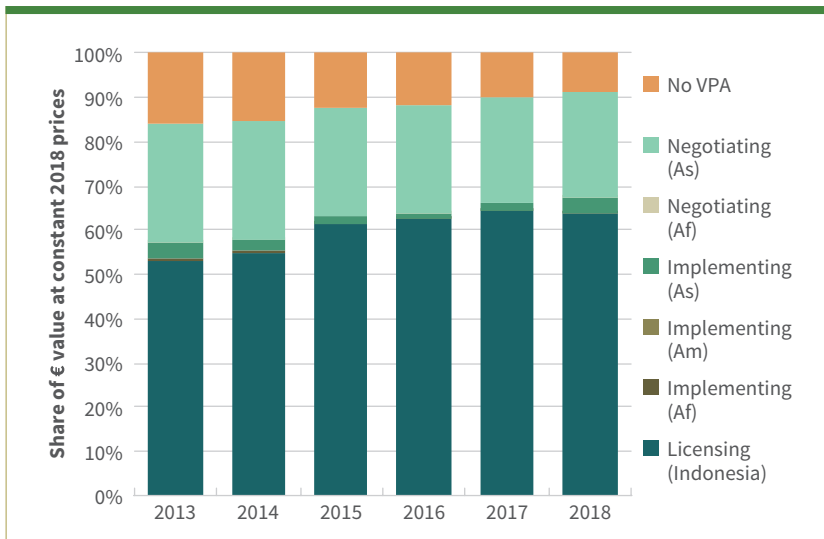


Figure 6.11.5: EU imports of wood doors from tropical countries, by VPA status 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

million in Spain, 7.4% to €560 million in Poland, 5% to €290 million in Austria and 9% to €280 million in the Netherlands (Figure 6.11.2).

Wood door imports into the EU increased by 1.5% to €352 million in 2018. Imports accounted for 4.8% of the total euro value of wood door supply to the EU in 2018, the same proportion as the previous year (Figure 6.11.3).

Tropical countries took a larger share of the EU market for wooden doors in 2018, largely at the expense of China (Figure 6.11.4). Total EU imports from the tropics were €175 million in 2018, 8.6% up on the previous year and enough to offset a 6% decline in 2017. In 2018, wooden door imports increased from Indonesia by 7.8% to €112 million, Malaysia by 7.1% to €41

million, and Viet Nam by 134% to €6.5 million. Imports from Brazil, the only significant non-VPA tropical supplier, increased 1.7% to €13 million. With imports from China falling 14% to €97 million in 2018, China was overtaken by Indonesia as the largest external supplier of wood doors to the EU.

Indonesia's share of total EU door imports from the tropics decreased from 64.2% in 2017 to 63.7% in 2018. The share of imports from Viet Nam increased from 1.7% to 3.7%. The share from VPA negotiating countries, nearly all Malaysia, decreased from 24.0% to 23.6%. The share from non-VPA countries, mainly Brazil, decreased from 10.1% to 9.0%. (Figure 6.11.5).

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-lifetime 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, regular availability, and good environmental credentials with a competitive price.

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

6.12.1 EWP opportunities and challenges

“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.⁵²

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.

⁵² 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 EWPs - 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 EWPs 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, EWP 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.

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, is 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.

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 available in consistent volumes and qualities. 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.

Nevertheless, the technical advantages of tropical hardwood EWPs may be considerable and offer potential to develop specialist grades of EWPs where high strength, durability or aesthetic character are needed.

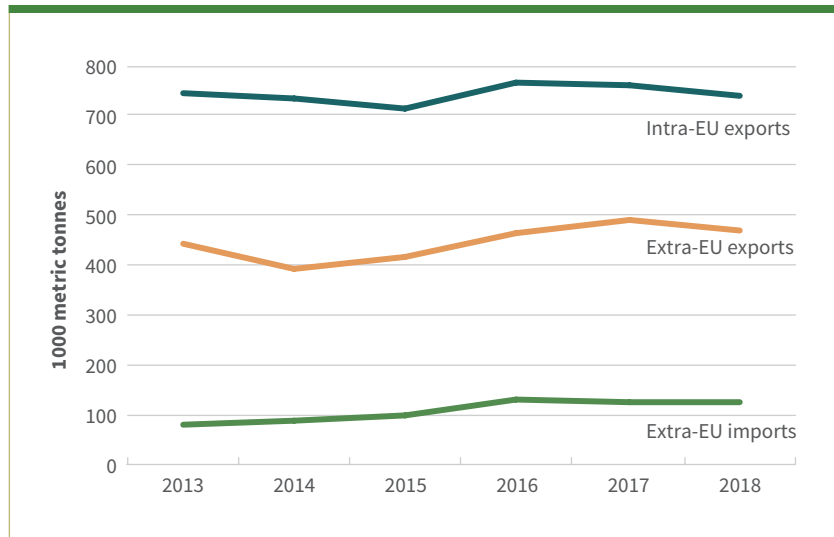


Figure 6.12.2.1: EU internal and external trade in glulam, 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

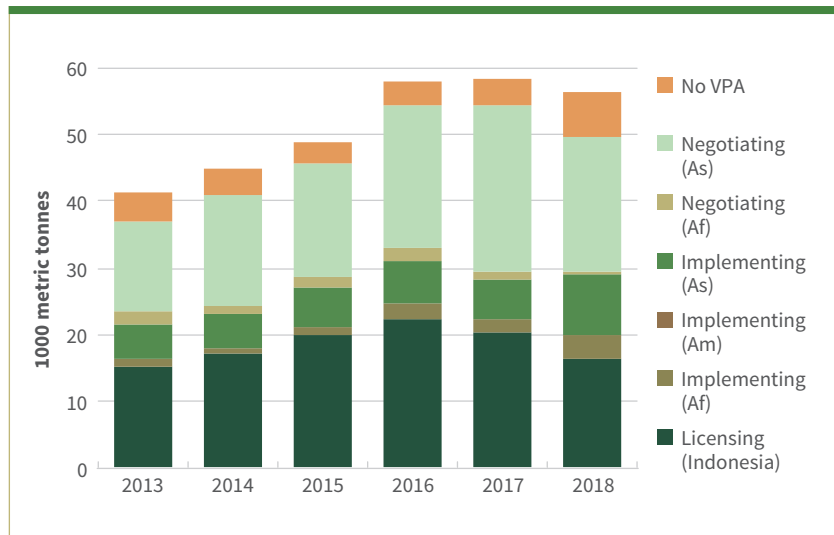


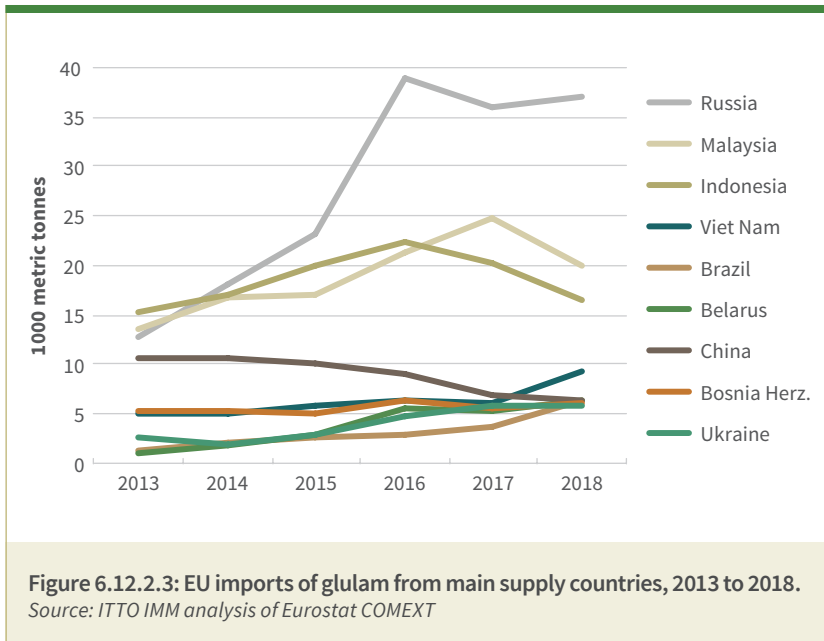
Figure 6.12.2.2: EU imports of glulam from tropical countries, by VPA status 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

6.12.2 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 6.12.2.1). Intra-EU trade in glulam remained flat at around 750,000 tonnes per year for the whole period between 2007 and 2018. Exports of this products from the EU were rising until 2017 but fell 4% to 468,000 tonnes in 2018. Imports into the EU, which increased slowly between 2013 and 2016 to peak at 129,000 tonnes, fell back 4% to 123,000 tonnes in 2017 and remained at this level in 2018.

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.

Demand for tropical glulam is concentrated in a few specific niche sectors, notably for durable laminated window scantlings in the Netherlands and kitchen worktops in several European countries. After rising to 58,000 tonnes in 2016, EU imports of tropical glulam were stable in 2017 but fell 4% to 56,000 tonnes in 2018 (Figure 6.12.2.2).

Of VPA Partner countries, only Indonesia, Malaysia and Viet Nam are significant suppliers of glulam products to the EU. Small and irregular quantities (much less than 1000 tonnes in each case) are imported from Côte d'Ivoire, RoC, Ghana, and Cameroon each year with no clear sign of a long-term trend, either upward or downward.

EU imports of glulam from Indonesia fell 19% to 16,500 tonnes in 2018 following a 10% fall the previous year. 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.

Imports of glulam from Malaysia fell 19% to 20,000 tonnes in 2018, reversing gains made the previous year. However, imports from Viet Nam increased 51% to 9,200 tonnes in 2018 after a 4% decline in 2017.

In 2018, EU glulam imports increased 4% from Russia to 37,000 tonnes, 79% from Brazil to 6,500 tonnes and 21% from Belarus to 6400 tonnes. But there was a 9% decrease

in imports from China, to 6,300 tonnes (Figure 6.12.2.3).

6.12.3 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 2018, with another 65,000 m³ under development.⁵³ 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.⁵⁴ 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 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.⁵⁵

EU trade statistics indicate that some tropical LVL may be entering the EU market, although the volumes are certain to be small. In 2018, 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 16,300 m³, 35% less than in 2017. Nearly all was derived from Thailand (6,200 m³), Malaysia (5,600 m³), Indonesia (2,100 m³) and Viet Nam (1,500 m³).

6.12.4 VPA Partners in EU CLT supply

Nearly all global CLT production is in the EU where capacity is estimated at around 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).

Preliminary research work to assess the potential for tropical wood species in CLT has been initiated in Malaysia focusing

⁵³ In 2018, known LVL capacity in the EU included 230,000 m³ operated by Metsa 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 June 2019, Metsä inaugurated a new line with additional 65,000 m³. In addition, MLT in western Russia had 150,000 m³ of installed capacity in 2018.

⁵⁴ *Paraserianthes falcataria*, a fast-growing timber species native to Indonesia

⁵⁵ 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).

on sesenduk (*Endospermum malaccense*), a fast-growing native pioneer species (Hamdan et al, 2016⁵⁶) and *Acacia mangium*, a leading plantation species in Malaysia (Yusof et al, 2019⁵⁷).

According to Yusof et al (2019), developing CLT products from tropical timber requires “extensive research and works comprising raw materials screening, manufacturing process, testing, manual development, standard, and certification as well as design and prototyping”. However, based on analysis of the density and mechanical properties of *Acacia mangium* wood, it is concluded that “this species offers great potential as raw material for CLT manufacture” and “it is anticipated that CLT from *A. mangium* would give superior strength values”.

6.13 VPA partners in EU real-wood flooring supply

After nearly two decades of almost continuous decline, the real-wood flooring sector in the EU is now a negligible market for VPA partner timber products. EU imports of real-wood flooring from tropical countries fell again in 2018, by 13% to 2.68 million m² (Figure 6.13.1). In 2018, imports fell 7% from Indonesia to 812,000 m², 8% from Malaysia to 927,000 m², and 29% from Thailand to 45,000 m². A 6% increase in imports from Viet Nam, to 252,000 m² was insufficient to offset the wider decline. Imports from other VPA Partner countries were insignificant. Imports from Brazil, by far the largest non-VPA supplier of tropical flooring to the EU, fell by 27% to 435,000 m² during the year.

Total imports of real-wood flooring into the EU increased 6.1% to 28.90 million m² in 2018. Tropical countries accounted for only 9.3% of total imports in 2018, down from 11.5% the previous year and from close to 50% before the financial crises. EU imports of real-wood flooring from China increased 9% to 17.99 million m² in 2018. China’s share of total imports increased from 60.9% in 2017 to 62.3% in 2018, regaining some of the share lost between 2012 and 2016. The biggest increase in imports in 2018 was from Ukraine, up 28% to 4.47 million m². Ukraine’s share of total imports increased from 12.8% in 2017 to 15.5% in 2018 (Figure 6.13.2).

Despite the shrinking share of VPA partners in the EU market for real-wood flooring, analysis of this sector is worthwhile for the insights it provides into wider market trends more directly relevant to VPA countries. Due to the efforts of the European Association of Parquet Flooring Manufacturers (FEP), this is the only sector

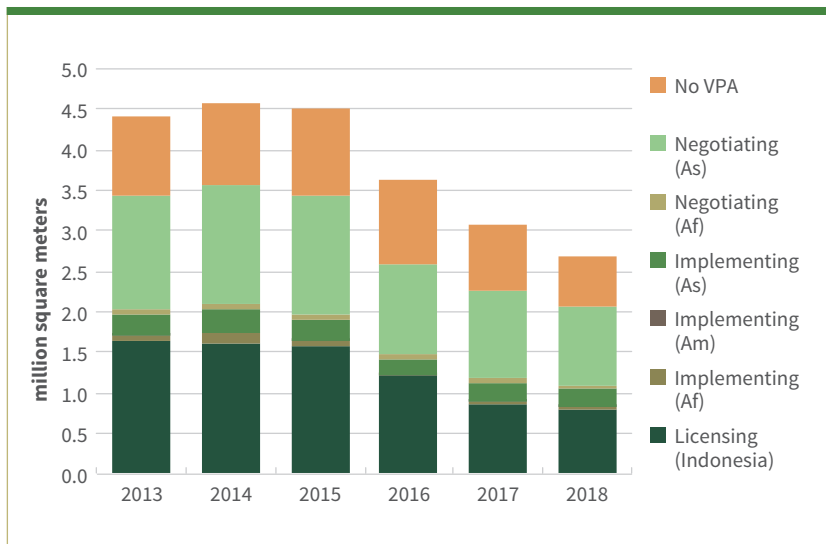


Figure 6.13.1: EU imports of real wood flooring from tropical countries, by VPA status 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

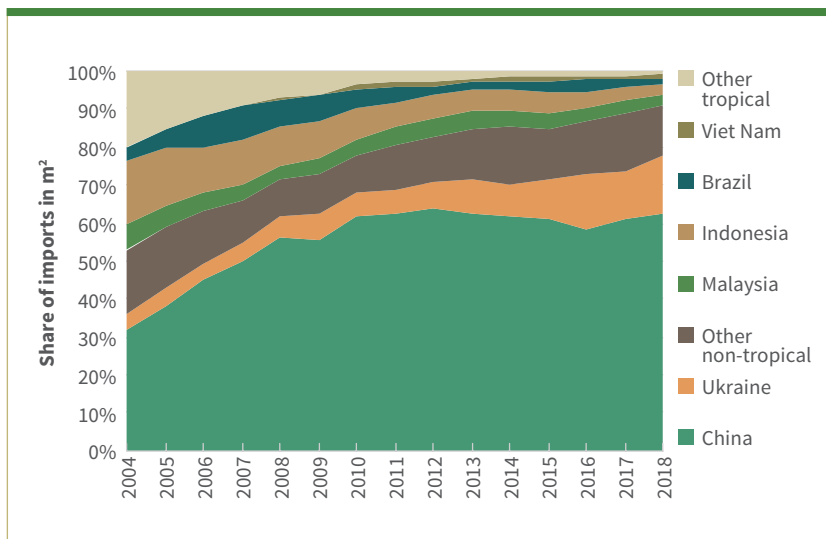


Figure 6.13.2: Share of EU imports of real wood flooring, by main supply countries 2004 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

using significant volumes of hardwood for which there is reliable data on the usage of different species in finished products. Flooring is also a high visibility product which impacts significantly on the look and feel of a room. The consumer choices made in the selection of flooring are likely to be strongly correlated with choices of other products, such as furniture, kitchens, doors and panelling which are all more important markets for VPA Partner countries and for which there is little or no data on wood species preferences.

The real-wood flooring sector highlights the significance of fashion trends in driving demand for different wood products. A complex mix of forces is at play in setting these trends. Fashion is itself an iterative process driven by the interaction, through the media and other communication channels, between designers, manufacturers and retailers

⁵⁶ Hamdan et al, 2016, Cross-laminated Timber: Production of Panel Using Sesenduk Timber Species, FRIM Timber Technology Bulletin No. 59, 2016, https://www.researchgate.net/publication/332009399_CROSS-LAMINATED_TIMBER_PRODUCTION_OF_PANEL_USING_SESENDUK_TIMBER_SPECIES

⁵⁷ Mohd Yusof, N., Md Tahir, P., Lee, S.H. et al. J Wood Sci (2019) 65: 20. <https://doi.org/10.1186/s10086-019-1799-z>.

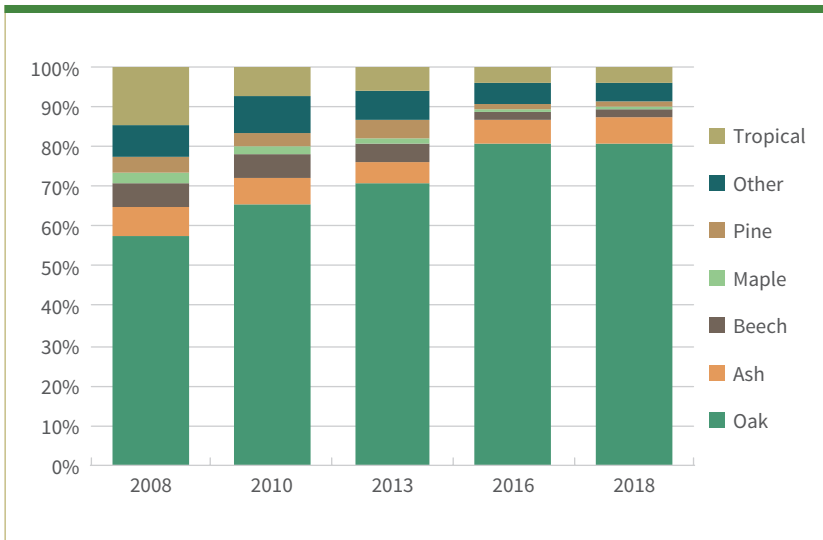


Figure 6.13.3: Share of species used for real-wood flooring surfaces by FEP members, 2008 to 2018. Source: ITTO IMM analysis of FEP

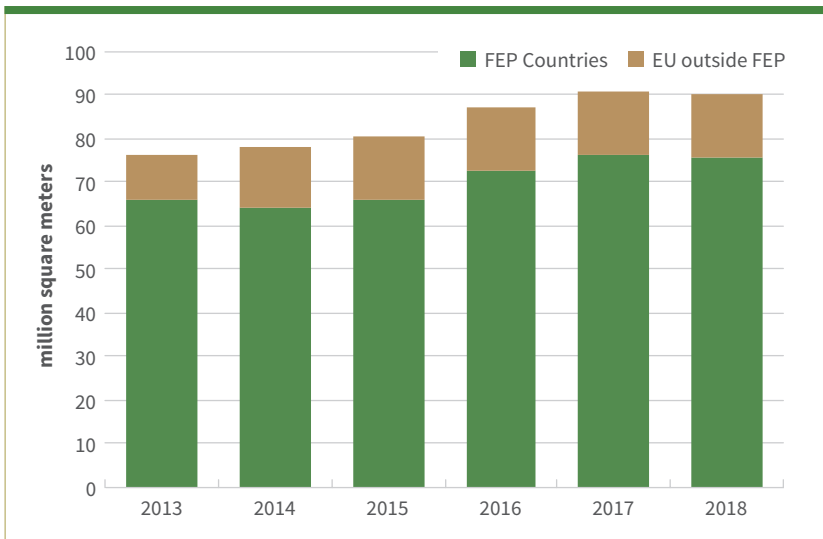


Figure 6.13.4: EU production of real wood flooring, 2013 to 2018. Source: ITTO IMM analysis of FEP

on the one hand, and their customers on the other. In their designs and material choices, manufacturers and designers both respond to signals from their customers and the wider socio-economic environment, and some of the larger and more influential can themselves reinforce consumer attitudes and preferences. The smaller, less influential and innovative, or simply more risk-averse, will follow the lead of larger manufacturers and also reinforce the trend.

Analysis of the real-wood flooring sector suggests this process has been a powerful force in reducing demand for tropical timber products in the EU. FEP data shows how one single species – oak – has come to dominate surfaces in this sector. The share of oak surfaces in European real-wood flooring production was 80.7% in 2018, up from 71% five years earlier and 58% in 2008. During the same period, the share of tropical timber fell from 15% to less than 4% (Figure 6.13.3).

The initial preference for oak amongst manufacturers was due to the species being readily available from regional sources in Europe, the species attractive grain and good working properties, and oak's strong appeal as a

“traditional” product in the European market. The fashion has focused very much on European oak due to its distinctive grain and colour, although American white oak is widely used as an alternative. As it is perceived to be less attractive to European customers, manufacturers have been much less inclined to use American red oak, despite this being the staple wood for flooring in North America.

Over time, European manufacturers have extended the range of looks that can be achieved with oak through development of new stains and other finishes and broadened applications with development of new surface coatings. The appeal of European oak to customers has been further boosted by it being widely portrayed as an environmentally benign material, widely available either FSC or PEFC certified, contributing to development of rural livelihoods and with a low carbon footprint.

However, this level of market dominance of a single, relatively slow growing and naturally constrained, hardwood species, has created its own problems for the European hardwood sector. Demand for other temperate species such as beech as well as tropical timbers have declined. Prices for European oak have risen dramatically in recent years, particularly since manufacturers in China and other Asian countries have also followed the fashion for oak. Under normal circumstances, this might be expected to encourage manufacturers to look for and switch to cheaper hardwood alternatives. However, indications so far are that there has been enormous resistance to this. The only species other than oak to have seen any recent growth in usage has been ash, primarily because it can most closely match the grain

and look of oak. Availability of ash may also be increasing, temporarily, due to the spread of ash die-back in Europe and the emerald ash borer in North America.

The reasons for the resistance amongst European manufacturers to switch away from European oak, despite high material prices, are not entirely clear and may be varied. To some extent the rising oak prices have been mitigated through innovation in the hardwood processing sector by some of the larger operators to increase yield, for example through CT scanning of logs and use of increasingly thin face veneers alongside new impact resistant layers. The wood flooring sector in Europe is also highly fragmented, dominated by many smaller manufacturers, which lack the resources to develop and market innovative new products using different wood species. In this sector, there are many more followers of fashion than operators willing and able to shift customers' entrenched attachment to oak.

The ability of real-wood flooring manufacturers in Europe to influence the market is further constrained

by the intense competition in the sector, not only from other real-wood manufacturers, but from the wide and expanding range of producers of laminates and non-wood products. Margins have been severely squeezed by this competition. An indication of this is provided by FEP data which shows that after reaching a decadal high in 2017, real-wood production in FEP countries fell 1.3% to 75.3 million m² in 2018 (Figure 6.13.4). Total real-wood flooring consumption in FEP countries also fell in 2018, by 2.3% to 79.9 million m².

The real-wood flooring sector faces particularly fierce direct competition from Europe's laminate flooring industry, which is large and sophisticated with sales dwarfing those of the real-wood sector. Through scale and innovation, this industry has become increasingly capable to supply products which mimic the look and feel of real wood, while offering superior technical performance and lower maintenance at a fraction of the cost.

According to the Association European Producers of Laminate Flooring, total European sales of laminate flooring were 334 million m² in Europe in 2018, around 4% less than in 2017 and the second straight year of decline. While sales in Eastern Europe were flat at 128 million m² in 2018, sales in Western Europe declined 6% to 206 million m². This shows that even the laminates 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.

6.14 VPA partners in EU wood-furniture supply

Furniture suppliers in VPA partner countries face intense competition in the EU market from domestic manufacturers and exporters in Eastern European countries outside the EU, as well as in China and India. This competition intensified in 2018 as the rate of growth in wood furniture consumption in the EU slowed while production continued to increase in some EU countries, notably Poland and Spain. Total imports into the EU dipped in 2018, with both tropical countries and China losing market share.

EU wood furniture consumption was €39.5 billion in 2018, a gain of only 1% compared to 2017. This compares to an average annual increase of 4% in the previous four years. During 2018,

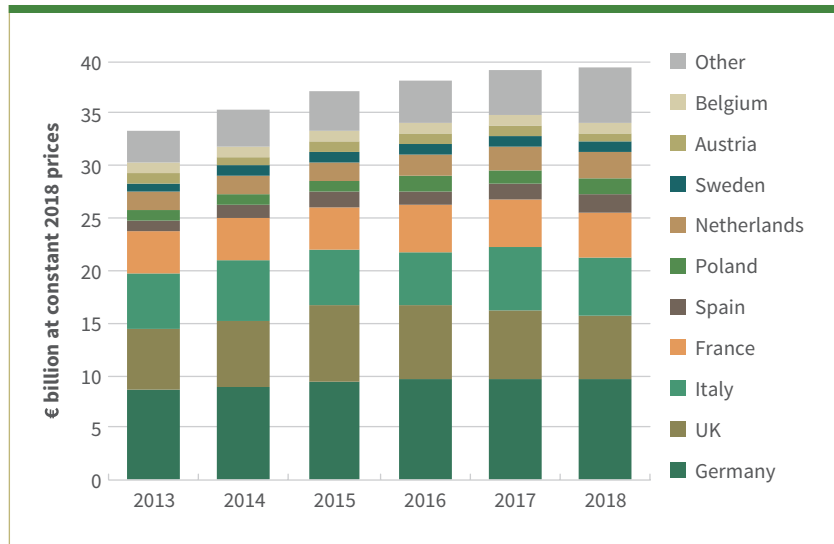


Figure 6.14.1: EU consumption of wood furniture, by main consumer country 2013 to 2018. Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

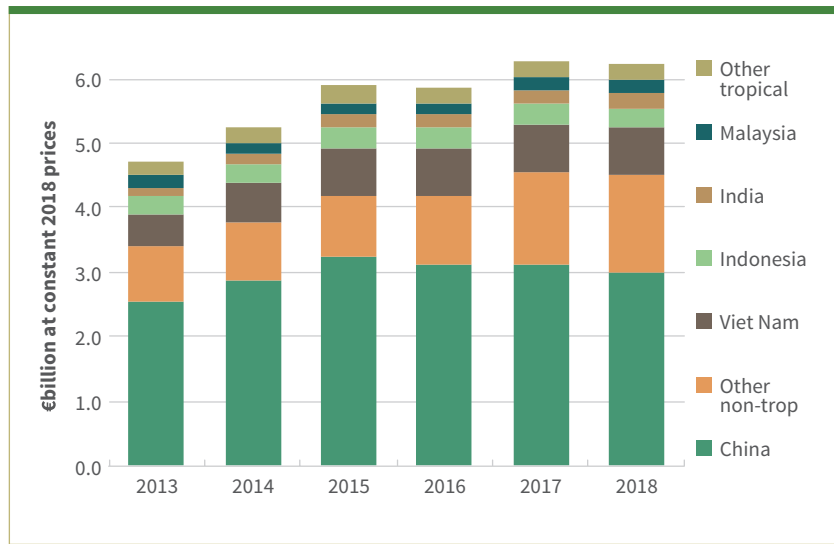


Figure 6.14.2: EU imports of wood furniture, by main supply country 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

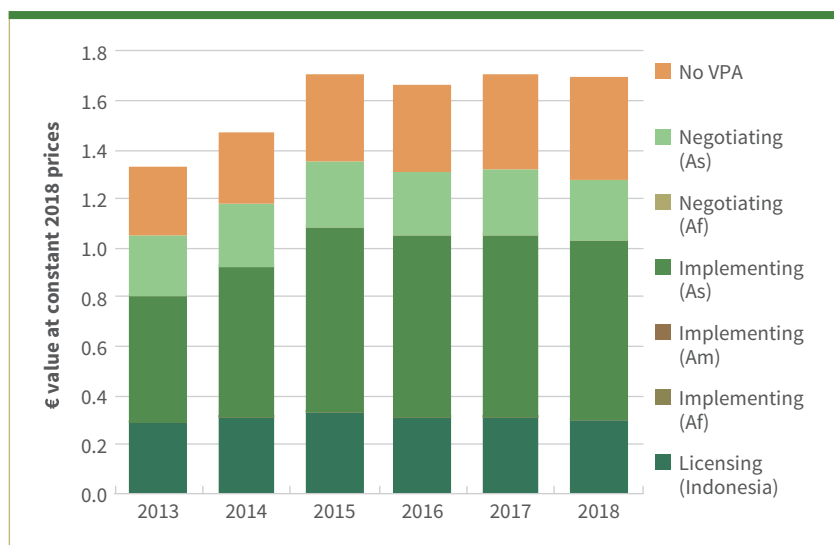


Figure 6.14.3: EU imports of wood furniture from tropical countries, by VPA status 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

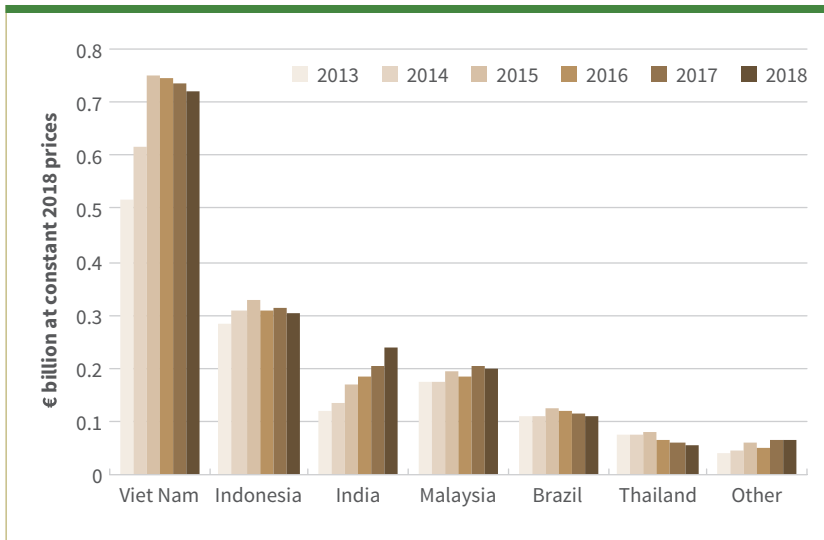


Figure 6.14.4: EU imports of wood furniture from leading tropical countries, 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

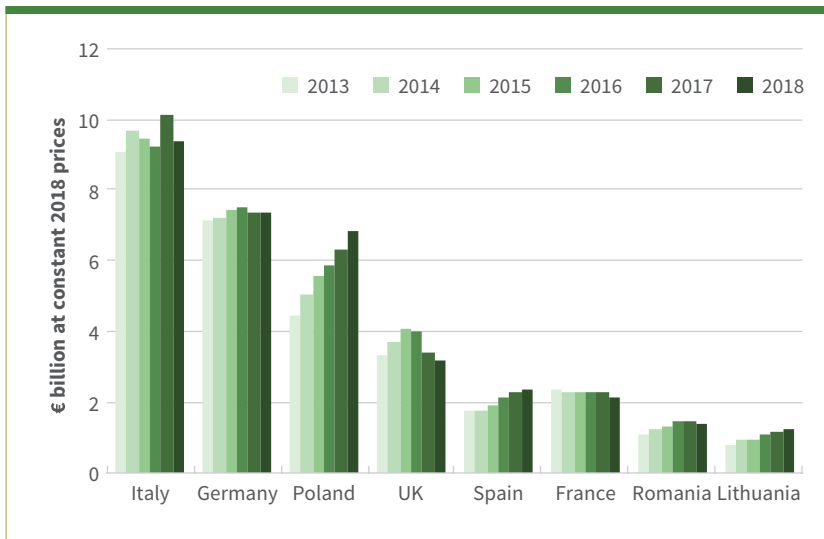


Figure 6.14.5: Production of wood furniture in main EU producer country 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

there was strong consumption growth in Spain (+28% to €1.9 billion), the Netherlands (+7% to €2.4 billion), and Poland (+6% to €1.6 billion). However, this was offset by declining consumption in the UK (-6% to €6.2 billion), Italy (-13% to €5.3 billion) and France (-2% to €4.3 billion). Consumption was flat in Germany at €9.6 billion (Figure 6.14.1).

The slow development of the EU wood furniture market in 2018 is also apparent in the import data. After rising 7% in 2017, the value of EU imports of wood furniture from non-EU countries fell 1% to €6.21 billion in 2018. Imports from China, by far the largest external supplier, fell 4% to €3.1 billion in 2018 and imports from tropical countries fell 0.5% to €1.69 billion. However, continuing the trend of recent years, there was a 7% rise in imports to €1.46 billion from temperate countries mainly bordering the EU, notably Ukraine, Belarus and Turkey (Figure 6.14.2).

EU imports of wood furniture from VPA partner countries declined 3% to €1.28 billion in 2018. VPA partner share of furniture imports from tropical countries fell from 77.4% in 2017 to 75.4% in 2018 (Figure 6.14.3). Imports from non-

VPA countries increased 8% to €416 million in 2018, mainly driven by a 11% rise in imports from India, to €238 million. Imports from Brazil, the only other significant tropical supplier not engaged in the VPA process, were down 7% to €112 million.

EU imports of wood furniture from Indonesia declined 2% to €301 million in 2018. In tonnage terms there was a 3% fall, to 99,000 tonnes. The relative lack of growth in EU furniture imports from Indonesia since the start of FLEGT licensing in November 2016 is disappointing, but the trend is influenced by wider stagnation in EU furniture market growth and by intense competition in the sectors targeted by Indonesian manufacturers.

Indonesia's furniture exports to the EU are dominated by outdoor products, particularly due to relatively abundant plantation teak supplies. There is now intense competition in this sector from a wide range of modified temperate wood and non-wood products which are taking share from tropical hardwoods. Indonesia's long woodworking tradition has also encouraged a focus on high quality specialist hand-made furniture to supply a niche market in the EU. In this market, Indonesia competes most directly with India which is currently increasing market share despite the lack of any comparable timber legality assurance system in India or widespread availability of third-party certified wood in the country.

Of tropical countries, Viet Nam is the leading supplier of wood furniture to the EU. In value terms, EU imports from Viet Nam were flat in 2018, at €723 million, but in tonnage terms imports increased 6%, to 233,000 tonnes. The Vietnamese furniture

sector has gained a reputation in the EU for supply of large volume mid-range products, both for exteriors and, increasingly, for interior use. IMM survey work indicates that the Vietnamese furniture industry is regarded by EU importers as technically more evolved than most other Asian producer countries and increasingly able to supply products to high European quality standards.

Imports of wood furniture from Malaysia in 2018 fell 1% in value terms to €197 million but increased 5% in tonnage terms to 101,000 tonnes. Malaysia is supplying the EU market with high quality furniture products, but in a much smaller range than Viet Nam with a heavy focus on rubberwood and other plantation species.

EU imports of wood furniture from Thailand fell 5% to €56 million in 2018, the lowest level for at least 15 years. IMM survey work has highlighted that furniture suppliers in Thailand are rated by EU buyers as relatively uncompetitive both in the range of products offered and in lead times and logistics.

EU imports of wood furniture from all VPA partner countries in Africa had a total value of only €670,000 in 2018, 12% less than the previous year. EU importers believe it is highly unlikely that producers in the African VPA countries will evolve into suppliers for the furniture market due to the species available and especially a lack of the required technical capacity. There were no EU imports of wood furniture from either Guyana or Honduras in 2018.

The value of EU wood furniture production was €41.4 billion in 2018, only 0.8% more than the previous year. This continues the trend of slow, but consistent, annual growth of around 1% in the last 5 years. In 2018, slowing wood furniture production in France, Romania, and Sweden offset gains made in Poland, the UK, Lithuania and the Netherlands. Production in Italy and Germany, the two largest wood furniture manufacturing countries in the EU, was flat in 2018 (Figure 6.14.5).

Despite only slow production growth, EU manufacturers are maintaining their hugely dominant position in the EU wood furniture market. In 2018, 87.0% of all wood furniture sales in the EU market comprised products manufactured within the EU, a marginally higher percentage than in the previous year (86.8%).

The EU has maintained a trade surplus in wood furniture since 2011 when exports to non-EU countries overtook imports from outside the EU. This surplus narrowed sharply between 2013 and 2017, from €2.22 billion to €890 million as exports were broadly flat and imports increased, particularly from neighbouring European countries. In 2018, the downturn in EU imports was mirrored by a similar downturn in exports so that there was only a minor adjustment in the surplus to €780 million (Figure 6.14.6).

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 customised and 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

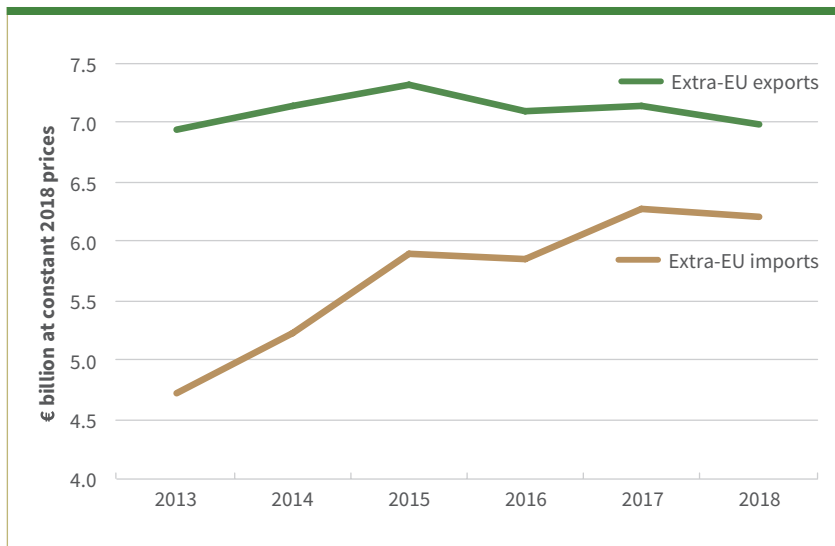


Figure 6.14.6: EU external trade in wood furniture, 2013 to 2018.

Source: ITTO IMM analysis of Eurostat COMEXT

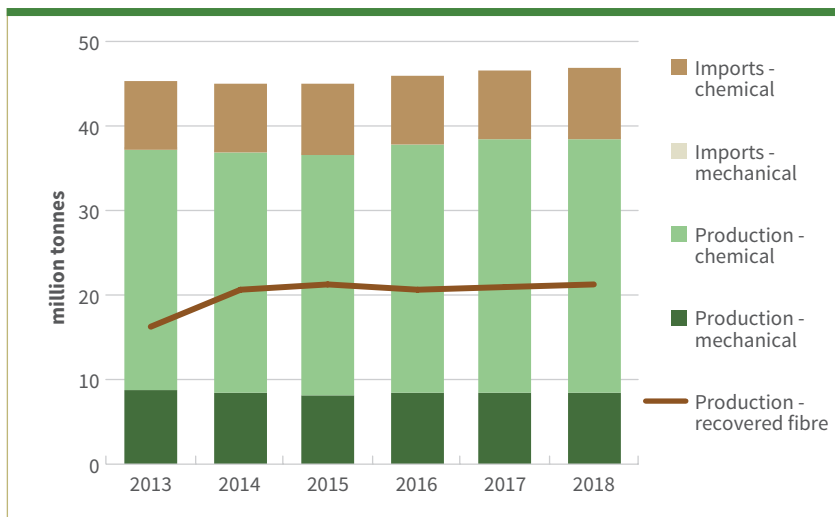


Figure 6.15.1: EU supply of wood pulp, by main product and source, and production of recovered fibre, 2013 to 2018.

Source: ITTO IMM analysis of Eurostat PRODCOM and COMEXT

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 demand for customisation, short lead times and returns policies from internet retailers and consumers.

To overcome these hurdles, some Chinese companies have engaged in “branding/know-how” acquisitions and other agreements or mergers with leading European furniture manufacturers. This reflects a strategic decision by Chinese companies to invest closer to major western consumers and to add high-end and mid-high-end brands to their product portfolio. Examples of Chinese acquisitions in Europe include the 2018 acquisition by the Chinese furniture giant Kuka of the German upholstered furniture manufacturer Rolf Benz and the acquisition by

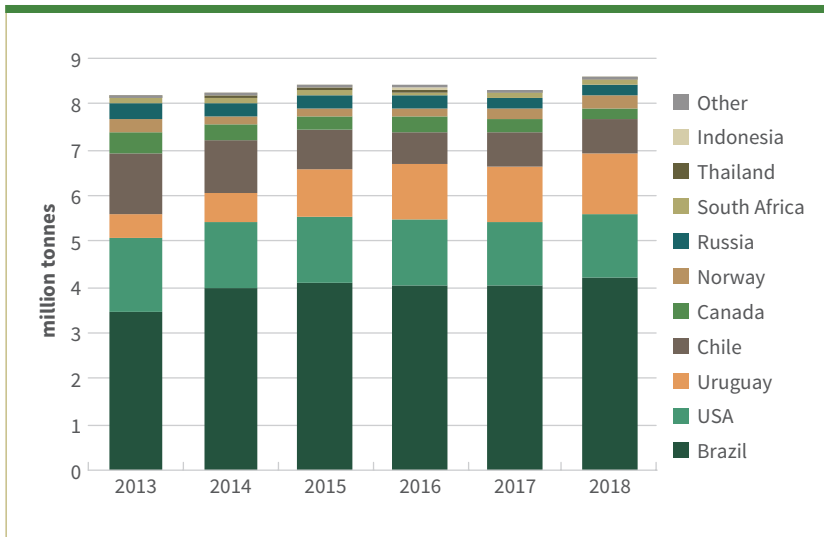


Figure 6.15.2: EU imports of wood pulp, by country of origin 2013 to 2018.
Source: ITTO IMM analysis of Eurostat COMEXT

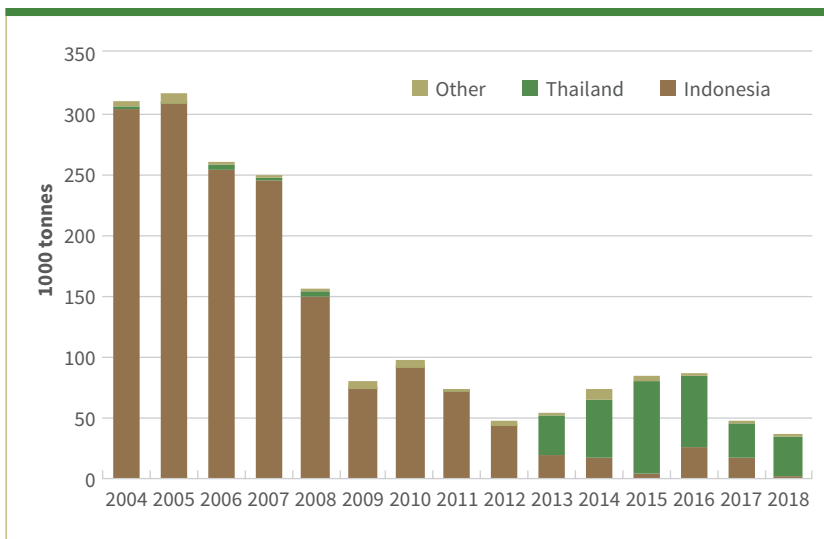


Figure 6.15.3: EU imports of wood pulp from tropical countries, 2004 to 2018.
Source: ITTO IMM analysis of Eurostat COMEXT

supply in 2018, up from 17.7% in 2017. In the EU, around 50% of the fibres used by the paper industry now come from paper for recycling. EU production of recovered fibre was stable at just over 20 million tonnes in 2018. (Figure 6.15.1).

According to the Confederation of European Paper Industries (CEPI), output of market pulp in the EU increased by nearly 5% in 2018, much more rapidly than integrated pulp,⁵⁸ as a consequence of substantial investments in new capacities and growing demand. In real US\$ terms, prices for market pulp in the EU in 2018 were at their highest level since 2001. Although partly due to strong EU demand for packaging board and hygiene paper grades, high prices for market pulp in 2018 were driven more by changes in the wider global market, particularly the Chinese ban on imports of mixed, unsorted, recycled waste papers from 31 December 2017 which increased Chinese demand for market pulp during the first three quarters of 2018. Prices for market pulp in the EU began to weaken again in the last quarter of 2018, primarily due to shrinking demand in other regions, with China again leading the trend.

EU 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 49.1% in 2018, up from 48.5% the previous year. The share of Uruguay increased from 14.9% in 2017 to 15.7% in 2018. US share declined from 17.1% to 16.1% and Chile's share fell from 9.1% to 8.4%. The rise in share of Uruguay

and Brazil at the expense of the US in 2018 continues a long-term shift from supplies in North to South America (Figure 6.15.2).

Indonesia and Thailand are the only VPA partner 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 94% to less than 1,000 tonnes in 2018. Indonesia's pulpwood plantations consist primarily of *Acacia mangium* with smaller quantities of *Acacia crassiparva*, *Gmelina arborea* and *Eucalyptus deglupta*. The negligible level of EU pulp imports from Indonesia is due to nearly all the available supply being absorbed by paper, board, and tissue mills in both Indonesia and

Qumei Home Furnishings of the Norwegian furniture company Ekornes.

6.15 VPA partners in EU pulp supply

Wood pulp supply to the EU increased 0.7% to 47.0 million tonnes in 2018, following a 1.3% increase the previous year. In 2018, EU pulp production increased 0.1% to 38.5 million tonnes, with production of mechanical pulp unchanged at 8.4 million tonnes and chemical pulp production rising 0.2% to 30.1 million tonnes. EU imports of wood pulp, consisting almost exclusively of chemical pulp, increased 3.4% to 8.6 million tonnes in 2018, following a 1.2% fall the previous year. Imports accounted for 18.2% of total EU pulp

⁵⁸ Market pulp is supplied to the EU by specialist pulp producers in the EU, as imports from outside the EU, and by companies that use the bulk of their pulp output in their own integrated paper production while selling the remaining part on the open market. Of the 47 million tonnes of pulp supplied to the EU in 2018, around half (23.6 million tonnes) was market pulp including 15 million tonnes produced domestically and 8.6 million tonnes imported. EU market pulp is mainly produced by mills in Finland, Sweden, France, Portugal, Spain, Austria, Germany, and Poland. Finland and Sweden are major producers of softwood and hardwood pulps, with Portugal and Spain also providing significant amounts of hardwood pulp grades to the market.

China. EU pulp imports from Thailand increased 17% to 33,000 tonnes in 2018. Thailand's pulpwood plantations comprise mainly *Eucalyptus camaldulensis* (Figure 6.15.3).

In 2018, the EU's export of wood pulp to VPA partner countries exceeded imports from those countries. In total, the EU exported 218,000 tonnes of wood pulp to VPA partners in 2018, 12% less than in 2017. 146,000 tonnes were destined for Indonesia and 46,000 tonnes for Thailand.

The EU's total exports of wood pulp, mainly comprising softwood chemical product, fell 2% to 4.37 million tonnes in 2018, 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.

6.16 VPA partners in EU paper supply

In 2018, there was little change in total EU paper and board production, consumption and trade. This continues a period of apparent stability on-going since 2010 (Figure 6.16.1). EU paper and board production in 2018 was 92.8 million tonnes, exactly the same as the previous year. Imports into the EU increased 2% to 7.41 million tonnes in 2018, while exports to other regions fell 0.4% to 19.6 million tonnes. Overall consumption throughout the EU increased just 0.3% to 80.6 million tonnes in 2018.

However, the overall stasis in EU paper production, trade and consumption hides significant structural changes. CEPI observe that paper production measured in tonnes 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.

There have also been significant changes in the composition of products manufactured in the EU. According to CEPI, the divergence in European production trends of graphic grades against packaging grades continued in 2018. A decline in the production of graphic grades was mirrored by growth in the output of packaging grades (Figure 6.16.2).

Packaging grades accounted for 54.2% of total European paper and board production in 2018, up from 51.7% in 2017 and only 47.9% five years before. In the packaging sector, production growth has been

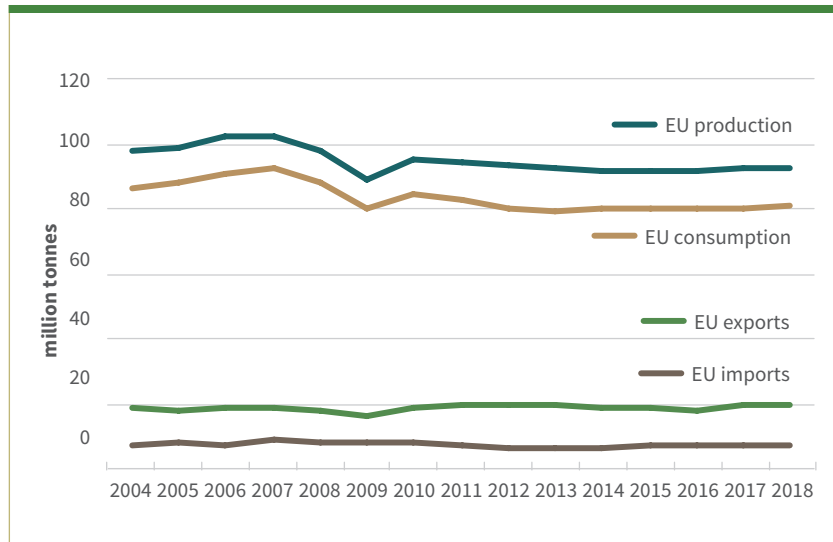


Figure 6.16.1: EU production, consumption and trade in paper and board, 2004 to 2018. Source: IMM analysis of FAO and Eurostat COMEXT

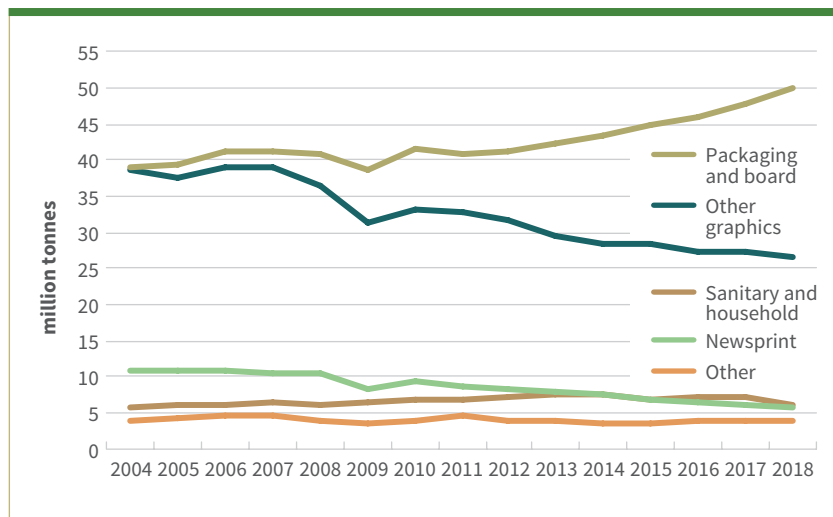


Figure 6.16.2: Production of paper and board in CEPI member countries, 2004 to 2018. Source: Confederation of European Paper Industries (CEPI)

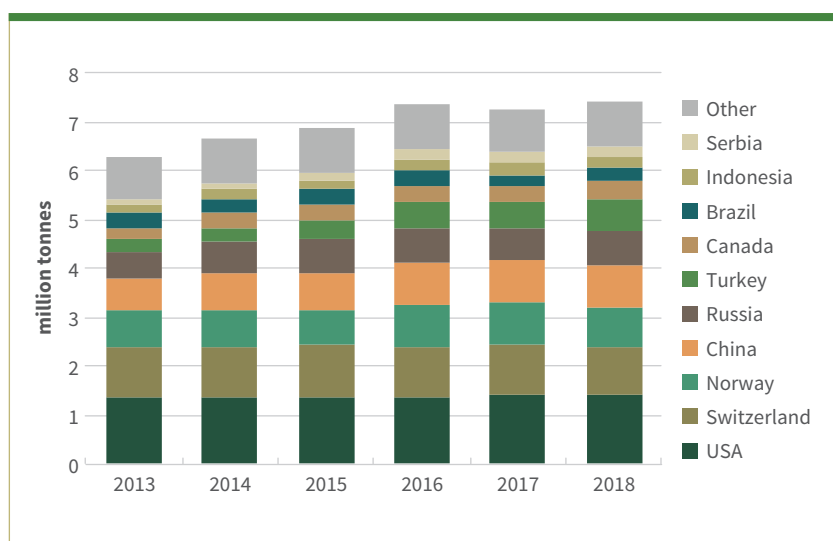


Figure 6.16.3: EU imports of paper, by main supply country, 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

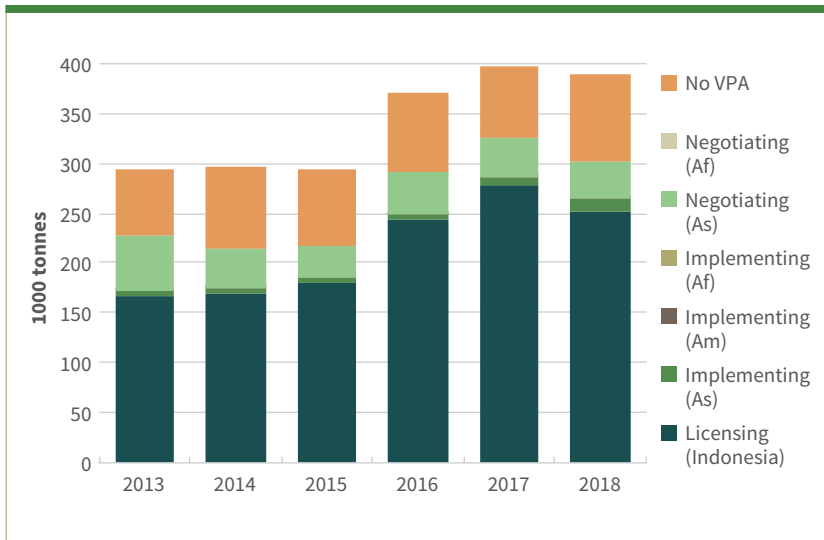


Figure 6.16.4: EU imports of paper from tropical countries, by VPA status 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

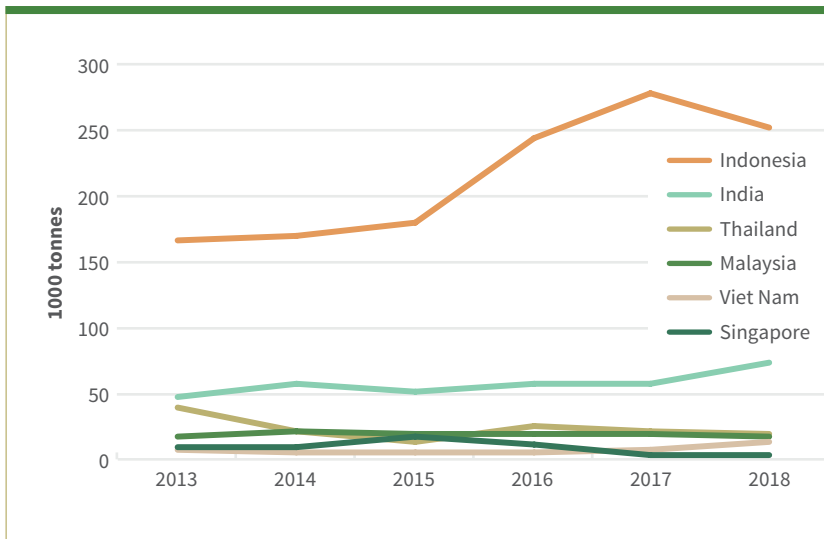


Figure 6.16.5: EU imports of paper from main tropical countries, 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

strongest in case materials (mainly used for transport packaging and corrugated boxes), followed by carton board, with only slow growth in wrapping grades (used for paper bags production).

Graphic grades accounted for 35.0% of total European paper and board production in 2018, down from 36.3% in 2017, and from 39.8% five years before. Within the graphics sector, production of higher quality coated woodfree⁵⁹ 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 grades are estimated by CEPI to have accounted for 6.7% of European paper and board production in 2018, down from 7.9% in 2017 and from 8.5% in 2014. All other grades of paper and board – mainly for industrial and special purposes – accounted

for 4.2% of European paper and board production in 2018, the same proportion as the previous year but a rise from 3.8% five years earlier.

The 2% rebound in EU imports of paper products in 2018 was driven mainly by a 26% increase from Turkey, a 16% increase from Canada, and a 13% increase from Brazil. These gains offset an 11% decline in imports from Switzerland, the second largest external supplier after the USA. Imports from other large external supply countries – including the USA, Norway, China, and Russia – were either stable or slightly rising in 2018 (Figure 6.16.3).

EU paper product imports from tropical countries decreased 2% to 389,000 tonnes in 2018 when they represented just 5.3% of total imports (5.5% in 2017) and 0.4% of total paper supply to the EU (0.4% in 2017). EU imports from all VPA partner countries decreased 7% to 302,000 tonnes in 2018 (Figure 6.16.4).

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 decreased 9% from a record level of 279,000 tonnes in 2017 to 253,000 tonnes in 2018.

In 2018, Indonesia accounted for 65% of all paper products imported by the EU from tropical countries, down from 70% in 2017. 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 2018, EU imports of paper from India increased 28% to 73,000 tonnes and India's share of imports increased from 14% to 19%. Imports also increased 86% to 13,000 tonnes from Viet Nam in 2018. However, imports decreased 10% to 19,000 tonnes from Thailand, 3% to 18,000 tonnes from Malaysia, and 12% to 3,100 tonnes from Singapore. (Figure 6.16.5).

As in the pulp sector, EU paper exports to VPA partner countries exceeded imports in 2018, although the volumes involved were still quite limited. In 2018, the EU exported 734,000 tonnes of paper to VPA partner countries, 8% less than the previous year. The EU exported paper to all VPA partner countries, although the majority went to Malaysia (165,000 tonnes), Thailand (146,000 tonnes), Indonesia (139,000 tonnes), and Côte d'Ivoire (92,000 tonnes).

⁵⁹ 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.

7 EUTR Implementation

7.1 Overview

Consistent and effective enforcement of the EU Timber Regulation (EUTR) continued to be mentioned during IMM European surveys and Trade Consultations as a means to provide an immediate market advantage for FLEGT-licensed timber. The rankings of the EUTR as a fairly significant driver of decline of current European imports of timber from VPA partner countries by the Berlin⁶⁰ and Antwerp⁶¹ Trade Consultations⁶² and the IMM 2018 trade survey⁶³, combined with even higher rankings of the Regulation as a future market opportunity for timber from VPA partner countries, demonstrate that the EUTR is considered a powerful instrument that is having market impacts.⁶⁴

It is an encouraging sign that companies represented in Berlin and Antwerp unanimously felt that the EUTR should be maintained, in spite of its making timber sourcing more challenging for them at the moment. Even more encouraging is that both Trade Consultations selected “a regulatory approach involving increased supply of FLEGT-licensed tropical timber linked, to consistent and effective enforcement of EUTR to remove illegal wood”, as the number one opportunity for future market development of timber from VPA partner countries in the EU.

However, trade representatives continued to place emphasis on the relevance of consistent and effective enforcement of the EUTR throughout the EU as a basic condition for its positive impacts to fully materialise. The following sections look in more detail into the state of play of EUTR implementation against the IMM set of indicators.⁶⁵

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

Since the preparation of the previous IMM Annual Report,⁶⁶ UNEP/WCMC updated information on EUTR Competent Authority checks on operators and check results in two

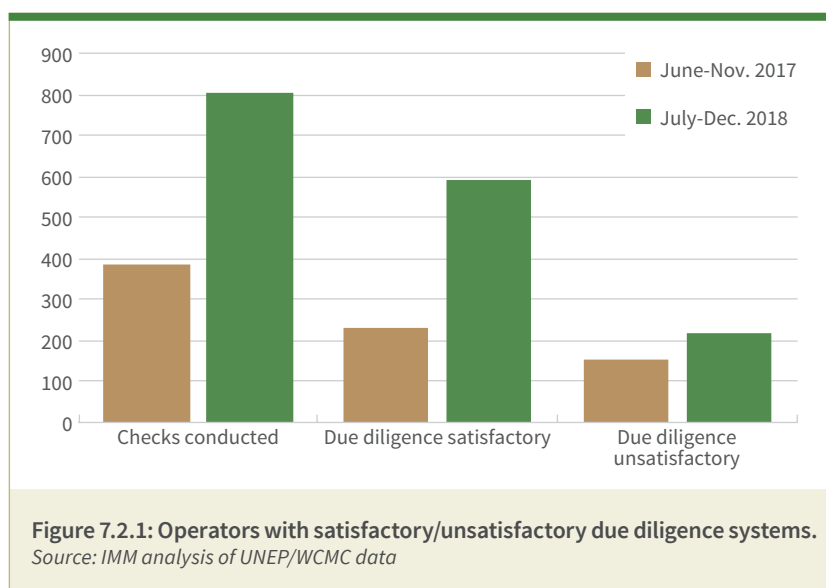


Figure 7.2.1: Operators with satisfactory/unsatisfactory due diligence systems.
Source: IMM analysis of UNEP/WCMC data

Overview Reports⁶⁷ published in mid-2018 and early 2019, respectively. According to the two reports, Competent Authorities in EU Member States conducted a total of 7,172 checks on operators between December 2017 and December 2018. The bulk of checks (5,750) targeted domestic operators, reflecting the importance of domestically-produced timber for EU markets. However, for IMM the inspections referring to timber imported from non-EU countries are particularly relevant, which is why only checks on operators importing timber from outside the EU will be considered in the following analysis.

The most comparable reports in terms of length and seasons covered are the reports for the periods July-December 2018 and June-November 2017.⁶⁸ The following analysis therefore draws on these reports.

The number of checks targeting operators importing timber from outside the EU more than doubled at 805 (June-November 2017: 388) in the 2018 reporting period compared to 2017. At the same time, the number of countries⁶⁹ reporting checks increased from 21 to 26. Of the EU Member States, Hungary was the only country that reportedly did not undertake checks in the 2018 period, while Greece and

⁶⁰ <http://www.flegtimm.eu/index.php/newsletter/flegt-market-news/80-risks-and-opportunities-drivers-of-the-eu-tropical-timber-market>

⁶¹ <http://www.flegtimm.eu/index.php/20-news/project-news/143-dutch-and-belgian-trade-comment-on-drivers-of-tropical-timber-demand>

⁶² Trade Consultations are a series of meetings organized by the IMM programme in the EU key tropical timber consuming countries. The Consultations aim to gauge the trade's views and discuss opinions of relevant FLEGT-related topics identified as a part of IMM surveys. IMM also shares latest survey and study results with trade representatives during the Consultations. Consultations were held in London (March), Nantes (May) and Berlin (November) during 2018 and in Antwerp (April) and Barcelona (October) during 2019.

⁶³ <http://www.flegtimm.eu/index.php/newsletter/imm-surveys-interviews/110-flegt-licensing-and-eutr-impact-on-european-tropical-timber-procurement>

⁶⁴ It is not the objective of the FLEGT Action Plan or EUTR to increase or decrease imports from a particular region. However, delegates at IMM Trade Consultations felt that, while currently making importing more difficult because of due diligence obligations, the EUTR was helping to address reputational issues of the tropical timber sector in the long term, which is considered essential for the market development of tropical timber.

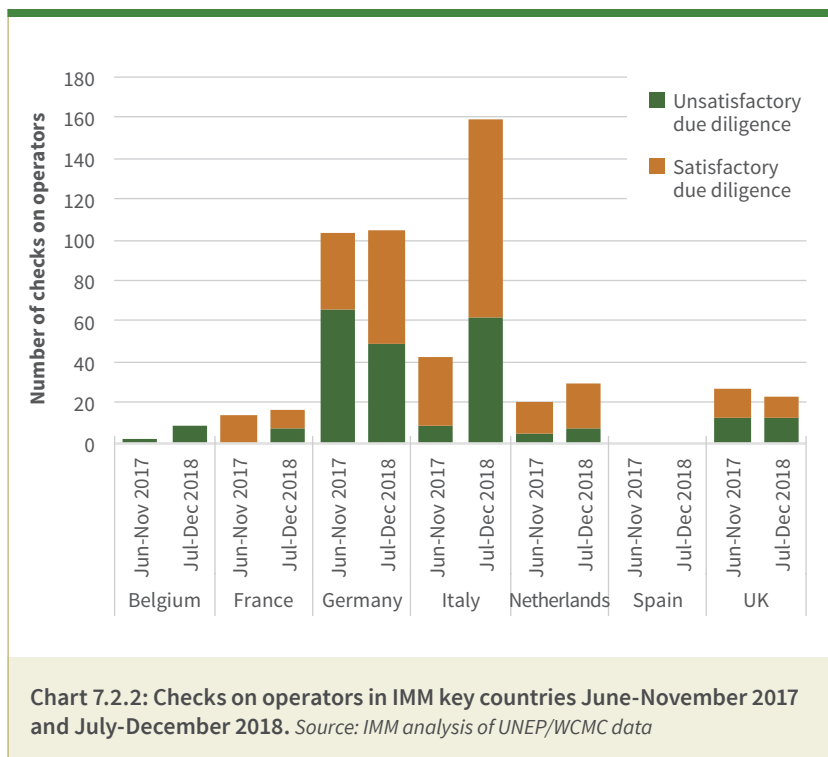
⁶⁵ IMM Global Indicators I EU Timber Regulation http://www.flegtimm.eu/images/imm_indicators/IMM_Meth_Annex1_Indicators_global.pdf

⁶⁶ FLEGT VPA Partners in EU Timber Trade 2017. Sarah Storck/Rupert Oliver. (IMM/ITTO 2017) http://www.flegtimm.eu/images/annual_reports/VPA-Partners-in-EU-Timber-Trade-2017-1.pdf

⁶⁷ Overview of Competent Authority EU Timber Regulation Checks for the period December 2017-June 2018 (UNEP/WCMC 2018_2) and Overview of Competent Authority EU Timber Regulation Checks July 2018-December 2018 (UNEP/WCMC 2019)

⁶⁸ Overview of Competent Authority EU Timber Regulation Checks for the period June 2017-November 2018 (UNEP/WCMC 2018_1)

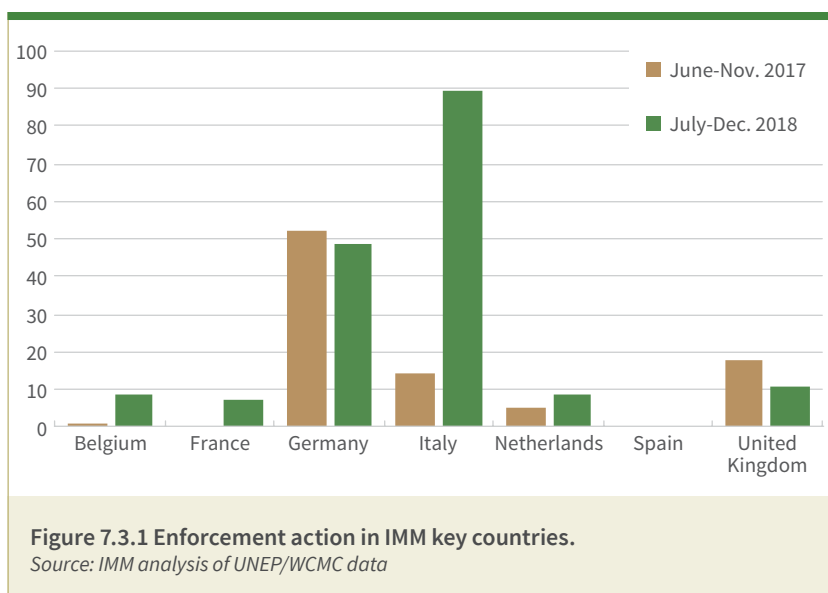
⁶⁹ Norway, Lichtenstein and Iceland are covered by the Overview Reports, in addition to the 28 EU countries.



cases of unsatisfactory due diligence systems was 156, or 40% of all companies checked.

As demonstrated in *figure 7.2.1*, the proportion of satisfactory due diligence systems has thus increased sharply between 2017 and 2018, which may indicate that EU-wide improvements in EUTR implementation identified both by the European Commission’s Biennial Report on EUTR Implementation⁷⁰ for the period March 2015–2017 and IMM’s 2017 Annual Report are continuing. Similarly, the much higher number of checks on operators undertaken in a larger number of countries indicates that enforcement of the Regulation is being stepped up further throughout the EU.

A closer look at the seven major EU tropical timber importing countries reveals that Spain was the only one not to report data on checks in both reporting periods (*Figure 7.2.2*).⁷¹



7.3 Sanctions imposed on/prosecution of non-compliant operators

According to COM 2018, all EU countries had established penalties for potential infringements of the EUTR by March 2017. These range from notices of remedial action, seizure of timber and fines to imprisonment. The number of cases of enforcement action almost doubled from the 2017 to the 2018 reporting period, from 128 cases to 242, according to UNEP/WCMC’s Overview Reports.

In the 2017 period, activities focused strongly on notices of remedial action (88), 5 of which resulted in penalties. Financial penalties without notice were imposed in 20 cases, other penalties in 19 cases and there was one court case.

Notices of remedial action remained the dominant action also in 2018, with a total of 128. However, a much higher number resulted in penalties (65). Moreover, the number of financial penalties imposed directly increased to 90 – almost exclusively due to Italy –, other penalties to 21 and court cases to 3.

Among the key EU countries, Italy and Germany were particularly active when it comes to imposing sanctions (*figure 7.3.1*). Italy started to step up action more recently, with a much higher level of activity in 2018 than in 2017.

Spain failed to make data available, along with the non-EU countries Iceland and Lichtenstein.

In the 2018 period, 21 of the 26 countries that reported checks identified operators with unsatisfactory due diligence systems. The total number of cases of unsatisfactory due diligence systems amounted to 217, which is 26% of all companies checked. In the 2017 period, 17 of the 21 countries identified operators with unsatisfactory due diligence systems. The total number of

⁷⁰ REPORT FROM THE COMMISSION 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 (the EU Timber Regulation) Biennial report for the period March 2015 - February 2017. (COM 2018) <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1538746572677&uri=COM:2018:668:FIN>

⁷¹ Further information on EUTR enforcement can be found on UNEP/WCMC’s website: <https://www.unep-wcmc.org/featured-projects/eu-timber-regulations-and-flegt>

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

The IMM 2018 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.

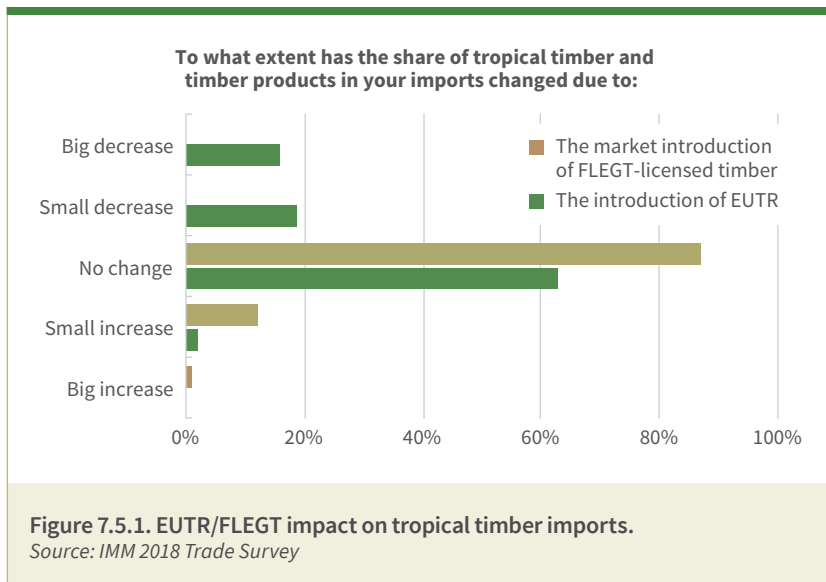
While the focus of the 2018 survey was again on companies currently engaged, or likely to be engaged, in trade with Indonesia and importing secondary wood products, more extensive interviews than in 2017 were conducted with the furniture sector. This was undertaken as a part of the IMM Furniture Sector Scoping Study, and a wider audience approached during IMM Trade Consultations; neither gave indications that this wider range of operators was having a different perception of FLEGT Licences.

Future IMM surveys and activities will continue to look into this, as widespread recognition and awareness of the green lane benefits of FLEGT-licensed timber are crucial for its market development.

7.5 Perceptions of EUTR impact

As a part of the IMM 2018 trade survey, 35% of survey respondents indicated a negative impact of the EUTR on the share of tropical timber in their imports “The challenge of obtaining assurances of non-negligible risk for EUTR” was rated the third and fifth most important driver of tropical timber market decline in Europe at the IMM Berlin and Antwerp Trade Consultation, respectively.

At the same time, however, as indicated above, “a regulatory approach involving increased supply of



FLEGT-licensed tropical timber linked to consistent and effective enforcement of EUTR to remove illegal wood” featured on the top of the list of market opportunities for timber from VPA partner countries in the EU both in Berlin and in Antwerp Consultations. This, participants felt, should go hand in hand with the introduction of better organised and targeted marketing campaigns, involving considered analysis to match specific VPA partner timbers and products to niche markets, and backed by widespread certification and/or licensing, and concerted efforts to explain the narrative behind legal and sustainable timber products to customers.

Participants also strongly endorsed the view that NGOs need to be actively engaged in efforts to improve the market position of VPA partner timber in the EU. The combined regulatory approach of EUTR and FLEGT was perceived as a potential means to counter environmental prejudices related to tropical timber, which was considered crucial for market recovery.

8 FLEGT licensing in EU Wood Promotion

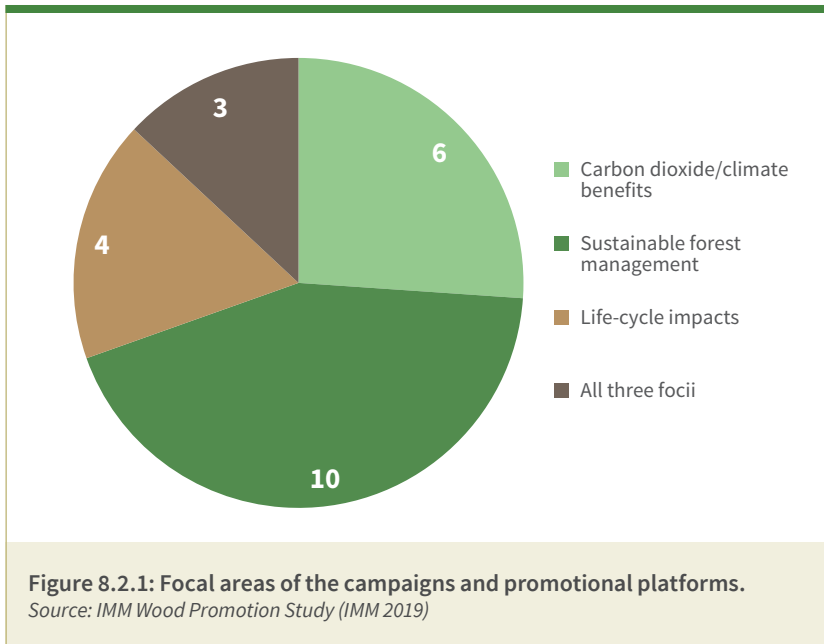
8.1 Overview

Improved communication and promotion were flagged up by IMM’s 2017 and 2018 trade surveys and during all four 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 highlight this issue.

In 2018 and early 2019, IMM undertook a baseline study of the level of support for FLEGT licensing in EU Wood Promotion Campaigns. To include results of this study in the most timely way possible, its results are being reported in the 2018 IMM Annual Report, which is being prepared following conclusion of the wood promotion study.

The study is based on a series of interviews and a literature review. In total, twenty-five interviews were conducted across a range of EU member states and from a variety of perspectives – including wood promotional campaigns, timber trade federations, civil society organisations, companies and other industry commentators.

A reason commonly cited for the comparatively low profile of FLEGT in timber marketing is the slow progress of supplier countries through the FLEGT VPA process *en-route* to FLEGT licensing. With just Indonesia so far providing licensed goods, and with the subsequent limits on range and availability of product, the consensus from the interviews undertaken as a part of the IMM promotion study is that the FLEGT VPA process has initially been “a difficult sell”. It is also a prevailing



performance, in recognition that its key markets, notably construction, but also government decision makers are increasingly environmentally aware and informed and addressing climate change issues ever more urgently.

Campaigns incorporate latest findings on wood's carbon and climate mitigation benefits, its life cycle analysis performance in relation to competing man-made materials and its potential role in developing a circular bioeconomy. There is also a stress on timber's renewability and sustainability and the role sustainable forest management can play in maintaining the forest resource, with the carbon and biodiversity gains that entails. The stress here is very much on third-party forest and chain of custody certification as assurance that timber is sustainable.

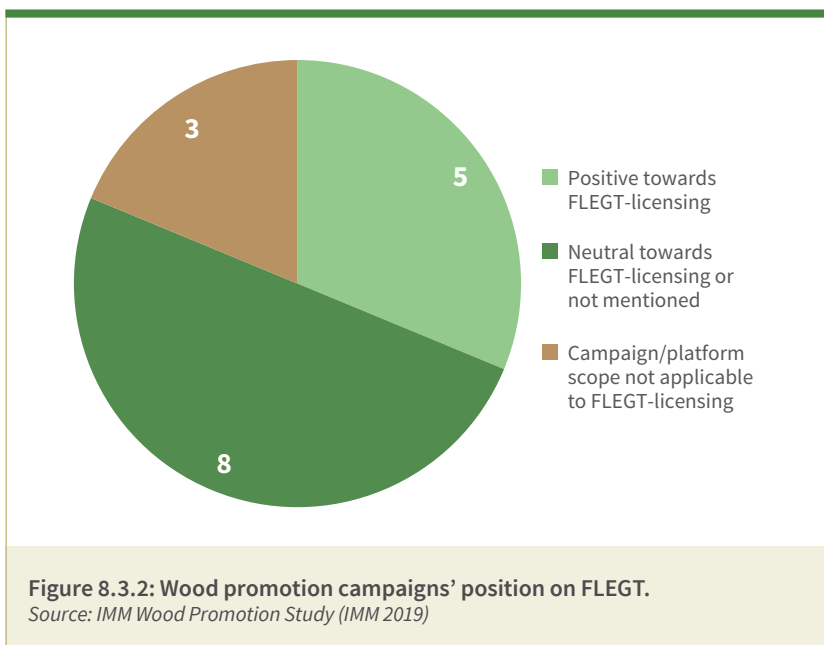


Figure 8.2.1 gives an overview of the focal areas of 23 assessed campaigns and promotional platforms (see table 8.3.1) in broadest terms. Aspects of sustainable forest management and its benefits to producers, communities, the forest itself or to the buyer or consumer is the most common theme. Climate benefits, such as reduced carbon dioxide footprint, is the second most common focus. Only three of the campaigns assessed focus on all three aspects.

The emphasis on sustainability in timber sector marketing is made all the more important given that its rival man-made materials sectors – steel, concrete, plastics and composites – are also ever more focused on presenting a green image and developing their own sustainability stories. These efforts are backed with significant budgets, high level research and are perceived as gaining increasing credibility, according to the IMM study.

opinion of those interviewed that the FLEGT VPA process until now has also been communicated in a rather technocratic way and principally on its legality assurance credentials, rather than on the wider on-the-ground, human and environmental impacts, which is the main focus of modern wood promotion campaigns.

At the same time the tropical timber sector, particularly in Europe, is also facing growing competition from the wood-plastic composite and modified wood producers, which make sustainability and, indeed, their capacity to substitute tropical timber, core to their marketing.

8.2 Wood promotion campaigns' thematic focus

The study revealed that Europe's timber and wood products sector has stepped up the level of its marketing and advertising activity and the clarity, cohesion and effectiveness of its communications in recent years. It has developed a range of national and international marketing programmes and campaigns. In particular it has focused promotion and communications on timber's environmental

8.3 Wood promotion campaigns' positions on FLEGT

Perhaps surprisingly the two pan-European promotional and communication programmes dedicated to growing the European tropical timber market do not commend a FLEGT licence as a procurement criterion. Both the *Sustainable Tropical Timber Coalition (STTC)*⁷² and creator of the *Fair & Precious*⁷³ campaign, the ATIBT, support the aims of the

⁷² <http://www.europeansttc.com>

⁷³ <https://www.fair-and-precious.org>

FLEGT initiative and recognise its role in providing legality assurance, but for various reasons neither is willing currently to depart from exclusive advocacy of third party forest certification by FSC or PEFC.

The key reasons set out by STTC for not being able to accept FLEGT Licencing include:

- The fear that FLEGT-licensed timber will be seen as ‘sustainable’ and therefore ‘good enough’; and
- FLEGT is considered an important stepping-stone towards sustainability, but timber trading companies need clarity on how to sell it, to avoid FLEGT-licensed replacing certified tropical timber.

Key reasons set out by ATIBT / Fair & Precious for not being able to accept FLEGT Licencing include:

- Common elements and goals between the VPA process and voluntary third-party certification have been identified, with the former seen as a ‘first step’ to the latter, but these need further clarification;

- There is currently no homogeneity between VPAs in terms of definitive levels of requirement, which makes it difficult to generalise about FLEGT; and
- There are differences in terms of transparency and reporting between certification and FLEGT VPAs.

Table 8.3.1 gives an overview of current wood promotion campaigns in key EU member states, their thematic and campaign focus and their positions on FLEGT.

As Figure 8.3.2 illustrates, thirteen of the sixteen campaigns assessed potentially have scope to make reference to FLEGT licensing. Five of the campaigns make clear reference to FLEGT licensing and overall can be described as being positive towards it. Eight of the campaigns make no reference or, where they make reference, they are not able to support it for the reasons identified in table 8.3.1.

Campaign /Communication platform	Theme/objective	Campaign focus	FLEGT position	Budget
Pour moi, c'est le bois (For me it's wood) https://franceboisforet.fr France	National campaign to increase consumption of timber in France with focus on home-grown material	All wood types. Timber and forest's CO ₂ , energy and wellness benefits	None as no reference to imported wood	€10 million over three years
Bois.com www.bois.com	General site for professionals and general public to gain knowledge about the use of wood.	All wood types. "I say YES to wood and say NO to CO ₂ "	No reference.	Undisclosed
Sustainable Tropical Timber Coalition www.europeansttc.com EU	Growing EU sales of verified sustainable timber	Tropical wood. Role of strong EU demand for sustainable timber in incentivising SFM uptake	Neutral. Focus is on sustainability verification. Urges clarification of FLEGT's status relative to certification	Undisclosed
Fair & Precious www.fair-and-precious.org EU	ATIBT-led campaign to grow EU certified sustainable tropical timber sales	Tropical wood. How healthy tropical timber market supports forest maintenance	Neutral. Mentions FSC and PEFC certification only. Also wants clarification on FLEGT's status vis a vis certification	Undisclosed
Green Deal www.vvnh.nl Netherlands	Campaign to grow certified sustainable share of Dutch timber market	All wood types. Value of growing certified timber market share in tropical forest maintenance	Positive. Focus on sustainably certified, but 2020 target for 95% certified tropical timber market share states that FLEGT- licensed timber can account for 25% of each shipment	Undisclosed
Hout in de GWW / wood in civil and marine engineering www.centrum-hout.nl Netherlands	To increase use of timber, notably tropical, in Dutch civil/hydraulic engineering projects	Tropical wood. Underlines tropical timber performance but also its CO ₂ and LCA benefits	None, as little if any Indonesian licensed timber used in this application. But could change if other countries, like Ghana, start licensing	Undisclosed
Wood for Good https://woodforgood.com/ United Kingdom	To grow all wood use in UK construction and design	All wood types. Focuses on renewability and wood's carbon merits, especially in building. Has LCA data base on website	Positive. Website includes background information on FLEGT and Indonesian licensing. Could increase coverage given more information on social, environmental and economic aspects	£215,000 per year budget, plus contributions from 20 supporters from £1,000 to £30,000

Campaign /Communication platform	Theme/objective	Campaign focus	FLEGT position	Budget
www.mytropicaltimber.org EU	Website created by ATIBT listing EU tropical timber suppliers and giving timber performance	Tropical wood. Basis is communication on legal tropical timber. Links to ATIBT/ETTF site www.timbertradeportal.com for information on legality and www.fair-and-precious.org on sustainability.	Neutral. No direct reference, but VPA status of supplier countries given on linked Timber Trade Portal website. Considering providing more background information.	Undisclosed
Timber Trade Portal www.timbertradeportal.com EU	ETTF/ATIBT joint venture website to support EU trade in legal timber, providing details on legality verification in 24 mainly tropical supplier countries and business contacts.	Tropical wood (primarily). Legality verification	Positive. Includes information on VPA status of supplier countries and FLEGT licensed product from Indonesia. May increase background information on FLEGT	Undisclosed
proHolz www.proholz.at/ Austria / Germany (Bavaria) / Switzerland	Ongoing promotional initiative to drive use of domestic timber, primarily in construction. Focused campaign Holz ist genial (Wood is genius) aims to grow awareness of timber sustainability and carbon benefits	All wood types. Timber sustainability and carbon/climate mitigation benefits	None / Not applicable	Undisclosed
Grown in Britain www.growninbritain.org United Kingdom	UK campaign to increase use of home-grown timber across all applications	All wood types. Sustainability of managed woodlands and their timber output. Supports FSC and PEFC certification	None / Not applicable	Undisclosed
American Hardwood Export Council www.americanhardwood.org EU	Aims to increase European use of US hardwoods and grow its applications	American hardwoods. Legality and sustainability of US hardwoods, with focus on its carbon and LCA performance	None / Not applicable	Undisclosed
Le Bois Oxygène campaign of Belgian trade federation Fedustria www.fedustria.be Belgium	None	All wood types.	None / Not applicable	Undisclosed
Timber Transformer www.ttf.co.uk United Kingdom	FLEGT process and Licencing	Tropical wood. Sole focus of the campaign was FLEGT licencing	Positive.	Undisclosed
Wood Window Alliance (British Woodworking Federation)	Environmental benefits of choosing wood as a raw material	All wood types Environmental benefits of choosing wooden windows compared to uPVC windows.	None	Undisclosed
Nordic Swan eco-labelling initiative www.svanen.se Nordic countries	Product labelling based upon lifecycle assessment	All wood types (excludes most tropical species)	None	Undisclosed

Table 8.3.1: Wood promotion campaign themes, focus and position on FLEGT

Position on FLEGT licensing	Organisation
Mentioning FLEGT as evidence of legality and possibly sustainability (i.e. there are potentially aspects going beyond legality mentioned)	<ul style="list-style-type: none"> • Fedustria • UK Timber Trade Federation
Promoting EUTR compliance advantages / Promoting FLEGT as evidence of legality	<ul style="list-style-type: none"> • AEIM • CEI-Bois • Le Commerce du Bois • Fedecomlegno • Fedustria • GD Holz • UK Timber Trade Federation • VVNH
Promoting EUTR compliance advantages though cautious that FLEGT Licences might gain share from third party certification	<ul style="list-style-type: none"> • Le Commerce du Bois
Promoting third party certification	<ul style="list-style-type: none"> • AEIM • CEI-Bois • Le Commerce du Bois • Fedecomlegno • Fedustria • GD Holz • UK Timber Trade Federation • VVNH

Table 8.4.1: European Timber Trade Federations' position on FLEGT and certification. Source: IMM Wood Promotion Study (IMM 2019)

8.4 Timber Trade Federations' communication role and position on FLEGT

In terms of European market influencers and communicators for the timber industry, a key role is played by national timber sector associations and federations. They are involved in wider promotion campaigns and also relay their messaging through their own communications channels. They also conduct their own campaigns and highlight the industry's efforts to assure legality of timber placed on the European market and combat illegal logging, with the main focus in this area on the EU Timber Regulation and associated due diligence.

They are also providing guidance on wider industrial environmental impact issues, with the increase in targets set in legislation and standards on emissions, energy and climate change mitigation, plus growing governmental and industry focus on circular and bioeconomic development.

In an increasingly competitive market, with other materials sectors developing their sustainability arguments, market promotion and communication are also increasingly important trade body roles. Within this context, sustainable sourcing is a key topic for federations, but there is variation between the emphasis they place on certification and the EU FLEGT initiative, as there is in their views on communication of the latter and interest they report in it from members (*Figure 8.4.1*).

What is clear from the study's analysis of EU-based trade associations is that there is no consistency regarding attitudes to FLEGT licensing and the wider VPA process. Generally, all of the associations can be said to be supportive of the wider FLEGT VPA process and benefits that will accrue. Beyond this the level of tangible support around communicating the message is hugely variable.

The UK perhaps represent one extreme, the most pro-FLEGT association with the Timber Transformer campaign⁷⁴ (see also *chapter 5.5.4*), and promotion of

FLEGT licensing as an equivalent of certification for public procurement.

Some other associations can be typified as being more cautious. Many have invested their energies in certification or domestic production. Promoting a concept that that might make imported timber more attractive is unlikely to feature high on their agenda.

Other associations remain unconvinced of the merits of FLEGT licensing, willing to accept that it might equate to "legal compliance" in the country of production, but so far unwilling to consider that it might mean much more of this in terms of environmental (or silvicultural) performance.

8.5 NGO/CSO communication role and position on FLEGT

NGOs and CSOs, some of whom were interviewed for the IMM study, are key market influencers and clearly vital to be kept in the FLEGT communications loop. They can, of course, be critical, but where they see positives in the initiative, the organisations interviewed for the IMM study said they are keen to promote them and help inform industry and public opinion.

Initially some in the EU trade took a 'wait and see' attitude before putting their trust in the FLEGT initiative. They were concerned NGOs would find fault with the system and that they could lay themselves open to attack if they imported licensed goods without further due diligence. But the criticism at the level anticipated did not materialise. The interviewed NGOs are clearly willing to highlight flaws in the FLEGT process and the system's operation where they identify them. But their tone is broadly supportive. Delegates at IMM Trade Consultations also advocated bringing the NGOs more into the FLEGT community to support the initiative's communication and development.

⁷² <http://www.flegtim.eu/index.php/newsletter/flegt-market-news/90-uk-ttf-flegt-exhibition-nets-environmental-award>

NGO / CSO	Summary of position
WWF	<ul style="list-style-type: none"> • Describes legality assurance as prerequisite of timber and forest sustainability. • Stresses that differentiation between FLEGT and sustainability certification should be made clear. • Questions whether FLEGT in current form is sufficient to address sustainability holistically. • Cites governance improvement and stakeholder engagement as FLEGT major achievements. • Sees opportunities for advocating FLEGT more via social media • Recommends supplier countries consider joining the VPA process. • Urges communication of the FLEGT initiative outside the EU.
FERN	<ul style="list-style-type: none"> • Describes FLEGT as most effective functioning process to increase forest governance and combat illegal logging. • Recommends EU bring together NGOs to coordinate and support their FLEGT communications. • Backs proposition that FLEGT is more than just proof of legality.
Earthworm (formerly TFT)	<ul style="list-style-type: none"> • Describes legality assurance as prerequisite of timber and forest sustainability. • Feels FLEGT initiative has 'stalled' since Indonesia started licensing.
Greenpeace	<ul style="list-style-type: none"> • Says continued uneven implementation of EUTR could undermine FLEGT process. • Warns EU against taking shortcuts in VPA process to get more countries to licensing stage.
Environmental Investigation Agency	<ul style="list-style-type: none"> • Commends FLEGT as template for other forest commodities industries legality assurance. • Questions aspects of Vietnam's VPA timber legality assurance system. • Backs VPA for Vietnam as likely to incentivise it to regulate its timber import/export trade. • Sees Vietnamese VPA as 'significant precedent' for timber legality assurance in China.

Table 8.5.1: European NGO/CSOs positions on FLEGT. Source: IMM Wood Promotion Study (IMM 2019)

Figure 8.5.1 summarises the positions of five leading NGOs interviewed for the IMM study. Whilst not an exhaustive sample, it is clear that generally the NGO/CSOs operating with interests in the FLEGT process are supportive in principle. Given their remit it should be no surprise that they welcome the implementation of the rule of law in a sector where many NGO have highlighted illegality for decades.

What is also clear from the sample is that those NGOs close to the process in a range of countries do not have an appetite to embrace the environmental or social impacts of FLEGT-licensing and the VPA at the same level as they do with forest certification.

8.6 EU FLEGT Facility – an information hub

The EU FLEGT Facility is the primary agency supporting implementation of the FLEGT Action Plan to combat the illegal timber trade. Hosted by the European Forest Institute (EFI), it works with governments, industry, civil society and other stakeholders in countries, negotiating or implementing a FLEGT Voluntary Partnership Agreement (VPA).

The EU FLEGT facility is the principal communications hub for FLEGT VPAs and FLEGT licensing. Its website carries extensive background information, technical details, news on countries' progress through their VPAs and general interest stories geared to a wide audience, including the media. It produces newsletters and press releases on key FLEGT events.

Significantly for the market profile of the VPA initiative and FLEGT-licensed products, it launched a new satellite site specifically targeting the timber trade – www.timberbuyers.flegtlicence.org in 2018. Among other topics, this describes the business case for suppliers and buyers to trade in FLEGT-licensed timber products. It is also designed to help timber traders relay the wider story of what FLEGT licensing is about to their customer base. The site was created as there was still felt to be a

disconnect between buyers and the wider impacts and significance of the FLEGT programme.

The EU FLEGT Facility communications is not a wood promotion programme per se. The site explains how Indonesia's licensing system works, plus the role of national competent authorities policing and administering FLEGT Licences in the EU. In addition, it links to a section detailing products covered by Licences and those that are not. It also explains the FLEGT procedure for timber and wood products from other producers which transit via Indonesian businesses to the EU. The FLEGT communication package is designed to reach as wide an audience as possible and to "speak in language people understand".

8.7 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, with retroactive analysis of one year being possible. The media monitoring programme 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".

Results over time
by Topics

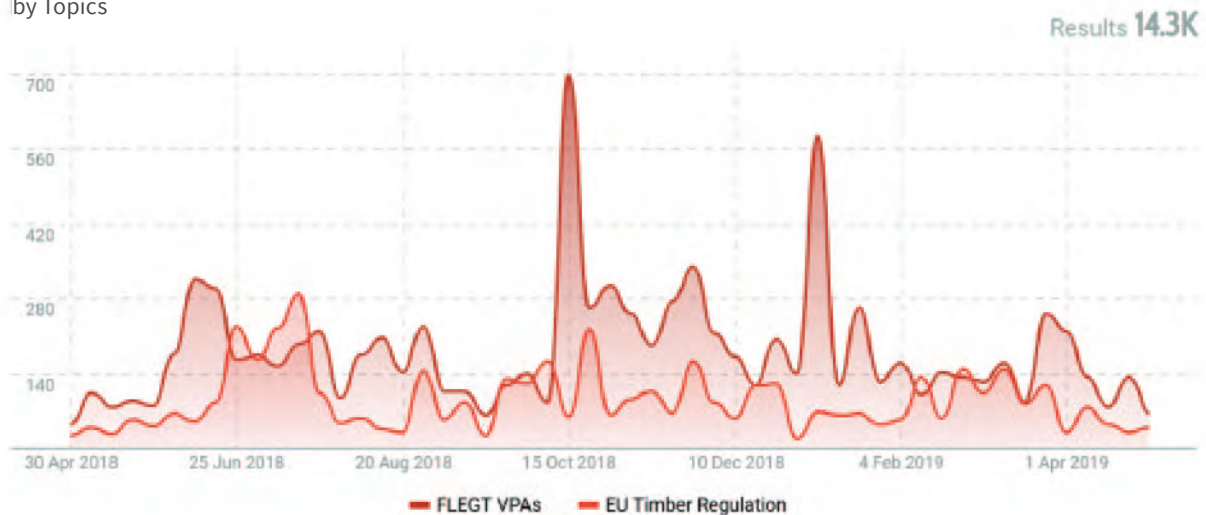


Figure 8.7.1: Media mentions FLEGT VPAs and EUTR June 2018-May 2019. *Talkwalker Media Monitoring*

The third search topic is primarily used for daily press clipping. As in the last IMM Annual Report, topics 1 and 2 are considered in the analysis below. The period covered by this report is June 2018 to May 2019. The Media Monitoring services recorded 14,900 hits for the two topics in the twelve-month period, around 10,000 of which were accounted for by FLEGT VPAs and 4,900 by EUTR (Figure 8.7.1).

Figure 8.7.2 shows that mentions of FLEGT VPAs have increased by 79.6% compared to the previous year, while mentions of EUTR were up by 23.6%.

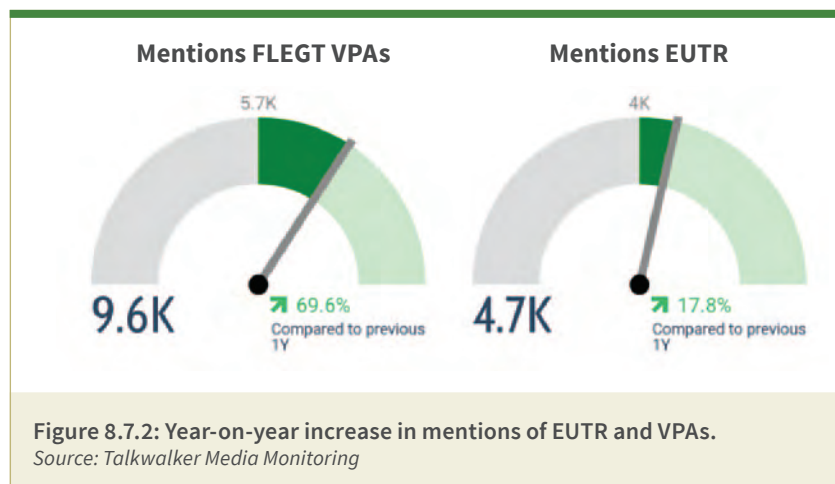
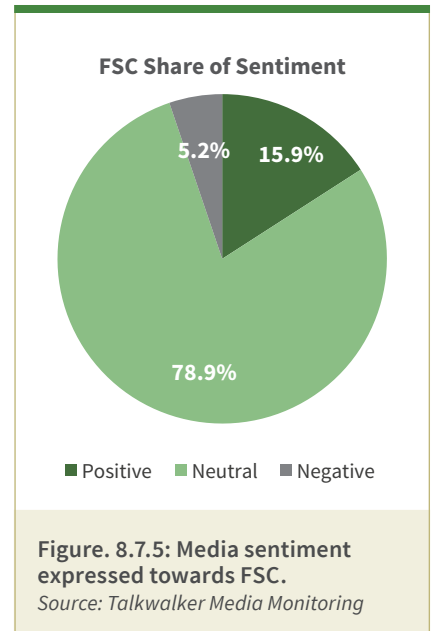
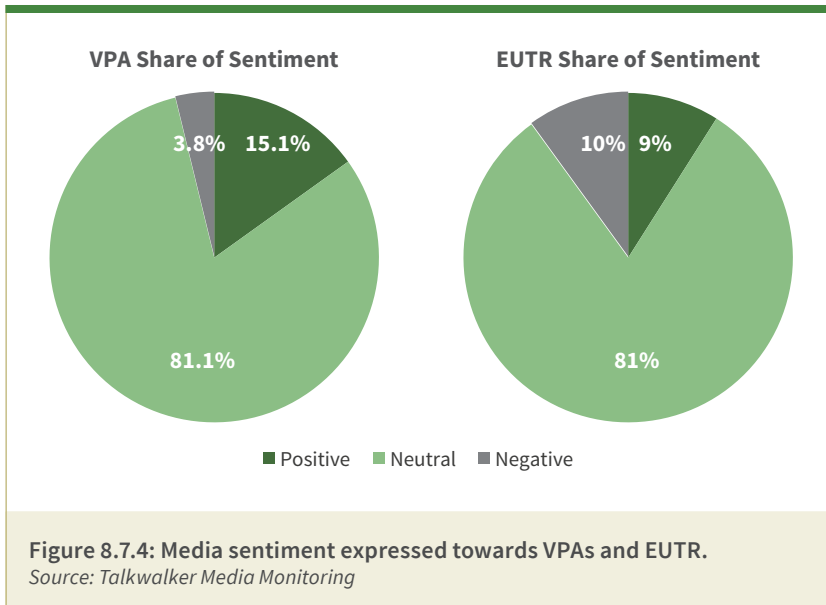


Figure 8.7.2: Year-on-year increase in mentions of EUTR and VPAs. *Source: Talkwalker Media Monitoring*



Figure 8.7.3: Global distribution of media records. *Source: Talkwalker Media Monitoring*



Influencers	Posts	Sentiment	Reach	Reach per mention	Engagement	Engagement per mention
FAO Colombia @FAO_Colombia	86	616.7%	997.2K	11.6K	1K	11.9
FAO Forestry @FAOForestry	78	8.2%	3.7M	47.2K	2.4K	30.4
Timber Trade Federation @TimberTradeFed	70	18.3%	257K	3.7K	103	1.5
David @Durrego86	63	270.6%	67.6K	1.1K	0	0
Fern @Fern_NGO	55	27.9%	221.6K	4K	194	3.5
EFI @Europeanforest	53	152.4%	386.8K	7.3K	148	2.8
vietbao.vn, vietbao.vn	35	483.3%	28.2M	804.5K	0	0
Tin Nhanh Việt Nam, baohomay.com	33	57.1%	230K	7K	0	0
vietnamnet.vn, english.vietnamnet.vn	32	128.6%	1.5M	47.1K	6	0.2
nudbha (bat buoc), 1440phut.wordpress.com	31	3%	0	0	10	0.3

Figure 8.7.6: Top influencers EUTR 2018/2019 Source: Talkwalker Media Monitoring

The bulk of mentions – constant at 7,000 compared with the previous year – was again recorded in Europe (Figure 8.7.3). However, the priority of mentions in Europe shifted a little more towards EUTR, whereas mentions had been evenly distributed the year before (IMM/ITTO 2018).

The sharp increase in overall media mentions was primarily due to much stronger coverage in South-East Asia, where mentions doubled with roughly 4,000 compared to the June 2017-June 2018 period. In South-East Asia, media coverage focussed almost exclusively on VPAs.

When it comes to media sentiment, coverage of VPAs was again slightly more positive in tone than that of EUTR (Figure 8.7.4). However, sentiment towards EUTR also improved, with just under 10% of references to EUTR being negative (2017/2018: 15.7%). However, the share of explicitly positive references also fell to 8.5% (10.9%), which means that only the share of neutral sentiment increased.

Influencers	Posts	Sentiment	Reach	Reach per mention	Engagement	Engagement per mention
EU Timber Regulation @EUTimberRegulat	126	38.8%	176.8K	1.4K	0	0
Timber Trade Federation @TimberTradeFed	105	8.7%	383.8K	3.7K	204	1.9
FAO Colombia @FAO_Colombia	86	616.7%	997.2K	11.6K	1K	11.9
vietnamnet.vn, english.vietnamnet.vn	85	80.9%	4M	47K	25	0.3
FAO Forestry @FAOForestry	81	8%	3.8M	47.1K	2.5K	30.4
Fern @Fern_NGO	64	39.1%	259.4K	4.1K	207	3.2
David @Durrego86	64	236.8%	68.6K	1.1K	0	0
vna, english.m.vov.vn	63	117.2%	0	0	0	0
vietnamplus, vietnam news agency (vna), en.vietnamplus.vn	60	81.8%	3.1M	52.2K	26	0.4
produit, bois.fordaq.com	59	145.8%	3M	52.4K	0	0

Figure 8.7.7 Top influencers FLEGT VPAs 2018/2019: Source: Talkwalker Media Monitoring

In relation to VPAs, the share of negative sentiment expressed by media reports dropped significantly to 3.9% (9.8%) and positive sentiment increased to 14.9 (11.9%). The share of neutral mentions was also slightly up at 81.2% (78.3%).

Closer analysis of the automatic assignments of references reveals that the media monitoring system 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.

When repeating last year's comparison of sentiment about VPAs with that of FSC, the monitoring system shows a surprising shift in media sentiment in relation to FSC (*Figure 8.7.5*). The number of positive mentions of FSC declined significantly in the 2018/2019 period compared to the 2017/2018 period and was replaced by much more neutral overall coverage. Only 15.7% of references to FSC were explicitly positive in the 2018/2019 period compared to 32.3% in the previous twelve-month period. The overall sentiment expressed towards FSC in the 2018/2019 period was similar to that towards FLEGT VPAs.

An analysis of the most relevant "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 8.7.6* shows that for EUTR media references the Twitter account of @EUTimberRegulat played a leading role in driving

communications as it had the year before. However, the news service Fordaq was much stronger represented in the 2018/2019 period, whereas the previous year had been more dominated by European NGOs, PEFC, and the UK Timber Trade Federation.

Media references and sentiment for FLEGT VPAs (*Figure 8.7.7*), on the other hand, were dominated by FAO, as in the previous reporting period, followed by the UK Timber Trade Federation. Besides the fact that it runs a large programme to provide funding and capacity building assistance to VPA partner countries, FAO's leading role here is due to the large number of followers, with the "FAO Forestry" Twitter account alone reaching more than 53,000 followers. EFI played a much stronger role in the 2018/2019 period than the year before and Fern retained a leading position in communicating about FLEGT VPAs.

9 EU Voluntary Private Sector Timber Procurement Policies

9.1 Overview

IMM produced a special study of private sector timber procurement policies and their recognition of FLEGT-Licences⁷⁵ in 2018. The following analysis is a summary of the findings.

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

9.2 Influences, dominant policy elements and the role of FLEGT

Responsible purchasing policies are influenced by a vast array of organisations (*Figure 9.2.1*). A literature review undertaken as a part of the IMM Special Study identified over 100 organisations, tools, initiatives, templates and sets of guidance which might have an influence on a private sector company policy.

A sample of 65 influences was assessed in the study to identify attitudes and support for key indicators such as certification, legal compliance, and support for FLEGT licensing. In addition, the responsible purchasing policies of 17 large EU based companies from across a range of sectors, from retail to timber importing, were assessed to identify the contents of their policies and the levels of support for FLEGT licensing.

The analysis indicated that support for FLEGT licensing has yet to reach the same level as forest certification.

Over 70% of the influential sources analysed are positive and explicit in their support of some or all forms of forest certification, compared to around 40% supporting FLEGT licensing or the VPA process.

A closer look at the different types of influential sources reveals that references to FLEGT licensing vary significantly across the range of influences (*Figure 9.2.2*). Both certification and FLEGT were referenced by all four of the private sector initiatives analysed in the study. CSO led initiatives were more varied, but overall the eighteen initiatives analysed in the study were more inclined to support certification than FLEGT licensing. Only two of six certification and verification systems assessed included a positive reference to FLEGT licensing. Interestingly, few of the private sector legality verification systems assessed in the IMM study make explicit reference to FLEGT processes or FLEGT licensing.

The discrepancy between support for certification and FLEGT licensing is even greater in companies' responsible purchasing policies: 16 out of 17 company policies analysed explicitly promote certification, whereas only two explicitly mention FLEGT-licensing (*Figure 9.2.3*).

FLEGT licensing, when considered as a brand, has certain disadvantages compared to forest certification. Certification "brands" have been communicated widely with considerable backing from the retail sector and international NGOs. FLEGT licensing, on the other hand, remains an unproven (in terms of value or performance on the ground) or even unobtainable assurance mechanism for many of the companies and organisations interviewed or analysed.

The content of 13 timber procurement policies of some of most influential European companies was analysed in the IMM study in more detail, against a defined framework of policy elements. Nearly all the companies

⁷⁵ EU Private Sector Voluntary Timber Procurement Policies and the Role of FLEGT-licensing. Report author: George White

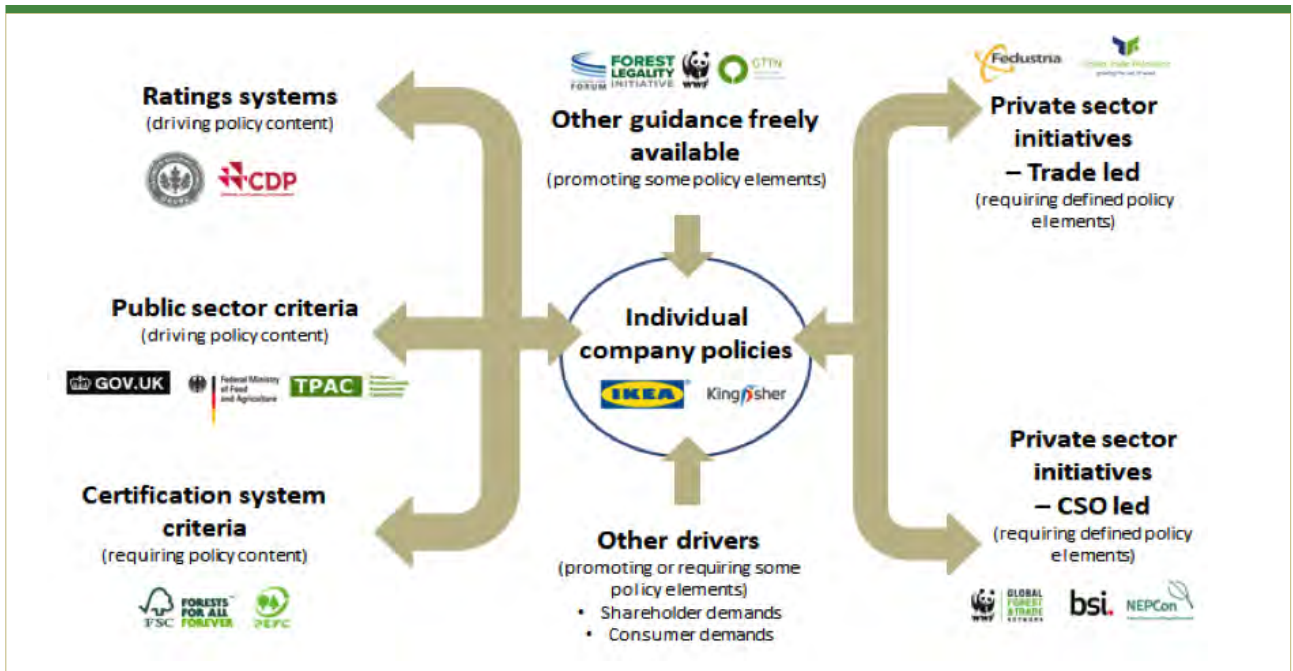


Figure 9.2.1: The web of influences and drivers impacting responsible purchasing policies.

Source: IMM 2018 Private Sector Timber Procurement Policy Study

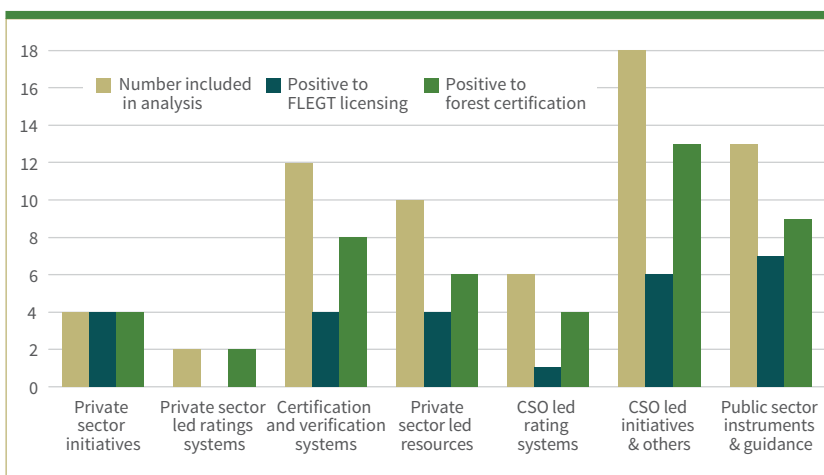


Figure 9.2.2: References to FLEGT licensing and certification across a range of influencers. Source: IMM 2018 Private Sector Timber Procurement Policy Study

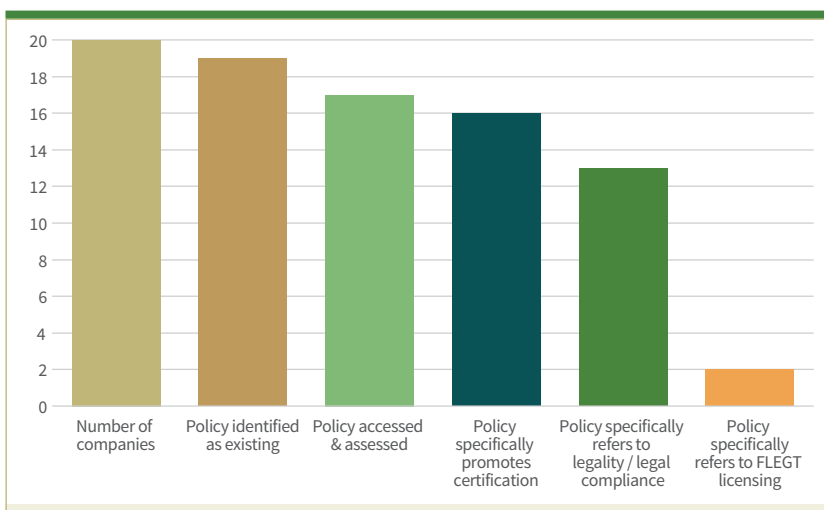


Figure 9.2.3: Number of company policies promoting certification / FLEGT. Source: IMM 2018 Private Sector Timber Procurement Policy Study

(with one exception) have clear policy elements specifying or promoting third party certification – typically FSC or PEFC. It was also common for policies to state a requirement for legal harvesting and trading of forest products – with 10 of the 13 companies including a specific commitment to legal sourcing (Figure 9.2.4). However, only two policies explicitly support FLEGT licensing.

Based on this analysis, a typical EU company policy contains the following elements:

- A preference for certified materials
- A clear statement regarding the legality of raw materials
- A clear statement regarding traceability of materials
- A positive stance towards chain of custody certification
- References to respect for traditional and workers' rights
- A commitment to public reporting of progress towards compliance or targets.

9.3 How responsible purchasing policies evolve

In addition to considering the current content of procurement policies in the EU private sector, the study also considered the longevity of these policies and the factors that encourage change.



Figure 9.2.4. Frequency of inclusion of policy elements in analysed procurement policies.

Source: IMM 2018 Private Sector Timber Procurement Policy Study

Whilst the IMM study only considered a modest sample of 20 corporate policies in detail, the analysis and interviews indicated that the typical cycle of policy amendment, where the detail is reviewed, is in the range of 2-4 years. For the 12 policies accessed that carry the date of implementation, the average date of publication was during 2017. It might be concluded that this sample of private sector purchasing policies are frequently reviewed.

In total, 61 of the sources of influence that have been included in the IMM study have implementation or revision dates. Whilst some were updated in 2018, there is a wide range of adoption dates, with the oldest identified as 2003. On average though, 2014 is the most common year of implementation.

In this context, it should be noted that FLEGT-licensed timber products were first identified with the FLEGT Action Plan of 2003 and the first physical products only entered the European market in 2017 with the first licences issued on November 15th 2016.

It is possible to conclude that the private sector is generally more active in reviewing policy content than the other sources considered. From the perspective of increasing demand for FLEGT-licensed timber, the frequency of changes to private sector purchasing policies provides an opportunity to increase demand and recognition.

The interviews conducted as a part of the IMM study revealed that companies and trade associations are sensitive to

changes in the trading environment and political context. Policies are seen by many as a tool that can be adjusted to suit the current circumstances. Changes to certification scheme standards, for example, may have a bearing on a company and require a policy change to bring them into line.

Other companies adjust their policies over time to reflect the latest thinking and trends. The “deforestation-free supply chain” agenda has influenced some to re-evaluate their policies and to focus on a broader agenda, rather than one focused on promoting certification of forest and legality of wood supply.

The larger, more multinational companies tend to have a wider range of stakeholders and to attract the attention of more of the influences identified in the study. They are required to balance a diverse range of influences with their business needs when developing their purchasing policies. Some choose to engage more widely than others and actively cultivate wide stakeholder engagement and others choose a small range of stakeholder influences to cooperate with. One Dutch timber trader summed it up: “the content of our policy is influenced by our clients, timber federation, governmental and non-governmental organisations”.

Smaller companies tend to use a smaller range of influences in developing their policies, often relying on trade association guidance or templates.

What is clear from the interviews is that the issues of trust and credibility are important. Policies are seen as important statements on a company's character and they only contain elements which the company believe to be true and valid. Therefore, any new content or revisions requires those that set the policies to be able to argue that new content is both valid and credible.

The analysis of company policies also shows some direct or indirect influence from third party organisations. Some of those interviewed acknowledge the input from civil society organisations and their trade associations. Others assert that the policies are their own and reflect their own values and aspirations.

9.4 Incorporating FLEGT in policies

Some of the companies interviewed simply saw no reason to include FLEGT licensing within their policy. For them it is an irrelevance, they have simply "moved on" beyond the perceived value of licensed timber. Some work within business cultures where discussions around legality are seen as unnecessary – *"in our sector no one wants to talk about legality of wood – it is taken for granted that all our products are legal"*. Many others simply see licensed timber as synonymous with OLB and other types of legality verification. They see OLB and similar verification processes as a product they trust and are familiar with. Some equate FLEGT licensing in terms of performance and value offered with the likes of OLB and other verified materials. Others do not purchase any products from VPA countries and therefore have little interest in the process.

Whilst statistically unproven, the interviews undertaken as a part of the IMM private sector procurement study do indicate that those companies buying licensed timber from Indonesia are generally satisfied with the Licence – contrasting with those sourcing from other VPA countries who remain either doubtful of the potential value or generally underwhelmed by a lack of progress in the VPA negotiations.

When compared to a survey undertaken as a part of the IMM Furniture Sector Scoping Study,⁷⁶ involving forty-seven companies within the EU, the views from the modest sample of interviewees in the IMM Private Sector Procurement Study are strikingly similar in both tone and level of support for FLEGT licensing. The furniture sector review and interviews indicated that around 45% of those interviewed saw a role for FLEGT licensing in their purchasing strategy or were positive towards the process.

The IMM 2018 EU trade survey produced similar results (see Annex 1 of this report for more details). A number of the 96 respondents said they were open to considering including FLEGT Licences in some capacity into their procurement policies in the future, with some saying they were now looking into the potential of FLEGT Licences as proof of sustainability. Most companies, however, said they were currently using third-party certification – typically FSC or PEFC – as proof of sustainable sourcing and were planning to continue focusing on those certification schemes due to their comparatively high level of consumer recognition. None of the respondents confirmed that FLEGT Licences had yet been assigned an explicit role in their procurement policy.

EU Member States' Public Procurement Policies

10

10.1 Overview

IMM produced a study of EU Member State public procurement and their recognition of FLEGT Licences⁷⁷ in early 2019. To include results of this study in the most timely way possible, its results are being reported in the 2018 IMM Annual Report, which is being prepared following conclusion of the public procurement study. The following analysis is a summary of the findings.

Twenty-two EU member states now possess some form of public procurement policy for products containing or made from wood. They vary significantly in terms of their definition of criteria, coverage of products, applicability to different levels of government and whether they are voluntary or mandatory. However, they all require, or at least encourage, government buyers to source legal and often sustainable, timber.

Public procurement policies can play an important role in encouraging trade in legal and sustainable timber.

Government purchasing of timber can account for a significant proportion of all timber purchasing in a given country, and therefore has considerable potential to influence buying practices and to promote good business practices across the timber market as a whole.

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

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

⁷⁶ IMM Furniture Sector Scoping Study. Author: George White. https://www.itto.int/direct/topics/topics_pdf_download/topics_id=5782&no=1&disp=inline

⁷⁷ A study of EU public timber procurement policies, related guidance & reference to FLEGT. Author: George White (IMM/ITTO 2019)

A theory of change for public procurement policies was characterised in 2015⁷⁸ as follows:

1. The large share of government expenditure in GDP will create a market for sustainable goods. The direct **market effect**.
2. Government should play a leadership role in inspiring consumers and responsible players in the private sector. The **leadership effect**.
3. The actions of government have knock-on effects, causing suppliers to simplify their supply chains around sustainable products. The **supplier consolidation effect**.

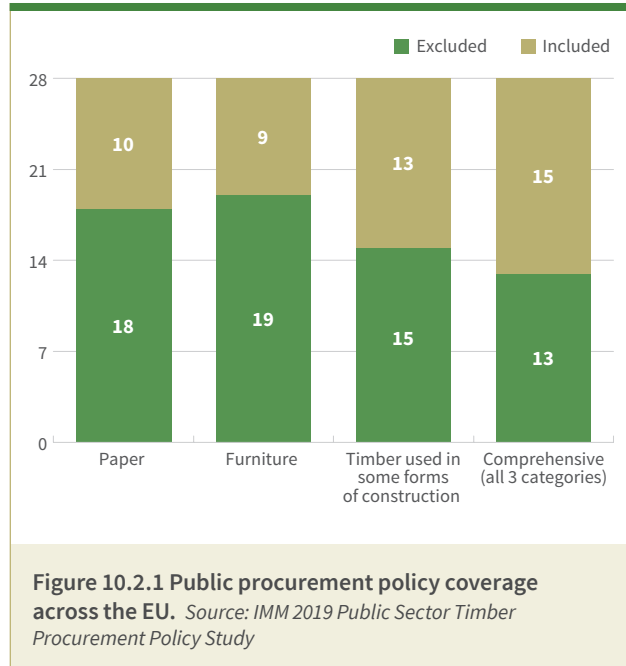
Within the EU, public procurement policy is a matter of member state competence, although general procurement rules are set at the EU level and the EC has tried to encourage member states to adopt broad green procurement policies. In pursuit of this aim, and to open up procurement contracts to companies across the EU, the EC has implemented a programme to develop common government (GPP) criteria. The adoption of the current GPP criteria is voluntary for EU member states.

As of February 2019, GPP criteria had been agreed for 19 product groups/end uses, including Copying and Graphic paper, Office Building Design, Construction and Management and Furniture. The legality and sustainability requirement for timber within the relevant product group criteria are the same in all cases. They include the requirement that any virgin timber used must be legal and in conformance to EUTR; with acceptable forms of proof including FSC or PEFC or equivalent; or FLEGT Licences; or a declaration of legality, accompanied by a chain-of-custody tracking system.

There are no absolute requirements for “sustainability” in the GPP criteria, but there is recognition of the desirability of evidence of sustainable forest management. Acceptable evidence of sustainability includes the EU Ecolabel, other national type I ecolabels, chain-of-custody certificates such as FSC, PEFC or equivalent; and ‘any other appropriate means of proof, such as a technical dossier of the manufacturer or a test report from a recognised body’.

10.2 The importance of public procurement for timber markets

The IMM study found that public policies and the public sector are perceived to play a significant role in the EU market for forest products, though the exact contribution is hard to define. Many member states have invested heavily in setting policies through complex processes with great consideration paid to policy content. Most EU member states have mandatory purchasing policies for central government departments and voluntary policies for local authorities and other agencies. The majority of public spending is undertaken at a local government level though and little monitoring of policy



compliance has been directly observed. Most EU member state governments do not know how much wood they purchase and therefore have no indication of how much sustainable, legal or FLEGT-licensed material might be included within their procurement.

In total, the analysis indicates that 22 EU member states have some form of public procurement policy. Six currently have no policy – Estonia, Greece, Hungary, Poland, Portugal and Romania. Poland has developed a National Action Plan, but no specific criteria have been identified for wood-based products. Portugal has indicated that it will potentially include all EC GPP product/use categories in future policy. Estonia, Greece, Hungary and Romania remain the only EC member states without a policy or any identified plans to develop such policies.

Figure 10.2.1 indicates that the range of end-uses and product types covered by the policies scrutinised is variable. Only 13 of the 28 states appear to have what might be termed comprehensive coverage in their procurement policies. Eighteen make reference to office and/or graphic papers and 19 make specific reference to furniture. Fifteen policies make reference to the timber used within “construction”, though this varies, with those countries using the EU GPP criteria only applying the policy for “timber in office building design, construction and management”.

Thirteen countries appear to have comprehensive policies that in theory apply to all purchases of timber products. Of these, Luxemburg’s policies (alone in this case) apply to all products that are within the scope of the EUTR. Germany and the UK’s policies apply to all products that contain virgin wood fibre.

Figures 10.2.2 and 10.2.3 contrast the balance between mandatory and voluntary applicability for central and local government departments with respect to the policies. At central government level, 18 of the EU’s

⁷⁷ A study of EU public timber procurement policies, related guidance & reference to FLEGT. Author: George White (IMM/ITTO 2019)

⁷⁸ The impact of timber procurement policies: an analysis of the economic effects of governmental procurement policies in tropical timber markets. ITTO Technical Series No. 44. International Tropical Timber Organization, Yokohama, Japan. Authors: Martin, R.M. & Ghazali, B.H. (ITTO 2015)

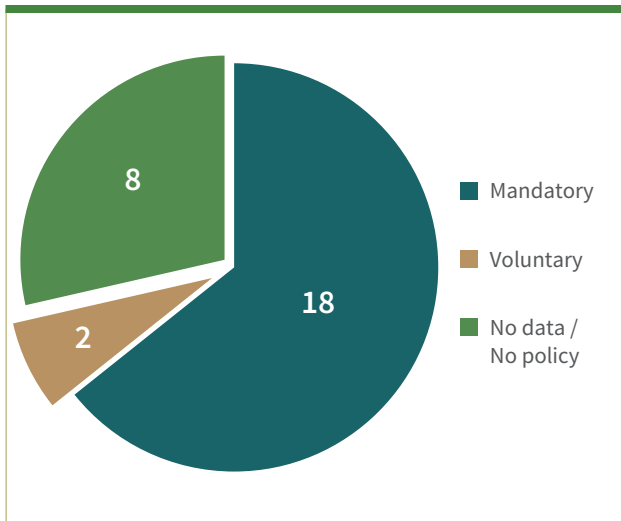


Figure 10.2.2: Mandatory vs voluntary nature of central government department PP across the EU.

Source: IMM 2019 Public Sector Timber Procurement Policy Study

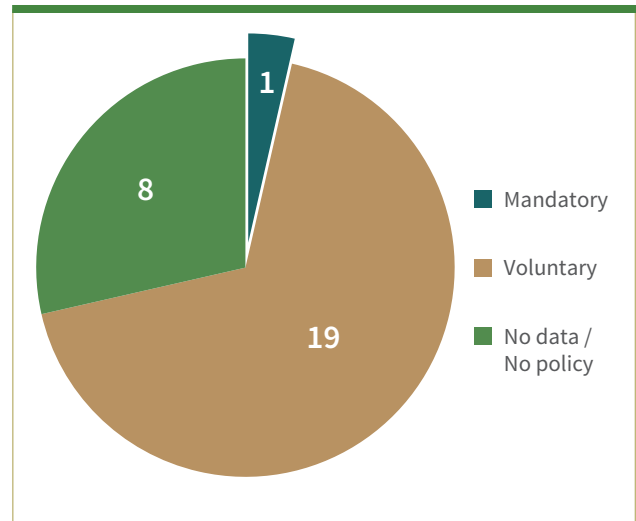


Figure 10.2.3: Nature of PP that apply to local government agencies across the EU.

Source: IMM 2019 Public Sector Timber Procurement Policy Study

member states are known to have mandatory policies with two having voluntary status. Unfortunately, the study was not able to identify the status of the remaining eight member states. On the other hand, the vast majority of member states allow local governments to voluntarily apply green procurement policies.

Figure 10.2.4 indicates that the policies of the member states contain a variety of means of verification of compliance. The most common, in fact universal, acceptable means of proof of legality and sustainability is through certification, usually FSC or PEFC.

The second most common acceptable form of verification is that of FLEGT Licences, mentioned by name within the policies of 18 countries. Twelve countries also allow for other forms of verification, ranging from third-party verification of legal compliance, through to forms of self-declaration. Ecolabels, in particular the EU Ecolabel and the Nordic Swan Ecolabel, also feature in the policies of 11 countries.

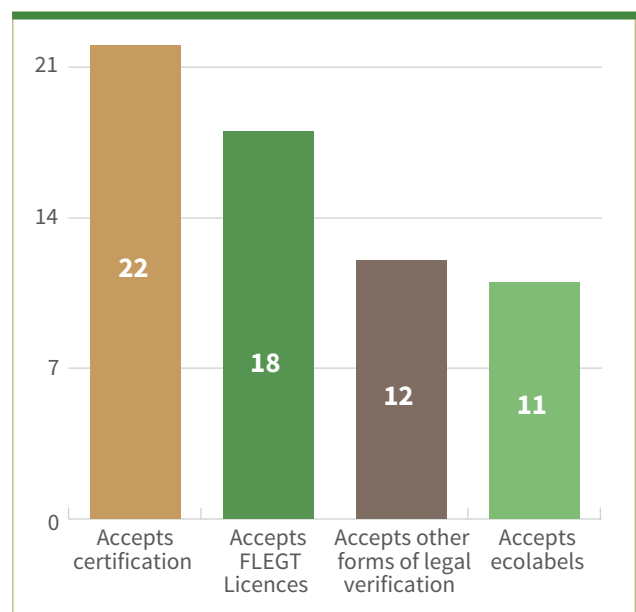


Figure 10.2.4: Accepted forms of verification of compliance across the EU.

Source: IMM 2019 Public Sector Timber Procurement Policy Study

10.3 The “legal and sustainable” hierarchy and the status of FLEGT

In terms of their definitions of ‘legal’ and ‘sustainable’, the procurement policies can be divided into four broad groups.⁷⁹

- 1) Those that take their **definitions from the EU’s common GPP criteria**, where compliance with the EUTR is a basic condition.⁸⁰
- 2) Those that use the terms **‘legal’ and ‘sustainable’ without setting out detailed definitions** of exactly what these terms mean.
- 3) Those that have developed **detailed sets of criteria for ‘legal’ and ‘sustainable’**. The criteria derive from a variety of sources and inputs, including, generally, a multi-stakeholder consultation process, and they

can be subject to revision in the light of developments. As reported by the Standing Forestry Committee,⁸¹ in almost all cases certain social criteria are included and there is a focus on origin and production of wood and timber products, as opposed to life-cycle performance overall. All these countries have learned from one another’s experiences, and, sometimes, adapted their definitions accordingly.⁸²

- 4) The fourth group is just one country: Germany. It **accepts only products certified** by the two main global forest certification schemes, FSC and PEFC, or “equivalent”.

⁷⁹ Brack, D. (2014) Promoting Legal and Sustainable Timber: Using Public Procurement Policy. Chatham House

⁸⁰ Van Bueren, E.L. (2016) Comparison of selected TPP’s. I S A F O R, Netherlands Ministry of Infrastructure & Environment

⁸¹ https://ec.europa.eu/agriculture/sites/agriculture/files/forest/publications/pdf/sfcc-report_en.pdf

⁸² For a detailed analysis see: Van Bueren, E.L. (2016) Comparison of selected TPP’s. I S A F O R, Netherlands Ministry of Infrastructure & Environment

There are three different scenarios evident across the member states when it comes to acceptance of FLEGT-licensed timber:

1. accepting FLEGT-licensed timber on equal footing with sustainably produced timber, or,
2. accepting FLEGT-licensed timber second to sustainably produced timber (for example: “if sustainable is not available”) or,
3. accepting FLEGT-licensed timber as legal timber

Policy makers in a number of EU member states have flagged up difficulties with acceptance of FLEGT licensing on an equal footing to “sustainable”, partly as VPA-related legislation varies from country to country and the absolute levels of silvicultural performance almost certainly will not stand comparison from VPA partner country to country (i.e. forest practices that are legally allowed in one country may not always be considered as “sustainable” in another). Another practical difficulty raised is lack of a FLEGT chain-of-custody system once the timber is placed on the EU market.

Accepting FLEGT timber as being second to sustainably produced/certified timber, or even less, merely as “legal timber”, is almost certain to cause additional hurdles in the market. In practice, it means that FLEGT-licensed timber is unlikely to be specified in public projects in those EU countries with detailed criteria for “sustainable timber” not recognising FLEGT. It also means that FLEGT-licensed timber is unlikely to benefit from leadership or supplier consolidation effects.

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

The UK does not provide an explanation of why it treats FLEGT Licences as evidence of sustainability,⁸³ but the

report⁸⁴ that formed the basis for Luxembourg’s policy included the following argument: ‘It is generally believed that FLEGT Licences are stand-alone tools and thus have to be differentiated from those means directly addressing sustainability at a forest management unit level, e.g. certification. It is important that the Member States provide incentives for joining the FLEGT process and this can be done through public procurement policies. It is therefore suggested that the Luxembourg Government also explicitly accept FLEGT-licensed timber as meeting the government requirements.’

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

10.4 FLEGT licensing in public procurement practice

As indicated above, there is very little government reporting of compliance with their own purchasing policies or monitoring of volumes of certified, FLEGT-licensed or otherwise verified timber involved in public procurement.

Belgium is one country that has tried to measure the impact of its timber procurement policy. A 2017 study⁸⁵ of 140,000 tender notifications issued between 2011 and 2016 revealed that specification of FSC and PEFC was evident with over 1,800 specific mentions within tender documents. The same study indicated that FSC was specified within contract notifications on 88 occasions and PEFC in a single contract. It also revealed that FLEGT Licences were not specified at all. The study could not reveal the volumes of material involved or whether the policy had been complied with.

The findings of the study are in line with the results of a workshop on FLEGT-licensed timber in public procurement that took place during the IMM Trade Consultation in Antwerp,⁸⁵ Belgium, and attended by around 50 trade and government representatives from Belgium and the Netherlands. When asked whether trade representatives had offered FLEGT-licensed timber in bids for government contracts, hardly anyone confirmed that they had and those that did failed to win the contract. Participants also flagged up a perceived lack of awareness of the wider benefits of FLEGT VPAs among decision makers shaping public procurement policies and specifying timber for public projects, especially at local level, where the bulk of purchasing takes place.

⁸³ The UK government’s commitment in 2009 was to consider FLEGT-licensed products as meeting the criteria for ‘legal and sustainable’ until April 2015. In July 2014 the deadline was extended indefinitely. It is understood that a review is planned to be undertaken in mid-2019 onwards.

⁸⁴ ProForest (2012). *Support for the Development of Luxembourg’s Public Procurement Policy for Timber*, pp. 22–23.

⁸⁵ IMM_2019 *Personal communication* - Federal Institute for Sustainable Development. Reference made to a study by FISS-Radboud University Nijmegen on sustainable procurement policy in Belgium covering 2011 to 2017.

⁸⁶ <http://www.flegtimm.eu/index.php/20-news/project-news/145-imm-trade-consultation-workshop-3-flegt-and-sustainability>

Links between FLEGT and voluntary third-party certification

11.1 Overview

The question of where FLEGT stands in relation to voluntary third-party certification is frequently raised in discussions during IMM Trade Consultations and in interviews conducted as a part of IMM surveys. Is the FLEGT VPA process “a step backwards” because it focuses on demonstrating compliance to national forest laws rather than to international “sustainable forestry” principles that are the basis for forest certification systems? Or is the FLEGT process “better” than voluntary certification, because it is mandatory, better placed to achieve a broad national stakeholder consensus on forest management standards integrated with national regulatory and fiscal frameworks, and helps to ensure equitable access for all forest operators?

It is not IMM’s role to answer questions on the relative contribution of different mechanisms to achievement of specific forest policy goals in VPA partner countries, only to inform on the evolving market position of FLEGT licensing in relation to forest certification, and from this, to advise on strategy to improve market access for FLEGT-licensed timber in the EU. However, it is becoming clear, from the feedback received from IMM surveys and consultations, that a key part of this strategy must be to clarify the different but complementary roles of FLEGT VPAs and voluntary certification to promote sustainable forest management. Furthermore, market opportunities for FLEGT-licensed timber may be enhanced, both by reducing the costs of verification and increasing market recognition, by building on synergies between FLEGT licensing and voluntary forest certification. In line with the IMM indicators,⁸⁷ this chapter reports on:

- the level of acceptance of FLEGT-licensed timber as evidence of low-risk with respect to FSC Controlled Wood criteria and the PEFC Due Diligence standard.
- the proportion of forest covered by FSC and PEFC certification framework in each VPA Partner country in 2018 to determine the extent to which these voluntary systems may or may not already be assisting exporters to maintain market access in the EU. This also provides insights into the extent to which licensing might provide preconditions for independent certification, and thereby encourage greater uptake or, alternatively, discourage further investment in forest certification by providing an effective alternative assurance mechanism.
- the level of access to FLEGT-licensed timber and FSC third party certified timber in the EU market in 2018, commenting on implications for the future development of demand for timber from VPA partner countries.
- EU trade perceptions of the relationship between FLEGT Licences and third party certification, derived from IMM surveys and consultations in 2018.
- some recent policy discussions attended by IMM where the links between FLEGT licensing and forest certification were considered.

11.2 FSC assessment of FLEGT under Controlled Wood criteria

The FSC Controlled Wood System was first introduced in 2004 alongside introduction of the FSC Mix label which allows, under controlled conditions, the mixing of FSC certified material with uncertified material in FSC labelled products. The non-certified portion must comply with the FSC Controlled Wood standards which enable manufacturers and traders to avoid timber and timber products from unacceptable sources. The Controlled Wood requirements are an integral part of FSC chain of custody (CoC) certification which, at the end of 2018, applied to 40,000 operators worldwide, including nearly 20,000 in the EU.

Only materials from acceptable sources can be used as controlled. There are 5 categories of unacceptable material that cannot be mixed with FSC certified materials:

- illegally harvested wood
- wood harvested in violation of traditional and civil rights
- wood harvested in forests in which High Conservation Values are threatened by management activities (HCVs are areas particularly worth of protection)
- wood harvested in forests being converted to plantations or non-forest use
- wood from forests in which genetically modified trees are planted.

The FSC standard “Requirements for sourcing FSC Controlled Wood (FSC-STD-40-005 V3-1 EN)” sets out a due diligence system to be implemented by chain of custody (CoC) certified organisations to ensure they avoid material from ‘unacceptable’ sources in the production of FSC Mix products. Initially the FSC Controlled Wood system relied on risk assessments undertaken internally by CoC certified organisations. However, in a process starting in June 2011 and due for completion by October 2019, FSC progressively phased-out company-developed risk assessments to be replaced by FSC-approved National Risk Assessments (NRAs) for making risk designations.

The CoC standard explicitly requires the use of NRAs to evaluate the risk for each of the FSC Controlled Wood categories and indicators for a defined geographic area. NRAs should result in either ‘low risk’ or ‘specified risk’ designations. When ‘specified risk’ is determined, organisations are required to implement “Control Measures” to mitigate the risk. “Mandatory Control Measures” may be specified in the NRA. If the NRA specifies no mandatory measures, then the certified company is obliged to develop their own measures using procedures set out in the Controlled Wood standard.

According to FSC, the requirements for demonstrating negligible risk of illegal harvest have been drafted to align with the legality requirements of the EUTR. For FSC Mix products, certified companies must demonstrate a “low

⁸⁷ IMM Global Indicators IV

risk” of any “illegally harvested wood” content. “Illegally harvested wood” is defined as that which has been “harvested in violation of any laws applicable to harvesting in that location or jurisdiction including the acquisition of the harvesting rights from the rightful owner; the harvesting methods used and the payment of all relevant fees and royalties”.

FSC state in the standard that “Low risk” as determined by FSC is synonymous with “negligible risk” as defined by the EUTR. The standard also proscribes that a “Low risk area” must be identified “through the risk assessment process described in FSC-PRO-60-002a FSC National Risk Assessment Framework or in approved National Risk Assessments”.

As the FSC assessments are nationally determined, and as the only country to have issued FLEGT Licences, Indonesia is the only country for which FSC has pronounced on the Controlled Wood status of FLEGT-licensed timber. In 2018 the FSC updated its “Centralized National Risk Assessment” (CNRA) of the Indonesian Timber Legality System and published both the full result and an explanation of its findings in February 2019.⁸⁸

The CNRA concludes that Indonesia “cannot be regarded as low risk for many controlled wood requirements, including legality”. As a result, companies seeking to source controlled wood from Indonesia have to apply risk mitigation measures, even though the EU recognises Indonesia’s FLEGT-licensed timber as legal. The FSC explicitly mentions that its own conclusions are “at odds with the issuing of EU’s FLEGT Licences for timber and timber product exports”. FSC quoted the following reasons for this decision:

- “FSC Controlled Wood indicators go beyond legality of harvesting and include four other categories.
- FLEGT legality requirements are less comprehensive than the CNRA legality requirements.
- The precautionary approach to FSC risk assessments requires confidence that the risk of wrong-doing is low, even if there is not always direct evidence of such a risk”.

FSC also state that there would be “insufficient stakeholder trust in the effectiveness of an enforced legality scheme, with respect to upholding community and indigenous peoples’ rights and in successfully combatting corruption”. Another point of criticism is the level of evaluation of the FLEGT VPA, with the Periodic Evaluation⁸⁹ found by FSC to not systematically report against specific indicators.

11.3 FLEGT as evidence of “negligible risk” with respect to PEFC Due Diligence

The PEFC International Standard for Chain of Custody of Forest Based Products, which has been mandatory for all PEFC CoC certified organisations since 2014, aims to ensure compatibility with the due diligence system requirements of EUTR and to apply the same systematic approach to ensure negligible risk of any wood from the full range of “controversial sources” identified in the standard entering supply chains of PEFC-labelled products. By the end of 2018, nearly 11,500 PEFC chain of custody certificates had been issued worldwide, including over 9,000 in the EU. Under

article 3.9 of the PEFC standard, controversial sources are defined as “forest activities which are:

- a. not complying with local, national or international legislation, applying to forest related activities (...)
- b. not complying with legislation of the country of harvest relating to trade and customs, in so far as the forest sector is concerned,
- c. utilising genetically modified forest-based organisms,
- d. converting forest to other vegetation type, including conversion of primary forests to forest plantations”.

The CoC standard requires that certified organisation’s risk assessment shall result in the classification of all supplies into the “negligible” or “significant” risk category and that the organisation’s risk assessment be carried out based on an evaluation of:

- (a) the likelihood that activities defined under the term controversial sources occur in the country / region of the supply or for the tree species of the supply (which PEFC refer to as the likelihood at the origin level) and;
- (b) the likelihood that the supply chain has not been able to identify a potential controversial source of supply (which PEFC refer to as the likelihood at the supply chain level).

PEFC publishes no formal guidance on the specific status of FLEGT-licensed timber in the PEFC due diligence system. On enquiry by IMM, PEFC stated: “PEFC requires each and every company to undertake its own assessment, based on its company-specific supply chain. While supplies verified by licensing mechanisms such as FLEGT may provide valuable information concerning the legality of timber, the decision as to whether this is sufficient to be considered as low risk must be taken by the company itself and that decision justified to, and verified by, the certification body for the purpose of PEFC Chain of Custody certification”.

11.4. VPA partner countries in global forest certification

Overall progress of third-party certification under the FSC and PEFC frameworks in VPA partner countries was slow before efforts to develop FLEGT licensing systems began and, in most countries, progress has remained slow during the period of TLAS implementation.

Total FSC and PEFC certified area in all VPA Partner countries was 17.5 million hectares in 2018, up from 11.62 million hectares in 2012 and less than 3 million hectares in 2007. While the rate of increase is impressive, in 2018 less than 4% of total forest area in VPA partner countries was certified and around 80% of the certified area was in just two of the 15 countries, Indonesia (38%) and Malaysia (42%).

Indonesia is the only VPA Partner country where significant progress was made to expand the area of third party certified forest in the 6 year period between 2012 and 2018 (*Figure 11.4.1*).

Considering only FSC and PEFC certification, certified area in Indonesia increased from 1.68 million hectares in 2012 to 6.7 million hectares in 2018. Despite the progress, FSC and PEFC-certified forest area represented only 7.4% of total

⁸⁸ <https://ic.fsc.org/en/news-updates/national-news/id/2260>

⁸⁹ http://www.euflegt.efi.int/documents/10180/438736/Periodic+evaluation+Indonesia_final.pdf/ce95b6ef-aeae-2ec8-b600-cba756018780

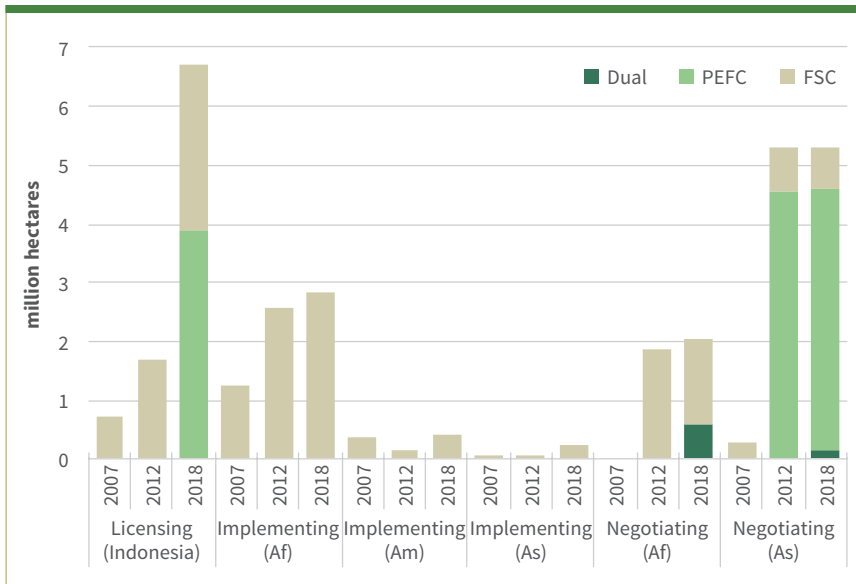


Figure 11.4.1: FSC and PEFC certified forest area in VPA Partner countries, by certification system and FLEGT VPA status, 2007, 2012, 2018.

Source: IMM analysis of FSC & PEFC data. (As=Asian partners, Af=African partners, Am=Latin American partners 'Dual' is area certified by both systems)

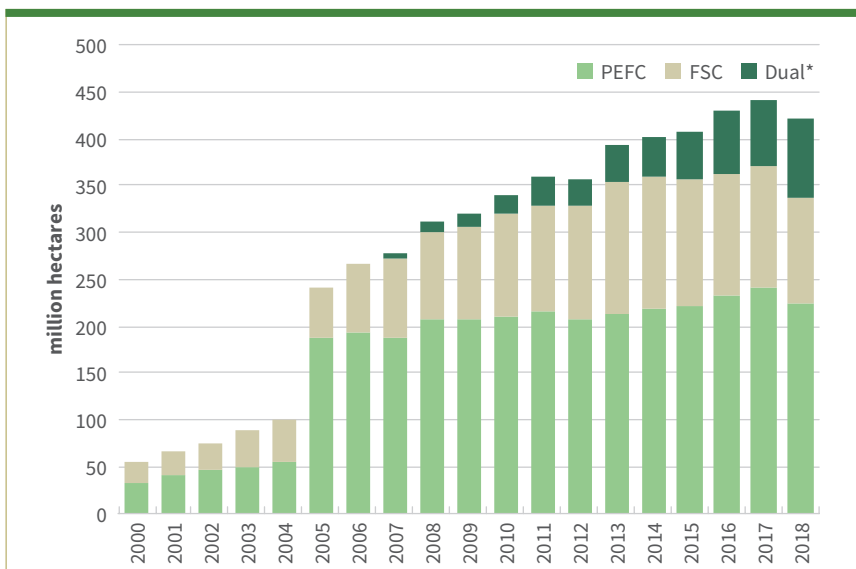


Figure 11.4.2: FSC and PEFC global certified forest area, by certification system, 2000 to 2018.

Source: IMM analysis of FSC, PEFC & UNECE data. As=Asian partners, Af=African partners, Am=Latin American partners. *FSC and PEFC started to provide accurate joint estimates of dual certified areas from 2016. Data prior to 2016 is a rough estimate by IMM based on earlier analysis by PEFC in 2012 and by UNECE.

Indonesian forest area and was dwarfed by the 23 million hectares certified to PHPL, Indonesia's national sustainable forest management standard (see 5.3.4).

Total certified area in the five African VPA implementing countries, all under the FSC system, more than doubled to 2.6 million hectares between 2007 and 2012 but added only another 200,000 hectares by the end of 2018. Between 2012 and 2018, an increase of 800,000 hectares in FSC-certified forest area in RoC, to 2.4 million hectares, was offset by a 600,000 hectare decline in Cameroon, to 400,000 hectares. There is negligible certified forest area in all other VPA-implementing countries, both in Africa and other regions.

Total PEFC and FSC-certified forest area in Malaysia, nearly all under the PEFC-endorsed MTCS system and concentrated in Peninsular Malaysia, increased 4% to 5.2 million hectares between 2012 and 2018. Only a tiny fraction of forest in Thailand and Lao PDR was certified in 2018. Of the three VPA-negotiating countries in Africa, only Gabon had any certified forest in 2018. After rising from zero to 1.9 million hectares between 2007 and 2012, the area of FSC-certified forest in Gabon increased by only 180,000 hectares between 2012 and 2018. In 2017, a 600,000 hectare concession in Gabon, already FSC-certified, became the first area to be certified by the PEFC-endorsed Pan African Forest Certification (PAFC) system. In 2018, President Ali Bongo announced that all forest concessions in Gabon would have to implement FSC certification by 2022; this plan was later revised and now recognises other forms of certification.

The slow pace of uptake of FSC and PEFC certification in most VPA partner countries between 2012 and 2018 is part of a wider global slowdown. Worldwide, the total certified area of forest reported in December 2018 was 200 million hectares by FSC and 310 million hectares by PEFC. Data issued jointly by FSC and PEFC in January 2019 shows a high degree of overlap, 87 million hectares of forest worldwide being certified by both frameworks (Figure 11.4.2).

In the decade between 2004 and 2013, the total global area of forest certified by either FSC or PEFC quadrupled from 100 million hectares to nearly 400 million hectares, rising by 30 million hectares per year on average. However, in the next four years, certified forest area increased at an average rate of only 12 million hectares per year, to a peak of 442 million hectares in 2017.

In 2018, the global area of certified forest recorded the first ever annual decline. Although FSC reported static certified forest area and PEFC only a 1% decline, when a significant rise in dual certification to both FSC and PEFC during the year is taken into account, the total area is estimated to have declined 4% to 423 million hectares in 2018. Although certified forest area continued to rise in Russia and Belarus, this was offset by a larger decline in certified area, with a particularly large fall in Australia during 2018. At the end of 2018, global certified forest accounted for 11% of global forest area, only a marginal increase from around 10% in 2012.

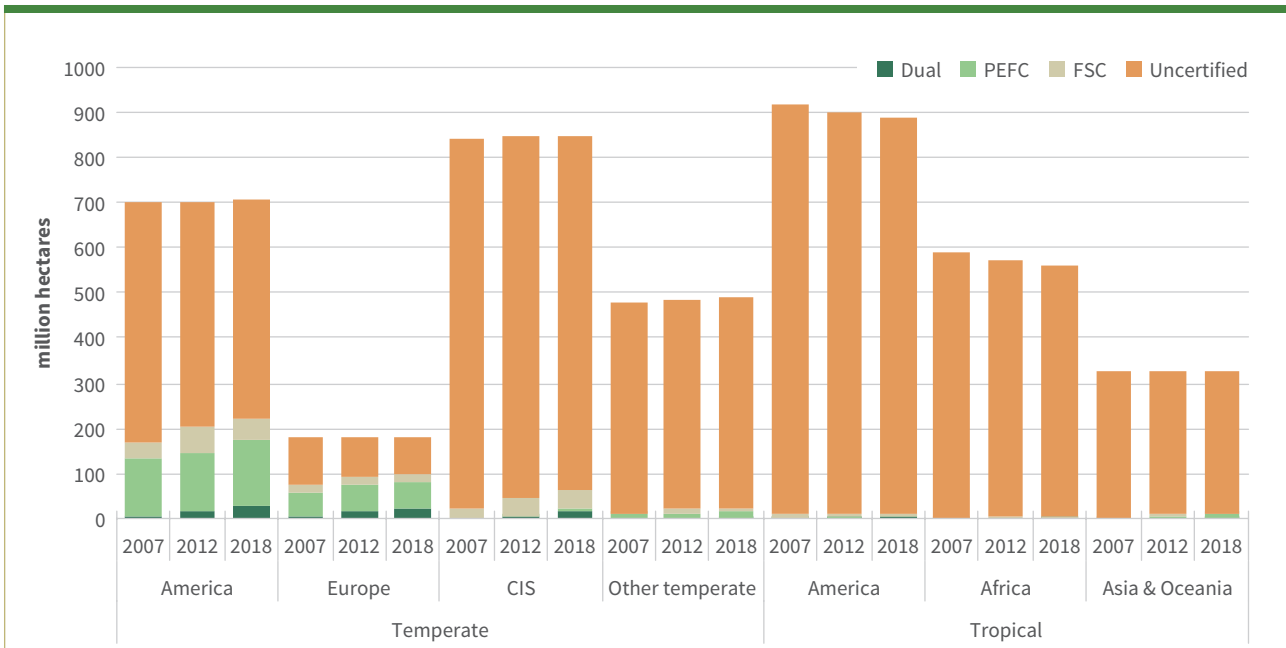


Figure 11.4.3: Total forest and FSC and PEFC-certified forest area, by certification system and global region, 2007, 2012, 2018. Source: IMM analysis of FAO Forest resource Assessment and FSC and PEFC

Of total global FSC and PEFC-certified forest area in 2018, only around 25 million hectares (6%) was in tropical regions compared to over 400 million hectares (94%) in non-tropical regions (Figure 11.4.3).

The slow progress of certification in most VPA partner countries is mirrored in other tropical timber supplying countries not engaged in the VPA process. Brazil is the only non-VPA country with a large tropical forest area where there is also a significant area of certified forest. In 2018 there was 7.93 million hectares of certified forest in Brazil including 3.57 million hectares certified by both FSC and PEFC, 3.04 million hectares certified just by FSC, and 240,000 hectares certified just by PEFC. While the area dual certified in Brazil tripled between 2012 and 2018, the total area of certified forest increased by only 300,000 hectares. Only around 1.5 million hectares of certified forest in Brazil is natural tropical forest, the remainder comprising plantations with a large proportion outside the tropical zone.

There is no PEFC certification and only a small area of FSC-certified forest in all other non-VPA countries in the tropics that are significant timber suppliers (Figure 11.4.4). Bolivia had 2 million hectares of FSC certified forest in 2007, but this has had fallen by 50% to under 1 million hectares in 2018. FSC-certified forest area in Peru increased 30% to 920,000 hectares between 2007 and 2012 but had fallen to 810,000 hectares in 2018. India is the only other non-VPA tropical country with anything other than negligible certified forest area, although in 2018 this extended to just over 500,000 hectares, having

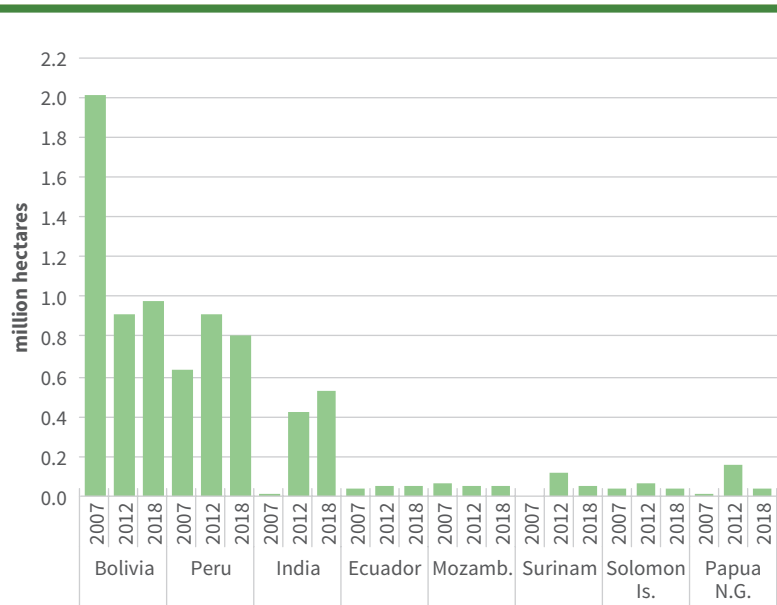


Figure 11.4.4: Certified forest area (all FSC) in leading non-VPA tropical timber supplying countries, 2007, 2012, 2018.

Source: IMM analysis of FSC and PEFC data

increased by 100,000 hectares in the previous five years and accounting for less than 1% of total forest area.

There are indications that certified area globally is becoming more concentrated in larger state and industry forest enterprises at the expense of smaller community and other non-industrial operators. At least half of all newly certified FSC and PEFC forest in the 2012 to 2018 period was in Russia and likely to comprise large state-owned and operated management units. Much of the rest was in Belarus, Ukraine, Sweden, Canada, and Norway where most forest production is concentrated in larger state and corporate management units.

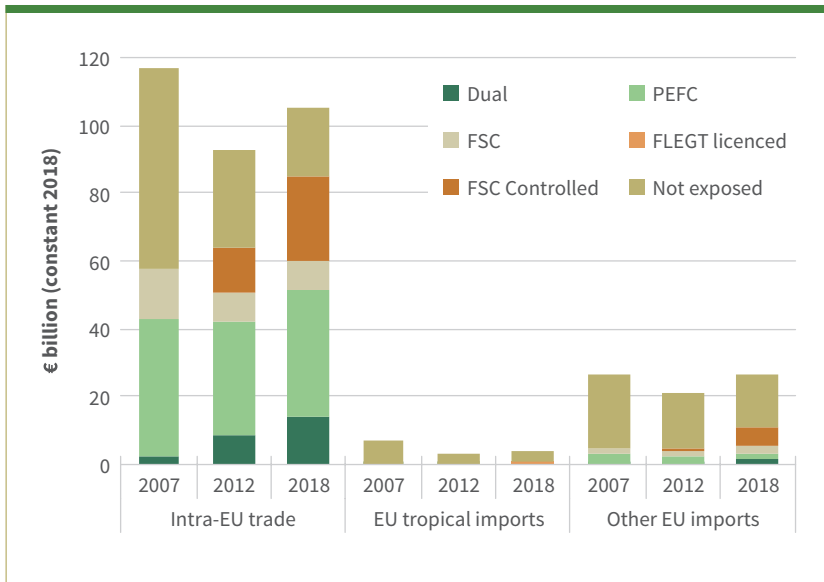


Figure 11.5.1: Exposure to verification in EU trade of EUTR-regulated products, by verification system and main source region, 2007, 2012, 2018. Source: IMM analysis of Eurostat Comext, FAO Forest Resource Assessment, FSC and PEFC data

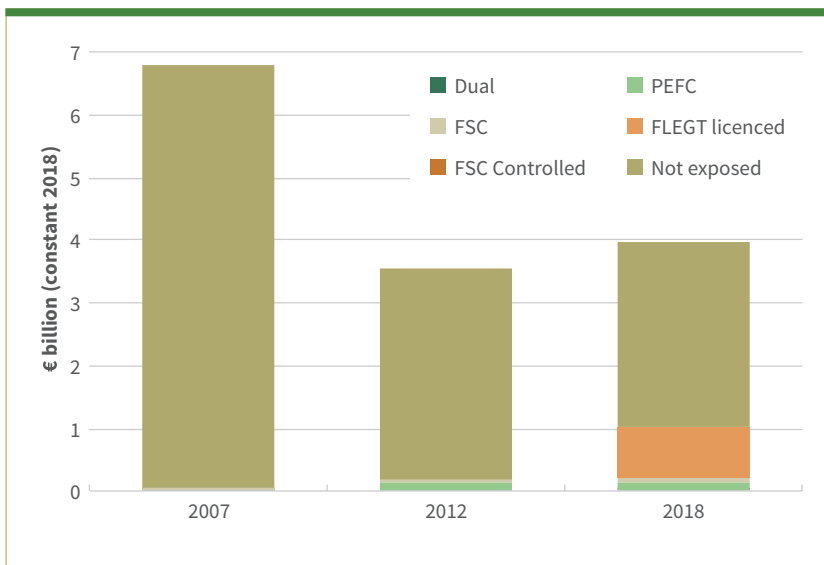


Figure 11.5.2: Exposure to verification in EUTR-regulated tropical timber imports, by verification system, 2007, 2012, 2018. Source: IMM analysis of Eurostat Comext, FAO Forest Resource Assessment, FSC and PEFC data

11.5 Share of FLEGT-licensed and other verified timber products in EU trade flows

Assessing the current availability of third party verified products in the EU market is challenging since no system-wide data is regularly or systematically collected on the actual volume or value of trade in these products. The FSC and PEFC certification frameworks that might be expected to provide such data only publish information on the area of certified forest and the numbers of chain of custody certificates issued.

To partially overcome this obstacle, building on earlier market assessment work by other agencies starting in 2007, IMM regularly assesses the “level of exposure to third party verified/certified wood”.⁹⁰ This is a rough measure to identify gaps in forest coverage of third party certification and other legality verification procedures.

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 a country’s forest area is known to be independently certified or legally verified, the level of exposure of wood production and exports in that country is 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.

‘Level of exposure’ data can be broken down by verification system, including FSC, PEFC and FLEGT licensing. For the IMM assessment, wood from countries covered by FSC-endorsed Controlled Wood National Risk Assessment (CWNRA) is also considered ‘third party verified’.⁹¹ To avoid double counting, areas dual certified to FSC and PEFC are accounted separately.

⁹⁰ An elaboration of the exposure measure, developed in consultation with IMM, was used by IDH, the Dutch sustainable trade initiative, as the basis for their 28% estimate of EU tropical timber imports in 2018 being “certified sustainable” (according to their definition recognising only FSC and PEFC certification). The IDH assessment is further broken down by EU country to indicate that share of “certified sustainable” in imported tropical timber was 10% to 15% in France, 5% to 10% in Italy, 2.5% to 7.7% in Spain, 25% to 30% in Belgium, 30% to 35% in Germany, 40% to 45% in the UK, and 65% to 70% in the Netherlands. The IDH assessment differs from the IMM assessment in that IDH excludes FLEGT-licensed timber and limits the assessment to logs, sawn wood, veneer and plywood (IMM includes all EUTR-regulated products). The results are also not directly comparable due to differing assumptions (for example the IDH assessment assumes 50% to 80% of all certified wood produced in the tropics is exported to the EU whereas IMM makes no assumptions about the share of certified wood in exports to different regions).

⁹¹ An aim of the IMM assessment is to include forms of verification likely to be used for risk assessment and mitigation by operators to comply with EUTR. FSC CWNRA indicating a “Low Risk” of illegal harvest are effectively recognised as an appropriate tool in support of EUTR compliance in the EC EUTR Guidance Document (Commission Notice of 12.2.2016). In the Annex to the EC guidance, providing “Examples of Information on Composite Products”, acceptable evidence to demonstrate the legality of products placed on the EU market includes “Classified Non-Controversial under certification guidelines”, conditional on the operator having, and being able to demonstrate “well founded confidence” in this evidence. IMM interprets this to include risk assessments developed in accordance with a standard published by (again using EUTR terminology) a “certification or other third-party-verified scheme which cover compliance with applicable legislation”. In the absence of more specific EUTR guidance on these certification systems, at this stage IMM only monitors exposure to FSC and PEFC certification, alongside FLEGT licensing. Although there are other third party verification systems, reliable monitoring of exposure to these systems is not possible due to lack of consistent published data on the forest areas covered and on the scope and content of the legality standards used.

Overall the results suggest that the drive to promote responsible timber procurement practices in EU trade is having an effect, both to increase the area of forest verified as low risk of illegal harvest in major supply countries, and to encourage an overall shift in trade towards countries with greater access to verified products.

In 2018, 81% of internal EU trade in all EUTR-regulated timber and timber products was “exposed” to some recognised form of third party verification. This compares to 69% in 2012 and 50% in 2007. This reflects the very large and growing proportion of forest area in the EU that is either certified or assessed to be low risk of illegal harvest by an FSC CWNRA (Figure 11.5.1).

Exposure to third-party verification of all EU timber products imports from non-tropical regions outside the EU was 4.2% in 2018, compared to 23% in 2012 and only 18% in 2007. This is partly due to a rise in both the proportion of forest verified and the share of EU imports from countries in Eastern Europe, notably Russia, Belarus, Ukraine, Serbia, Bosnia, and Turkey. There has also been a slight increase in certified forest area in China, the largest external timber supplier to the EU, over this period. However, a more significant factor driving the rise in exposure is the publication of FSC CWNRA indicating low risk of illegal harvest in Canada, USA, Norway, and Switzerland, all of which are large suppliers of timber products to the EU.

Exposure to third-party verification of all tropical timber imports was 25.8% in 2018, up from 5% in 2012 and less than 1% in 2007 (Figure 11.5.2). All the gain between 2012 and 2018 was due to FLEGT licensing of Indonesian product which accounted for 20.5% of all EU imports of tropical timber. Exposure to FSC and PEFC certification in total EU imports of tropical timber and timber products was 5.3% in 2018, a slight increase from 5.2% in 2012. The lack of increase is indicative of the slow pace of uptake of certification in tropical countries.

The assessment indicates that if all timber from the 9 countries that in 2018 were either licensing, or were implementing or had initialled a VPA, the level of exposure to verified product in EU tropical trade would have been 49.4%. If all 15 VPA partner countries were included, the level of exposure would have been 67.7%.

While the level of exposure has increased, in 2018 a large proportion of EU imports were still not exposed to verified sources or engaged in the VPA process. Figure 11.5.3 shows that China dominates amongst EU-supplying countries with low exposure to verified timber. China’s level of exposure to certification is expected to increase in the future, but the rate of change is uncertain. The China Forest Certification System (CFCS), endorsed by PEFC in February 2014, had certified only 6.6 million hectares of China’s over 200 million hectares of forest by the end of 2018. An additional 1 million hectares in China were certified by FSC. Much of the certified forest area is natural protection forest and China’s large area of production plantation forest is still largely uncertified.

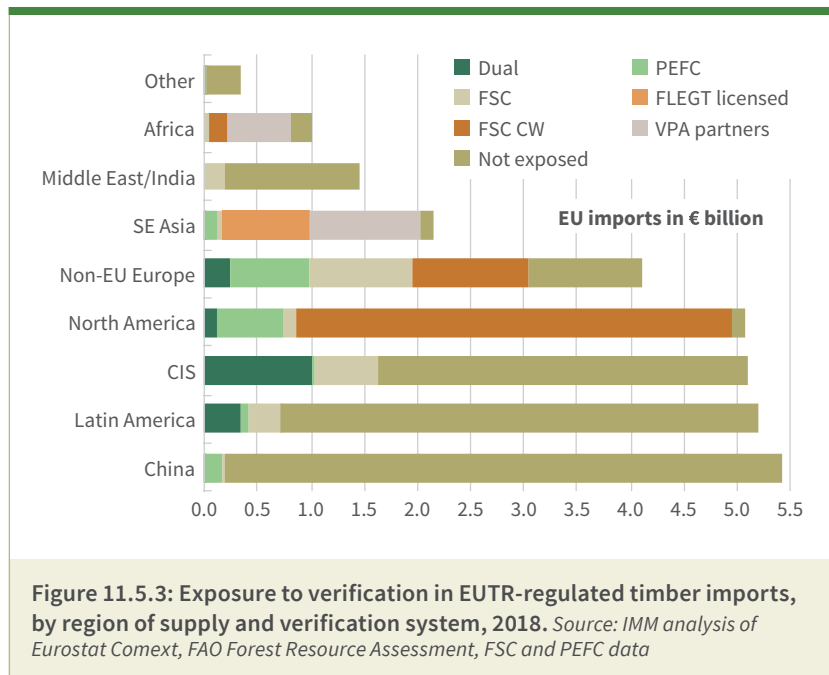


Figure 11.5.3: Exposure to verification in EUTR-regulated timber imports, by region of supply and verification system, 2018. Source: IMM analysis of Eurostat Comext, FAO Forest Resource Assessment, FSC and PEFC data

Latin America is assessed to have relatively low level of exposure to certification and verification. However, this figure is severely distorted by reliance on forest area to calculate the index. The Amazonian rain forest is, of course, huge and only a tiny proportion is certified. But this area only contributes a relatively small volume of timber to international trade. Most of the wood product imported into the EU from Brazil now constitutes softwood or eucalyptus from plantations outside the tropical zone (including large quantities of chemical pulp), much of which is certified. Therefore, the index underestimates the real level of exposure of Latin American wood products in EU trade.

A similar situation prevails in Russia where the certified area, at over 50 million hectares in 2018, is enormous but still represents only 6% of Russia’s total forest area (of over 800 million hectares). The certified area in Russia is concentrated mainly in the western part of the country where trade is oriented more towards the EU.

The Middle East (mainly Turkey) and India, where there is only very limited exposure to verification, have emerged as more important suppliers of timber products to the EU in recent years.

While the VPA process captures only a relatively small proportion of total EU imports of timber and timber products, it is very significant amongst tropical supplying countries in South East Asia and Africa. If all timber products imported by the EU from VPA countries were FLEGT-licensed, the level of exposure to verified timber from South East Asia would rise from 46% to 95% and from Africa from 22% to 80%.

11.6 EU trade perception of links between FLEGT and certification

The IMM 2018 trade survey analysed whether there were any perceived direct impacts from the introduction of FLEGT-licensing and the EUTR on imports of timber certified by private certification and legality verification schemes.

Figure 11.6.1 shows that, according to respondents, private schemes, especially FSC, have profited to some degree from

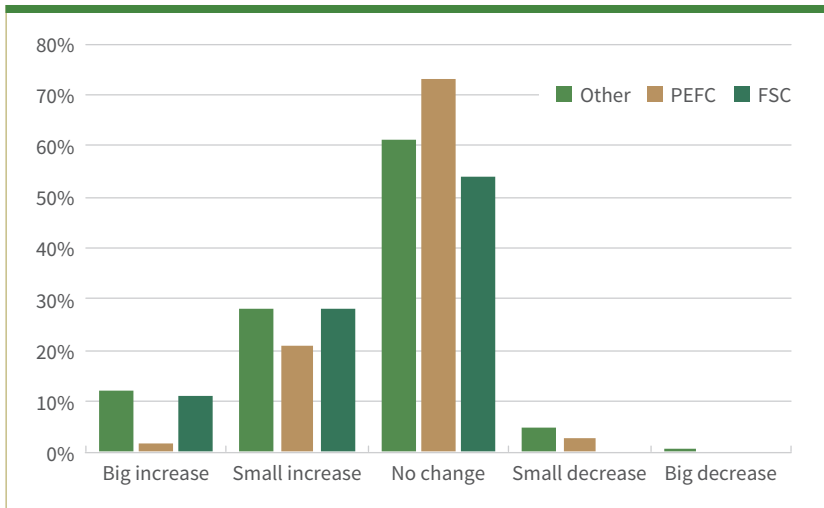


Figure 11.6.1: EUTR impact on certification and legality verification schemes.
Source: IMM 2018 EU trade survey

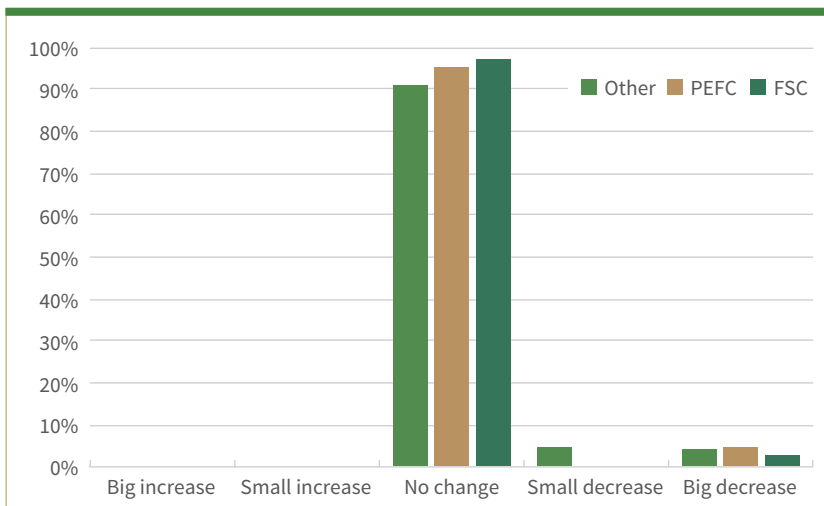


Figure 11.6.2: FLEGT-licensing impact on certification and legality verification schemes. Source: IMM 2018 EU trade survey

the introduction of EUTR. Several respondents remarked that, since EUTR was introduced, they have tended to prefer certified timber from countries where the risk of illegal harvest is considered non-negligible and certification is used as the principle mechanism to mitigate this risk. This effect was particularly pronounced in markets where (FSC) certification of tropical timber products had a relatively low level of market penetration before the EUTR entered into force: several traders in Germany, France and Italy, for example, reported “big increases” in FSC certified timber due to the introduction of EUTR, but none in the Netherlands or the UK. Small increases were noted in all countries. The lowest overall level of growth was reported by the Netherlands, where only two respondents reported “small increases” due to EUTR.

In addition to FSC and, where available PEFC, respondents said they had been increasingly looking to other private legality verification schemes managed for example by Rain Forest Alliance, Nepcon or Bureau Veritas, to ensure EUTR compliance.

When asked whether the market introduction of FLEGT-licensed timber from Indonesia had had any impact on

their purchases of certified timber, an overwhelming majority of respondents said there had been “no change”. Only a small proportion of respondents noticed small (5%, FSC) or large (4% FSC, 5% PEFC, 3% other) decreases (Figure 11.6.2).

When trying to source additional certified timber, respondents to the IMM 2018 trade survey said they frequently face supply restrictions, especially for African timber products. The decision of several European companies to offload some of their African operations, including forest concessions, during 2017 and 2018, implied to some respondents that the “old model” of European companies supplying certified hardwood to environmentally sensitive European markets may be breaking down in the face of failure to secure price premiums and intense competition for timber from markets operating to limited environmental constraints, notably China.

11.7 Synergies between FLEGT licensing and forest certification

The respective roles of FLEGT licensing and forest certification and links between the two mechanisms were discussed at various policy meetings attended by IMM in 2018 and the first half of 2019.

The “development of synergies between PEFC and other initiatives such as FLEGT” was the theme of an event organised by PEFC as a part of the Asia-Pacific Forestry Week (APFW) in Incheon, South Korea, in June 2019.

A presentation by EFI articulated the complementary role of FLEGT VPAs and certification: “both promote legal compliance and sustainable forest management [but] operate at different levels, VPAs at national level, certification at company level”.

According to the PEFC press release issued after the event, “speakers emphasized that FLEGT VPA and PEFC certification (...) share many commonalities and strongly urged for prompt and greater synergies between the two. (...) Synergies are believed to yield substantial benefits in facilitating trade among regions and nations, and improving cost-effectiveness, market access and competitiveness for timber-based business operators as having both certified and legal timber claims.” The PEFC, on their website, recognises that “PEFC certification can inform or contribute to the development and implementation of VPAs and vice versa”.

In Ghana, PEFC has explored these synergies in a study comparing Ghana’s FLEGT VPA requirements with Ghana’s National Forest Certification System, which is currently seeking PEFC endorsement. The study concludes that VPA requirements cover “a wide range of environmental,

social and economic requirements outlined in the national standards for sustainable forest management and chain-of-custody certification". The report finds that "timber companies are already in various stages of adopting systems in response to the VPA requirements and this forms a very great synergy point for integrating PEFC requirements."⁹²

Also at APFW, FSC held a dialogue on "FSC's impacts in Asia Pacific on the forestry and value chains – perspectives from the private sectors and partners" which considered the relationship between FSC and FLEGT licensing. Here a variety of opinions were expressed on the scope for closer linkage between FSC certification and FLEGT. Some participants believed that FSC should focus on its "uniqueness" and build on its strong presence in the market, notably the commitments of large and high-profile retailers, to drive improvements in forestry performance. FSC should aim to be "untouchable in the market", it was suggested, implying only limited scope for co-operation with other policy initiatives that might be seen to weaken the brand.

However, other commentators at the FSC event questioned the "framing of FSC only as a market-based tool" and criticised the creation of an "artificial dichotomy" separating voluntary market-based certification from the regulatory framework. It was suggested this may result in "fragmentation of responsible forest management interventions", potentially reducing the value of certification to producers as a tool to meet their own objectives and that "FLEGT was not leveraging the experience from certification". These commentators suggested that promoting complementarity (between FLEGT and certification) offered "a pathway to increased success" and that "researchers needed to look at the practical steps to overcome these dichotomies".

In the EU, a "dialogue on the differences and synergies of FLEGT and certification" was on the agenda of a Sustainable Tropical Timber Event organised by IDH, the Dutch sustainable trade initiative, in June 2019. The main conclusion of the panel discussion between representatives of FSC, PEFC and the UK Timber Trade Federation was that the two are complementary and each have a specific role to play. FLEGT's focus on governance and the development of licensing systems with full engagement at national level in the producer country, which "brings scale into the assurance" was highlighted. An FSC representative observed that "FSC and FLEGT are important and can support each other, legality for us is the number one priority, where there is law enforcement, certification becomes a lot easier".⁹³

11.8 Comment on market implications

The view sometimes expressed that the movement to develop TLAS in VPA partner countries is undermining efforts to progress towards third-party certification in these countries is not supported by the available data, which indicates that: progress towards certification in most cases was very slow before VPA implementation began; by far the most rapid recent progress to achieve

third-party certification in the tropics has been made in Indonesia, the one country that was also the first to achieve FLEGT licensing; and there has been no uptick in third-party certification in non-VPA tropical countries, even where their exports to the EU have been rising in recent years (as is the case, for example, for furniture from India, charcoal from Nigeria, and decking from Peru and Bolivia).

While there has been a shift towards supply regions with higher "exposure to verification" in the EU, there are continuing high levels of EU import from countries and regions with low exposure, notably China and India, raising questions relating to the forms and credibility of legality assurances being offered by suppliers in these regions. IMM survey data suggests that much of this may be covered by third party legality verification systems operated by individual certification companies and agencies, but there is no centralised and consistent data published on these systems, relating either to the standards used, the scope of operators covered or the costs involved. If these systems are being offered, and accepted, as appropriate evidence of EUTR compliance, effectively as alternatives to FLEGT Licences, then there needs to be much greater scrutiny of the comparability of their standards, and more information made available on their coverage.

Although analysis elsewhere in this reports shows there are other contributory factors (such as logistics and a growing focus on just-in-time ordering favoring local suppliers), the "exposure to verification" measure does suggest that EUTR and procurement policies are having an effect, both to increase the area of forest verified as low risk of illegal harvest in major supply countries, and to encourage an overall shift in trade towards countries with greater access to verified products.

This in turn reinforces the view that, first, the slow pace of third-party certification in VPA partner countries, and the challenges of obtaining reliable legality assurances by other means, has been a contributory factor behind their decline in share in these markets. Another implication is that FLEGT licensing has a critical role to play in helping to reverse this trend, particularly for suppliers in Africa and South East Asia. Furthermore, the FLEGT licensing process may be particularly beneficial for smaller operators that, from analysis of certification uptake, it is clear have struggled to engage in private sector certification systems, both in the tropics and in non-tropical regions outside Europe.

The signs are that, having certified the "low hanging fruit" of generally larger state and industrial forest operations, and better organised associations of small operators, in countries with good governance, the forest certification movement has been unable to expand in more challenging regions where there is a need for governance reform and/or which lack strong organisations on which to build group certification.

In those supply regions where there is clear evidence of good governance, such as the EU and North America, the evidence suggests that, in the absence of certification,

⁹² A synopsis of the study is available at <https://storage.googleapis.com/pefc-platform/pefc.org/media/2019-04/9d6f6031-35d5-4466-9bdc-1468bde7c7cf/7844002c-52cd-559a-afc0-5cd4291856aa.pdf>. A narrative report is at <https://storage.googleapis.com/pefc-platform/pefc.org/media/2019-04/9d6f6031-35d5-4466-9bdc-1468bde7c7cf/7844002c-52cd-559a-afc0-5cd4291856aa.pdf>

⁹³ ITTO Tropical Timber Market Report. Volume 23 No 11; 1-15 June 2019.

smaller operators (at little marginal cost to themselves) have been able to maintain access to the EU market through the use of regional risk based approaches, notably the FSC CWNRA framework. This, so far, has not provided a channel for small operators in VPA partner countries, none of which are recognised in any CWNRA as being low risk of illegal harvest.

The relative slow pace of implementation of FLEGT licensing and of uptake of third-party certification in all tropical countries clearly creates challenges for all agencies seeking to influence forestry practice through the medium of regulatory measures like EUTR and responsible procurement policies. The architects of these policies have a responsibility to ensure equitable access for operators, both large and small, in all supply countries, not only in the narrow legal sense (for example, for public authorities to ensure compliance with WTO non-discrimination principles), but also to maintain market leverage and influence in those areas where illegal logging and associated problems, such as deforestation, are a genuine threat. The FLEGT VPA process is the key mechanism by which this can be achieved in the EU, a fact recognised in EUTR, but which needs to be more clearly articulated to other actors in both the public and private sector in the EU.

There may also be strong opportunities created by the FLEGT and forest certification initiatives working more closely together, a fact increasingly recognised by stakeholders involved in both initiatives. While there is internal debate within FSC, with some interests seeking to maintain the purity of FSC values and an exclusive focus on certification as a voluntary market-based instrument, others seem interested in working more closely with government agencies and to engage in the FLEGT TLAS dialogue, particularly as a way to increase FSC access for small holders and communities in tropical countries.

This difference of opinion within FSC creates an immediate issue for FLEGT-licensed products in the EU market. The fact that FSC does not acknowledge Indonesian FLEGT Licences as demonstrating compliance even with the legality criteria for Controlled Wood, despite FSC stating their criteria are fully compatible with EUTR criteria, has potential to cause confusion and undermine wider market recognition of FLEGT Licences in the EU. Efforts need to be made to work with FSC to resolve this, or at least clearly articulate the reasons for the difference of interpretation.

Attitudes appear more straight-forward within PEFC where there seems to be a widespread desire for close dialogue with agencies developing FLEGT TLAS to help simplify verification, reduce the bureaucratic burden, limit duplication, improve cost effectiveness, improve market access, and prevent unnecessary competition between systems.

The potential market benefits of exploiting this synergy between FLEGT licensing and third-party certification are perhaps best illustrated in relation to Indonesia. A key rationale for the development of the SVLK-PHPL system, the basis for FLEGT licensing, is that by imposing a national system, the costs of verification are shared widely by all operators in the sector, there is also a rational framework for cost sharing with the public sector, for a dialogue with all stakeholders to ensure alignment of legislation with certification standards, and to ensure equitable access of all forest operators in the country.

The success of this strategy in the market place is ultimately dependent on ensuring that there is widespread customer (and investor) recognition for the national system that results. This is where the experience of private sector certification systems is particularly valuable. This shows that, in practice, it is extremely difficult to promote individual national certification systems in global markets. To date, it has always been necessary to seek some form of international endorsement. It is this need which has led so many state forest operations to seek FSC or PEFC certification around the world. This need was the driving force for the formation of the PEFC in the first place, initially to allow European operators to promote their conformance to national regulatory frameworks aligned to sustainable forestry as defined in the European Ministerial Forestry Principles. Since then, even large national certification systems with deep domestic markets and supported by multinational corporations (like the Sustainable Forestry Initiative in the US) have seen a need to affiliate to the PEFC framework to achieve international recognition.

It is an open question as to whether linkage of the SVLK-PHPL framework in Indonesia to the FLEGT process can provide this kind of international recognition. Compared to voluntary systems like FSC and PEFC, FLEGT licenses benefit from specific regulatory recognition in the EUTR in an important export market. However, while some non-EU countries are now giving similar recognition in their own import legislation (see Chapter 13), the appeal of the FLEGT VPA process is strongly associated with the EU market. Ultimately, if the aspiration of Indonesia, and other VPA partner countries, is to achieve market recognition for TLAS timber products beyond regulatory compliance to EUTR, then the most efficient way to achieve this may be to find an accommodation with PEFC or FSC. The TLAS would benefit from international market recognition and the marketing initiatives of the international program.

The certification system would benefit from closer regulatory alignment, both in producer and consumer countries, and from greatly expanding the reach and relevance of certification in the tropics.

12 FLEGT impact on forest sector investment

12.1 Overview

In 2018, IMM commissioned a scoping study on forest sector investment in VPA implementing (including Viet Nam and Honduras) and FLEGT–licensing VPA partner countries. The study is intended to provide a baseline for monitoring potential impacts of FLEGT VPA implementation and FLEGT licensing on investment decisions in the forest and timber sector.⁹⁴ To include results of this study in the most timely way possible, its results are being reported in the 2018 IMM Annual Report, which is being prepared following conclusion of the investment study.

Forest sector investments are realized by a diverse set of investors. They all have the common aim to generate returns from economic activities related to forest management and wood processing. The underlying assumption of the study is that implementation of FLEGT VPAs attracts legal and sustainable forest sector investments, while reducing informal and illegal economic activities in the sector. The study will be published in the second half of 2019 and aims to:

- assess the quality, accessibility and regularity of existing data on the value of domestic and international forest sector investment flows, and the suitability of this data for long-term monitoring of the impact of FLEGT licensing;
- provide a baseline assessment of the views of key international investors and the content of financial sector guidelines on the role of FLEGT Licences as a current or potential mechanism to mitigate investment risk;
- draw on the previous two aspects, to make recommendations for refinements to the IMM indicators and long-term strategy for monitoring of forest sector investment flows.

12.2 Methodology

The scoping study is based on combination of analysis of quantitative data on forest sector investment flows in the selected countries and an interview-based survey among investors in the forest sector.

The consultant approached all types and sizes forest sector investors for the survey, in order to obtain a comprehensive set of opinions and experiences, including:

- Domestic forest sector associations (representing micro enterprises, SMEs and large enterprises)
- International forest industries (frequently referred to as strategic industry investors)
- Financial investors (including TIMOs,⁹⁵ institutional investors,⁹⁶ banks, family office).

Investor type	N (interviews or written statements)
Domestic SMEs/associations	5
International industry investors	5
TIMOs/institutional investors invested in forest assets in emerging markets	7
TIMOs/institutional investors without significant investments in emerging markets	3
Civil society actors	3

Table 12.2.1: Investors providing inputs to the IMM Forest Sector Investment study

To establish the baseline dataset of forest sector investments in VPA countries, the following data sources were reviewed and analysed:

- Meta-studies and publications on forest investments;
- Strategies and publications of international investors (i.e. TIMOs and specialized forest funds);
- National statistics on FDI flows and capital stock increase in economic sectors.

A first summary of insights and recommendations provided to IMM by mid-year 2019 allows for some initial conclusions.

12.3 Monitoring forest sector investment

Data availability is a major constraint when assessing investment volumes for FLEGT VPA countries. Among the countries reviewed by the IMM study, Viet Nam,

⁹⁴ IMM Global Indicators IX http://www.flegtimm.eu/images/imm_indicators/IMM_Meth_Annex1_Indicators_global.pdf

⁹⁵ A Timber Investment Management Organization (TIMO) is a management group that aids institutional investors in managing their timberland investment portfolios. A TIMO acts as a broker for institutional clients. The primary responsibilities of TIMOs are to find, analyse and acquire investment properties that would best suit their clients. Once an investment property is chosen, the TIMO is given the responsibility of actively managing the timberland to achieve adequate returns for the investors.

⁹⁶ Institutional investors have several options for timberland investment types and structures. These options include subscribing to commingled funds, pursuing direct investments (in forest enterprises) or separate accounts, and investing in timber REITs. Some of the largest institutional investors pursue direct investments, including co-investments alongside their fund investments, which aligns with a trend among the larger investors toward internal management of assets and efforts to reduce fees. On the other hand, most institutional investors are constrained by limited in-house timberland investment expertise and a lack of scale to undertake direct investments. Therefore, the majority of investors opt for external managers, such as TIMOs, while some asset managers may include forestry investments as part of broader real assets or combined forestry and agriculture mandates (New Forests, 2017b).

Country	Direct indicators	Qualification of direct indicators	Suitability for investment monitoring
Indonesia	Investment data available for 2011-2017 for medium and large scale enterprises	Only medium and large enterprises – data for small and micro enterprises is value-added. For forestry and logging, data is direct investments, but no capital net increase.	Suitable data publicly available
Ghana	National Statistical Yearbook to 2015 - no detail beyond "Manufacturing" Ghana Statistical yearbook – only has data for 2013 (previous census year 2003)	Data from the integrated business establishment survey only has one data point – 2013 (report published in 2018). Other sources do not provide detailed enough investment information.	Unsuitable, since not regularly updated
Viet Nam	Investment data available from statistical yearbooks until 2017	Value of fixed-asset and long-term investment of enterprises available for the period in question.	Suitable data publicly available
Cameroon	Investment data available (in French) from statistical yearbook to 2015 for years 2014 and 2015	Regularity of updates is difficult – latest available data is 2015.	Data updates are too slow for reliable practical monitoring
Congo	No data	No data	Further investigation required
Central African Republic	No data	No data	Further investigation required
Liberia	No data	No data	Further investigation required
Honduras	No data	No data	Further investigation required

Table 12.3.1: Forest investment data availability by country

Source: (BPS, 2018), (GSS, 2018), (Statistics Office of Vietnam, 2017), (National institute of Statistics Cameroon, December 2018)

Indonesia, Ghana and Cameroon provide historical data on investment flows and only data for Viet Nam, Indonesia, and possibly Cameroon is of adequate quality and regularity to allow for monitoring of investment flows.

Table 12.3.1 shows the availability and suitability of data identified to date. For the other countries, the consultant was unable to identify sources of reliable data on investment flows in the forest sector. Publicly available data does not provide the detail or regularity required.

Trends in forest sector investment in Indonesia and Viet Nam and, as far as possible in Cameroon and Ghana, as well as country fact sheets for all considered countries will be published as a part of the full baseline study later in 2019.

12.4 FLEGT in the light of investment strategies

Emerging economies, including VPA countries, are becoming of more interest to international investors. The focus of this interest is Asia and Latin America, while Africa is still maturing. Investments by TIMOs/institutional investors in VPA countries mainly target plantations and related industries. Natural tropical forests are mainly targeted by domestic and international industry investors.

Investment in forestry depends on a set of factors. Each of these factors is tested by investors for opportunities and related risks before taking an investment decision. If the risks outweigh opportunities, an investment will not be realized. From the perspective of an investor in the forest sector, risks are typically grouped into three categories:⁹⁷

- **Project risk:** These are risks directly related to technically operate an asset in the forest sector and generate the expected returns. These include site conditions and productivity, production costs, financing requirements (volume, tenor, CAPEX or working capital type investment), cash flow profile, overall complexity, presence of off-takers, product prices, natural hazards, etc.
- **Forest sector risk:** sector specific policies, taxes and incentives, competition, level of differentiation, level of formalization and legality, access to land/forests and tenure security, environmental and social safeguards and requirements, etc.
- **Country risk:** all other factors “surrounding” project and sector risk, i.e. maturity of the market, economic stability and growth, terms of trade, incentives for investment, taxes, ease of doing business, regulatory frameworks, national security, etc.

In theory, FLEGT hosts an array of activities and tools that enhance forest sector attractiveness for investments by reducing typical risks. All investors interviewed for this study recognised this risk mitigating potential of FLEGT. However, according to the study, most of these risk-mitigating characteristics only materialise when a VPA becomes fully operational and the majority of market participants in a partner country comply with the TLAS requirements. Moreover, the importance of risks associated with weak law enforcement and governance structure is rated lower by investors than more specific technical and economic project risks.

⁹⁷ There are various approaches to structure forest investment risks in literature (see PROFOR 2014 for a comprehensive review of forest investment risk). However, they all comprise of the same risk elements, though grouping them under different headings. For the purpose of this study, the consultant applied a modified risk categorization to better match the key questions on the causal nexus of VPA and investment risks.

The study concludes that, to date, a FLEGT VPA is not considered a criterion for any investor type to rate partner countries as preferential investment locations for the following reasons:

- **Long duration** of the VPA implementation processes and lack of trust that processes will be completed.
- **Relevance:** Indonesia is the only country with an operational timber legality assurance and FLEGT-licensing system. In all other countries, the scope of reforms implemented and the number of actors complying with reforms is still perceived to be too low. Investment decisions are based on the status of the investment enabling environment at the time the decision is under consideration.
- **Lack of information:** some respondents assume that, for example, timber legality assurance systems will only apply to exports to the EU and are therefore of relatively limited importance to the wider industry. As a consequence, the scope of reforms of law and governance structures undertaken as a part of VPA implementation were underestimated and respondents saw no risk mitigation potential of FLEGT at country level.

The report makes several recommendations, including:

- Targeted awareness-raising in the financial sector. Materials informing about the scope of VPAs and their risk-mitigating potential with reference to specific investment risks would be of particular interest. Industry investors in natural forest-based value chains rated VPAs risk-mitigating potential more important than financial investors.
- Assess how the FLEGT VPA process can better embrace the risk perceptions of institutional investors and TIMOs and prioritise investment-related reforms.
- Further monitoring of correlations between the FLEGT VPA process and forest sector investment should be limited to countries with an operational licensing system.
- Due to limitations in data availability a panel survey to assess the attractiveness of VPA countries for investors – with a specific view of VPA implementation activities – should be established.
- Results of such a panel survey could be used to establish an investment attractiveness index of VPA countries, ideally disaggregated by investor types (domestic SMEs, international forest industries, TIMOs and institutional investors).

13 Policy initiatives in non-EU tropical timber consuming countries

13.1 Overview

In addition to assessing the EU market for FLEGT-licensed timber, IMM monitors the market impact of policy measures and regulations with potential to generate demand for timber from FLEGT-licensing VPA partner countries⁹⁸ in non-EU countries.⁹⁹

The acceptance of FLEGT Licences (or equivalent documents issued by FLEGT-licensing VPA partner countries for exports to non-EU countries) as evidence of legality in non-EU countries has become increasingly relevant as an incentive for countries to implement a FLEGT VPA in the last decade. This is due to Europe's decline in importance as a player in the global tropical timber trade and the emergence of other dominant consumer markets and processing hubs, notably China and Viet Nam. Unlike the EU, Japan and the US have also regained strength as global consumers of tropical timber since the financial crisis.

While IMM lacks capacity for detailed surveys of market impacts of policy measures in consuming countries outside the EU, it aims to provide insights into the broad scope and relevance of these measures for FLEGT VPA countries. This is achieved through analysis of global trade flow data and literature review, where possible supplemented by a limited number of inquiries for comment from market experts and government representatives in those non-EU countries implementing timber import regulations.

The EUTR was not the first policy initiative designed to regulate trade in illegally harvested timber, nor was it the most recent (*Figure 13.1.1*). In 2008, the US Lacey Act was amended to include timber and timber products and in 2012, one year before the EUTR, the Australian Illegal Logging Prohibition Act entered into force. More recently, Japan and South Korea – in addition to VPA partner countries – Viet Nam, Malaysia, Indonesia – have taken steps to develop and implement import regulations designed to ban illegal timber from their markets.

The Indonesian import regulation entered into force in 2016, as part of the implementation of the country's FLEGT VPA. Malaysia and Japan followed in 2017 and South Korea in 2018. Development of the import control system in Viet Nam is also linked to the country's VPA and expected to come into force in the early 2020s.

All these regulations are designed to encourage or legally oblige importers to put in place systems that reduce the risk of illegally harvested timber entering the supply chain (*Figure 13.1.2*). However, the regulations vary widely in terms of the obligations placed on importers, scope of application, binding or non-binding character as well as checks, and enforcement. As a result, their potential to influence demand for timber and timber products from FLEGT-licensing VPA partner countries in the respective markets also varies.

⁹⁸ This chapter refers to “timber from FLEGT-licensing VPA partner countries” rather than “FLEGT-licensed timber” as the FLEGT Licence is only issued for exports to the EU and other documents (V-Legal in Indonesia) are for exports to other countries.

⁹⁹ IMM Global Indicators VI: Non-EU countries have policies and/or regulations that generate demand for FLEGT-licensed timber

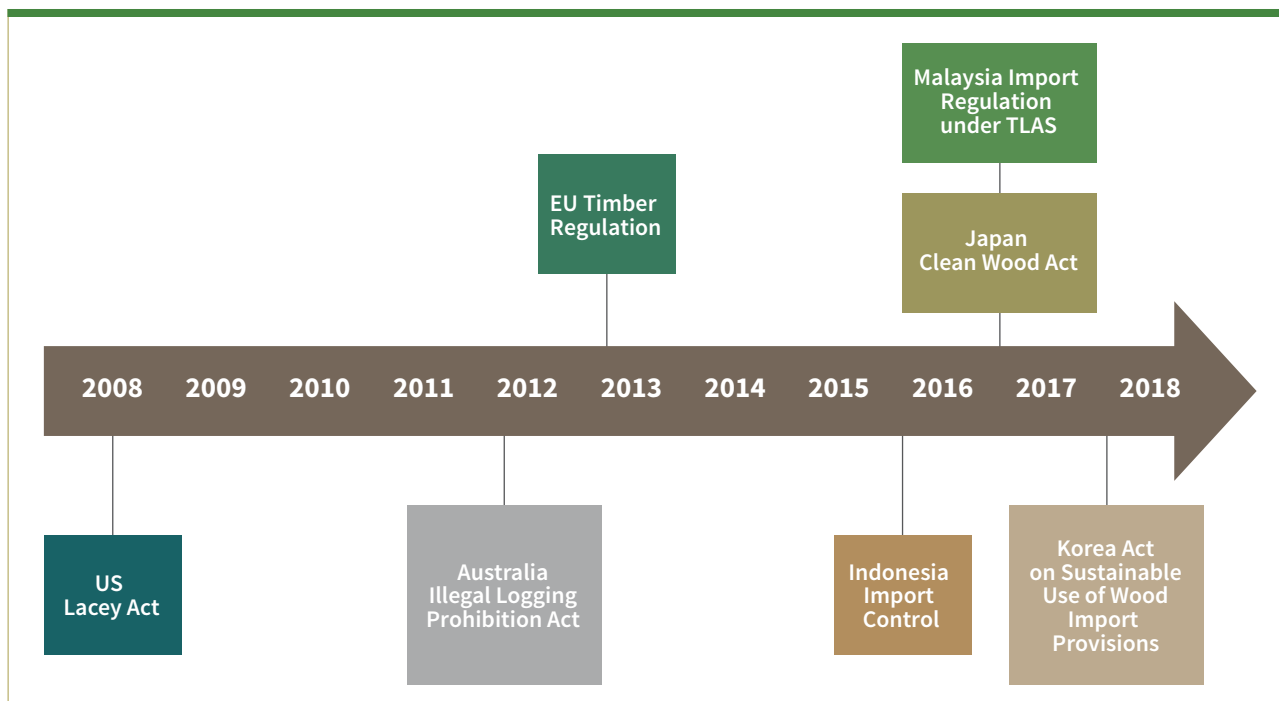


Figure 13.1.1: Timeline of Timber Import Regulations entering into force. Source: IMM based on information from Forest Trends

	Mandatory	Voluntary	Scope of regulated actors	Requirements on actors	Checks
Australia	x		First placers	Due Diligence	Post-import based on risk
Indonesia	x		All companies	Due Diligence	Pre-import and linked to customs clearance
Japan		x	Whole supply chain	Due Diligence	Pre-import. Not linked to customs clearance
Malaysia	x		First placer + exports to EU	Document Legality	Pre-import and linked to customs clearance
Norway, Iceland, Lichtenstein	x		First placers	Due Diligence	Post-import. All three countries adopted the EUTR.
Republic of Korea	x		Whole supply chain (unconfirmed)	Document Legality	Pre-import and linked to customs clearance
USA	x		Whole supply chain	Prohibition – Due Care	Post-import based on suspicion and evidence of illegality
Viet Nam	x		All companies (organisations + households)	Due Diligence	Pre-import and linked to customs clearance

Figure 13.1.2: Comparison of Efforts to Regulate Trade in Illegal Timber in Non-EU Countries

Source: IMM based on information from Forest Trends¹⁰⁰

Any trade-related impact can be expected to strongly depend on consistency of enforcement and on whether penalties for breaches of regulations have a deterrent effect. It will, of course, also depend on whether the regulations grant special status to timber from FLEGT-licensing VPA partner countries.

In addition to the direct impact on market demand for timber from FLEGT-licensing VPA partner countries, illegal logging import regulations in non-EU countries are expected to have a significant impact on investment flows. The forest sector investment study commissioned by IMM

in 2018 (see section 12) found that the FLEGT VPA process “facilitates sector reforms and sets market incentives that create a favourable environment for investments in both plantations and natural forests”. It concludes that fully implemented VPAs could have substantial positive impact on attracting forest sector investment in VPA partner countries. However, the report qualifies that the influence on global investment flows is likely to remain “marginal” for as long as explicit demand for legal timber products and import regulations banning illegal timber remain limited to markets in the EU, the USA and Australia.

¹⁰⁰ Regulating the Trade in Illegal Timber. Asian Approaches Compared. June 2017. Marigold Norman/Jade Saunders (FT 2017). https://www.forest-trends.org/wp-content/uploads/2017/08/doc_5634.pdf

To achieve “substantial leverage”, the report argues, Asian markets need to be integrated into the process, and effectively closed to illegal timber products, to create a level playing field for legal products. Both financial investors and timber producers interviewed for the study recognised a high project-related risk mitigation potential of FLEGT VPAs, dependent on the products being exported to regulated markets with mandatory legality due diligence requirements.

Analysis of trade data shows that the goal of closing world markets to illegal wood products is already well advanced, although there are significant gaps in China and India. In 2018, 62% (US\$25.6 billion) of the total value (US\$41.2 billion) of recorded tropical wood exports worldwide were destined for countries with regulatory measures to eliminate illegal trade (Figures 13.1.3 and 3.1.4). At 66%, the proportion was even higher for exports from VPA partner countries. In addition to EUTR, which accounted for 11% of total exports by VPA partner countries in 2018, a large share of exports went to destinations regulated under the US Lacey Act (28%), Japan Clean Wood Act (13%), Republic of Korea Sustainable Use Act (7%) and Australian Illegal Logging Prohibition Act (3%).

In 2018, the share of exports to regulated countries was particularly high in Indonesia (70%) and Viet Nam (83%). The share of exports to regulated countries was lower for VPA-implementing countries in Africa (49%) and Latin America (39%), and for negotiating countries in Africa (43%) and Asia (50%).

Around US\$15.6 billion of tropical wood exports in 2018, 38% of recorded tropical wood trade, was destined for countries without import regulations in 2018. Two thirds of this trade went to China and India (Figure 13.1.5).

13.2 The US Lacey Act

The Lacey Act is a 1900 United States law that bans trafficking in illegal wildlife. In 2008, the Act was amended to include plants and plant products such as timber and paper. There are two major components to the plant amendments: a ban on trading plants or plant products harvested in violation of the law; and a requirement to declare the scientific name, value, quantity, and country of harvest origin for some products.

The Lacey Act is a fact-based statute with strict liability, which means that

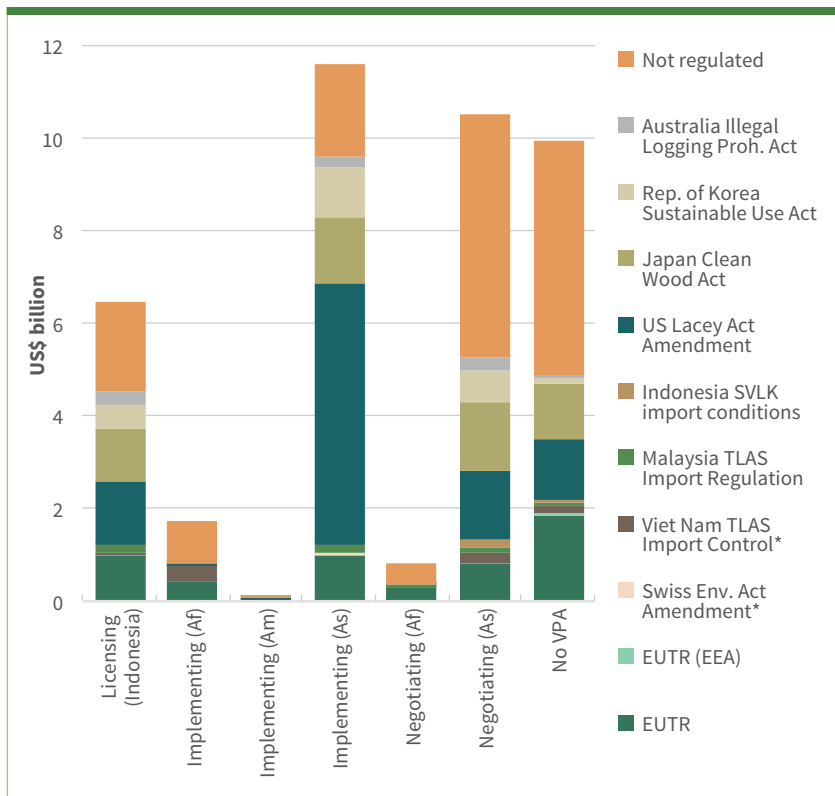


Figure 13.1.3: Value of global trade in tropical wood products in 2018, by FLEGT VPA status and consumer country regulatory status.

Source: IMM analysis of STIX trade data and national legislation (*legislation still in draft at end of 2018)

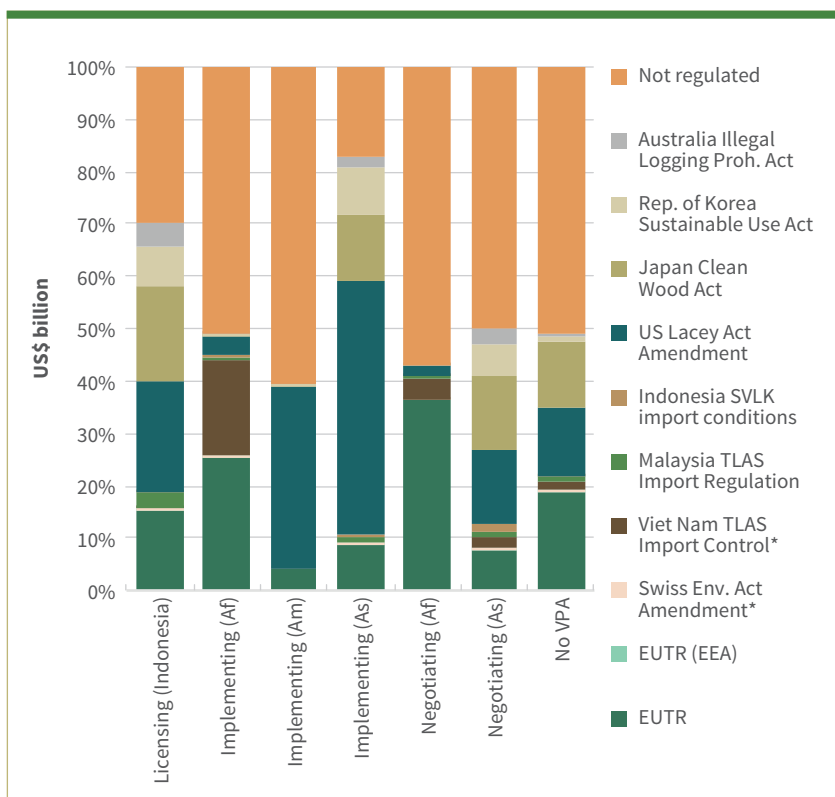
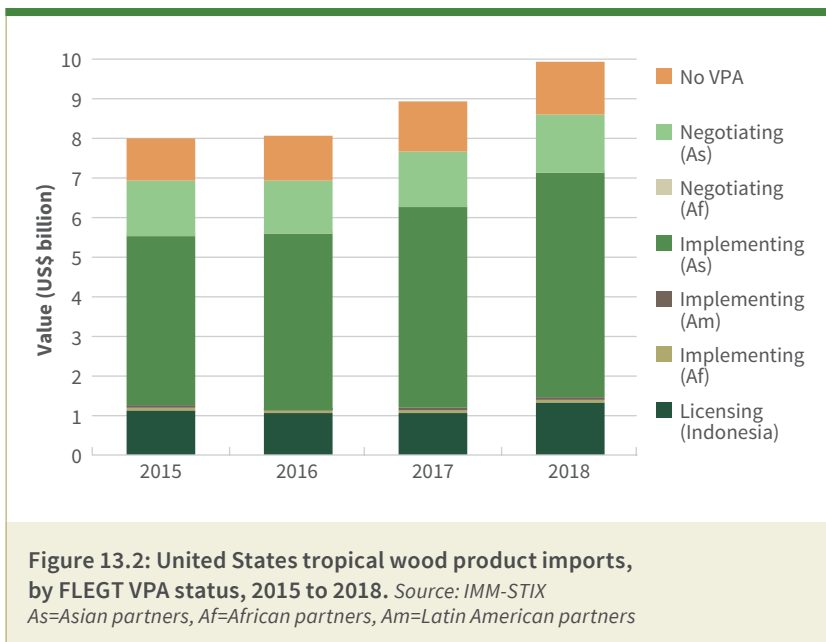
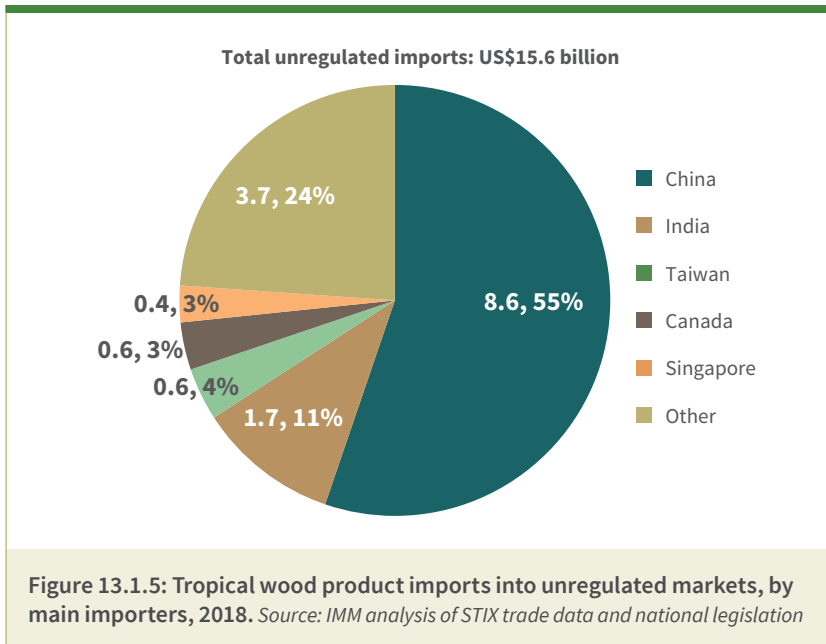


Figure 13.1.4: Share of global trade value in tropical wood products in 2018, by FLEGT VPA status and consumer country regulatory status.

Source: IMM analysis of STIX trade data and national legislation (*legislation still in draft at end of 2018) As=Asian partners, Af=African partners, Am=Latin American partners



only actual legality counts (no third-party certification or verification schemes can be used to “prove” legality under the Act) and that violators of the law can face criminal and civil sanctions even if they did not know that they were dealing with an illegally harvested product.

Penalties for violating the Lacey Act vary in severity based on the violator’s level of knowledge about the product: penalties are higher for those who knew they were trading in illegally harvested materials. For those who did not know, penalties vary based on whether the individual or company in question did everything possible to determine that the product was legal. In the U.S. system, this is called “due care,” and is a legal concept designed to encourage flexibility in the marketplace.¹⁰¹

There is no mechanism by which the US Lacey Act can provide formal recognition for timber from FLEGT-licensing VPA partner countries, or indeed any specific verification system.

However, on inquiry by IMM, the US Department of Agriculture’s Forest Services stated that this lack of formal recognition does not mean that “FLEGT Licences do not go a long way in proving that Due Care is being practiced”.

The US International Wood Products Association (IWPA) advises attendees of its Wood Trade Compliance Training Programme that “there is a benefit to sourcing FLEGT-licensed product”. However, awareness of the FLEGT VPA programme and FLEGT Licences (or equivalent documents issued by FLEGT-licensing VPA partner countries for exports to the US) is currently low. The IWPA expects that FLEGT will become more relevant and widely known once it is no longer limited to Indonesian timber and timber products. IWPA cautioned, however, that the dominant source of information on the FLEGT VPA process is – often negative – information and publicity from NGOs rather than information showing reform of the forestry sector in partner countries.

Trade data highlights the potential role of the FLEGT VPA process to assist US importers compliance to the US Lacey Act (even if they are not yet widely aware of FLEGT). US imports from VPA Partner countries were US\$8.62 billion in 2018, having increased rapidly in 2017 and 2018 by close to US\$1 billion per year, mainly driven by rising furniture and plywood imports from Viet Nam and Indonesia. In 2018, 87% of all tropical wood imports in the US were sourced from VPA partner countries (Figure 13.2).

The prospects for continued trade growth in the US for VPA partner countries are good, particularly against the background of the on-going US/China trade war which is encouraging

importers to look for supplies from other Asian countries. According to IWPA, Indonesian plywood products are particularly favoured in the US because of their quality and producers’ ability to comply with the Toxic Substance Control Act (TSCA). According to IWPA, the main concern from the US side is that Indonesian supply may be limited in the future by lack of capacity and access to fibre.

13.3 Japan: Clean Wood Act

In the Japanese Clean Wood Act, operators voluntarily register as a way of being recognised by the Government of Japan for their responsible behaviour. Registered operators are officially recognised as businesses that take measures to verify the legality of their wood and wood products. The Government of Japan plays an important role in promoting the registration of operators and disclosing good practice by registered operators. Further, the Government engages in educational and

¹⁰¹ Summary of Lacey Act Amendment derived from Forest Legality Initiative - <https://forestlegality.org/policy/us-lacey-act>

public-awareness activities to promote timber legality. Under the Act, the main penalty is the revocation of registration. Registration can be refused or revoked if the operator cannot prove that it takes measures to handle only legal timber and timber products. Fines are also contemplated, but they relate to falsely claiming registration and not to the trade in illegal timber or timber products.

The product scope is broad, the basic policy stating that legality measures apply to ‘wood and the like’, which refers to timber and items obtained by processing wood, or furniture, paper and other items manufactured using wood as the primary raw material.

The Clean Wood Act applies to two types of operator. Type 1 are entities in the supply chain that first place timber on the Japanese market. Type 2 are entities that handle timber and timber products that have been obtained from other timber-related entities in Japan. Exercising due diligence and maintaining a robust due diligence system are fundamental obligations under the Act. The enforcement ordinance sets out requirements on collecting information for Type 1 operators to ensure they take measures to verify that the timber was harvested in compliance with the laws and regulations of the country of harvest. When transferring timber, Type 1 operators must give the recipient a record demonstrating that the relevant information was collected and a statement on the legality of the timber. Type 2 operators must confirm the content of the documents provided by the operator that transfers the timber to them.

The ministerial ordinances do not provide details on risk assessment and risk mitigation. However, they stipulate that, if no documentation is available, the operator shall gather additional information confirming that the timber was legally harvested. The ordinance states that the operator shall not handle timber if it cannot confirm its legality. The Japanese government also supports implementation of the Act by establishing a database including extensive information on supply country legislation/regulations for timber production and exports. ITTO assisted the Japan Forestry Agency in populating this database for some tropical countries.

Although there is no formal recognition for timber from FLEGT-licensing VPA partner countries under the terms of Clean Wood Act, the law should motivate registered companies to prefer VPA partner timber, for which comprehensive documentation on legality is available, compared to products from countries with less readily accessible or credible evidence.

To some extent, the relevance of the Japanese Clean Wood Act is limited by its voluntary character. However, as the EU FLEGT Facility notes “one should

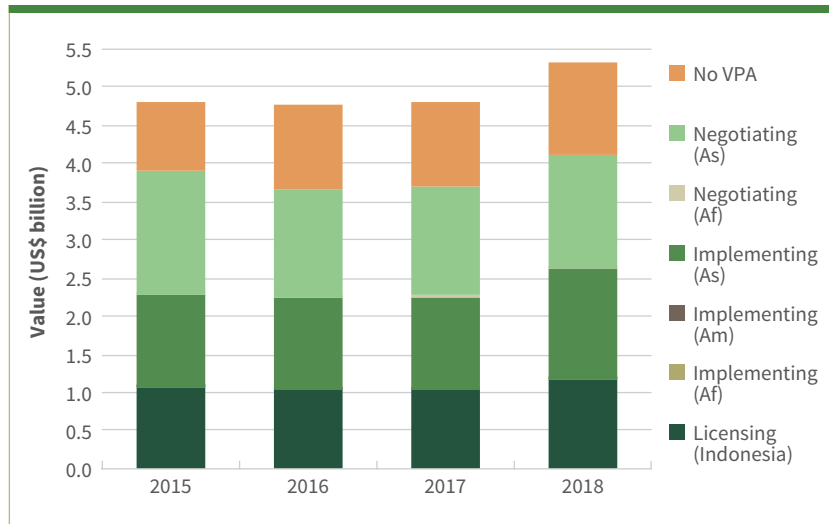


Figure 13.3: Japan tropical wood product imports, by FLEGT VPA status, 2015 to 2018. Source: IMM-STIX
As=Asian partners, Af=African partners, Am=Latin American partners

not underestimate the reputational benefits that the formal recognition of responsible behaviour brings to Japanese businesses. Large-scale operators in the Japanese timber sector are likely to pursue such a high-level form of recognition from the authorities and this might cause smaller players to follow suit. One should not underestimate the reputational damage of losing the registration due to irresponsible behaviour either. Once deregistered, businesses risk losing their good name and standing in society”.¹⁰²

After a dip in 2017, Japan’s imports of tropical wood products rebounded 11% to US\$5.3 billion in 2018. VPA Partner countries accounted for 77% of total imports in 2018, 22% coming from Indonesia, 27% from Viet Nam, and 28% from other VPA negotiating countries in Asia. Japan’s imports of biomass and chips, wood furniture and plywood from Viet Nam, and plywood from Malaysia all increased sharply in 2018.

13.4 Republic of Korea

The Republic of Korea’s compulsory legislation — the Act on the Sustainable Use of Timbers — entered into force on 1 October 2018, initially covering sawn wood, plywood, pallets and anti-decay, fire retardant or laminated wood. Together, these products account for a large portion of South Korea’s imports of timber and timber products. The Korea Forest Service may extend the product scope in the future.

The law requires importers to submit documents, for example harvesting permits, to Korean Customs authorities to show that their timber and timber products are legal. After the Korea Forest Service has confirmed that the products are legal, Korea Customs will clear the imports for entry into the country.

¹⁰² <http://www.euflegt.efi.int/publications/a-comparison-of-the-japanese-clean-wood-act-and-the-eu-timber-regulation>

¹⁰³ Korea Forest Service, 2018, Country Specific Guideline for Indonesia, retrieved from <http://www.forest.go.kr/images/data/down/%EC%9D%B8%EB%8F%84%EB%84%A4%EC%8B%9C%EC%95%84%EA%B0%80%EC%9D%B4%EB%93%9C%EB%9D%BC%EC%9D%B8%EC%9B%9428.pdf>

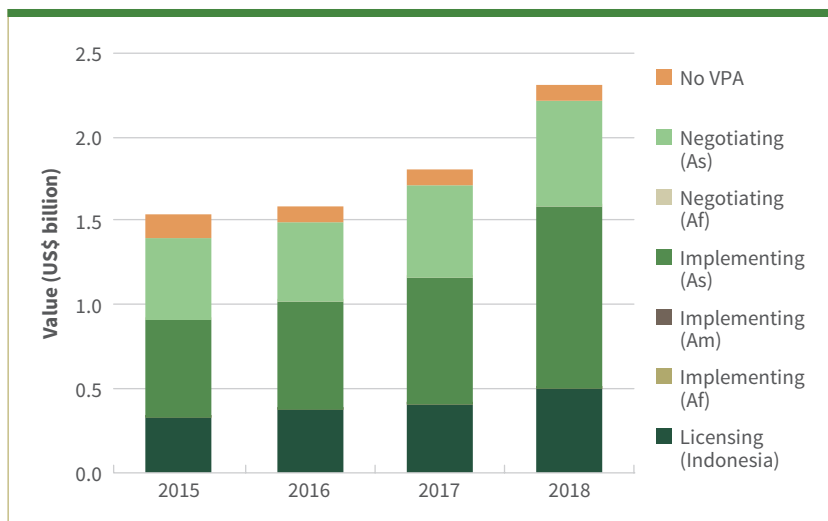


Figure 13.4: Republic of Korea tropical wood product imports, by FLEGT VPA status, 2015 to 2018. Source: IMM-STIX
As=Asian partners, Af=African partners, Am=Latin American partners

Unverified timber cannot be sold and must be returned or destroyed. Non-compliance with the legislation will trigger fines and, in severe cases, imprisonment.

FLEGT Licences are accepted as evidence of legality under the terms of the legislation. The country-specific guideline for Indonesia issued by the Korea Forest Service states that SVLK and V-Legal documents should be accepted as evidence of legal compliance for products from Indonesia.¹⁰³

The role of the FLEGT VPA process to provide assurances of legality in Korea is made more important by the very high proportion of tropical wood imports from VPA partner countries (The role of the FLEGT VPA process to provide assurances of legality in Korea is made more important by the very high proportion of tropical wood imports from VPA partner countries (Figure 13.4). Over 95% of the Republic of Korea's imports of tropical wood products in 2018 were from these countries, including 22% from Indonesia, 47% from Viet Nam, and 27% from VPA negotiating countries in Asia. There was also significant growth in Korea's imports of biomass and plywood from Viet Nam and plywood from Indonesia in 2018.

The Republic of Korea's import regulation is currently less relevant for African VPA partner countries. However, Ghana is one of Africa's most important timber sources for Korea. If effectively implemented and enforced, the Korean regulation has potential to make sourcing from Ghana more attractive, seeing as Ghana is now firmly expected to start FLEGT licensing in 2020 at the latest. Over 95% of the Republic of Korea's imports of tropical wood products in 2018 were from these countries, including 22% from Indonesia, 47% from Viet Nam, and 27% from VPA negotiating countries in Asia. There was

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13.5 The Australian Illegal Logging Prohibition Act (ILPA)

The Australian Illegal Logging Prohibition Act is similar in design to the EUTR. It has a broad scope, targets first placers, and importers are obliged to develop a due diligence system to prove their timber imports are from legal sources.

The Australian regulation does not establish any formal status for FLEGT-licensed timber. In fact, Australia removed FLEGT Licences from the regulation's scope as part of reforms in October 2017, due to the fact that "FLEGT Licences are only issued for products exported directly from certain countries to the European Union and are unlikely to be seen within the Australian market".¹⁰⁴

In practice, however, the Australian Government gives preferential treatment to timber and timber products from Indonesia, still the only FLEGT-licensing VPA partner country during 2018. The Country Specific Guidelines for Indonesia,¹⁰⁵ which are to assist businesses in importing timber products under the ILPA, specify that, when importing from Indonesia, importers merely have to check whether their supplier holds a SVLK Timber Legality Certificate and that they are provided with a V-Legal Document¹⁰⁶ for every shipment. This makes importing wood products from Indonesia very simple in practice and puts it on equal footing with FSC and PEFC certified timber, both of which are "deemed to comply" under the Australian law.

As in other non-EU consuming countries, the VPA process has considerable potential to facilitate Australian market access for VPA partner exporters and to assist legal conformance by Australian importers. Each year, Australia imports over US\$900 million of tropical wood products, over 90% of which derive from VPA partner countries (Figure 13.5). Imports from Indonesia, which increased 6% to US\$305 million in 2018, account for a third of all Australia's tropical wood product imports. One quarter of imports, US\$227 million in 2018, are

¹⁰⁴ <http://www.agriculture.gov.au/import/industry-advice/2017/95-2017>

¹⁰⁵ Country Specific Guidelines for Indonesia. Australian Government/Government of Indonesia. Revision 1.1. October 2018 (CSG IND 2018). <http://www.agriculture.gov.au/SiteCollectionDocuments/forestry/australias-forest-policies/illegal-logging/indonesia-country-specific-guideline.pdf>

¹⁰⁶ V-Legal Documents are Indonesian export licenses attesting legality. For exports to the EU, they were replaced with FLEGT Licences in 2016. Clients in all other countries continue to receive V-Legal Documents for products covered by the Indonesian VPA.

sourced from Viet Nam. Nearly two-thirds of Australia’s imports of tropical wood products comprise value-added products such as furniture and joinery. Most of the remainder comprises plywood, decking and sawn wood.

13.6 Timber import regulations in VPA partner countries

Timber import regulations developed in tropical timber consuming VPA partner countries are closely linked to the implementation of FLEGT VPAs and therefore typically recognise timber from other FLEGT-licensing partner countries as compliant. The Indonesian as well as the Malaysian and Vietnamese import regulations all accept FLEGT Licences from other VPA partner countries.

As the only country yet to issue FLEGT Licences, Indonesia was the only country to benefit directly from this recognition in 2018. However, the longer term “network effects” of mutual recognition of legality licenses by VPA partner countries may be considerable, helping to reinforce legal compliance and facilitate the free flow of trade between countries which are now themselves emerging as major consumer markets for wood products. There will also be significant market pull effects for other tropical countries not engaged in the VPA process.

Collectively, Viet Nam, Indonesia and Malaysia, the three Asian countries that have introduced import controls as part of national TLAS development (or are drafting these controls in the case of Viet Nam), imported tropical wood products with total value of US\$1.53 billion in 2018 (Figure 13.6). Around a third (US\$590 million in 2018) comprised bilateral trade between the three countries, the largest flows in value terms being from Indonesia and Viet Nam to Malaysia. The largest single tropical wood import flow by any of the three countries, of US\$261 million in 2018, was into Viet Nam from Cameroon, another VPA partner country. The largest single import from a non-VPA country, of US\$92 million in 2018, was from Cambodia into Viet Nam.

13.7 Import regulations in non-EU European countries

Iceland, Norway and Liechtenstein have adopted the EUTR, as part of the European Economic Area (EEA) agreement to implement all relevant EU legislation in the field of the Single Market.

Switzerland has been working on legislation similar to EUTR for several years. In 2019, the Swiss Environment,

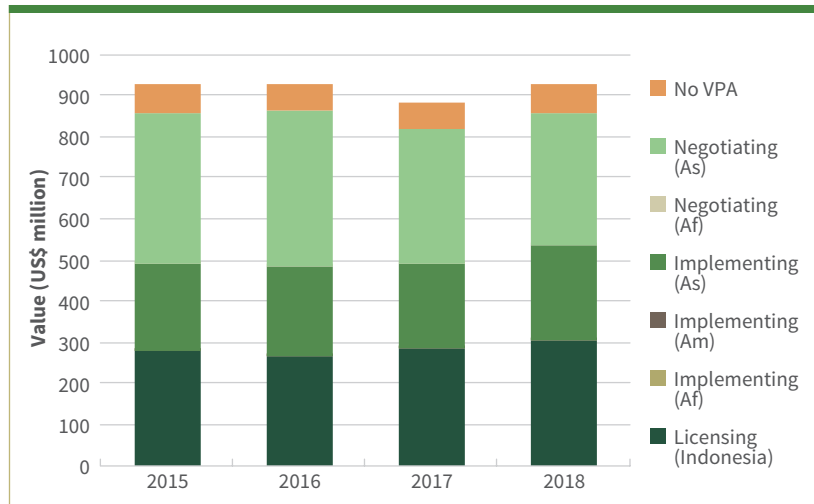


Figure 13.5: Australia tropical wood product imports, by FLEGT VPA status, 2015 to 2018.

Source: IMM-STIX As=Asian partners, Af=African partners, Am=Latin American partners

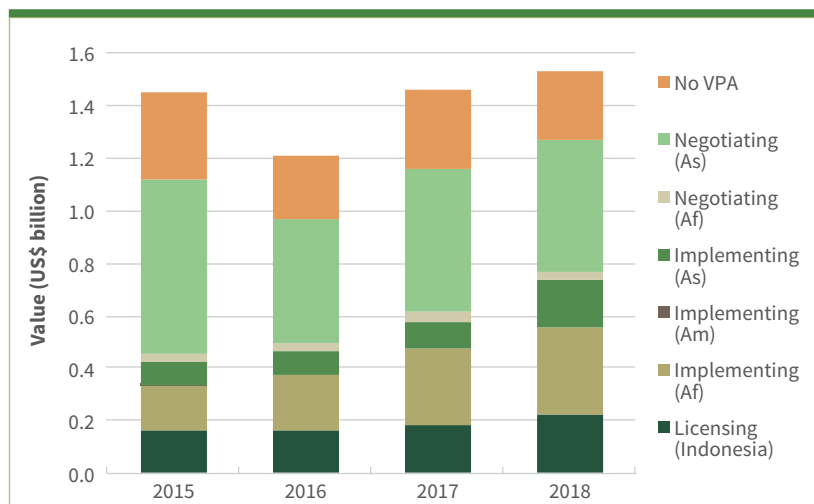


Figure 13.6: Total tropical wood product imports by Indonesia, Malaysia and Viet Nam, by FLEGT VPA status, 2015 to 2018.

Source: IMM-STIX As=Asian partners, Af=African partners, Am=Latin American partners

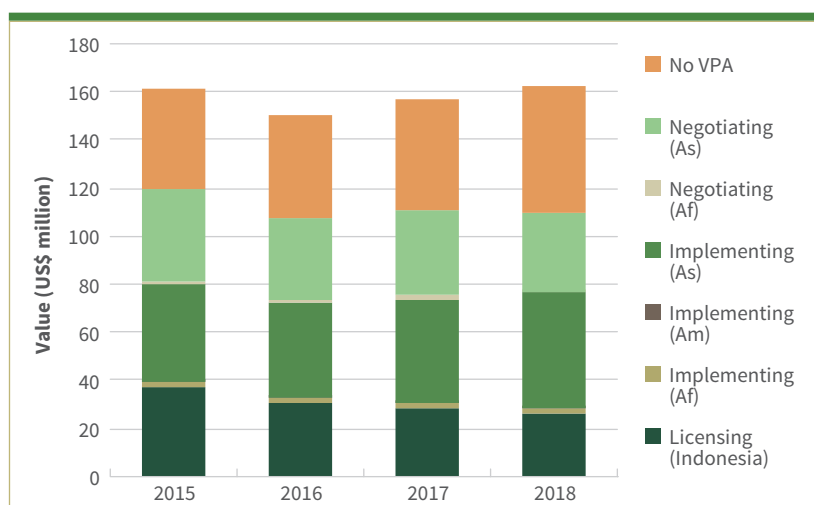


Figure 13.7: Total tropical wood product imports by EEA countries and Switzerland, by FLEGT VPA status, 2015 to 2018.

Source: IMM-STIX As=Asian partners, Af=African partners, Am=Latin American partners

Spatial Planning and Energy Commission (UREK) approved a draft regulation from the National Council as an amendment to the country's Environmental Act. The Commission also voted in favour of new rules to block imports of other raw materials if their cultivation, mining or manufacture adversely impacted the environment or "significantly endangered sustainable use of natural resources". The Swiss National Council and the Council of States both still had to decide about the draft at the time of writing of his report. The bill will only pass if both Councils agree, something not expected to happen before the end of 2019, at the earliest.

Imports of tropical wood products by EEA countries and Switzerland totalled US\$162 million in 2018 (Figure 13.7), around two thirds destined for Switzerland and one third for Norway (Iceland and Liechtenstein are negligible importers of tropical wood products). Viet Nam was the largest tropical supplier to these countries in 2018, delivering products with a total value of US\$4.8 million, up from US\$3.9 million in 2016. Indonesia is the second largest supplier, delivering US\$2.6 million in 2018, down

from US\$3.1 million in 2016. Around one third (\$52 million in 2018) of tropical wood imports into these countries is from non-VPA countries, although this includes indirect imports from neighbouring EU countries (US\$1.6 million in 2018). India was by far the largest non-VPA tropical supplier to these countries in 2018 (US\$2.1 million).

At the time of writing of this report the EU still had 28 Member States and the future of the UK as a part of the Union remained open. However, the UK plays a prominent role among the EU's major tropical timber consuming markets and an EU without the UK would be a smaller importer of VPA partner timber products.

In preparation of a possible Brexit, the UK and Indonesia have already signed an agreement committing the former to continued recognition of FLEGT Licences after Brexit.¹⁰⁷ The UK government also committed to incorporating both the FLEGT and EU Timber Regulations in UK law after Brexit. Therefore, the green lane advantage enjoyed by FLEGT-licensed timber in the EU is expected to continue in the UK if it leaves the EU.

Recommendations

14

14.1 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 2018, the following observations are made with respect to future strategies for market development of FLEGT-licensed timber. These recommendations are directed to the EC and EU member states, VPA partner country governments, the private sector, as well (and as relevant) to partners like ITTO, FAO and others.

- Support the efforts of the private sector within FLEGT countries, especially those with operational TLAS systems, to promote the benefits and positive impacts of these systems. FLEGT licensing and the supporting TLAS systems are regulatory tools and systems which presently are not widely understood and whose benefits are either not known or poorly communicated. European buyers need to be able to see and believe the value of processes, but they need to hear this message from their peers within the countries with active TLAS systems. Authentic communications originating within the VPA countries designed for a business audience are vital to building trust in the system.
- Communicate results of independent reviews of the performance of the systems underlying FLEGT Licences in a non-technical way. Use reports of VPA monitoring and evaluation initiatives to identify the performance and value of FLEGT licensing and address the concerns of users and stakeholders with respect to its real value and impact in-country.
- 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. ENGOs that are open to supporting the FLEGT/VPA process and commercial use of tropical timber should also be more actively engaged.
- Actively engage those civil society organisations and private sector organisations that seek to influence private sector procurement policies. Whilst many influential organisations already support FLEGT licensing many others can be potentially influenced to be more supportive in their advocacy. Continued dialogue and trust building based on communication of the evidence-based benefits and realistic limits to the value of the VPA process and FLEGT licensing in particular is essential.
- Encourage EU MS to regularly review their policies for public procurement of timber and timber products in the light of developments in the FLEGT process. 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.
- High political priority (backed by public money) should continue to be attached to promoting development of

¹⁰⁷ <http://www.flegtim.eu/index.php/newsletter/flegt-policy-news/38-eur-and-eu-flegt-stay-in-uk-law-post-brexit>

credible TLAS systems in VPA partner countries. There is an underlying frustration within the private sector that FLEGT-licensed timber from a single country is insufficient for market needs and insufficient to convince industry that VPA are successful and that FLEGT-licensed timber is a serious contender in the marketplace. The wider availability of FLEGT-licensed timber would build the commercial proposition and offer choice in the marketplace.

- Concerted efforts should be made to build on the potential synergies between the development of TLAS in VPA partner countries and international third party forest certification systems to help simplify verification, reduce the bureaucratic burden, limit duplication, improve cost effectiveness, improve market access, and prevent unnecessary competition.
- There is a specific need for engagement with FSC to address the current lack of recognition of FLEGT-licensed timber in the FSC Controlled Wood National Risk Assessment for Indonesia.
- 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.
- 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 still benefit from improved guidance for complying with EUTR due diligence.

14.2 IMM future monitoring

In 2018, IMM widened the scope of its survey work and its information base, through the introduction of special studies and Trade Consultations. The project also draws on experience of five years of trade statistics analysis.

IMM monitoring going forward:

- IMM will continue to work with a network of independent country correspondents; the network will be further expanded as more VPA partner countries approach the licensing stage. Viet Nam and Congo were identified as priority countries for 2020 and the respective consultancy contracts advertised in July 2019.
- The 2018 studies confirmed the impression from previous years 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 country correspondents in the EU 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' trade in timber and timber products with VPA partner countries.
- The concept of special studies for monitoring specific IMM indicators and gaining access to some key sectors/

stakeholders for consumption of VPA Partner timber in Europe has provided interesting insights in 2018 and 2019 and will be continued and possibly expanded in 2020.

- There are still significant gaps in existing data limiting the ability of IMM to reliably assess the trade and competitiveness impact of FLEGT licensing and IMM will continue to liaise, and where possible and appropriate, co-operate with other agencies to help fill these gaps which include:
 - Lack of data on the actual value or volume of trade in timber which is independently certified or legally verified through non-VPA mechanisms;
 - Lack of systematic, consistent and comprehensive assessments of forest governance risk in non-VPA supplying countries;
 - Lack of centralised and consistent data on the level of EU market acceptance, the standards used, the operators covered, and the costs involved in third party legality verification systems operated by individual certification companies;
 - Lack of data on investment flows into the forestry and forest products sectors in VPA partner countries.
- In the absence of trade data from third party certification and legality verification schemes, IMM's "exposure to certification/verification" measure will continue to be used to help assess the market position of FLEGT licensed timber relative to alternative assurance mechanisms.
- IMM will continue its efforts to improve the quality, consistency, scope and regularity of access to reliable timber trade flow statistics for the purposes of FLEGT market monitoring through the Sustainable Timber Information Exchange (STIX) and the development of dashboards and other tools on the IMM website. As a priority, work to extend data validation routines and to provide standardised estimates of timber trade quantity, alongside value, in Eurostat COMEXT data will be extended to VPA partner trade flows with other regions.
- There is ongoing 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 full cycle of IMM Trade Consultations (one in each key country with the exception of the Netherlands, which "shared" a consultation with Belgium) will be completed in the first quarter of 2020. The Consultations provided extremely valuable insights into trade practices and priorities and a forum for direct exchange of information and opinions among key stakeholders. IMM will continue the Trade Consultations after completion of the first cycle, in a modified format to reflect experience gained in the first cycle and the evolving market for FLEGT licensed timber.
- IMM will continue monitoring market developments and market uptake of FLEGT Licences in the UK post-Brexit. It will also monitor potential impacts of Brexit on VPA partner countries.

Annex 1: 2018 EU Trade Survey

Methodology and sample

In 2018, the European IMM team undertook follow-up research in the seven key countries accounting for more than 90% of EU tropical timber and timber product imports from VPA partner countries (Figure A.1). The 2018 studies produced in Belgium, France, Germany, Italy, Netherlands, Spain and the United Kingdom build on scoping studies prepared in 2017.

The follow-up studies covered a broad spectrum of private sector players, including importers and agents as well as manufacturers and retailers. Results were collected in an online survey tool. As in 2017, companies did not fill in the survey alone but were guided through the tool by the respective IMM country correspondents. This process allowed for discussion of responses and comments provided by respondents and gave IMM correspondents much more detailed insights into respondents' opinions and ideas.

The sample of 96 companies interviewed as a part of the IMM 2018 trade survey was slightly smaller than in 2017 (126 companies). The smaller sample size was primarily due to the fact that a number of companies involved in furniture trade and manufacture (53) were interviewed as a part of a separate EU furniture sector scoping study.¹⁰⁸ With 149 companies interviewed, the combined sample of the two 2018 surveys is larger than in 2017. It included importers of sawn timber, decking, plywood, mouldings logs, veneers, doors, window frames, as well as furniture and furniture components and other products from VPA partner countries.

Correspondents in several countries did note, however, that it was more difficult in 2018 to engage the private sector in dialogue about FLEGT than it had been in 2017. Reasons given for this reluctance included:

- Continuing decline in tropical timber trade in a number of EU countries and lower priority given to tropical timber in companies' product mix.
- Reluctance to "put views on regulation and issues of legality on record" for fear of being "identified and put on the list for inspection" by EU Timber Regulation (EUTR) Competent Authorities.
- Recurrence of "fatigue" in talking about FLEGT-licensed timber while it remains only a theoretical possibility for most tropical timber products and supply countries.
- Rising numbers of requests from media and analysts for participation in surveys, which has led to companies declining to contribute to surveys.
- Economic recovery kept companies busy and they felt less inclined to spend time on surveys.

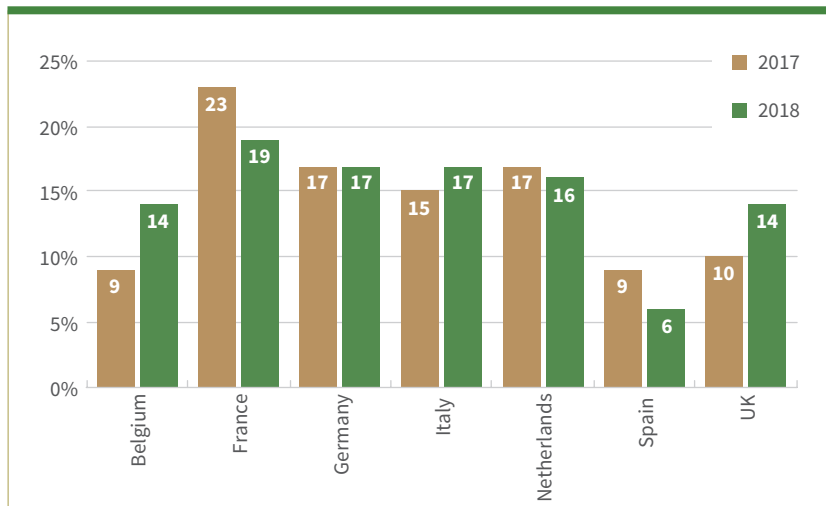


Figure A1.1: EU trade survey participation by country.

Source: IMM 2018/2017 EU trade surveys

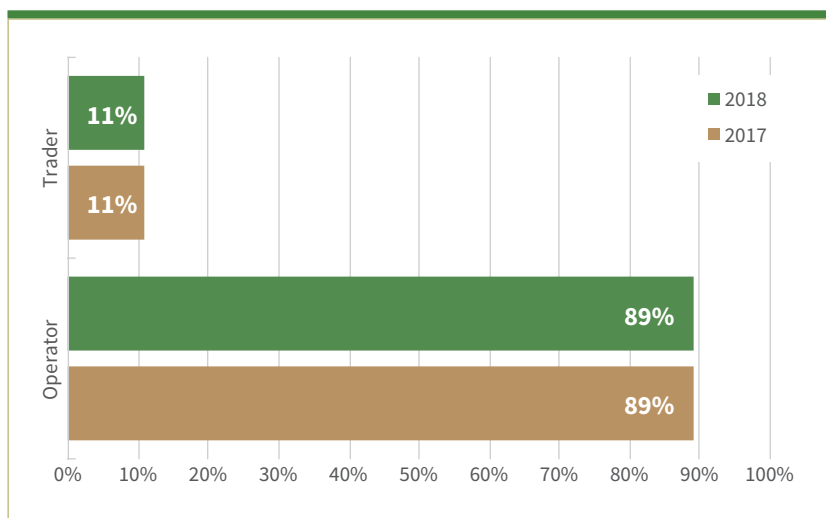


Figure A1.2: EU trade survey participation by Operators and Traders.

Source: IMM 2018/2017 EU trade surveys

The proportion of EU survey respondents who acted as Operators 94% (2017: 89%) under the EUTR was slightly higher than in 2017. 6% of respondents were purely traders, with several of the Operator respondents also running their own trade or wholesale businesses (Figure A1.2).

The size and relevance of IMM trade survey samples in relation to the overall number of Operators identified in the key EU Member States by EUTR

¹⁰⁸ A tabling of views: Scoping study for assessing the impacts of timber legality on the European Union's furniture sector and the associated tropical timber trade". Author: George White. (ITTO/ IMM 2018). https://www.itto.int/direct/topics/topics_pdf_download/topics_id=5782&no=1&disp=inline

Competent Authorities was analysed in the 2017 IMM Annual Report.¹⁰⁹ While relatively small in absolute respondent numbers, the IMM survey team again approached a large number of key operators in 2018 and thus covered a significant proportion of EU trade in core timber products imported from VPA partner countries, including tropical sawn timber/mouldings, joinery, plywood and decking.¹¹⁰

As a result, the survey can be considered reasonably representative in relation to tropical wood products (HS 44). On the other hand, market coverage was lower when it comes to furniture and furniture components – even lower than the year before as a large part of furniture sector responses went into the separate furniture sector study – and pulp and paper products.

In addition to the survey of timber trade and industry companies, IMM correspondents also interviewed 10 timber-sector associations and EUTR Monitoring Organisations, representing a total of more than 2700 members.¹¹¹

Drivers of the EU tropical timber market

Tropical timber imports to the EU have declined for over a decade now. The loss of market share was particularly pronounced in the period 2008–2012. Sales then stabilised up to 2016, before dipping again slightly.

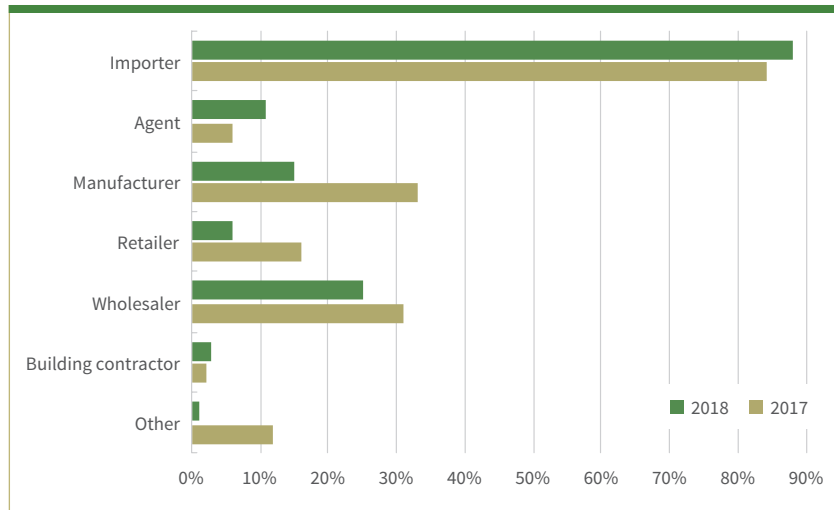


Figure A1.3: EU trade survey participation by business type.
Source: IMM 2018/2017 EU trade surveys

As a part of its 2018 research, IMM has been trying to identify the major drivers of this development. The 2018 trade survey contained a table of nine potential factors identified by IMM, which respondents were asked to sort according to relevance. These factors, plus two additional factors identified during IMM 2018 Trade Consultations are summarised in *Figure A1.4*.

2018 survey respondents identified “substitution by other materials” as the main factor responsible for decline in EU tropical timber imports, followed by the “economic downturn 2008–2013” and “diversion of supply to other

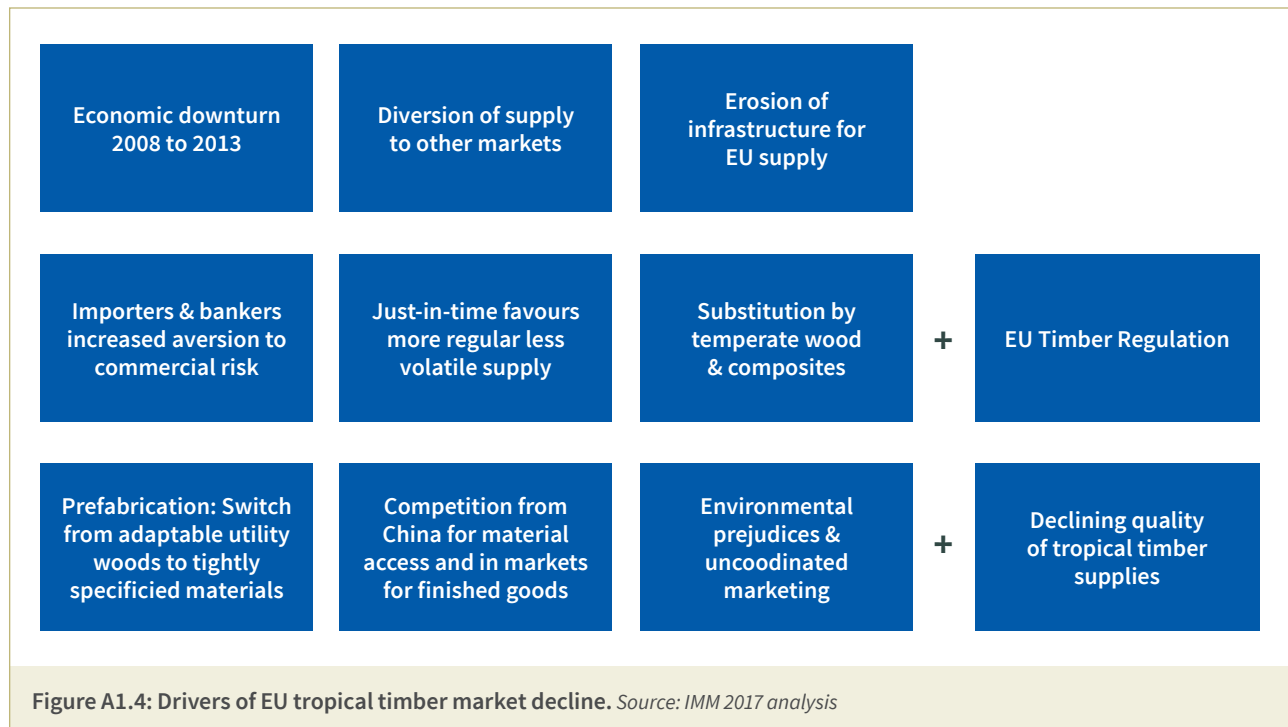


Figure A1.4: Drivers of EU tropical timber market decline. Source: IMM 2017 analysis

¹⁰⁹ “FLEGT VPA Partners in EU Timber Trade 2017”. Authors Sarah Storck/Rupert Oliver. (IMM 2018). http://www.flegtim.eu/images/annual_reports/VPA_Partners_in_EU_Timber_Trade_2017_Final_201118.pdf

¹¹⁰ Respondents accounted for between 15% and 65% of the key countries’ total imports of tropical sawn timber/mouldings, joinery, plywood and decking, depending on the country, with high coverage (>50%) achieved in Germany, UK, Netherlands, and France and lower coverage 15-40% in Spain, Italy and Belgium.

¹¹¹ Data on membership derived from the European Timber Trade Federation’s website and associations own websites.

Consumption of tropical timber in Europe has declined sharply since 2007. In your opinion, what are the main reasons (please arrange the suggestions below from most relevant (1) to least relevant (10)).			
Drivers	Weighted Score	Relative Weighted Score	Overall Rank
Substitution by temperate, chemically and thermally modified wood, composites and non-wood materials	634	100	1
Economic downturn 2008 to 2013	583	92	2
Diversion of supply to other markets	553	87	3
Environmental prejudices and uncoordinated marketing	545	86	4
Competition from China for material access and in markets for finished goods	485	76	5
Import and financial sectors aversion to commercial risk	420	66	6
Just-in-time favouring more regular less volatile supply	398	63	7
Prefabrication and the switch from adaptable utility woods to tightly specified materials	394	62	8
Erosion of infrastructure for EU supply	366	58	9
Other	187	29	10
Total Responses			83

Table A1.5: Ranking of drivers of decline. Source: IMM 2018 Trade Survey

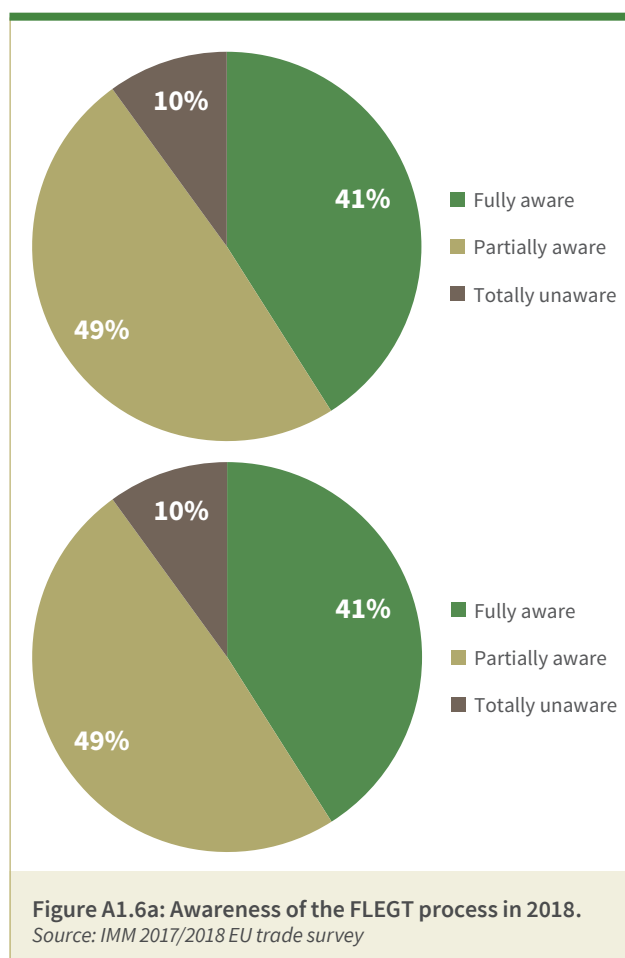


Figure A1.6a: Awareness of the FLEGT process in 2018. Source: IMM 2017/2018 EU trade survey

markets” (Figure A1.5). This latter point is closely linked to the fifth most important factor, according to the rating, which is “competition from China for material access and in markets for finished goods”.

Environmental prejudice and uncoordinated marketing (rank 4) was identified as another important driver. In terms of marketing, respondents highlighted that successful marketing campaigns promoting local European timber had led to a loss of market share for tropical timber. At the same time, NGO campaigns and the tropical timber sector’s lack of access to end consumers would undermine efforts to promote the use of tropical timber.

The majority of both survey respondents and participants at IMM Trade Consultations assumed that the EU market for tropical timber will stagnate at the lower level it has reached for the foreseeable future. However, some opportunities for supporting recovery were seen in improved promotion of environmental credentials of tropical timber and “consistent and effective EUTR enforcement”.

Awareness of the FLEGT VPA process

Overall, the European IMM correspondents found that, after a short period of enthusiasm following the start of FLEGT licensing in Indonesia, EU trade sentiment towards FLEGT VPAs has cooled again somewhat in 2018. While the majority continues to recognise that FLEGT-licensing is 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, a number of respondents remarked that its value remained limited as

¹¹² Trade Consultations are a series of meetings organized by the IMM programme in the EU key tropical timber consuming countries. The Consultations aim to gauge the trade’s views and discuss opinions of relevant FLEGT-related topics identified as a part of IMM surveys. IMM also shares latest survey and study results with trade representatives during the Consultations. Consultations were held in London (March), Nantes (May) and Berlin (November) during 2018.

long as Indonesia is the only country supplying FLEGT-licensed wood products.

This element of “fatigue” in talking about FLEGT licensing, while licensed timber remains unavailable from most partner countries, was also suspected by correspondents to have had an impact on respondents’ rating of their level of awareness of the VPA process. As shown in *Figure A1.6*, the overall level of awareness has deteriorated from 2017 to 2018, with a higher number of respondents claiming to be “totally unaware” and fewer companies saying that they felt “fully aware”.

While some of the additional “totally unaware” ratings were believed by correspondents to be more expressions of disinterest or even frustration, the decline in numbers of companies feeling “fully aware” was partly attributed to the fact that respondents had only appreciated that they were not “fully aware” after receiving additional information on VPAs and FLEGT licensing through 2017 and 2018. This was also reflected in discussions during IMM Trade Consultations¹¹² organised in 2018.

Differences in the 2017 and 2018 survey samples – both in terms of companies interviewed and new contact persons within the same companies – have likely also had an impact on awareness.

Detailed country-specific and thematic results

Detailed analysis of specific EU trade survey results can be found in the following dedicated chapters of this report:

- Chapter 4; VPA Partner Competitiveness: EU trade perceptions of relevance of VPA partner countries as tropical timber suppliers.
- Chapter 5; Indonesia, Market position and prospects: EU trade perceptions of Indonesian FLEGT Licences.
- Chapter 7; Implementation of EUTR: EU trade perceptions of EUTR impact on tropical timber trade.
- Chapter 11; FLEGT and voluntary third-party certification: EU trade perceptions of FLEGT licensing and EUTR impact on voluntary certification.

Insights from interviews with 10 timber-sector associations and EUTR Monitoring Organisations can be found in the following chapters of this report

- Chapter 5; Indonesia, Market position and prospects: Associations’ perceptions of their members’ acceptance and experience with FLEGT-licensed timber from Indonesia.
- Chapter 7; Implementation of EUTR: Associations’ perception of EUTR implementation and enforcement.

Background information on general and timber sector-specific economic trends in the seven key EU countries monitored by IMM as well as trends in trade between individual VPA partner countries and these EU countries is no longer added to the EU Annex of this report but can be found on the “Key EU Country” section¹¹³ of the IMM website and the IMM Data Dashboard.¹¹⁴

A2

Annex 2: Summary of Ghana 2018 Report

Overview

The IMM Correspondent for Ghana undertook a follow-up study to assess the market situation for Ghanaian timber products and progress as well as stakeholder attitudes towards the VPA implementation process in 2018. The study built on similar work undertaken in 2017 and 2015. It included analysis of timber trade data alongside a survey of Ghanaian government agencies, civil society organisations and timber industry representatives.

Twenty private companies, three government agencies and one Civil Society Organisation contributed to the report. The sample of private companies included both seven larger exporting companies and a number of smaller companies that supply primarily or exclusively the domestic market in Ghana.

VPA progress

The 2018 Ghana report shows continuing progress in VPA implementation since 2017. Most importantly, Ghana and the EU selected auditors and prepared for the Final Joint Assessment of the system. The Assessment was

subsequently launched in early 2019, with expectations of it being completed by the end of the year.

Ghana had cleared a major hurdle in completion of VPA implementation when passing new legislation on Timber Resource Management and Legality Licensing¹¹⁵ (LI 2254) in November 2017. The law regulates the identification of land and conditions for the grant of timber rights as well as providing for a legality licensing scheme. According to the IMM 2018 Ghana report, related conversion of existing forest concessions to Timber Utilisation Contracts (TUC) was brought underway in 2018, with companies being prompted to convert their concessions and timber rights fees being negotiated through stakeholder dialogue.

The Forestry Commission of Ghana also developed and implemented an action plan to address shortcomings identified as a part of 2017 trial shipments of FLEGT-licensed timber from Ghana to Europe. The Action Plan is to ensure that shipments will work smoothly from the beginning.

Ghana has been further testing FLEGT licensing and shipment procedures by issuing “dummy FLEGT Licences”

¹¹³ <http://www.flegtimm.eu/index.php/key-eu-countries>

¹¹⁴ <http://www.stats.flegtimm.eu>

¹¹⁵ <http://www.flegtimm.eu/index.php/64-resources/newsletters/no-1-winter-2017-18/17-vpa-implementation-in-ghana-on-the-home-stretch>

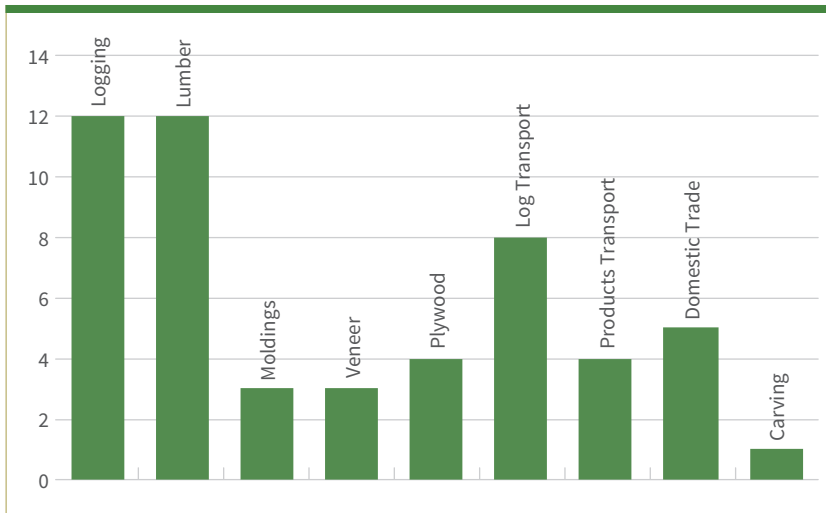


Figure A2.1: IMM 2018 Ghana Survey Respondents by Product Type.
Source: IMM 2018 Ghana Survey

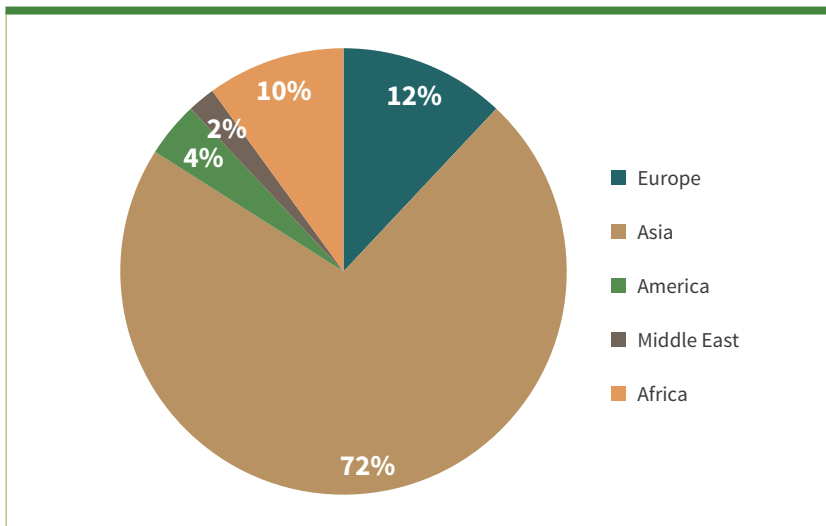


Figure A2.2: Share of Ghana's timber exports, by region. Source: TIDD

since September 2018. According to IMM's industry survey in Ghana, an area of concern flagged up during this test process has been a time lag in maintenance of the online WTS in some forest districts. Delays in uploading data on felling operations and log conveyance (LMCC) onto the computerised Wood Tracking System (WTS) have led to delays in issuance of dummy FLEGT Licences in some instances. However, improvements were made in the process and overall it has been reported to be working well, according to survey participants.

FLEGT Licence mismatches related to HS Codes or volume/weight of cargo, as they occurred when Indonesia first started FLEGT licensing, are not expected to become a major issue in Ghana, due to the much narrower product range exported to Europe – mainly sawn timber, veneer, and some joinery products – and the different process in issuing FLEGT Licences. In Ghana, the license is issued on site by a Forestry Commission official, after all legality

data and information of the cargo have been verified in the WTS and physical inspection of the containers to be exported carried out. In Indonesia, the Licence is applied for and issued in advance and remotely.

In 2018, the Forestry Commission (FC) of Ghana in cooperation with civil society organisation Civic Response also launched an online platform, the Ghana Timber Transparency Portal,¹¹⁶ for ensuring greater transparency of the Ghana Timber Legality Assurance System (GhLAS) and to provide public information on its reliability. The website provides real-time access to information on logging permits, exporting companies, timber sourcing areas, and exports to different markets. It can help companies perform due diligence on Ghanaian timber – for as long as this is still necessary – and give independent monitors in Ghana information they need to scrutinise the sector.

Generally speaking, the IMM Ghana report found that most respondents from all stakeholder groups remain supportive in principle of the VPA process. The majority of interviewees 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, contrasting attitudes and levels of information of the FLEGT VPA process among larger companies (exporters) and smaller enterprises, which the IMM correspondent had identified in 2015 and 2017, persisted in 2018.

Of the twenty companies interviewed by IMM, seven were medium-sized or large, export-oriented companies with own sawmilling operations and they all said they were ready for FLEGT licensing. Of the seven, three said they had been FSC chain-of-custody certified prior to the introduction of the WTS and didn't have any difficulties to adapt to FLEGT licensing procedures. The other companies said they were receiving training.

Companies interviewed by IMM continued to call for further training and capacity building, to ensure legality – in particular of domestic sales – and to improve other standards, including health and safety, along the entire supply chain. For the larger, exporting companies, training in using and direct access to the WTS databases to enable them to enter data into the system themselves rather than requiring FC staff to operate the system for them was mentioned as a next important step. A phased inclusion of timber industry operator staff into these

¹¹⁶ <https://www.ghanatimbertransparency.info/#!/home>

processes was also considered a possibility to help resolve delays in data capture that were mentioned by a number of interviewees.

Smaller players (non-exporting) interviewed by IMM said they did not yet understand how the WTS and GhLAS work. In 2018, a domestic market reform strategy (DOTNETT) was developed and two associations (DOLTA and DOLMAG) were assigned contracts to raise awareness among their members.

Ensuring adequate raw material supply remains a chief concern, especially among smaller players. The FC has made special provisions for small-size TUCs to be awarded to small enterprises. Small companies interviewed by IMM emphasised the importance of being able to pay timber rights fees for such TUCs in Ghanaian cedi rather than US dollars.

Timber sector and export trends

The Ghanaian forestry and timber sector has been on a downward spiral for a long period of time and industry contraction continued in 2018. The Ghana Timber Millers' Organisation (GTMO), which represents the major processors of wood, reported in April 2018¹¹⁷ that 96 timber companies had shut down in the past 15 years, thereby reducing employment in the wood processing sector by 75,000 to around 20,000. The IMM Ghana Report suggests industry contraction is linked, among other things, to declining availability of commercially valued wood species, which entails further competitive disadvantages such as underutilisation of plant capacity and increased costs of sourcing materials over long distances.

In 2018, five large companies dominated the wood processing and export business in Ghana. Three of these

companies are diversified in their product range and have invested in new technologies such as lamination, finger jointing and molding. One of these companies reduced production and exports considerably in 2018, running only its plywood operations, due to financial difficulties. Another company that had operated from two sites moved machinery to consolidate production on one site closer to its forest resource.

Newly emerging and small to medium-sized companies were not focused on investment in technology or product innovation. They rather installed thin-blade mobile sawmills and are located around forest fringes and in remote communities. There are no reliable data sources on the number of such companies active in Ghana

Ghana's timber exports stabilised with an only marginal overall decline of -2% (in volume) in 2018, after dropping significantly, by 15%, in 2017. Asia remained the dominant export market also in 2018, although unlike the other major markets it continued to shrink; in 2017, Asia had accounted for a 76% share in Ghana's timber exports.

Exports to Europe recovered slightly, after having declined or stagnated every year since 2011.

According to Eurostat, EU tropical timber imports from Ghana increased by 6.5% in value and 8.2% in volume in 2018. Germany remained the most important European market for Ghanaian timber, followed by Italy, Belgium and the UK. Sawn timber made up more than half of all shipments to the EU, while a quarter comprised veneer. Other products imported into the EU from Ghana in significant quantities were joinery products and mouldings.

More information on Ghana's timber trade with the EU can be found on the IMM Data Dashboard.¹¹⁸

¹¹⁷ Graphic Online, www.graphic.com.gh April 20, 2018

¹¹⁸ <http://www.stats.flegtimm.eu>



IMM

Independent Market Monitoring of FLEGT-Licensed Timber

International Tropical Timber Organization (ITTO)

International Organizations Center
5th Floor, Pacifico Yokohama, 1-1-1 Minato-Mirai
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FLEGT Independent Market Monitor

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