



In this issue

- 01 IMM 2018 Annual Report: FLEGT VPA Partners in EU Timber Trade 2018
- 05 IMM Annual Report highlights progress in overcoming market constraints to FLEGT-licensed timber
- 07 Global area of certified forest records first ever annual decline in 2018
- 09 New company eco-label embraces FLEGT and certification
- 11 Spanish provide different perspectives on FLEGT and VPA partner trade
- 12 Barcelona Workshop 1: Trends in the EU market for VPA partner timber
- 14 Barcelona Workshop 2: Recognising priorities and purchase dynamics for tropical wood products
- 16 Barcelona Workshop 3: Progress in VPA implementation in selected African VPA partner countries
- 18 New IMM study on forest sector investment reveals little FLEGT impact to date
- 20 IMM study finds architects value wood as a building material, but identifies issues surrounding tropical timber specification
- 22 Congo Republic establishes committee for overseeing rollout of TLAS
- 23 Cautious welcome for China's forest law illegal timber prohibition
- 24 UK international FLEGT communications project plans a busy 2020
- 25 Ghana industry launches FLEGT communication drive
- 26 UK TTF Tropical Timber Forum: Sustainability and Sales
- 28 Highway to hardwood market growth
- 30 IMM Annual Report analyses Indonesian timber imports
- 32 FLEGT licensed products biggest winners in EU tropical wood market

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

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PROJECT News

IMM 2018 Annual Report: FLEGT VPA Partners in EU Timber Trade 2018

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

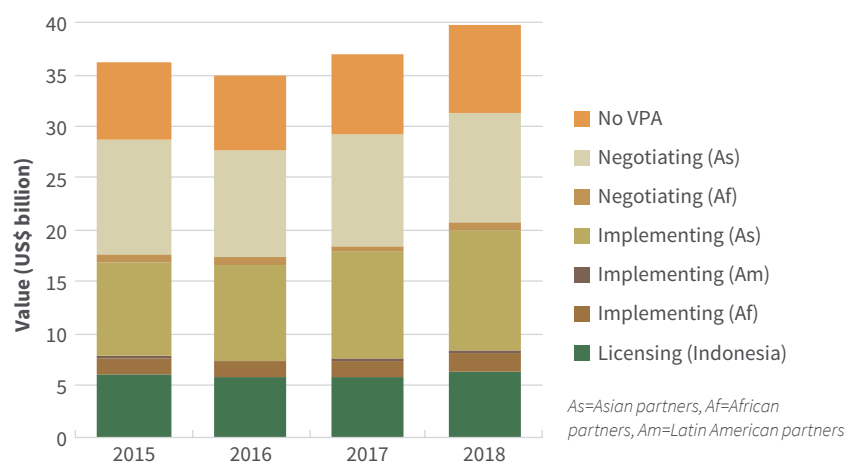


Figure 1: Global tropical wood-product trade, by FLEGT VPA status, 2015 to 2018.

Source: IMM-STIX

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

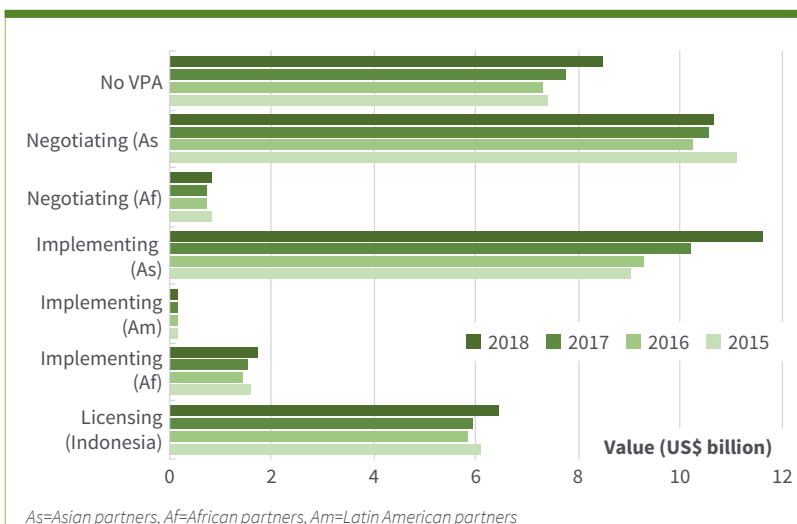


Figure 2: Tropical wood-product trade, by FLEGT VPA status, 2015 to 2018.²⁴ Source: IMM-STIX

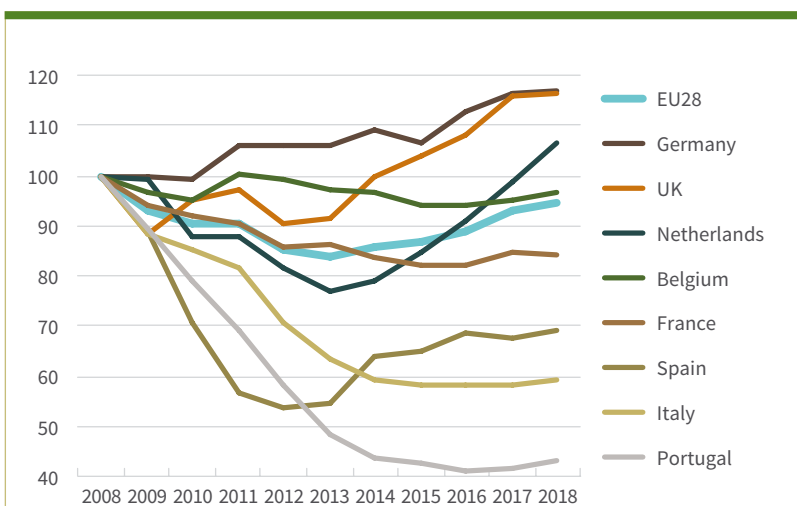


Figure 3: Change in construction production value in the EU and selected EU countries (2008 = 100). Source: ITTO IMM analysis of Eurostat

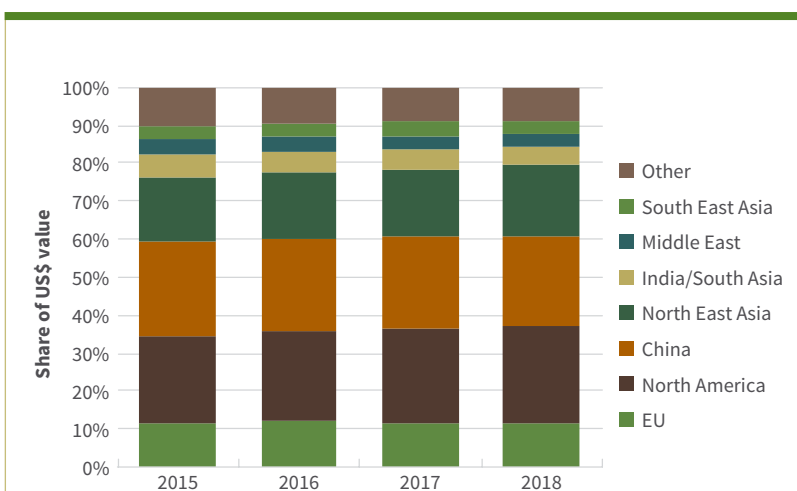


Figure 4: Trade in tropical wood-products, by region of import, 2015 to 2018. Source: IMM-STIX

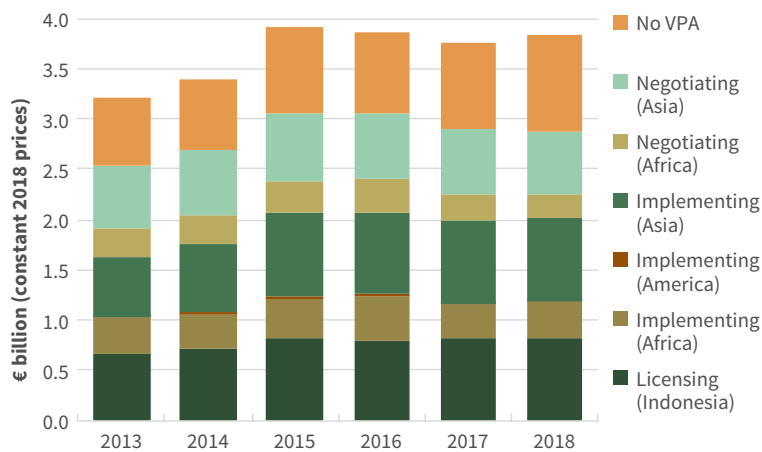


Figure 5: Value of EU imports of wood products from the tropics, by VPA status, 2013 to 2018. Source: ITTO IMM analysis of Eurostat COMEXT

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

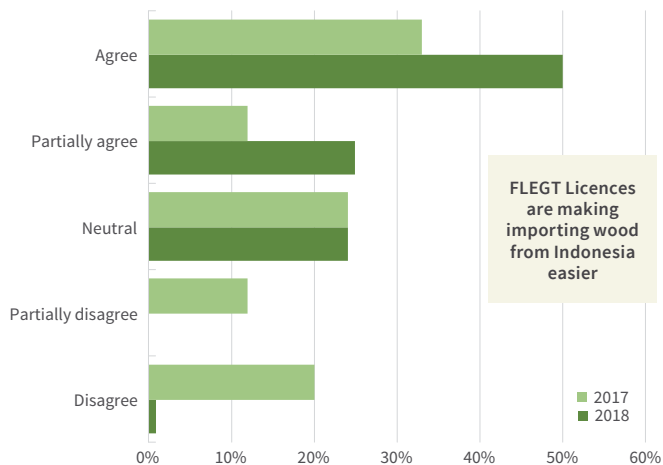


Figure 6: EU trade perceptions of importing FLEGT-licensed timber. Source: IMM 2017&2018 EU trade surveys

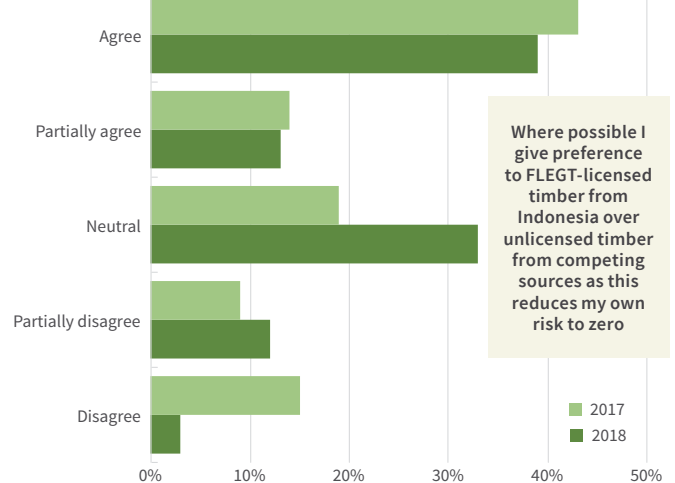


Figure 7: EU trade perceptions of importing FLEGT-licensed timber. Source: IMM 2017&2018 EU trade surveys

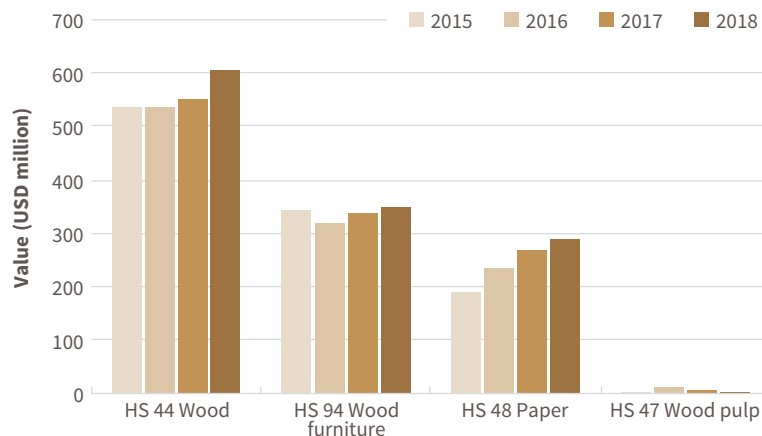
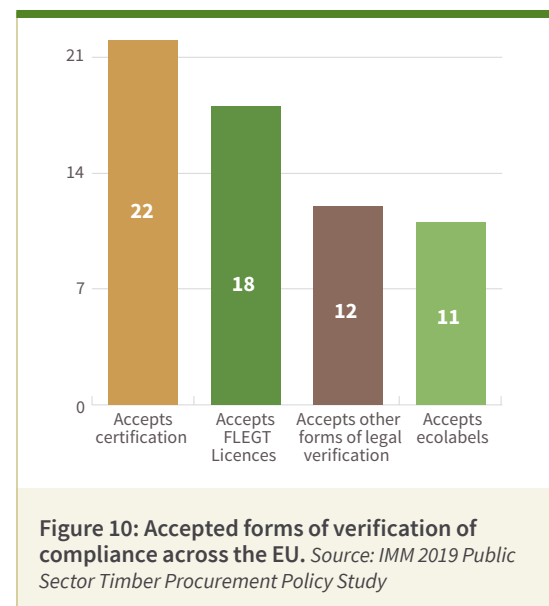
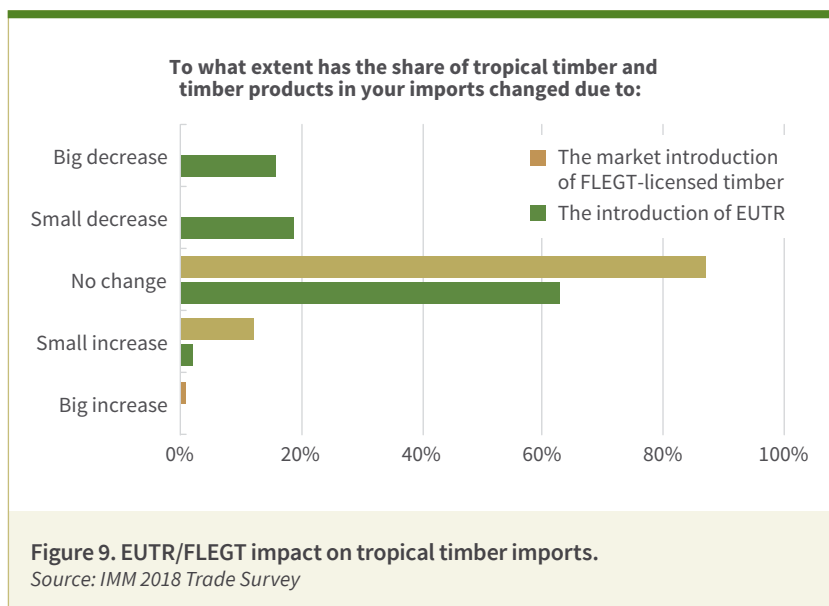


Figure 8: EU import value of timber and timber products from Indonesia, by product type – Years 2014-2018. Source: IMM STIX

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 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

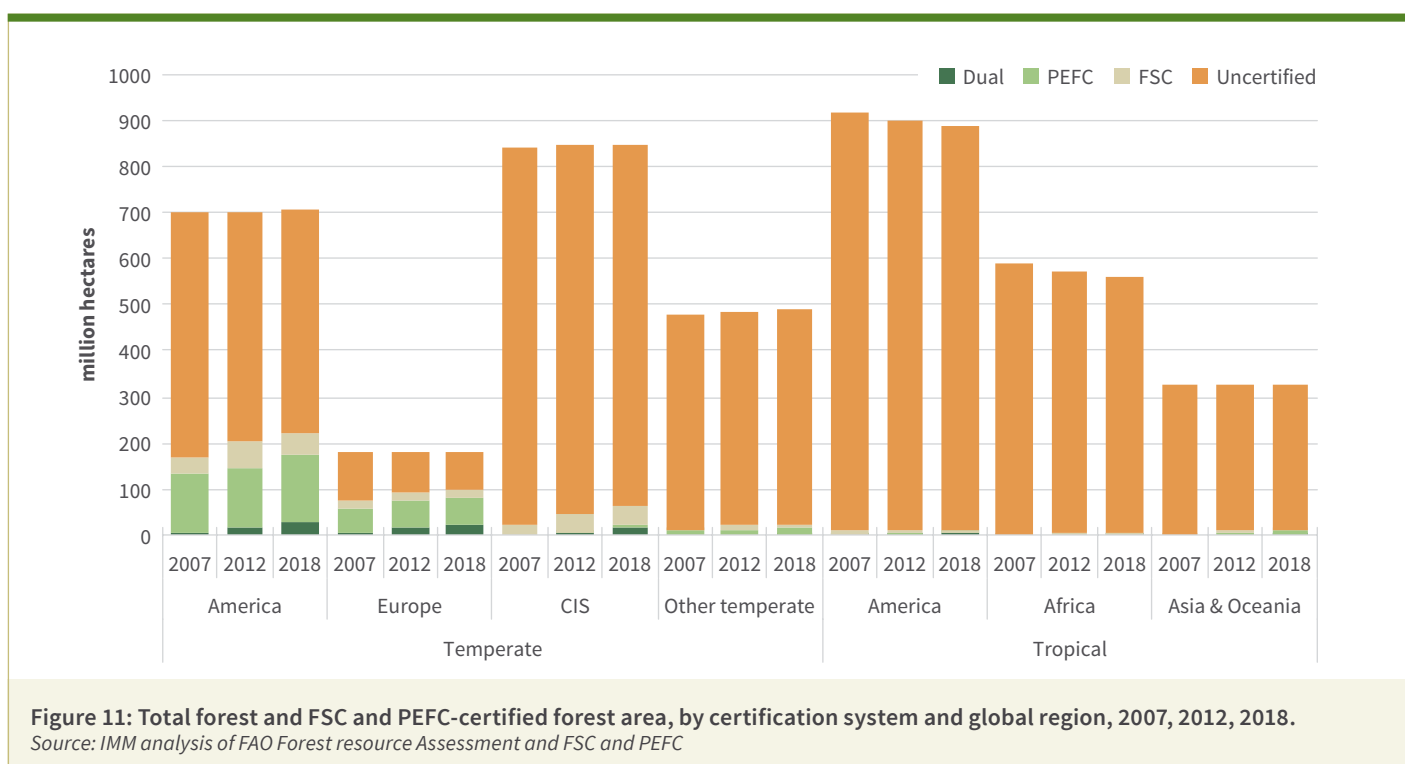
EU market. It also highlights that FLEGT licensing has a critical role to play in helping to reverse this trend, particularly for suppliers in Africa and South East Asia. Furthermore, the FLEGT licensing process may be particularly beneficial for smaller operators that have struggled to engage in private 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 Licences and to help overcome existing market constraints.

[Download the full report here.](#)



IMM Annual Report highlights progress in overcoming market constraints to FLEGT-licensed timber

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.

HS Code harmonisation and other Licence 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 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 license 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.

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. Bilateral work, with additional support of some individual EU Member States, on developing this system has been ongoing for some time.

The fact that the process wasn't fully electronic had been the major general point of criticism raised by EU traders

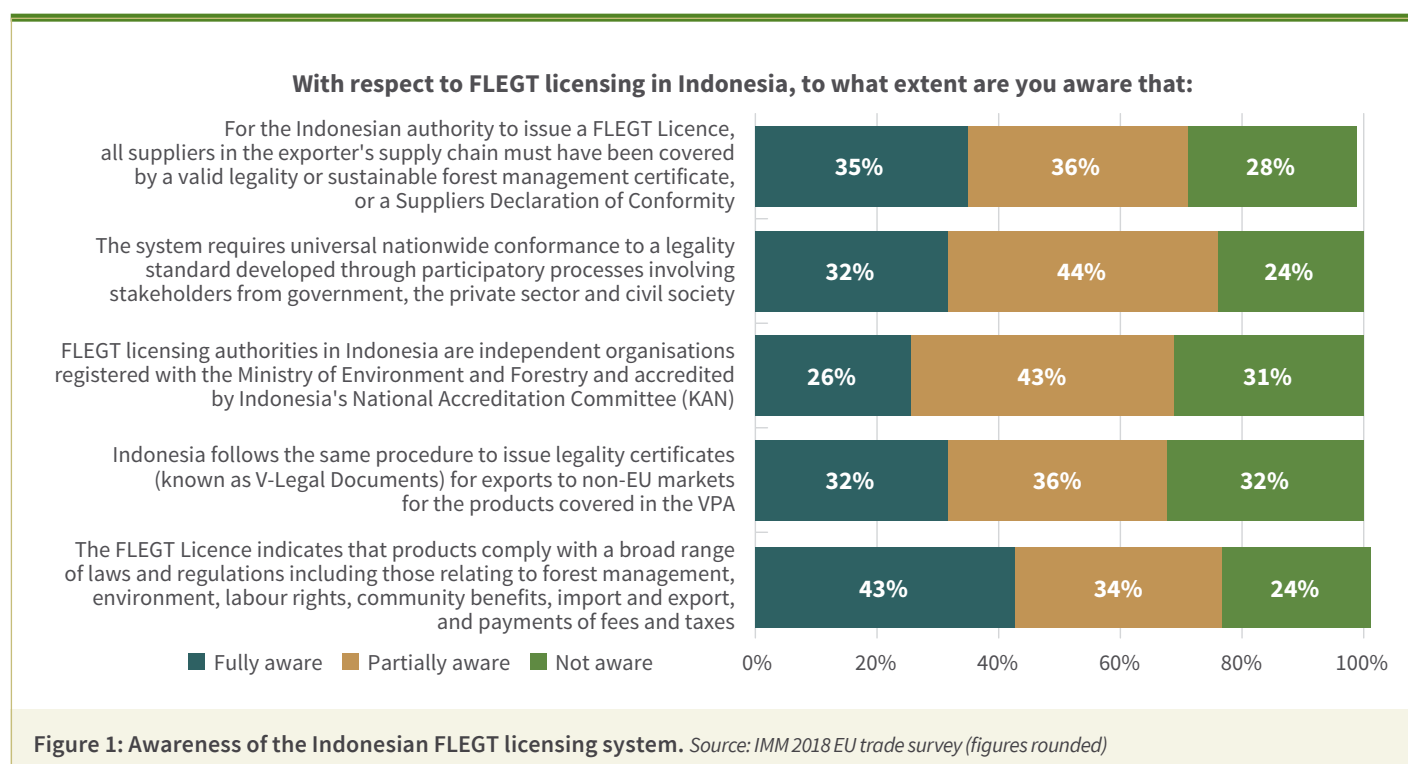
of the administrative procedures of importing FLEGT-licensed timber in 2017.

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 Forum 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 **website 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 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



Timber Transformer presented Indonesia's FLEGT VPA journey.



FLEGT-licensed timber website

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.

More information on Indonesia's Market Position and Prospects can be found in chapter 5 and information on EU wood promotion campaigns and influencers and their support of FLEGT in chapter 8 of the latest **IMM Annual Report**.

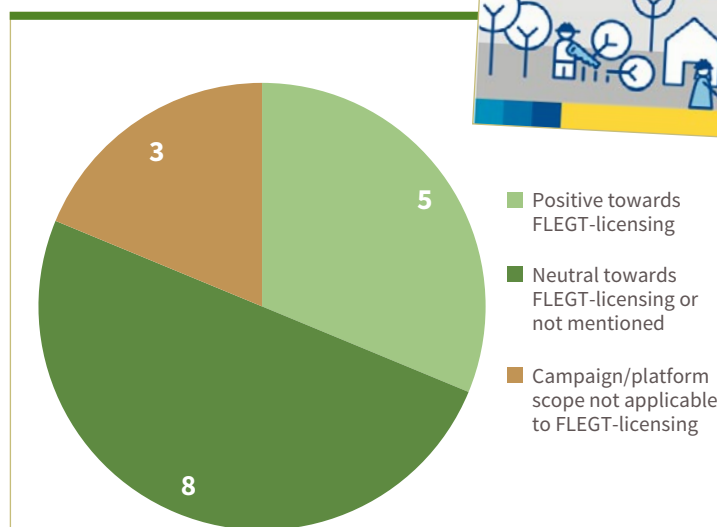


Figure 2: Wood promotion campaigns' position on FLEGT.
Source: IMM Wood Promotion Study (IMM 2019)



Global area of certified forest records first ever annual decline in 2018

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 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 Indonesian forest area and was dwarfed by the 23 million hectares certified to PHPL, Indonesia's national sustainable forest management standard.

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

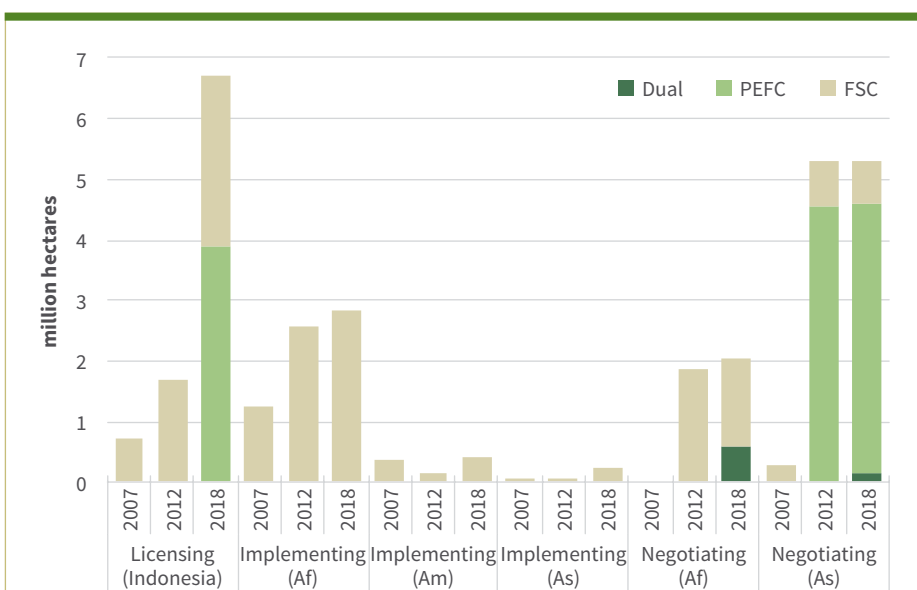


Figure 1: FSC and PEFC certified forest area in VPA Partner countries, by certification system and FLEGT VPA status.

Source: IMM analysis of FSC & PEFC data.

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 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.

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 (see Figure 11, page 4).

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

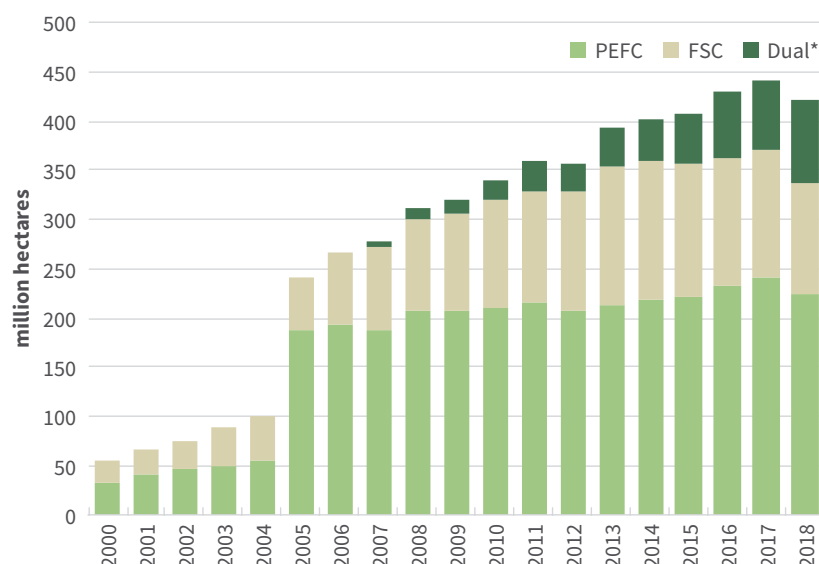


Figure 2: FSC and PEFC global certified forest area, by certification system, 2000 to 2018 . Source: IMM analysis of FSC, PEFC & UNECE data.

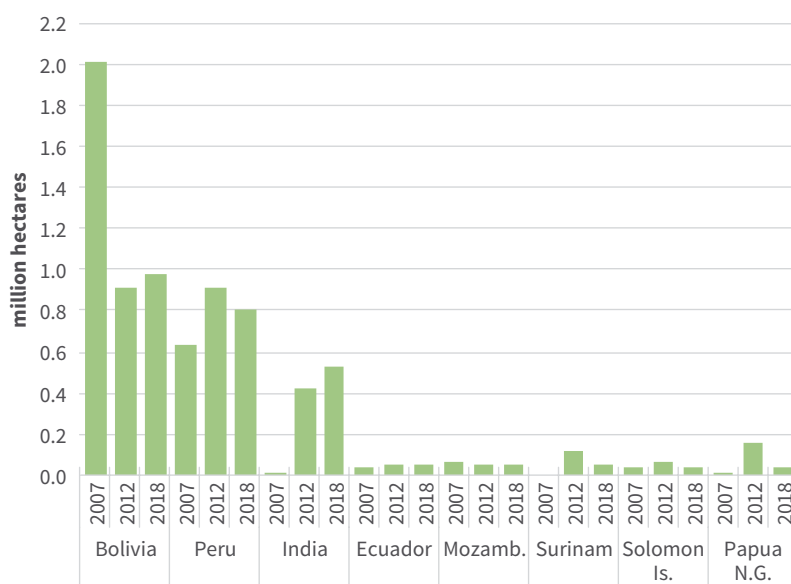


Figure 3: Certified forest area (all FSC) in leading non-VPA tropical timber supplying countries, 2007, 2012, 2018. Source: IMM analysis of FSC and PEFC data

other non-VPA countries in the tropics that are significant timber suppliers (Figure 3). Bolivia had 2 million hectares of FSC-certified forest in 2007, but this fell 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 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.

New company eco-label embraces FLEGT and certification

Fort Builders Merchant, a new business just launched by former UK Timber Trade Federation President Keith Fryer, is applying its own 'Fortified' eco-label to FLEGT-licensed and FSC and PEFC-certified timber without differentiation. The aim is to simplify and cut the cost of legality and sustainability assurance. IMM interviewed Mr Fryer on the company's innovative move.



Keith Fryer

IMM: You were previously co-owner and director of successful London-based timber and builders merchant T. Brewer. What was its policy in terms of ensuring and communicating legal and sustainable sourcing and what were their benefits and drawbacks as far as you were concerned?

Keith Fryer: We were at the forefront with chain of custody (CoC), in part because our business was centred on London, which has high demand for it. We wanted to make sure customers could sleep at night, knowing they had every box ticked. We broadcast our position very widely and worked with architects, specifiers and any others we wanted to engage, to promote CoC. It set such a positive position. But we would hit frustrations over some CoC policies, particularly when customers opted for an 'FSC only' position, which makes procurement of the right product specification unnecessarily difficult, without improving legality or sustainability. This has been a long-standing bugbear of mine; the politicisation and turf war battles between the two main certification bodies. They have not added any benefits, just negatives.

The 2012 Olympics was a great example. The building process initially used FSC and PEFC products, rating both as equal. The approach resulted in great products, great value and superb service. But the games organisers then switched to FSC-only and it caused utter chaos.

The greatest problem was the inability to put FSC and PEFC goods in one pile and sell them as legal and sustainable. That meant we had to separate products by scheme, which also reduced options when reordering, which in turn impacted quality, availability and price.

IMM: At your new business, Fort Builders Merchant, you have decided to take a new

route; to supply FSC and PEFC-certified and FLEGT-licensed timber, but undifferentiated and all under your own 'Fortified Timber' label signifying assured legality and sustainability. Can you explain how this works?

KF: The process is simple. We have an annual audit against our ex-stock timber products. These are all procured with a FLEGT Licence, FSC or PEFC certification. Our view is that any of these procurement lines default to legal and sustainable, so we can instantly make a fully legitimate claim accordingly for every piece of timber we sell. It is easy to do, we have almost no extra administration costs and most importantly it means customers get what we feel are all the important points covered: legality and sustainability assurance, quality, specification, service and price.

IMM: What was the wider background to your decision to adopt this strategy?

KF: We have built Fort to be a 21st century business, with operating systems that look forwards, using increasing levels of IT to reduce operating costs. In line with this, we wanted a streamlined, efficient approach to legality and sustainability verification. I had also become increasingly infuriated about the way the timber industry has been used as a cash cow by a huge range of entities in this area, each creaming off money, while giving little back. Since the advent of CoC we've seen no marked increase in forest certified by FSC or PEFC. They've sorted the low hanging fruit, certifying mainly temperate forests, and now it feels that they want to increase their influence and income by constantly increasing the administrative burden. Auditing is becoming a farce, with non-conformances issued for the most petty reasons; constant rule changes make it hard to keep up, but none of it seems to

give any gains to either end of the supply line. Against that backdrop we decided that Fort needed to give its customers security, without all the unnecessary complexities and burdens.

IMM: What is the auditing process behind the Fortified label?

KF: Again, it's very simple. We check our suppliers against the relevant databases to ensure that their FSC/PEFC certification is current and mandate them to supply all ex-stock items.

In the case of FLEGT-licensed goods we require proof the licence is valid from the supplier. Purchase orders are raised. From there we just work on the same basis as any other CoC chain, checking the documentation. An annual audit will be made to check these transactions. In the case of non-stock items we will start by attempting to source on the same basis, but if this is not possible, we will advise customers accordingly.

IMM: What would you say are the benefits for your customers of the Fortified label?

KF: Basically we're providing a simple way of proving legality and sustainability. We cannot pass on a CoC, but in our area the requirement for specific CoC is so low that this is more than adequate.

IMM: Do you think it will have branding and image benefits for Fort Builders Merchant?

KF: We're not sure whether it will or not. But the real purpose for Fort is to have a clear explanation for customers that they can hand on to their clients.

IMM: Did the fact that the UK government, uniquely in the EU apart from that of Luxembourg, accepts

FLEGT licensing as evidence of legality and sustainability on a level with PEFC and FSC certification also influence your decision?

KF: Yes. In fact, in my opinion FLEGT holds to a higher standard than FSC or PEFC. I think we should view them like financial securities. FSC and PEFC are corporate-backed securities. FLEGT is government-backed. Ultimately it's stronger.

IMM: Do you think there is potential for other companies to adopt Fort's approach?

KF: We really do hope so. We want others to consider this, either as a legitimate verification process, or as an intermediate step towards full-blown CoC. We want to help other businesses to lower their operating costs and improve their ability to source legal and sustainable products more easily, thereby improving the chances for better specifications and quality due to greater availability.

IMM: What has been the initial reaction of your customers?

KF: We're still at a very early stage to give any hard data, but we know that most customers only take a mild interest. It will only become of real interest when their clients either make enquiries, possibly retrospectively, or specify legality and sustainability. In those instances we can give them that complete assurance. Obviously if they insist on a specific CoC then we will be unable to supply, but we reckon that will be extremely infrequent.

IMM: What is your wider view of the potential of the FLEGT VPA initiative and FLEGT licensing – and do you feel they are sufficiently understood in the timber trade?

KF: FLEGT Voluntary Partnership Agreements (VPAs) with supplier countries have a range of benefits for them by reducing poor practice, making their timber more marketable and adding value to their forests. It also shows the EU taking responsibility and, provided it maintains a strong stance on the initiative, combined with rigorous, uniform enforcement of the EU Timber Regulation, exporting countries will see that they need to do on legality and sustainability to get their timber products into the EU. For the UK and wider EU timber trade it provides a supplier-country-wide, government-backed system of legality and sustainability. There's still a huge amount of work needed to improve awareness of FLEGT in the trade, but that will improve as availability increases.

Keith Fryer (right) and some of Fort Builders Merchant's first customers



Fort Builders Merchant

Fort is based near Hungerford in the south of England, about 65 miles to the west of London. It stocks the full spectrum of building products, with its timber range covering principally construction and exterior products.

Mr Fryer was previously co-owner-director of London timber and builders merchant T.Brewer. The business was sold to builders merchant giant Grafton, where he became Timber Products Manager at its Buildbase division. After his period as President, he remains active in the UK Timber Trade Federation and the Confederation of European Woodworking Industries, CEI-Bois.

IMM: You started your career in the UK timber sector over 30 years ago. How has its commitment on and approach to legal and sustainable sourcing developed during that time?

KF: What we've seen is a huge change in market attitude. Back then I didn't really admit what I did when socialising, because it often ended badly, with the assumption that I was a rainforest destroyer. Now it has reversed so much that sometimes timber traders are even seen as saviours of the environment

(not often, I admit!). We're essentially doing the same job as we were 30 years ago, but what has really changed is that, through engagement between trade, NGOs and government, we have established and committed to strong regulatory frameworks. We know it's an ongoing process with plenty left to do. But we now have the mechanisms to facilitate legal and sustainable sourcing and at the same time to demonstrate the trade's deep-rooted passion for and commitment to good forestry around the world.

Spanish provide different perspectives on FLEGT and VPA partner trade

The EU IMM Barcelona Trade Consultation gave voice to a range of Spanish trade opinion on prospects for VPA partner timber and market requirements for legality and sustainability assurance. Among key issues raised at the October 7 event was the regional administration of the EU Timber Regulation (EUTR) in Spain. Delegates questioned Spanish Competent Authority representatives on the operation and effectiveness of its approach.

Concerns were also expressed about ongoing lack of recognition of EU FLEGT licensing on a level with certification in most EU national government timber procurement policy. In addition, the more than 30 delegates, representing operators, traders, federations, and manufacturers, shared their own timber purchasing criteria, and views on the reasons for and

ways to address the decline in EU demand for timber from VPA partner countries.

Insights from speakers on development of the FLEGT VPA process in African countries also sparked discussion on the progress of the initiative overall and, again, the relation of FLEGT with certification.

Like the four previous IMM national trade consultations, the Barcelona event was very much a trade forum. Presentations delivered timber market analysis, findings of latest IMM reports on timber procurement policy and FLEGT VPA updates. These then provided a stepping off point for workshops for delegates to express their views, raise questions and share strategies and solutions for the future of the market and FLEGT.

Moderator Andrew Escott of the Global Timber Forum reiterated the



Tom ter Horst

message from earlier consultations, that the function of the IMM was not to promote the FLEGT initiative. “Its role is to provide objective monitoring and analysis of market trends, impacts and perceptions of FLEGT, which feeds back to the EU and FLEGT-engaged countries to inform development of the initiative,” he said. “That’s why we want your honest opinions; not just the positives, but also where you feel there is scope for change and improvement.”

Lead Consultant Sarah Storck said the EU IMM’s trade consultations themselves formed an essential part of its monitoring activities around the FLEGT VPA initiative and licensing. “They play a valuable role in developing our picture of trade perceptions of FLEGT, together with our annual EU trade surveys, and monitoring of VPA partner countries, their trade flows and trends in price, supply and production,” she said.

The consultation was held in association with Spanish Timber Trade Federation AEIM and the European Forestry Institute FLEGT Facility, taking place at the Sant Pau Art Nouveau complex, where the Facility is based.

EFI communications expert Tom ter Horst also highlighted the importance of trade input for the EU FLEGT initiative and wider forest policy. “The decisions we make today on forests and the environment are key for the lives of future generations,” he said. “But we can’t just sit here and tell people how important the forests are without talking to those involved day to day in the forest sector and the reality of business and purchasing decisions. The commercial sector is a fundamental part of this equation and from this exchange the hope is we will go away with more knowledge and ideas on how to maintain the forests and their environmental benefit.”



Delegates in discussion



The Barcelona Trade Consultation venue, the Sant Pau Art Nouveau complex

Trends in the EU market for VPA partner timber – background, reasons and solutions

The opening workshop gave delegates the chance to discuss the state and outlook for FLEGT-licensed timber; the challenges and opportunities, market constraints and how to tackle them. Titled ‘Trends in demand for VPA partner timber – Background, Reasons and Solutions’, the context for discussion was set by IMM Trade Analyst Rupert Oliver. He provided a statistical snapshot of the international market for timber from VPA partner and competing countries, with a particular focus on exports to the EU.

The analysis covered timber products from VPA partner countries classified under HS codes 44 (wood and wood products) and 94 (furniture) and showed continued global trade growth over the last 15 years.

“That the global trade has expanded may come as a surprise to some,” said Mr Oliver. “But it’s pretty much down to a single country, Vietnam. Its growth, chiefly in furniture exports to the USA, has been impressive, with exports recently increasing by around \$1 billion per annum, making it today the biggest tropical timber supplier.”

Significantly, he added, Viet Nam has a ‘very ambitious programme to implement its VPA’. Once this is achieved, Viet Nam has potential to ‘transform the market for FLEGT-licensed timber’.

Of particular interest in the context of FLEGT licensing, he highlighted the widening trade gap between Viet Nam and the second biggest tropical timber exporter, Indonesia, the only FLEGT licensing country to date. Factors behind

this trend is something the IMM project is now considering in more detail.

Of VPA partner countries, the lead African exporter is Cameroon, a major supplier of tropical wood products to the EU and the biggest to Spain. A decade ago, African countries had been expected to develop trade in value-added goods, said Mr Oliver, but this has not materialised on any scale and they remain principally primary product suppliers. “Policies to drive African transition from exports of primary to more processed products have had only limited success,” he said. “That’s principally due to the increase in demand for raw material from China and south east Asia and the accompanying decline in importance to African suppliers of the EU market.”

The Chinese market for tropical timber has been volatile in recent years. It hit a peak in 2014 due to a speculative boom in demand for rosewood, then shrank as this ended and the economy slowed. “Chinese buying recovered some ground in 2017 and 2018 but prospects in 2019 remain uncertain, particularly due to the trade dispute with the US,” said Mr Oliver.

Other lead consumers of timber from VPA partner countries are the US, mainly in the form of furniture, and Japan, which sources a range of processed products from across south east Asia and biomass from Viet Nam.

EU now fourth largest import region for tropical timber

From being the world’s leading import region for tropical timber, the EU is now

fourth biggest, with its market share dropping from 35% in 2004 to an expected 21% this year. Total EU tropical timber imports in the first half of 2019 increased 16%, with Spain’s rising 20%, but it remains to be seen if this was a ‘bump in the road’, a statistical blip, or the start of sustained growth.

Certification might have been expected to underpin the EU market for tropical timber, but there is now a question mark over its potential to support recovery in demand, said Mr Oliver.

“The certified forest area has expanded, but it’s been principally in temperate countries with their more regulated markets and established forest governance, essentially the low-hanging fruit for certification schemes,” he said. “Certification coverage in tropical countries remains small.”

The question he put to delegates was whether FLEGT had potential to reinvigorate EU demand for timber products from VPA partner countries. One market benefit it was perceived as having, he said, was scale, with FLEGT VPAs and their associated legality assurance systems covering whole countries, and FLEGT licensing, once achieved, applied to all exports to the EU.

FLEGT VPA countries also accounted for the majority of EU tropical timber imports, so their FLEGT-licensed products, when available, conceivably could be a significant market factor. Overall, VPA countries provide around 75% of EU tropical timber imports; Vietnam and Indonesia 21% each, African VPA implementing



Delegates discuss the issues



Rating market development strategies



Rupert Oliver

countries 10%, negotiating countries 7%, and Asian negotiating countries a further 16%. Currently Honduras and Guyana, both negotiating, export small volumes to the EU, but, it is felt, with opportunity for growth.

Market challenges and constraints

Delegates were subsequently presented with ten challenges and constraints in the EU market for products from VPA partner countries, listed in order of importance by previous IMM Trade Consultations, and asked to rank them from their experience.

1. Tropical timber substitution by other materials and products
2. The state of the EU economy
3. Diversion of VPA partner timber to alternative markets
4. Declining wood quality and range due to past over-exploitation
5. eNGO campaigns and their impact on tropical timber's market image
6. Competition from China both for supply and in finished product markets
7. The EU Timber Regulation
8. EU market risk aversion
9. Growth in just-in-time manufacturing favoring local timber supply
10. The growing prevalence of prefabrication in the EU and its requirement for more tightly specified products and materials



Lively debate

Spanish Competent Authority questioned

Representatives of the Spanish FLEGT and EUTR Competent Authority MAPAMA told the Trade Consultation their role was very much to support industry regulatory compliance.

One representative said the organisation handles an average 140–150 FLEGT licences monthly and works closely with Spanish customs and the Indonesian authorities to ensure effective, efficient processing.

EUTR administration and monitoring is carried out on the ground by 17 regional authorities, while MAPAMA is the hub of the operation. The Spanish CAs' compliance checklist is based on the UK's, as one of the first countries to develop one, and they operate a risk-based inspection strategy focused on a range of criteria. They also act on intelligence and substantiated concerns and complaints raised by third parties, including NGOs.

"But we don't see our primary role as prosecuting regulatory breaches," said a representative. "Via the regional authorities, we support industry compliance through due diligence training and workshops. In the event of non-compliance, we first issue remedial notices. Sanctions are a last resort."

One delegate said that the devolved approach on EUTR administration risked discrepancies in approach from region to region, raised concerns over unfair competition and had potential to cause trade confusion. Assurance was needed that they operated to a common standard.

According to the CA, there are measures to ensure this, including a national control plan for regional authorities. They also had a sectoral conference and centrally administered training. MAPAMA was additionally looking at introducing more advanced sample testing on a national basis, following the example of the UK and Germany in particular.

"Some regional authorities may be slower than others in their general administration, but we are overall stepping up efforts to ensure their uniform operation nationwide," said one of the CA representatives.

They added that larger operators were not dealt with any differently by Spanish competent authorities and all companies faced the same risk-based scrutiny.

Spain was also reported to be the only EU country requiring companies to make an annual 'responsible declaration', identifying themselves as operators under the EUTR.

Spanish timber companies saw things differently to earlier consultations. They still ranked substitution of VPA partner timber products with alternatives, such as temperate hardwoods, wood-plastic composites, modified and engineered softwoods, as an important market factor. But they rated the EUTR as the biggest brake on business with tropical countries that have yet to implement licensing. This was followed by substitution, eNGO influence, Chinese competition, the state of the EU economy and wood quality.

The high ranking of the EUTR, said one importer, could be due to a perceived recent step-up in enforcement in Spain, resulting in increased risk aversion, and the Spanish approach to administering the regulation, covered later in discussions with the representatives of the Competent Authority, the Ministry for Agriculture, Food and Environment (MAPAMA).

Delegates also flagged up insufficient marketing of timber generally and timber from VPA partner countries in particular. "The approach is very fragmented and also very reactive, notably responding to critical environmentalist campaigns

and initiatives,” said one. “We need to be proactive, to collaborate and agree on common messaging.”

Delegate workgroups discussed how best to communicate and raise market awareness of the FLEGT VPA initiative and FLEGT licensing and their potential to support and help grow EU sales.

Echoing views at previous Trade Consultations, a number of delegates urged creation of branding for FLEGT. Others stressed the importance of communicating the range and availability of product from FLEGT VPA-engaged countries. “In Spain particularly we need to know more about the Indonesian industry and its products as it’s not currently a major supplier for us,” said an importer.

The wider social, economic and environmental impacts on the ground of FLEGT VPAs, over and above their timber legality assurance, also needed to be better understood and communicated, said delegates.

There were also calls for VPA partner countries themselves to be more

proactive in marketing and, as one delegate said, ‘to communicate with one voice’. “This is effectively what certified companies do via the FSC and PEFC,” she said. It was also considered important for VPA countries to cooperate on communications and for Indonesia and Ghana [as the first country to issue FLEGT licences, and the one expected to start next] to lead the way.

Regulatory approach and government procurement put first for market development

Ranking strategies for developing the EU market for VPA partner timber, delegates put a regulatory approach, e.g. the EU Timber Regulation, first. As in all previous IMM trade consultations, none voted for market deregulation.

Government procurement policy was placed as the next most significant market influencer. Subsequent discussion underlined that the key change desired here was for EU Member State governments to give equal preference

to FLEGT-licensed timber as FSC and PEFC-certified. Currently only the UK and Luxembourg do so.

“Government procurement shapes private sector procurement and without its approval it is going to be difficult to build private sector awareness and trust in FLEGT,” said a delegate.

The next most highly rated market development strategies were:

- increasing awareness of VPA partner timber’s carbon and LCA credentials
- value-addition prior to export by VPA partner countries
- matching VPA partner timber products to application for better targeted promotion
- communicating the technical performance of VPA partner timber products to specifiers
- and improving supplier-buyer business-to-business communication.

Among other recommendations for maintaining and building market interest in FLEGT were more regular bulletins on the progress of suppliers through their VPA process.

WORKSHOP 2

Recognising priorities and purchase dynamics for tropical wood products

Like all manufacturing and construction materials and products, timber has to meet customer and specifier criteria on price, quality, performance and availability. But arguably more than most competing materials, it also has increasingly to satisfy procurement policy requirements on proof of legality and sustainability.

This was the premise of Workshop 2 at the Barcelona Consultation; ‘Recognising priorities and purchase dynamics for tropical wood: Assessing how supply chain relationships develop and the relevance or impact of FLEGT Licences’.

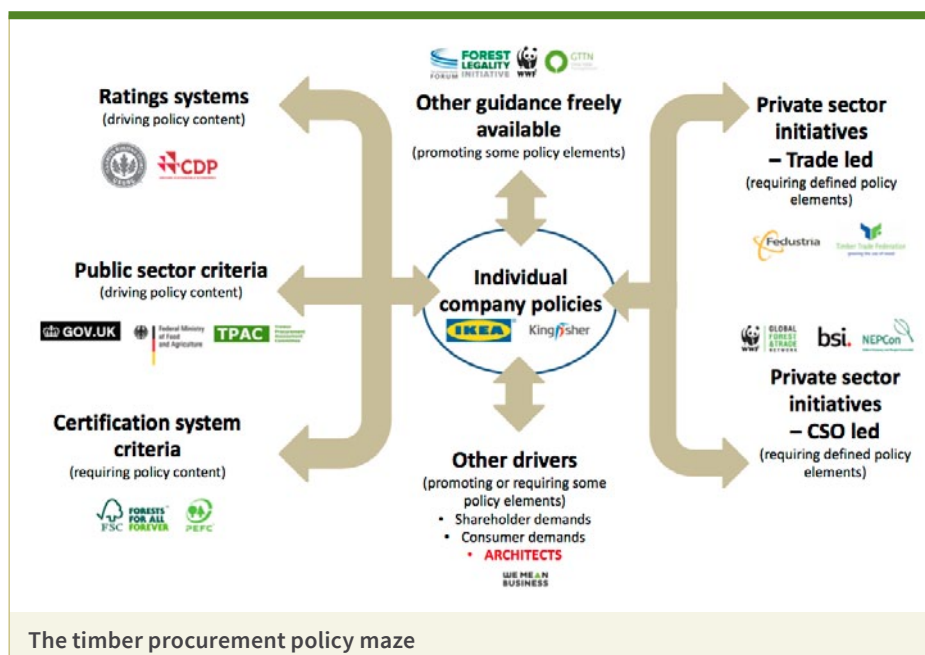
Speakers and delegates addressed customer criteria on sustainability and legality, acceptable forms of proof (including the relative trust placed in certification and FLEGT licensing) and to what extent these factors were actually considered important purchasing considerations in the marketplace.

George White opened discussions by summarising studies on private and public sector timber procurement he has led for IMM.

The private sector study looked at the significance of 65 potential influences on procurement policy. Of 20 major EU timber buyers covered, 19 had a defined



George White



procurement policy. Sixteen incorporated certification as a requirement and 13 legality verification, but only two mentioned FLEGT. The conclusion was that there is 'still a long way to go' for FLEGT to become established as an EU private sector procurement requirement.

The public procurement study showed 22 EU member states currently operating specific timber procurement policies. They all accept certification as proof of legality and sustainability (albeit applying different definitions of these terms). Of these, 18 recognise FLEGT licensing in some capacity, but only the UK and Luxembourg on a level with FSC and PEFC certification. Others accept licensed goods only where certified are not available, or as proof of legality only.

Moreover, the study reported that only two EU countries operated mandatory local government timber procurement policy. As local authorities account for 70% of all government procurement, that left 'considerable room for non-compliance'.

From these findings, the conclusion was that currently 'EU government procurement was not a remedy to drive [market acceptance] of FLEGT licensing'. It also seemed unlikely to become so without a 'push for more mandatory procurement policy'.

Architects as market influencers

The next IMM study, now underway, is looking at the role of the EU's 500,000 architects as timber market influencers and the factors shaping their materials specification. It is assessing the importance of their role in construction supply chain decision making, their wider knowledge and perception of wood generally and tropical timber in particular, their information sources, the importance they attach to proof of sustainability and their awareness and perceptions of FLEGT.

The study is also evaluating the influence of green building schemes in timber use and their acknowledgement of FLEGT. From their experience, delegates said architects had a poor environmental image of tropical timber, little knowledge of its technical performance and would have limited if any awareness of FLEGT. "Some have simply rejected tropical timber's use, largely on environmental grounds," said one.

The consensus was that the profession was worth targeting, but required focused communication.

Customer requirements

Delegates were also asked to share their views on other factors shaping the timber business and customer purchasing decisions, and particularly the role sustainability and legality play in the latter. They represented a broad spectrum of the industry, with product areas including sawn tropical hardwoods, hardwood generally, decking, plywood, constructional timber, engineered wood products, flooring, joinery, and veneers. Sources of supply were also wide ranging, including Brazil, the US, China, other European countries and Africa – notably Cameroon. Customer sectors ranged from merchant/wholesalers and joinery manufacturers, to shopfitters, carpenters, and hospitality fit-out specialists.

Broader market concerns included

Spanish and wider European political and economic uncertainty and Brexit and its potential impact on Spanish tourism. On the wider international stage, US-China and US-EU trade tensions were adding to economic anxiety, as was slowdown in the Chinese economy.

Other market factors mentioned included the price suppressing impacts of online retail, reinforced by the market-shaping strategies of big timber product and retail brands – the so-called 'Ikea effect'. An ongoing decline in traditional woodworking skills in the EU was also said to be driving imports of more finished timber products.

On the part played by sustainability and legality verification in the marketplace, the consensus was that the most common definition of the former was FSC or PEFC certification. At the same time, some delegates said that still few people further down the supply chain, other than those involved in public or blue-chip private projects, had sustainability requirements. One participant estimated it was mentioned by just 5% of his customers. Some customers were willing to pay a premium for certified timber, generally where they needed it to secure a contract or to meet the requirements of green building schemes.

No delegates reported customers asking for or inquiring about FLEGT-licensed wood products. This was thought to be partly because only Indonesia was issuing FLEGT Licences and it was not a major supplier to Spain. "If Cameroon was licensing, there might be more awareness," said one participant. But others said the 'natural assumption' that wood was legal also limited wider FLEGT interest. It also meant that they could not charge a premium for licensed goods.

Some felt communicating the wider social and environmental impacts of the FLEGT VPA process might help raise its profile. However, one delegate questioned whether the average wood consumer was interested in this aspect of the supply chain story, any more than the 'average person buying a t-shirt from Zara'.

Indonesian FLEGT systems firmly embedded

Puri Listiyani, Director of Indonesian Trade Promotion Centre, Barcelona, told the Consultation that FLEGT systems in the country were today firmly established and that licence processing was 'easy, fast and efficient'.

A total of 23 million ha of forest and 4,200 timber producers had been FLEGT-audited, and between 2013 and 2018 Indonesia had exported \$54 billion of timber and wood products certified under its SVLK timber legality assurance system – the TLAS underpinning FLEGT. Since 2016, when Indonesia started licensing, its exports had included 80,000 FLEGT-licensed shipments.



Puri Listiyani



Considering factors shaping customer procurement decisions

WORKSHOP 3

Progress in VPA implementation in selected African VPA partner countries and challenges facing EU companies in timber production in Africa



Chris Beeko

Ghana is at final joint assessment stage of its FLEGT Voluntary Partnership Agreement and keen to promote its achievement, what it means on the ground and to counter ‘myths’ about the value of FLEGT. That was the message from Chris Beeko of the Ghana Forestry Commission, opening Workshop 3 of the Trade Consultation, which focused on FLEGT implementation progress in Africa and the experience of EU producers operating on the continent. Underlining Ghana’s commitment to broadcast its latest VPA developments, said Mr Beeko, he had recently been part of an awareness-raising mission to five EU countries.

“Our final joint assessment looks at whether the Ghana Legality Assurance

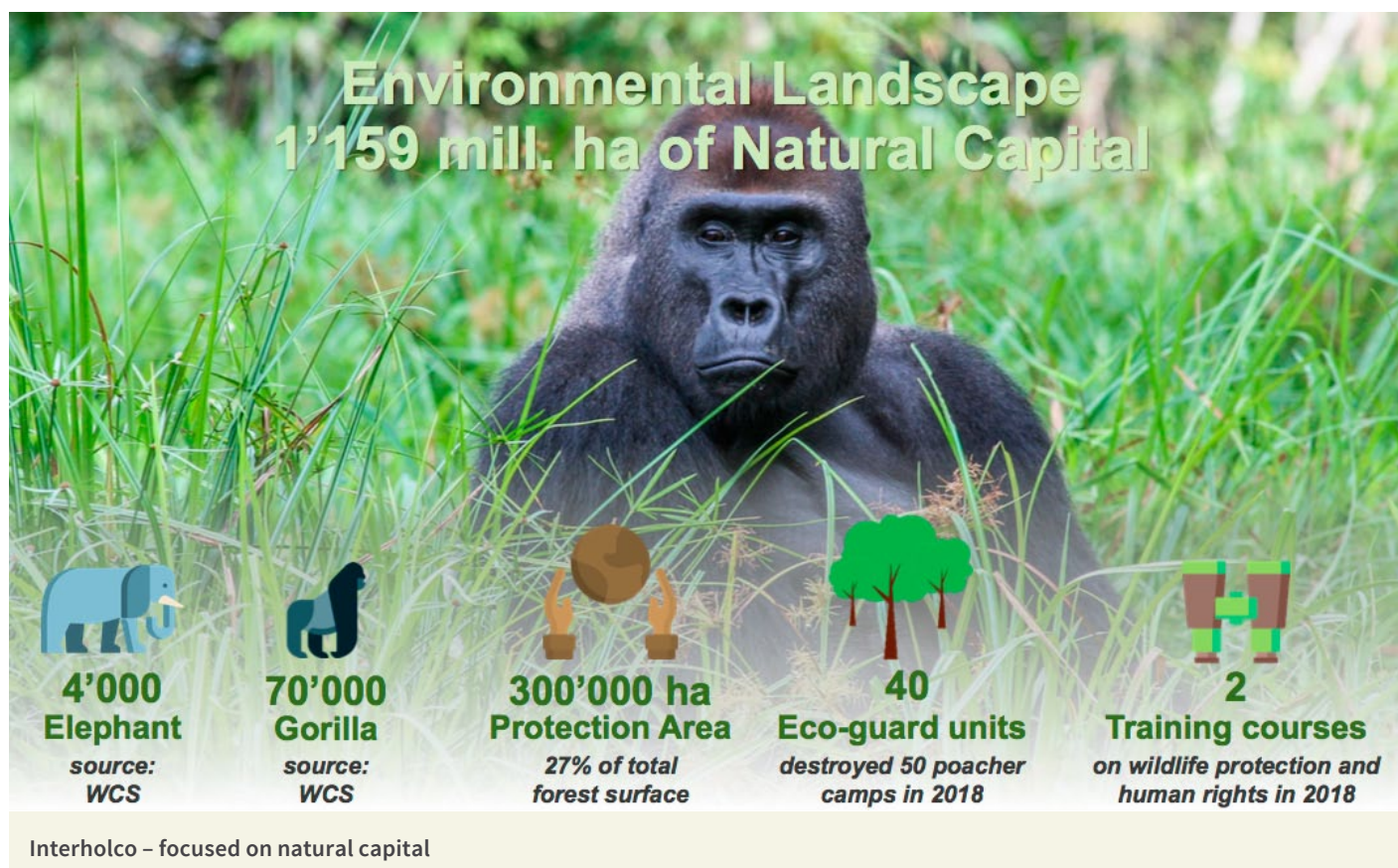
System delivers the intended results, the capacity of the country to implement it and if amendments to the system, recommended following the first technical evaluation, have been made – which it concluded they had,” said Mr Beeko. “It also evaluated capacity to apply FLEGT Licences, alignment of legal timber right holdings with the current legal regime and whether timber harvesting is in line with forest management rules.”

The next steps, he added, would be to take remedial actions on non-compliance identified by the assessment team. The latter would then ensure these were adequate before submitting a report to the Joint Monitoring and Review Mechanism (JMRM).

Depending on the report’s findings, the latter would subsequently ‘communicate Ghana’s readiness for licensing’.

While the technical process continued, said Mr Beeko, it was also key for Ghana to tackle gaps in market knowledge about FLEGT, particularly relative to certification. It needed to be better understood that it ‘transformed national level [forest] governance’ and, in ‘strengthening the underlying forest audit process’ actually ‘benefited certification’.

Claims that FLEGT ‘lacked chain of custody’ and that this was a weakness relative to certification, were also misleading, said Mr Beeko. In fact, traceability and monitoring were inherent in FLEGT. “Generally, the gap between operation of FLEGT and



certification is very small,” he said.

To improve market understanding, he reported, forest and environmental advocacy organisation EcoCare Ghana had published a booklet ‘Communicating Ghana’s FLEGT-VPA Journey’, targeting EU policy makers, timber trade and consumers. “A FLEGT Licence,” this states, “is more than just a piece of paper attesting to legality. It is a product of painstaking multi-stakeholder processes and technical systems development.”

Critically, concluded Mr Beeko, the broad value of FLEGT needed to be highlighted to EU member state governments. “Currently FLEGT Licences still play ‘second fiddle’ to certification in most member state procurement policies,” he said.

Delegates were also given latest VPA news by Laurent Cerbonney of the EFI FLEGT facility from two other African countries at implementing stage, Cameroon and Republic of Congo (RoC).

The Cameroon Forestry Ministry was reported to have made progress in its VPA information transparency commitments, although there was ‘still more to do’. The country completed a stock take this year and is developing a new [VPA] roadmap for 2020–2026.

“A new forest code is in place and VPA legality definition revision is ongoing,” said Mr Cerbonney. Cameroon also had a strong

tradition for stakeholder participation in forest monitoring and several multi-stakeholder structures were established. Priorities now include validation of the Cameroonian forest rules and [VPA] implementing decrees, establishment of a VPA monitoring structure and further improvements in transparency and stakeholder capacity building.

The RoC is two years into its latest five-year implementation plan. With its next VPA Joint Implementation Committee meeting due in November, it is now in the process of deploying the online legality verification system (SIVL) component of its TLAS. In terms of meeting VPA transparency obligations, the Forestry Ministry now publishes information on its website and a new forest code is due to be voted on soon, while implementing decree development is ‘pending’.

“An independent auditor also conducted seven audits from 2018–19 and the government is working on non-compliances,” said Mr Cerbonney, adding that the RoC also had a number of multi-stakeholder structures in place.

Next steps include national roll-out of the SIVL, legal framework and law enforcement improvements, legality grid revision and development of VPA impact monitoring.

Challenges and imperatives for FLEGT in Africa

Pascal Chomont of Swiss-based Interholco, one of the biggest European forest product suppliers operating in Africa, described the environmental, social and economic benefits of legal and sustainable forest management. Its IFO subsidiary in RoC manages the biggest FSC-certified forest concession in the world, covering over 1m ha. It employs 1,000 people, while 16,000 live within its forest’s borders. It harvests one to two trees per ha on 30-year cycle, sets aside 300,000ha for biodiversity conservation and its ‘eco-guard’ force destroyed 72 poacher camps in 2016 alone.

He described initiatives like REDD+ and FLEGT as ‘important to the operating environment and business conduct’ in RoC. Until FLEGT licensing begins, he said, Interholco was having to ‘check everything itself to ensure EUTR compliance’. He also described evaluation of third-party suppliers in Africa as a ‘time-consuming, expensive’ process.

“We currently have to explain to producers the importance of transparency and to support improvement of their forest management,” said Mr Chomont. “This will all be much easier when FLEGT is implemented.”

IFO, he added, is actively involved in RoC’s FLEGT process and has taken part in pilot legality audits. “A national traceability system is not ready yet, but IFO

has also been chosen as a test company to put a chain of custody in place.”

In the last decade, mirroring the experience of other African-based producers, Interholco’s sales to environmentally conscious countries of Europe and North America have declined, while those within Africa and to Asia, where ‘legality/sustainability is not a real issue’, have grown. “This does not motivate further investment into sustainable forest management,” said Mr Chomont. “Environmentally conscious countries are wary of tropical wood, which is why it is important FLEGT is implemented as soon as possible. It is also up to importers to convey a positive image of African tropical timber and to continue to offer it.”

Delegates asked speakers for more on the time frame for Cameroon and RoC VPA implementation and also said that it remained difficult to obtain documentation required for EUTR due diligence from Cameroon suppliers.

Mr Cerbonney pointed out that both countries’ VPAs required ‘a lot of change’ in their forest and timber industries, which inevitably took time. But he reiterated that RoC’s SIVL legality verification system was close to implementation and also that development of application software for Cameroon’s TLAS is scheduled to be a beneficiary of the “PAMFOR” forest and governance funding agreement between it and the EU. These could both potentially support EUTR due diligence information provision, as could the VPA process overall as it progressed.

At the same time, Mr Chomont said it was still important in the due diligence process for EU operators to visit African suppliers and evaluate their procedures on the ground.

There was also backing from delegates for more cooperation and alignment in Africa and elsewhere between FLEGT and certification. “The two need to develop hand in hand,” said one.

Mr Cerbonney agreed they were complementary. “FLEGT makes sure everyone follows the law, providing a good basis for certification”, he said.

Mr Chomont felt that FLEGT and private certification could and should be ‘mutually reinforcing’. “It might take time to achieve this, but if we don’t act soon interest in doing so will decline,” he said.

Mr Beeko also stressed that FLEGT’s social, environmental and economic benefits gave it ‘strong elements of sustainability [assurance]’. “The market still has too narrow a perception of FLEGT,” he said. “We need to highlight these other aspects more strongly – that sustainability components are embedded within it.”

Cameroon VPA Priorities

Upcoming Joint Priorities (QRI)

- Validation of the Forest law and implementing decree
- Establishment of a VPA monitoring structure
- Stakeholders capacity building
- Improve transparency

Republic of Congo VPA agenda

Upcoming Joint Priorities

- National roll-out of the SIVL
- Improved legal framework
- Steerage of the VPA process
- Improved effectiveness of law enforcement
- Development of VPA impact monitoring
- Inter-ministerial committee coordination with new support actions

New IMM study on forest sector investment reveals little FLEGT impact to date

IMM has published a new 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.

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 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 Licence 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

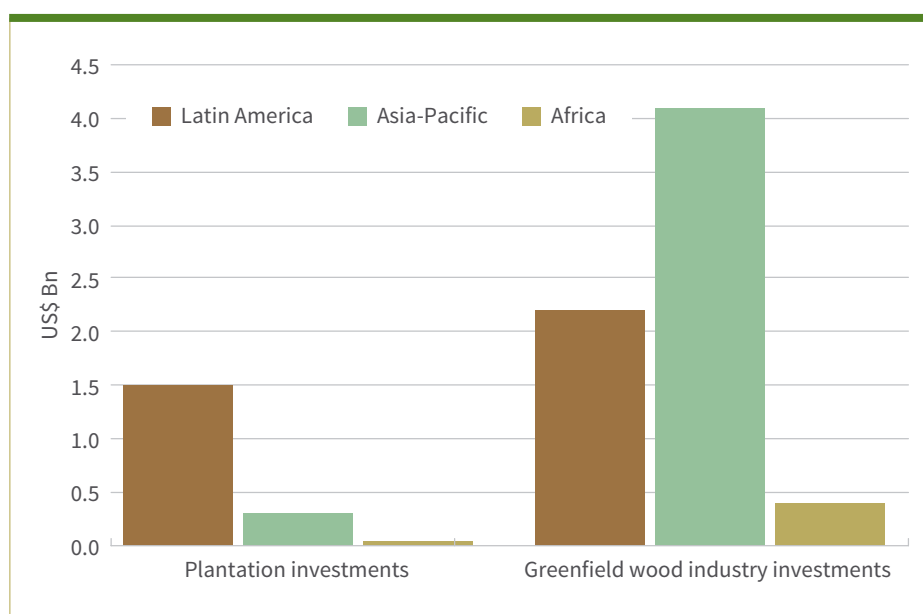


Figure 1. Average annual investments 2010-15 in emerging market forest sectors.

Source: (Criterion African Partners, 2017)

long-term strategy for monitoring of forest sector investment flows.

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. All types and sizes of forest sector investors were approached for the survey.

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);

| 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 |
| Vietnam | 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 1: Forest investment data availability by country.

Source: (BPS, 2018), (GSS, 2018), (Statistics Office of Vietnam, 2017), (National institute of Statistics Cameroon, December 2018)

- 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.

Data availability found to be a major constraint

Data availability is a major constraint when assessing investment volumes for FLEGT VPA countries. Among the countries reviewed by the IMM study, Viet Nam, 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 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.

All investors interviewed for the study recognised this risk mitigating potential of FLEGT

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.

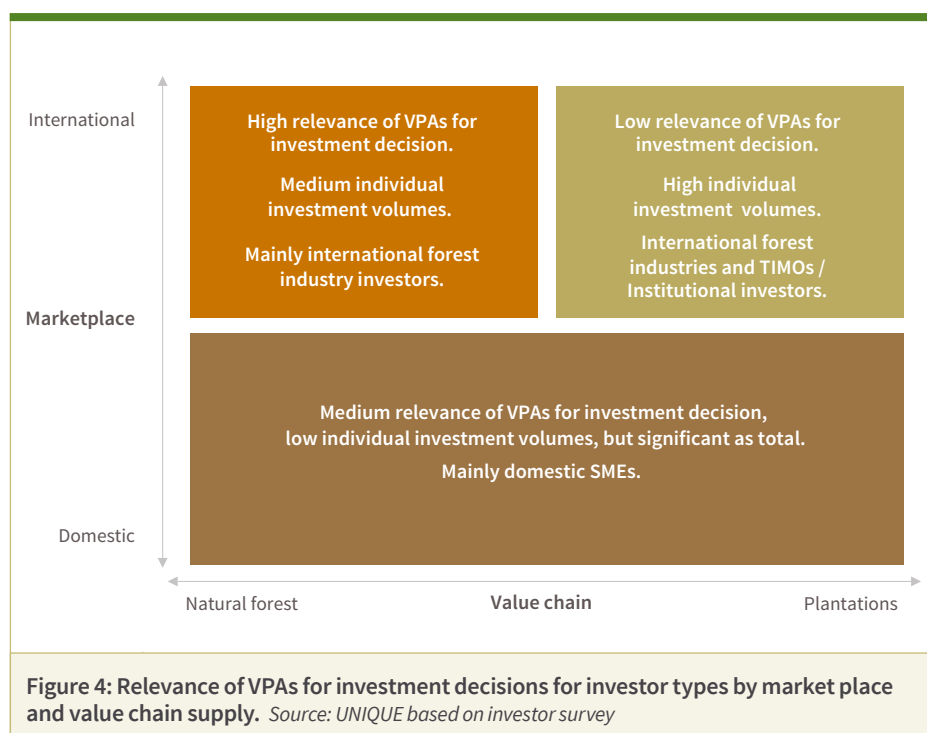
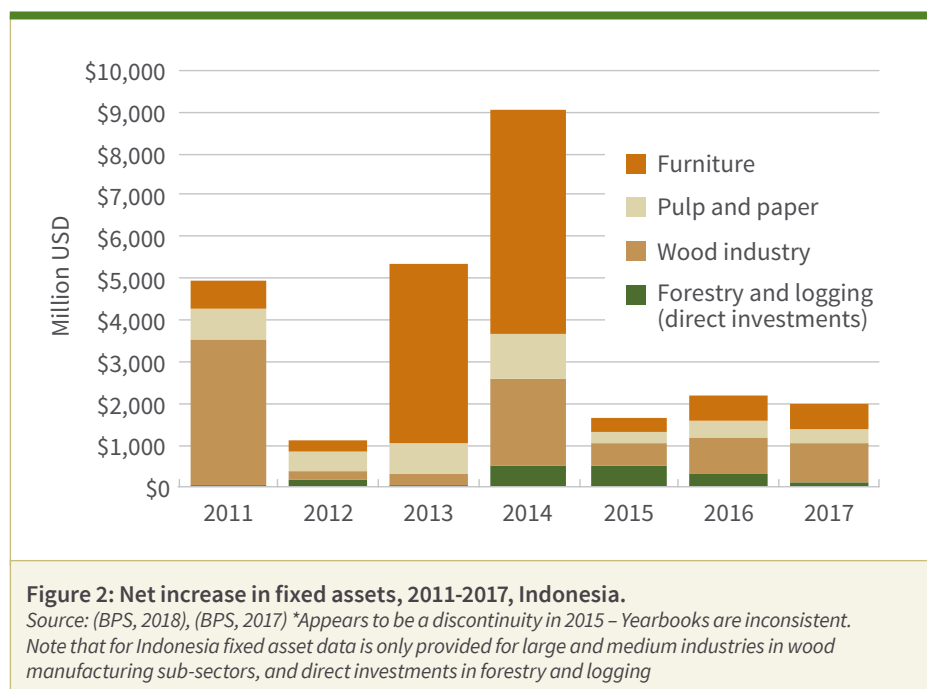
Investment in forestry depends on a set of factors. Each of these factors is tested by investors for opportunities and related risks before taking an investment decision. If the risks outweigh opportunities, an investment will not be realized. From the perspective of an investor in the forest sector, risks are typically grouped into three categories :

- **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.

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



Vietnam - a regional timber processing hub

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).

To read the full report, [click here](#).

IMM study finds architects value wood as a building material, but identifies issues surrounding specification of tropical timber

Europe has an estimated 565,000 architects with over half of these operating in the seven main EU Member States that import and consume timber originating in tropical countries. More than one third of the world's largest architectural practices are based in in the EU and these practices influence architecture far beyond the EU's borders.

Previous IMM research of the private sector has indicated that architects and specifiers play a vital role in the route to market of timber products. Their awareness of material choices and attitudes towards sustainability and legality of production have been identified as key to developing markets for wood products.

Architects play a role across all sectors utilising wood from the private sector to public sector and infrastructure projects and their professional perceptions and attitudes towards wood, especially tropical wood and levels of knowledge of forest certification and the FLEGT process are not widely understood.

Architects are also influenced to varying degrees by several hundred 'green building

initiatives' that seek through standards and ratings to play a role in shaping the use of materials and their means of production. Compliance with such standards has begun to have a bearing on the specification process for many architects.

The survey involved 22 architects from nine different EU Member States ranging in size from small to very large practices, including eight of the world's largest architectural practices. The sample included six of the Europe's largest architectural practices.

The study indicates:

- Architects value wood as a construction material and it is widely perceived as offering multiple technical and aesthetic advantages.
- The study indicated that wood came second only to concrete across a broad range of 35 technical and performance criteria.
- Architects perceive themselves as having most control over material specification.
- The most favoured form of assurance of sustainability and legality was self-identified as timber certification.



The Haut building, Amsterdam; architects increasingly value wood as a construction material.

Photo Team V Architectuur



Issues were raised on specification of tropical timber.

Photo Natruflief Architects

- Amongst surveyed architects levels of awareness of the EU-FLEGT programme and the EU Timber Regulation were low.
- A number of issues surrounding the specification of tropical timber were identified.
- Carbon footprint associated with the distance between production and end use was identified as the main negative issue.
- Of over 50 green building initiatives assessed a significant proportion specify or give credit to timber certification systems.
- Only a small number of green building initiatives indirectly refer, or specify, and then give credit to FLEGT or timber with verified legality.

The study concludes with a series of recommendations to increase uptake through specification of timber carrying a FLEGT Licence:

Engage with the World Green Building Council to raise awareness of the value of FLEGT licensing with a long-term goal of gaining credits for its use in Green Building Council affiliated programmes.

Certified green building projects are set to increase and such programmes play a key role influencing material choices. Whilst some standards currently encourage the uptake of certified wood, only a small proportion allow solely FLEGT-Licensed materials to be used. Only through recognition and credit within these standards will FLEGT licensing become of greater value to many projects and WGBC could play a pivotal role in raising awareness and increasing use of FLEGT within standards.

Support the efforts of the private sector within FLEGT countries, especially those with TLAS systems, to promote the benefits and positive impacts of these systems.

FLEGT licensing and the supporting TLAS systems are business-to-business tools and systems which presently are not widely understood and whose benefits are either not known or which are 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

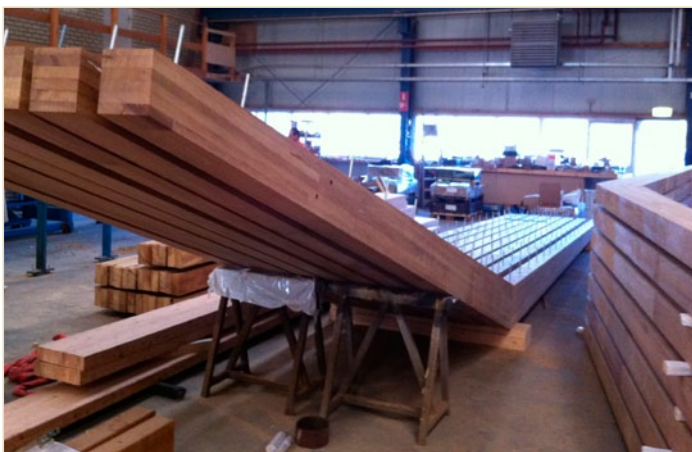
originating within the VPA countries designed for a business audience are vital to building trust in the system. The evidence suggests that architects are mindful of the advice offered by their materials suppliers. Equipping these suppliers to confidently offer FLEGT-licensed products can build the market over time and better inform architects.

Actively engage those civil society organisations and private sector organisations that seek to influence the green building programmes and their standards.

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. Only through recognition and credit within these standards will FLEGT licensing become of greater value to many projects.

Engage the professional bodies representing architects to increase awareness of the FLEGT process.

The study indicates a low level of awareness of FLEGT itself, Voluntary Partnership Agreements, FLEGT licensing and the EU Timber Regulation. An important stakeholder group is daily making decisions on the choice of materials that has no understanding of the value and achievements of these processes. Many architectural bodies run continuing professional development courses for architects and these offer an excellent opportunity to increase awareness of FLEGT processes. **The full study will soon be published on the IMM website.**



Making iroko glulam in the Netherlands – architects favour third-party certification as proof of legality and sustainability.

Photo Natruflief Architects

In 2018 The Republic of the Congo exported 1.1 million m³ of timber, with 82.5% destined for Asia and 15.5% the EU. Photo CIFOR

Congo Republic establishes committee for overseeing rollout of TLAS

The 11th meeting of the FLEGT Voluntary Partnership Agreement (VPA) Joint Implementation Committee (JIC) between the Republic of the Congo and the European Union was held in Brazzaville from 20–21 November 2019. The **aide-memoire** of the meeting has been made available on the FLEGT VPA website.

Presentations during the technical session (Day 1) included updates on latest and ongoing developments, with a highlight on the country's Timber Legality Assurance System (TLAS). A first demonstration of the system's **online portal** (SIVL) and functionalities was made. The SIVL, which currently consists of two initial modules (taxation; and special logging permits) out of 17 ultimately, is to be further interfaced with existing systems at the level of Tax and Customs, the Ministry of Finance & Budget, logging companies, as well as information systems pertaining to the Extractive Industries Transparency Initiative (EITI).

In line with the VPA commitments

in terms of access to information, the latest reports of the TLAS Independent Auditor have been validated and should be published shortly.

Other recent developments that were covered during the technical session included the validation of the FLEGT VPA communications strategy and the release of the **2018 VPA Joint Annual Report**. Participants were also provided with further clarification regarding the nature and scope of the developing Standardised External Independent Monitoring System, which is currently being developed based on its Cameroonian counterpart to enhance and complement the work of the mandated Independent Forest Monitor in Congo.

The high-level session (Day 2) was co-chaired by the Republic of the Congo's minister of Forest economy, Rosalie Matondo, and Ambassador Raul Mateus Paula, head of the EU delegation in the Republic of the Congo. Importantly, it was announced during the session that

the long-awaited decree establishing the inter-ministerial committee in charge of overseeing roll-out and funding of the TLAS, had been signed by the President of the Republic the day before. This represents a critical step forward in the government taking full ownership of the TLAS.

Next steps in VPA implementation include further communication with private sector operators around the uptake and use of the SIVL. This will be carried out by the ATIBT in collaboration with the Ministry of Finance and Budget and the *Cellule de Légalité Forestière et Traçabilité* (CLFT – the government body in charge of legality verification).

The ATIBT has played a crucial role in fostering private sector inputs into the revised forest code, the re-examination of which will take place in the final Parliamentary session of 2019. Of particular concern to the sector are tentative provisions about the mandatory share of processed products being brought up to 100% of timber exports (instead of 85% today), and a yet-to-be-specified production-sharing scheme, whereby part of the timber harvested by companies (or the proceeds of sale) would go to the government.

In 2018, the country reportedly exported nearly 1.1 million m³ of timber, of which 82.5% were destined for Asia, against 15.5% for the EU.

The newly recruited IMM correspondent for the Republic of the Congo attended the JIC meeting and gave a presentation on the role of the FLEGT IMM and its proposed scope in the country. All stakeholders welcomed this as an opportunity to access reliable statistics and analysis on timber trade, timber prices, and the impacts of FLEGT on the forest sector. A section dedicated to the work of the IMM has been included in the work plan of the 2019 VPA Joint Annual Report.



The country's computer-based Timber Legality and Traceability Verification System (SIVL) has been demonstrated. Photo CIFOR



Chinese border timber marshalling yard. Photo EIA

Cautious welcome for China's forest law illegal timber prohibition

The inclusion of a specific prohibition on buying illegal timber in China's forest law revision has been greeted as an important advance by many observers, including governments and NGOs. But potential gaps have also been identified in its provisions and more details on administration and enforcement will be needed before it can be judged whether the amended legislation brings a major new combatant into the battle against the international illegal timber trade.

A draft of the amendments was released by the Chinese National People's Congress for comment end of October 2019, with the review period opened until November 29 2019. A final version of the revised law is expected to be unveiled before the country hosts the UN Conference on Biological Diversity in Kunming this year from October 15–28 (COP15).

This is the first time China's forest law has been updated since 1998 and much of the change in the draft applies to its domestic forestry and timber sectors.

The revised forest law comprises nine chapters and 84 articles and the main principle behind the revisions is 'ecology first'. That's the view expressed in an internal memo (based on an unofficial translation) by the UK Department for International Development (DFID), which operates the Forest, Markets, Governance and Climate international forest reform and anti-illegal timber programme (FGMC). The new draft, says DFID, adds a chapter on ownership, stipulating the legitimate rights to forests, trees and woodland of the state, collectives and individuals. It states that the objective in management of public-welfare and commercial forests will be a healthy, high quality and effective forestry ecology

system. Forest resource protection is strengthened and cutting of natural forests prohibited. The revisions also promote increased forest cover and lay out the basis of controls on cutting volumes, licences and timber transport.

However it is Article 65 of the revised law which has particularly caught international attention. This states that 'no entities, nor individuals shall buy, process nor transport illegally sourced timber'. DFID said for China to prohibit illegally-sourced timber was 'a significant step forward'. At the same time, however, it remained cautious about the prospective impact of the changes to the law given what it describes as "present lack of coordination among Chinese customs, and the Ministry of Natural Resources (NFGA) and Ministry of Commerce". The capacity and knowledge of relevant government agencies, in particular customs, it said, was another challenge.

"Law enforcement would require clearer allocation of roles and responsibilities between the NFGA and Ministry of Public Security (MPS) and their respective line agencies, in particular, the forestry security bureaus," stated DFID. "They played key roles in China's forestry protection since its establishment back to 1984 and before reported to both NFGA and MPS, while now only reporting to MPS. A better coordinated system is needed to move ahead." It also pointed out that the information disclosure adopted in other countries' environment-related laws and regulations is not included in China's revised law.

Timber flows to regulated markets increasing

The 2018 EU FLEGT IMM Annual report highlights the growing significance of market legality requirements around the

world for the timber sector, but also the commercial significance of those markets still without such requirements, notably China and India.

In 2018, says the report, 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. The latter comprised the EU, Australia, Indonesia, Japan, Malaysia, Norway, Iceland and Lichtenstein, the Republic of Korea, the USA and Viet Nam.

At 66%, the proportion of exports from VPA partner countries to regulated markets was even higher, with 11% destined for the EU, 28% for the USA, 13% to Japan, 7% the Republic of Korea and 3% Australia. Among VPA partner countries, Viet Nam had the highest proportion of imports going to these markets at 83%, followed by Indonesia at 70%.

The value of total tropical timber exports to unregulated markets in 2018 was \$15.6 billion, with 55%, or \$8.6 billion destined for China. Based on these figures, if China could be included among countries with regulatory measures to eliminate illegal trade, markets regulated for legality would account for over 80% of all international tropical timber trade.

EU-China cooperation

The EU and China have been discussing timber legality and market requirements with one another for 11 years via their Bilateral Co-ordination Mechanism (BCM). The aim for the EU has been to help bring Chinese procurement muscle to bear on the battle against illegal trade. The BCM holds an annual forum, which alternates location between the participants, and agrees an annual workplan. It acts as a conduit for exchange on the EUTR and FLEGT VPA initiative and is also focused on informing and supporting evolution of the still embryonic Chinese Timber Legality Verification System (CLTVS).

The BCM also provided technical input for the Chinese National Forest Products Industry Association's development of a timber-legality verification standard, backed by the UK-China Collaboration on Forest Investment and Trade programme (InFIT) and Chinese Academy of Forestry (CAF) and envisaged as forming a key element of the CLTVS. "In all the discussions, it has been clear the Chinese authorities are aware that mandatory rules on legality of timber imports is the missing link," said InFIT Team Leader Dr Zhang Junzuo.

DFID said it expected to see more interpretation and guidance on the revised Chinese Forest Law 'to make it more practical for various parties during implementation' and hoped to see more details provided.

UK international FLEGT communications project plans a busy 2020

Project manager Lucy Kamall said that the UK Timber Trade Federation's (TTF) government-backed FLEGT communications initiative got off to a 'great start' in 2019, raising FLEGT's profile and communicating its value at a range of events. It also has a busy programme for 2020, which will include a design project based around products from VPA-engaged countries. In addition, it is reaching out on FLEGT to Chinese trade associations.

The TTF initiative is funded by the UK Department for International Development under its Forest Governance, Markets and Climate programme (FGMC). It will run for two years and has an EU-wide focus.

Last year the project team communicated its aims and messages at the IMM Trade Consultation in Barcelona and the Sustainable Tropical Timber Coalition Conference in Berlin, where TTF Managing Director David Hopkins took the topic FLEGT and Certification – Achieving mutual benefit.

"We also promoted the benefits of FLEGT and VPAs at the Brussels Furniture Fair. We took a stand, showed videos on FLEGT and FLEGT Voluntary Partnership Agreement countries from the EFI FLEGT facility, distributed fliers and targeted furniture companies using tropical timber with FLEGT messaging," said Ms Kamall.

"And the year culminated for us with the sold-out Tropical Timber Forum in London. This was organised under the initiative and attracted an engaged and vocal audience of UK and European timber traders, forestry organisations and NGOs. They demonstrated that interest in and demand for information on tropical timber, FLEGT and VPA supplier countries is high."

The message from the TTF project is that FLEGT and certification have shared aims; establishing standards for forestry and frameworks for timber legality and sustainability assurance. It maintains that the two have many criteria in common and that FLEGT can, in fact, add impetus to achieving assured legality and sustainability in tropical countries, where the progress of certification has stalled.

"It is now recognised that certification of tropical timber is not catching on, with just 6.5% of tropical forest certified. The system is too difficult and prohibitively expensive for local small and micro businesses that are prevalent in the region," said Ms Kamall. "As a national, government-backed initiative, FLEGT can accelerate progress towards legal and sustainable forest management. In providing a nationwide framework a country can adapt, get behind and say is 'theirs', it is also more likely to have lasting success, regardless of whether



Lucy Kamall

you think it is 'better' or 'worse' than certification. The fact that it is founded on political and legal structural reform adds to its permanence.

"As it covers entire countries, it raises the base line for all. And should certification be the goal, then implementing VPA schemes and achieving FLEGT licensing will also gear business up to the required culture and processes that are necessary to meet certification standards."

It's also the premise of the TTF project that, besides legislation, FLEGT needs to be underpinned by rewards in the shape of market access and recognition. To this end in 2020 it will undertake more tropical timber seminars, development of e-learning modules for architects and contractors and the design project.

"We will be working with craft students and leading designers to create seating in timber from VPA countries as installations in key prominent locations. The title will be 'Conversations', with information provided to encourage discussion about the importance of using legal and sustainable tropical timber, FLEGT and VPAs," said Ms Kamall. "We will run a pilot in association with a leading developer in the UK, with the aim then of setting up installations on sites around the EU."

The TTF's communications with Chinese associations recognises the 'rising influence of China and other Asian countries in the tropical belt'.

"We are informing them about FLEGT and the legality and sustainability requirements of the EU market, taking very much a collaborative approach," said Ms Kamall.

Under the FGMC grant, TTF is also backing a timber product marketing advisory project being undertaken in Indonesia and Ghana by the Global Timber Forum.



Brussels Furniture Fair

Ghana industry launches FLEGT communication drive

The Ghanaian timber sector has unveiled a marketing initiative to communicate legality and sustainability assurance advances made under its FLEGT VPA to EU customers, preparatory to Ghana starting FLEGT licensing.

The 'Message House' has been developed by the Kumasi Wood Cluster (KWC) and Ghana Timber Millers Association (GTMA) with support from government, civil society and the UNFAO EU FLEGT Programme. Its aim, they say, is to highlight the measures and reforms

the country has undertaken to meet EU requirements in order to help business capitalise on market opportunities and ensure FLEGT licensing delivers commercially.

At a recent communications strategy workshop in Accra, Domestic Lumber Traders Association Chief Executive Kofi Afreh Boakye said the move would help the private sector market itself. Delegates were informed about the messaging the private sector could use when FLEGT licensing begins.

Mr Boakye stressed that Ghanaian forest and timber sustainability as well as legality would be a focus of the initiative, an area where to date there had been a lack of information and miscommunication.

"Europeans are more concerned about how sustainable Ghana's legal wood system is and this is a platform where we can tell the whole world that we are not only interested in legality but also sustainability," he said.

He announced that the KWC and GTMO is undertaking a six month project to develop 'private sector-focused messages' for Ghana's FLEGT Licence communication strategy. Funded by the UNFAO, this will collate facts and figures to back up the marketing programme.

The 'Message House' is also producing a 'photo catalogue', the Ghana Wood Digest, covering products, timber sector facilities and infrastructure.

Adjei Yeboah, former Deputy Minister of Lands and Natural Resources, said it was key for the industry to develop strong messaging to articulate its achievements and sustainability and legality credentials to the international community.

Gustav Adu, Executive Director of the KWC, urged the Forest Industries Association of Ghana and individual companies to capitalise on the communication strategy and promote FLEGT-licensed timber products.





Dave Hopkins

Guyana, with 80% tree cover, is a relatively untapped resource.

Photo Bernard Dupont

UK TTF Tropical Timber Forum: Sustainability and Sales

As the title Reducing risk, improving supply suggests, the UK Timber Trade Federation's recent Tropical Timber Forum had a dual focus. Ensuring tropical timber legality and sustainability was recognised as core to success in the modern marketplace. But the emphasis was also on the interaction of this and the broader commercial viability of the sector and how it needs to adapt to ensure availability and remain competitive.

The event attracted an audience of over 100 from across the UK tropical trade to the TTF's central London HQ.

Federation Managing Director David Hopkins set the scene by highlighting the increasing geopolitical and environmental significance of the tropical region and its development. It was key, he said, given the major changes and pressures the area is experiencing, that 'timber is part of the solution, not part of the problem'.

"To this end, a lot more work is needed on the ground in terms of governance and logistics improvement and analysis of the interaction between forest and timber sectors and other uses of the land."

EU FLEGT Independent Market Monitor UK Correspondent Mike Jeffree gave an overview of global tropical trade flows, drawing on data from IMM's trade analyst Rupert Oliver. Over the last 15 years, he said, total trade had grown, from around \$27 billion in 2004 to \$35 billion. But there had been a fundamental shift in geographic market share. Fastest growth had come in Chinese tropical imports, rising to 31% of total international trade in 2014 before dipping back to 25% by 2018. At the same time, Europe's share of the business had declined from 26% to 11.3%, never really

recovering from its sharp fall during the global economic crisis. This left it the fourth biggest tropical buyer, following China, North America and Northeast Asia.

Strongest growth among tropical suppliers recently has come from Vietnam, with its exports growing at an impressive \$1 billion a year, largely accounted for by sales of furniture to the US.

It had been anticipated that African producers would also move upstream into value-added timber goods, said Mr Jeffree, but this has not happened on the scale anticipated. This is attributed principally to growing demand for primary timber products from China and the rest of Asia.

Poor perceptions of its environmental credentials are widely seen as one factor in European specifiers and consumers turning away from tropical timber and it was thought that certification might help provide the necessary assurance. However, said Mr Jeffree, it has gained traction primarily in temperate regions, with still only 6.5% of total certified forest in the tropics.

With just one country, Indonesia, so far issuing FLEGT licences, it remains to be seen if the FLEGT initiative can be a platform to help rebuild European tropical market-share. "But there is increasing reference to the aspects FLEGT has in common with certification and the 15 countries engaged at some stage with the initiative, all tropical, account for 75% of EU tropical wood imports," said Mr Jeffree. At the same time, he added, consumer market legality requirements are being implemented increasingly widely, with those of the EU, USA, Japan and South Korea covering markets accounting for over 55% of tropical trade.

Tullia Baldassari of Interholco, speaking on behalf of the International Tropical Timber Technical Association (ATIBT), focused on Gabon. She described it as a prime example of a tropical timber producer with potential to make greater commercial impact. However, it needed consumer country support.

"With 23 million ha under forest, it has potential to produce 16 million rwe m³ of timber annually," she said. "But to grow it needs to make better economic use of the forest and the available wood. It has potential to market 100 species, but currently only 10-15 are harvested. It needs technical support, including from Europe, as many species haven't yet been studied, plus communications backing. Consumers need to know it also makes more environmental sense to use lesser known sustainable species."

Ms Baldassari said that ATIBT also recognised the importance of engaging Asian operators to ensure sustainable, commercial development across the wider 200 million ha Congo Basin.

The experience of Interholco, she added, underlined that managing the forest as a going concern was the prime route for maintaining its social, environmental and economic benefit.

Dick Anning of importer/trader Carl Ronnow said the Gabonese industry had undergone fundamental change in recent years, with French forest operators giving way to Asian. They remained difficult to convince of the merits of certification.

"The response of many, when they see the cost, is that it's a waste of money and doesn't give return on investment," he said. "They need convincing that it's a means to gain access to markets and finance."

There were signs of change, however.

Interestingly, Chinese banks are pressuring Gabonese companies to get certified. President Ali Bongo Ondimba has also, of course, decreed that all forest operations should be certified by 2022. Mr Anning said this was a tight timeframe, but there was a belief that the authorities would accept legality verification as an interim en route to certification.

The EUTR and its due diligence requirements was also focusing minds. “And enforcement is developing, with EU Competent Authorities (CAs) growing in their level of trade knowledge and better able to zone in on particular issues, so companies are having to provide more effective proof they are not in contravention of any laws,” said Mr Anning. “At the same time, it’s important that CAs implement the EUTR uniformly. If they don’t have a level, consistent requirement it just causes confusion.”

Chris Beeko of the Ghana Forestry Commission also stressed the importance of legality and sustainability verification delivering a commercial benefit. Following the launch of the final joint assessment of its timber legality assurance system (GhLAS), the country was set to make last adjustments to its EU FLEGT framework, which, when complete and approved, will put it on the path to start FLEGT licensing. However, there was concern that this would not give the hoped for market advantage. Key to this, said Mr Beeko, was recognition of a FLEGT licence on a level with FSC and PEFC certification as proof of legality and sustainability in EU member state (MS) public procurement.

“Currently, this is only the case in the UK and Luxembourg, with other MS giving licences varying other levels of recognition or none at all,” he said. “The concern is

that a licence will provide a green lane through the EUTR to a market dead end.”

FLEGT, he added, brings about forest and timber sector governance transformation at national level, which certification does not do, but could potentially benefit from. He also disputed comments that FLEGT lacked chain of custody.

“That doesn’t make sense,” he said. “Without CoC you don’t have a FLEGT Licence. The market needs to take a closer look at the content and coverage of FLEGT. That would show that there is really no hard line between it and certification.”

The point was reinforced by Mr Hopkins. “We need to get across the message that FLEGT and certification complete rather than compete with each other.”

Richard Carter of importer RJC Agencies reported on investment in further processing in Ghana and said the country had a lot to offer. “Bigger mills have diversified into moulded and other machined products and are achieving high quality,” he said. “Some of the laminates are as good as you get anywhere.”

Another tropical development bringing together commercial and environmental strands was cultivation of fast-growing albasia/falcata in Indonesia in a project presented by Klaus Goecke of Holz Bau Beratung, an organisation which matchmakes European importers with producers in emerging economies.

Backed by university research and support from end users, the species is being planted out by farmers in degraded forest land.

“It grows three times faster than spruce, and delivers useable timber in three to four years,” said Mr Goecke. “It is particularly used in plywood and, combined with FLEGT licensing, is seen as having the potential to change the

face of the Indonesian ply industry, with investment in this sort of project now available from the Forest Development Funding Agency. For the future, we must adapt transforming industries to this kind of species, both to meet our raw materials and climate requirements.”

He added that group certification under the SVLK legality assurance system had been arranged for albasia growers, helping the timber meet the ‘three pillars of sustainability’; economic, social and environmental.

Besides exploring new species, the tropical trade should evaluate new sources too, said Finn Knudsen of Guyana-based McVantage, including Guyana. With its 80% forest cover, 20% of it open to timber production, it is a largely untapped resource, and described as having ‘enviable’ sustainability credentials, with McVantage sourcing greenheart from the FSC-certified Iwokrama forest. “But few importers and end users take advantage,” said Mr Knudsen.

However, he added, projects are underway to find new outlets for Guyanan timber. The UK’s TRADA research institute is looking at greenheart use in construction and exterior joinery, and McVantage itself is promoting it as an ipe decking alternative. “There are also prospects for using more lesser known species,” said Mr Knudsen.

Due diligence was another core focus of the conference. The bottom line for international trader Tradelink was that it had led to it reducing its Brazilian supply pool by 70% to streamline its supply chain, simplify the due diligence process and be able to focus it on high risk, high value product. But it remained an exhaustive process, said compliance officer Robbie Weich. It involved strict record-keeping in cloud-based storage, on-the-ground supplier inspection, full supply chain transparency, and use of Google Earth to geotag supplier operations and check product origin. “It’s also a case of engaging with all relevant stakeholders, from CAs to NGOs,” said Mr Weich.

Marie Vallée of the World Resources Institute presented its online Open Timber Portal as a tool to help importers undertake due diligence on specific suppliers and obtain latest information on forest governance. Currently focused on the Congo Basin, supplier documentation is uploaded for importers and other stakeholders to view.

“The OTP also provides guidance on what specific documents prove, how to know if they’re current, to check if they’re fake and also on supplier location using geospatial and Global Forest Watch data,” said Ms Vallée. “It also gives a supplier transparency rating, based on the percentage of documentation they share.”



Interholco – managing the forest as a going concern is the prime route for maintaining its social, environmental and economic benefit

Highway to hardwood market growth

If steel and concrete road fixtures and fittings, including lamp and signposts, crash and acoustic barriers were made of wood, and hardwood in particular, it would add up to major timber demand and major CO2 savings. That's the blueprint the Dutch Ministry of Logistics and Waterways has devised, following stakeholder discussions, among others, with Netherlands timber sector market development organisation, Centrum Hout. It's done the carbon calculations, called the concept the 'circular bio-based highway' and Steffen Meinhardt of Dutch importer Hupkes Houthandel presented on it at the 2019 International Hardwood Conference in Berlin.

The hardwood sector may not historically have been known for its marketing prowess, or promoting the performance potential of its products. But the IHC, which attracted a 125-strong audience from 20 countries, showed that this is changing.

Mr Meinhardt's presentation was one of several underlining a new energy, greater coordination and innovation in hardwood sector communications, with a notable focus, in this environmentally aware age, on its carbon and wider life cycle credentials. Together with Eric de Munck of Centrum Hout, he also looked at the Dutch industry's increasing use of life cycle analysis in driving timber's substitution of man-made materials. European Director David Venables spoke about the American Hardwood Export

Council's (AHEC) promotional and technical initiatives targeting architects and designers and Benoît Jobbé-Duval, Managing Director of the International Tropical Timber Technical Association (ATIBT), described the strategy and aims of its Fair & Precious verified sustainable tropical timber branding campaign.

The overriding theme of the IHC in November, co-organised by the European Organisation of Sawmill Industries (EOS), the European Timber Trade Federation (ETTF) and German Sawmill and Wood Industries Association (DeSH), was that the market is increasingly looking for sustainable solutions to ever more pressing technical/environmental issues in manufacturing and construction. As a renewable, carbon storing alternative to energy intensive materials like steel, concrete and plastic, – a key building block for bioeconomic development – hardwood can help provide them.

A testing market

At the same time IHC speakers acknowledged that the hardwood sector is facing testing market times. Echoing comments from the October International Softwood Conference, economic deceleration in Europe and other key markets, notably China, is making for competitive conditions. The China-US trade dispute and concerns about future US-EU trade relations put another brake on business globally, while Brexit made the outlook still more uncertain.

Dr Josef Braml of the German Council on Foreign Relations set the scene with a global geopolitical snapshot. He said US-China trade tension was a symptom of an underlying shift in global power. The rise of Chinese international influence meant the days of the US providing 'benign' leadership for global adherence to liberal economics were numbered. A different world order was emerging, and business had to adapt.

"We're in a new era of economic nationalism and better be prepared for the US and others to play increasing trade hardball," he said.

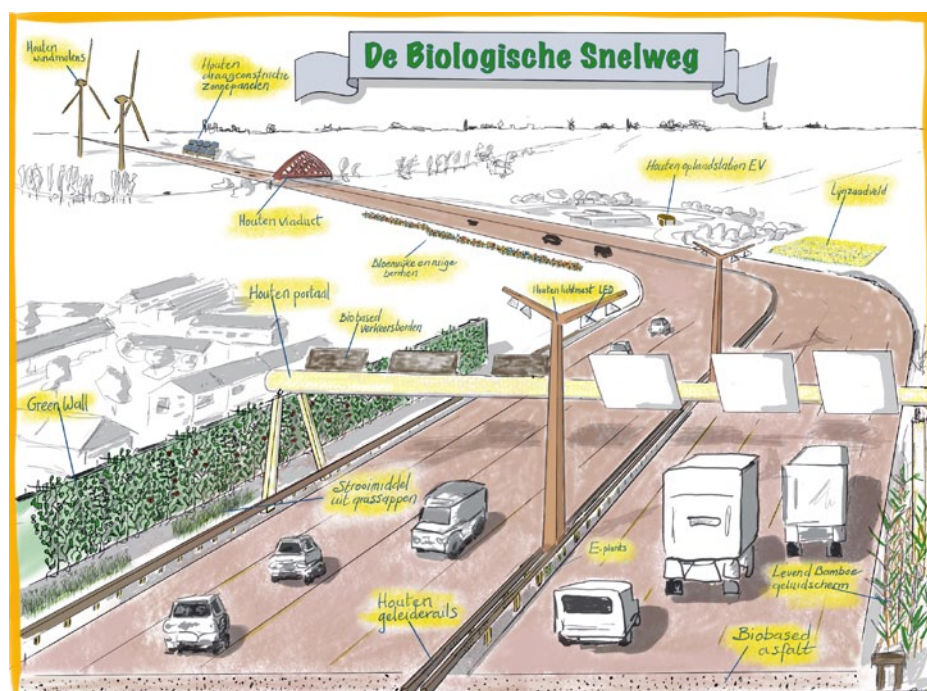
Reflecting mounting international economic uncertainty, with OECD business confidence ratings sharply down, EOS Hardwood Vice President Maria Kiefer-Polz said sawn hardwood consumption in EOS member countries, plus Italy and the UK, was forecast to fall 1.3% this year to 5.7 million m³, after rising 7.2% in 2018. Production was expected to dip 0.7% to 6.07 million m³. At the same time the European industry had to cope with raw materials issues, notably the impact of ash die-back and drought stress on hardwood more widely. The key for the industry, said Ms Kiefer-Polz was to develop its species mix and step up hardwood marketing focused on the benefits of 'building and living with wood'.

This message was reinforced by DeSH Vice President Steffen Rathke in his review of Germany's hardwood sector. Increased competition from alternative materials, such as wood plastic composites, plus overseas log demand, had resulted in its domestic sawn hardwood consumption falling 50% from 2000 to 2020 to around 800,000m³.

He focused especially on the country's major beech industry. Its sawn exports were also down 4.78% in 2018, he said, hit by deteriorating market conditions and Chinese demand for beech logs. Drought he agreed, was an added major issue for the hardwood sector, with beech particularly badly affected.

"Underlining the severity of the situation, the German government is allocating the wider forestry sector €1 billion to address this and other climate-related issues, including insect infestation," he said. "The industry needs to adapt to our changing environment, including by developing more resilient strains of species in the German forest."

Professor Gert-Jan Nabuurs of Wageningen University agreed that the European forest sector, like its counterparts elsewhere, must increasingly follow a 'climate-smart'



Dutch circular bio-based high way concept

management model. He also urged a new forestry component in the EU Common Agricultural Policy to support the industry.

Tropical timber – legality and sustainability opportunity

Turning to the tropical timber sector, IMM Trade Analyst Rupert Oliver said that Europe in the last 15 years had slipped from the first to fourth biggest market, after China, the US and Northeast Asia. While growing consumption elsewhere was a key factor, part of the reason for tropical timber's European decline, was environmental image. However, the EU Forest Law Enforcement Governance and Trade Voluntary Partnership Agreement (FLEGT VPA) legality assurance initiative, with which 15 tropical countries were engaged at some stage of the process, was viewed as part of the potential solution, providing a 'baseline for sustainability'. FLEGT could also assume growing importance, said Mr Oliver, with increasing implementation of timber market legality requirements, such as the EUTR, the US Lacey Act and Japan's Clean Wood Act.

Together with South Korea's import legality regulation, these cover over 55% of international tropical timber trade, while countries engaged in the FLEGT initiative account for 75% of its supply. The two are seen as having scope to be mutually reinforcing.

Meanwhile, the US industry is also facing challenges, said American Hardwood Export Council Executive Director Mike Snow. From 2009 to 2017, its exports to China had 'exploded', rising to 25% of American grade hardwood output. This left the sector especially vulnerable to the current US-China trade dispute. In fact, since it started, its loss of sales to China had exceeded total US hardwood exports to Europe and the rest of Asia put together.

"At the same time as imposing a 10%

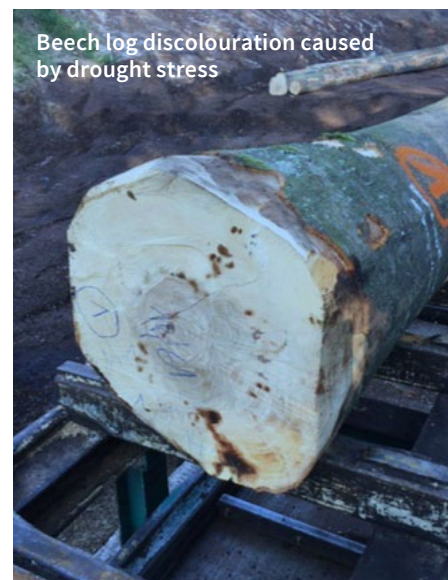
tariff on US imports, China allowed the RMB to devalue, effectively increasing their cost still further," said Mr Snow. The solution, he added, was primarily resolution of the trade dispute.

"China still has major hardwood growth potential, with development of its western provinces and huge investment in its belt and road programme, in particular, set to increase its consumption still further," he said. "But at the same time, there's realisation in the US hardwood sector that it must diversify exports – and grow its domestic market. It can't afford to put all its eggs in the China basket."

Promoting timber's legacy

Picking up this theme, Mr Venables described the promotional tools and marketing initiatives developed by AHEC to grow US hardwood sales globally. Key targets were architects and designers, a 'primary route for hardwoods to market', with a focus on the technical, environmental and aesthetic potential of US varieties. AHEC has worked with specifiers on hardwood projects, including the world's first cross laminated hardwood building in the UK, a cancer care centre with a core structure of tulipwood CLT and thermo-treated tulipwood cladding. Recently it has also concentrated marketing on red oak in Europe, where its sales have lagged some way behind demand for US white and European oak. It has worked with leading Polish designer Tomek Rygalik on a red oak furniture collection, and in its 'Legacy' project for the London Design Festival this year, it brought together leading UK cultural 'influencers' and designer-makers to create a range of furniture and other products in the species.

He also described the range of tools developed to demonstrate and promote US hardwoods' environmental credentials. These include an interactive map showing forest growth and timber take off, a life cycle analysis (LCA) tool



Beech log discolouration caused by drought stress

for key commercial US species and the American Hardwood Environmental Profile (AHEP), which details the carbon and wider environmental impacts of hardwood consignments shipped anywhere in the world.

Besides the circular bio-based highway concept, designed as a low carbon roadways blueprint for Dutch authorities to use as a model, Mr Meinhardt, together with Eric de Munck of Centrum Hout, also looked at the Dutch timber sector's increasing use of LCA. This fed into development of environmental product declarations for hardwood products and timber promotion more generally. Another project, Hout in de GWW, involving 12 businesses and Centrum Hout, demonstrated tropical hardwoods' superior LCA performance to steel and plastic to grow their use in marine civil engineering projects.

Wood marketing was also a core focus for the European Federation of the Parquet Industry (FEP), said Managing Director Isabelle Brose. It's Living on Wood campaign and associated www.realwood.eu website highlighted the environmental and wellness benefits of real wood flooring, while its latest promotional initiative targeted growth in timber's share of European floor covering sales from 5% to 7%.

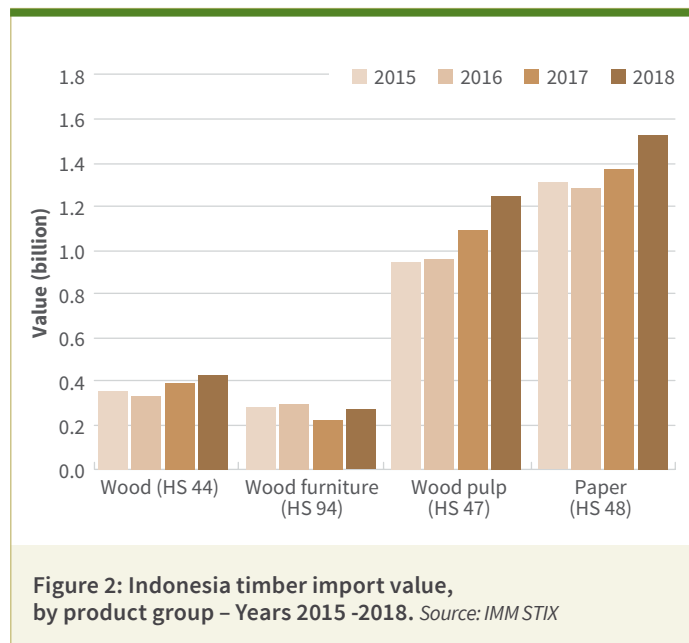
IHC moderator Andreas von Möller, ETTF Honorary President, said the event had delivered 'plenty of need to know information' and highlighted areas where the hardwood sector had room for improvement and where it needed to go front up to some tough issues.

"But it also underlined growing appreciation that the trade is ultimately in the same boat and its potential to work together to tackle challenges and realise major market opportunities for hardwood," he said.

The next IHC in 2021 will take place in France.



AHEC's Legacy red oak initiative brought together cultural influencers and designer-makers

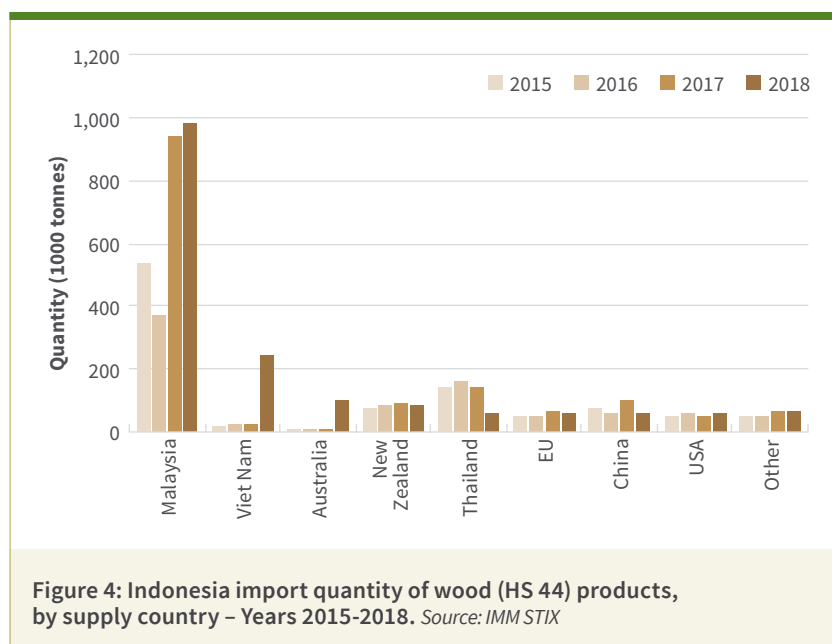
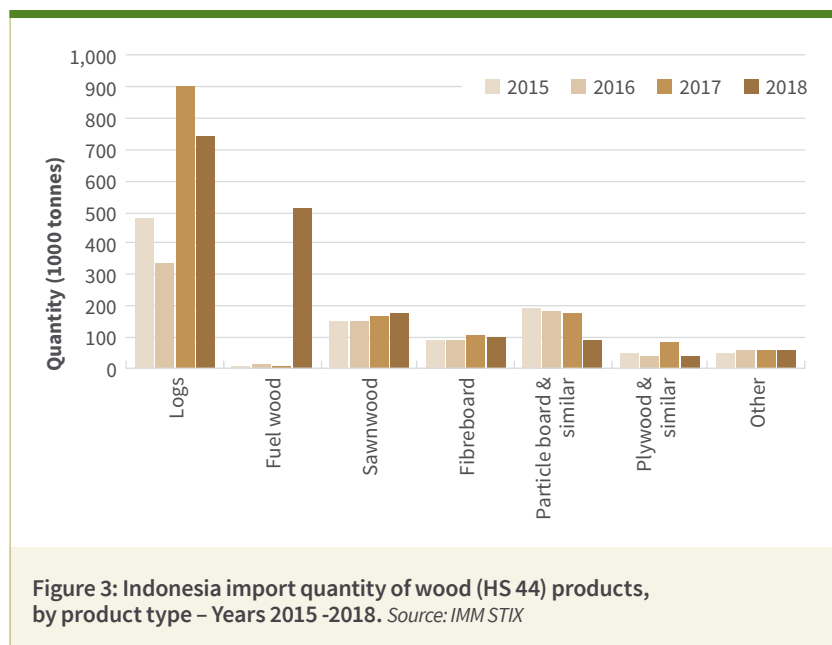


Growth primarily in pulp, fuel wood and paper – IMM Annual Report analyses Indonesian timber imports

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.

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 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.



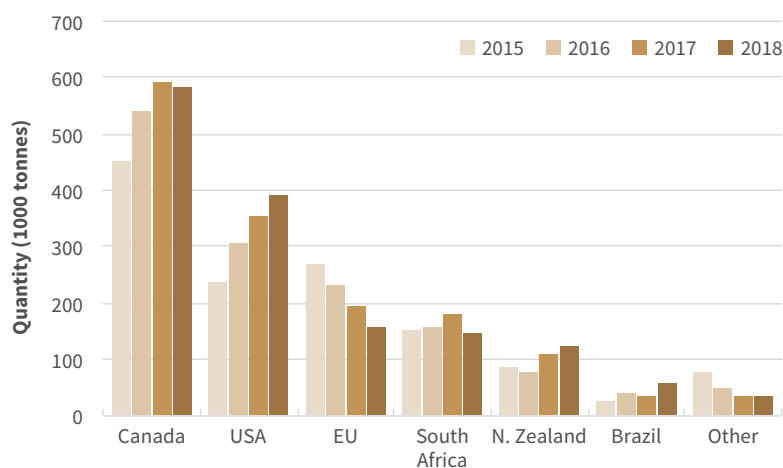


Figure 5: Indonesia wood pulp (HS 47) import quantity, by supply country – Years 2015-2018. Source: IMM STIX

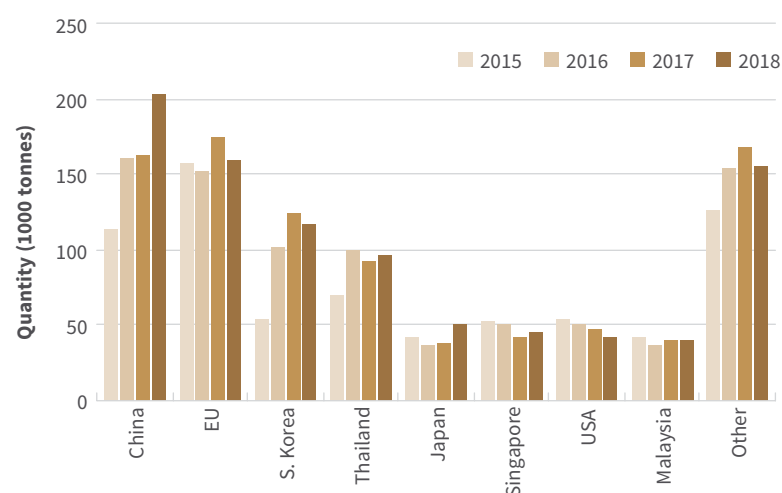


Figure 6: Indonesia paper import quantity, by supply country – Years 2015-2018. Source: IMM STIX

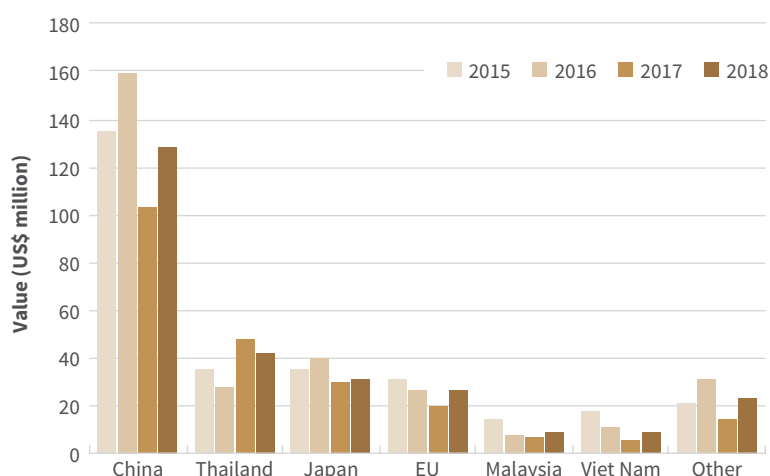


Figure 7: Indonesia wood furniture (HS 94) import value, by supply country – Years 2015 -2018. Source: IMM STIX

No evidence to support anecdotal claims of wood from third countries being transited through Indonesia

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. 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.

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.

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.

FLEGT licensed products biggest winners in EU tropical wood market

Overall the EU's trade in tropical wood and wood furniture products was more buoyant in the first nine of months of 2019 than the same period in 2018. In terms of US\$ value, the biggest gains in the market were made by Indonesian products, particularly wood furniture and doors.

Figure 1 shows twelve monthly rolling total US\$ value of imports (to iron out seasonal fluctuations) from tropical countries into the EU of all wood and wood furniture products listed in HS Chapters 44 and 94 (excluding fuelwood, wood waste and chips). The 12-month rolling total fell to a low of US\$3.99 billion in June 2017 but recovered to US\$4.63 billion in August 2019.

Initially the recovery in the US dollar value of EU imports was driven by exchange rate fluctuations as the euro increased sharply in value against the US dollar in 2017. However, from mid-2018 to mid-2019, the euro was weakening against the US dollar and the rise in dollar import value coincided with a genuine increase in import quantity.

Figure 2 shows that the 12-month rolling total quantity of EU tropical wood and wood furniture imports dipped to 2.5 million metric tonnes (MT) in March 2018, then increased to 2.8 million MT in June 2019, remaining at that level through to September 2019.

Mounting signs of weakness in EU economy

The slowing pace of growth in European tropical wood imports in the third quarter of 2019 coincides with mounting signs of weakness in the wider economy. The latest Autumn 2019 Economic Forecast published by the European Commission on 7th November notes "The European and world economy have weakened over the past year. Europe has seen a sharp slowdown in external demand and a contraction in manufacturing, which is starting to spill over to other parts of the economy".

The Forecast goes on to observe that "the fact that growth is no longer expected to rebound meaningfully in the next two years is a major shift compared to previous forecasts and is based on the assessment that many features of the global slowdown will be persistent."

Similarly, the IMF's latest forecast for European economic growth, also published in November, emphasises downside risks that could lead to weaker growth in 2020: "amid high uncertainty,

there are several risks to the outlook, including Brexit-related disruptions, intensifications of protectionism and related uncertainty, abrupt declines in risk appetite, and rising geopolitical tensions".

In tonnage terms, EU imports of wood and wood furniture products from Indonesia registered only a minor change throughout the whole period from January 2016 through to September 2019. The 12-month rolling total, which was static at around 410,000 tonnes in 2016 and 2017, stabilised at a marginally higher level of 420,000 tonnes in 2018 and 2019.

However, the import trend for Indonesian products is much more positive in US dollar terms. 12-month rolling total imports from Indonesia increased by 21% from US\$840 million in June 2017 to US\$1.02 billion by September 2019.

Improving performance of FLEGT-licensed products in EU market

Of FLEGT licensed products from Indonesia, there was strong growth in EU import value of wood furniture, plywood,

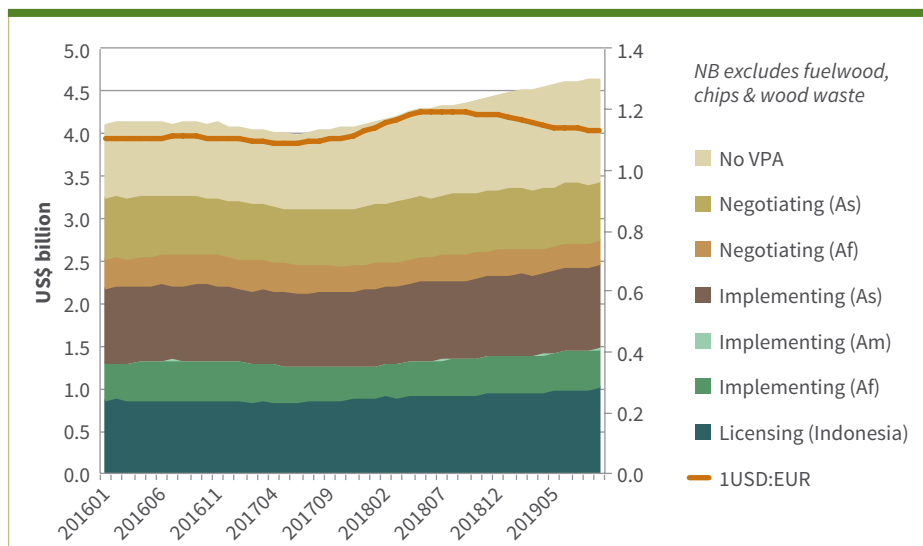


Figure 1: EU imports of tropical wood and wood furniture products by VPA status - 12-month rolling total - Jan-16 to Sep-19. Source: ITTO-IMM analysis of Eurostat COMEXT

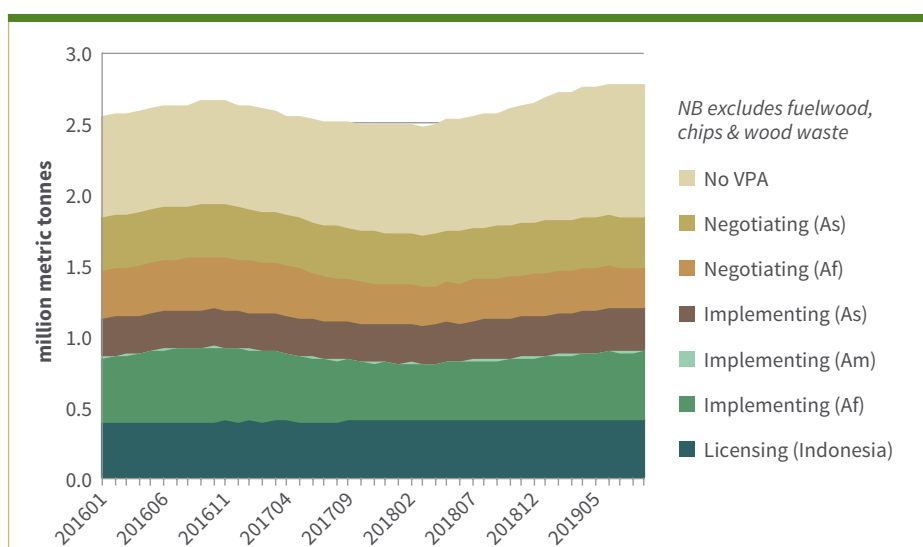


Figure 2: EU imports of tropical wood and wood furniture products by VPA status - 12-month rolling total - Jan-16 to Sep-19. Source: ITTO-IMM analysis of Eurostat COMEXT

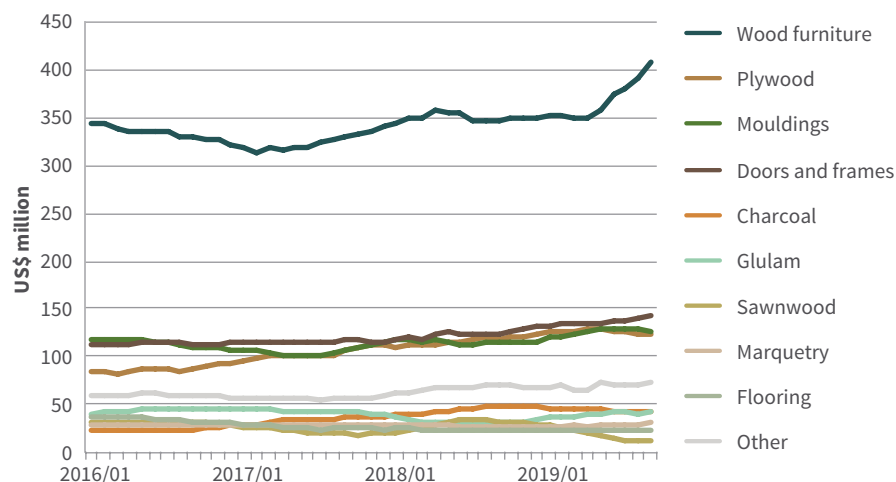


Figure 3: EU imports of wood and wood furniture products from Indonesia, by product
12-month rolling total - Jan-16 to Sep-19. Source: ITTO-IMM analysis of Eurostat COMEXT

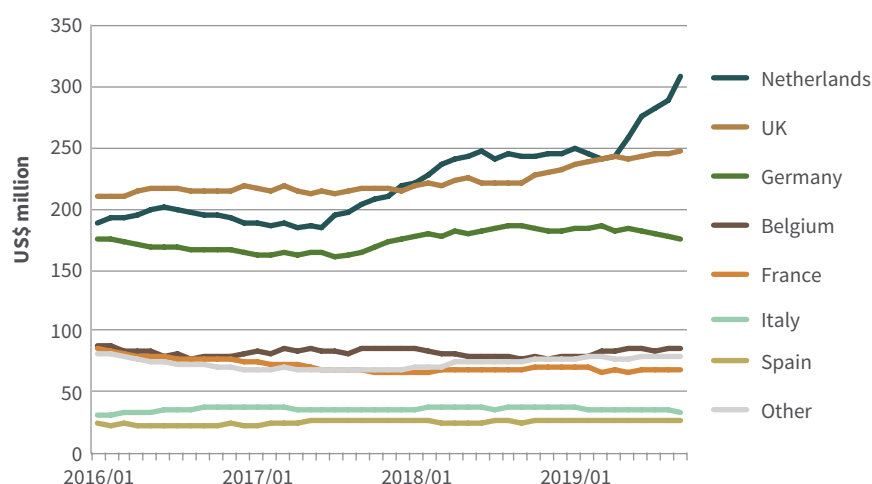


Figure 4: EU imports of wood and wood furniture products from Indonesia, by destination
12-month rolling total - Jan-16 to Sep-19. Source: ITTO-IMM analysis of Eurostat COMEXT

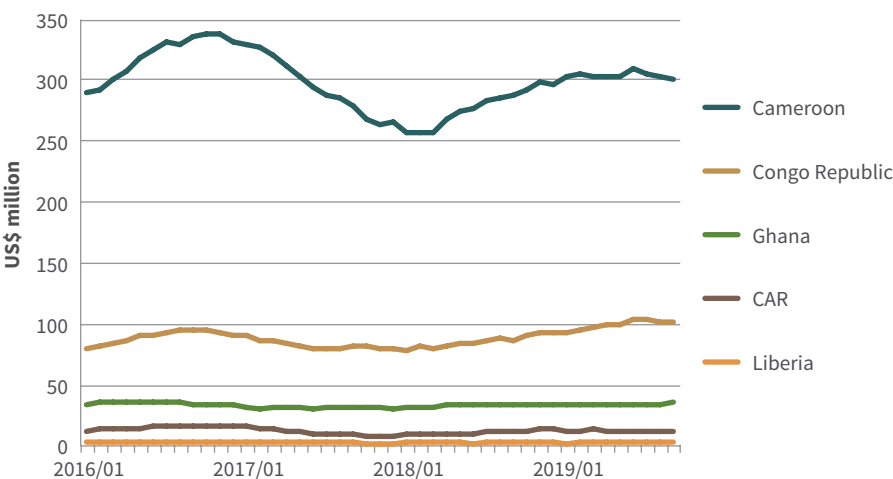


Figure 5: EU imports of wood and wood furniture products from VPA implementing countries in Africa - 12-month rolling total - Jan-16 to Sep-19.
Source: ITTO-IMM analysis of Eurostat COMEXT

mouldings/decking, and wooden doors during this period. There was a particularly sharp upturn in imports of Indonesian wood furniture between April and September last year. Imports of charcoal, which is not subject to FLEGT licensing, also increased significantly (Figure 3).

Much of the recent growth in EU imports of Indonesian wood and wood furniture products has been destined for the Netherlands and UK (Figure 4). Last year's surge in imports of Indonesian wood furniture was destined mainly for the Netherlands. The UK is the largest growth destination for wooden doors and plywood from Indonesia. Most EU imports of decking and mouldings from Indonesia are destined for Germany and the Netherlands.

The growth in EU imports of Indonesian plywood is particularly encouraging against a background of intense direct competition from Russian birch plywood products. IMM contacts with EU plywood importers suggest that prices for Russian products are highly competitive due both to low prices for birch logs in Russia and continuing weakness of the Russian rouble.

It remains to be seen whether removal of Indonesia's GSP status from 1st January 2019 will have any significant impact on EU imports. It will have no effect on trade in those products like decking/mouldings and most wood furniture which are zero tariff irrespective of GSP status.

However, the loss of GSP status means higher tariffs for plywood, veneers, and planed, sanded and finger-jointed sawn timber this year. For plywood, probably the most significant Indonesian wood product influenced by GSP status, the tariff has increased from 3.5% to 7%.

Very volatile imports from Africa

EU wood imports from Cameroon have been very volatile in recent years (Figure 5). 12-month rolling total imports from Cameroon, which increased sharply to US\$338 million in December 2016, fell to a low of US\$257 million in March 2018. In the following months, imports recovered much of the lost ground to reach US\$305 million in the year ending July 2019 before easing slightly in August and September last year.

Most EU trade with Cameroon comprises sawnwood destined for Belgium. The volatility is due to supply side problems, notably shipment delays caused by bureaucratic red tape and poor infrastructure after many years with little or no investment at Douala, the country's only major port.

EU imports from the Republic of Congo (RoC), comprising sawnwood, logs and veneers, were recovering slowly in 2018 and 2019, rising from an annualised level

of US\$78 million in January 2018 to a peak of US\$104 million in August 2019 before easing back to US\$101 million in September 2019. In the last two years there has been particularly strong growth in Belgian imports of logs and sawnwood and French imports of veneers from the RoC.

EU imports from Ghana, mostly of sawnwood and veneer, remain low but have been rising slowly since 2017. The 12-month rolling total increased from US\$31 million in September 2017 to US\$34 million in September 2018, and to US\$35 million in September 2019. Although direct imports from Ghana into Germany and France have declined, this has been offset by rising imports into Belgium and the UK. Italian imports of Ghanaian sawnwood and veneer have been stable.

EU imports from Central African Republic (CAR), recovered gradually from an annualised low of US\$8 million in November 2017 to US\$12 million in September 2019. While EU imports of sawnwood from CAR, previously destined mainly for Belgium, have fallen to negligible levels, imports of logs have been rising slowly, mainly into France, Portugal and Belgium.

EU imports from Liberia are negligible and have hardly changed in recent years, averaging around 5,000 tonnes with value less than US\$3 million per year.

Consistent increase in EU imports from Vietnam

EU imports of wood products from Vietnam, the only VPA implementing country in Asia, which were flat in 2016 and 2017, increased consistently throughout 2018 and in the first nine months of 2019. 12-month rolling total timber product imports into the EU from Vietnam were US\$980 million in the year ending September 2019, 6% more than the previous 12-month period.

While EU imports from Vietnam continue to be dominated by wood furniture (HS 94), much recent growth has been in imports of a range of other wood products in HS Chapter 44, notably charcoal and other energy wood, plywood, laminated wood, planed sawnwood, and doors (Figure 6).

EU furniture imports from Vietnam are still mainly destined for the UK, although much of the recent growth has been driven by France and the Netherlands. The increase in imports of HS 44 wood products from Vietnam is also driven by countries other than the UK, notably sawnwood to France, plywood to Germany, laminated wood to Belgium, and fuelwood to Denmark and, more recently, Sweden.

The two countries in Latin America that recently completed VPA negotiations, Guyana and Honduras, are currently only small suppliers of timber to the EU. Imports have been rising from Guyana but

falling from Honduras (Figure 7).

EU imports from Guyana, mainly consisting of hardwood logs and sawn, tend to be quite volatile with demand strongly focused on a specialist niche market for heavy duty sea and river defence applications. Having fallen sharply to only US\$2.2 million in 2016, imports from Guyana increased to a peak of US\$5.1 million in the year to July 2019 before easing to US\$4.8 million in the year to September 2019.

Imports into the EU from Honduras, mainly sawn softwood, fell consistently from US\$2.9 million in the year ending January 2016 to only US\$1.1 million in the year ending September 2019.

Malaysia loses ground in the EU market

Of VPA negotiating countries, Malaysia is by far the largest supplier of tropical

timber products to the EU (Figure 8). EU imports from Malaysia which hit a low of US\$543 million in the year ending April 2017, had recovered to US\$608 million in the year ending February 2019, but fell back to US\$588 million in the year ending September 2019.

In recent months, Malaysia has lost ground to both Cameroon and Brazil in the EU market for tropical sawn wood, and to China and Indonesia (and Russia) in the market for hardwood plywood. However, EU imports of wood furniture from Malaysia have continued to strengthen, while there has also been some recovery of EU imports of window scantlings and other joinery products from Malaysia.

EU imports of timber products from Thailand consist primarily of furniture, with smaller quantities of plywood, fibreboard, and charcoal. After a decline

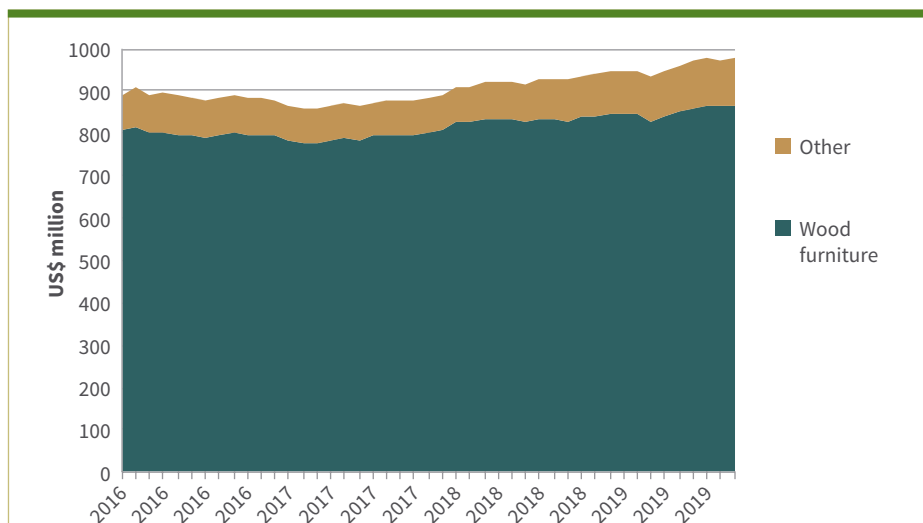


Figure 6: EU imports of wood and wood furniture products from Vietnam - 12-month rolling total Jan-16 to Sep-19. Source: ITTO-IMM analysis of Eurostat COMEXT

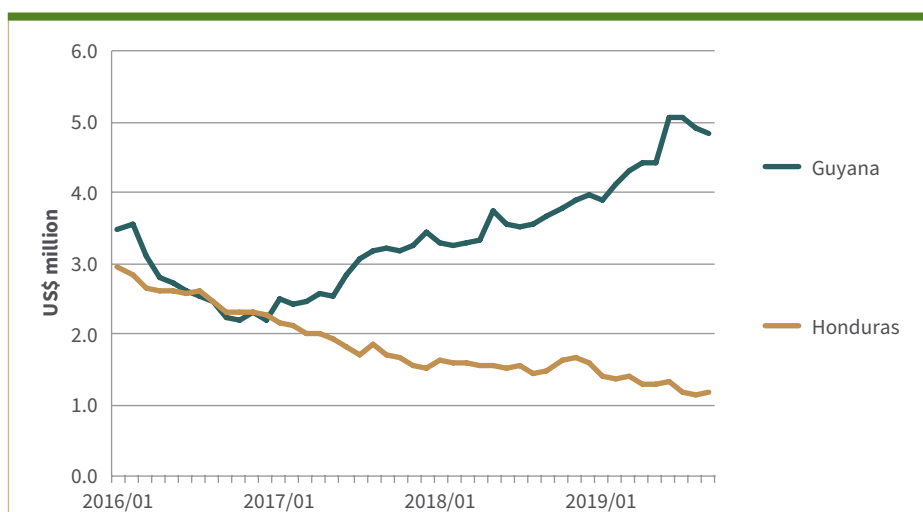


Figure 7: EU imports of wood & wood furniture products from VPA implementing countries in South America 12-month rolling total - Jan-16 to Sep-19. Source: ITTO-IMM analysis of Eurostat COMEXT

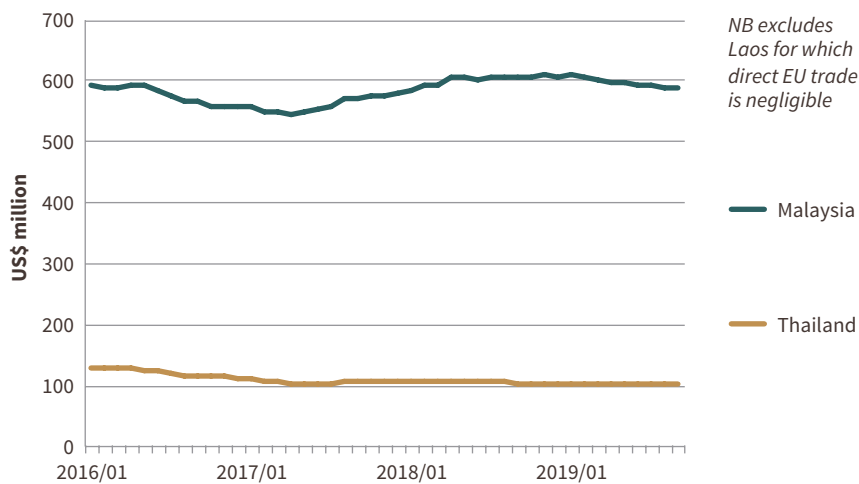


Figure 8: EU imports of wood and wood furniture products from VPA negotiating countries in Asia 12-month rolling total - Jan-16 to Sep-19. Source: ITTO-IMM analysis of Eurostat COMEXT

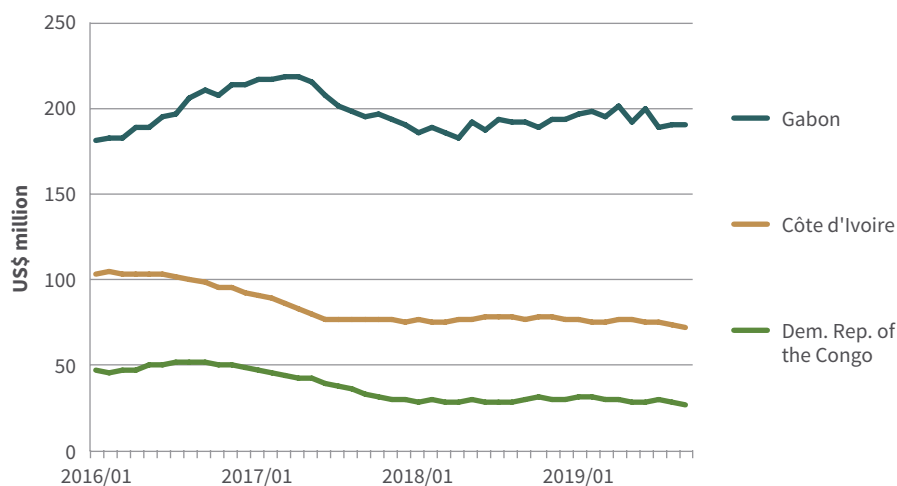


Figure 9: EU imports of wood and wood furniture products from VPA negotiating countries in Africa - 12-month rolling total - Jan-16 to Sep-19. Source: ITTO-IMM analysis of Eurostat COMEXT

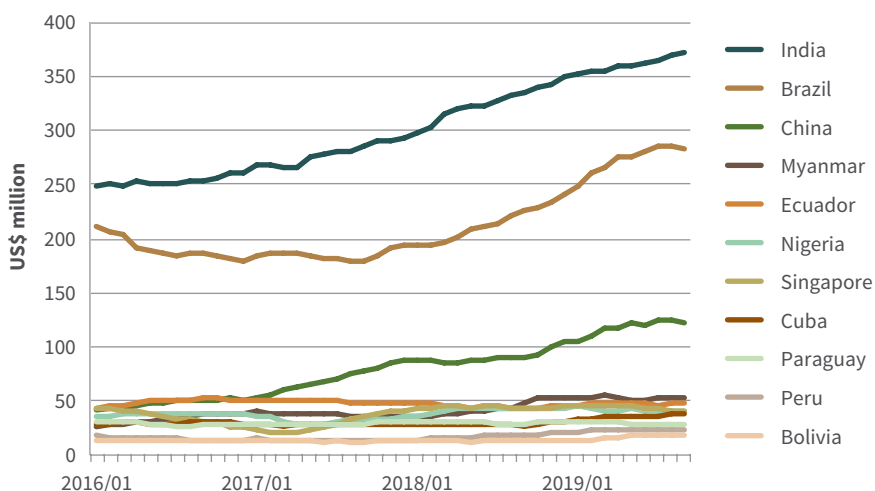


Figure 10: EU imports of wood and wood furniture products from non-VPA countries - 12-month rolling total - Jan-16 to Sep-19. Source: ITTO-IMM analysis of Eurostat COMEXT

in 2016 and the first half of 2017, total EU imports from Thailand were stable at an annual level of around US\$100 million between June 2017 and September 2019.

EU imports from Gabon weaken in the third quarter of 2019

Of the three VPA negotiating countries in Africa, Gabon is the largest supplier to the EU (Figure 9). After declining in 2017, EU imports from Gabon between January 2018 and September 2019 were very volatile on a monthly basis but overall, on an annual basis, were flat at around US\$190 million.

Imports of sawnwood from Gabon were strengthening in 2018 and the first half of 2019 but slowed in the third quarter of 2019. Imports of veneer from Gabon were also weakening in the third quarter of 2019 having been stable over the previous 12-month period. Imports of plywood from Gabon were sliding in 2017 and 2018 but stabilised at an annualised level of around US\$21 million in 2019. Imports of decking/mouldings from Gabon are still quite low (around US\$7 million in the year ending September 2019), but have been strengthening.

After declining sharply in 2016 and 2017, EU imports from Côte d'Ivoire stabilised at a lower annualised level of around US\$75 million throughout 2018 and the first half of 2019. There were signs of a further slowdown in the third quarter of 2019, with trade falling to US\$72 million in the year ending September 2019.

While EU sawnwood imports from Côte d'Ivoire have continued to slide, for the first time dipping below US\$30 million in the year ending September, imports of veneer from the country have been more stable, standing at around US\$37 million in the same period.

After a short-lived upturn in EU imports from DRC in the last quarter of 2018, imports were sliding again throughout 2019. After reaching US\$31 million in the year ending December 2018, imports were down to US\$26 million in the year ending September 2019.

EU imports of DRC sawnwood were stable in 2018 and 2019, at an annualised level of around US\$15 million. EU imports of DRC logs increased sharply in the second half of 2018, to reach US\$13 million by the year end, but had fallen to only US\$7.5 million in the year ending September 2019.

Imports from non-VPA countries continue to make gains

EU imports of tropical timber products from countries not engaged in the VPA process continued to make strong gains in 2019. Imports from these countries increased 17% from US\$785 million in the year to September 2018 to US\$918 million in the year to September 2019. This is primarily due to a continuing rise in imports of furniture from India and tropical hardwood

plywood from China, together with a recovery in imports of hardwood sawnwood and decking from Brazil (Figure 10).

EU wood furniture imports from India have increased consistently from around US\$250 million in year ending September 2016 to \$372 million in the year ending September 2019. Import growth has been continuous in the Netherlands and Germany, now the two largest EU destinations for Indian wood furniture. Imports into the UK, the third largest destination last year, were rising in 2017 and 2018, but were flat in 2019. Imports in France, the fourth largest EU destination have fallen this year.

There was uninterrupted increase in EU imports of plywood with a tropical hardwood face from China between January 2017 and September last year, with US\$ value rising from US\$50 million to over US\$120 million during this period. Most of this growth has been concentrated in the UK which accounted for two thirds (US\$80 million) of all EU imports of this commodity from China in the year ending September 2019. Imports into Belgium, the second largest EU destination, increased sharply in 2017 before stabilising at an annual level of US\$20 million in 2018 and 2019.

EU imports of tropical wood products from Brazil, which consist mainly of sawnwood and decking, have risen strongly from US\$178 million in the year ending September 2017 to US\$282 million in the year ending September 2019. There has been significant growth in imports into all three of the largest EU destinations for Brazilian tropical wood; France, Belgium and the Netherlands. Imports began to slow in the Netherlands and Belgium in the third quarter of 2019 but remained high in France.

EU imports of wood products from Myanmar, after rising from US\$35 million in 2017 to US\$53 million in 2018, remained at this higher level throughout 2019. Imports from Myanmar comprise mainly sawnwood with smaller volumes of mouldings/decking and veneer.

Imports from Myanmar have continued despite high profile EUTR prosecutions of importers of Myanmar teak (in Sweden and the Netherlands) and the conclusions of the EC's FLEGT/EUTR expert group (most recently reiterated at their September 2019 meeting) that "it is not possible to come to a negligible risk of illegally harvested timber from [Myanmar], in particular due to a lack of sufficient access to the applicable legislation and documentation from governmental sources".

While imports from Myanmar into Germany, Belgium and the Netherlands fell to negligible levels in 2019, these declines were more than offset by a big rise in imports by Italy. Italian imports of Myanmar wood products almost doubled

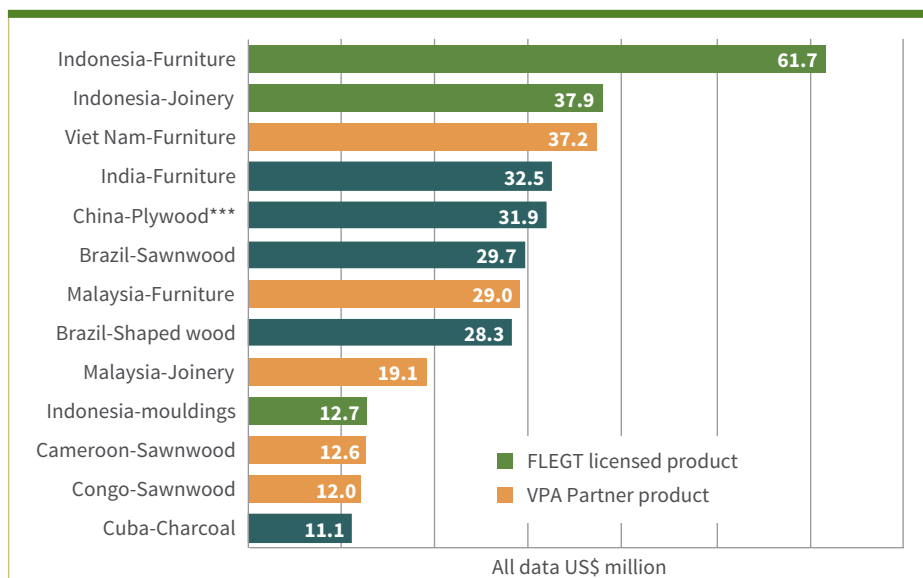


Figure 11: Largest gains in EU tropical wood and wood furniture imports - 12 months to Sep-19 vs 12 months to Sep-18. Source: ITTO-IMM analysis of Eurostat COMEXT *** plywood faced with tropical hardwood

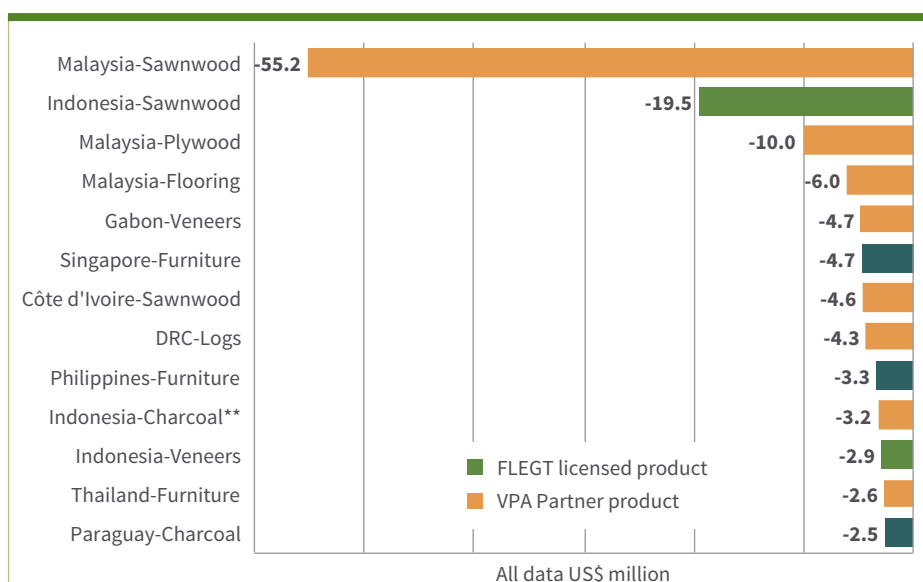


Figure 12: Largest losses in EU tropical wood and wood furniture products - 12 months to Sep-19 vs 12 months to Sep-18. Source: ITTO-IMM analysis of Eurostat COMEXT **charcoal from Indonesia is not subject to FLEGT licensing

from US\$17.6 million in the year ending August 2018, to US\$34 million in the year ending September 2019. Imports into Croatia increased from negligible levels to over US\$4 million in the same period.

FLEGT-licensed products record largest increases in EU tropical trade

From a FLEGT perspective, it is encouraging that Indonesian Licensed products feature so prominently in the league table of the largest gains in EU tropical wood product imports in 2019 (Figure 11). Indonesian furniture led the way with imports in the year to September 2019 being US\$61.7 million greater than in the previous 12-month period. Indonesian joinery products were in second place, gaining US\$37.9 million in the same period.

Indonesian mouldings/decking also made it on to the list of big gainers, adding US\$12.7 million.

Amongst VPA countries other than Indonesia, significant gains were also seen in imports of furniture from Viet Nam and Malaysia, joinery (mainly laminated wood) from Malaysia, and sawnwood from Cameroon and RoC.

Less positive from a FLEGT perspective is that two Indonesian product groups – sawnwood and veneer – also appear in the list of the biggest losers in the year to September 2019, although the deficits are more moderate and are dwarfed by those of Malaysia, which suffered a particularly sharp decline in EU imports of sawnwood (Figure 12).



IMM

Independent Market Monitoring of FLEGT-Licensed Timber

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