



IMM News

Autumn 2018

Providing information on independent market monitoring of FLEGT-licensed timber

Inside this issue

- 01 Project News
- 12 Policy News
- 13 Market News
- 15 Country Focus Indonesia

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).

For more information, please contact IMM ITTO oversight Steven Johnson or Manako Hanawa (oed@itto.int) or IMM Lead Consultant, Sarah Stork (lead@flegtimm.eu).



www.flegtimm.eu

PROJECT News

“VPA Partners in EU Timber Trade” – IMM 2017 report published

The IMM project has published its annual report “FLEGT VPA Partners in EU Timber Trade 2017”, which uses the latest data to assess the changing market position of VPA partner countries in the international timber trade. As Indonesia started issuing licenses in November 2016, this is the first IMM report to cover a period during which FLEGT-licensed timber was available on the EU market. It is also the first IMM Annual report for which IMM had access to comprehensive survey data from a full network of country correspondents in the seven EU countries accounting for the bulk (i.e. over 90%) of EU tropical timber and timber product imports from VPA partner countries.

The IMM report can be downloaded [here](#).

The report shows that the value of global trade in tropical wood products increased 5% to US\$34.4 billion in 2017, reversing the declining trend between 2014 and 2016. Tropical wood products imports recovered ground in China, continued to rise in North America, were stable in Northeast Asia, and slowed slightly in the EU and India.

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

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

Rising share of declining market

EU timber products imports from Indonesia fared better than imports from other tropical countries during 2017, slightly increasing in value overall and taking a larger share of total tropical imports. However, the major beneficiaries of the slow rise in EU total timber demand in 2017 were domestic and other European suppliers rather than tropical suppliers, whose share of the overall market continued to decline.

The declining EU market share of tropical producers during 2017 was partly supply related as producers focused more on supplying China and other emerging markets and North America. Supply problems were compounded in the EU as buyers continued to rely heavily on only a limited range of timber species and were becoming more dependent on fewer exporting companies in the tropics to better manage risk, both regulatory and reputational, particularly associated with EUTR.

IMM surveys of trader opinion in 2017 also highlighted the competitiveness of Indonesia relative to most other tropical countries supplying the EU market. The surveys showed the high level of support for FLEGT licensing by Indonesian exporters, with most reckoning the process had made exporting to the EU easier.

FLEGT licensing simplifies imports

A majority of EU importers agreed that, in spite of some teething issues, FLEGT licensing was simplifying importing procedures and helping their EUTR conformance at a time when there are clear signs of EUTR enforcement becoming more rigorous in the EU. Around 40% of EU respondents said they would be willing to pay price premiums for FLEGT-licensed timber, but typically of

Chart1: Global tropical timber trade by VPA status 2004 to 2017

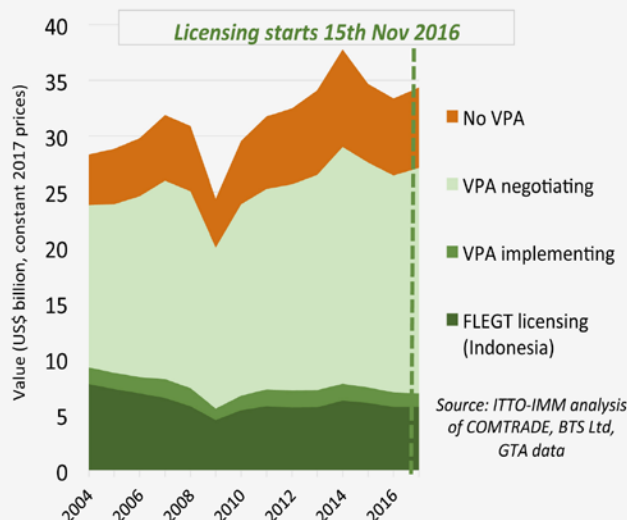


Chart 2: Tonnage of EU28 imports of timber and timber products from Indonesia by destination 12 month rolling average – January 2015 to Dec 2017

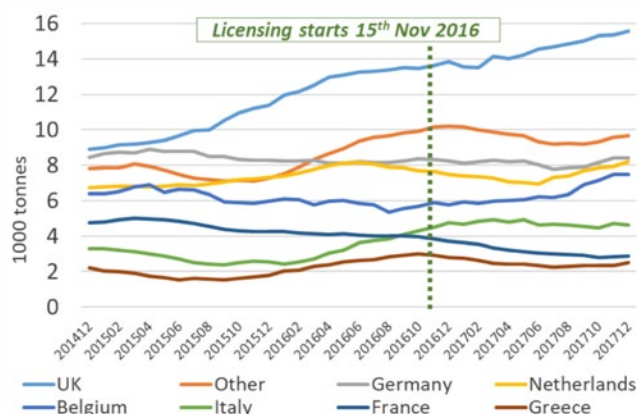
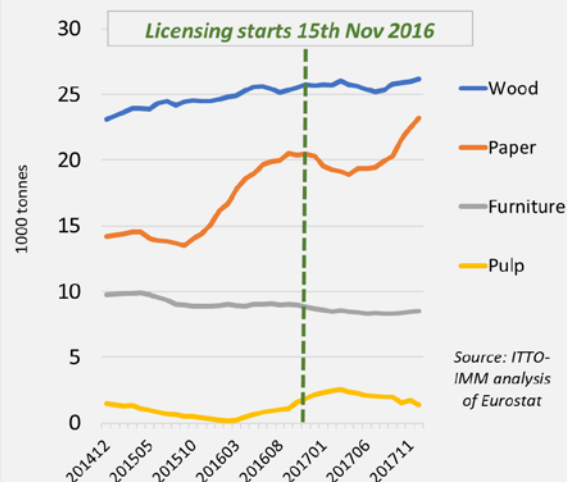


Chart 3: Tonnage of EU28 imports and timber products from Indonesia by product group 12 month rolling average – Jan 2015 to Dec 2017



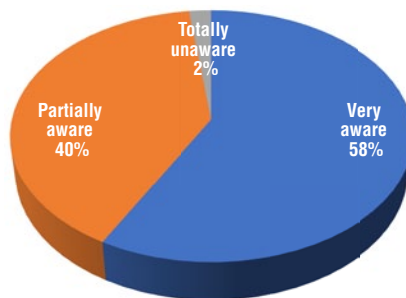
no more than around 5% at most. The perception amongst some importers that licensing is no more than an assurance of legality, which is expected by the market anyway, is a factor limiting willingness to pay a premium.

Detailed analysis of trade statistics in the report shows that performance of Indonesian wood products in the EU market immediately following licensing was mixed. There was no growth in imports for high value sectors like furniture and joinery. This was partly due to changes in exchange rates - the euro fell to a 14-year low against the US dollar in the month licenses were first issued.

The report also observes that expectations of a rapid increase in trade immediately following licences may have been exaggerated in sectors like furniture and joinery where the specific environmental features of Indonesian wood products have been less significant barriers to competitiveness than other issues such as relative labour costs, logistics, processing efficiency, innovation, and marketing.

In contrast, EU imports of some lower-value products from Indonesia, such as decking and plywood – where Indonesian goods are familiar to EU importers and already favoured for their strong technical performance – showed a quite significant upturn during 2017.

Chart 4: How aware are you of the FLEGT VPA process and what it means?



Clear communication is key

The report concludes with a series of recommendations to build on the market opportunities presented by FLEGT licenses. It particularly emphasises the need for communication activities, with messages targeted for specific user groups, engaging more closely with the private sector and through development of tools particularly designed to improve business-to-business communication. Communication materials need to appeal to and reach a broad target audience in the EU, including retailers, architects and specifiers, for example, and not just operators (as defined in EUTR).

The report notes that as a lengthy and often complex process, there needs to be more communication of the different stages of VPA implementation and the transformative processes involved in VPA partner countries. Against the background of European tropical timber promotion as well as companies' procurement policies focusing on "sustainability", the report identifies a need to explain and raise awareness of how FLEGT VPAs contribute to environmental, social, and economic sustainability. This should be placed in the wider context of a debate on how sustainable management of forest resources can be best achieved in tropical countries.

Finally, the report notes that while the FLEGT licence is a credible endorsement and an essential underpinning for market development in the EU, it is unlikely to deliver significant or sustained increases in market share in isolation. Imported timber products, not just from the tropics, are struggling to compete with domestic suppliers and non-wood substitutes in the EU. All actors need to avoid raising expectations of immediate market gains in what is better presented as a long-term process of market transformation. FLEGT partners also need to consider how FLEGT licenses fit within their broader timber industry and export development strategy.

FLEGT feedback in focus at Berlin IMM Trade Consultation

The Independent Market Monitor's role is to use a combination of trade flow analysis and market research to track market impacts of FLEGT-licensed timber and wood products. The market research aspect lay at the heart of its Trade Consultation in Berlin in November.

Even more so than previous Consultations in London and Nantes, and in response to feedback from those events, the emphasis was also strongly on delegate input and discussion. Concise presentations on market trends and influences, timber legality and sustainability issues were starting points for delegate workshops on key topics.

"This event is about your exchange and feedback, which will be relayed to inform future policy development," said IMM Lead Consultant Sarah Storck. "It's about adding a qualitative aspect to the

FLEGT discussion, focusing on issues you want to discuss and your views on risks, challenges and opportunities in the tropical timber trade."

The Consultation took place in Berlin's Verbändehaus with the support of German Timber Trade Federation GD Holz and the day after its Branchentalk meeting.

Attendance was lower than at earlier Consultations and Ms Storck posed the question whether this was partly due to what has been



Debate was lively and wide ranging

described as 'FLEGT fatigue' or frustration with the process.

"This is something we may look into to further inform discussion round these topics," she said. At the same time, however, the level of delegate input and participation in Berlin suggested, said one participant, that 'in the right forum, these issues do generate interest'.

Range of timber sector representation

While there was no presence at the event from end-user industries or retail, delegates represented a range of timber sector and associated interests and standpoints. Besides operators and traders, they included representatives of the German Competent Authority BLE, GD Holz, environmental consultancy, academia, the EFI FLEGT facility and other agencies.

The timber businesses also covered a spectrum of product areas and markets. They comprised market-leading importers of the range of tropical sawn timber, plywood, and solid wood products, including decking. Identifying their key customer sectors, they listed other importers, the merchant trade, wholesalers, joiners, carpenters, and

flooring manufacturers, including leading names in the European industry.

The diversity of delegates was further underlined when asked by event moderator Andrew Escott of the Global Timber Forum to identify their main 'market influencers'. Among others, they cited private buyers, the design and fashion sectors, architects, engineers and other specifiers, as well as public opinion and NGO activism.

Europe's loss of tropical share

IMM Trade Analyst Rupert Oliver opened discussions on recent trends and dynamics in the European tropical timber sector, and the capacity of the FLEGT initiative to shape trade going forward, with a snapshot of market developments over the last 15 years. The key change in that period had been Europe's loss of share of the global tropical timber trade, from 34% in 2004 to 20% in 2014, where, bar a temporary upturn in 2015, it had approximately remained since.

Initially tropical timber suppliers lost share to Chinese suppliers, but more recently share was lost to suppliers in European countries, both inside and outside the EU, and in North America.

The question, said Mr Oliver, was what potential the FLEGT platform had to help rebuild Europe's tropical share and influence.

"Ostensibly prospects for shaping market development are good, with Indonesia and the other countries engaged in the FLEGT process accounting for 75% of European tropical imports," he said.

Delegates were sceptical about prospects for restoring European share to previous levels. The consensus was that 'what is gone, is gone', at least in the short and medium term, due to the interplay of factors which led to sales shrinkage.

FLEGT's market traction

Longer term FLEGT was viewed as having potential to at least help slow or halt the slide in Europe's tropical timber trade. However, until more countries moved more quickly through the VPA process and started FLEGT licensing to grow

volumes and variety of licensed products, delegates said they were unlikely to gain significantly greater market traction. "The trouble is at the same time other current and prospective VPA countries are monitoring sales of Indonesian licensed timber," said a delegate. "They want to see a return on [FLEGT] investment."

To grow EU market acceptance of FLEGT licensed timber, recognition in government procurement policy was also seen as critical. One delegate said that FSC timber, rather than FLEGT-licensed timber, had been specified for an EU construction project they had supplied. "Governments must lead the market," they said. A detailed analysis of the Berlin Workshop 1 discussion of drivers of decline and future opportunities for tropical timber in Europe **can be found on page 4.**

The next workshop focused on the dynamics of the tropical timber market, encompassing purchasing decisions, business risk factors and customer requirements. Discussions also covered FLEGT communication and promotion.

Asked by Mr Escott to list key factors in selecting suppliers or sourcing a new product, delegates agreed that primary considerations were the practicalities; could suppliers meet the product specification and deliver on quality and on schedule.

Leading risk considerations in any purchase were also seen as transactional, such as whether pre-payment could be assured. But reputational risk from importing illegal or unsustainable timber was also important and the EUTR and to a lesser extent, given that only Indonesia is issuing them, FLEGT licences were regarded as means of minimising it.

Communicating the FLEGT initiative

In terms of customer requirements, delegates said price remained a prime consideration and legality of supply was expected as a matter of course.

In a discussion led by Tom ter Horst of the EFI FLEGT facility, delegates addressed sources of information on supply sustainability and legality and the FLEGT initiative. Participants felt there was scope for development of communication for the latter, particularly in conveying FLEGT's wider impacts.

UK correspondent Mike Jeffree described an IMM report underway into the extent to which European generic timber marketing and communication programmes and campaigns reference FLEGT and the potential for increasing it. So far only one promotional initiative had focused on FLEGT in depth, he said, and he asked delegates for their views on ways of raising its profile. Some said the combination of FLEGT licensing and certification comprised a potentially powerful marketing tool. Others supported greater emphasis on FLEGT's 'on the ground benefits' in supplier countries. More details on workshop 2 **can be found on page 5.**



Participants were invited to rank key market shaping factors

FLEGT, sustainability and procurement

The final workshop focused on FLEGT and sustainability, starting with a presentation from IMM German correspondent Gunther Hentschel on the degree to which FLEGT licensed timber from Indonesia is underpinned by sustainability certification, including the country's PHPL scheme.

Mr Hentschel asked if delegates viewed FLEGT licensing as undermining or complementing

certification. One responded that in Indonesia they seemed to be operating successfully in tandem.

George White of the Global Timber Forum concluded the Consultation with a preliminary report on his IMM study of European procurement policy, its sustainable timber definitions and recognition of FLEGT.

The range of private and public sector procurement policies and number of potential procurement 'influencers', he said, made for a 'complex policy web'.

His 'literature review' of over 60 timber procurement policies found 40% mentioning FLEGT and 71% supporting certification, while, of 20 private sector policies researched in more depth, 13 covered legality, but just two specifically referred to FLEGT licensing.

"Initial conclusions are that FLEGT can become a more prominent business to business tool, but currently [procurement] policy support for it is variable," he said. **See page 6 for more details.**

Risks and opportunities – drivers of the EU tropical timber market

The main section of the IMM Berlin Trade Consultation opened with a workshop on trends in EU tropical timber trade. The workshop's primary purpose was to discuss drivers of market decline and future opportunities for tropical timber in Europe with private sector representatives.

A short presentation by IMM Trade Analyst, Rupert Oliver, set the stage by summarising recent trends in global tropical timber trade and the EU's changed position in the global trade environment. As shown in Chart 1, the EU still was the most important market for tropical wood products globally back in 2007, but has since fallen to fourth place, well behind China, North America and North East Asia.

However, it was also noted that to fully exploit the potential of FLEGT licensing, more countries needed to be doing it. It was suggested that one country delivering FLEGT-licensed goods to the EU was not enough to increase awareness and shape market and investment trends.

Based on previous research, IMM had identified nine potential drivers of tropical timber's decline in the European markets (chart 2). These had already been included for rating according to relevance in the IMM 2018 trade survey. For the Berlin Trade Consultation, the drivers "EU Timber Regulation" and "declining quality" were added for the first time; both had emerged from analysis of IMM 2017 and 2018 trade survey results.

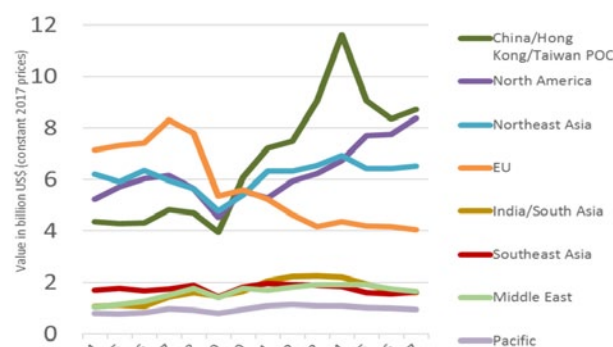
Trade Consultation participants were asked to rate the market drivers according to relevance by placing stickers on the most important factors. They were also asked to add other factors, if appropriate.

With the exception of "declining quality", all other factors were also considered relevant for the downhill trend in EU tropical timber imports over the last decade. No additional factors were identified.



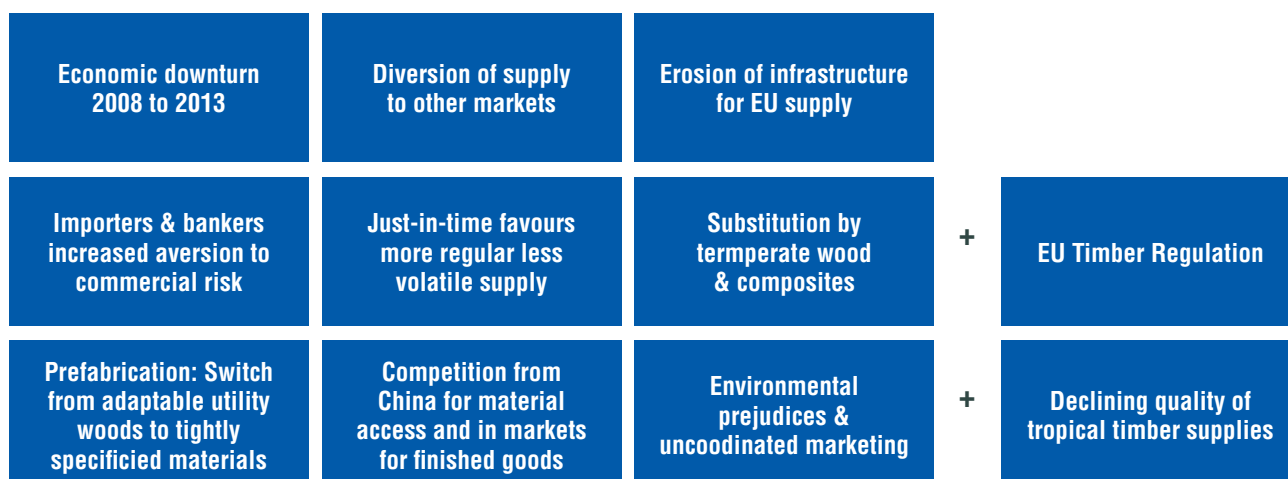
Participants listing tropical timber opportunities

Chart 1: Global tropical wood product trade by region of import

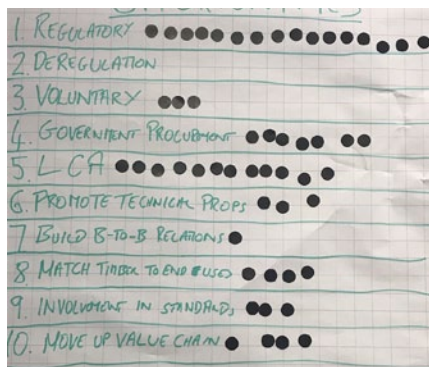
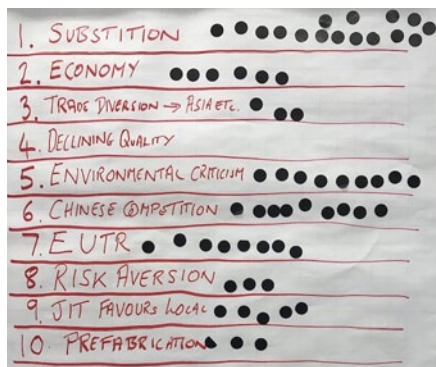


Source: IMM analysis of GTA

Chart 2: Drivers of EU tropical timber market decline



Source: IMM 2017 analysis



Delegates' ranking of drivers of tropical timber market decline (left) and opportunities for EU tropical timber markets – IMM Berlin Trade Consultation

The German Trade Consultation voting differs only slightly from the rating of drivers conducted as a part of the EU IMM 2018 trade survey in all seven key tropical timber consuming EU countries. "Substitution by temperate wood and composites" was identified as the most important factor also by the 2018 trade survey. Unlike in Germany, the economic crisis and its aftermath held second place in the multi-country survey, followed by "diversion of supplies to other markets" and then again "environmental prejudice and uncoordinated marketing" and "competition from China". The EU Timber Regulation had not yet been included as a factor in the 2018 trade survey, but will be in subsequent surveys and Trade Consultations, as it has emerged as an increasingly relevant factor over the last year.

Participants in Berlin were also asked to rate a range of potential opportunities for the EU tropical timber trade identified by IMM and to discuss trade expectations.

Two factors emerged as the strongest opportunities by far in the rating: "Regulatory" and "LCA".

"Regulatory" stands for "a regulatory approach involving increased supply of FLEGT-licensed tropical timber linked to consistent and effective enforcement of EUTR to remove illegal wood". Trade Consultation participants were expecting this strategy to bring long-term benefits to the sector, even though the EU Timber Regulation was currently rated among the drivers of decline. Practically all participants in Berlin saw the EU Timber Regulation as the right approach to improve credibility and reputation of the tropical timber trade. Consolidation in the sector and the concentration of import activities in the hands of a smaller number of expert importers, who have the means to ensure that only legal timber is imported, was also generally seen as a positive development. Not a single participant voted in favour of "Deregulation" i.e. abandoning the EUTR.

A second major opportunity was seen in highlighting/promoting the environmental benefits of tropical timber and underpinning them scientifically through life-cycle analysis (LCAs). Here, traders were also calling for increased regulatory support through government

procurement policies. With respect to FLEGT-licensed tropical timber, traders urgently called for an inclusion in EU MS public procurement policies as evidence of both legality and sustainability.

Overall, Trade Consultation participants tended to expect stagnation of the EU tropical timber markets at the current low level in the short and medium term. However, some participants also saw longer-term opportunities for tropical timber, primarily due to its environmental credentials. Such opportunities were considered to depend on future support through policy-making as well as public perception of tropical timber.

The rating of opportunities was conducted in Berlin for the first time but will feature in future Trade Consultation and surveys.

Recommendations:

- Effective and consistent EUTR enforcement should continue and be underpinned by deliveries of FLEGT-licensed tropical timber from a larger number of countries.
- Implementation of similar regulatory approaches in countries like China would create a more level playing field and make European operators more competitive again when it comes to material access.
- FLEGT-licensed timber should be accepted as evidence of legality and sustainability in all EU MS public procurement policies.
- Tropical wood promotion should highlight the environmental benefits of tropical timber.
- Develop strategies to change the public perception of tropical timber, for example through closer cooperation with NGOs.

Purchasing decisions, business risk, customer requirements and communicating FLEGT

Discussion themes in workshop 2 covered the range of factors that play a part in any tropical timber transaction in the EU and set the context for market uptake of FLEGT licensed product and the relevance attached to the wider FLEGT initiative.

Consultation moderator Andrew Escott asked delegates to rank key issues which shaped their everyday purchasing decisions. Their response was that straight business and commercial considerations come first and foremost. Top of the list, alongside price, was ensuring that the supplier can deliver the product in the time frame required. They had to guarantee consistent quality and specification and their communications and supply relationship management were also considered important.



One of the Trade Consultation workshop discussions

"Depending on individual suppliers and the country in question, frequently the only way to be assured on all these areas is to go there; get people on the ground to see how the company is set up, the quality of their processing equipment and so on," said a delegate.

Only once buyers are satisfied on all these points does the focus move more to chain of custody, sustainability certification, legality verification and capacity to provide EUTR due diligence information.

"Sometimes these matters are addressed at the same time as other supply issues, but they are immaterial until we know that that suppliers can deliver the product we want, when we want it," said a delegate.

It was agreed a FLEGT licence could be a differentiating factor between suppliers for the buyer, but only where other product criteria were equal, a scenario considered unlikely to arise at least until FLEGT-licensed products are available in greater variety from a larger number of countries.

Ranking risk factors

In terms of risk factors, delegates cited the danger of new suppliers over-promising on quality and production capacity, their general trustworthiness set against the wider level of corruption in a country, as measured by the Corruption Perceptions Index, and financial risk, such as security of pre-payments.

Further down the list came the risk of buying illegal or unsustainable timber and the resulting reputational damage. The EUTR and certification were both seen as means of mitigating this.

"But the ultimate insurance against all these risks is developing long-standing relationships with customers and building trust over a period of time," said a delegate.

In terms of customer requirements, delegates said they were asked about environmental issues, but it was not 'generally part of daily business communications'.

"There's also just an expectation that legality and other matters, such as suppliers' working conditions and health and safety standards, are taken care of by us," said a delegate. "Our customers' trust is in our brand, and as part of that the assumption is that we've dealt with these things."

The most common customer question asked with regards sustainability was said to be 'is it FSC?', while the general understanding of sustainability is that a tree is planted for everyone felled, or harvesting does not contribute to deforestation. There was general agreement with one delegate

who said that 'no-one mentions the wider social aspects of sourcing and sustainability'.

Sources of FLEGT information

Asked by Tom ter Horst of the EFI FLEGT facility which sources of information they relied on for sustainability and legality of supply, and if any information was lacking with regards FLEGT, delegates listed NGO reports and supplier country profiles, such as those from NEPCo, BVRio and ATIBT.

On FLEGT, delegates said they had all the information they needed to explain its role in assuring legality to customers.

"But I think the majority of EU operators would struggle to explain in detail what lies behind FLEGT licensing and the wider VPA process," said one. "A straightforward summary of this would be helpful."

The latest IMM study is into generic national timber marketing and communication programmes in the EU and the extent to which they refer to the FLEGT initiative.

Capitalising on marketing campaigns

Author IMM UK Correspondent Mike Jeffree said there had never been a more active period for timber promotion, with the combined budget of campaigns across the EU in the millions of euros per annum. These focus on a range of themes, from timber's status as the only renewable construction and manufacturing material, to the role of a well-

managed timber supply chain in maintaining the forest and supporting local communities.

Increasingly highlighted too are timber's carbon benefits, its value in developing a circular or bioeconomy and its superior performance in life cycle analysis over man-made, energy-intensive materials.

It might be assumed, said Mr Jeffree, that this environmental focus of European wood promotion would make inclusion of FLEGT still more likely, particularly given it is increasingly argued that the VPA process incorporates criteria in common with sustainability certification. But with the exception of the UK Timber Trade Federation's Timber Transformer exhibition in London this year, which focused exclusively on the social, environmental and economic benefits of Indonesia's VPA process, the coverage has been minimal.

The IMM study is asking leading EU promotional campaigns if they see opportunities for incorporating FLEGT messaging, if not why, and also what information and support would make the task easier.

Mr Jeffree asked delegates if they felt more promotional focus should be on products from VPA countries, given, in the words of one UK importer, that 'customers buy products, not timber legality schemes', and also whether FLEGT communication would gain wider currency if, like Timber Transformer, it focused on the social, environmental and economic impacts of the VPA process.

One participant commented that telling the 'human stories' behind FLEGT could raise its public profile.

Certification collaboration and government backing urged to boost FLEGT licensing recognition in private sector procurement

The final session of the IMM Berlin Trade Consultation focused on private sector green procurement and its recognition of FLEGT as well as the Indonesian licensing system and sustainability. It featured two presentations by IMM Germany correspondent, Gunther Hentschel, about sustainable forest management in Indonesia and independent consultant, and George White, about an EU private sector timber procurement policy study he is currently undertaking for IMM, followed by short discussion sessions.

Mr Hentschel opened with an examination of Indonesia's PHPL sustainable forest management certification system. Little known outside the country, it was introduced in 2003 and comprises categories for natural, private plantation, ecosystem restoration and state-owned plantation forest. It currently covers 10.9 million ha of commercial logging concession and 5.7 million ha of plantations, with a target to increase that to 22-23 million ha.

Other SFM certification schemes operating in Indonesia include the FSC and FSC controlled wood systems, which cover respectively 3 million ha and 2.8 million ha, the Ministry of Forestry backed LEI standard, which accounts for 2.6 million ha, and the PEFC-endorsed IFCC scheme, which covers 3.6 million ha of plantation (mainly supplying pulp and paper sectors).

"Combined, these schemes account for 76% of natural production forest, while the figure for plantations, due to dual certification, is 140%," said Mr Hentschel.

The requirements of the various schemes, he added, had a lot in common, with the key area of differentiation being their certification of

conversion forest. While the FSC scheme will not sanction certification of forest converted since 1994, and the IFCC/PEFC scheme since 2010, the PHPL and LEI standards continue to allow it, subject to specified criteria.

Mr Hentschel also highlighted that initial concerns FLEGT licensing might disincentivise sustainability certification in Indonesia seem to have proved



Gunther Hentschel



George White

Figure 1: Organisations influencing responsible purchasing

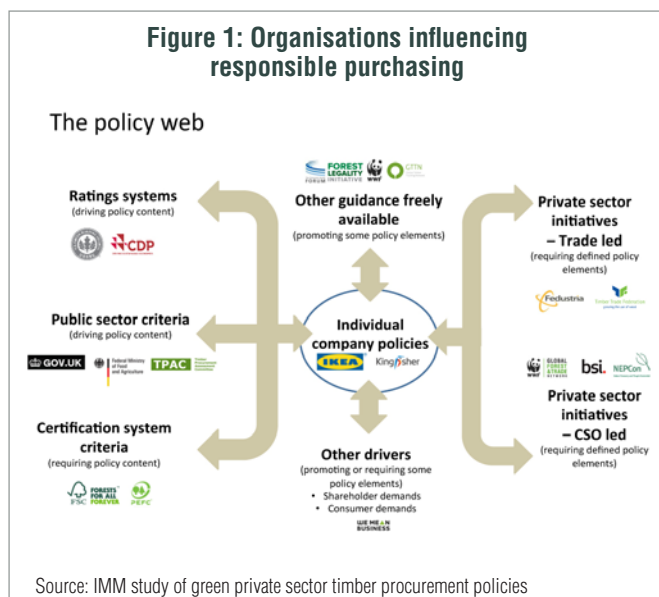
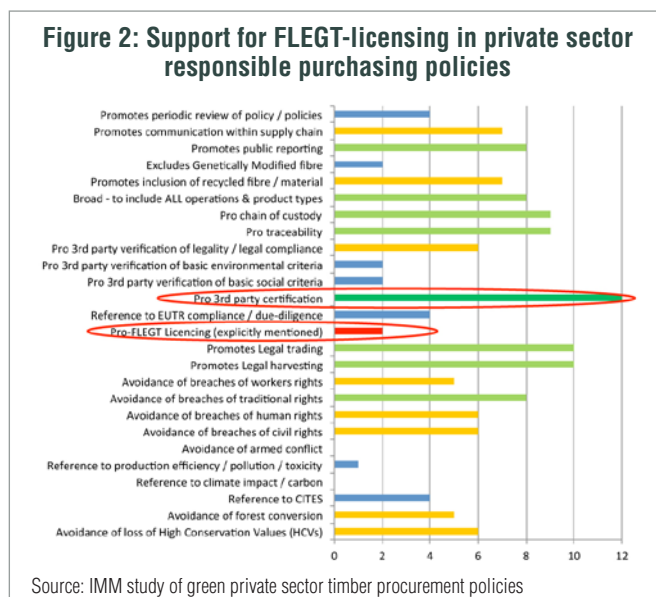


Figure 2: Support for FLEGT-licensing in private sector responsible purchasing policies



baseless. Since its introduction in 2016, the area of FSC-certified forest had increased by 0.5 million ha, while the area of plantation covered by the IFCC scheme had grown by 1.8 million ha.

In response to Mr Hentschel's question to delegates whether the FLEGT VPA process and FLEGT licensing were a hindrance or help to spread of SFM certification, one said that FLEGT effectively promoted SFM and in, improving general standards of governance, could ultimately make certification easier, a major benefit in tropical countries where the certification process and its required infrastructure could be very expensive.

Certification and FLEGT licensing operating in conjunction was considered by one delegate as the best option, but where the former was too complex or costly, FLEGT alone was a 'good solution' and first step.

"But what is needed is greater communication and cooperation between the two approaches," they said.

Mr White's presentation outlined that a vast array of organisations was influencing responsible purchasing policies (figure 1). A literature review identified over 100 organisations, tools, initiatives,

templates and sets of guidance which might have an influence on a private sector company policy.

A sample 65 potential sources of influence have been assessed in detail for the IMM study to identify attitudes and support for key indicators such as certification, legal compliance, and support for FLEGT Licensing. In addition, the responsible purchasing policies of 20 large EU based companies from across a range of sectors, from retail to timber importing have been assessed to identify the contents of their policies and the levels of support for FLEGT-licensing.

The analysis indicates that support for FLEGT-licensing has yet to reach the levels of forest certification. Over 70% of the influential sources analysed are positive and explicit in their support of some or all forms of forest certification, compared to around 40% supporting FLEGT-licensing or the VPA process.

The differences are larger when looking at the 20 private sector company policies analysed in detail: only two explicitly support FLEGT-

licensing compared to twelve supporting third-party certification (figure 2)

Mr White concluded that while the nature of the EU Timber Regulation and its universal application across all EU Member States should ensure that FLEGT-licensed timber carries status and meaning in the market, the reality is that Licensed timber remains very much in a niche at present, which is partly due to its limited geographic spread. And even those working within the niche have varying levels of support, belief and trust in the "FLEGT brand" and what it actually stands for.

As a result, explicit support for FLEGT in policies is variable and some companies remain wary of including FLEGT.

Mr White also concluded that more "proof" of the value of FLEGT-licensing on the ground is needed to convince people of the value; and he also called to mind that certification has a 25-year head start – and still is not universally supported

Key comments by stakeholders during interviews supporting these conclusions include:

"FLEGT has sustainability elements but these have not been communicated – so no one values them."

"The TLAS system in Indonesia contains much more than legal compliance. It contains sustainability elements – but we need to know what they are!"

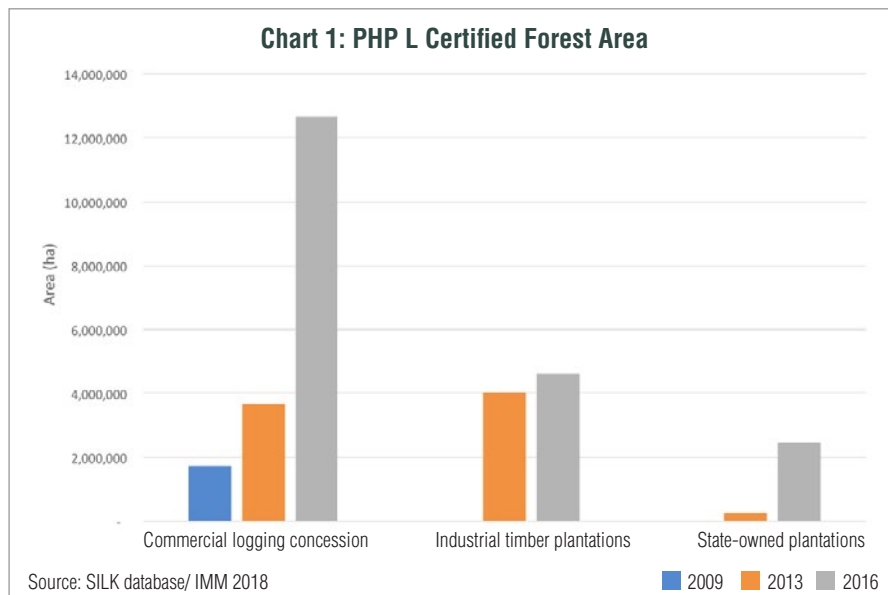
"FLEGT needs recognition and support within public procurement specifications. Without this recognition we cannot market Licensed timber."

"Some big companies in Europe set the agenda and they are not valuing FLEGT."

"FLEGT Licencing is not a consumer brand. We don't want it to compete with FSC."

The full study will be published on the IMM website later this year.

Chart 1: PHP L Certified Forest Area



International competitiveness remains an issue for most VPA partner countries

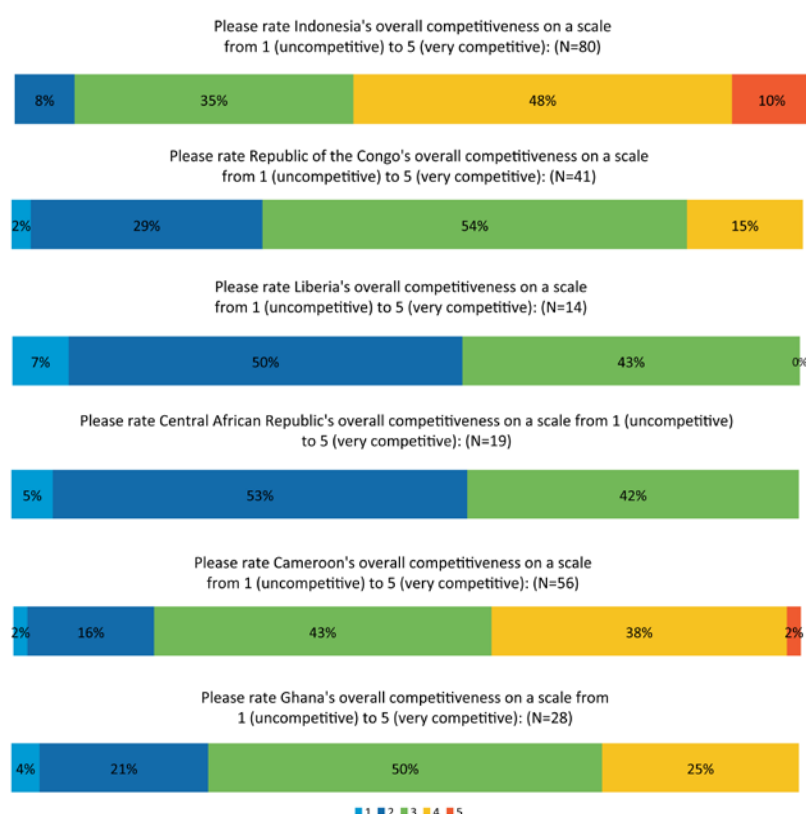
The IMM 2017 annual report has looked into both the relative international competitiveness of all VPA partner countries based on their rating by several international competitiveness indices and in more detail into the perception of VPA implementing partners' competitiveness by the European import trade. Several VPA partner countries, especially Malaysia, Indonesia, Viet Nam and Thailand, ranked highly in one or more of the international competitiveness indices analysed by IMM, namely the World Bank's "Ease of Doing Business" (EDB), the World Economic Forum Global Competitiveness (GC) Index, and the UNCTAD Liner Shipping Connectivity Index:

- **Malaysia** remained by far the top performer amongst VPA Partner countries across the indices. In spite of the recent fall in the connectivity Index, it remains among the world's five most connected countries. However, Malaysia continued to fall slightly – from rank 23 to 24 (2013: 6) – on the EDB index. Compared to other VPA partner countries this is still a very good rating though. On the GC Index Malaysia also lost ground – from 18th to 25th position in 2017.
- **Indonesia's** position on the GC Index remained stable at 41st in 2017. At the same time, ranking on the EDB Index continued to increase sharply from 120th in 2013 to 91st in 2016 and 72nd in the 2017/2018 report. The country made significant progress on a number of items including "starting a business", "access to electricity", "paying taxes", "trading across borders", "protecting minority interests", "access to credit" and "registering property". Indonesia's connectivity remains a problem, being considerably lower than key competitors
- including China, Malaysia, Viet Nam and Thailand. However, while the connectivity rating for Malaysia, Thailand and Viet Nam has trended slightly down recently, Indonesia's rating has improved during 2015-2017 and the gap between it and Viet Nam and, in particular, Thailand has narrowed. Malaysia and China remain far better connected though.
- Between 2013 and 2016, **Thailand** fell from 18th to 46th on the EDB index, due to range of issues including "construction permits", "registering property", "paying taxes", "trading across borders" and "enforcing contracts". However, most of the lost ground was regained in 2017/2018, when Thailand rose to 26th rank. At the same time, Thailand's Connectivity Index declined slightly from 2016-2017 and on the GC it fell from 32nd to 34th rank.
- **Viet Nam's** ranking on the GC index increased from 70th in 2013 to 60th in 2016 and 2017. Viet Nam's EDB index ranking increased from 99th in 2013 to 82nd in 2016 and again to 68th in 2017/2018 as the country made ground on

several issues including "access to electricity", "access to credit", "trading across borders" and "enforcing contracts". Viet Nam's connectivity Index softened slightly in 2017 after a sharp improvement in 2016.

- **Lao** PDR's overall performance is weak compared to other Asian VPA partner countries. The country's ranking on the GC index fell from 81st in 2013 to 93rd in both 2016 and 2017. Ranking on the EDB increased from 159th in 2013 to 139th in 2016 before falling again to 141st in the most recent report. Lao is not listed on the connectivity Index.
- **Ghana** slipped sharply down the EDB index from 67th in 2013 to 108th in 2016 and then further to 120th in 2017/2018. In 2016 ranking was down significantly on several issues including "dealing with construction permits", "access to electricity", "registering property", "access to credit", "protecting minority investors", "paying taxes", "trading across borders", "enforcing contracts" and "resolving insolvency". In 2017, the country apparently only made progress on the issue of "construction permits". Ranking on the GC index was stable at a low level (114th) between 2013 and 2017. On the connectivity Index Ghana fell behind Gabon in 2017 and remained slightly lower than Congo and Côte d'Ivoire.
- **Côte d'Ivoire's** competitiveness is still low but showing some signs of improvement. The country's ranking on the GC index increased from 126th in 2013 to 99th in 2017. During the same period, ranking on the EDB index increased from 167th to 142nd in 2016 and then again to 139th in 2017/2018.
- **Congo's** connectivity Index increased between 2013 and 2017 to a significantly higher level than that of Ghana and Côte d'Ivoire; however, it remains very low by international standards. There was also a slight improvement in Congo's ranking on the EDB index from 185th in 2013 to 179th in 2017/2018.
- **Liberia's** ranking on the EDB fell from 144th in 2013 to 174th in 2016 with a significant decline across a wide range of issues including "Dealing with construction permits", "Access to electricity", "Access to credit", "Paying taxes", "Protecting minority investors", and "Trading across borders". It improved again slightly to 172th in 2017/2018. Liberia's Connectivity Index remains very low also compared to the other African VPA partner countries. On the GC it fell from rank 129 to 131 between 2015 and 2017.

Figure 1: VPA implementing countries' overall competitiveness



Source: IMM 2017 Trade Survey

Figure 2 Indonesia's competitiveness by indicators

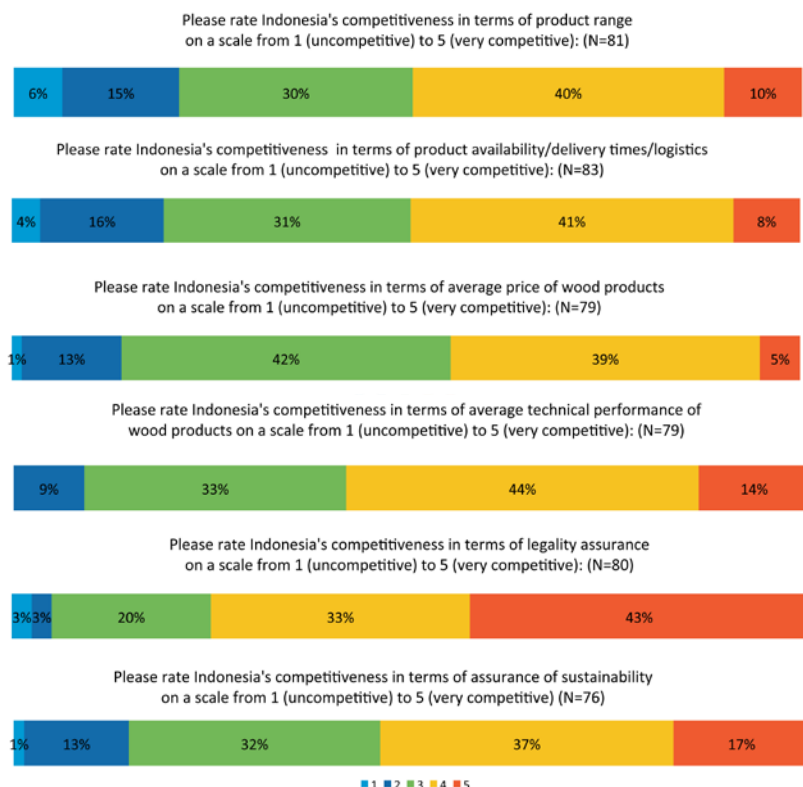
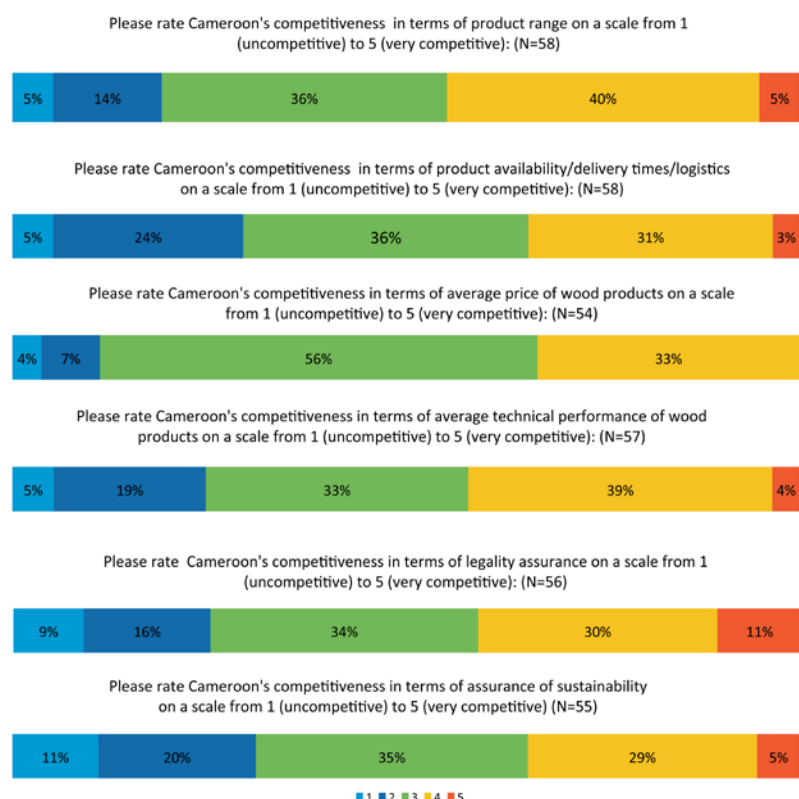


Figure 3: Cameroon's competitiveness by indicators



Source: IMM 2017 Trade Survey

other VPA partner countries in Africa including **Central African Republic, DRC** and **Gabon**.

- Between 2013 and 2016, **Honduras's** ranking on the GC index increased from 111th to 88th, where it remained in 2017. Its ranking on the EDB increased from 127th to 105th between 2013 and 2016 and then fell back again to 115th. Honduras' connectivity Index has recently improved a little but is still at a low level, comparable to that of Ghana or Côte d'Ivoire.
- Guyana's** ranking on the GC index fell from 117th in 2014 to 121st in 2015; it was not listed among the 138 countries in the 2017 report. Ranking on the EDB fell from 115th in 2013 to 124th in 2016 and 126th in 2017/2018. Guyana's points on the connectivity Index doubled in 2017, but the country's connectivity still remains lower than that of Honduras, Ghana or Côte d'Ivoire.

EU trade perception: Indonesia playing in a different league than African VPA implementing countries

As a part of the IMM 2017 European trade survey respondents were quizzed about their own experience with VPA implementing partner country competitiveness. The questions included an inquiry into perceived overall competitiveness of each country as well as competitiveness against a range of indicators including:

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

As in the international indices, Indonesia was ranked the most competitive by far among the FLEGT-licensing and VPA-implementing countries also by the European trade. A number of respondents remarked it was "playing in a different league" than the African VPA implementing countries.

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

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

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

- Cameroon** slipped from 114th to 119th rank in the GC Index between 2015 and 2017. The 2017/2018 EBD report listed some improvements in "starting a business" and "access to credit" last year but Cameroon still only held 163th place in the EBD ranking.

Cameroon's Connectivity Index improved slowly over the last few years and is now relatively close to Ghana's or Côte d'Ivoire's but still clearly lower than Congo's.

- There was little or no change in the very low level of competitiveness and connectivity exhibited by

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

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

Indonesia performs particularly well in “legality assurance”, “technical performance” and “assurance of sustainability”

A closer look at the different indicators of price, availability/logistics, technical performance, legality assurance and assurance of sustainability (Figure 2) shows that Indonesia performed particularly well in “legality assurance” (76% “competitive” or “very competitive”), “technical performance” (58% “competitive” or “very competitive”) and “assurance of sustainability” (54% “competitive” or “very competitive”).

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

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

A baseline analysis of the Indonesian furniture sector’s competitiveness relative to other Asian and European suppliers can be found in the **IMM EU Furniture Sector Scoping study**.

European trade appreciates broad range of timber species supplied by Cameroon

Figure 3 shows that Cameroon achieved comparatively good ratings in terms of “product range” (45% “competitive” or “very competitive”)

Figure 4: Ghana’s competitiveness by indicators

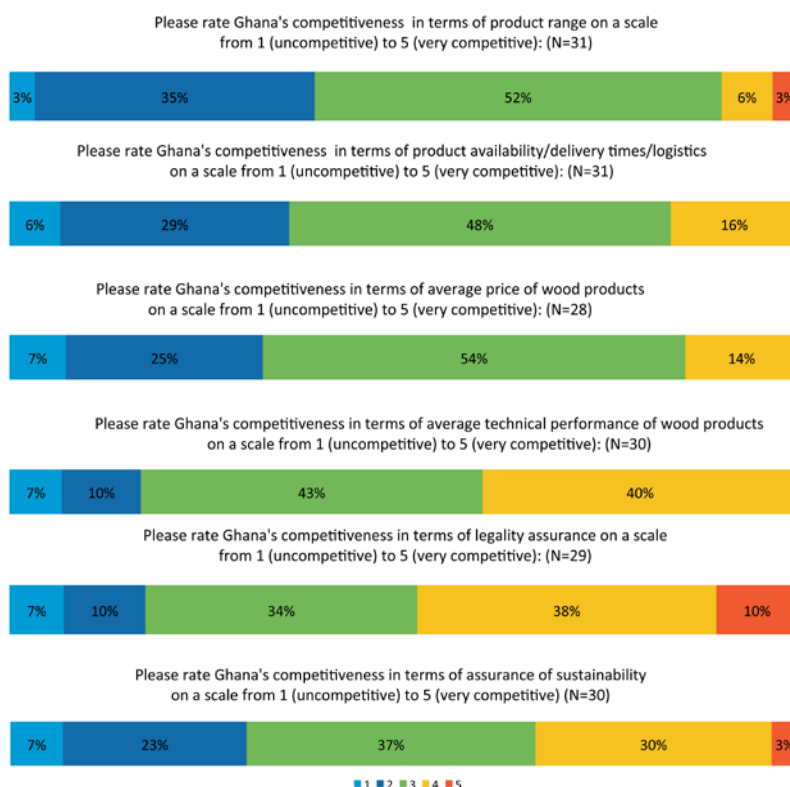
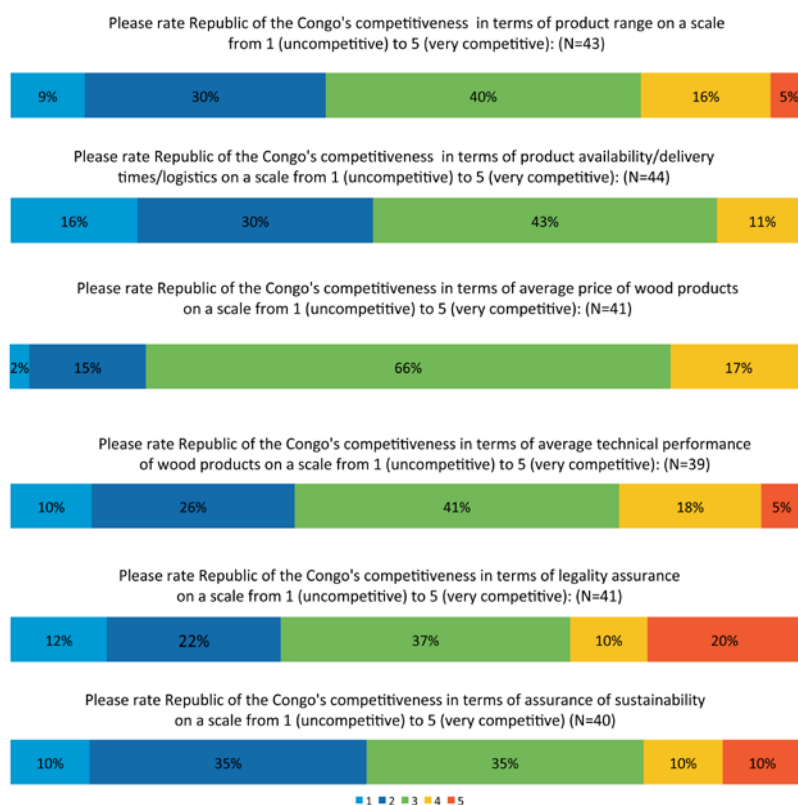


Figure 5: Congo Republic’s competitiveness by indicators



Source: IMM 2017 Trade Survey

and “technical performance” (43% “competitive” or “very competitive”).

The country exports mainly sawn timber to the EU. It offers a broad range of popular species including Sapelli, Ayous, Azobé, Iroko, Okan and Tali, among others, and is the single most

important supplier of tropical sawn timber to a number of the key EU markets.

Cameroon performed better than all the other African VPA implementing countries against practically all indicators and was the only African VPA partner country to receive a small number of

“very competitive” votes across all indicators.

Given Cameroon's importance as a tropical timber supplier and its relative political stability, numerous European survey respondents recommended speedy completion of its VPA implementation.

Ghana performed relatively strongly in “assurance of legality”

Analysis of different indicators shows Ghana performing relatively strongly in “assurance of legality” (48% “competitive” or “very competitive”). Here it has likely profited from its advanced VPA implementation and related EUTR awareness of major exporters (Figure 4).

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

The mainly satisfactory to low ratings in terms of “product range” and “availability/lead times” are not surprising given Ghana's loss of importance of as a tropical timber supplier for the EU in the last decade.

ROC relatively strong in “price”, “product range” and “technical performance”

RoC's ratings were lower on average than those of Cameroon and Ghana, but the country still had quite a significant proportion of average to very good ratings especially in terms of “price”, “product range” and “technical performance” (Figure 5).

Like all other African VPA partner countries Congo Republic supplies primarily sawn timber to the EU markets. Within the EU, Congo Republic is an important supplier primarily for Belgium and France.

For assurance of legality (and sustainability) buyers reportedly mostly rely on FSC certification in the Congo.

“Price” seen as strongest feature in CAR and Liberia's competitiveness ranking

The Central African Republic was rated relatively competitive in terms of “price” by a number of survey respondents. In most other categories, around two-thirds of respondent rated the country “uncompetitive” or “very uncompetitive” (Figure 6).

According to comments from the IMM trade survey, the civil war and its aftermath has made sourcing wood in CAR difficult – especially of verified legal timber.

As for CAR, Liberia's main strength was identified in pricing in the competitiveness ranking (Figure 7).

Surprisingly, given that obtaining legality assurance in Liberia was frequently described as particularly difficult during interviews with IMM correspondents, is the comparatively good

Figure 6: CAR's competitiveness by indicators

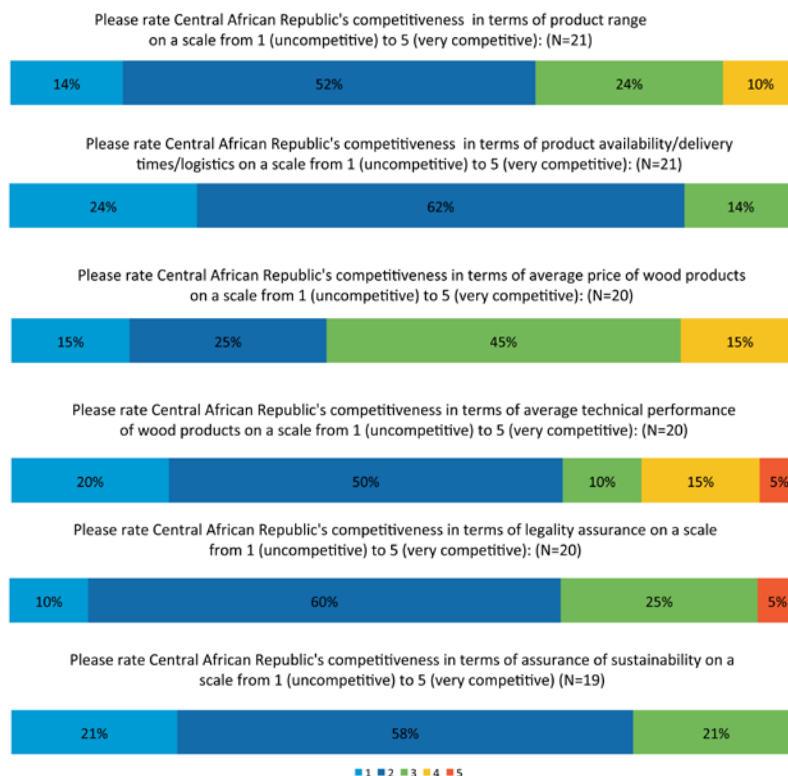
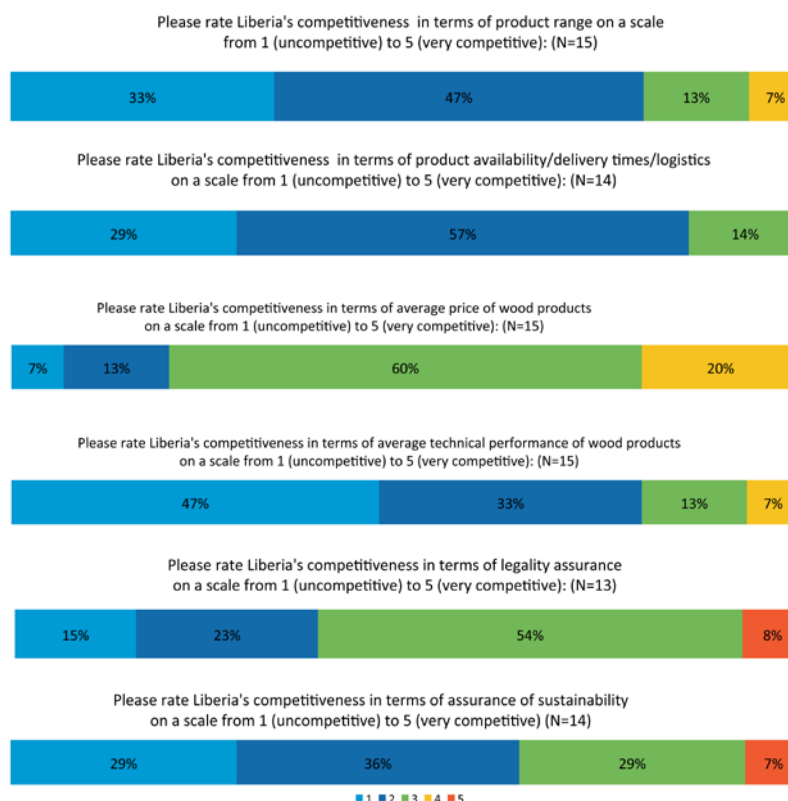


Figure 7: Liberia's competitiveness by indicators



Source: IMM 2017 Trade Survey

rating for “obtaining proof of legality”. One reason for this may be that only a relatively small number of survey respondents participated in the competitiveness ranking for Liberia (13-15 companies, depending on the indicator. By comparison, Indonesia was ranked by around 80 and Cameroon by 50-60 companies).

The small number of respondents engaged in Liberia may have specialised in sourcing from there and thus be used to carrying out risk assessment and mitigation in the country. Liberia's rating against other indicators was weak.

EC reports steady progress in EUTR implementation

On 5th October, the European Commission (EC) formally adopted the EU Timber Regulation (EUTR) Report 2017, the second biennial report on implementation since the regulation came into

law in March 2013. The second report covers the period March 2015 to February 2017 and is based on the reports from the 28 EU Member States and Norway.

According to the EC, the report “reveals steady progress after four years of its application. Almost all countries comply with the formal requirements of the EUTR. Over the reporting period, the number of checks made and sanctions applied for violations of the EUTR has significantly increased”.

However, the EC also notes that “continuous efforts are needed to ensure a uniform and effective application of the EUTR across countries. Uneven implementation can have potential implications in

terms of both the effectiveness of legislation and a level playing field for market operators. Further effort should be made to ensure that the scope and quality of the checks carried out reflect a more consistent approach across the EU”.

The EC intends to “continue to cooperate with Member States on supplementing EUTR guidance to achieve uniform application and facilitate its implementation by operators” and will also “help approximate enforcement approaches between competent authorities and explore additional tools to improve EUTR implementation in cooperation with Member States and relevant stakeholders”.

Click here for full report.

Guyana becomes second Latin American country to initial VPA

Guyana has become only the second Central/South American country to complete its FLEGT Voluntary Partnership Agreement, following the initialling by Honduras of its VPA earlier this year.

Guyanese Minister of Natural Resources Raphael Trotman and EC Deputy Director-General for International Cooperation and Development Marjeta Jager initialled the VPA in Brussels on 23 November, opening the way to finalise internal procedures for signing and ratifying it and for subsequent implementation of the agreement.

Mr Trotman described the country's forest and timber sector as an important contributor to the national economy, which generated jobs and helped reduce poverty. He said the VPA would boost the industry.

“It will improve forest management and governance and, by rooting out illegality, will boost trade and contribute to Guyana's goals on climate change, biodiversity conservation and sustainable development,” he said.

EU Commissioner for International Cooperation and Development Neven Mimica also welcomed latest moves on Guyana's VPA and commended its commitment to sustainable development of its timber trade.

“The EU is also committed to supporting the country's efforts to implement the Agreement in the years ahead,” he said.

It is reported that the VPA has already boosted transparency in the Guyanese forest sector, increasing public access to previously undisclosed information. During the VPA negotiations, the Guyanese authorities also published its draft content, enabling business, NGOs and ordinary citizens to give their feedback.

The VPA process has additionally led to legal reforms and the update and replacement of regulations that had been in place since 1953.

VPA implementation, said an EU statement, will involve Guyana identifying and addressing possible gaps in the forest allocation process and in the legal framework, upgrading systems for tracking wood through the supply chain and improving procedures for verifying legal compliance. It will also help ensure that traditional rights of Amerindian peoples are not impeded

An independent audits system, complaints procedure and mechanisms for ensuring public availability of forest sector information will all now be established, with the whole process overseen jointly by the EU and Guyana.

Guyana's forests cover 87% of its 21.1 million ha area, with the government owning 86% and indigenous peoples 14%.

Exports to the EU account for 5-8% of its timber output and, in 2017, the UK was its biggest EU market, with imports of €1.575 million, followed by the Netherlands with €668,850.

Honduras's VPA was initialled by President Juan Orlando Hernandez and EU Commission Director General for International Cooperation and Development Stefano Manservigi in June.

At the time it was highlighted that its Agreement also recognised indigenous peoples as a separate group, alongside other stakeholders, government, civil society and the private sector.

With both Honduras and Guyana now set to implement their VPAs, the EU said there is increased momentum in the Latin American region to combat illegal logging, improve forest governance and promote trade in legal timber.



Raphael Trotman and Marjeta Jager initial the VPA



Guyanese forest operations. Photos EU FLEGT and REDD facilities

EU imports of tropical timber rising, mainly from non-VPA countries

After a dip in 2017, EU imports of tropical wood products have recovered ground in 2018. Most of the gains this year have been in imports from countries not engaged in the VPA process, including Nigeria, Brazil, India and China. A significant proportion of the gain has been in charcoal from Nigeria and Venezuela which lie outside the scope of the EU Timber Regulation. These gains have offset a decline in imports of several commodities from variety of countries including sawnwood from Cameroon, joinery and plywood from Malaysia, veneers and plywood from Gabon, and mouldings from Indonesia.

The EU imported 2.60 million metric tonnes (MT) of tropical timber products (excluding chips, pulp and paper) in the year ending September 2018, up from 2.53 million MT in the previous 12-month period. Over the same timespan the euro value of EU tropical timber imports declined from €3.78 billion to €3.75 billion. However, as the euro strengthened against the dollar during this period, the dollar value of EU tropical timber imports increased from \$4.17 billion to \$4.41 billion.

EU imports from Indonesia, currently the only FLEGT licensing country, have increased slowly during 2018. EU imports from Indonesia were 420,000 MT in the year ending September 2018 compared to 410,000 MT in the year ending September 2017. Most of the gains were in plywood and charcoal. EU imports of wood furniture, joinery and sawn/decking products from Indonesia have been flat this year, while imports of flooring have continued to decline.

Volatile EU imports from VPA implementing countries in Africa

EU imports from the five VPA implementing countries in Africa (Cameroon, Central African Republic, Congo Republic, Ghana, and Liberia) have been very volatile in recent years. 12-month rolling imports increased sharply to 525,000 MT in October 2016 and then fell even more rapidly to a low of 385,000 MT in February 2018. Since then, imports have recovered some lost ground to reach 418,000 MT in the year ending September 2018.

A range of factors have contributed to the volatility in EU imports from Africa in recent times including logistical problems and delays with shipping out of Douala port in Cameroon, overstocking in the EU in 2017 following arrival all at once of a large volume of delayed shipments from Africa,



diminishing commercial availability of tropical hardwood species of interest to European buyers, delayed payment of VAT refunds by African governments which created financial challenges for operators in the region, and increasingly rigorous EUTR enforcement which, in the absence of FLEGT licenses, has placed a greater onus on EU importers to demonstrate the legal origin of timber.

Much of the recent volatility in EU trade in timber from African VPA implementing countries is attributable to sawnwood imports from Cameroon, particularly in Belgium. This year, continuing weakness in EU trade with Cameroon has been partly offset by recovery in imports of logs from the Central African Republic and logs and sawnwood from Congo.

EU imports from Ghana, mostly of sawnwood, have been low and flat this year, with the 12-month rolling total stable at 25,000 MT, less than half the quantity of two years ago. EU imports from Liberia remain low but have picked up since the start of 2018, with the 12-month rolling total rising from 3,000 MT in January 2018 to 6,000 MT in September 2018.

EU timber imports from the VPA negotiating countries have also been volatile in recent years, the 12-month rolling total falling continuously from over 1 million MT in September 2016 to a low of 930,000 MT in April 2018 and bouncing back to 960,000 MT in September 2018. However, these overall figures hide significant variations between VPA negotiating countries, which are a very diverse group.

Of VPA negotiating countries, Malaysia is the largest supplier to the EU in tonnage terms, accounting for around a third of the total. This year EU imports of sawnwood from Malaysia have strengthened, particularly due to good demand in the Netherlands, although this gain has been offset by a decline in EU imports of Malaysian plywood, laminated window scantlings, and fibreboard.

EU imports from Vietnam strengthen this year, after a dip in 2017

Vietnam is the second largest supplier amongst those countries categorised here as a "negotiating country" (Vietnam, together with Honduras and Guyana, recently completed VPA negotiations and will be identified as VPA "implementing countries" in future reports). EU imports from Vietnam consist almost entirely of wood furniture, with trade in this commodity strengthening this year after a dip in 2017. 12-month rolling total furniture imports into the EU from Vietnam increased from 220,000 MT at the end of 2017 to 230,000 MT in September 2018.

Another potentially significant trend is that Denmark started to import larger volumes (up to 2,500 MT per month) of waste wood (for biomass energy) from Vietnam this year.

Of the three VPA negotiating countries in Africa, Gabon is the largest supplier to the EU. After declining from 220,000 MT in 2016 to 183,000 MT in 2017, EU imports from Gabon remained flat at the lower level in 2018. EU imports of veneer and plywood from Gabon have fallen sharply this year, only partly offset by a recovery in imports of sawnwood from the country. EU imports from DRC (mainly logs and sawnwood) and Côte d'Ivoire (mainly sawnwood and veneer) declined in 2017 and have remained at the lower level in 2018.

The two countries in Latin America that recently completed VPA negotiations, Guyana and Honduras, are both currently only small suppliers of timber to the EU. 12-month rolling total imports into the EU from Honduras were flat and running at around 2,000 MT throughout 2017 and the first nine months of 2018, about half the level of 2015. Most comprised sawn softwood. EU imports from Guyana, mainly consisting of hardwood logs and sawn, fell sharply from 8,000 MT in 2015 to only 3,000 MT in 2016, but since then have recovered some ground and were 4,000 MT in the year to September 2018.

Policy implications of rising imports from non-VPA countries

Meanwhile EU imports of tropical timber products from countries not engaged in the VPA process increased from 740,000 MT in the year to September 2017 to 800,000 MT in the year to September 2018. This is primarily due to continued increase in imports of hardwood sawnwood and decking from Brazil, charcoal from Nigeria and Venezuela, tropical hardwood plywood from China, and furniture from India.

Rising EU imports from countries not engaged in the VPA process have potentially significant policy implications. In the case of charcoal from Nigeria and Venezuela, the rising trade relates to a product not currently covered by EUTR or within the scope of the VPAs. However, charcoal from these two countries competes directly with the same product from Indonesia. From both a

Chart 1: EU imports of tropical timber products by VPA status - 12 month rolling total Jan-15 to Sep-18

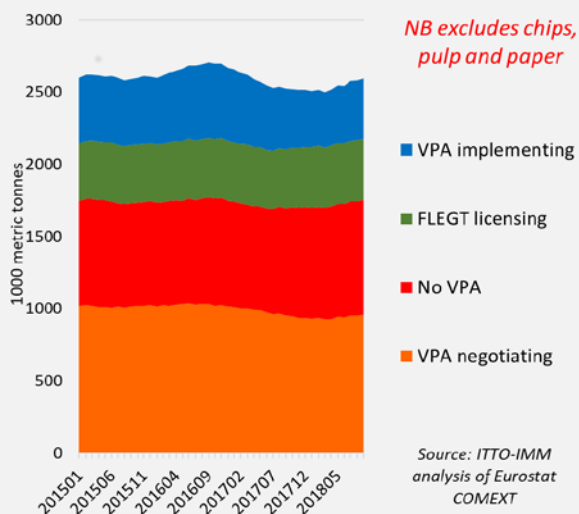


Chart 2: EU imports of tropical timber products by VPA status - 12 month rolling total Jan-15 to Sep-18

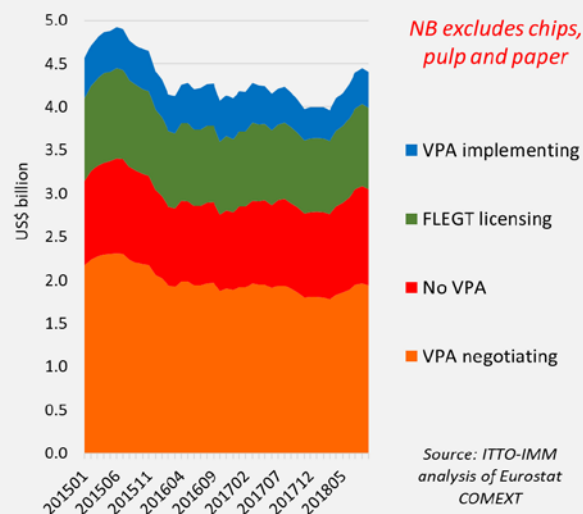


Chart 3: EU imports of tropical timber products by VPA status - 12 month rolling total Jan-15 to Sep-18

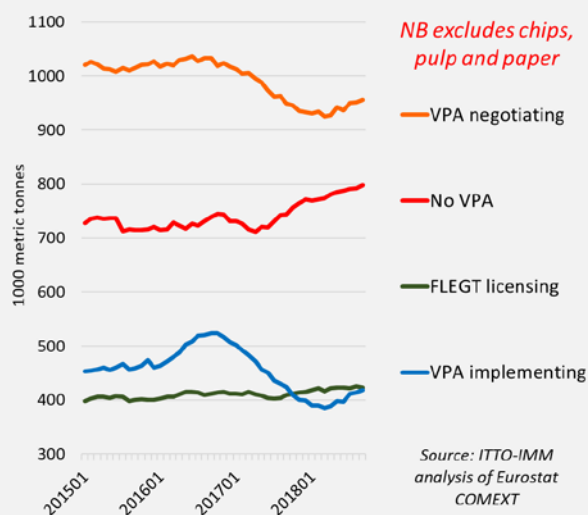


Chart 4: EU import value of tropical timber products by VPA status - 12 month rolling total Jan-15 to Sep-18

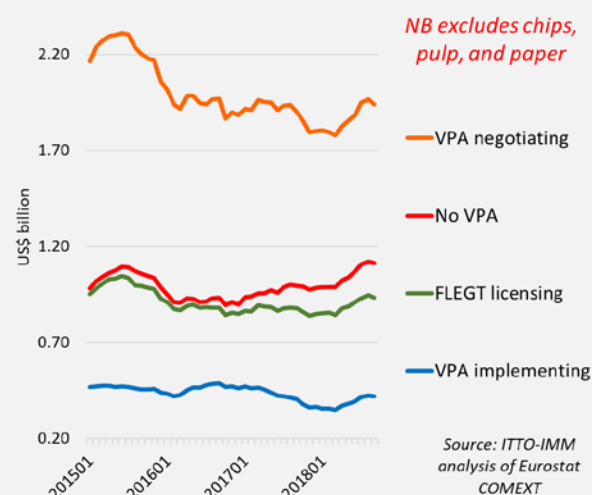


Chart 5: Largest gains in EU tropical timber product imports - 12 months to Sep-18 vs 12 months to Sep-17

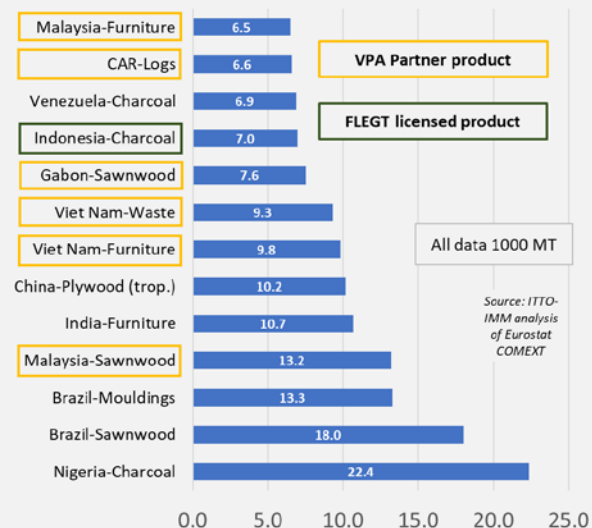
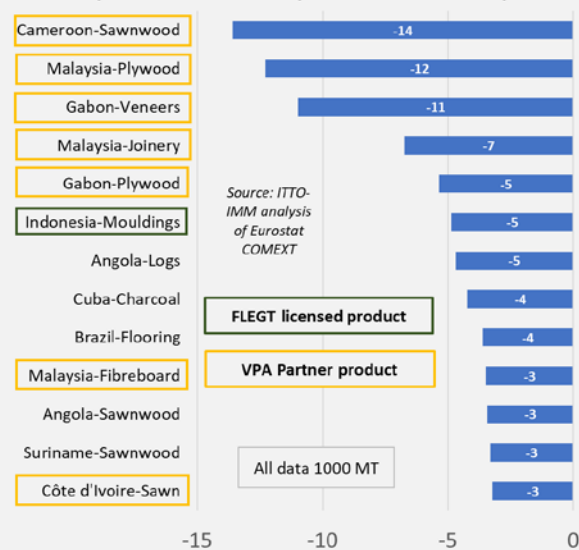


Chart 6: Largest losses in EU tropical timber product imports - 12 months to Sep-18 vs 12 months to Sep-17



forest conservation and competitiveness perspective, it may make sense to extend both EUTR and FLEGT licensing to include charcoal.

The other non-VPA products are also all significant competitors to FLEGT licensed timber from Indonesia. The rise in EU trade in these products, during a period when imports from Indonesia have remained flat, implies that licences are not, at present, overriding other factors determining relative competitiveness (such as logistics, exchange rates, manufacturing costs etc). It also indicates that EU operators can obtain adequate assurances of legality to meet their EUTR obligations from suppliers in these countries even in the absence of licenses. Either that or EUTR regulators are not being enforced with the rigour required to identify potential illegality risks in these product supply chains.

An assurance that implementation of EUTR is increasingly effective comes from the latest EC biennial report (see page 12). Further reassurance that a failure in EUTR implementation is not the main reason for the continuing rise in EU imports of wood products from non-VPA countries is the fact that a large proportion of these products are destined for EU countries that have been particularly active in EUTR enforcement, including the UK, Netherlands and Germany.

Nevertheless, this analysis highlights that in the interests of ensuring a level playing field and to maximise the market benefits of FLEGT licensing,

efforts to ensure uniform and effective application of EUTR should continue to be prioritised. Furthermore, EUTR regulators should be encouraged to focus attention on the rigour of due diligence procedures with respect to these various products from countries not actively engaged in the VPA process.

Statistical summary of EU tropical wood trade

Charts 1 to 6 provide a statistical summary of EU tropical timber imports between January 2015 and September 2018 according to the status of FLEGT VPAs between tropical partner countries and the EU at the end of that period. Tropical countries are categorised as: "FLEGT licensing" that were issuing licenses (only Indonesia); "VPA implementing" that had ratified a VPA but not yet finalised a licensing system (Cameroon, Central African Republic, Congo Republic, Ghana, and Liberia); VPA negotiating that were engaged in formal VPA negotiations but had yet to sign an agreement (Côte d'Ivoire, Democratic Republic of the Congo, Gabon, Guyana, Honduras, Laos, Malaysia, Thailand, and Vietnam); and "No-VPA", all other countries supplying tropical timber products to the EU.

Data is derived from the Eurostat COMEXT database and refers to total tropical timber imports into the 28 EU member states from

outside the EU and excludes internal EU trade. To iron out sharp seasonal fluctuations and focus on long term trends, the Charts report the "12-month rolling total" tonnage or value (for each month data is calculated as the total import in the previous 12 months).

Data includes all wood products defined in Chapter 44 of the international harmonised system (HS) of product codes, except wood chips, together with furniture products in Chapter 94 identified as comprising wood. "Tropical timber products" are defined to include: all those imported from countries located entirely in the tropical zone; products specifically identified as "hardwood" from Brazil; and those specifically identified as "tropical hardwood" from all other non-EU countries.

Wood chips are excluded to ensure the data is not distorted by a large volume of hardwood chips imported from Brazil each year which comprises eucalyptus and acacia from plantations, mainly outside the tropical zone. Nearly all the tropical pulp and paper products imported into the EU come from Brazil and Indonesia and are derived from plantation wood. In the case of Brazil, it is not possible to identify the proportion from plantations located respectively in the tropical and sub-tropical zones. Recent trends in EU imports of pulp and paper from Indonesia, which all derive from plantations in the tropical zone, and are now FLEGT licensed, are reviewed in the article below on EU-Indonesia trade.

COUNTRY Focus

EU-Indonesia trade

The EU imported 420,000 metric tonnes (MT) of wood products from Indonesia in the year ending

September 2018 compared to 410,000 MT in the year ending September 2017. A continuing rise in EU imports of Indonesian plywood and charcoal has offset an on-going decline in imports of Indonesia flooring and other processed products. EU imports of Indonesian wood furniture, sawnwood/decking, and joinery have remained broadly flat this year. (Chart 1).

Imports of Indonesian wood products have increased sharply in the Netherlands this year and have continued to rise in the UK, although at a slower pace than in the previous two years. Imports have been broadly flat this year in most of the other leading EU markets for Indonesian wood products including Germany, France, Italy, Greece and Denmark. Imports in Belgium

Chart 1: EU import quantity of wood products from Indonesia - 12 month rolling total Jan-15 to Mar-18

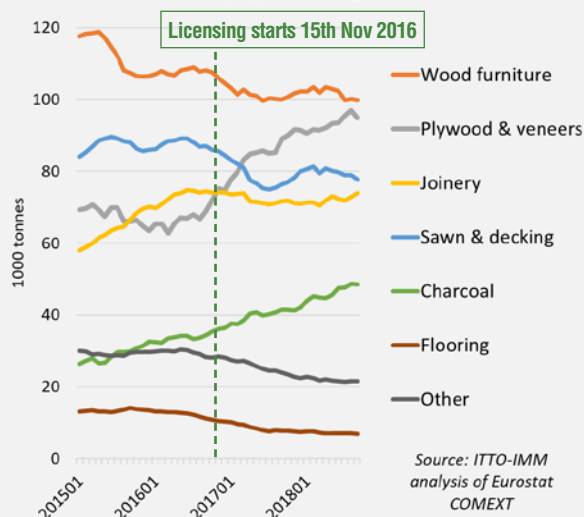
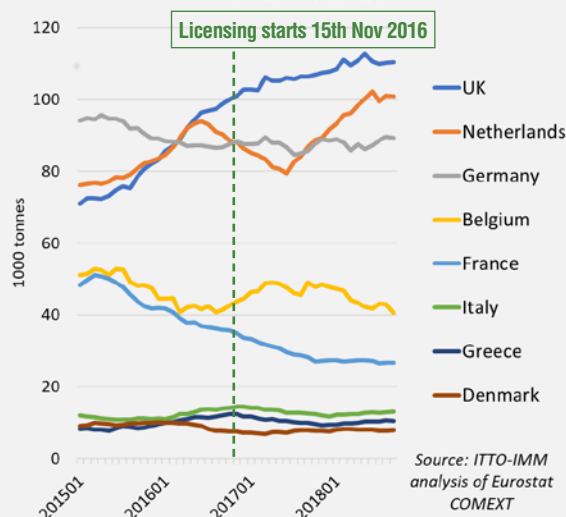


Chart 2: EU Member State imports of wood products from Indonesia - 12 month rolling total Jan-15 to Mar-18



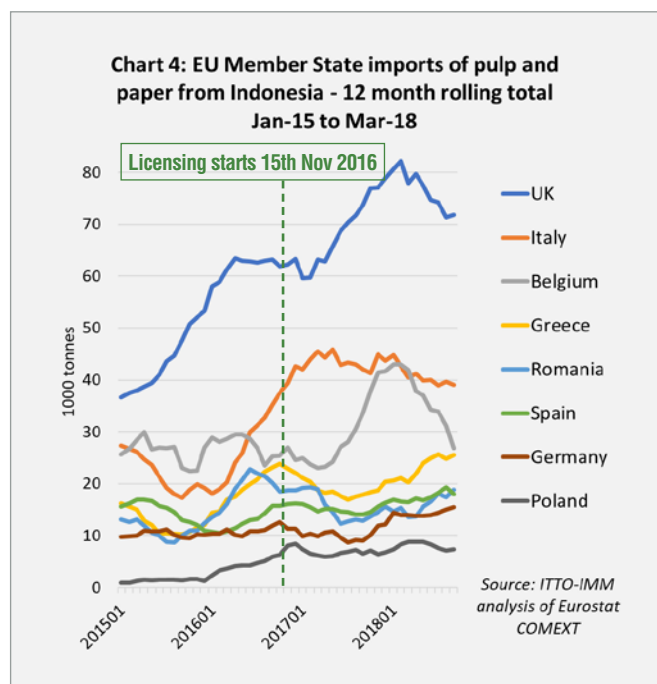
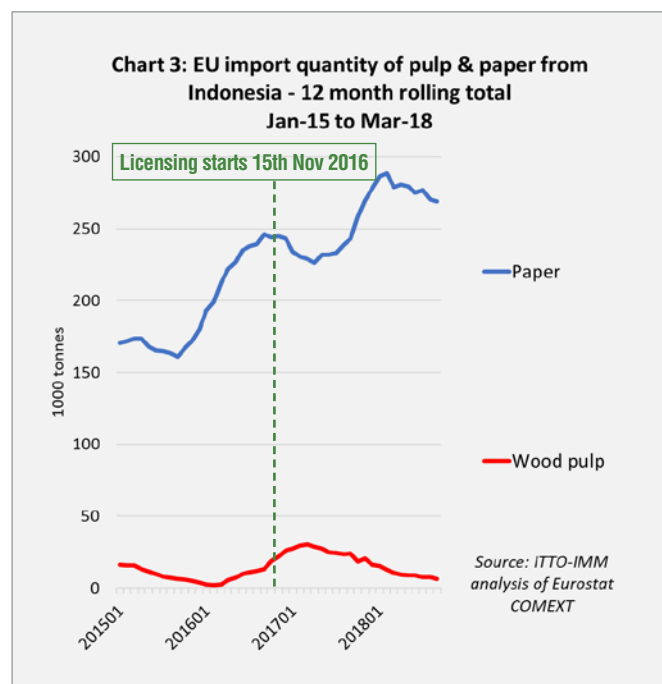
have declined this year after rising in 2018. (Chart 2).

In total, the EU imported 276,000 MT of pulp and paper products from Indonesia in the year ending September 2018 compared to 268,000 MT in the year ending September 2017. After a sharp increase in the last quarter of 2017, EU imports of

Indonesian paper products have been slowing this year. EU imports of pulp from Indonesia have returned to negligible levels in 2018 after a brief surge in imports in the second half of 2016 and early 2017. (Chart 3).

Imports of Indonesian pulp and paper products increased sharply in the UK and Belgium in the

second half 2017 but have slowed again this year. Imports of these products in Italy increased sharply in 2016, but have been sliding since then. Imports in Greece, Romania, Spain, and Germany have increased this year after a dip in 2017. Imports in Poland are rising slowly. (Chart 4).



FLEGT licensing two years in – EU businesses report

In timber trade press interviews in late 2016 three leading European importers, Fepco of Belgium, Dekker Hout of the Netherlands and James Latham of the UK enthusiastically welcomed the start of FLEGT licensing by Indonesia.

They saw it as a major achievement by the country given its difficult past history in timber legality assurance. It was also viewed as a breakthrough in terms of the international market reputation of tropical timber, a spur to other FLEGT VPA-engaged countries to accelerate their progress through the initiative and an administrative and logistical advance, as imports of licensed products from Indonesia would be exempt further due diligence under the EUTR.

Two years on, in the following question and answer interview, all three companies say they've seen their own businesses advance and develop, although they point out that the market has become ever more diverse and competitive for tropical timber. Rival products, such as temperate hardwoods, wood plastic composites (WPCs) and



FEPCO – FLEGT-licensed plywood from Indonesia must also be commercially competitive on international markets



Question: How have your imports of Indonesian timber and wood products developed?

EB: Our portfolio includes a variety of plywood and sawn timber and we've enjoyed steady, solid trade.

PP: Our Indonesian business has not really increased, but that's mostly due to supply problems, particularly log shortages, mainly weather-related.

RD: Our total Indonesian imports are down, although imports of pine and MDF interior doors have increased considerably. The main reason for the decrease in hardwood products is price. Competition from Asian buyers (such as Indian and Chinese) and the US market shift in plywood imports from China towards Indonesia (due to US import taxes) has driven up prices to levels unacceptable for Europe, both for Meranti and Bangkirai.

Question: Has the availability of FLEGT-licensed products impacted your Indonesian business?

RD: It's had a positive effect due to the certainty of legality. It's benefited Indonesia relative to imports from Brazil and even Africa. At the same time Malaysia has had good availability of PEFC-certified Meranti, which favours its suppliers.

EB: FLEGT is not a demand driver for us – first and foremost we promote timber. But it has made trade easier as there's no need to run due diligence.

PP: Our Indonesian business may not have significantly increased, but neither has it decreased and we've had more supply difficulties than selling problems. However, having said that, Indonesian plywood has to be competitive and at the moment it is losing ground due to unfavourable exchange between the USD vs Euro. Russian Birch, for example, is currently more competitive.

Question: Do you communicate to customers that you supply FLEGT-licensed products?

EB: We support the FLEGT process and communicate the message in many ways; in product code descriptions, in verbal communications with customers, highlighting the benefits of Indonesian timber, including its clear legality path, and in our in-house magazine, Natural Choice. We also revised our environmental brochure to include Indonesia's achievement.

RD: We don't communicate it specifically, but clients now know that Indonesia is a certainty in terms of legality.

PP: Of course, although our clients are mainly professional importers who are fully aware about FLEGT.

James Latham communicates the FLEGT message to customers

modified and engineered softwoods, have all gained ground over the period.

The businesses also remain very supportive of Indonesia's FLEGT achievement, a 'breakthrough in timber legality and market credibility', as one company described it. At the same time they see scope for development and enhancement of the wider FLEGT VPA initiative. There is also a stress that FLEGT is not a stand-alone solution for proving and promoting the industry's environmental credentials, but a valuable tool in a broader armoury, operating alongside others in assuring timber legality and sustainability. Nor, they say, is it a badge that can expect to command a premium, or trump usual timber purchasing considerations of price, quality and availability.

Question: How has your business developed in the last two years?

Robbert Dekker, CEO Dekker Hout (RD):

It's been quite a good period, however part of the market in hardwood has been replaced by our WPCs and softwoods.

Peter Pieper, Director FEPCO (PP): We've developed very well, although tropical plywood (and we only deal in plywood) has continued to become a niche – a trend of many years.

Ewa Bazydło, Environmental Manager James Latham (EB): We're always striving for growth and exploring market opportunities and sustainable tropical timber is on our agenda; supporting product development and positive promotion.

Question: Is there much interest in FLEGT licensing in the marketplace?

PP: FLEGT is appreciated, but it's not the reason clients buy a particular product. It may have an effect on purchasing decisions, but they're essentially based on application and price.

RD: There's not much interest, as customers expect us as an importer to deal with those issues.

EB: Customer awareness is weak, but slowly improving on certification schemes generally. Currently they never ask for FLEGT timber, but only 10% actively specify FSC or PEFC.

Question: Do you give any preference to supplying FLEGT-licensed products over comparable alternatives?

RD: Yes, but only compared to non-certified wood. We give preference to FSC first and PEFC second.

PP: If products are similar, we will always give preference to FLEGT-licensed. But we're market driven. Some markets will require both certified and FLEGT plywood, others "only" FLEGT-licensed.

EB: As I said, the first consideration is the product, next we give priority to FSC/PEFC, then FLEGT, then verified legal. But perhaps more promotional work needs to be done on the subject of FLEGT relative to sustainability. There's still market perception that FLEGT doesn't cover all aspects, as FSC/PEFC certification does, and there are a range of question marks related to this. For instance, should FLEGT be accepted as a green pass for FSC Controlled Wood and should green building

schemes, such as LEED and BREEAM, award points for FLEGT timber as they do for FSC and PEFC?

Question: Would you like to see more market communication on the FLEGT VPA initiative and FLEGT licensing, notably on the wider social, environmental and economic benefits?

EB: Yes, the wider benefits and FLEGT's sustainability criteria need to be expressed more often. It would help raise end-user awareness, resulting in more informed procurement choices where like-for-like product is offered.

PP: Professionals here are well aware of FLEGT and its benefits in terms of due diligence obligations. However information on the positive impacts from the supply country point of view are certainly missing.

RD: Any wider explanation of the FLEGT initiative would be helpful.

Question: Would you like to see other countries 'fast-tracked' through the FLEGT VPA process, while ensuring this does not lower standards?

RD: Yes we would. Notably Cameroon and Bolivia.

PP: Every additional country participating in the FLEGT programme will improve the image of the tropical timber trade and support efforts to preserve the rainforests. However it has to be done carefully so as not to compromise its credibility. Countries like Malaysia, Viet Nam and

Ghana are top of the list and probably at the most advanced stage of their VPAs.

EB: It's what I believe every timber trading organisation would wish for and is looking forward to. A credible fast-tracked FLEGT process would still be more objective and consistent than a company's risk-based assessment to the requirements of the EU Timber Regulation.

Question: How else would you like to see the FLEGT initiative and FLEGT licensing develop?

EB: We'd like to see the FLEGT initiative taken up by a specialist in this area in the EU in order to come up with new, creative and constructive ideas for developing it further.

RD: FLEGT is a good first stage, but the goal should be sustainable production, not just legal. FLEGT should not be used as a poor alternative for FSC certified.

PP: I'd like to reiterate our earlier comments, that we must now work on FLEGT-licensed products becoming an acceptable alternative in projects where sustainable products are requested, but not always available. Highlighting the issue, we recently heard about an actual EU construction project in Luxemburg for which the specifier would only accept FSC or PEFC products, not FLEGT. It does not make sense that the EU is investing so much in the FLEGT initiative, while FLEGT-licensed products (in this case plywood) are not accepted for its own building projects. In this particular case, we believe, Russian Birch Plywood was the beneficiary. The situation with regard government procurement generally must change.



Dekker Hout – part of the hardwood business has been replaced by its WPCs and softwood products, including DuoWood and Accoya



UK TTF FLEGT exhibition nets environmental award

Timber Transformer, the exhibition on Indonesia's journey through its FLEGT VPA process mounted by the UK Timber Trade Federation, won the Timber Trades Journal 2018 Environmental Achievement Award.

The leading publication for the UK timber import, distribution, specification and end use sectors presents the annual prize in recognition of projects, products and services of special environmental merit and benefit to the trade and its marketplace.

Funded by the UK Department for International Development (Dfid), Timber Transformer took place at the Building Centre in London earlier this year and ran for four months. In that time, UK TTF Managing Director David Hopkins, maintains, it attracted widespread media attention and hundreds of visitors, from architects and engineers, to NGOs and members of the public.

"And the official launch event was attended by UK government ministers past and present, leading figures from the trade, and representatives of Indonesian and Ghanaian embassies," said Mr Hopkins. "It was a huge success and made a significant impact."

The project, he added, highlighted once more the importance that the TTF has attached since the outset to being a central knowledge and communications hub for both the EU FLEGT initiative and EU Timber Regulation (EUTR).

"Members look to us for information, guidance and support. We're widely consulted by EU and UK governments, the UK Competent Authority and bodies such as IMM and the European Forestry Institute on these topics and we also get inquiries from the range of specifiers, end users and other industry stakeholders," said Mr Hopkins. "So we view our role as facilitating information flows in both directions, from above and below."

Timber Transformer, with its focus on a FLEGT VPA's environmental, social and economic benefits on the ground in the supplier country, also underscored the TTF's view that there is still limited understanding of the initiative in the wider timber market.

"Those that have heard of it, mainly perceive a FLEGT licence as providing a green lane through the EUTR, exempting you further due diligence – and that's in the timber trade, including many operators, never mind the general marketplace," said Mr Hopkins. "Basically, it's seen as a free pass through customs and for many that's it. There's generally low awareness of the wider process of a FLEGT VPA, its impacts and what supplier countries have to go through to start FLEGT licensing."

Lack of communication and understanding on these aspects of FLEGT, he added, limits its marketability.



David Hopkins at Timber Transformer's launch with former Dfid minister Hilary Benn

"It's a real hindrance as without it FLEGT just doesn't get the press, industry, policy-making or public interest it deserves," he said. "Just talking about legality assurance in the abstract doesn't have popular impact."

Timber Transformer featured large specially designed and written information boards about key aspects of the FLEGT VPA, mounted on FLEGT-licensed marine plywood. It also included a range of other Indonesian timber and wood products.

The TTF has now offered the texts from Timber Transformer to other industry organisations in the EU to mount similar events. It has also announced that it has been granted additional funding by the Dfid to undertake FLEGT communication and awareness raising elsewhere in the EU itself.