



Autumn 2017

IMM News

Providing information on independent market monitoring of FLEGT-licensed timber

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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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www.flegtimm.eu

PROJECT News

FLEGT IMM – the mission

Funded by the EU and managed by the International Tropical Timber Organization (ITTO), the FLEGT Independent Market Monitoring (IMM) programme's role is to use trade flow analysis and market research to independently assess trade and market impacts of FLEGT Voluntary Partnership Agreements (VPAs) in the EU and partner countries.

The primary targets and beneficiaries of IMM data will be the range of forestry stakeholders in FLEGT VPA countries. In fact, IMM responds to requests for independent timber market monitoring from VPA partner countries, of which there are 15 at various stages of the initiative; from FLEGT licensing, through VPA implementation, ratifying and negotiation. Another three countries are involved in preparatory engagement. Stakeholders from government authorities and licensing bodies, as well as timber producers, exporters and importers, will receive credible independent assessments of the trade and market impacts of their VPAs and clear information on targeted market sectors to help focus market development activities.

Forestry stakeholders in other tropical wood trading countries will also benefit from IMM activities, especially those negotiating or interested in the prospect of a VPA. With access to IMM data, they will be better placed to assess a VPA's market benefits.

EU Member States will gain insights into the perceptions and reception of FLEGT-licensed timber from IMM's market analyses and surveys. IMM information is also intended to help assess effectiveness and efficiency of EU policies against illegal logging and illicit forest products trade.

The European timber industry will benefit from access to high-quality trade flow data and market analysis as well as background information on VPA partner countries. Participation in IMM interviews and surveys will also be a tool for the trade to share their views with decision makers at national and EU level and voice support or criticism on FLEGT policy evolution.

Other consumer countries implementing or considering timber market legality regulation similar to the EU Timber Regulation could benefit from insights into potential VPA market impacts and effective regulatory mechanisms.

The **IMM initial Baseline Report** covered VPA partner timber production and trade flows to the EU and other regions from 2004-2014. This baseline has been updated in 2017, with the Report "**VPA Partners in EU Timber Trade 2014-2016**", which is also available on the website.

IMM market research in key EU and VPA partner countries was launched in 2015, with a series of pilot studies in Germany, Spain, the UK and Ghana. Under the IMM's 2017 work programme, these initial surveys were updated and further developed by a network of national correspondents. The country work programme was also expanded with appointment of additional correspondents in France, Italy, Belgium, and the Netherlands. This means IMM now has a dedicated correspondent network providing coverage of countries accounting for 90% of all EU tropical wood product imports from VPA countries. A scoping survey of Indonesia, the first country to issue FLEGT licenses for its EU timber exports, was also initiated in 2017.

EU-based IMM correspondents use a combination of online surveys and interviews to gauge the trade's views on the FLEGT VPA initiative, the level of trade with FLEGT VPA countries and assessment of VPA countries' timber sectors in terms of quality standards, technical proficiency and competitiveness. This work helps to assess the impact on importer sourcing preferences of FLEGT VPA engagement and licensing relative to other commercial factors.

Respondents to IMM's latest surveys welcomed the arrival of FLEGT licensed timber, despite some reported initial teething problems (**see page 2**). A common comment was that it revived timber sector interest and restored faith in the wider FLEGT programme.

Questions and surveys on the advent of FLEGT-licensed timber were also addressed to EU FLEGT and EUTR Competent Authorities and Monitoring Organisations, while relevant government departments were asked the status of FLEGT licences given in their respective procurement policies. In some countries, correspondents also gauged awareness of FLEGT VPAs and licensing of end-user and retailer sectors and sought their views on the initiative.

The IMM is a multi-year project that will continue its monitoring and information dissemination programme over the next 3-4 years. Through a programme of meetings with key agencies in VPA countries and the EU, and with conferences targeting the public and private sectors, IMM will also help raise awareness of the FLEGT VPA process and the market opportunities it can provide.

IMM market research team covers seven key EU countries and two VPA partner countries

IMM market research in key EU and VPA partner countries was launched in 2015 and expanded under IMM's 2017 work programme. IMM now has a dedicated EU correspondent network covering Belgium, France, Germany, Italy, Netherlands, Spain and the UK and providing coverage of countries accounting for 90% of all EU tropical wood product imports from VPA countries.

In VPA partner countries, IMM is currently engaged with own correspondents in Indonesia, as the only FLEGT-licensing country, and Ghana, which is considered to be closest to completing VPA implementation and start licensing.

IMM correspondents use a combination of online surveys and interviews to gauge the trade's and industry's views on the FLEGT VPA initiative, the level of trade between VPA partner and EU countries, assessment of VPA countries' timber sectors in terms of quality standards, technical proficiency and competitiveness or in VPA countries impacts of VPA implementation on local timber markets and industries.

IMM correspondents are happy to answer any questions and queries related to the FLEGT VPA process and the IMM programme. If you want to contribute to future IMM surveys, please get in touch with your respective country correspondent.

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Trade calls for more information on Indonesian licensing system

Most operators welcome the arrival of FLEGT-licenses

"FLEGT-licensed timber going from distant promise to physical reality restored faith", one importer told IMM during the 2017 European survey. And that it is Indonesia doing the licensing also changed mind-sets. If such a large, complex country could do it, the view was that others could too.

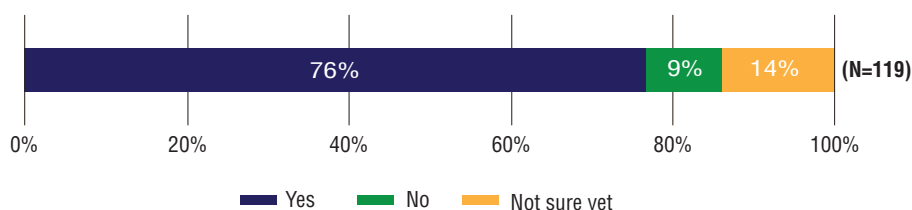
The fact that the start of FLEGT-licensing in Indonesia has revived trade interest in FLEGT is an encouraging finding of the first round of comprehensive market surveys conducted by IMM in seven key EU consumer markets – Belgium, France, Germany, Italy, the Netherlands, Spain, and the UK – which together account for around 90% of EU imports from VPA partner countries. A previous IMM pilot survey in Germany, Spain and the UK in 2015 had found more widespread frustration and "FLEGT-fatigue", as repeated forecasts about the start of licensing had come to nothing at that time.

In all key countries, the almost uniform message from importers in the on-going round of interviews is that FLEGT-licensing is a significant benefit with regards to EUTR compliance, replacing the need for additional documentation to fulfil the latter's due diligence obligations, which is still widely seen as an administrative burden. Most importantly, operators' risk of infringing the EUTR is reduced to zero when importing FLEGT-licensed timber.

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

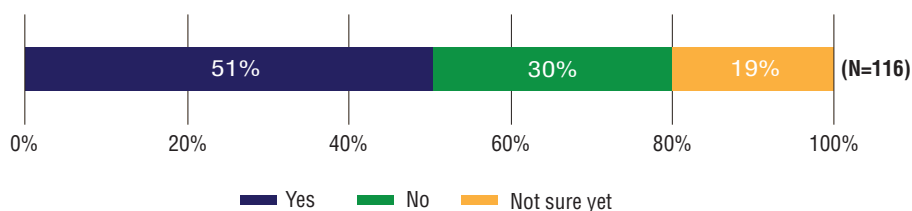
70% of respondents said they would even give or are considering giving preference to timber from a country engaged in implementing a partnership agreement over timber from non-VPA countries.

Would your organisation give preference to FLEGT-licensed timber over unlicensed timber from competing sources?



Source: IMM 2017 European Survey.

Is your organisation giving preference to timber from VPA implementing countries over timber from non-VPA partner countries?

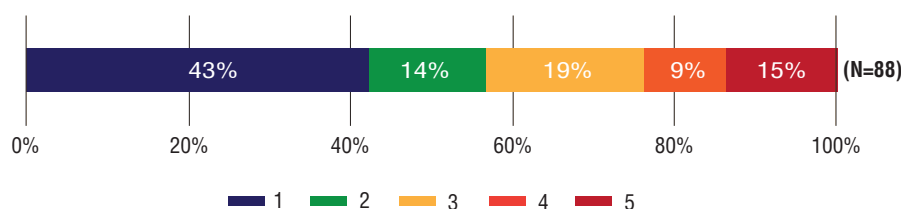


Source: IMM 2017 European Survey.

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

- Companies were often unsure how much – if anything – FLEGT-licensed timber has to offer in terms of sustainability and called for more information.
- Some companies, especially furniture importers, said other commercial factors, such as inflexibility in terms of adapting to fashion trends, limited machining capacity/ labour

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



Source: IMM 2017 European Survey.

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

The most frequently quoted reasons were:

- Some, especially larger, stock-exchange listed companies said they would at least for now continue exercising due diligence and/or demanding private third-party certification for wood products from Indonesia in addition to FLEGT licenses until they felt better informed about the system and the system had proven its robustness over some time.
- Some companies interviewed generally give preference to timber certified by private third-party schemes due to their internal responsible sourcing policies. These policies would have to be adapted to include FLEGT and respondents felt they would need more information and time to consider doing so.
- Some companies voiced concerns related to the credibility of a state-controlled Indonesian legality assurance scheme due to the country's relatively low rating in Transparency International's Corruption Perceptions Index (37 points in 2016).

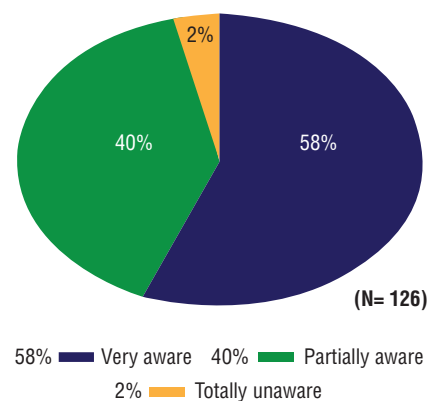
intensive production processes compared to other Asian countries, strong seasonal workforce fluctuations as well as high interest rates would outweigh advantages provided by FLEGT.

- FLEGT license mismatches – both related to HS codes and in terms of mismatched volume/weight/unit numbers – in the early stage of licensing have caused delays and/or difficulties in customs clearance.
- Some companies said adapting to the new administrative tasks involved in importing FLEGT-licensed timber makes importing from Indonesia more complicated at the moment.

Some of these challenges, especially adapting to the new administrative processes and hopefully also the license mismatches are likely to resolve themselves in the near future. IMM has undertaken a detailed analysis of reasons behind these inconsistencies (see page 14). Others will require active engagement in market development and awareness raising measures both on the part of Indonesia and of European stakeholders.

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

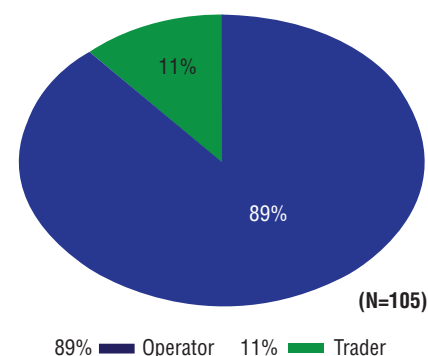
How aware are you of the FLEGT VPA process and what it involves?



Source: IMM 2017 European Survey.

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

Does your business act as operator or trader under the EUTR ? If you are both operator and trader, please choose operator.



Source: IMM 2017 European Survey.

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

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

VPA implementation in Ghana on the home stretch

New legislation on conversion of concessions has passed Parliament

Ghana has progressed farthest on the path to FLEGT-licensing among the five African countries implementing a Voluntary Partnership Agreement (VPA) with the EU. In early November, long-awaited new legislation dealing with the conversion of several timber harvesting concessions to Timber Utilisation Contracts (TUCs), among other things, has passed parliament. This means that a number of administrative and technical processes that were stalled due to the absence of this law can now be implemented.

Ghana still has some technical and administrative hurdles to overcome before it can start FLEGT-licensing, but the goal is slowly coming within reach.

Main steps that need to be completed before FLEGT-licensing in Ghana can begin include:

- Conversion of timber harvesting concessions to Timber Utilisation Contracts (TUCs). Now that the relevant legislation has passed, the conversion of concessions is to be implemented within a six-month timeframe.
- Updating of VPA Annexes to reflect the new legislation on TUCs. Drafts of the revised Annexes exist, and will now have to be reviewed and approved by the EC.
- Ghana's Internet infrastructure is being upgraded to ensure flawless functioning of the Ghana Timber Legality Assurance System (GhLAS) and Wood Tracking System (WTS). A short-term solution has already been implemented and is soon to be replaced by a longer-term solution that is being developed with assistance from the UK DFID.

- Finalisation of forest management plans – 32 priority plans that need to be published before the start of FLEGT licensing are scheduled to be completed by end of December 2017. The remaining forest management plans cover less productive forest areas and will be drawn up as funds are made available, which is currently planned for 2018.
- Joint evaluation of the system by the EU and Ghana.

In addition to finalising these activities, respondents of the IMM 2017 company survey in Ghana felt that some capacity building and training would still be required, especially among small companies, to ensure full and consistent compliance with the system. Some also felt there was a need for more technical and operational training on FLEGT-licensing procedures for all parties involved, including the private sector, Forestry Commission staff and customs officials, in order to avoid delays in license issuing.

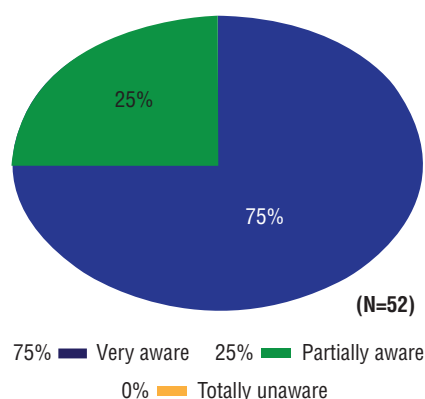
Ghanaian FLEGT-licensing system won't be based on legality certification

There are some fundamental differences between the already active FLEGT-licensing system in Indonesia and the system Ghana is now implementing. While in Indonesia all companies have to be certified and adhere to standards of the Indonesian national legality assurance system (SVLK), the Ghanaian system is based on online wood tracking, verification of sales contracts and controls of mills' related inputs and outputs.

The Ghanaian WTS provides for trees to be marked and numbered during an inventory of a demarcated forest area. Once a tree is felled, its number is registered in a Log Measurement Conveyance Certificate (LMCC), which accompanies the log all the way from the forest to the mill. The LMCC is not only available as a paper-based document, but also in the WTS online system and will be checked upon arrival at the mill. There will also be random roadside checks.

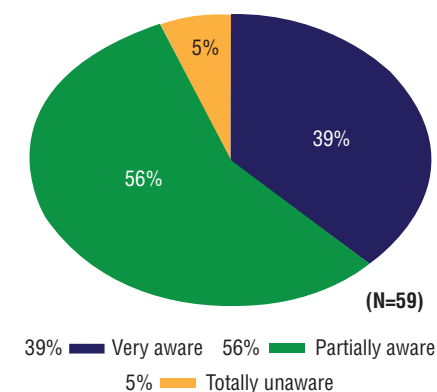
If a company wants to sell timber – both internationally and on the domestic market – it will first have to sign a contract with the customer, which lays down details of the purchase, such as product specifications etc. For exports, the company will then have to apply for a FLEGT license (Europe) or Export Permit (other export markets) with the Forestry Commission's (FC) Timber Industry Development Division (TIDD). The application will have to be accompanied by the sales contract and relevant documentation, including an input/output data sheet, among other things. This documentation will then be checked by the FC and subsequently the license will be issued. For domestic sales, companies need to apply for a Domestic Timber Inspection Certificate (DOTIC); waybills, invoices and receipts for domestic sales will be linked to the DOTIC and thus be able to be traced.

How aware are you of the FLEGT VPA process and what it involves? (Responses from Belgium, Germany, Netherlands, UK)



Source: IMM 2017 European Survey.

How aware are you of the FLEGT VPA process and what it involves? (Responses from France, Italy, and Spain)



Source: IMM European Survey.

continued from page 3

An issue of particular concern for many European companies seems to be the lack of information on how exactly the Indonesian system works (see page 13) and how it is controlled. More information on this can be found in a separate article in this IMM Newsletter.

Regarding FLEGT in general, especially for larger companies, information on sustainability and whether FLEGT should be considered a "step backwards" compared to private third-party certification also appears to be an important issue. This question cannot be universally answered, as the way sustainability is taken into account will differ from partner country to partner country. However, there are some broader environmental, social and economic benefits of FLEGT VPA implementation (see page 22) that have been summarised by the EFI FLEGT Facility.

Despite teething problems facing Indonesian FLEGT-licensing and other factors currently limiting its capacity to be the "silver bullet" some had hoped for, respondents almost unanimously welcomed the start of FLEGT-licensing as a step in the right direction. Respondents in the southern European key countries, in particular, where timber imports from Africa play a much bigger role than those from Indonesia, are now hoping for new momentum in VPA implementation processes in the African partner countries. Some respondents are expecting that experience gathered and lessons learned from full VPA implementation and the early stage of FLEGT-licensing in Indonesia can help speed up processes in other implementing countries.



Ghanaian FC demonstrates Wood Tracking System. Picture: FLEGT Facility

Where exports under FLEGT licenses are concerned, the FC will physically check each container before it is being sealed, to make sure the content matches the license. This procedure will ensure that problems with FLEGT-license mismatches (see page 14), as they are currently being observed with deliveries from Indonesia, should occur much less frequently. The FC also checks that companies' timber input and output match and no untracked timber enters

the production chain. This is being done for all exports and domestic sales. An online system ensures that data is available at real time.

The FC and an Independent Monitor (IM) will conduct regular audits of the system – both for FLEGT licenses and all other export permits and sales linked to DOTICs – to ensure continuous compliance with VPA provisions.

Shipping of FLEGT-licensed timber from Ghana to three European countries is currently being field-tested. Background information on the shipment tests (see page 8) can be found here. Results of and lessons learned from the shipment test will be reported on in the next IMM newsletter.

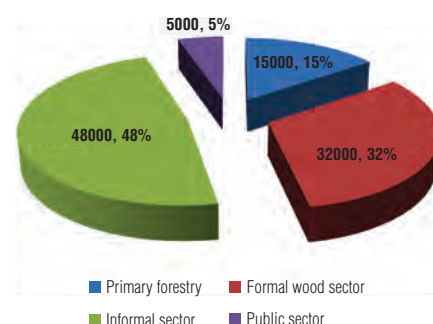
IMM survey participants: FLEGT is helping to improve governance and control illegal logging

An IMM survey among the Ghanaian timber industry shows that the majority of respondents fully or partially agree that FLEGT is helping to improve forest management and governance in the country, is helping to control illegal chainsaw milling and has a positive effect on the implementation of laws concerning the payment of fees for the use of forest resources, for example (Figure 1).

The majority of respondents are also assuming that Ghana will gain a competitive advantage once the VPA is fully implemented.

Large exporting companies said that one of the benefits of VPA implementation would be that illegal timber industry operations, which currently have a negative impact on prices, would have to

Figure 2: Employment in the Ghanaian timber sector



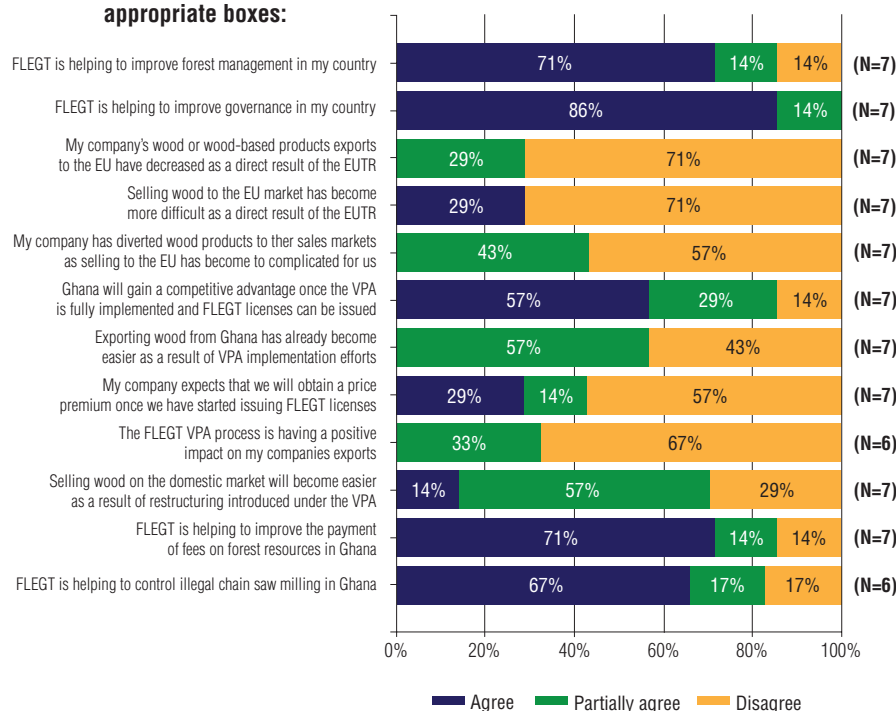
Source: IMM Ghana Correspondent analysis of GIPC, FC, TBI data

shut down. Moreover, VPA implementation would give them access to tools for sustainable forest management, such as forest management plans, and preferential access to EU markets for specialized and high value products.

Partly for the same reasons, smaller companies and informal enterprises are more sceptical about the VPA, which is expected to cut off some sources of timber supply. These companies are not convinced that there will be enough legal – and affordable – timber for them to use once the VPA is fully implemented.

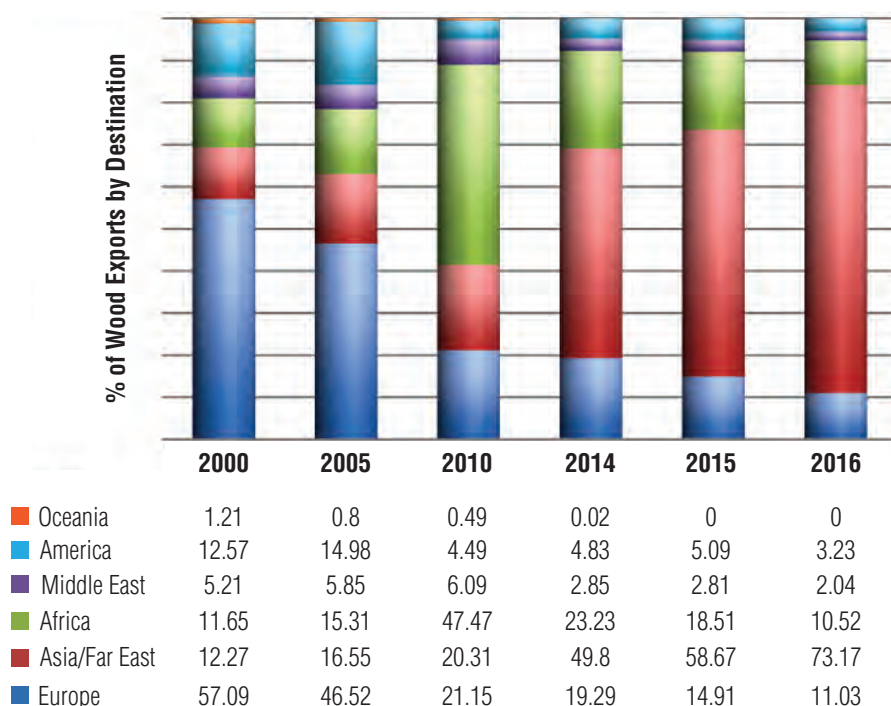
The informal sector makes up a large part of Ghana's timber industry and provides almost half of the roughly 100,000 timber-industry jobs (Figure 2). The timber industry overall contributes significantly to the Ghanaian economy. It is the fourth largest earner of foreign currencies after gold, cocoa and tourism, generates 4-6% of Ghana's GDP and 10% of its export earnings.

Figure 1: Please indicate your opinion on the following statements by ticking the appropriate boxes:



Source: IMM Ghana company survey 2017

Figure 3: Long-term Trend in Wood Exports by Destination



Source: Ghana Forestry Commission (TIDD)

The majority of Ghanaian government agencies interviewed as a part of a separate IMM survey said they were expecting a positive impact from VPA implementation on forest revenue mobilization, forest management and governance, domestic market structure, and forest business transparency and accountability. Most also agreed that the VPA, once fully and consistently implemented, would help controlling illegal logging. Some respondents saw a certain risk for inconsistent enforcement of VPA provisions. Insufficient timber supply from legal sources for the domestic market is considered to be another risk factor. The country has intensified forest plantation development and reforestation to ensure sufficient timber supply from legal sources in the future according to IMM survey respondents.

IMM also quizzed CSOs and NGOs about their opinion of VPA process in Ghana. Expectations among the majority of these organizations were that the VPA would improve forest governance, help controlling illegal logging and bring about domestic market reform. However, CSOs found that the process of awarding harvesting contracts was still frequently too intransparent and called for improvements in this area.

CSOs have been actively involved in negotiating the VPA and are engaged in building civil society understanding of the LAS. They are now also involved in creating monitoring processes to ensure credibility of the VPA as well as transparency of processes and measure the impact of VPA implementation on forest governance, forest management, forest condition, market performance, revenue generation, and livelihoods. CSOs are also participating as observers in audits to ensure transparency and suggest improvements.

Germany is Ghana's most important trading partner in the EU

Figure 3 shows that wood exports from Ghana have shifted from the traditional European markets (57% of total exports in 2000 down to 11% in 2016) towards Asia/Far East (12% in 2000 against 73% in 2016). It also demonstrates that exports to the neighbouring African markets – after gaining in importance between 2000 and 2010 – declined again sharply over the last six years.

The loss in Europe's importance as a trading partner for Ghana, especially over the last decade, underpins the importance of the VPA covering all exports from Ghana, not just those directly to the European Union.

Ghanaian companies that participated in the IMM trade survey still export to a variety of EU markets, including all seven key markets covered by IMM. However, overall deliveries declined again in the first half of this year to around 10,919 (Jan-June 2016: 12,109) metric tonnes.

Figure 4: EU Wood Product Imports from Ghana (metric tonnes)

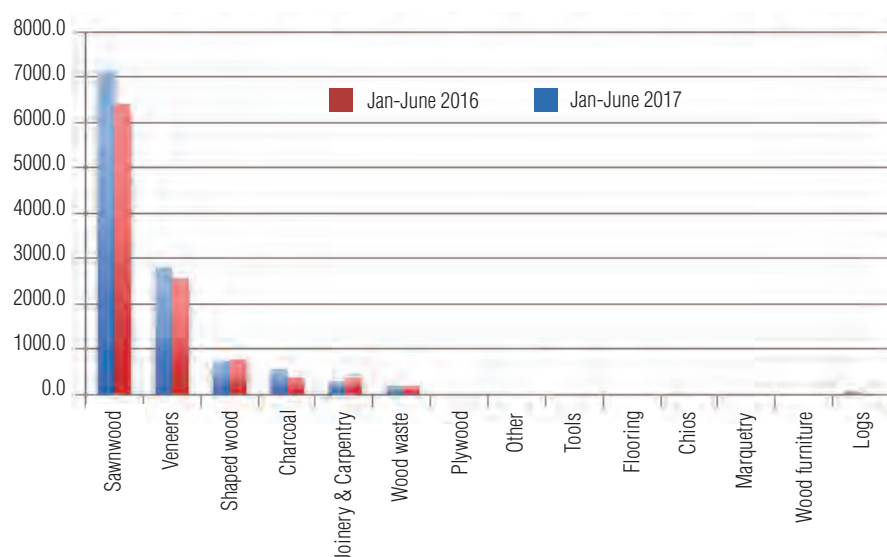
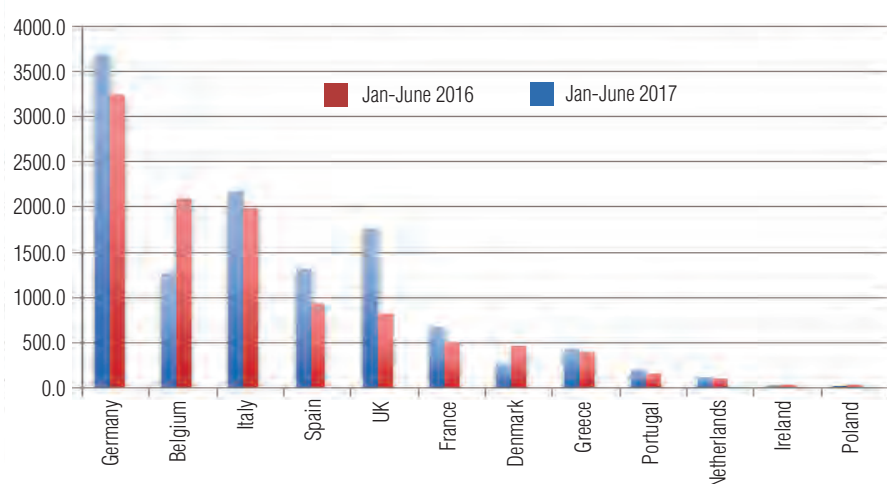
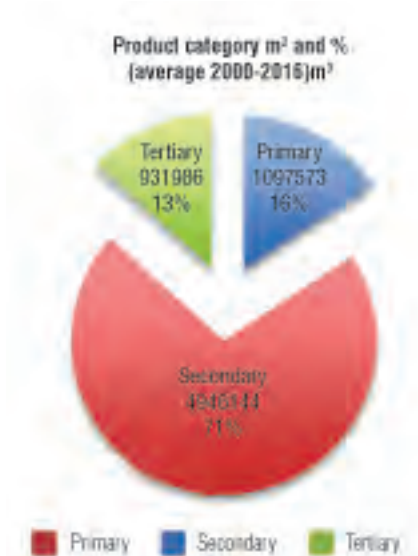


Figure 5: EU Wood Product Imports from Ghana by Country (metric tonnes)



Source: ITTO/IMM analysis of Eurostat/COMEXT

Figure 6: Ghanaian Wood Production by Category

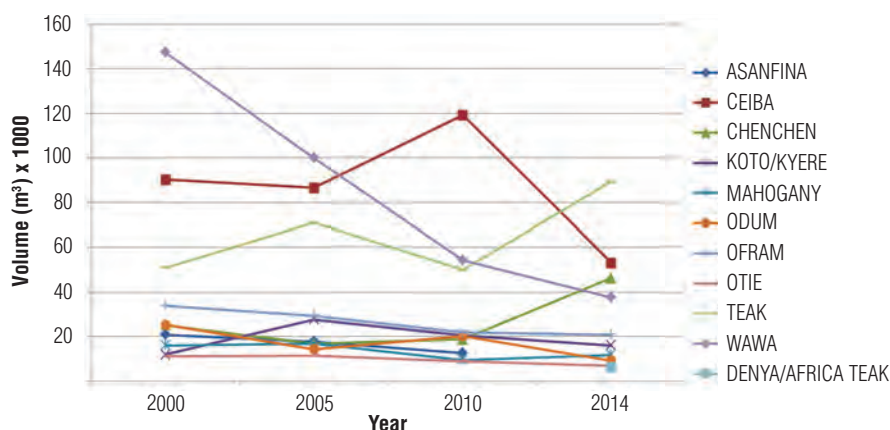


Source: Ghana Forestry Commission (TIDD)

Sawnwood continued to be the most important product group delivered from Ghana to the EU by far, followed by veneer, "shaped wood", and builders' joinery (Figure 4). Charcoal and wood waste also accounted for a significant proportion of exports. Exports of wood chips and fuel wood, on the other hand, which had skyrocketed in 2014 and reached 45,910 and 36,613 metric tonnes, respectively, were practically non-existent both last year and in 2017.

A closer look at EU consumer countries shows that Germany remains the largest consumer of Ghanaian wood products, in spite of renewed decline in the first six months of 2017 (Figure 5). With 3,246 tonnes, German accounted for almost one-third of Ghana's total deliveries to the EU between January

Figure 7: Timber Export Utilization by Species



Source: Ghana Forestry Commission (TIDD)

and June 2017. At the same time, Belgium imported significantly more timber from Ghana than last year, overtaking both Italy and the UK in the ranking of important consumers. UK imports, by contrast, dropped sharply, by more than half.

Secondary products make up the bulk of Ghana's timber production

Secondary category products (lumber, boules, veneer, curls, blockboard, plywood) dominate the production and exports of wood products from Ghana. Poles and billets are the main primary products, while tertiary products made in Ghana include mouldings, dowels, flooring, profile boards, furniture parts, layons, broomsticks and flush doors. Average production volumes from 2000 to 2016 are shown in Figure 6.

In terms of wood species, the most important timbers exported to Europe in 2017 were Wawa,

Mahogany, Odum, Ceiba and Sapele. Survey participants did not believe that implementation of the VPA will lead to them exporting a significantly wider range of products to Europe, due to buyers' resistance to accept Lesser Known Species (LKTS).

Outside Europe, exports of LKTS have increased over the last two decades, as has utilisation on the domestic market, primarily due to dwindling availability and restrictions on harvesting of traditionally used species. Species that are increasingly being used on the domestic market in Ghana and for exports to Asia and Africa include denser wood species such as Denya or plantation timber such as Teak and Gmelina, for example. Figure 7 shows the trend in utilization of the eleven most frequently used wood species in Ghana. It also shows that overall availability of timber in Ghana has declined over the last two decades.



Log with tracking marks. Picture FLEGT Facility

Ghana and EU field test shipment procedures

Ghana and the EC have started a cargo shipment test to evaluate export and import procedures in preparation for the transport of Ghanaian FLEGT licensed timber and wood products to various EU destinations. The main aim is to identify and recommend corrective actions for any shortcomings that might hinder efficient processing of export/import documents and thus the flow of FLEGT-licensed wood product exports.

Special emphasis will be placed on assessing the readiness of Ghana's licensing format. The test will also inform preparations for the upcoming joint EU/Ghanaian evaluation of Ghana's Timber Legality Assurance System, which will be the final review before licensing can begin.

The process is being run in parallel to standard export procedures utilised under the EUTR, which will enable comparison of the two.

The development of the shipment test drew on the Indonesian licensing experience and it involves two Ghanaian timber exporters and the Forestry Commission of Ghana, as well as Competent Authorities (CAs) in Germany, the Netherlands and Spain. The Netherlands chose not to include the private sector at this stage, but in Germany and Spain timber importers have also participated to make the tests as realistic as possible.



Timber mill representative explains how timber is tracked. Picture FLEGT Facility

Additional participants were the EC FLEGIT team and EFI FLEGT Facility, which organised the test.

Test preparation took place during the summer. Mapping, document collection and consistency checks on all export processes associated with FLEGT-licence issue, as well as the actual shipments were conducted in September.

Step by step, the tests comprised:

- Verification of shipment departure.
- Ghanaian exporters sending copies of licences to EU importers or in the case of the Netherlands directly to the Competent Authority.

- European importers' submission of licences to their respective CA through FLEGIT (Germany) or national system (Spain).
- EU CAs' assessment of licences for authenticity, validity and accurate coverage of shipments.

The shipments have now arrived in Europe and CAs are assessing the licences and discussing any issues arising with Ghanaian authorities. Once the test has been completed, the EFI FLEGT Facility will report the results to Ghana and the EU.

IMM will also cover the outcomes in the second edition of the IMM newsletter.

Global Coverage: VPA Processes Underway in 15 Countries

The FLEGT Voluntary Partnership Agreement (VPA) initiative now spans the globe, involving a broad section of the leading tropical-timber supplier countries. Initially the VPA process focussed on Africa. The result is that the five countries currently at implementing stage are Ghana, Cameroon, Liberia, the Congo Republic and Central African Republic.

However, it was an Asian country, Indonesia, which, in 2016, became the first country to complete implementation and start FLEGT licensing its exports to the EU. And now the Agreement in Vietnam has been "initialled", which means negotiations between EU and Vietnamese authorities are complete and it is progressing to ratifying and preparing implementation of its VPA.

Another eight countries are currently negotiating a VPA with the EU: Thailand, Laos and Malaysia, the Democratic Republic of the Congo, Ivory Coast and Gabon, Honduras and Guyana. In addition, the EU is engaged in dialogues to inform and prepare possible VPA negotiations with Myanmar, Cambodia and the Philippines.

A successfully implemented VPA authorises a country to start FLEGT-licensing and a licence is an assurance that the wood it exports to the EU is legally sourced. VPAs also support the partner

country in combatting illegal logging by improving forest regulation and governance.

VPA negotiations and implementation require multi-stakeholder engagement, bringing government, civil society organisations, NGOs, the trade and others to the negotiating table.

This inclusiveness and the sheer range of areas and topics they touch on can make these VPA processes complex and time consuming – and the length of time taken by countries to get to licensing stage has been point of criticism. But the VPA initiative aims to create robust and reliable systems, which involves attention to detail and rigorous scrutiny. It's a task that inevitably takes time and the complexity makes forecasting full implementation difficult. However there are encouraging developments now underway in a number of countries.

Indonesia

Indonesia completed implementation of the VPA and the underlying legality assurance system SVLK in 2016; the first FLEGT licenses were issued on 15 November 2016. Full VPA implementation means that besides the national rollout of SVLK certification, Indonesia has structures in place to issue FLEGT licenses as well as manage, monitor

and evaluate the system. Monitoring and evaluation means that, although the VPA is fully implemented as it was negotiated with the EU, continuing multi-stakeholder processes ensure the system is working as envisaged. Moreover, monitoring and evaluation programmes propose improvements regarding the implementation and future development of the VPA.

Vietnam

VPA negotiations between the EU and Vietnam were concluded in November 2016. The process of ratification, in parallel to which VPA implementation is already being prepared, is expected to be completed in 2018. The Vietnamese Timber Legality Assurance System (TLAS) will cover all export markets as well as the domestic market. The system will also require Vietnamese timber importers to conduct due diligence for their imports. Due to the diversity and size of the Vietnamese wood industry, VPA implementation is expected to take several years.

Thailand

The VPA process in Thailand was launched in September 2013. However, first negotiations were only held in June 2017; the process had previously been heavily affected by political turmoil in the

country. A national consultation process and work at technical level has been ongoing since 2013, coordinated on technical level by a multi-stakeholder ad-hoc working group. A draft Legality Definition has already been developed and consultations on this are ongoing as well.

Major challenges facing the VPA process in Thailand are regulating timber imports as well as smallholders and community forests.

Laos

The first VPA negotiation session in Laos was held in April 2017. There is a strong political commitment to the VPA process in the country and synergies exist between the FLEGT process and an order to improve forest governance and fight deforestation issued by the Prime Minister (PM order No. 15). Initial discussions on the timber legality definition and product scope are ongoing.

Major challenges facing the VPA process in Laos include forest conversion, capacity limitations, and limited direct trade with the EU.

Malaysia

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

Myanmar

Myanmar is not yet a VPA partner country. However, the country has entered into dialogue with the EU and awareness of FLEGT has increased in the country in recent times. The EU and Myanmar are currently working towards a multi-stakeholder dialogue.

Cambodia

Cambodia and the EU are engaged in FLEGT-related regional dialogues.

Philippines

Philippines and the EU are engaged in FLEGT-related regional dialogues.

Guyana

VPA negotiations in Guyana are well underway. The country's timber legality assurance system has been field-tested in June 2017, meaning that stakeholders were given the opportunity to assess the practicality and credibility of the VPA's legality definition and legality verification procedures, as well as the readiness of government agencies to implement the Guyana timber legality assurance system. Technical work on the VPA in Guyana is being finalised. Once technical work is done and political agreement reached, the VPA can be initialised, which would mark the official end of negotiations.

The VPA process in Guyana also faces a number of challenges, including maintaining momentum and commitment and ensuring continued stakeholder participation as well as support to Amerindian land issues.

Honduras

Technical work on VPA texts in Honduras is being finalised. Once the technical work is done, the VPA can be initialised, which would mark the official end of negotiations. Stakeholder engagement in Honduras is high, with a remarkably wide participation. Hopes are that this high level of momentum can be maintained and VPA implementation begins as soon as the Agreement is initialised.

Main challenges facing VPA implementation in Honduras include regularisation of land tenure, informality of the SME sector and institutional capacities.

Ghana

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

Liberia

VPA implementation in Liberia is progressing. The LAS has been developed and verification is being implemented in a more systematic way. The EC is also noting improvements in transparency, with relevant documents being made available at www.fda.gov.lr.

Institutional and technical capacities remain the main challenge for Liberia to tackle before the VPA TLAS is fully operational.

Republic of Congo

The Republic of the Congo currently shows positive dynamic and major steps forward towards VPA implementation have been completed. The Timber Legality Assurance Software is starting to be rolled out nationally and the Congo Republic is also working on mechanisms to recognise private forest management certification schemes in the context of their Timber Legality Assurance System. Civil society organisations are actively involved in VPA implementation through Independent Forest Monitoring and participation to legal reform.

Cameroon

The focus of VPA implementation has been on enabling legislation relating to the timber legality assurance system (TLAS) and on setting up the TLAS system itself. Civil society has focused on implementing the transparency annex and on strengthening their capacity to do independent observation of forest governance. The pace of VPA implementation in Cameroon has slowed in recent years, in spite of sustained support from civil society and private sector stakeholders. A key challenge in implementing the TLAS is setting up the web-based information system (SIGIF2), a second generation of the national timber traceability tool. Once established, the SIGIF 2 still needs to be completed and rolled out nationally.

Central African Republic

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

However, conflict persisting outside Bangui, weak capacities and a lack of domestic resources make VPA implementation a challenge.

Ivory Coast

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

Gabon

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

Democratic Republic of Congo (DRC)

VPA negotiations with DRC have stalled since November 2013, although some progress at national stakeholders' level – including work on updating legality grids – has been noted in 2016 and 2017. In general, stakeholders in DRC are more focused on REDD, legal reforms and economic issues than on the VPA process. Moving forward, the EC is planning to restructure FLEGT working groups and work not only on VPA specific issues, but participate in developing a national forest policy.

Indonesian wood industry acknowledges advantages of FLEGT

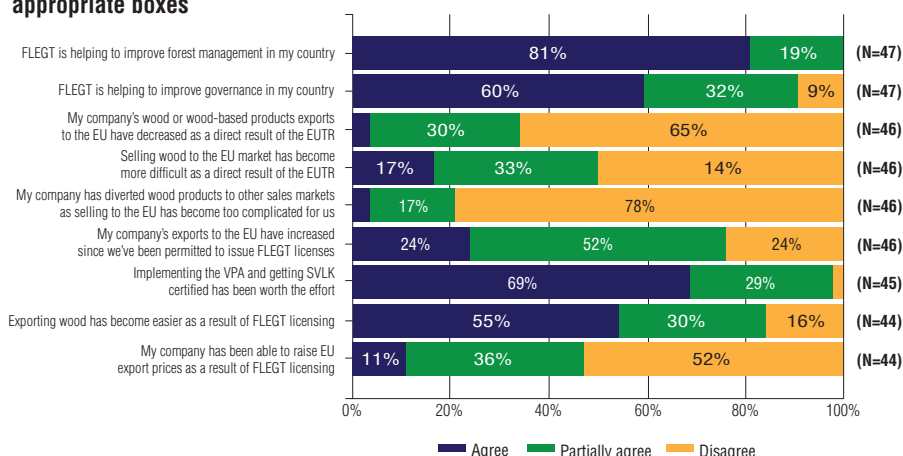
The first round of IMM surveys in Indonesia, the only VPA partner country currently issuing FLEGT licenses, covered 47 timber industry players exporting a wide range of products – including furniture and furniture parts, decking, mouldings and plywood as well as paper, fibre- and particleboard, doors, gluelam and sawn timber – to the European Union and world-wide. Companies were surveyed about their main European export markets and the overall relevance of Europe as a sales market as well as their perception of the VPA process, FLEGT licensing and the EUTR.

Overall, Indonesian industry and trade representatives' perception of the FLEGT VPA process and experience with FLEGT licensing was very positive (Figure 1):

- All respondents fully (81%) or partially (19%) agreed that FLEGT is helping to improve forest management in Indonesia and more than 90% stated that FLEGT was helping to improve governance.
- 98% of respondents fully (69%) or partially (29%) agreed that implementing the VPA and getting SVLK certified was worth the effort.
- 85% fully (55%) or partially (30%) agreed that exporting wood has become easier as a result of FLEGT licensing.
- And 76% of respondents even fully (24%) or partially (52%) agreed that their exports to the EU had increased since the beginning of FLEGT licensing.

When it comes to assessing the impacts of the EUTR, only 5% of respondents stated that their exports to the EU had definitely decreased as a direct result of the EUTR. Another 30% partially agreed with this statement, whereas 65% of respondents didn't think the EUTR had had any direct impact on their export sales to the EU. 5% of the survey respondents also stated they had diverted products to other sales

Figure 1: Please indicate your opinion on the following statements by ticking the appropriate boxes



Source: IMM 2017 Indonesia Trade Survey

markets, as selling to the EU had become to complicated after the EUTR had entered into force. Another 17% of respondents partially agreed to this statement, while 78% did not divert products to other sales markets because of the EUTR.

The relative ease with which Indonesian companies seem to have been able to respond to the challenge of providing European customers with meaningful documentation to comply with the EUTR and the limited impact the EUTR has had on Indonesian sales to the EU can at least partly be attributed to VPA implementation: Many companies in Indonesia have been SVLK certified for a while and V-Legal documents, which were frequently considered as something similar to a FLEGT-license, were issued from 2013.

VPA covers all exports from Indonesia

The Indonesian VPA provides for all exports, not just those to the EU, to comply with the national timber legality assurance system (SVLK). Exports to the European Union have been accompanied by FLEGT licenses since November 2016. Those to other international destinations continue to be accompanied by V-Legal documents, which were introduced in 2013 and, like FLEGT licenses, are issued and controlled by the Licensing Information Unit (LIU). Details on how the Indonesian system works can be found in a separate article (see page 13). Moreover, an IMM interview with UK

TTF's Mike Worrell (see page 17) shares impressions of the Indonesian system from a field visit in October.

Information on the number of FLEGT licenses and V-Legal documents issued between January and September 2017 (Figure 2) shows how important the global coverage of VPA legality requirements is: the EU, while still an important market, is not the primary destination for Indonesian wood products. More details on Indonesia's wood and forest products trade with the EU (see page 12) can be found in a separate article.

FLEGT-licensing alone creates no major surge in demand

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

One point mentioned by both some Indonesian IMM survey respondents and Indonesian trade representatives on occasion of international conferences was that no perceptible increase in Indonesian sales to Europe had materialised immediately after the beginning of FLEGT licensing. While this is true, it is also still very early in the day to analyse impacts of FLEGT licensing on timber exports. An analysis of recent trends in EU timber imports from Indonesia can be found in a separate article in this newsletter (see page 12).

Disappointment in FLEGT licensing as an immediate means to boost demand can primarily be attributed to exaggerated expectations: FLEGT-licensing in isolation cannot hope to create any major surge in demand. The zero-risk status of Indonesian timber is certainly an incentive for European operators and most companies told IMM they would give preference to FLEGT-licensed timber (see page 2) over unlicensed timber from competing sources. However, other commercial factors such as price, quality, product range, logistics and lead times, interest rates as well as bureaucracy and investment climate play an important role as well.

Figure 2: FLEGT licenses and V-legal documents issued between January and September 2017

Destination	V-legal Issued (including FLEGT)	Weight (Ton)	FOB (.000 USD)
Asia	76,626	8,402,205.49	5,617,202.98
North America	26,583	705,902.46	873,287.71
European Union	27,834	490,438.91	688,774.71
Oceania	9,808	256,594.34	291,064.16
Africa	4,352	296,399.82	223,038.38
South America	932	32,866.50	28,978.22
Europe	820	20,199.33	20,877.80
Total	146,955	10,204,606.85	7,743,223.96

Source: Licensing Information Unit at SILK



Indonesia: SVLK audit. Picture: IMM Indonesia.

IMM analysed various indices of international competitiveness for its report **“FLEGT VPA Partners in EU Timber Trade 2014 to 2016”** and results suggest that Indonesian exporters face challenges in some of these wider market issues. Interviews with European importers conducted as a part of the IMM 2017 European trade survey confirm this assessment.

Are EU import procedures putting FLEGT-licensed timber at disadvantage?

Some Indonesian survey respondents were also concerned by what they perceived to be a complicated process of importing FLEGT-licensed timber into the EU and felt it was putting licensed timber at a disadvantage. Some statements from respondents to the European trade survey, according to which adapting to the new administrative tasks involved in importing FLEGT-licensed timber would

make importing timber from Indonesia more complicated at the moment seem to confirm this.

However, many other European survey respondents said they found the process of importing FLEGT-licensed timber straightforward and easy to follow once they had gotten used to it. Problems such as delays in releasing shipments on the European market or in isolated cases higher than accustomed import taxes were mostly attributed to license mismatches rather than generally complicated procedures. More information on license mismatches ([see page 14](#)) and efforts to reduce them can be found in this newsletter.

Importing FLEGT-licensed timber into the EU requires the importer to register each license – either on national systems or the European FLEGT system. In a second step, the relevant Competent Authority verifies and approves the license. Competent Authorities are checking the signature and other properties of each license and can also verify the validity of a license by looking it up on the Indonesian SILK system.

Once the Competent Authority approves a license, the information is forwarded to national customs authorities, which also verify and approve the license. Besides paper and online-system based checks, customs authorities can also perform physical checks of the licensed shipments.

“FLEGT-licensed wood should be accepted by European public procurement schemes”

Indonesian stakeholders also criticised that FLEGT-licensed timber is not widely accepted by EU Member States’ national procurement rules to date. By October 2017, the UK, Luxembourg and Denmark were the only countries to accept FLEGT-licensed wood. Several other Member States, including important consumers of Indonesian wood products, like Germany and the Netherlands, for example, are considering possibilities to include FLEGT-licensed timber.

Procurement experts from EU Member States say the main difficulty with regards to FLEGT-licensed timber would be traceability of licensed timber once it has entered the EU market, as there is no chain-of-custody system in place. Some solutions, including requesting information roughly in line with what is required within Dutch Category B-evidence (broken chain-of-custody), are currently being discussed.

Besides acceptance in public procurement, Indonesian stakeholders also called for enhanced communication on and promotion of FLEGT licensed timber by European partners. At the same time, Indonesian producers have also advanced proposals for a new logo (FLEGT certified). IMM will publish more details on this shortly.



Indonesia and EC sign decision to start FLEGT licensing. Picture: FLEGT Facility.

Indonesia in EU timber trade since the start of FLEGT licensing

Alongside regular surveys of market opinion to assess the market impact of FLEGT licensing, IMM is implementing near-real time monitoring of trade flow statistics. Early results of this monitoring indicate that there has been little immediate effect of the licensing system to either boost or impair timber trade between Indonesia and the EU. In fact, the value and volume of Indonesian trade with the EU has changed very little since the first licenses were issued in November 2016, while Indonesia's share of the EU market has also remained stable.

Chart 1 shows the trend of EU timber imports from Indonesia by major product group as defined in the internationally harmonised system (HS) of product codes. The chart shows 12-month rolling average data to remove short-term variability and highlight long term trends. Data in US dollars is shown as the impact on export value is the most relevant measure for Indonesian suppliers.

In the 9 months following introduction of licensing, EU imports of Indonesian wood (HS 44), furniture (HS 94) and paper (HS 48) were broadly flat. EU imports of Indonesian wood pulp (HS 47) increased a little from a negligible level.

Chart 2 shows the trend in imports of timber and timber products (that is all products in HS 44, 47, 48, and 94) by individual EU member countries. There was no clear step change in imports from Indonesia in the months following introduction of licensing by any EU country. During this period imports from Indonesia were flat in the UK, Germany, Italy, and Spain, and were declining in France. More positively, imports of Indonesian products gradually picked up into Belgium throughout 2017, and increased sharply in the Netherlands in July this year.

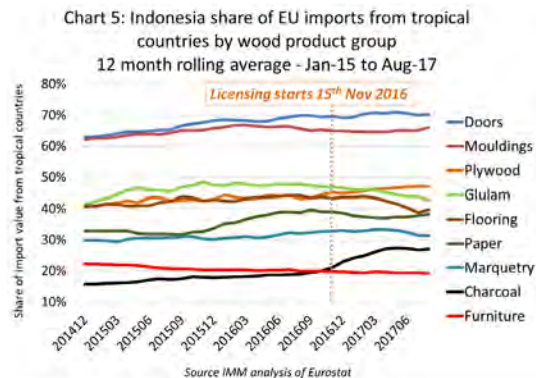
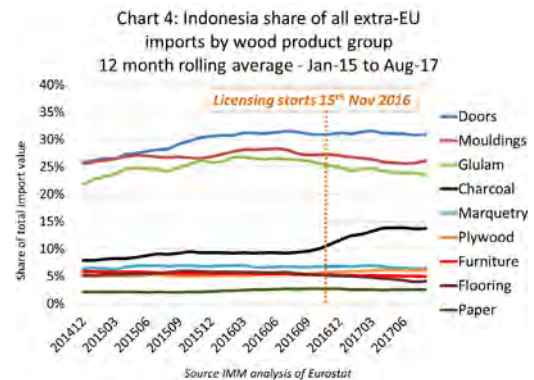
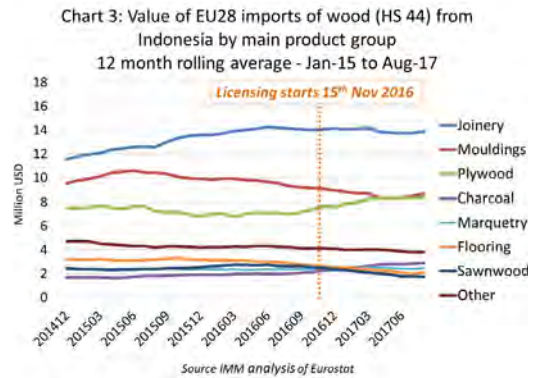
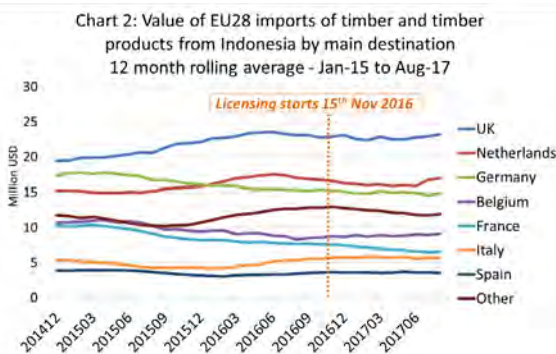
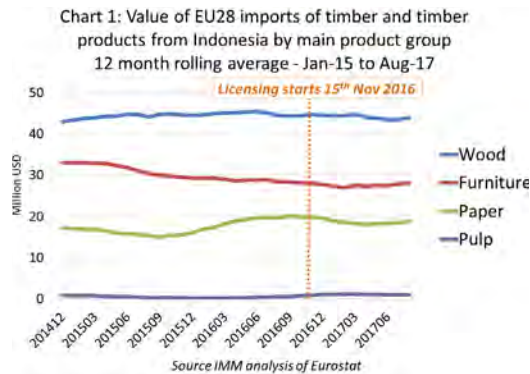
Chart 3 reveals that the trend in EU imports of some individual wood (HS 44) products has varied since introduction of licensing. There has been quite a sharp increase in EU imports of plywood since November 2017, lending support to anecdotal reports of EU plywood importers being encouraged to stock more Indonesian product due to licensing. Imports of Indonesian charcoal have also increased, interesting mainly because charcoal is one product not currently covered by the licensing system.

However, EU imports of Indonesian joinery products (mainly doors and a smaller quantity of glulam) and marquetry have been flat since November 2016. EU imports of Indonesian sawn wood (all S4S to comply with Indonesian export regulations), flooring, and moulding/decking products have continued to slide this year.

Analysis of market share also reveals no clear short-term impact of licensing on the relative position of most Indonesian products in the EU market. Chart 4 shows the trend in % share of Indonesia in EU imports (excluding internal EU trade) of the various timber products. Chart 5 shows the trend in Indonesia's share of EU imports of the same products from tropical countries.

The charts reveal that Indonesia's share of EU imports has increased in plywood and charcoal this year, but been flat in some product groups (doors, marquetry, paper), and declined in others (wood furniture, flooring, glulam and mouldings/decking).

These various trends reinforce the conclusion of the IMM 2015/2016 report, that licensing is unlikely to transform the market, at least in isolation or in the short-term. Improved market access will require long-term commitment both to effective implementation of the EUTR, and to wider market development strategies which build on FLEGT licensing to enhance reputation and encourage greater investment in the Indonesian wood products industry.



Coordinated effort – Indonesia and FLEGT licensing

A quick guide to how the VPA was implemented and works

When Indonesia started issuing FLEGT licences last November, verifying the legality of its timber exports to the EU prior to despatch, it was billed as a milestone in global efforts to combat illegal logging and illegal wood products trade.

Since then the country and its FLEGT licensing system has attracted attention from across the global timber trading community and interested parties, mainly from Indonesia's export markets and other countries engaged in the EU Forest Law Enforcement Governance and Trade Voluntary Partnership Agreement initiative (FLEGT VPA), but not exclusively.

Governments, businesses, NGOs and other civil society bodies have shown interest both in how Indonesia reached this point and how its legality assurance framework and licensing system operates. Missions from abroad are in fact now undertaking fact-finding trips there to take a closer look.

SVLK – the core element of the VPA

Indonesia's FLEGT-licensing operation is based on its mandatory certification system called the 'Sistem Verifikasi Legalitas Kayu (SVLK)', translated as timber legality assurance system. This evolved as a stand-alone legality assurance system before the Indonesians started negotiating their FLEGT VPA with the EU and was then assimilated as a core element of the latter.

The SVLK was developed by a range of public and private sector forestry stakeholders to ensure that timber was harvested, transported, processed and traded according to Indonesian laws. The process began in the early 2000s with multi-stakeholder dialogues, where timber legality was defined. Including government, industry and civil society input and supported by the UK Department of International Development, these discussions analysed all Indonesian forest-related legislation, covering everything from rules regulating issue of permits, social safeguards, environmental impact assessment, forest management and timber production, transport and trade, through to forest-related 'fees and export provisions'.

The resulting SVLK (as set out in Permenhut P.43 / Menhut-II / 2014 and LH and K no. P.95 / 2014) guarantees timber forest management and/or timber legality and timber tracking, validated through Sustainable Production Forest Management (PHPL) or Timber Legality (LK) certification or a Suppliers' Declaration of Conformity Document (DKP). The sustainable forest management standard PHPL is mandatory for all natural state forests. Over 13 million hectares of natural production forest are already or will be certified against this standard. IMM will report in more detail about sustainability aspects of SVLK/PHPL in the next IMM newsletter.

Compliance with the SVLK is now mandatory for most Indonesian timber products and all sizes of timber and wood products business, from forest to factory, whether trading in domestic or export markets. Although, rather than full PHPL or LK certification, smaller companies handling timber from sources classified as low risk (privately owned forest or state-owned SVLK-certified plantation) can demonstrate compliance and feed wood into SVLK supply chains via the simpler Suppliers' Declaration of Conformity (DKP).

Compliance verified by annual or biannual surveillance visits

Just as with well known private certification schemes such as FSC or PEFC, SVLK compliance is verified by third-party auditors called Conformity Assessment Bodies (CABs), which are mandated by government and overseen by the Indonesian national accreditation body, the KAN. Once they give operators an audit pass, they issue them with a legality certificate. This is valid for three years in the case of large companies and up to ten for small-scale or low risk operators, with the former also subject to surveillance visits annually and the latter two groups every two years. If Indonesian operators fail to adhere to the legality criteria their legality certificate can be withdrawn. They can also face legal charges if their goods are proven illegal. In such cases the timber can be confiscated.

Prior to the start of FLEGT licensing, conformity of exports with the SVLK was a mandatory requirement for all exports, validated by issuance of V-Legal Documents from official licensing bodies. Then, once authorised to start FLEGT licensing, through a joint decision from the EU and their own government, the Indonesian authorities effectively re-branded V-Legal Documents for EU exports as FLEGT Licences. At the same time, under their FLEGT VPA, Indonesia has to maintain the same legality assurance standards on timber sales to the rest of the world as the EU, so the V-Legal label has been retained for exports elsewhere.

After the start of FLEGT-licensing, no non-licensed timber or wood products could be imported in the EU from Indonesia.

Information exchange between EU CAs and License Information Unit working smoothly

There are 22 licensing authorities issuing FLEGT licences, which must now accompany every timber export consignment to verify it originates from a registered operator with a valid legality certificate. These report to the central Licence Information Unit (LIU) in the Ministry of Environment and Forestry, which maintains records for all FLEGT/V-Legal licenses, with core data available for review on the online SILK Timber Legality Information System. It's also the LIU's role to manage information exchange between EU authorities and

the Indonesian licensing authorities, a process which to date has worked smoothly, according to the FLEGT Competent Authority of a leading EU tropical timber importing state.

"We only connect with the LIU, which coordinates the licensing bodies and pools all the relevant information," said the CA spokesperson. "They tally their licence information against ours quickly and come back to us rapidly on any queries or inconsistencies and we can also access data on the SILK system. From what we see, the Indonesians are running a robust, efficient FLEGT operation."

EU FLEGT Facility explains why FLEGT licenses are tamper-proof

The EC, through the EU FLEGT Facility, has summarised a number of frequently asked questions on the Indonesian VPA on its [website](#), including an explanation of why FLEGT-licenses are difficult to tamper with: "It would be difficult to counterfeit a FLEGT licence, as a valid FLEGT licence can only be issued using the SILK online system operated by Indonesia's LIU. The system generates a unique, secure barcode for each licence, and stores information about each licence in its database. SILK is a secure online system of the Ministry of Environment and Forestry. It connects in real time directly with the secure INATRADE online system of the Ministry of Trade, and with the National Single Window Customs system of the Ministry of Finance.

All licences are recorded in this system. Indonesian customs officials and EU competent authorities have direct access to the SILK system, so they can check that a licence is valid and not a counterfeit. To be valid, all the information in the FLEGT licence must match the information recorded in the SILK system.

Once an EU Competent Authority confirms it has received a FLEGT-licensed consignment, SILK will automatically update the FLEGT licence's record, ensuring that the same licence cannot be recorded again".

To ensure standards are maintained, the overall functioning of Indonesia's legality assurance and licensing apparatus also undergoes annual 'periodic evaluation' and further ongoing assessment and appraisal is undertaken by the Joint Implementation Committee (JIC), which comprises elected Indonesian and EU representatives, and was established to oversee Indonesia's VPA implementation. Its function includes reviewing assessments of the TLAS and any complaints about the application of the FLEGT licensing system. It also publishes annual reports and conducts other FLEGT-related tasks that EU and Indonesian members agree to carry out jointly. It is responsible too for analysing the impacts of the VPA, including on indigenous and tribal peoples.

Civil society organizations play a key part

Indonesian civil society organizations, alongside industry and government, played a key part in the development of the SVLK and subsequently the implementation of the country's FLEGT VPA. Today they also perform a role in providing independent monitoring of the operation of the SVLK and FLEGT licensing, a role enshrined in legislation. There are numerous bodies involved, but one of the most prominent is the Independent Forest Monitoring Network (JPIK), a national grouping of CSOs. A lead figure in the organisation, Mardi Minangsari of the Environmental Investigation Agency, said it and other organisations were having an important influence.

"As we talked and involved more stakeholders, government and timber businesses became increasingly receptive and today listen to our concerns and appreciate our input," she said. "CSO involvement also lends credibility to the SVLK and FLEGT licensing and our formally-acknowledged role as independent monitor has already led to reviews and operational improvements."

It's taken as evidence of the confidence the Indonesian's have in their FLEGT framework that they are opening it to scrutiny from overseas visitors, with fact finding missions coming from a number of Asian VPA and other states, and most recently Ghana.

In a recent report in the European Timber Trade Federation Newsletter, the visitors expressed



SVLK auditors at work.

Picture: IMM Indonesia

interest in everything from Indonesia's engagement of NGOs and civil society in the development of its TLAS, to its establishment of auditing and independent monitoring of its wider FLEGT licensing system. One particularly noted the importance of inclusion in Indonesia's progress through the VPA and subsequent management of FLEGT licensing. "It presented a picture of coordinated effort in all areas of policy making and implementation. That's a message we've clearly received," he said.

Indonesia's vital FLEGT components

To satisfy the terms of Indonesia's FLEGT VPA, its overall legality assurance and licensing system had to:

- Include a timber legality definition stating aspects of national laws with which the system requires compliance
- Meet strict chain of custody requirements, as set out in the VPA's Appendix V, ensuring unverified products do not enter supply chains
- Be subject to 'Periodic Evaluation'; a minimum annual assessment to ensure the timber legality assurance system is functioning properly and effectively (VPA Annex VI)
- Be backed by market monitoring, assessing the impact of FLEGT licensing on Indonesia's trade in the EU market (VPA Appendix VII)
- Be subject to civil society monitoring
- Include set procedures for issuing FLEGT licensing documents, licensing document formats and for information exchange procedures between EU authorities and licensing authorities in Indonesia (VPA Attachments III and IV)

Tackling FLEGT licensing teething troubles

A year on since Indonesia began FLEGT licensing timber exports to the EU, and one EU FLEGT national Competent Authority (CA) commented that introduction and operation of the licensing system had been 'remarkably smooth and uneventful'. This seems to be the consensus among most Indonesian exporters and EU importers and their respective authorities. At the same time, and perhaps inevitably for any new administrative system, particularly one such as that for FLEGT licensing, involving such an international spread of businesses and authorities and so many different products, both parties agree that there have been some initial issues with implementation and operational teething problems.

According to Dr Rufi'e, Director of Forest Products Processing and Marketing with the Indonesian Ministry of Environment and Forestry, one question mark from the Indonesian perspective still hangs over EU market understanding of the FLEGT licensing framework and the value of a licence. In an interview with IMM (see page 16), he said the feeling was that the EU should do more to encourage market acceptance and "promote the use of FLEGT-licensed timber in public procurement more actively". It was also felt that the FLEGT licensing system should be underpinned by greater effort "to ensure consistent enforcement of the EU Timber Regulation", given that a prime attraction of FLEGT licensing is that it grants exemption from EUTR due diligence.

EC advises EU importers to liaise with exporters on HS codes

As regards licensing and import procedures, an important issue that came up in the first year of FLEGT licensing is discrepancy registered by European national CAs between information entered on FLEGT licences and on EU national customs declarations, particularly in terms of Harmonised System (HS) goods classification codes. This is primarily due to room for interpretation when it comes to HS code application and different practices in the EU and Indonesia. According to information from IMM trade survey respondents and CAs, a number of products/codes were affected by such mismatches – most often furniture and ornamental products as well as panel products and in some cases joinery products.

HS Code mismatches between FLEGT-licenses and EU customs declarations typically trigger a request for further information on the part of CAs to the Indonesian Licence Information Unit to ensure that a product shipped from Indonesia is really covered by the respective FLEGT license. This process can lead to delays in customs clearance if communication between the EU and Indonesian authorities is not effective.

It can also, in the worst case, mean that a FLEGT license is needed for the product declared by the European company, whereas the Indonesian exporter

did not apply for a FLEGT license as he exported the product under a code not covered by the EUTR. Furniture made of both metal and wood was mentioned to IMM as an example where this can happen, depending on how exactly the companies classify the product.

Where such cases occur, a shipment won't be able to be released for circulation on the EU market, as under the current Indonesian legislation it is not possible to issue a completely new FLEGT license or to correct an existing one for shipments that have already left Indonesia.

In isolated cases, European importers also reported that they had to pay higher import duties than they were accustomed to, as the HS code used by the Indonesian supplier entailed higher duties than the one customary in Europe. However, most importers and CAs are saying that as long as the HS code used in the importer's customs declaration is the one that would typically be used for a certain product in the respective country, no extra duties are being applied.

While in some cases differences in HS classification require a government to government agreement on the most appropriate code to be used, in the vast majority of cases both EU and Indonesian private sector can and should play a crucial role to prevent as much as possible differences in HS code for their shipments, according to the EC. EU importers should always agree on an HS code with their suppliers prior to a shipment and application for FLEGT license, to make sure both parties use the

same code. At the same time, Indonesia has agreed under a current joint action plan to adjust its HS codes on a number of items, so that it matches the EU side, according to information from the FLEGT Facility. On a number of other products, the temporary measure is to have Indonesian HS codes on pages 1, 2 and 3 of FLEGT license and EU HS codes on the remaining pages. The final solution will be reached once there is an agreement on this between the Customs, Ministry of Trade and MOEF.

Volume/unit number mismatches are typically due to planning errors

EU Member State authorities have also had to deal with FLEGT licences not matching actual shipment volumes and quantities. This, it is reported, results from the time lag between application for a FLEGT licence, licence issuance and actual shipment of a consignment. Exporters, particularly of furniture, are apparently sometimes finding it difficult to calculate the exact amount of products fitting into a container and plan generously when applying for a licence. They then fail to inform the licensing authorities about the actual quantities included in the shipment and to obtain a corrected licence before the shipment leaves Indonesia. This explains why in most mismatch cases the actual shipment is smaller than the volumes or unit numbers recorded on the FLEGT licence; cases of shipments exceeding the record on the FLEGT licence are rare, according to the EC FLEGIT IT unit.

According to information from Indonesia, license mismatches occur primarily where smaller companies with less experience and limited organisational capacity are involved. The Ministry of Environment and Forestry and the Licensing Information Unit (LIU) will shortly distribute a Circular admonishing that Licensing Authorities (LAs) and exporters must stay below the tolerated margin of error of 10%. LIU will not assist repeating offenders and take measures against LAs whose customers have many problematic cases. As a result, hopes are that the number of cases will subside in the near future.

EC and Indonesian authorities are in consultation on addressing the mismatches

Individual cases of license mismatches are sorted out between the European national CAs and the Indonesian central Licensing Information Unit (LIU). The EC and Member States have developed guidance on how to handle these teething problems in the interim while longer-term action is being put in place.

Where doubts arise around a FLEGT licence, national CAs are advised to liaise with the Indonesian LIU to confirm authenticity and with their own customs authorities to establish HS code validity.

Where there is a mismatch between HS codes on the licence and customs declaration, the guidance says this does not necessarily invalidate the licence or require rejection of the cargo. Provided the Indonesian authorities can vouch it applies to the cargo and is in line with provisions of their country's EU FLEGT Voluntary Partnership Agreement (FLEGT

VPA), the licence can be accepted. At the same time, the CA should inform the Indonesian LIU that there has been a reclassification of the shipment.

Where an EU customs HS reclassification takes the shipment into a product category not covered by the FLEGT licensing scheme, they are advised to ignore the licence and release the goods as non-FLEGT, while again notifying the LIU of their action.

In the case of just part of the cargo being reclassified and effectively removed from FLEGT-licensing coverage, that too can be released as non-FLEGT, while the remainder continues as FLEGT-licensed.

If there is a discrepancy between timber species listed on the licence and other customs documentation, CAs could undertake species identification and consequently decide if an HS code reclassification is required. If that is the case, the licensing authority, via the LIU, can be asked to issue a revised 'duplicate' licence.

When a mismatch on volumes of goods on the licence and in a container occurs, the EU CA is also advised to clarify the reason with the LIU and, if necessary, request a revised licence from the licensing authority.

In cases of a discrepancy in numbers of units of goods, if there are more and the LIU can vouch for the licence and give a reason for the mismatch, the CA can either request a revised licence or accept the original. If the extra cargo exceeds the license by more than 10%, an adequate justification for the discrepancy and a revised licence will be needed in any case before the shipment can be released. Where the quantity is lower, the CA should again contact the Indonesian body and, if necessary, request a licence revision.

These processes are reportedly working well in most instances and LIU is working on optimising them further. Nonetheless, the need to obtain additional information to confirm the validity of the licence is time-consuming and can lead to delays in customs clearance or in extreme cases involve higher costs or "disposition" of a license, which means the shipment won't be cleared for circulation in the EU at all. The EC and Indonesian authorities say they are in constant contact, trying to improve processes and raise awareness among companies in both Indonesia and Europe to ensure a reduction of overall cases.

European trade wishes for closer working relationship with EC and CAs

Some EU trade respondents to the IMM 2017 survey said they had been disappointed by the lack of private-sector oriented communication both from the EC and some national CAs, especially around the start of FLEGT licensing. "FLEGT licensing has taken so long to start and then suddenly it was there, without much prior warning and we didn't feel well prepared", said one major furniture importer. Especially in the early months of FLEGT-licensing, companies in certain countries apparently found it hard to obtain information as to why their shipments were being held up at customs and were facing delays in customs clearance. Other companies found that the procedures involved in importing FLEGT-licensed timber were more time-consuming

than exercising due diligence for Indonesian timber, at least to start with. In some cases, they paid to outsource the work to agents.

However, such comments came primarily from countries where EUTR implementation and enforcement started relatively recently and EUTR due diligence may not always have been of the highest standard. Their awareness of the FLEGT process may also have been relatively low (see page 2), as the IMM EU trade survey shows. Still these criticisms highlight a continuing need to bridge communication gaps. This was borne out by the IMM European trade survey, with participants in all countries covered feeling that better information and mechanisms for taking private-sector views and concerns into account were crucial.

FLEGT IT system for the electronic handling of FLEGT Licences in EU

The European Commission has developed an IT system named FLEGIT/TRACES to support the implementation of FLEGT Licensing Scheme in the EU. FLEGIT allows importers to electronically submit a FLEGT Licence to a Competent Authority and enables the electronic and fast validation of the FLEGT Licence by the Competent Authorities and subsequent clearance by the Customs.

Up to September 2017, FLEGIT has been used by 25 MS for the management of roughly half of the FLEGT licenses that have been issued since the start of the FLEGT Licensing Scheme (November 2016). Three MS (UK, Netherlands and Spain) have developed national electronic systems for the management of FLEGT Licences and work is currently undertaken for their integration/connection with FLEGIT.

Although FLEGIT is widely used by importers and CA, the same does not apply for customs, which in some Member States do not use the system to upload information of customs data related to FLEGT shipments. The data that are currently available from FLEGIT for customs clearance, unfortunately do not allow for the extraction of safe conclusions on the import of shipments covered by FLEGT Licences and, therefore, to make a comprehensive analysis if would be necessary to obtain customs data to address any gaps.

Furthermore, connection between FLEGIT and SILK would allow immediate verification of FLEGT Licences and would make much faster the whole process up to the import of shipments.



Dr Rudi Hartono, MoEF Indonesia.

Indonesia has been the first country to fully implement a Voluntary Partnership Agreement (VPA) with the EU. The country started issuing FLEGT licenses, which are recognised proof of legality in the EU market, in November 2016.

Dr Rudi Hartono is Director of Forest Products Processing and Marketing with the Indonesian Ministry of Environment and Forestry. In this capacity he is responsible for daily implementation of the Indonesian Timber Legality Assurance System (Sistem Verifikasi Legalitas Kayu/SVLK), which the VPA is based on.

In an interview with IMM, Dr Rudi Hartono talks about Indonesia's motivation for entering into a VPA, challenges met on the way and first experiences with FLEGT-licensed timber.

IMM: What were the main incentives for Indonesia to enter into VPA negotiations with the EU?

Dr Rudi Hartono: *Illegal logging and trade in illegal timber can only be effectively combated through joint efforts between producer and consumer countries. The EU has developed the concept of FLEGT-VPA to demonstrate its commitment to fighting illegal timber and by entering into the VPA process Indonesia decided to share this burden.*

Indonesia wanted to tackle challenges it faced in forest governance and has successfully done so through implementation of the VPA. The implementation of the VPA has also helped to reposition Indonesian wood products in the global market: instead of being suspected of trading in illegal timber, Indonesia is now recognised as a pioneer of providing legally and sustainably sourced tropical timber.

IMM: What were the greatest challenges in VPA implementation and how did Indonesia meet them?

Dr Rudi Hartono: *Implementing a VPA means bringing a large variety of stakeholders with different interests to the table and reconciling those interests wasn't always easy.*

Where industry is concerned, small and medium-sized enterprises (SME) often found SVLK certification a challenge, given their

EC should do more to promote FLEGT-licensed timber", says Dr Rudi Hartono of the Indonesian MoEF

limited capacities and resources. The Indonesian government has responded to this by providing financial and technical assistance to smaller companies.

IMM: Which ministries and government agencies are involved in VPA implementation, operating the FLEGT-licensing scheme and timber marketing/promotion and what are their respective roles/tasks?

Dr Rudi Hartono: *The VPA is based on a very comprehensive system with a large number of ministries and agencies involved. First and foremost, the Ministry of Environment and Forestry is responsible for regulating the SVLK, facilitating certification and encouraging public procurement of FLEGT-licensed products. It also provides input to the National Accreditation Committee (NAC) on the performance of Certification Bodies.*

The Ministry of Trade regulates export and import and is responsible for national and international promotion.

The Ministry of Industry facilitates certification and provides coaching for the industry, while the Ministry of Foreign Affairs facilitates negotiations with the EU and the Ministry of Home Affairs is responsible for streamlining regulations.

The Ministry of Finance deals with customs issues and the Ministry of Cooperative and SMEs helps SMEs getting certified.

The Ministry of Economic Affairs provides support by coordinating regulation and the Ministry of National Development Planning provides funding for certification.

Finally, the National Accreditation Committee conducts accreditation as well as monitoring and evaluation of verification bodies and the regional governments also streamline regulations and provide coaching and assistance for certification. The regional governments also support public procurement of verified legal wood and are responsible for law enforcement.

IMM: Indonesia has issued FLEGT-licenses for a year now. What were the main challenges encountered during this period?

Dr Rudi Hartono: *There has been no transition period and therefore some issues have come up, especially where SMEs in Indonesia and Competent Authorities in the importing countries are concerned.*

For example, FLEGT licensing has drawn attention to the fact that EU countries and Indonesia are not always using the same HS Codes for wood products. The resultant discrepancies between some FLEGT licenses and European customs declarations have sometimes led to delays in processing of shipments.

Indonesia and the European partners are working together to deal with this issue. Indonesia has

informed exporters and European importers that they should agree on an HS Code to be used with their trading partners before FLEGT license applications and customs declarations are submitted, for example.

Another issue was that European customs authorities came across FLEGT licenses that did not match the actual shipments. This happened especially in the early stage of FLEGT licensing. The reason for this is that there is a time lag between application for a FLEGT license and the actual shipment of cargo. Sometimes more and more frequently less product could be fitted into a container than anticipated at the time the license was applied for and in some cases companies failed to inform the licensing authority and apply for a new license. Indonesian exporters have now been briefed accordingly and this should be happening less often.

A third issue was purely formal: some paper-based licenses had been printed on the wrong type of paper.

Close cooperation between Indonesia, the EC and Competent Authorities in EU Member States is essential for addressing these challenges.

IMM: From your perspective, what are the main advantages the VPA process and the introduction of the SVLK has brought for Indonesia?

Dr Rudi Hartono: *The main benefit of the VPA is of course the green lane for SVLK-certified products. However, the progressive improvements in forest governance in Indonesia are also a major advantage.*

IMM: Are there any areas in which you would wish for more support from European partners and if yes, what could this support look like?

Dr Rudi Hartono: *While FLEGT licenses are a passport for Indonesian timber to enter the EU market without due diligence this does not necessarily mean that all EU consumers are accepting it. From our perspective, the EC should put more effort behind informing EU consumers about VPAs and FLEGT licensing. It should also promote the use of FLEGT-licensed timber in public procurement more actively.*

We are also hoping that the EU will step up efforts to ensure consistent implementation and enforcement of the EUTR. We believe that capacities in some EU countries are still insufficient to ensure effective implementation of the Regulation.

IMM: Is there any specific piece of advice you would like to give other VPA implementing countries?

Dr Rudi Hartono: *FLEGT-VPA negotiations are long and tough and implementing the Agreement needs strong commitment and endurance.*

“We are often sceptical of things we don’t fully understand”

Tangible, factual information is key for demand-side trade audiences, says UK TTF’s Mike Worrell

UK TTF Head of Sustainability, Mike Worrell, visited Indonesia in October to gather first-hand experience of how the Indonesian FLEGT-licensing system works.

IMM: What were your reasons for visiting Indonesia and assessing the FLEGT-licensing system in person?

Mike Worrell (MW): *My primary motivation was to fully understand the system and to offer a different perspective into the next stages for FLEGT. The visit was part of a TTF project to support VPA countries through the process, notably Ghana, but peripherally Indonesia too. Our work here has been backed with funding from the UK Department for International Development earmarked for projects to support supplier countries improve legality performance.*

IMM: What was your overall impression? And if you or TTF members have had any doubts or concerns about the Indonesian system – did what you learned in Indonesia help to put these doubts to rest?

MW: *You can see that there is a clear process and system in place – with robust auditing and monitoring mechanisms established, the chain-of-custody process as well as the licensing system work smoothly. I would consider them as robust and a credit to years of hard work and dedication from all those involved in the multi stakeholder process.*

There has been concern in the trade that the system is overly complicated and I can see where this is coming from. It seems complicated at first – which in a way must be expected as it reflects a complex industry – but once you gain and understanding, it does become simpler. I did come away with some concern, notably regarding the due diligence system for timber imports, as there seems to be no clear mechanisms for dealing with non-compliance.

In general I’d say Indonesia has now entered a new stage in the process: the licensing is there and they need to think about ways to talk about what they are doing in a way people understand. With EUTR and the core theme of risk, companies rightly are sceptical due to the risks and threats posed to their business. Only better information and greater understanding will help to alleviate concerns.

IMM: You’ve visited both Ghana and Indonesia to gather first-hand information on how licensing works and the robustness of the systems is ensured. Where do you see the particular strengths of the two very different systems?

MW: *I don’t think these systems should be compared at all. They are developed in national multi-stakeholder processes and custom-tailored to the realities of each individual country and its forest and wood products industry. What works in one country wouldn’t necessarily work in the other, although of course there are complimentary elements. The multi-stakeholder approach is a unique feature of the FLEGT-VPA process and ensures implementation of the best possible system in each country.*

IMM: What status does FLEGT-licensed timber have in the UK TTF’s Responsible Purchasing Policy (RPP)?

MW: *The RPP accepts FLEGT licensing as compliant evidence of due diligence and we are providing members with guidance and information on the initiative. As that is written into Article 3 of the EUTR.*

IMM: The UK is one of the few EU countries to date that accepts FLEGT-licensed timber in public procurement. Does the TTF support this decision?

MW: *Implementing VPAs means legal reform and the accompanying installation of systems, processes and monitoring and control frameworks. The timber legality assurance systems that underpin VPAs also build in sustainability mechanisms, potentially enabling easier transition to certification. From our perspective, certification and FLEGT-licensing isn’t mutually exclusive but complementary. Both have their strengths and weaknesses, however they are not in competition, they are part of a much bigger picture which is to ensure forests remain as forests and that the timber industry remains a vital conduit to ensure this for the future. We don’t want situations created where the value of a forest is no longer as standing timber and instead the value is in other commodities.*

Regarding public procurement, both certification and FLEGT-licensing have specific qualities that deserve recognition. One of the key benchmarks of FLEGT and FLEGT-licensing success is increasing timber sales. After all, countries with a VPA want to



Mike Worrell, UK Timber Trade Federation

grow market share and can only do this if they’re able to influence demand-side markets.

IMM: European respondents to IMM trade surveys frequently felt insufficiently informed about the VPA process and FLEGT licensing. Do you get the same impression when talking to your members and if yes, what should be done to rectify this situation, in your opinion?

MW: *There is a lack of communication from the EU, taking into account the views and realities of the demand-side timber trade. It is concerning and it’s a shame trade federations are having to pick up demand-side communications and do so with information from the EU that’s often incomplete and not trade-targeted or specific. We’ve been more successful with communications around Ghana, where we’ve been more proactive; viewing and questioning the system ourselves, meeting all stakeholders and working with the FLEGT facilitator. We’re now able to work with tangible, factual information, which is incredibly important if you want demand-side trade audiences to make informed purchasing decisions.*

Working with Indonesia, we are now planning an exhibition to showcase FLEGT and the story behind it in Indonesia. The exhibition, at the Building Centre in London, will be held in February and March 2018.



Forest audit in Indonesia. Picture IMM Indonesia.

Europe's changing tropical timber trade - IMM 2015/2016 report

IMM has released a major new report on "FLEGT VPA Partners in EU Timber Trade 2014 to 2016" which updates key forest resource and trade data contained in the 2015 IMM report on "Europe's changing tropical timber trade". The two reports together assess the baseline conditions for entry into the EU market of FLEGT licensed timber.

Using the latest data sources, the report assesses the overall extent and recent changes in forest area and timber volume in VPA partner countries. It comments on the relative competitiveness of timber industries in these countries, noting that those with globally competitive business environments are increasingly focusing on exports of higher value products, while those less well integrated into the global economy are still dependent on trade in primary wood products. The report describes the intensifying competition, both for raw material and market share, from China and other emerging markets, for timber industries located in VPA partner countries.

The report shows that the total value of global trade in tropical wood products increased 13% to peak at US\$35.0 billion in 2014 before sliding to US\$31.1 billion in 2016. The sharp rise and subsequent fall in trade was largely driven by market developments in China, particularly a short-lived speculative boom in imports of tropical logs during 2014, mainly rosewood species from the Mekong region and Africa. The spike in exports to China was particularly pronounced for Lao PDR, Thailand, Myanmar, and Viet Nam.

Report provides commentary on Indonesian timber in the EU

Recognising that the first ever FLEGT licenses were issued by Indonesia in November 2016, the latest IMM report includes additional commentary on the prospects for Indonesian timber in the EU and wider international market. The report notes that a key trend during the review period was a rise in Indonesia's share of global trade in tropical wood products. In 2016, Indonesia accounted for 18.2% of the total value of global tropical wood exports, a rise from a low of 17.2% in 2014. This increase was a reversal of a long-term trend of declining share in relation to countries of the Mekong region, particularly Thailand and Viet Nam. The rise in Indonesian trade between 2014 and 2016 was concentrated in wood furniture, together with decking, plywood, and joinery products such as doors and laminated window scantlings.

In contrast, the five VPA-implementing countries in Africa accounted for 4.2% of global trade in tropical wood products in 2016, continuing a long-term slide in share from 5.1% in 2011. After a short-lived

boom due to the rise in rosewood exports to China in 2014, tropical wood exports from West and Central Africa sunk to their second lowest level in the last decade in 2016, only marginally greater than exports in 2009 in the immediate aftermath of the global financial crises. VPA implementing countries in Africa were falling further behind Asian countries in efforts to develop internationally competitive export markets for high value wood products such as furniture.

Economic background in the EU created challenging market conditions

The report shows that the economic background in the EU created challenging market conditions for timber products from VPA partner countries during the 2014-16 review period. VPA partner exporters had to contend with the relative weakness of the euro and other European currencies, the slow pace of EU economic recovery from the financial crises, the dominant position of European and Chinese manufacturers in many market segments, the strong fashion for temperate woods (particularly oak), intense and rising competition from a wide range of non-wood substitutes, and uncertainty created by the Brexit vote in June 2016.

However, the report also shows that tropical countries regained a little share in EU import value between 2014 and 2016. This was mainly at the expense of Russia and non-EU European countries in 2015 and of China in 2016 and was particularly pronounced for sawn wood and furniture, although there were minor gains for all other product groups.

The report highlights that a key trend in the EU creating significant challenges, and a few new opportunities, for wood products suppliers in VPA partner countries is growing demand for engineered wood products (EWPs) in a wide range of wood applications. The trend is closely linked to the move to rising quality and efficiency standards in the EU and to more modular forms of off-site, prefabricated construction.

The report emphasises that the immediate market advantage of FLEGT licensing should derive from implementation of the EUTR which gives licenses a green lane through the due diligence requirements.

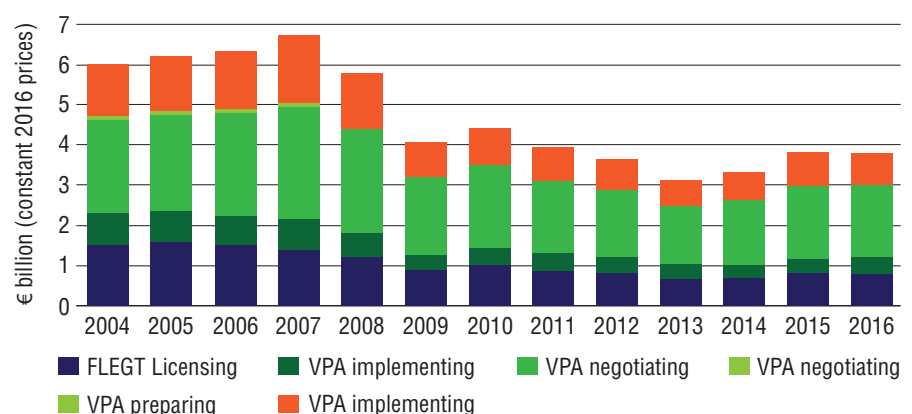
Drawing on a variety of reports published by various EU agencies and data collected in IMM pilot surveys in 2015, the report indicates that, after a slow start, enforcement of EUTR was being stepped up during the review period and having a more significant impact on procurement practices.

Although work is still required to improve levels of awareness, the report indicates that the private sector in the EU is generally enthusiastic about the prospects for FLEGT licensed timber to reduce legality risk and costs of due diligence, and would give preference to FLEGT licensed timber over unlicensed timber. Some larger influential companies expressed very positive views about the potential of the FLEGT VPA process to help restore the image and market share of tropical timber.

Amongst numerous other recommendations, the report emphasises that EU efforts to ensure consistent and effective enforcement of EUTR should be given the highest priority to maximise market advantages of FLEGT licensing. It suggests that EU member states should be encouraged to give appropriate recognition to FLEGT licensed timber in their public procurement policies, recognising the wider forest governance reforms inherent to the VPA process. It also identifies a critical need to improve communication and raise market awareness of the steps required to implement a FLEGT licensing system, and emphasises the need to engage the private sector to bring accurate messages about FLEGT licensing into business-to-business dialogue.

The report ends with a word of caution, noting 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.

Value of EU imports from the tropics, by VPA status



Source: ITTO IMM analysis of Eurostat COMEXT

Eurozone builds economic resilience...but Brexit causes UK caution

The EU timber sector is being buoyed by broadly resurgent economic conditions, with the UK the only major standout from an increasingly positive trading consensus due to growing concerns about the effect on business and consumer sentiment of Brexit negotiations.

The London Financial Times (FT) newspaper recently described the recovery of the Eurozone as the 'surprise economic story of 2017'.

Earlier in the year, it said, economists had expected the USA to be the best performing 'advanced' economy. But in the first quarter, the Eurozone grew twice as fast as its transatlantic rival.

Commentators also maintained that this recovery was not a temporary bounce, but set on increasingly firm foundations, with most countries enjoying the upturn. "The dispersion of Eurozone growth rates across both countries and sectors is at its lowest level in two decades, reflecting a convergence of rates around higher levels," said European Central Bank (ECB) Chief Economist Peter Praet. He also described the Eurozone upswing as "increasingly solid" and showing "remarkable resilience to external shocks".

Private sector commentators are also backing Eurozone recovery as increasingly established and self-sustaining. "The first leg was driven by exports. Now it's spreading to consumption and investment," Erik Nielsen, global chief economist of UniCredit told the FT.

In line with other positive forecasts, the ECB has revised its prediction for Eurozone growth in 2017 from 1.9% to 2.2%, and then for growth from 2017 through 2019 to average between 1.7% and 2.2%.

This view is borne out by latest figures from economic analysis and forecast provider FocusEconomics. It commented that the strength of the Euro may increasingly impede Eurozone exports, with the trade surplus narrowing more than expected in July. But against this, economic sentiment, assessed on a range of criteria, hit a ten-year high in August and the region's composite purchase management index increased again in September.

Looking at the individual Eurozone economies covered by the IMM Project's latest market reports, Germany saw its own and European market confidence take a temporary dip after its September election, when Angela Merkel retained the Chancellorship, but without a ringing endorsement from voters, forcing her to find new coalition partners. However, the election result is not expected to have long term impact on Germany's economic performance, given its strong fundamentals. Underlying business and consumer confidence is high and industrial production, construction and retail sales robust.

In August the country's trade surplus widened to 21.6 billion, while industrial production increased 2.6% and inflation remained steady. Latest EU forecasts reflect the general consensus, predicting 1.6% GDP growth for 2017, rising to 1.9% in 2018, with unemployment falling to 3.9%.

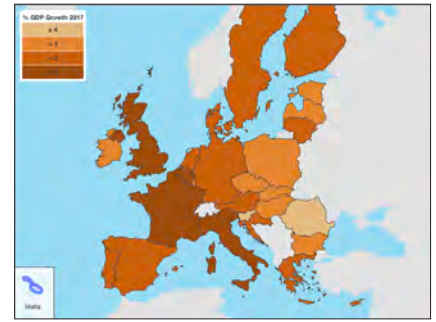
In France, 2017 is forecast to be the fifth year of accelerating economic expansion. Second quarter growth was 0.5% over quarter one and commentators described an economy of higher corporate investment, stronger residential construction growth and healthy consumer demand, supported by a strengthening labour market. Indicators point to President Emmanuel Macron's election generating further optimism, underpinning fixed investment and, alongside low inflation and falling unemployment, further boosting private consumption. Consequently a range of forecasts for French growth in 2018 average 1.6%.

Italy's growth remains relatively weak, with static productivity levels and public debt continuing to rise at the last report in July. But quarter two this year was the third consecutive quarter of expansion, and the first two months of quarter three show momentum building. 2017 is also expected to be the country's third year of growth, with forecasts for GDP ranging from +1% to 1.4%, following 2016's 0.7%. Consumer and business confidence was reported up in August and manufacturing PMI were at their strongest in six years thanks to higher orders and a 1.2% rise in industrial output. The ailing Italian bank system also saw its bad debt stock hit its lowest level since 2014 in July. GDP growth in 2018 is expected to be 1.3%

Signs are that Spain's economic momentum may have started to slow, with industrial output and retail sales growth dipping in July and employment growth also decelerating. But it still remains among the best performing European economies, with growth this year forecast at 3.1% following last year's 3.2%.

Political events in Catalonia are giving pause for thought, but next year forecasters predict growth of 2.6%, with still rising employment driving consumption, the property and construction markets continuing to recover, and exporters benefiting from relatively low and static labour costs.

The Netherlands economy is described by media and market analysts as 'booming'. It grew at its fastest rate for 20 years in quarter two 2017 and for the year as a whole analysts expect GDP to increase by between 2.8% and 3%. Foundations for the upward trend are rising exports and falling unemployment and consequent business and consumer confidence, with the latter firing rising private consumption and an accelerating housing market. Property transactions have increased rapidly, despite rising prices, and construction is cited as one of the fastest expanding sectors,



EU GDP growth forecast by country. Image: EC.

with housing starts last year around 50,000 (CHECK THIS FIGURE against Dutch IMM report). Next year GDP growth is expected to be 2.5%.

Figures for quarter two show Belgian growth slowing. However analysts predict that low interest rates and domestic consumption, rising on the back of the highest consumer confidence levels since 2001, should result in annual growth of 1.6% this year. Rising wages and higher investment spending are adding to economic momentum, while expansionary fiscal measures are expected to provide a further boost in to 2018. Construction growth of 3.5% in 2016 is expected to slow to just 1% this year. But even so, next year the economy is expected to grow another 1.6%, followed by around 1.5% in 2019.

Meanwhile, as the Eurozone forges ahead, the British Chambers of Commerce (BCC) said the UK economy was now on a "low growth trajectory". Latest figures show third quarter 2017 growth ahead of expectations at 0.4%, supporting forecasts of an annual growth figure of 1.6% and triggering the recent interest rate rise. But in its latest economic review, the BCC revised its growth forecast for 2018 UK downward, from 1.3% to 1.2%, and for 2019 from 1.5% to 1.4%. It said that the post EU referendum slide in the value of the pound had "done more harm than good" as the rising cost of imported raw materials had driven inflation, which was now expected to hit 3% by the year end, suppressing consumer spending.

Uncertainty over Brexit and the UK's subsequent trade deal with the EU is cited as a key factor in the deceleration of the economy, with Commerzbank commenting that it was running at 0.5% slower growth than before the EU referendum.

Construction had been on an upward curve, with housing starts in the year to June up 13% at 164,960. But the industry contracted in 2017 quarters two and three and the forecasts for growth in 2018 have been downgraded to under 1%.

Various industry bodies have now urged government to achieve rapid conclusion of a transition deal with the EU on Brexit to help lift the economy.

EU gets back to building

European construction is the key market for European timber businesses so, as it was among the sectors hit hardest and longest by the international economic downturn, they suffered accordingly. Some companies report seeing their sales to builders drop by 80%.

In Spain, where the building industry suffered in the recession more than most, it shed 1.5 million out of 2.5 million workers. Elsewhere there was also dramatic slowdown and loss of capacity.

But today, according to the European Construction Industry Federation (FIEC), the sector is slowly but surely getting back to growth. Investment in building is still 10% lower than a decade ago, and its share of European GDP is only 8.5% compared to 10% in the early 2000s. But construction output rose from \square 1241 billion in 2015 to \square 1265 billion in 2016 and is expected to hit \square 1290 billion this year. This amounts to a steady 2% annual expansion, which is ahead of average GDP growth.

To maintain this momentum, according to market forecaster Euroconstruct, requires more public investment, which is currently improving "only marginally and only in some countries". At the same time it says there is "an interesting window of opportunity for construction, created by a combination of cheap credit and a more favourable perception of building as an investment shelter".

The organisation expects residential building to continue to be the best performer and to maintain its "sharp growth trajectory". Non-residential is forecast to remain slow, but civil engineering and infrastructure projects are reported as starting to accelerate this year.

The pace of recovery has naturally varied between countries, in some cases widely so. But various sources say that broadly northern and mid-European countries construction markets have fared better, although southern economies have now mostly returned to growth.

Among the top performers has been Germany. According to the Hauptverband der Deutschen Bauindustrie (HBD), its construction output was up 6.3% last year, 0.5% above forecast. Housing was the main driver, but all building sectors saw strong activity. And the robust performance continues this year, with the HBD expecting a further 5% growth— monthly new orders in August rose at the fastest rate on record.

The French construction sector is also recuperating from the downturn. In fact, according to European construction equipment sector body CISMA, 2017 will be its busiest year since 2010, with a forecast of up to 410,000 new dwellings to be built, representing 4% growth. Other construction sectors are also on an upward curve, putting growth for the whole new build industry this year at 7%.

The renovation industry is improving more slowly, but even taking this into account, still gives total building activity a growth figure of 3.5% against 1.9% last year.



Villa Van Heurck, Netherlands, built using eight tropical species. Picture courtesy of Natruified/24H.

In the Netherlands construction turnover grew 6.3% in the second quarter, marking the eleventh successive quarterly increase. A combination of rising population and the economic crisis has left the country facing a housing shortage of around 178,000, but the industry is rapidly building capacity and new dwellings are expected to start exceeding the number of additional households in 2019.

Belgium too is finally enjoying a building upturn, but it seems to have slowed this year. After dipping from 25,553 in 2014 to 21,916 in 2015, the number of new residential buildings constructed started to rise again in 2016, reaching 23,106. That equated to 51,654 dwellings, compared to 46,181 the year before. With other construction work, this resulted in an annual overall industry growth figure of 3.5%. Commentators are expecting continued expansion this year, but only about 1%.

The UK is another country where building seems to have lost momentum. The country's actual housing requirement is put at around 250,000, but last year it only recorded 153,370 housing starts – and that was a 5% increase on 2015 and a nine year high. This year growth accelerated in the first quarter, with year on year housing starts to the end of June at 164,960. However, new build housing shrank in the second quarter by 0.5% and by 0.7%, in the third, technically putting the sector back into recession.

Commentators point out that the industry is volatile, and could bounce back from this dip, but next year overall UK construction is expected to remain flat and there is uncertainty further ahead.

A particular concern surrounds Brexit and the industry's dependence on citizens from the rest of the EU for its workforce. Some have predicted that construction could lose up to 175,000 workers if the UK and EU do not strike a Brexit deal including continued free movement of labour.

The picture from the construction sector in Italy, where house building contracted by 35% between 2007 and 2015, is also less positive and the outlook less clear. According to the Istat index, construction output remains volatile, with the first quarter down 1.2% on 2016. However, construction investment was earlier forecast to grow 0.8% this year, the housing refurbishment market is growing, and recovery is reported in the real estate sector, particularly housing. After falling 600,000 in the recession, the construction workforce also rose 0.6% in the first quarter.

Following its catastrophic downturn, Spain's construction industry output remains only half what it was ten years ago. However, it is now back to growth, with overall activity growing 5% in 2015 and 2016 and the same expansion expected this year, taking the number of housing starts to around 67,000. And the upturn is expected to continue, with Solvia, the property division of Sabadell Bank forecasting starts to hit 110,000 in 2020. The country still has around 3.4 million houses lying empty since the recession, which continues to restrain growth, but housing transactions are expected to rise to 550,000 next year.

Vietnam prepares for VPA implementation

Vietnam VPA expected to create positive regional dynamics

Vietnam is regarded as a processing hub in the timber sector in Southeast Asia and is an important supplier, in particular of indoor and outdoor furniture, for the EU market. In 2015, Vietnam exported timber and timber products to 106 countries worldwide with a total export value of around \$6.8. The country imports roughly 40% of its wood requirements, including roundwood supplies from 60 countries and sawn timber from 80-90 countries. Its main suppliers in recent years have included Laos, USA, Cameroon, Cambodia, Malaysia, New Zealand and Chile amongst others. Vietnam also imports timber supplies from several EU countries such as Germany, Belgium and Finland. Domestic timber processed in Vietnam mainly comes from plantation forests.

Voluntary Partnership Agreement (VPA) negotiations between the EU and Vietnam took place between 2010 and May 2017; and the Agreement is now in the process of being ratified by both sides. At the same time, preparatory work for implementation of the VPA is already in full swing.

IMM Lead Consultant Sarah Storck spoke with Edwin Shanks, VPA Joint Implementation Coordinator for Vietnam, about latest developments in the country.

IMM: Edwin, you are the Joint Implementation Coordinator for Vietnam – what exactly does this mean?

Edwin Shanks (ES): *As Joint Implementation Coordinator I work with all groups of stakeholders – from the Vietnamese government and the EU Delegation in Hanoi to DG Environment in Brussels as well as the private sector and civil society stakeholders. My position is to be neutral and provide information, facilitate dialogue and coordinate actions and activities between these different groups of stakeholders in the implementation process.*

My main role is to support both Vietnam and the EU in implementing the mechanisms of the VPA. I also look for opportunities to create stakeholder engagement in the process, for example through consultations and FLEGT projects.

IMM: Vietnam is currently preparing for VPA implementation. What kind of work does this involve?

ES: *The agreement was initialled in May 2017, when negotiations were concluded. The EU and Vietnam are now going through their separate ratification processes. I'm expecting these will be completed sometime in the second half of next*

year and the Agreement will then be formally ratified and will become legally binding.

At the same time, the two parties are already putting the necessary mechanisms in place for managing VPA implementation. This includes convening a Joint Preparation Committee made up of senior representatives from the EU Delegation in Hanoi and the Vietnamese Ministry of Agriculture and Rural Development. This Committee will later be renamed Joint Implementation Committee and its role will be to guide and monitor the implementation process.

Vietnam is also in the process of preparing a Joint Implementation Framework, which will define actions that need to be taken and how different stakeholders will be involved.

Another important point is capacity building and the development of new legislation and systems. The Timber Legality Definition as well as the Vietnam Timber Legality Assurance System (VNTLAS), which form an essential part of the VPA, are primarily based on existing laws and regulations. At the same time, Vietnam also made some commitments to develop new legislation, for example relating to timber import controls, a risk-based classification of enterprises, the process of verification for timber exports, and the FLEGT Licensing Scheme that will cover exports to the EU. Preparatory work for these elements is already underway.

IMM: What are the main challenges you are currently foreseeing for VPA implementation in Vietnam?

ES: *I think I would identify two particular challenges. The first is the large scale and diversity of the timber industry in Vietnam. Just to give an indication of that, there are over 4500 formally registered timber processing and trading enterprises – both Vietnamese and foreign-direct investment companies. Added to this are several hundred wood industry processing villages, that is clusters of small enterprises that concentrate on timber processing, and many thousands of small-scale timber processors like small sawmillers, artisans etc., especially in rural areas. And then Vietnam has millions of timber-growing households that provide domestic timber supply. So it is a very diverse sector with many different private sector players and communicating to all these actors about the VPA and VNTLAS and bringing them all into the process of implementing the system will be rather challenging.*

A second major challenge is relating to broader communications about the VPA, for example to ensure that markets in different regions of the world are informed of the progress that is being made and to effectively mobilise market awareness and support. It will be important to transmit a more balanced picture than the one some actors, like some environmental organisations or risk rating organisations, are currently painting of Vietnam. The challenge of tackling illegal timber imports and cross-border trade, for example, is a key part of the VPA. The VPA provides for a strengthening of import controls through a number of filters like

species risk, geographic origin risk and customs risk. At the same time, a new obligation to carry out due diligence for timber imports will be introduced. Many Vietnamese processors are already shifting their supply patterns to make use of certified timber imports, for example in response to the EU Timber Regulation and the requirements of other markets. This is not to say the problem of utilization of illegal timber by Vietnam's timber processors is not important, but it will take some time to fully introduce and implement these measures. In the meantime, effective communication with markets and consumers will be needed to show the steps, which are being taken.

IMM: Vietnam is an important importer of wood from the Mekong region. What does a Vietnam VPA mean for the region?

ES: *The timber industry in Vietnam utilises both domestic and imported timber; as I mentioned approximate figures suggest that around 40% of the timber used is imported and 60% comes from domestic sources. There are different sets of issues with these different sources of timber. Where domestic timber is concerned, because these supplies come mainly from small-scale plantations for which farmers have land use rights, the timber is basically legal, but a major challenge is obtaining all the necessary paperwork and evidence from hundreds and thousands of small suppliers.*

Where imported timber is concerned we are expecting the Vietnam VPA, once it is fully up and running with its timber import controls and due diligence requirements, to have a positive impact in the region.

Recent experience has shown that when countries in the region put in place more stringent controls of timber exports this can influence trade flows quite substantially. We can hope that when both supplier and importing countries in the region take parallel actions then the net effect on illegal timber trade will be substantial.

IMM: Will Vietnam require proof of legality for all timber imports under the VPA?

ES: *Yes, importers will have to carry out due diligence for all imported timber. And then depending on the risk category of the imported timber consignment, additional documentary evidence and proof of legality in the country of harvest will be required.*

IMM: Will the Timber Legality Assurance System cover all exports from Vietnam or just those to the EU?

ES: *The VNTLAS will cover all export and domestic markets. The FLEGT-licensing scheme will only apply to exports to the EU but all other procedures, including the procedures for verification of timber exports will apply to all markets.*

The Government of Vietnam will introduce an organisations classification system, which is a risk-based assessment of timber production, processing and trading enterprises. All companies will need to register with this system and their

level of compliance will be appraised according to requirements in the timber legality definition. Companies will then be classified as either "compliant" or "non-compliant" and the level of verification of exports and checks on enterprises and shipments going into export will vary according to this classification: non-compliant companies will be subject to much stricter physical and documentary checks.

IMM: Will private certification schemes play a role in the Vietnamese VPA?

ES: Yes, that's quite an interesting part of it. The VNTLAS will recognise voluntary or private certification schemes and possibly national certification schemes, particularly with respect to timber imports – certification can be used as additional documentary evidence of legality. This has been agreed in principle and broad criteria for how certification can be used and which schemes will be recognised are being developed.

Another interesting point is that Vietnam will also recognise timber imports that come with a FLEGT license from other VPA countries with a fully operational FLEGT-licensing scheme. Such timber will be considered as automatically legal. This might again create some positive cross-country or regional dynamics in the Mekong region in the next few years – or be an incentive for African VPA partner countries to complete implementation of the agreement, for example.

IMM: How will the Vietnamese VPA contribute to improving governance and tackle corruption in the country?

ES: Corruption is obviously a concern, which is expressed by different stakeholders. I think there are a number of ways in which the VPA can strengthen forest governance. Firstly, the VNTLAS and the timber legality definition are based on the existing legal framework as well as new legislation to be put in place, and these are being put more and more in a structured system, for example where timber supply chain controls or verification of timber exports are concerned. This systematisation of the legislative and regulatory framework will create a more coherent and predictable system.

A second aspect will be the strengthening of law enforcement and the strengthening of management of law enforcement, which is part of the agreement.

Moreover, the VPA provides for public disclosure of information. This creates an important baseline for making information available to the private sector and civil society and increases transparency.

And the VPA includes independent evaluation or audit function of both the Agreement and the VNTLAS as well as independent monitoring conducted by civil society organisations. So through these various channels I think it can be expected the VPA will have a positive impact on governance. On the other hand, there are also some potential negative implications that need to be considered, such as increased transaction costs and administrative burden for enterprises and government verification agencies to handle the procedures.

IMM: This sounds like quite a lot of work ahead of you and the Vietnamese partners – how long do you expect the implementation process to take?

ES: Implementing the VPA in Vietnam will be complicated due to the aforementioned diversity of the sector. I expect that the Agreement will be ratified and legally enter into force in the second half of 2018. In parallel and beyond that there will be the development of legislation and management information systems, capacity building etc., which will take a number of years. This process leads up to a joint assessment of the readiness of the VNTLAS: When all the elements of the VPA and the VNTLAS are in place, the two parties – Vietnam and the EU – will conduct this independent assessment to determine whether the system is ready. This assessment may also be done in stages and subsequent to the successful outcome the FLEGT licensing scheme will commence. Like I said this part will take several years – I'd say we are currently looking at the beginning of the next decade, maybe 2021 or 2022 for full implementation.

A robust system takes time to develop and implement. We have to bear in mind that VPA implementation is a far-reaching process that aims to develop a national system that is applied to all markets as well as involving all actors

Any questions or comments on VPA implementation in Vietnam can be directed to Mr Shanks at e.shanks@mandala.vn. Within the Vietnam Administration of Forestry Ms Nguyen Tuong Van, Deputy Director Department of Science & Technology and International Cooperation (DOSTIC) as well as Chief of the Standing Office for VPA/FLEGT Viet Nam, can be contacted for further information under van.fssp@gmail.com.

Beyond legality: The social, environmental and economic benefits of FLEGT-licensed timber

The question whether FLEGT-licensed timber should be considered "a step backwards" compared to timber certified by voluntary third-party schemes was frequently raised as a part of IMM 2017 interviews. It's a difficult question to answer at the global level, as the Voluntary Partnership Agreement (VPA) process determines legality rather than sustainability per se. There is, however, a measure of common ground between the various VPAs currently being implemented or under negotiation and some unique achievements under the VPA process that show that FLEGT-licensed timber is "more than just legal".

The EFI FLEGT Facility summarised key aspects of sustainability credentials of FLEGT-licensed timber below:

"FLEGT-licensed timber products are primarily known for their verified legality. Less well-known are their sustainability credentials. But the trade in these products, and the policy reforms and sectoral improvements that stand behind the licences, are helping ensure that forests contribute to economic growth and poverty reduction, while promoting

sustainable forest management. Also, the process that makes licensing possible has positive impacts on democracy and justice, jobs and welfare, peace and security, climate change and biodiversity conservation.

FLEGT-licensed timber and timber products can only come from countries that have implemented a Voluntary Partnership Agreement (VPA) with the EU. In 2016, Indonesia became the first country to issue FLEGT licences, ahead of another 14 countries in VPA processes. Key aspects of the sustainability credentials of FLEGT licensed products are outlined below.

1. FLEGT licensing operates at the scale needed for sustainability

FLEGT licensing operates at the national scale, covering all forests where trees are harvested, and entire supply chains from the point of harvest to the point of export. Operating at the national scale means putting in place systems that ensure that all forests in a country are managed in accordance with the relevant national legislation and that all

operators comply with social and environmental laws. The licences attest to compliance with laws related not only to forest management, biodiversity conservation and harvesting but also to processing, transport and trade, covering aspects such as workers' rights, payments of fees and impacts of forestry operations on local communities or indigenous peoples. As opposed to initiatives that aim at certifying only individual forest areas or operators, this approach raises standards across the entire forestry sector, helps level the playing field and creates the economic space companies need to improve sustainability. In most cases, VPA countries have chosen to apply the VPA to all timber in the country, covering all exports regardless of their destination, as well as timber destined for the domestic market.

2. FLEGT licensing supports all three pillars of sustainability

FLEGT-licensing brings measurable social, economic and environmental benefits — bolstering the three pillars of sustainability. The licences attest that forests are managed in line with legal requirements, particularly on forest management and biodiversity conservation, and that logging rights have been legally granted and that timber has



Log landing in Sefwi Wiawso, Ghana. Picture: FLEGT Facility.

been legally harvested. Where tenure or use-rights to land and resources that may be affected by timber harvesting exist, the licences verify respect for those rights. They confirm that timber and timber products comply with requirements regarding forest management, including with relevant environmental, labour and community welfare legislation. They also confirm products comply with requirements for trade and export procedures, and that relevant taxes and fees have been paid. FLEGT licensing verifies compliance with legal requirements that stakeholders say are needed to ensure sustainable forest management. Stakeholder participation in defining these requirements helps ensure they are comprehensive. Increased awareness of laws, together with any legal reforms ahead of FLEGT licensing, help ensure the laws are respected in the long-term.

3. FLEGT licensing follows transformative changes to governance without which country-wide sustainability is not possible

As part of the process of negotiating a VPA with the EU, as well as the process to develop the timber legality assurance systems required to issue FLEGT licences, partner countries establish national multistakeholder processes to discuss and undertake legal and policy reform to address the underlying governance challenges that are a barrier to country-wide sustainability. In doing so, they create the foundation from which countries can work to address the drivers of deforestation, promote sustainable forest management and deliver wider impacts beyond supply chains. Therefore VPAs strengthen and clarify legal and regulatory frameworks. They enhance the capacity of institutions to manage the forest sector and of

civil society organisations to monitor it. They help modernise and formalise the forest sector, improving business and operational practices. They also can help improve revenue collection and revenue distribution to communities. They ensure that information on the forest sector is made public and they are negotiated and implemented with stakeholder participation, increasing accountability and transparency. With better governance comes improved conditions for private investment in sustainable forest management.

4. FLEGT licensing improves compliance with a country's laws

FLEGT licensing is based on detailed indicators and verification procedures. Before FLEGT licensing begins, countries develop robust systems for tracking wood through the entire supply chain and preventing illegal or unverified products from mixing with legal ones. They strengthen procedures for verifying compliance with relevant laws, ensuring that FLEGT licences are only issued to products that are verified to comply with those laws. These systems help to identify actors that are not playing by the rules, and support law enforcement action by the relevant authorities. FLEGT licensing cannot begin until the EU and the partner country have confirmed, through a joint independent assessment, that the country's systems function as described in the VPA.

5. FLEGT licensing brings unprecedented scrutiny to the forest sector

The credibility of FLEGT licences is further boosted by compulsory annual independent audits to ensure that the systems function effectively and that there is a continuous process of improvement. This a

key component of the VPAs. A committee of EU and partner country representatives first approves the audit procedures, which must meet international standards. The auditor then reports to the committee and makes public a summary of their findings and action taken to address them. In addition, independent monitoring by civil society groups can also provide an added layer of scrutiny. The EU and each FLEGT licensing partner country commit in their Voluntary Partnership Agreement to monitor the social, economic and environmental impacts of the agreement and take steps to mitigate adverse effects on groups identified in the VPA — typically indigenous people and local communities.

6. FLEGT licensing benefits from broad national support and reinforces national sovereignty over forest resources

A FLEGT licence verifies that authorities in the country of origin have verified a product's compliance with all relevant laws and regulations. But the criteria FLEGT-licensed timber must meet to receive a FLEGT licence are not simply imposed by governments. Rather they have been agreed upon by stakeholders from government, businesses, civil society groups and in some cases local communities and indigenous peoples — and then agreed jointly with the EU. This adds to the relevance and credibility of FLEGT licences, builds the nationwide support necessary for compliance, and ensures more oversight and control will be placed on the areas stakeholders deem most important. By being based on national laws and regulations, FLEGT legality standards reinforce national sovereignty over forest resources.