



IMM News

Summer 2018

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.flegtim.eu



PROJECT News

Carrefour du Bois – backdrop to IMM Consultation

Communication and “brand” awareness in focus at IMM’s French Trade Consultation

IMM’s Trade Consultation in Nantes was held against the backdrop and with the cooperation of the Carrefour International du Bois (CIB) timber trade show and the International Tropical Timber Technical Association (ATIBT). Delegates who attended both the French Trade Consultation and IMM’s inaugural UK Consultation, held in London in March, said that the show venue and environment gave the Nantes event a different dynamic: some delegates attended throughout the day; others joined from the CIB in the afternoon for the event’s key group discussion section.

Attendees comprised timber importers and distributors, manufacturers and other end users. Also present were representatives of trade federations from France and

abroad, French government, the French Competent Authority (CA), research organisations and NGOs. The workshops tackled three core topics; purchase dynamics for companies sourcing from Indonesia; FLEGT impacts on Central African producing countries; and market trends for tropical timber in Europe.

The morning presentations, in the words of one delegate, delivered “contrasting but complementary perspectives in the field of forest and timber environmental initiatives”. These comprised the IMM’s latest news and trade flow analysis, growing recognition of a FLEGT VPA’s additional sustainability credentials, plus insights from ATIBT’s latest projects.

In her opening presentation, Lead Consultant Sarah Storck explained that the role of the IMM was, as the name suggests, to act as an independent, objective observer of the impact of FLEGT licensing in the market place, assessing and reporting trends against a ‘framework of indicators’.

One initial conclusion of IMM’s research was that timber trade awareness and familiarity with the FLEGT programme varied widely across the EU and from company to company. “And even in countries where awareness was better, levels were not as high as might have been expected given that most survey trade respondents were operators” said Ms Storck. Of all 126 companies questioned, 89% were operators under the terms of the EU Timber Regulation, but only 58% said they were very aware of the FLEGT process and 40% only partially aware”. “Survey respondents also commented that, in their experience, awareness declined further down the supply chain.”



Andrew Escott opens IMM/ATIBT consultation

Can FLEGT shore up EU tropical market share ?

IMM Trade Analyst Rupert Oliver looked at recent trends in tropical wood importing in the EU and the prospects of FLEGT licensing halting the slide in its share of global tropical wood trade from 35% in 2004 to 21% in 2013, the level at which it has been 'bumping along' since.

According to Mr Oliver, contraction of the EU tropical trade was due to a range of factors. These included concentration of the tropical import sector in the international economic downturn, aversion to tropical timber on the part of investors and market drift to just-in-time buying, which tended to favour locally sourced materials and products.

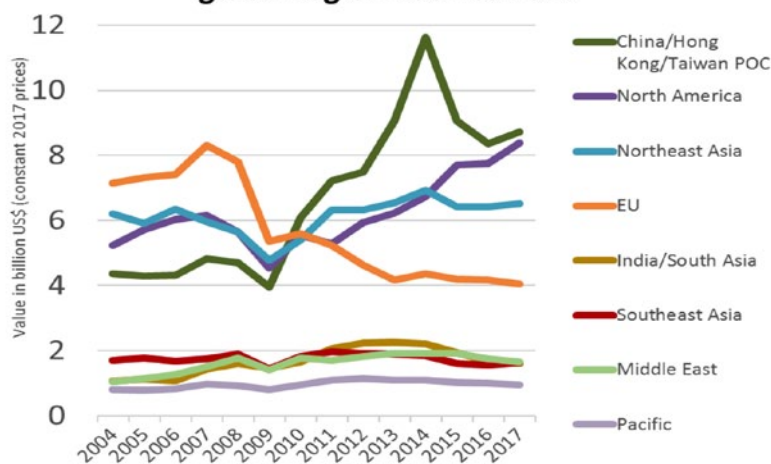
Competition from China, both for tropical raw material and in markets for tropical timber products, also played a role, as did poor marketing, environmental prejudice and competition from substitute products, such as composites, modified and engineered softwood and temperate hardwoods.

A plus point for FLEGT licensing's capacity to potentially shape EU tropical trade trends, according to Mr Oliver, was the volume and variety of material and products offered by VPA partner countries and their share of the EU market. Indonesia accounts for 21% of EU tropical imports, African VPA countries 9% and other VPA suppliers 45%.

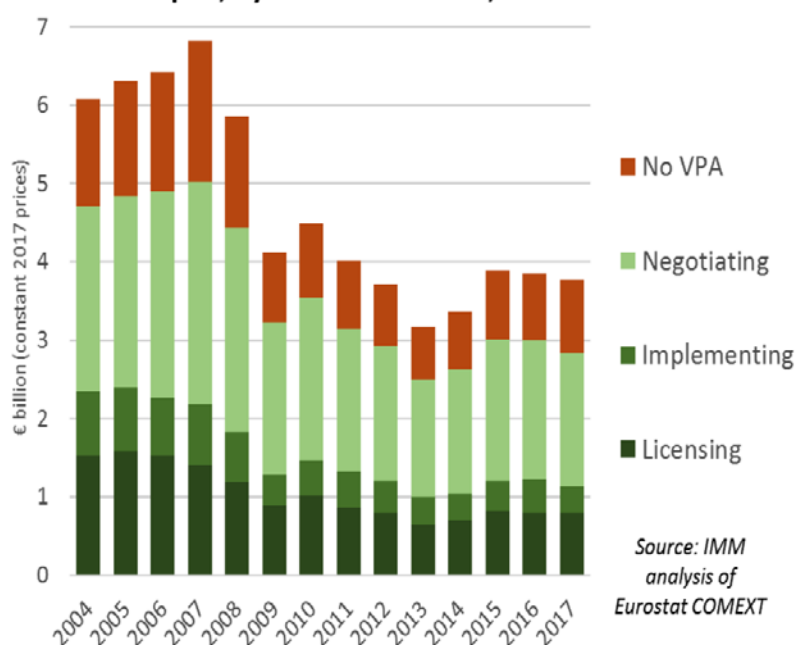
"But the overall conclusion is that it will take time for FLEGT licensing to influence market trends and a range of steps needs to be taken to enable it to do so," said Mr Oliver. "IMM analysis shows that these include VPA countries integrating FLEGT licensing into their broader timber industry development strategy to enhance competitiveness.

"Also needed are improved communication of the steps necessary to implement a FLEGT licensing system and encouragement of more active private sector engagement in positive marketing of the

Tropical wood product imports by global region 2004 to 2017



Value of EU imports of wood products from the tropics, by FLEGT VPA status, 2004 to 2017



Source: IMM analysis of Eurostat COMEXT



Furniture workshop in Jepara, Indonesia

FLEGT initiative. Importantly, EU governments must ensure consistent enforcement of the EUTR as the single most effective way to assure market advantage for licensed timber."

Key findings for FLEGT's EU furniture sector prospects

George White told the IMM French Trade Consultation that initial findings from the IMM EU Furniture Sector Scoping Study also flagged up key challenges for increasing awareness and growing market share of FLEGT-licensed products and those from countries in the process of implementing a VPA.

"It is an important area to address however, as furniture accounts for 40% by value of all timber and wood products imported into the EU from FLEGT VPA countries," he said.



Indonesian forest audit

He agreed with Mr Oliver that one obstacle to FLEGT products' access to the EU market was the strength of the European furniture manufacturing base, which takes an estimated 87% share of EU sales.

"In terms of shaping marketing and communication strategy, it also has to be taken into consideration that the furniture sector works in a different way from most others, with a significant proportion of imports brought in direct by retailers," he said.

More information on findings and recommendations of the IMM EU Furniture Sector Scoping Study [can be found here](#).

SFM and FLEGT licensing in Indonesia

There is today increasing discussion of the common criteria and components the FLEGT VPA process shares with third party sustainable forest management certification (SFM

certification). Against that background Rupert Oliver gave a presentation in Nantes, co-authored by auditor and IMM German Correspondent Gunther Hentschel, on the extent of certification schemes operating in Indonesia, their potential for development and to further reinforce the sustainability credentials of Indonesian FLEGT licensing.

There are in fact four SFM certification schemes operating in Indonesia. These are the FSC, the Ministry of Industry initiated LEI scheme, the PEFC-endorsed Indonesian Forest Certification Co-operation scheme (IFCC), and the biggest of all, the PHPL scheme, under which a significant proportion of FLEGT-licensed export products are additionally accredited.

Despite being little known outside Indonesia, the PHPL outstrips them all with 10.9 million ha of natural forest and 5.7 million ha of plantation forest covered.

PHPL certification is also effectively integrated into the SVLK timber legality assurance scheme and it is obligatory that all FLEGT-licensed timber and wood products must originate from woodland accredited under the SVLK's own forest legality standard or be PHPL-accredited.

"Our analysis also shows that, contrary to the concerns of some, FLEGT licensing has not stopped the growth of sustainability certification in Indonesia, so they are healthily co-existing," said Mr Oliver. "In fact the area covered by the IFCC scheme, for instance, has doubled since licensing started."

The certification schemes operating in Indonesia, he added, are comparable in many areas. They all include conservation and biodiversity criteria, and stipulate reduced impact logging and conflict resolution procedures.

Mr Oliver concluded that there needs to be more communication of SFM certification in Indonesia generally, as it already covers far more of the country's forest than is commonly known and there are now plans to increase the PHPL-certified area to between 22 and 23 million ha."

More information on PHPL and sustainable forest management in Indonesia can be found on the [IMM website](#).

FLEGT as forest and timber sector game-changer

Focusing on its recognition in public procurement, UK Timber Trade Federation Managing Director David Hopkins told Nantes Trade Consultation delegates that FLEGT could be a 'game changer' in driving legal and sustainable timber market share.

Currently only the UK and Luxembourg governments officially accept FLEGT licensing as evidence of compliance with their timber procurement policy (TPP) on a level with FSC and PEFC certification. But others should be encouraged to follow suit, said Mr Hopkins. This was not just due to licensing's value in validating the environmental credentials of timber and wood products from Indonesia. It was also because of its potential to alter the wider approach of the timber sector on certification and verification and subsequently public perceptions of wood's environmental credentials and the value of timber production in maintaining the forest resource.

"In 1996 10% of the world's forests were certified," said Mr Hopkins. "Today it's 11%. That's not much progress. It demonstrates that FSC and PEFC alone, which are effectively private businesses pushing branded schemes, cannot effect further significant development in this field. But FLEGT, as a government to government initiative operating on a national scale, and with EU member state government recognition in their TPPs, can.

"FLEGT can drive change in a way no individual company with FSC or PEFC certification could. It



The aim is to increase PHPL-certified forest area to over 22 million ha

offers lower unit costs of compliance, which is vital in an ever more competitive marketplace, and can establish a baseline [in environmental assurance] on which the industry can build," he continued.

A key issue, he said, was persisting lack of market awareness of FLEGT.

"That 's partly due to the fact that only one country to date is supplying FLEGT-licensed timber and it's only been available for 18 months, a short time in terms of building market penetration. That should change as more licensed products come on the market and more supplier countries fully implement their VPAs and start FLEGT licensing. Recognition under more EU government TPPs would evidently also help as a key influencer of private sector procurement. But, critically, the FLEGT initiative also needs to follow the example of FSC and PEFC in recognising the importance

of driving national and international brand awareness to increase market profile and recognition. Not every architect will know precisely what FSC and PEFC criteria are or how they operate, but you can bet they will know they exist. That's not yet the case for FLEGT."

Mr Hopkins highlighted that the EU timber industry itself also has a vital role to play here. "The UK TTF promotes timber sustainability at every opportunity, including to architects, contractors, designers, end users and all local authorities. And an important element of that has been to highlight that UK central government recognises FLEGT-licensing as Category A evidence of legality and sustainability, on an equal basis with FSC and PEFC," he said.

In conclusion, Mr Hopkins said, the timber trade, in conjunction with EU and member state



UK TTF Managing Director David Hopkins

governments, has a lot more to do on FLEGT communication, promotion and brand building. "But it has the potential to play a key part in convincing the market that our trade is selling timber you can trust," he said.

Lack of awareness = a key challenge for FLEGT-licensing

A workshop reviewing purchase dynamics for companies sourcing from Indonesia identified "lack of awareness" as the key challenge for FLEGT licensing in the marketplace. The workshop formed part of the IMM Trade Consultation in Nantes and participants came from both French and Indonesian private sectors. It produced interesting insights; however given the limited number of participants the results cannot be considered representative.

Participants felt that, besides licensing and what it entails, there was a lack of awareness of the FLEGT VPA process in general, the Indonesian VPA in particular, and important aspects such as **Indonesia's mandatory sustainable forest management standard PHPL**, which underpins a large proportion of its FLEGT-licensed exports. But neither Indonesian nor French private sector representatives believed there was currently much incentive for companies to invest in promotion due to FLEGT-licensed timber's limited geographic scope and product range – with currently just one country FLEGT-licensing.

French delegates agreed that FLEGT licenses had made importing timber products from Indonesia easier. They also identified widespread availability of timber from PHPL-certified forests as potentially the second most important opportunity for Indonesian FLEGT-licensing, after assuring "green lane" EUTR compliance. They had not heard about PHPL before the workshop and were interested in further information.

During discussions a general miscommunication between European and Indonesian market players became apparent. Indonesian producers seem to talk about "SVLK" when trying to promote their FLEGT-licensed timber, whereas European



Delegates in group discussion

importers referred to "FLEGT". It was felt this could cause confusion and add to the impression the Indonesian system was complex.

FLEGT not a leading factor impacting purchasing decisions

According to delegates, FLEGT-licensing is still not considered a significant factor impacting buying decisions, with the limited geographic scope and lack of awareness further narrowing its potential relevance. Workshop participants identified a combination of price, technical performance/quality and availability/logistics as critical commercial considerations. For retailers, fashion trends were also considered of primary importance. Only after these were factors like legal compliance or environmental and social criteria taken into account. Environmental and social aspects would have to be carefully balanced against commercial criteria for businesses to stay competitive.

When the group compared the Indonesian timber industry against direct competitors, participants highlighted the comparatively high quality as well as reliability provided by Indonesian suppliers as commercial advantages. Compared to purchasing

in China, in particular, the risk of intellectual property theft was also believed to be lower.

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

Recommendations

- Indonesia/the Indonesian timber sector should launch a targeted promotion programme for their wood products and their VPA in the EU. Malaysia with its European promotion programme and UK representation was mentioned as an example of effective and 'aggressive marketing'.
- PHPL should be better explained.
- Completing VPA implementation with other countries should be a priority – FLEGT-licensing will become more relevant once a wider range of products and several countries are offering it.

FLEGT can be part of support strategy for EU tropical timber market

Among key factors in the decline in the European market for tropical timber identified by breakout group participants focusing on the topic at the IMM Trade Consultation in Nantes was the 2008 financial crisis, which forced changes in supply in Africa particularly and led to rationalisation of the sector.

In recent years, European consumption patterns have changed too. The market has increasingly required value-added products. These add to processing and manufacturing costs and the trend has impacted adversely on underfunded tropical producers.

The EU market is also demanding smaller lumber dimensions and has shed capacity to transform logs and boules, so adding further burdens on tropical suppliers.

EU-traders increasingly favour just-in-time delivery too (JIT), which tropical exporters are not well placed to provide, especially African suppliers.

And at the same time, other markets have become more lucrative for the tropical trade. These, of course, include China, whose reputation for paying poorly is misplaced.

The Chinese are also keen to buy logs, which tropical exporters want to sell, while other markets accept a wider range of material, including lower qualities and lesser known species (LKS). Europe, meanwhile, continues to focus on a limited range of varieties, which inevitably pushes prices up.

The breakout session also highlighted that alternative markets, notably again China, do not demand certified timber to the extent of European buyers, taking out another cost for the supplier and boosting their margins.

Tropical wood, said participants, is also considered high risk under the EU Timber Regulation (EUTR), with 'even FSC' insufficient evidence of illegality risk mitigation. This adds a further disincentive into the European market.



Q&A session at the Nantes IMM/ATIBT Trade Consultation

Compounding this issue, tropical wood was said to have a 'negative image for consumers'. "They see it as bad and don't want to buy it," said delegates.

Finally, the group concluded, the EU timber trade and end user sectors do not understand tropical wood from a technical perspective and, compared to the past, there is not much content and emphasis on it in the industries' training curricula.

Turning round the EU tropical market

Delegates considered the potential role of FLEGT licensing to improve EU market demand for timber products from VPA Partner countries. Overall the discussion reinforced IMM's existing recommendations that, while licensing can contribute to rebuilding market share, it cannot deliver this in isolation of other broader strategies to improve competitiveness.

It was suggested that while both FLEGT licensing and 3rd party certification could help to shape market perceptions of tropical wood and to stabilise and maintain market share, it cannot, on its own, win new customers.

It was felt that FLEGT licensing needed to be linked to new market promotional messages, such as GD Holz's initiative with its 'use it or lose it' slogan for tropical timber.

Among the suggestions for halting or reversing the downward trend in the European tropical

market, delegates suggested that the trade should move away from its focus on selling tropical wood by species. Instead it should sell solutions. "For instance, don't market azobe or ekki, sell 'decking product class 4', or 'bridging timber class X or Y,'" was one comment.

"Sell the wood by fitness for purpose, not an exotic name that can only imply that it's tropical," was another.

Lower cost finance was also urged to fund improvements in tropical forestry management and timber processing 'which take time and cost money'. In time, the FLEGT process could contribute to this by helping to reduce the risk premium associated with tropical timber industries.

One recommended course of action here was for the timber industry to engage more transparently and inform investor rating services of FLEGT and other initiatives to promote better forest governance to help attract finance for the tropical sector.

Efforts to influence and inform wood technology and forestry training courses to broaden knowledge of tropical wood and its processing and applications were regarded as other useful strategies.

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

Awareness raising urged for African VPAs

The establishment of FLEGT VPAs with Central African timber producers has been a welcome and positive development, with longer term potential for facilitating trade with EU customers. However, to date the fact that African countries have signed VPAs and are hopefully progressing towards their full implementation and ultimately FLEGT licensing, has not impacted on day-to-day business. Currently EU operators still feel they are having to put suppliers in VPA-engaged African countries through as searching due diligence as ever to comply with

the requirements of the EU Timber Regulation, and this can be a time-consuming, arduous business. If the VPA process prior to FLEGT licensing can simplify or streamline EUTR due diligence procedure, it is not sufficiently explained or understood in the marketplace.

These were among the key conclusions of the Session B Discussion Group at the IMM French Trade Consultation looking at *FLEGT impacts on Central African producing countries*. Group participants included operators, trade organisations, representatives of the French EUTR and FLEGT Competent Authority (CA), consultancies, and the environmental sector. It was run by ATIBT and representatives of IMM.

It was agreed that FLEGT licensing has made timber and wood products trade with Indonesia easier, not only through licensed products being allowed access to the EU market without further EUTR due diligence, but in terms of more open exchange and dialogue on legality issues.

However, said operators, the fact that African countries are in a FLEGT VPA seems to make no difference in satisfying DDS procedure to date; it was just as difficult to find out what documentation is needed as proof of timber legality and then to obtain it. Operators also said they still felt in need of more detailed guidance on EUTR due diligence.

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(Continued from p5)

Due diligence based on long-term relationships and trust

So essentially, said operators, African VPAs have not (yet) changed their industry's key route for securing legal supplies; that is to foster long-term relations with suppliers and develop communication, understanding and trust. This can be a slow and difficult process, and sometimes requires suppliers being told, if they cannot supply the specific evidence of legality required, they won't secure the contract.

At the same time, operators said they do not want to lose long-established supplier relationships and only when companies demonstrate over time that they cannot or are not willing to move forward on legality issues should ties be cut. Some importers, it was felt, had become too risk averse and moved away too quickly from sourcing from higher risk suppliers or whole countries due to the EUTR and due

diligence. This was regarded as a 'shame' because it 'let down those suppliers who could progress and upgrade the [overall legality] performance of a country'.

It was also highlighted that if too much pressure and bureaucracy was imposed on supplier countries, whether they were engaged in VPAs or not, they could 'easily turn away from customers in Europe to trade with Asian buyers (Chinese and Vietnamese for example), who have few or no legality requirements'.

Supporting suppliers' transition from raw material exporter to value-added semi-processed or finished wood products producer was also suggested as a route to consolidating relations with VPA countries. However this was a long-term process requiring not only 'investment capital, but also a change in mind-set'.

Another way forward, it was suggested was for groups of operators which source from the same suppliers in African countries to collaborate and put the latter through a shared due diligence procedure. That way

suppliers would not have to repeat the process, with minimal differences, for different EU customers.

The CA representatives acknowledged that they undertook the same type of checks on timber imports, whether or not the supplier was engaged in a VPA or not.

They also said they did not work to a "standard EU-level checklist", but instead met with counterparts in other Member States to ensure a consistent approach.

They said their controls were informed by timber volumes involved and perceived levels of supplier country risk and that they were not unduly influenced by NGO views or reports.

They added that sustainability certification generated trust in a supplier and [while not offering a green lane through the EUTR], made controls easier.

Discussion group participants said that operators were often overly focused on FLEGT licensing as the ultimate objective of a VPA, and did not pay sufficient attention to progress, such as in forest governance and transparency, made by suppliers as they advance through the VPA process.

Discussion Group Recommendations

- There should be more public dissemination of information and guidance on how to exercise EUTR due diligence in African VPA countries. The market should be better informed on the progress being made by each VPA country and how this might in turn inform due diligence for that country.
- Creation of a 'map' of sources of [legality] information for VPA countries would be helpful.
- Greater cooperation on due diligence collaboration should be encouraged among operators using the same suppliers, to avoid administrative, documentary and information checking duplication for the all concerned.
- Building strong, long-term business relationships with suppliers to establish trust and understanding will remain important for operators, regardless of whether the supplier country is in a VPA.
- If operators stop sourcing from tropical supplier countries too hastily, due to risk aversion or difficulties in completing due diligence, they let down more reliable supplier companies in those countries. This also leads to tropical suppliers turning to other markets with less rigorous, if any, legality requirements.
- Support for value-added processing in Africa, including in FLEGT VPA countries, could strengthen trading relations and legality assurance, but requires investment and a change of outlook on the part of suppliers.



Africa discussion group



Logs ready for processing, Liberia

IMM EU furniture sector scoping study – *FLEGT can impact European furniture market*

With further support, development and communication FLEGT and FLEGT licensing can play a role in underpinning tropical timber product market share in the highly competitive European furniture sector, according to the latest IMM survey.

The core aim of the IMM scoping study of procurement in the EU furniture industry is to gauge the sector's perceptions of the value, impacts and process of sourcing from FLEGT VPA engaged supplier countries.

The report was authored by consultant George White, based on individual country surveys undertaken by the IMM's network of correspondents in seven lead importing countries. These were the Netherlands, UK, Germany, France, Italy, Spain and Belgium, which between them account for 83% of all furniture imported into the EU from VPA suppliers.

The key rationale of the survey is that assembled wood furniture consistently comprises 40% of the value of EU timber and wood products sourced from FLEGT VPA partner countries. So, canvassing furniture sector opinions of the VPA initiative and FLEGT licensing could hold valuable lessons for the development of EU market awareness and penetration of VPA partner-country sourced and licensed products more generally.

"[The aim is] to provide a preliminary assessment of the current and potential role of FLEGT licensing to improve market access for wood furniture from VPA countries in the EU, and to recommend a strategy to optimise the benefits of FLEGT licensing [in this respect]," states the report.

The study was also designed to provide a comprehensive baseline of perceptions and impacts of the FLEGT VPA initiative in the wood furniture sector in order to generate recommendations for IMM's long term monitoring of the industry.

The report recognises that VPA country furniture and furniture product suppliers face in the €36

billion EU furniture arena a 'crowded and fiercely competitive market'. The EU furniture industry comprises an estimated 130,000 companies, and 87% of wood furniture sold in the EU market is also made in Europe.

The basis of the survey comprised semi-structured interviews with 47 of these companies, representing the spectrum of business type, from very large retailers, to medium-sized manufacturers and distributors. Between them these imported indoor and outdoor furniture, plus wood furniture components and raw materials. They had sourced from a combined total of nine of the 15 VPA-engaged countries and altogether dealt with over 800 individual foreign suppliers.

Indonesia, among the VPA countries, provided most trading relationships, followed by Vietnam and Malaysia. Of all overseas exporters to the EU, China came out in the lead in terms of numbers of respondents' suppliers overall (480). That, stated the report, reflected the fact that, although its market share has slipped in recent years, China still provided 49.8% of all EU imports in 2017, valued at €2.1 billion.

Overview of suppliers' relative competitiveness

Combined in 2016, VPA countries accounted for 77% of tropical wood furniture imports into the EU in 2016, a slight dip from 2013's 79% due to a rise in imports from Brazil, India and the Philippines.

But, while the respondents had imported from a total of nine, the study also states, only four of the partner countries are actually engaged to any significant extent in the EU wood furniture market; Vietnam, Indonesia, Malaysia and Thailand. Of these, Indonesia was the most popular supplier,



Teak garden furniture

with 30 out of the 47 survey respondents sourcing from the country.

None of the survey respondents imported furniture from African VPA suppliers.

Asked to rate all suppliers in terms of competitiveness across a range of criteria, including price, quality, product range and logistics, survey respondents placed EU manufacturers as most competitive, followed by non-EU Eastern European producers. Among other suppliers, Vietnam, China and Indonesia received highest ratings.

The survey also includes more detailed extracts from EU respondents' comments on competitiveness for Indonesia, Vietnam, China, Malaysia, Eastern European EU and non-EU countries and India.

FLEGT licensing in companies' procurement policies

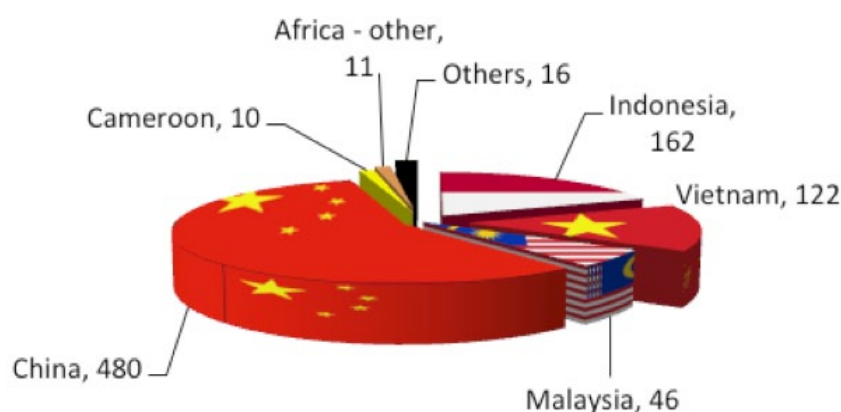
Of the 75% of respondents with some form of environmental procurement policy, the most common requirement was proven legality, or legal compliance (41%), followed by some form of [sustainability] certification (23%). Just six companies (13% of respondents) had 'policies that might be regarded as comprehensive'.

FLEGT-licensed products were valued by 45% of furniture companies (principally those sourcing from Indonesia), while 19% said licensing would influence their purchasing, if a wider range of licensed product were available from more supplier countries.

The main benefit of FLEGT-licensed products identified was their exemption from further due diligence under the EU Timber Regulation (EUTR). The view of key market influencers, the larger retailers, was that 'generally a FLEGT licence makes compliance with the EUTR easier'. However, they added, it does not (wholly) satisfy their purchasing policies (nor will it in the future)".

Invited to air their wider opinions on FLEGT, respondents' positive views included that it 'brings us added value by demonstrating the

Furniture survey respondents' supplier numbers



legality of the wood we use' and 'it will make our legality pledge all the more concrete'.

Among more qualified comments were that 'it would play a role if there were not just one country supplying FLEGT products' and 'licensing should be applied to all imports from all supplier countries to the EU, so that we and our suppliers are all on a level playing field and competing fairly'.

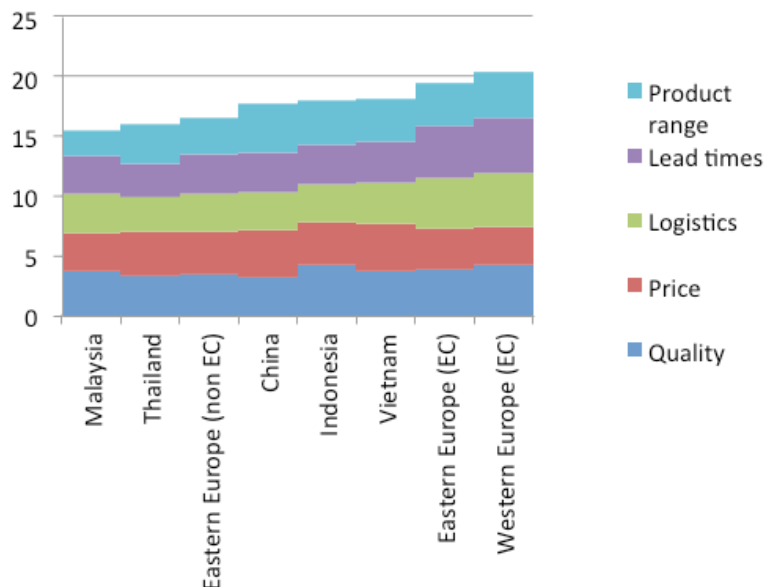
The negatives included 'FLEGT only demonstrates legality – what adds value is the certification that resources are sustainably managed' and 'there is no real impact for our customers'.

Asked for their view on the future of tropical wood in the European furniture market, 97% said it would still play some form of role in 10 years' time. But opinion was evenly balanced on whether that role would remain stable, grow or decline.

Among recommendations for the FLEGT initiative going forward based on survey responses were that:

- The process of importing FLEGT Licensed timber should be as un-bureaucratic as possible
- The benefits of the licensing scheme in Indonesia should be promoted to build trust
- The achievements of FLEGT licensing and TLAS systems should be clarified in the trade
- And the progress of other supplier countries through the VPA process should be accelerated to provide a wider range of FLEGT-licensed goods.

Value perceptions of suppliers



The broader conclusion of the report was that 'licensed timber alone will not reverse the trends that are [negatively] impacting on tropical wood in Europe'. However, it does have value and a role to play here, 'as a tool to be utilised to form part of the process of building confidence in tropical timber in a wider [strategy] that might help maintain market share'. This strategy, it says, would also require a wider range of players' involvement, including 'major

retailers, trade associations, national governments, NGOs, architects, and other opinion formers'.

Wood furniture market perceptions of FLEGT licensing, the survey concludes, are that it 'lacks the glamour of forest certification where sustainability is the main focus' so has no consumer-facing role. At the same time its findings show that it can offer 'assurance to business-to-business buyers operating at the base level of responsible purchasing'.



Indonesian artisanal furniture making

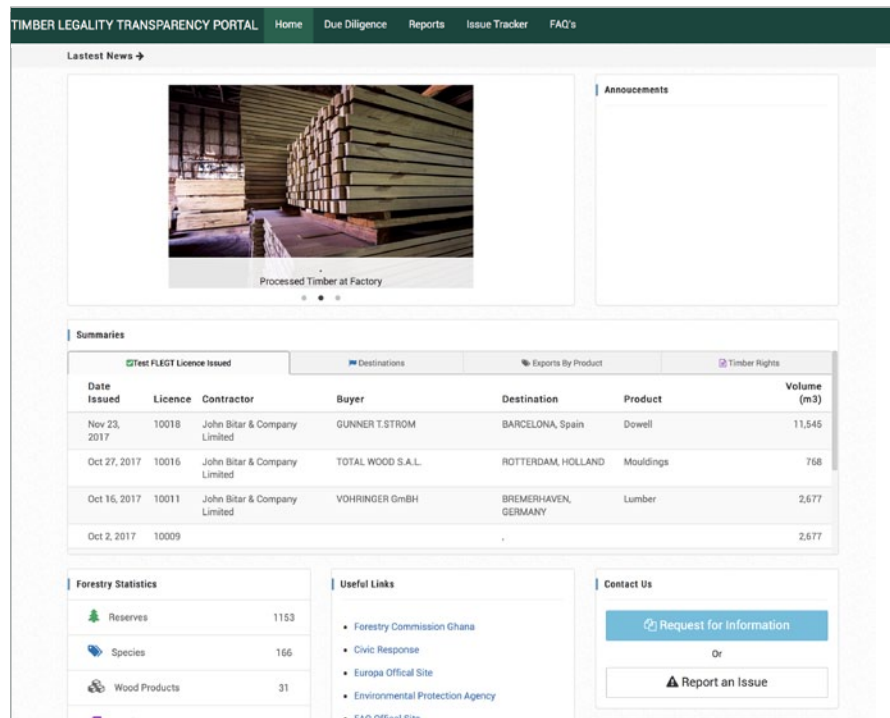
New portal helps importers perform due diligence on Ghanaian supplies

Comment from the EFI FLEGT-Facility:

A quiet revolution has transformed Ghana's forestry sector, laying the foundations for sustainable development, greater benefits for communities and improved access to international markets. One recent development is the **Ghana Timber Transparency Portal**, the result of a collaboration between the Forestry Commission and civil society organisation Civic Response.

The website, launched in March, provides real-time access to information on logging permits, companies and areas, and on timber exports to different markets. It will help foreign importers perform due diligence on Ghanaian supplies while giving independent monitors in Ghana the information they need to scrutinise the sector.

"Without credible information, it is not possible for local communities or civil society to work to address illegalities in the forest sector," says Samuel Mawutor, coordinator of Forest Watch Ghana. "The development of the portal comes as good news to civil society, and also demonstrates



Date Issued	Licence	Contractor	Buyer	Destination	Product	Volume (m3)
Nov 23, 2017	10018	John Bitar & Company Limited	GUNNER T.STROM	BARCELONA, Spain	Dowell	11,545
Oct 27, 2017	10016	John Bitar & Company Limited	TOTAL WOOD S.A.L.	ROTTERDAM, HOLLAND	Mouldings	768
Oct 16, 2017	10011	John Bitar & Company Limited	VOHRINGER GmbH	BREMERHAVEN, GERMANY	Lumber	2,577
Oct 2, 2017	10009					2,577

Ghana Transparency portal

the commitment of the Forestry Commission to be open about forest management."

New regulations adopted last year commit the Forestry Commission to unprecedented transparency.

The new online portal is intended to help with this by providing public access to information on forest management. It links to a new tracking system, which checks whether the law is being

followed all the way from when a tree is cut down, to when it is turned into a product such as a piece of furniture.

"The forest sector is leading the way in transparency and accountability for other sectors to emulate," says Albert Katako, head of Civic Response.

Read the full story on the EU FLEGT Facility website

PEFC study looks into synergies between Ghana's FLEGT VPA requirements and PEFC certification

The Programme for the Endorsement of Forest Certification (PEFC) has conducted an analysis of **Ghana's FLEGT VPA requirements compared to requirements of Ghana's National Forest Certification System**, which is expected to obtain PEFC-endorsement in early 2019. The study identified significant synergies and complementarity between FLEGT and certification requirements and concluded that, while "working at different levels in many regards", the ultimate outcomes would be complementary: "improving forest management and combating illegal logging and associated trade".

Some of the findings have now been published on the PEFC website, with a full "PEFC National Standard and VPA Gap Analysis" as well as the "PEFC National Standard and VPA CoC Gap Analysis" possibly to be published at a later stage.



Ghana processed timber ready for export

Highlights from the analysis show that VPA requirements cover "a wide range of environmental, social and economic requirements outlined in the national standards for sustainable forest management and chain-of-custody certification".

At the same time, several specific areas were identified in which the National Certification Standard goes "significantly further".

In general, it was found that voluntary certification would require timber companies to take on more direct responsibility for fulfilling requirements. The

National Certification Standard would also go beyond "ensuring the outcome or performance" by "detailing the process and procedural requirements to ensure that the outcome is delivered on a consistent basis".

The project aimed to identify forest management aspects that timber companies in Ghana will need to address if they want to build upon FLEGT compliance and achieve forest certification.

Download the full narrative report [here](#)
Download the study synopsis [here](#)

Indonesia: “Mini Action Plan” under implementation to address FLEGT-license mismatches

The Joint Implementation Committee for the Indonesian VPA met on 1 March 2018 in Jakarta to review experience with the first 15 months of licensing. According to information from the Indonesian SILK database and the Licensing Information Unit (LIU), more than 39,000 FLEGT licenses were issued during 2017. This means that FLEGT-licenses accounted for 18.2% of all V-Legal documents – paperwork accompanying Indonesian exports globally and guaranteeing timber legality – issued during that period.

The JIC recognised that while “for the vast majority of shipments the FLEGT licensing scheme has been applied without issues, in some cases problems have been encountered”. These problems were primarily attributed to the “novelty of the scheme” and a “need to gain experience with it”.

Problems identified by the JIC were basically the same ones **reported to IMM during 2017 surveys** and related to:

- HS Code mismatches
- Document discrepancies concerning quantities
- License formatting or appearance
- Comparability of the licenses received in the EU with copies stored in the SILK website.

As these issues started emerging soon after the beginning of licensing, a “Mini Action Plan” was agreed by Indonesia and the EU as early as the middle of last year, recognising the importance of ensuring smooth handling and release of imported goods in the EU, in order to maximise the green lane benefits of FLEGT-licensed timber. The Action Plan was designed to better understand reasons and identify solutions to the license mismatches. It also included measures to improve communication between the EU Competent Authorities (CAs) and the LIU.

In a first step, the EC, in cooperation with authorities from all Member States, produced a comprehensive report summarising all emergent problems with FLEGT licensed shipments to the EU; the report was shared with the Indonesian side.

Moreover, several actions have already been initiated to address the above problems:

1. *HS Codes*: Indonesia and the EU agreed to align HS codes that were identified as problematic. Solutions were already found for a number of codes and others are being worked on.
2. *Document discrepancies concerning quantities*: such discrepancies may occur for a variety of reasons, including human errors and/or changes in the shipment configuration. The FLEGT Regulation and Indonesian VPA allow for a tolerance of 10% between weight and volume shown on the license and the corresponding shipment. The 10% variation in net weight and volume is allowed due to potential measurement variances, e.g. due to natural causes such as humidity changes or small mistakes in measurements. The 10% variance is not allowed for non-measured attributes such as units, species and HS Codes. The Indonesian government has already disseminated a Circular Letter to this effect and will continue disseminating this Letter. Indonesia and the EU will also continue to explore other options including:
 - the legal feasibility of CAs accepting shipments where the actual quantity is more than 10% lower than stated on the FLEGT license
 - the feasibility of issuing FLEGT licenses after full consolidation of the consignment.
 - speeding up issuance of FLEGT documents.
3. *Revised/new FLEGT license issued after the shipment left Indonesia*: this is currently not allowed under Indonesian law. However, several cases were identified, primarily for furniture shipments, where the date of issuance on the FLEGT license was later than the date of departure from Indonesia. Following investigation, these difficulties seem to have occurred when a new FLEGT-license applied for to reflect changes in shipment configuration was not issued in time before departure.

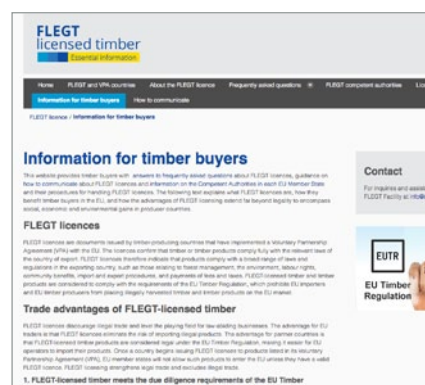


Putera Parthama and Charles-Michel Geurts at signing

The Action Plan recommends that, until a permanent solution has been found, CAs consult with LIU to ensure the authenticity of such licenses.

4. *License formatting and appearance*: Cases were registered where FLEGT licenses arriving in the EU were printed on ordinary paper rather than the embossed one or with key elements (signature, barcode, logo, watermark) missing or incomplete. Indonesia and the EU are working on understanding the reasons behind such irregularities and on implementing a uniform standard of printing for licenses. At the same time, the feasibility of a fully electronic license system – something that would be welcome by European operators, according to IMM survey results – is also being explored.

Above all, effective communication between LIU and CAs was identified as crucial for resolving problematic licensing cases. The partners are working on implementing standardised communications procedures to fasten and improve information exchange.



New FLEGT information on line

Giving voice to FLEGT licensing's wider values

The FLEGT licensed information point **www.flegtlicence.org** is expanding its information for timber buyers. Recent IMM trade consultations revealed that the trade advantages of FLEGT licensed timber are relatively well-known. However, the private sector is keen to learn more about, and articulate to their clients, the social, economic and environmental benefits of FLEGT licensed timber.

The FLEGT licence information point **now provides more information** about FLEGT

licensed timber's social, economic and environmental credentials.

This includes detailed explanations along with illustrations, leaflets and brochures with brief messages that companies can use.

The EU FLEGT Facility, which hosts the FLEGT licence information point, welcomes feedback and suggestions from the private sector on their or their clients' information needs regarding FLEGT licensed timber. You can contact the FLEGT Facility at info@euflegt.efi.int.

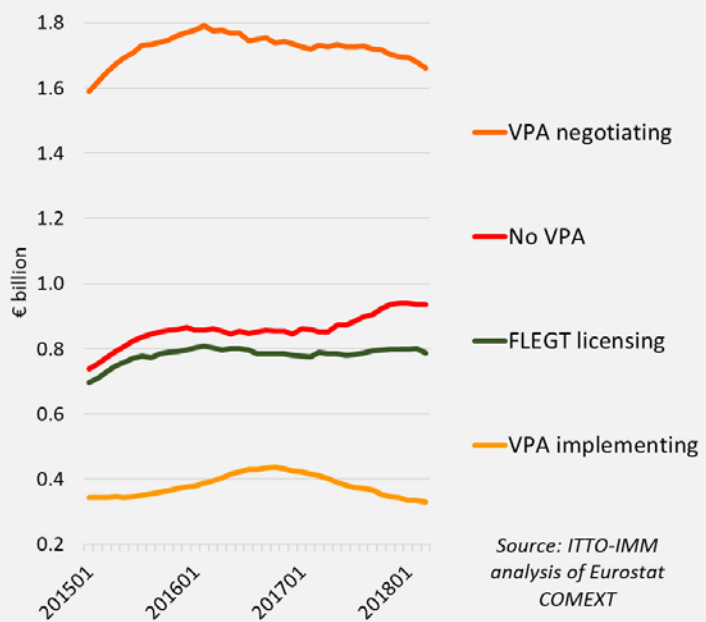
EU imports of FLEGT-licensed timber remain stable as African VPA partners lose ground

In the last 2 years, the level of trade between VPA partners and the EU has varied widely depending on the individual country and product.

EU imports from Indonesia, currently the only FLEGT licensing country, have remained level at an annual average of €800 million since the start of 2016. This contrasts with imports from the five VPA implementing countries in Africa which declined continuously from an average annual level of €430 million at the start of 2017 to €330 million in March 2018. Imports from the VPA negotiating countries fell from an annual average of €1.73 billion to €1.66 billion over the same period. Meanwhile EU imports of tropical products from countries not engaged in the VPA process increased from annual average of €850 million at the start of 2017 to €940 million in March 2018 (**Chart 1**).

The picture looks slightly different when EU imports are measured in tonnes rather than euros. The same downward trend is registered for VPA implementing countries and is even more pronounced for VPA negotiating countries. The upward trend for non-VPA countries is also much more pronounced when measured in tonnes. And in contrast to the stability when measured in euros, EU import tonnage from Indonesia increased by around 6% from an annual average of 680,000 tonnes at the start of 2017 to around 720,000 tonnes in March 2018 (**Chart 2**).

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



The reason for the rise in EU import tonnage from Indonesia during 2017 and the first quarter of 2018, a trend which is not mirrored by a rise in import value, is clear from a closer analysis of the product groups involved. Much of the rise was driven by paper products, with a significant contribution also made by charcoal. These product groups have low unit value relative to finished wood products. EU imports from Indonesia of lower weight but higher value products such as wood furniture, joinery, and decking were broadly flat during this period. However, a continuing decline in EU imports of wood flooring from Indonesia was offset by a greater rise in imports of plywood (**Chart 3**).

Chart 4 shows that FLEGT licensed products from Indonesia feature in the list of products that made most gains in the EU tropical timber market in the year ending March 2018. In the 12 months between April 2017 and March 2018, EU imports of Indonesian wood furniture, plywood, and mouldings were respectively €5.9 million, €4.2 million and €4.0 million more than in the year ending March 2017. Indonesia also exported an additional €6 million of charcoal, a product not subject to FLEGT licensing, during this period.

While these gains are encouraging for Indonesia, they were overshadowed by much larger increases in EU imports of products from tropical countries not engaged in the VPA

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

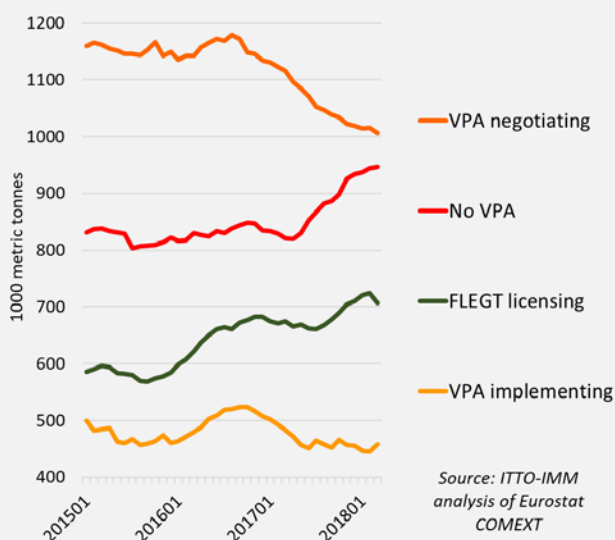
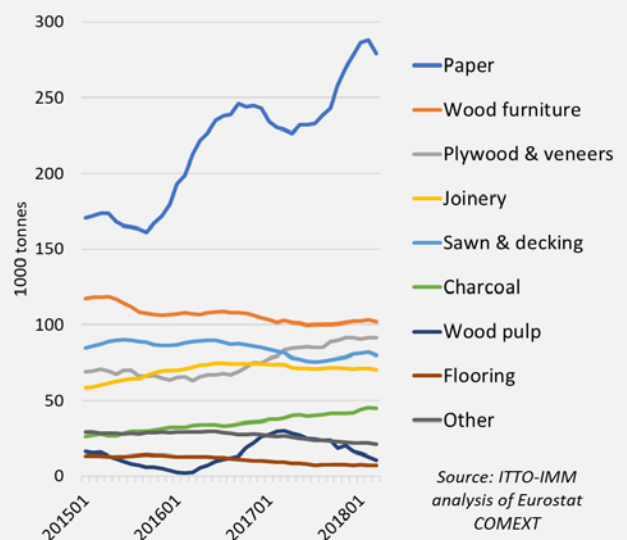


Chart 3: EU import quantity of timber products from Indonesia - 12 month rolling total Jan-15 to Mar-18



process. EU imports of wood furniture from India were €25 million greater in the year ending March 2018 than in the previous 12-month period. Imports of wood furniture from Hong Kong and Singapore increased by €21 million each during the same period. While the latter will include a large proportion of product trans-shipped from China and other parts of South East Asia, India is a more direct competitor to Indonesia in the EU wood furniture market.

In addition to rising EU imports of wood furniture from non-VPA countries, there was also a significant increase in plywood imports from China identified with a tropical hardwood face in the 12 months to March 2018. This was due to revision of customs product codes in 2017 which saw a large number of timber species previously labelled 'other hardwoods' now identified as 'tropical'. As a result, the rise in imports of tropical hardwood plywood from China was more than offset by a decline in imports of "other hardwood" plywood.

Potentially more significant from the perspective of EU market share for FLEGT licensed timber, was a large rise in EU imports of hardwood mouldings from Brazil in the year to March 2018. Malaysian furniture products also made some significant gains.

On the debit side, by far the biggest decrease in EU imports of tropical timber in the year ending March 2018 was in sawnwood from Cameroon. EU imports from the country were down €68 million on the previous 12-month period. EU imports of sawn, veneers and plywood also declined sharply from several other African countries during the year (**Chart 5**).

A range of factors conspired to result in low EU imports of African timber products in the year ending March 2018. These included on-going serious problems and delays with shipping out of Douala port in Cameroon, overstocking in the EU in early 2017 following arrival all at once of a large volume of delayed shipments from Africa, diminishing commercial availability of tropical hardwood species of interest to European buyers, and delayed payment of VAT refunds by African governments, partly linked to low oil prices, which created additional financial challenges for operators in the region.

From the perspective of EU market demand for FLEGT licensed products, the decline in EU imports of Indonesian joinery and flooring products in the 12 months to March 2018 is a concern. The decline in flooring is a continuation of a downward trend long predating introduction of the licensing procedures and which affects all tropical countries engaged in this trade.

The decline in EU imports of joinery products from Indonesia in the 12 months to March 2018 may be more directly linked to the introduction of FLEGT licenses, although

Chart 4: Largest gains in EU tropical timber product imports - 12 months to Mar-18 vs 12 months to Mar-17

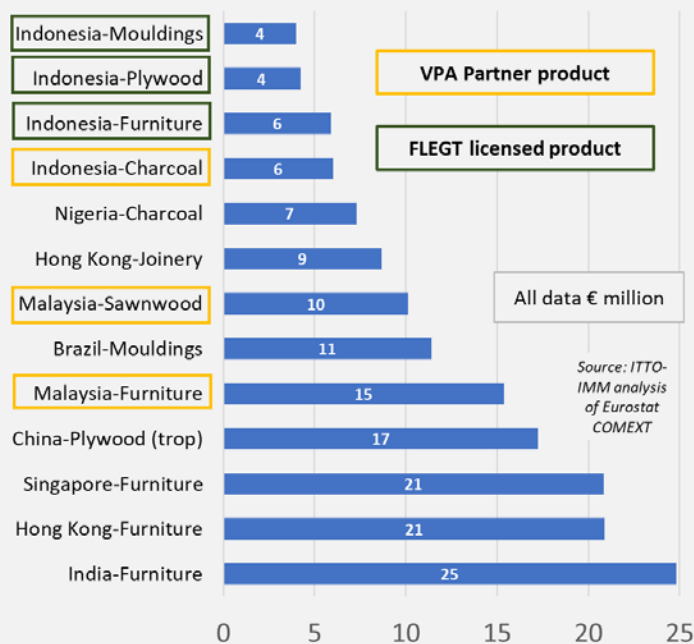
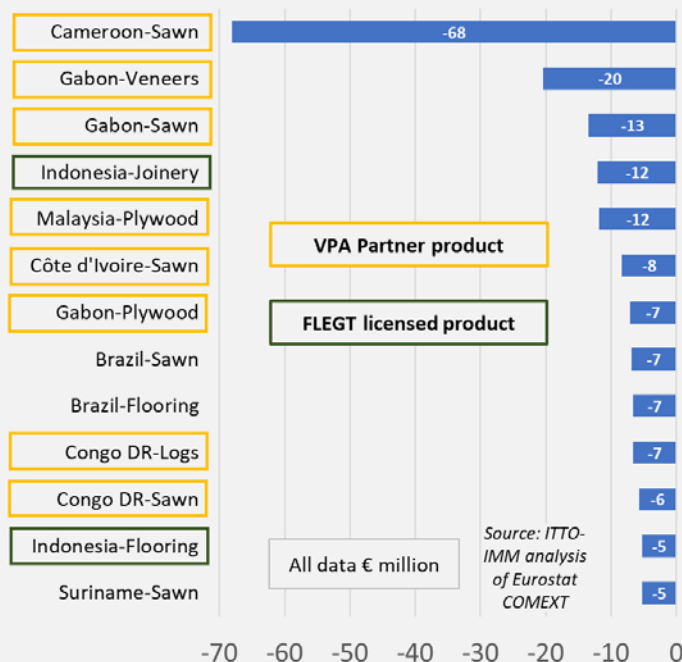


Chart 5: Largest losses in EU tropical timber product imports - 12 months to Mar-18 vs 12 months to Mar-17



probably as much due to resulting alterations in product definitions than in actual trade and consumption patterns.

Following introduction of FLEGT licenses in November 2016, inconsistencies in the product codes used by EU customs and Indonesian licensing authorities led some EU authorities to reclassify finger-jointed laminated board from Indonesia (which includes window and door scantlings and kitchen tops) as a form of plywood instead of a joinery product. This had

the incidental effect of increasing the EU import duty on this product by 6%.

The EU and Indonesia have since agreed that in future finger-jointed laminated board should be classified as a joinery product subject to the lower rate of duty. However, the change in trade classification by some EU customs authorities during 2017 will have contributed to the apparent downturn in EU imports of joinery from Indonesia and boosted the apparent level of EU trade in Indonesian plywood.

Brand new backing for tropical timber

Fair&Precious effectively encapsulates the work of the International Tropical Timber Technical Association (ATIBT), supporting the tropical sector's technical, environmental and economic performance, into a producer- and market-facing branding campaign.

One goal of the initiative, the ATIBT team told the IMM Nantes Trade Consultation, is to incentivise uptake of sustainable, responsible forest management in tropical countries – and while it currently focuses on the ATIBT's heartland of Central and West Africa, there are hopes for it ultimately to encompass Asia and South America too.

The other aim is to raise market awareness of tropical timber's qualities and capabilities across the range of species and its availability from sustainable, socially responsible sources.

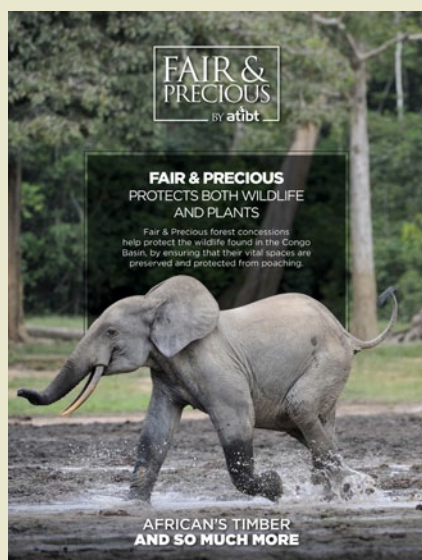
Initially Fair&Precious cites just FSC or PEFC certification as evidence of sustainable sourcing, as its rules only recognise third party forest management certification. But that situation may evolve too as ATIBT engages with a range of other environmental and sustainability initiatives. As it highlighted to the IMM event, the question of evaluating the possibility of incorporating FLEGT VPAs and FLEGT-licensing system into the brand's criteria 'will have to be asked soon'.

Reaching a broad audience

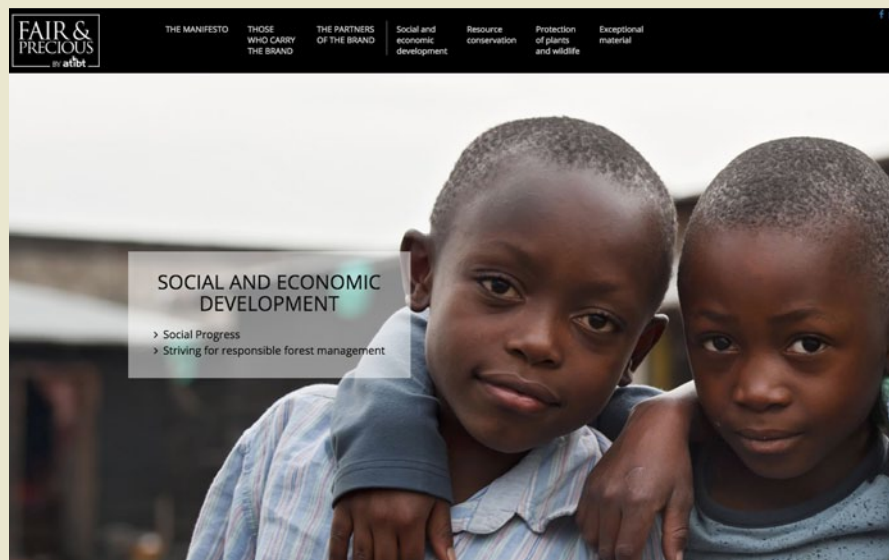
Funded by the French Development Agency and Central African Commission (COMIFAC), Fair & Precious unveiled its manifesto, logo and website to a public and private sector audience in Paris last November.

The website is strongly consumer-style in design, to appeal, said ATIBT Managing Director Benoît Jobbé-Duval, to as wide an audience as possible.

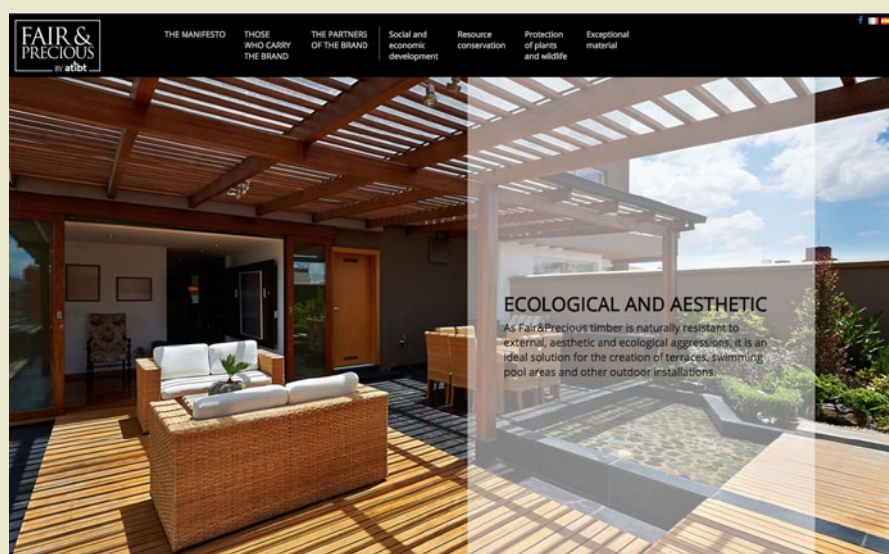
The Fair&Precious motto, meanwhile, is 'Tropical timber – Much more than timber',



Campaign advertisement



The Fair&Precious website



The campaign takes a consumer-style marketing approach

reinforcing the value of a sustainable wood sector in maintaining the forest, and inviting the audience to look more deeply into the material's end-use potential and possibilities.

But at the heart of Fair&Precious is the brand itself. Companies across the supply chain, from forest to end-use, are encouraged to adopt it for their own marketing, communications. The goal is a stamp that simultaneously gives the user and their sustainable tropical timber products an edge in the market, and also conveys their environmental credentials and the special value of the material.

Growing tropical timber market access

"It's simultaneously about increasing market access for the timber, promoting the industry and responsible forest management," said Mr Jobbé-Duval.

To use the brand, he added, companies carrying the F&P mark have to adopt a clear set of commitments and provide proof they operate to highest environmental and ethical standards.

"They must also submit to regular, strict third-party audits to ensure they are maintaining those standards and the ethos of the brand, and we will withdraw the right to use it if they fall below them," said Mr Jobbé-Duval.

The Fair&Precious commitments are demanding and detailed, said ATIBT's communications manager Christine Le Paire.

It's a list of 10, but underlining the core focus of the initiative, the first five are concerned with forest and environmental maintenance. They pledge brand users to manage the forest to combat climate change and maintain its carbon sink capacity; to operate minimally invasive sustainable forestry methods; to protect habitats; and to build up knowledge on biodiversity to ensure renewal of animal and plant species.

Other commitments include a pledge to contribute to 'the well-being of [local] populations' and to training and local value-addition, in the form of processing in the forest region or country of supply.

"Fair&Precious aims to grow awareness of companies which have adopted business models

that are respectful of the planet and mankind,” said Mr Jobbé-Duval.

Selling by specification, not species

The campaign shares another focus with ATIBT's wider activities in 'providing technical knowledge on the broad diversity of species and their uses', effectively encouraging use of lesser known timber species (LKTS).

"There are an estimated 10,000 timber species in tropical forests, far more than in boreal forest, but only around 15 are of any significance in the market, and just five account for 75% of sales," said Mr Jobbé-Duval. "Using a wider range of species helps make more sustainable use of the forest. But we have to persuade the supply chain to accept them, which is why ATIBT also supports research evaluating LKTS' performance."

"The aim is market selection of timber based on whether it corresponds to actual technical need, rather than on specific species," said ATIBT wood engineer Élise Héral who leads its 2020 LKTS research and testing project.

"We can also select on the grounds of which varieties are most ecologically resilient."

Currently, she added, ATIBT is involved in a major LKTS research collaboration with the French national railways, SNCF, on substituting creosoted treated sleepers with technically equivalent or superior tropical varieties. It's a potentially huge opportunity, with the rail operator using 46 million sleepers in total and its sawmill for making them processing 45,000 tonnes of timber annually – currently 85% oak, 15% tropical.

FLEGT VPA support

Turning to its perspective on FLEGT and its potential status in the Fair&Precious campaign, FLEGT-REDD projects deputy coordinator Caroline Duhesme highlighted the degree to which ATIBT already works with the wider initiative.

"We support forest private sector participation and alignment with FLEGT VPAs and their regulatory requirements in five African countries (which are either VPA negotiating or implementing); Cameroon, the Congo, Gabon, the Democratic

Republic of Congo and Ivory Coast" she said. "We also help them better engage with and understand the EUTR process and the due diligence demands of customers, which includes us in liaison with EU Competent Authorities."

She added that ATIBT study trips to producer countries are also planned so European operations can see forest management on the ground and understand local legal requirements.

"At the same time we aim to improve their understanding of the potential role of private certification in due diligence," she said.

For the time being, she continued, the F&P programme will remain focused on certification systems with third-party verification. "But the possibility of integrating the FLEGT licensing system will need to be further discussed," she said. "There is also an urgent need to set up a campaign of promotion and visibility for the VPA-FLEGT process and, somehow or other, we need to establish complementarity of communication for private certification on the one hand, and FLEGT-licensing on the other."

COUNTRY Focus

Obstacles and opportunity

There may be challenges ahead for Vietnam's VPA, but its impetus and support is reported to be growing.

The signature by the EU and Vietnam of the latter's FLEGT Voluntary Partnership Agreement is scheduled for later this year, with ratification in 2019. They are being heralded as critical staging posts, and important moments both practically and psychologically, in the country's progress towards full VPA implementation and its start of FLEGT licensing of timber and wood product exports to the EU.

But it's also recognised that this ultimate destination remains some way off and that challenges still lie ahead. To quote one civil society organisation representative, signing and ratifying mark 'less the beginning of the end, more the end of the beginning of Vietnam's FLEGT VPA journey'.

"The next two to three years will be demanding," agreed VPA Joint Implementation Coordinator for Vietnam Edwin Shanks. "In fact, some of the main challenges will come in rolling out the necessary systems and mechanisms across what is a very broad, varied forestry and timber processing and manufacturing industry. There's the Timber Legality Assurance System (VNTLAS) to establish, including its risk-based enterprise



Taking the EU FLEGT VPA message to local communities

classification system, and timber import controls. Capacity building in compliance among the verification agencies and in the private sector, including the considerable household industry, is also a major task.

"Indonesia had its own difficulties in VPA implementation, notably in its industry's geographic spread, scattered over thousands of islands," continued Mr Shanks. "But in some ways Vietnam is more complex; in the structure and diversity of the industry and the variety of raw material sources, with so many countries supplying timber and wood products to Vietnamese companies."

Others note that Vietnam has also progressed in recent years to become a middle income country.

That means there isn't so much development assistance in the forestry area as in the past so it will have to provide more of the investment needed for VPA implementation itself and, said one commentator, "be creative in the way it mobilises support from development partners".

But, while acknowledging the scale of the task and complexity of some of the obstacles to overcome, Mr Shanks others also maintained that Vietnam is where it intended to be in the VPA implementation process at this point and has already laid some solid foundations for the path ahead.

One key step was the launch last year by Vietnam and the EU of the Joint Preparation Committee (JPC) to oversee development of the



Vietnam sources and exports worldwide



An EU FLEGT delegation visits a major processor

VPA up to ratification, after which it becomes the Joint Implementation Committee. At its inaugural meeting in November 2017, the JPC endorsed the multi-stakeholder-drafted Joint Implementation Framework (JIF). This defines implementation process actions and lays out eight strategic milestones on the way to implementation and FLEGT licensing, ranging from development of the VNTLAS, through capacity building to stakeholder engagement.

"The objective of the JIF is to establish priorities, to sequence actions towards implementation and create a basis for coordination; identifying who's doing what already and where gaps are," said Tim Dawson of the EFI FLEGT-REDD facility.

The JPC also agreed on a roadmap of activities for 2018, including preparatory work for establishing the VNTLAS, developing information and communications strategy for domestic and export audiences and devising an 'action plan for public disclosure'.

Another significant move to ensure broad participation and input and transparency in the VPA programme was last year's launch of the multi-stakeholder implementation core group (MICG).

This includes representatives of industry associations, professional bodies, NGOs, research institutes and government agencies. The group is co-chaired by the Vietnam Administration of Forestry (VNFOREST) and representatives of other members on a

relvolving basis. Its roles include providing stakeholder feedback on VPA implementation, suggesting topics for the JPC to address and recommending and supporting communications initiatives.

The group's creation has been hailed as an important advance and evidence of a shift in official attitudes.

"CSOs were consulted in the VPA negotiation phase, but, unlike trade associations, had no official place at the table," said Tue Tran Ngoc, FLEGT manager at the Centre for Sustainable Rural Development. "So the multi-stakeholder group is significant. It shows government increasingly recognizes the importance of wider stakeholder engagement."

The role of the MICG in VPA information and communications work is expected to be a core focus.

"While not everybody has to say exactly the same thing, there is concern in the industry and government that there should be consistency in messaging to ensure clarity," said Mr Shanks. "Working with the MICG is seen as a way of building consensus on this, including in practical matters like using the right terminology, and in the development of standardised communications materials for domestic and export markets."

Another important development for the VPA was the Vietnam's new Forestry Law, which was passed by the National Assembly last November and which will come into effect at the end of 2019. This encompasses a range of areas, from sustainable forest management to ownership rights. It also includes a new chapter on 'processing and trade', defining the broad elements of the VNTLAS. The Government is currently preparing national legislation for implementation of the new Forestry Law as well as for implementation of the VNTLAS. This will include fresh legislation to incorporate the new controls and due diligence requirements for imports and to establish the timber operations risk-based classification system, the process of legality verification for exports generally and the basis of the FLEGT licensing scheme for exports to the EU.

An outstanding issue is how third party monitoring of VPA implementation and impacts, and ultimately FLEGT licensing, will be undertaken and who will do it.

"In Indonesia, independent monitoring is an institutional part of the TLAS, but in Vietnam, in common with some other VPA countries, the approach is being developed through various forms of agreement between government and different stakeholders," said Mr Shanks. "Certainly there will be a role for NGOs, but also timber industry associations. How this will eventually evolve remains to be seen."

In the meantime, some NGOs are piloting monitoring methods, with their findings set to be

integrated into an overall framework for consideration by the JPC/JIC. These include an FAO-backed NGO project to develop an approach for monitoring VPA impacts.

Outstanding concerns include the authorities' ability to handle the administrative load of the VNTLAS, FLEGT licensing and other export controls.

"It's estimated Vietnam exports 5,000–6,000 wood products consignments monthly. When the VPA is implemented, this means issuing 170–200 FLEGT licenses per day," said Dr Phuc Xuan To, Forest Trends senior policy analyst. "Government says licences will be granted electronically and free, but business worries it doesn't yet have the administrative capability and that delays in licensing could have reputational and financial cost."

There's belief government will additionally need to increase bureaucratic capacity for the necessary registration under the VPA of the thousands of household timber producers, he added.

It also remains to be seen whether simpler documentary evidence of VNTLAS compliance will be agreed for SMEs, artisanal businesses and household producers. With logging of natural forest banned, these source their generally lower value wood from plantations.

"But Vietnamese authorities have a strong commitment to minimise business red tape, wherever possible," said Mr Shanks.

And despite outstanding challenges ahead, it is felt the impetus behind Vietnam's VPA from all quarters is growing. There is also continuing liaison and experience sharing on FLEGT, involving the authorities and business, with Laos, Cambodia, China, Indonesia and other countries in the region, both through bilateral dialogue and regional forums.

Government is also reported to be increasingly attuned to the wider value of the VPA. "There does seem to be growing recognition of the importance to the country of the timber export sector," said Mr Shanks.

Vietnam's rising significance as a wood processing hub

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

Vietnam is a significant importer of wood products from other countries involved in the FLEGT process. According to Vietnam government statistics, in 2017, the value of Vietnam's wood product imports increased 17% to US\$214 million from Cambodia, 13% to US\$103 million from Thailand, and 0.4% to US\$94 million from Malaysia. These gains offset a 47% decline in imports from Laos, to US\$42 million and a 16% decline in imports from Indonesia, to US\$18 million.

UN COMTRADE data indicates that the value of Vietnam imports of timber products from Cameroon increased 24% from US\$143 million in 2015 to US\$177 million in 2016, making Vietnam Cameroon's second largest export market after China.

While Vietnam's tropical wood imports are large, a significant proportion of wood products exported from Vietnam are manufactured using imported temperate wood. Between 2016 and 2017 Vietnam's log imports from the EU increased from 266,000 m³ to 442,000 m³ and imports of EU sawn timber increased from 212,000 m³ to 257,000 m³. In the same period, Vietnam's imports of logs from the US increased from 114,000 m³ to 170,000 m³ and imports of US sawn timber increased from 395,000 m³ to 467,000 m³.

Vietnam's wood product exports have risen consistently in the last decade. UN COMTRADE data shows the value of exports from the country increased more than three-fold from around US\$2 billion to nearly US\$7 billion in the ten years to 2016 (**Chart 1**). Vietnam government statistics indicate that exports increased a further 10% in 2018 and were on target to reach nearly US\$9 billion in 2018.

This compares to Vietnam's domestic wood products consumption that is valued at around US\$2.8 billion per year, equivalent to only US\$30 per capita and much lower than the global average of US\$72. Domestic consumption is expected to increase, spurred on by rapid urbanisation and recent recovery in Vietnam's real estate market, but at present the wood industry is still heavily export-oriented.



A small scale sawmill



Vietnam - a regional timber processing hub

Chart 1: Vietnam exports of timber products by destination - US\$ value - years 2004-16

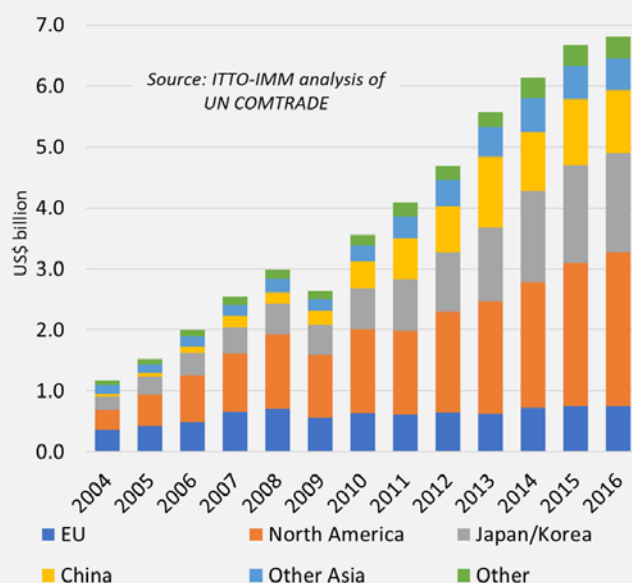


Chart 2: EU imports of timber products from Vietnam - years 2014-17, Jan-Mar 2017-18

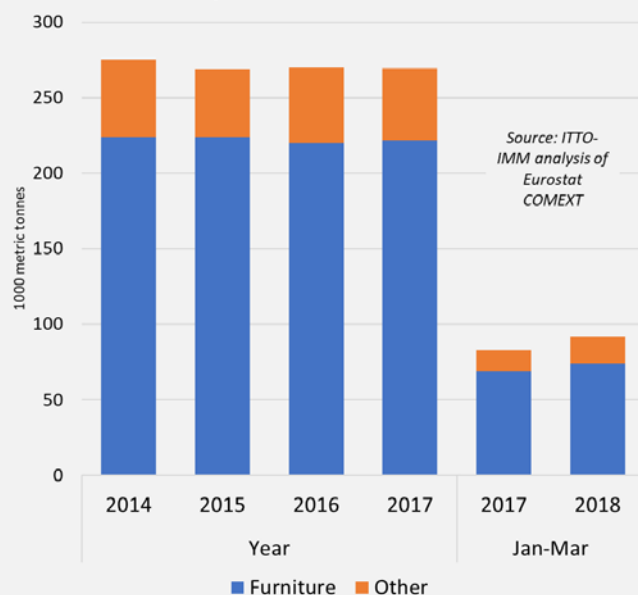


Chart 3: EU imports of wood furniture from Vietnam in 2017 by product (100% = US\$814m)

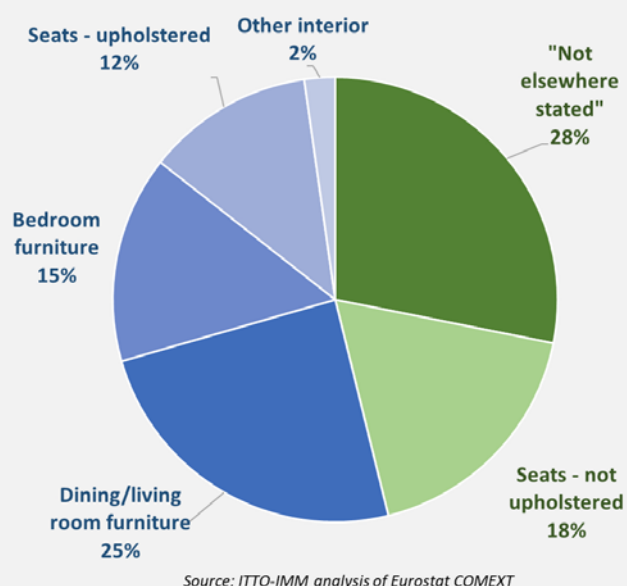
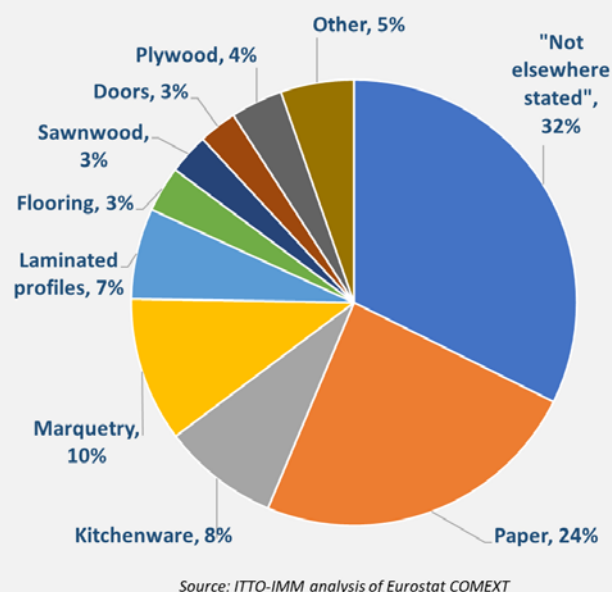


Chart 4: EU imports of other wood products from Vietnam in 2017 (100% = US\$110m)



Vietnam exports to the EU have risen more slowly than to other regions and accounted for only around 11% of total export value in 2016. Much of the recent growth in Vietnam exports has been to North America (mainly US accounting 37% of total exports in 2016), Northeast Asia (mainly Japan accounting for 24% of exports in 2016), and China (15% of exports in 2016).

Vietnam wood product exports are dominated by furniture, accounting for 59% of total value in 2016, although exports of fuelwood have been rising and accounted for 18% of total export value in 2016. Furniture exports are oriented particularly towards North America and Europe whereas most fuelwood exports are destined mainly for Japan and South Korea.

On the EU import side, trade with Vietnam has remained remarkably stable in recent years. EU imports from Vietnam remained flat at 270,000 tonnes per year during the period 2015 to 2017. However, Vietnam's trade with the EU picked up pace in the first quarter of 2018 when imports were 10% more than the same period the previous year. EU imports from Vietnam are dominated by wood furniture which accounted for 82% of tonnage and 88% of import value in 2017 (**Chart 2**).

At least 53% of the total value of EU furniture imports from Vietnam comprised products for internal use identified in EU trade statistics as products for dining rooms, living rooms, bedrooms, upholstered seating, and other interior applications. Of the remainder, 18% comprises non-upholstered seating (for both interior and

exterior use) and 28% is all other "not elsewhere stated" wooden furniture (**Chart 3**). A large part of the last group is likely to comprise tables and similar items for exterior use. Much of the interior furniture is likely to comprise temperate hardwoods, with tropical woods dominating the products for exterior use.

Other than wood furniture, EU wood imports from Vietnam consist mainly of other secondary and tertiary processed products (**Chart 4**). As for wood furniture, a significant proportion are products "not elsewhere stated" in trade statistics and include a diversity of mainly finished consumer goods destined for retailers in the EU. The small range of paper products imported by the EU from Vietnam are also mainly finished consumer items such as exercise books, cups and cartons.