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**DRAFT REPORT ON
ANALYSIS OF THE ECONOMIC IMPACT OF
GOVERNMENTAL PROCUREMENT POLICIES
ON TROPICAL TIMBER MARKETS**

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The International Tropical Timber Organization

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Note:

This report was revised based on member comments following its initial consideration at the Forty-seventh Session of the Committee on Economics, Statistics and Markets (CEM) [document CEM-CFI(XLVII)/5].

Member comments are compiled in Annex D of this version of the report, while the Consultants' responses to these comments are compiled in Annex E.

Analysis of the Economic Impact of Governmental Procurement Policies On Tropical Timber Markets

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Executive Summary

Timber procurement policies are intended to address public and private sector concerns about the environmental credentials of forest products. Many purchasers are demanding that products should come from sustainable, or at least legal, sources and that this be verifiable in order to maintain credibility with buyers in the market place. These requirements and policies have important implications for tropical timber suppliers.

Cognizant of the importance of timber procurement policies, the ITTO commissioned a careful review of the state of practice that was published in April 2010, “The Pros and Cons of Procurement”, as Technical Series 34. In its subsequent deliberations on the topic of timber procurement policies and legality measures, the ITTO Council has taken note of the rapidly evolving market requirements for tropical timber. Determined to be pro-active on this issue, the 47th Session of the ITTO Council requested the Secretariat to commission follow-up work.

This study analyses the economic impact of timber procurement policies of national governments on tropical timber markets, updates developments on legality requirements and assesses market implications and opportunities for ITTO producers and consumers. The main outputs of this study are:

- Update of the ITTO Study “The Pros and Cons of Procurement”, published as Technical Series 34 in April 2010;
- Analysis of the impacts of procurement policies on markets and trade, taking into consideration their relevant effects on demand, supply, costs, prices as well as financial implications for exporting countries;
- Examination of the challenges faced by producer and consumer members in complying with and implementing procurement requirements;
- Recommendations for further action by ITTO to promote trade in tropical timber in the context of procurement policies.

Trends in timber procurement policies and issues related to legality

The introduction of new public sector timber procurement policies as a proactive tool to promote the consumption of forest products from sustainable forest management has subsided measurably from the active period of 1999-2005. This is due in part to a change in focus of the international dialog on forests resulting from inclusion of forests and sustainable forest management in the climate change debate since COP-13 of the UNFCCC (Bali 2009). With a more muted emphasis on public timber procurement, private sector efforts, including initiatives by the leading forest certifications schemes have sought to fill the gap. These private sector

initiatives, including those of trade associations, have greatly expanded the market shares of wood products bearing some form of labelling to underpin consumer confidence in the social, institutional and environmental credentials of wood products.

In a somewhat parallel development, a number of ITTO consumer countries have adopted measures on timber legality as a necessary first step towards ensuring sustainable forest management. Efforts to ensure the legal origins of timber and trade in wood products have spawned hundreds of initiatives. Legislative actions taken by a number of ITTO consumer countries and country groups have been discussed extensively in ITTO Council sessions.

Three legislative actions have received considerable attention and this report provides a brief summary of the legislative history and on-going procedures to implement the most prominent of these actions. These are: 1) The European Timber Regulation; 2) the US Lacey Act; and, 3) the Australian Illegal Logging Prohibition Act.

The report distinguishes among public timber procurement policies, private sector timber procurement practices and timber legality assurance requirements. Public timber procurement policies apply to government purchases of timber that in reality are a very small portion of the modern marketplace. Private firms' timber procurement practices are intended to be economically advantageous while maintaining social credibility. Only a small but visible number of direct retail firms have policies related to wood. The preponderance of the policies on forest products in private firms relate to the use of paper with recycled content. Timber legality verification impacts the entire national timber market and represents the greatest challenge to tropical producers supplying traditional markets.

Development and trade flows in major importing countries

Markets for tropical timber are dynamic and ITTO members are interested in the evolution of the broader market for timber products. Therefore, in order to understand how timber procurement policies and legality requirements may impact market development, this study takes a broad view of relevant trade and market changes. Most countries classify imported and exported commodities in accordance with the World Customs Organization's harmonized commodity description and coding system, popularly known as the Harmonized System (HS), which came into effect in 1988 and is updated periodically. The category of imports and exports recorded under Chapter 44 of the Harmonized System covers primary and secondary wood products consistent with the categories under ITTA 2006 and those reported regularly in the *ITTO Annual Review and Assessment of the World Timber Situation*. Importantly, HS 44 covers not only round wood, sawn wood, veneer and plywood but also such valued added items as moulding, millwork, builder's joinery and carpentry, parquet elements, wooden tools and kitchenware, etc.

This report highlights a number of important developments concerning international trade in HS 44 products.

- Globally, the value of HS 44 imports has almost doubled from 2001-2011.
- ITTO producers and consumers are competing globally in almost every market importing HS 44 products.
- Each ITTO member country is both a producer and consumer of HS 44 products. ITTO producer countries are also important growing markets for HS 44 products from other ITTO member countries.
- China has become the top importer of HS 44 products and also a leading exporter of HS 44 products.
- India has become the 13th largest importer of HS 44 products and it is also a growing exporter.
- The EU27, USA, Japan and Korea remain large and important markets for HS 44 products but the share of ITTO producers in these mature economies has declined. The share of China has increased prominently.
- ITTO producers are successfully supplying emerging economy markets.

Market shares of public and private procurement in importing countries

The market share of public procurement of any specific or even general line of wood products in a country is not directly obtainable from reliable public statistics. Therefore, this study relies on estimates and a case study approach. As the detailed case study of Belgium shows, the direct impact of a public timber procurement policy on wood imports may be quite limited – equal to central government procurement of building, furniture, landscaping or other uses of wood with an expected service life of more than a year. For Belgium, the share of government purchase in the timber market is likely to be less 2 per cent.

Market suppliers tend to have a “feel” for the role of public procurement in specific product lines. In the case of the UK, the effects of a central government timber purchasing policy may be much wider than the direct spending of central government. The leadership and supplier consolidation effects caused UK wood products suppliers to conclude that somewhere between 20-40 per cent of sales are impacted (directly or indirectly) by the central government’s policy.

Common and different elements among procurement policies

Most public timber procurement policies have stabilized and passed through important phases of public consultations and rule-setting. The more recent policy additions have included paper within a broader policy on timber and wood products giving emphasis to recycling and waste reduction. In implementation, many public timber procurement policies have been absorbed

into a broader set of “green” or environmental guidelines or requirements addressing energy efficiency, waste reduction and recovery, water conservation, etc.

Similarly, the policies on timber or wood product procurement by most private sector firms have been integrated into a broader code of ethics on the environment and forests. There is considerable variation in the implementation of government timber procurement policies with respect to the responsibility for record-keeping and audit management. These differences tend to reflect simply past practice in the country or firm. Many procurement policies accept third-party systems of verification as sufficient for legality assurance or forest sustainability. There continues to be significant divergence in policy implementation in both the public and private sector on which forest certification systems are accepted as adequate.

Most European public timber procurement policies will require a round of adjustment to their implementation procedures to accommodate the entry into force of the EU Timber Regulation. Equally, adjustment in public procurement in Australia will follow as the rules for the Illegal Logging Prohibition Act 2012 are finalized.

Effect of procurement policies on demand, supply, market trade and prices – the case study of Belgium and Italy

Advocates and detractors of public timber procurement policies have taken strident positions on the potential impacts and effectiveness of these policies. A case study approach was adopted to examine timber imports for Belgium and Italy to estimate the effects of public timber procurement policies on importing markets. These two European timber importers have economies about the same size: Belgium has established a policy governing procurement of timber for federal requirements; Italy does not have an explicit policy. The comparison of the case studies is important to understand both how a policy goes from adoption to implementation and if the policy impacts are distinguishable from general trends in the economy.

Belgium requires that all federal agencies and authorities use only use wood derived from sustainable forest management. Belgium federal policy has been enshrined in an online guide on sustainable procurement. A review of relevant Italian ministry websites, documents and personal communications did not indicate an explicit public policy on timber procurement.

While the direct economic impact of the Belgium timber procurement policy is quite limited where government investment in building and infrastructure is no more than 2 per cent of GDP per year, the value of tropical wood imports has declined markedly due to weak economic growth and displacement by other products. The total value of *tropical* industrial round wood imported into Belgium from 2001-12 declined by 49 per cent. The value of *tropical* sawn wood imports climbed 45 per cent and the value of *tropical* plywood imports declined 36 per cent.

Italy has been the home to a large and vibrant furniture and construction industry. Since 2008, Italy has suffered significant reductions in exports of furniture and a steady contraction in construction expenditures. The pattern of HS44 imports to Italy closely resembles that found for Belgium. Import value from the EU27 increased whereas imports from ITTO producer countries declined by 68 per cent over the period and imports from non- EU27 ITTO consumers declined by 17 per cent. Effectively, the decline in HS 44 imports to Italy (no public timber procurement policy) from ITTO producers is more pronounced than the imports to Belgium (with a public timber procurement policy) from ITTO producers.

Similar comparisons were completed for a wide range of European import markets. The general pattern of reduced imports from ITTO producer countries is apparent in all cases except Poland which represents the case of economies in transition that have grown strongly over the decade. The reduction in imports from ITTO producers is most profound in the countries which have been most deeply impacted by the economic downturn beginning at the end of 2008 and continuing through 2012 with the financial turmoil in the Euro zone economies. Few of the most impacted countries with the greatest declines in ITTO producer country imports have public timber procurement policies. This analysis suggests that the market effect of a public timber procurement policy is indistinguishable from the dominant tidal effects of economic expansion and contraction.

The analysis of Belgium imports show that tropical timber imports experienced a chilling effect during the period of vibrant debate before and just after the implementation of the federal timber procurement policy. Since the relevant federal procurement figure is less than 2 per cent of the economy, it is not attributable to a change in federal purchases but reflects a broader uncertainty in society and the market. Subsequent expansion of forest certification and chain of custody certification appear to have helped some of the ITTO producer countries meet the standards set and commitments made toward sustainability by both government and the private sector. Imports from a number of ITTO member countries (e.g., Cameroon, China and Gabon) have substantially increased in recent years.

Financial Impacts

HS 44 export earnings for ITTO Producer countries have proven to be more resilient than the variation seen at the global level among exporters of all types of timber. ITTO Producer Country export earnings were higher in 2011 than any preceding year. At the global level, HS 44 exports earnings have been more volatile and have not yet regained their 2007 level. The EU27 has been importing progressively lower levels of HS 44 products from ITTO Producer Countries. This trend began before public sector timber procurement policies were established in a number of European countries. The decline of European HS 44 imports from ITTO Producers is manifest broadly across Europe but the decline is even greater in Italy, Spain,

Greece and a number of other countries without public timber procurement policies. These declines in imports are largely attributable to broad-based economic recession that progressively deepened from 2008 -2012.

In the case of Australia and New Zealand, ITTO Producer Countries as a group have sustained market share during a period of greater prosperity. Export earnings of ITTO Producers from Asia to Australia have increased more than 5 fold from 2001-2012.

USA imports of HS44 products declined from roughly \$25.6 billion in 2005 to just under \$12 billion in 2011. This trade is dominated by softwood lumber imports from Canada. ITTO Producer Countries have maintained their share of total imports during this period of market contraction. The US market for HS 44 imports had contracted by more than \$10 billion by the end of 2008. As such, the entry into force of the Lacey Act 2008 amendments occurred after this strong market correction and implementation of the Lacey Act 2008 amendments has occurred during a period of increasing imports from ITTO Producer member countries.

Challenges faced by tropical timber producers and consumers in meeting the requirements of timber procurement policies.

Tropical timber suppliers can meet the requirements of timber procurement policies by providing their consumers with the correct certifications for their products. In many cases, tropical timber suppliers and consumers have demonstrated an ability to comply with public and private procurement policies. However, complying with the necessary procedures, including certifications typically requires sustained commitment on the part of the suppliers as well as significant financial, organizational and social resources. It should be remembered that even in those countries with a policy, central government procurement of timber remains a niche segment of that country's market. Seen in the larger context, not all producers will find it profitable to obtain the required certificates when they have competitive market options.

Unfortunately, a reasonable degree of reciprocity, mutual recognition and respect among the proponents of various forest certification systems has not been achieved. The subtle variations in certification requirements among various national timber procurement policies and private sector procurement practices increase cost and confusion among suppliers and consumers.

Ability of suppliers of tropical timber in meeting the requirements and costs of timber procurement policies

The ability of suppliers of tropical timber to meet the requirements and costs of timber procurement policies is a function of their ambition and capacities. Well-organized and capitalized firms are meeting the requirements by obtaining the relevant Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) certifications.

A public decision to provide legality assurance through a sector-wide approach has proven to require considerable skill, capacity and technological resources. It is a laudable objective but represents costs not really directly attributable to timber procurement policies.

Recommendations to ITTO and its members on further actions relating to procurement policies with a view to promoting trade in tropical timber and timber products from legal and sustainable sources.

Seek to reinforce the presence and relevance of ITTO in expanding and emerging markets for tropical timber.

The analysis of recent market conditions shows that tropical timber suppliers are competing successfully in many emerging markets. In addition, south-south trade and domestic markets in producing countries account for a rapidly increasing share of tropical timber consumption. These markets should be an increasing focus of ITTO's efforts to develop and showcase producer-friendly policies to promote legal and sustainably produced timber.

Seek to understand why there are relatively few forest products firms with market clout and global presence operating in the tropics

This and prior analysis for ITTO has shown that well-capitalized firms can invest in product research and development and will invest in marketing to protect the reputation of their products and processes. Equally, these firms will undertake investments to assure their consumers of the environmental credentials of their products.

Give up the old arguments and operate in today's markets.

The policy dialog in ITTO must move beyond old battles over access to traditional markets. Although these markets remain important, they nevertheless consume a declining share of the output from tropical forests. Patterns of economic growth, tropical timber consumption and trade have shifted dramatically over the last 30 years. Efforts by ITTO producers and consumers to promote fundamental concepts of sustainability, legality, life cycle analysis and renewability should increasingly focus on emerging markets. These markets represent the future and ITTO can play a central role in helping develop and implement trade, procurement and other policies- such as green building codes – that are effective and promote consumption of legal and sustainable tropical timber as a building material of choice.

Acronyms

CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CSA	Canadian Standards Association
Congo, Rep.	Republic of Congo
Congo, DRC	Democratic Republic of Congo
EU	European Union
EU27	27 Member States of the European Union
EUROSTAT	Statistical office of the European Union
EUTR	European Timber Regulation
ETTF	European Timber Trade Federation
FAO	Food & Agriculture Organization of the United Nations
FLEGT	Forest Law Enforcement, Governance and Trade
FMU	Forest Management Units
FSC	Forest Stewardship Council
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
HS	Harmonized System (HS) of the World Customs Organization
HS 44	Chapter 44 of the Harmonized System covers a range of solid wood products
ITTA	International Tropical Timber Agreement
ITTO	International Tropical Timber Organization
Korea	Republic of Korea
Lao PDR	Lao Peoples' Democratic Republic
MCPFE	Ministerial Conference on the Protection of Forests in Europe
MTCS	Malaysia Timber Certification Scheme
OECD	Organization for Economic Co-operation and Development
OLB	Origine et Légalité des Bois
PEFC	Programme for the Endorsement of Forest Certification
POC	Province of China
SAR	Special Administrative Region
SFI	Sustainable Forestry Initiative
SGS-TLTV	SGS Timber Legality and Traceability Verification
SFM	Sustainable Forest Management
TLAS	Timber Legality Assurance Systems
TPP	Timber Procurement Policies
VPA	Voluntary Partnership Agreement
UNFCCC	United Nations Framework Convention on Climate Change
UK	United Kingdom
UNCOMTRADE	United Nations Commodity Trade Statistics Database
USA	United States of America

Chapter 1: Introduction

Background

Timber procurement policies are intended to address public and private sector concerns about the environmental credentials of forest products. Many purchasers are demanding that products come from sustainable, or at least legal, sources and that this be verifiable in order to maintain credibility with buyers in the market place. These requirements and policies have important implications for tropical timber suppliers.

Cognizant of the importance of timber procurement policies, the ITTO commissioned a careful review of the state of practice that was published in April 2010, “The Pros and Cons of Procurement”, as Technical Series 34¹. This study carefully documented the evolution of timber procurement policies (TPP) impacting ITTO members. The study underscored that in parallel to the promulgation of timber procurement policies in a number of ITTO countries there had been a series of studies, policies and new legislation surrounding legality and legal verification. The ITTO study characterized timber procurement policies as “soft policy tools” developed to provide positive market incentives for sustainable forest management. By contrast, the 2010 review identified the emergence of “hard regulatory instruments as the US Lacey Act amendment and the planned EU due-diligence measure”² that focus on legal sourcing of timber and wood products.

Technical Series 34 noted that the preponderance of timber procurement policies advocated the use of wood products from sustainably managed forests supported by a system of third party verification. It underscored the progressive development of forest certification as a means to communicate the environmental credentials of forest management. Through time, an emphasis was given to timber identified as legally-sourced as a necessary although not sufficient condition for sustainability.

Technical Series 34 noted that the United States had amended the Lacey Act (2008) such that timber and wood products now fall clearly within the scope of the law. Furthermore, the European Union had promulgated a Timber Regulation (2010) that would prohibit the placing on the EU market of illegally harvested timber and timber products and requires operators to exercise due diligence in order to minimize the risk of illegal timber being placed on the EU market, as well as obligations for EU Member States concerning the enforcement of the Regulation.

¹ 2010. Simula. *The pros and cons of procurement – developments and progress in timber procurement policies as tools for promoting the sustainable management of tropical forests*. ITTO Technical Series 34. ITTO, Japan.

² IBID p18

The Pros and Cons of Procurement recommended, inter alia, that ITTO consumer members seek to: involve tropical timber producers in the development of timber procurement policies; reduce the proliferation of policy variants among consumer countries, groups and at various administrative levels (national, sub-regional and city); and provide practical support to producer country efforts through the ITTO's thematic programs. ITTO producer members were encouraged to: build reliable timber legality assurances systems (TLAS); review and where necessary streamline administrative and legal procedures to tighten control over wood supplies; simplify, where possible, systems and procedures to best integrate informal, small and community producers into the national TLAS. Finally, the report advocated that the ITTO:

- Improve market transparency and to enable tropical-timber producers to plan their efforts based on adequate information, monitor the development of TPPs and the supply of and demand for legality-verified and SFM-certified timber and timber products, and the associated trade flows.
- Help tropical-timber suppliers to meet market requirements for their products, promote the convergence and comparability of procurement policies related to tropical timber and timber products through the enhanced exchange of information and lessons learned at the international level.
- Explore the feasibility of developing a common generic standard or set of guidelines for defining legality applicable in tropical-timber-producing forests, drawing on accumulated experience.
- Assist producer member countries to assess the implications of TPPs for their production, exports, employment, fiscal revenue and environment, and to develop appropriate sector-reform strategies.
- Provide support for capacity-building, particularly in forest information systems and training, to enable the planning and implementation of national TLASs.
- Support the development of community forestry through the analysis of the production chains of certified FMUs and their opportunities in international markets as well as the analysis of production and certification costs and ways in which these could be reduced and financed through market benefits.
- Facilitate the exchange of information and experience between member countries in building up information and verification systems including benchmarking in production and on the transaction costs of legal and sustainable timber to meet the requirements of TPPs.

- Develop tools for risk assessment and management to facilitate trade in legality-verified/SFM-certified tropical timber and timber products; such tools should be based on clearly defined criteria, verifiable information and transparent processes, with the full participation of the countries involved.

Context for the current study

In its subsequent deliberations on the topic of timber procurement policies and legality measures, the ITTO Council has taken note of the rapidly evolving market requirements for tropical timber^{3,4}. Determined to be pro-active on this issue, the 47th Session of the ITTO Council requested the Secretariat to commission this follow-up work⁵ in order to:

- Update the ITTO Study “The Pros and Cons of Procurement”, published as Technical Series 34 in April 2010;
- Analyse the impacts of procurement policies on markets and trade, taking into consideration their relevant effects on demand, supply, costs, prices as well as financial implications for exporting countries;
- Examine the challenges faced by producer and consumer members in complying with and implementing procurement requirements;
- Recommend further action by ITTO to promote trade in tropical timber in the context of procurement policies.

Why the study is important.

Timber procurement policies and their requirements have important implications for the trade in tropical timber. As developments are occurring at a rapid rate, there is an urgent need for tropical wood product exporters to monitor these developments, assess their ability to meet these requirements, and explore the market implications and opportunities presented by these developments.

³ 2011. Report of the International Tropical Timber Council at its Forty-Sixth Session (ITTC(XLVI)/24 7 March 2011). See paragraphs 28, 54, 188, 192 and Annex IV paragraph 10.

⁴ 2012. Report of the International Tropical Timber Council at its Forty-Seventh Session (ITTC(XLVII)/19/Rev.1 9 February 2012). See paragraphs 194,195, 210 and Annex IV (Annex A REPORT ON THE ITTO ANNUAL MARKET DISCUSSION – 2011)

⁵ International Tropical Timber Organization (ITTO). Thematic Programme On Trade And Market Transparency (TMT). Analysis Of The Economic Impact Of Governmental Procurement Policies On Tropical Timber Markets TMT-SPD 013/12 Rev.1 (M)

Tropical timber suppliers face challenges in complying with procurement requirements. These include⁶:

- inadequacy of information among tropical timber suppliers on the changing tropical timber market and trade;
- limited knowledge of latest developments on timber legality and procurement policies;
- lack of understanding of the impacts and effects of procurement policies on markets and trade;
- insufficient exchange of information and experience in building up information and verification systems;
- limited ability to respond to the demand for forest and timber certification;
- weak capacity in meeting the varying requirements for legality by producers;
- inadequate capacity of forest sector as well as community forest and SMEs in dealing with timber legality and procurement policies; and
- inadequate legal framework and institutional set-up in complying with timber legality and procurement policies.

To address these challenges, this study analyses: the economic impact of national timber procurement policies on tropical timber markets; assesses developments of timber legality and procurement requirements; and finally, the attendant challenges and opportunities for the tropical timber markets. This report is intended to facilitate dialogue among ITTO members to better address the capacity strengthening needed and information sharing required to meet the objectives and priorities of the ITTA (2006).

The challenge ahead

International trade in forest products has always been challenging and remains so today. Forest products markets have been shaken deeply since 2008 by a rolling global economic crisis. Prior to and during this prolonged period of economic turmoil, there have been fundamental shifts in the supply chain that have changed the direction of trade for some products. China, India and Vietnam have become more visible participants in the trade for forest products. Trade between Africa and Europe has diminished while trade between Africa and Asia has expanded. Overall economic growth in North America and Europe has been muted while emerging economies continue to experience robust expansion.

⁶ International Tropical Timber Organization (ITTO). Thematic Programme On Trade And Market Transparency (TMT). Analysis Of The Economic Impact Of Governmental Procurement Policies On Tropical Timber Markets TMT-SPD 013/12 Rev.1 (M) page 6

Equally, these markets are adjusting to evolving requirements to affirm the credentials of forest products. A number of producer and consumer countries have embraced a mixture of policies related to legality and sustainability in wood products production and consumption. The concepts of forest products legality have been defined and redefined in a number of cases. Sustainability has been debated repeatedly. Forest certification standards have been reviewed, expanded and elaborated. In more than one national case, the policy dialog has given precedence to legality standards as a necessary first step towards ensuring sustainable forest management. Chain of custody certificates and standards have become visible and prominent components in validating legality and sustainability. Green building standards continue to proliferate and penetrate new market niches although wood products continue to struggle to gain visibility in this realm.

Despite the cloudy and evolving policy dialog around forest and wood products, it is vital to differentiate discernible and demonstrable fact from frustration and emotion about local or national debates on forest products. These debates are often riddled with allegations that the use of forest products is the major cause of a long list of social, economic and environmental grievances. When unfounded, these allegations are extremely frustrating to forest products producers everywhere.

In the midst of the swirling debate on forests and markets, policy makers in cities, countries and companies have sought to reassure their citizens or customers that they will only purchase, offer for sale, or use forest products meeting high standards of responsibility. The standards to prove that public entities and corporations have met this pledge have escalated continuously through time. It is easy then, for a forest products producer to conclude that the reason they have less market share today or a reduced level of turnover is the changing market requirements. In fact, it may be that the economic recession has reduced total market demand substantially and, at the same time, the end-use that their product served is now manufactured or assembled in another part of the world. The challenge of this study is to both inform about the changing standards but also to sift fact from frustration about the economic impacts of the evolving market requirements for wood products everywhere.

Chapter 2: Update of the ITTO Study “The Pros and Cons of Procurement”, Technical Series 34.

2.1 Trends in procurement policies and issues related to legality

Technical Series 34 identified trends in public and private sector procurement including issues of sustainability, certification, chain of custody and legality as of mid-2009.

The introduction of new public sector timber procurement policies as a proactive tool to promote the consumption of forest products from sustainable forest management has subsided measurably from the active period of 1999-2005⁷. This is due in part to a change in focus of the international dialog on forests with the inclusion of forests and sustainable forest management in the climate change debate since COP-13 of the UNFCCC (Bali 2009). With a more muted emphasis on public timber procurement⁸, private sector efforts including initiatives by the leading forest certifications schemes have sought to fill the gap. These private sector initiatives, including those of trade associations, have greatly expanded the market shares of wood products carrying some form of labelling to underpin consumer confidence in the social, institutional and environmental credentials of wood products. It is worth noting that wood products are not the only primary sector outputs that have undergone market scrutiny with associated private sector responses. Other sectors undergoing change include bananas⁹, coffee¹⁰, tuna¹¹ and cacao¹².

Dam & Savenije (2011) identifies hundreds of initiatives intended to promote sustainable forest management and enhance the trade of legally produced timber. They describe governmental initiatives, private-sector initiatives, initiatives for knowledge and capacity building and

⁷ There are at least two current debates specifically on the use of tropical timber in public procurement. The State Legislature of New York is considering amending existing law which requires that purchases of tropical timber be from sustainably managed forests. The proposed amendments would establish principles of sustainable management and require chain of custody verification. The governor of the State of New York would be required to establish a list of qualifying certifications ([A2101-2013](#) / [S302-2013](#)). The State Legislature of Massachusetts is considering a bill in which “The state shall not purchase wood grown in a tropical forest or products made up substantially of wood grown in a tropical forest except where a public necessity exists and no other alternative is available or unless the wood originates from second growth forests and carries independent certification, accredited by the Forest Stewardship Council.” (H.2871)

⁸ In 2007, Mexico published an executive decree requiring that public sector purchases of wood products and office furniture be sourced from sustainably management forests. Verification of sustainable forest management would be based on certificates open to third-party validation. Certification systems should register with the Ministry of Environment and Natural Resources.

http://dof.gob.mx/nota_detalle.php?codigo=4999881&fecha=05/09/2007

⁹ http://www.freshplaza.com/news_detail.asp?id=111232

¹⁰ http://en.wikipedia.org/wiki/Fair_trade_coffee

¹¹ <http://www.earthisland.org/dolphinSafeTuna/consumer/>

¹² <http://www.fairtradeusa.org/products-partners/cocoa>

undertakings by non-governmental organizations. They have systematically documented the current status of each initiative. Public procurement initiatives are documented for Australia¹³, Belgium, Brazil, China, Denmark, EU, France, Germany, Ghana, Japan, Mexico, Netherlands, New Zealand, Norway, UK and Vietnam. Most of these initiatives were embodied into broader procurement guidelines applicable to government purchase and little change in implementation among these has been identified. An example of how Belgium's public timber procurement policy has been embodied in government procurement guidelines is provided as an in-depth case study in Chapter 3 to document the history of implementation and market performance.

Austria, Belgium, Denmark, France, Germany, Netherlands, Norway and UK have policies specific for timber whereas the balance of the policies outside of Europe cited above encourage purchase of timber from legally and/or sustainably certified sources within the larger context of value for money in government purchases.

Dam & Savenije (2011) specifies four types of private-sector initiatives to promote trade in legally produced timber: certification schemes; green building initiatives; private sector procurement initiatives; and, trade initiatives. Certification systems are important because most public and private policies related to timber procurement refer to one or more specific systems in their implementation procedures. Equally, some green building initiatives make explicit reference to specific certification labels. Private sector procurement initiatives include not only the actions of individual companies buying forest products for retail resale or building practice but also the action of trade associations to promote responsible sourcing of wood in forest products production.

World Business Council for Sustainable Development (WBCSD) and the World Resource Institute (WRI) (update version 3, 2012) articulate ten important aspects for the sustainable procurement of wood and paper based products. The third edition of this guide incorporates the most up-to-date developments on the legality of forest products, the latest advances in technological and data-management systems to trace and control forest product supply chains, and an expanded overview of the social implications of forest products production and consumption. The document provides a practical and common sense framework for public and private sector entities concerned about sustainable sourcing of wood products.

¹³ Australia has recently updated its policy with the Sustainable Procurement Guide, 2013. <http://www.environment.gov.au/resource/sustainable-procurement-guide>
Australian Government agencies are legally required to observe the Government Procurement Rules which dictate the efficient, effective, economic and ethical purchase of goods and services by the Australian Government. These rules are for all goods and services and do not specifically name any individual products. These rules are found at:
http://www.finance.gov.au/sites/default/files/cpr_commonwealth_procurement_rules_july_2012.pdf

Legality Considerations

A number of ITTO consumer countries have adopted measures related to timber legality as a necessary first step towards ensuring sustainable forest management. The case for legality considerations and sustainable management of tropical forests has been articulated through the Position Paper – Mainstreaming Sustainability in Tropical Timber: Legality, sustainability, and the business case for frontrunner collaboration (IDH The Sustainable Trade Initiative, www.idhsustainabletrade.com/timber). Legislative actions taken by a number of ITTO consumer countries and country groups have been discussed extensively in ITTO Council sessions.

Three legislative actions have received considerable attention and this report provides a brief summary of the legislative history and on-going procedures to implement the most prominent of these actions. These are: 1) The European Timber Regulation; 2) the US Lacey Act; and, 3) the Australian Illegal Logging Prohibition Act.

European Timber Regulation

Both timber and timber products produced in the EU and those imported from outside are covered. Timber imports accompanied by a FLEGT license or a CITES permit are considered to comply with the European Timber Regulation.

Application of the European Timber Regulation came into force on 3 March 2013.¹⁴ The Regulation establishes three key requirements.

1. Placing illegally harvested timber and products derived from such timber on the EU market for the first time, is prohibited.
2. EU operators – those who place timber products on the EU market for the first time – are required to exercise ‘due diligence’.
3. Traders – those who buy or sell timber and timber products already on the market – are required to keep information about their suppliers and customers to make timber easily traceable.

¹⁴ REGULATION (EU) No 995/2010 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market. Published 12.11.2010 Official Journal of the European Union, L295/23. The DG Environment website describes the Timber Regulation and includes a copy in all languages of the Commission - http://ec.europa.eu/environment/forests/timber_regulation.htm

The Regulation covers a wide range of timber products listed in its Annex using EU Custom's code nomenclature. Generally, recycled wood and the packaging for products in shipment are excluded.

Subsequently, the European Commission adopted Commission delegated Regulation of 23.2.2012 on the procedural rules for the recognition and withdrawal of recognition of monitoring organisations as provided for in Regulation (EU) No 995/2010 of the European Parliament and of the Council laying down the obligations of operators who place timber and timber products on the market.¹⁵

Additionally, the European Commission adopted implementing regulation EU No 607/2012 which deals with the detailed rules concerning the due diligence system and the frequency and nature of checks on monitoring organizations as provided for in the Regulation. The purpose of this regulation is to ensure the uniform implementation of the EU Timber Regulation.¹⁶

The EU Timber Regulation has been discussed for more than 10 years as the logical complement to the *EU FLEGT COUNCIL REGULATION (EC) No 2173/2005 of 20 December 2005 on the establishment of a FLEGT licensing scheme for imports of timber into the European Community*.

An argument for this legislation is presented in the *COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT: FOREST LAW ENFORCEMENT, GOVERNANCE AND TRADE (FLEGT) - PROPOSAL FOR AN EU ACTION PLAN (21.5.2003)*. The action plan advocates working positively through the FLEGT voluntary partnerships to promote a supply of legally assured timber exports to the EU and the need for "Community legislation prohibiting the import and marketing of timber or timber products produced in breach of the laws of the country of origin (section 4.2.4 page 15)." The Commission noted specifically that not all countries supplying timber or timber products to the market would necessarily engage in partnership agreements as foreseen under action plan.

Again, it should be emphasized that the EU Timber Regulation applies to all timber and timber products produced within the EU and products imported. In spite of its long gestation, application of the EU Timber Regulation and its implementing regulations has necessitated a strong component of communications given its significance to both internal and external timber market participants. Following consultations with stakeholders, experts from Member States and members of the FLEGT Committee, a common view emerged that certain aspects of the EU Timber Regulation needed clarification. It was agreed that a guidance document was

¹⁵ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32012R0363:EN:NOT>

¹⁶ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0607&from=EN>

necessary which seeks to translate the key elements of the Regulation and implementing rules into more common terms.¹⁷

EUTR Provisions for due diligence.

Rigorous provisions for operators “first placing timber on the European market” to exercise due diligence are central to the EU Timber Regulation. This due diligence requirement applies to timber both produced within the EU and imported. The Timber Regulation requires that operators exercise 'due diligence' by undertaking a risk management assessment intended to minimize the risk of placing illegally harvested timber, or timber products containing illegally harvested timber, on the EU market.

The three key elements of the "due diligence system" are:

- Information: The operator must have access to information describing the timber and timber products, country of harvest, species, quantity, details of the supplier and information on compliance with national legislation.
- Risk assessment: The operator should assess the risk of illegal timber in his supply chain, based on the information identified above and taking into account criteria set out in the regulation.
- Risk mitigation: When the assessment shows that there is a risk of illegal timber in the supply chain that risk can be mitigated by requiring additional information and verification from the supplier.

EUTR Implementation Procedures

While the EU Timber Regulation is binding on all EU Member States, the responsibility for enforcing the legislation lies with each EU Member State, which is obliged to appoint a competent authority and undertake any step required to make the regulation fully operational at the national level, in line with the provisions of the legislation and delegated regulations of the European Commission. Specifically, each member state “should ensure that infringements of this Regulation, including by operators, traders and monitoring organisations, are sanctioned by effective, proportionate and dissuasive penalties.”

EU member state identifies a relevant competent authority¹⁸ charged with administering the implementation of the EU Timber Regulation.

¹⁷ http://ec.europa.eu/environment/eutr2013/_static/files/guidance/guidance-document-5-feb-13_en.pdf

The EU Timber Regulation includes a provision for monitoring organizations. These are private sector companies or organizations that offer to assist operators in meeting the Regulation's requirements for due diligence. Operators may set up their own due diligence system and exercise due diligence themselves, or use a system of a monitoring organization. Organizations offering to provide services as a monitoring organization may seek to be officially recognized as such by the Commission which will consult with the relevant member states. The work of monitoring organizations will be checked periodically by competent authorities in the EU Member States. Their recognition may be withdrawn if established that they do not exercise their functions in accordance with the law. If an operator chooses to develop its own due diligence system, the system does not need to be previously approved by the Commission.

The designated competent national authorities are required to perform periodic audits of the monitoring organizations and operators. They are also required to perform checks based upon information provided by the Commission directly or where relevant, information provided by third parties.

US Lacey Act (2008 Amendment)

The Lacey Act was enacted in 1900 to prevent hunters from killing game in one state and escaping prosecution by crossing state lines. It has evolved into a law that prohibits import, export, transport, purchase, or sale of species when that action would violate state, federal, tribal, or foreign law.¹⁹

In 2008, the Lacey Act was amended to include protections for foreign plants and to require adherence to foreign laws as they pertain to certain conservation and other activities involving plants. Further, the 2008 amendments make it unlawful to submit falsified documents related to any plant or plant product covered by the act, and to import certain plants and plant products without an import declaration.²⁰ A Lacey Act violation can result in civil penalties that could involve fines and forfeiture of wildlife, plants, and products, and criminal penalties that could involve fines, forfeiture, and incarceration. These amendments put imported timber on an equal basis with timber harvested from Federal or Tribal lands or private sector or State timber that has entered into interstate commerce.

The 2008 Lacey Act amendments are not a specific procurement policy. However, the Lacey Act establishes a set of legal requirements that are necessarily taken into account in the policies

¹⁸ For a list of nominated national competent authorities see
http://ec.europa.eu/environment/eutr2013/contacts/index_en.htm

¹⁹ Alexander, Kristina. *The Lacey Act: Protecting the Environment by Restricting Trade*. Congressional Research Service. Report prepared for Congress R42067. 12.4.2012

²⁰ Sheikh, Pervaze. *The Lacey Act: Compliance Issues Related to Importing Plants and Plant Products*. Congressional Research Service. Report prepared for Congress R42119. 24.7.2012

and procurement decisions of U.S. importers of timber, as well as subsequent purchasers of imported timber.

Before the 2008 Amendment, the law applied to plants and animals indigenous to the USA whether the item in question was sourced domestically or internationally. The 2008 amendment includes nonindigenous plants and violations of foreign laws pertaining to certain conservation actions and other activities involving plants and plant products. Based in part on these amendments, the Lacey Act now makes it unlawful for any person to import, export, transport, sell, receive, acquire, or purchase in interstate or foreign commerce any plant taken, possessed, transported, or sold in violation of any law or regulation of any state, or any foreign law, that protects plants or that regulates taking or exporting plants and plant products in certain situations. This includes plants taken, possessed, transported, or sold without the payment of appropriate royalties, taxes, or stumpage fees; and plants exported in violation of state or foreign law.²¹

US importers of timber and wood products have filed product customs declaration forms for decades. The 2008 amendment requires greater precision on plant genus and species and country of harvest. Importers are encouraged to file electronically.

Importers are expected to exercise “due care” in determining if the imported plants or plant products were legally harvested, processed, and exported. The exercise of due care refers to the amount of attention and effort that a reasonable person would expend in a similar situation to address an issue or conduct an activity.

Australia Illegal Logging Prohibition Act

The Australian Illegal Logging Prohibition Act 2012 prohibits the importation of illegally logged timber and the processing of illegally logged domestic timber. The Act also requires importers of regulated timber products and processors of raw logs to conduct due diligence in order to reduce the risk that illegally logged timber is imported or processed. Importers of regulated timber products must provide declarations, at the time of import, to the Customs Minister about the due diligence that they have undertaken. Finally, the Act provides for inspectors to exercise monitoring, investigation and enforcement powers for the purposes of this Act.

Australian authorities have issued *Illegal Logging Prohibition Amendment Regulation 2013 (No. 1)*. The regulations codify the steps such as the due diligence requirements to operationalize the 2012 Act. The new requirements, set out in the Regulation, will come into effect on 30 November 2014. Australian authorities are holding informational sessions across the country and with key trading partners.

²¹ Sheikh. 2012 p1

2.2 Developments and trade flows in major importing countries

Import data from a number of ITTO consumer and producer countries including the EU27 as a block have been analysed to show some of the changes in trade flows that have occurred over the last decade. Markets for tropical timber are dynamic and ITTO members are interested in the evolution of the broader market for timber products. Therefore, in order to understand how timber procurement policies and legality requirements may impact market development, this study takes a broad view of relevant trade and market changes.

Most countries classify imported and exported commodities in accordance with the World Customs Organization's harmonized commodity description and coding system, popularly known as the Harmonized System (HS), which came into effect in 1988 and is updated periodically. The category of imports and exports recorded under Chapter 44 of the Harmonized System covers wood and primary wood manufacturing consistent with the categories under ITTA 2006 and those reported regularly in ITTO's Annual Market Report. Importantly, HS 44 covers not only round wood, sawn wood, veneer and plywood but also such valued added items as moulding, millwork, builder's joinery and carpentry, parquet elements, wooden tools and kitchenware, etc.²²

Significant shifts have occurred in import markets during the period of 2001-2011. The value of China's HS 44 imports grew roughly 4 fold during the decade as it became the world's number one importer. Japan retained its position as the number two HS 44 importer by value. EU27 members continue to figure prominently on the list of top twenty importers. India, as an ITTO producer member has also emerged on the list of top twenty importers.

²² The ITTA 2006 provides a very narrow definition of tropical timber under the agreement – logs, sawnwood, veneer sheets and plywood produced in countries between the Tropic of Cancer and the Tropic of Capricorn (Article 2 Definitions). In practice, the Secretariat has supplied at members' request data and analysis on a broader range of product categories to better understand the development of the market for tropical timber and appreciate the opportunities presented by secondary processing, see *ITTO Annual Review and Assessment of the World Timber Situation 2011*. Generally, the categories reported for member information under Secondary Wood Processing are those found in HS44.

In order to understand the market's evolution since the adoption of timber procurement policies, the consultants had to take a decision on the breadth of the market examined. This was a difficult decision but boundaries had to be established to make the study feasible. The broader the market scope, the more difficult it is to attribute market changes to timber procurement policies which were the focus of the study. If the boundaries are too narrow then it would not help the membership see the broader evolution in the market.

In short, HS44 was selected as a middle road, not as strict as the ITTA 2006 but not too broad to lose member agreement that it was relevant to the spirit of the agreement. HS 44 is broadly consistent with the products listed in the Annual Review and Assessment of the World Timber Situation which informs members on the evolution of the market for tropical timber. It is noted that paper and paper products have never been reported by members within the context of ITTO statistical surveys.

Table 1 Top 20 importers of HS 44 products by value (thousands of \$US)

Importing Country	2001	2011	Importing Country
World	69703416	127612530	World
United States of America	15949770	15857712	China
Japan	9851811	12554538	Japan
Germany	4041802	11981921	United States of America
United Kingdom	3770232	9059729	Germany
China	3467759	5633165	Italy
Italy	3241874	5123832	United Kingdom
France	2355944	4874800	France
Canada	1945233	3640338	Netherlands
Spain	1787689	3184906	Austria
Netherlands	1667538	3172180	Belgium
Belgium	1581165	2976002	Canada
Republic of Korea	1570942	2574747	Republic of Korea
Austria	1232967	2410820	India
China, Hong Kong SAR	1204416	2189480	Sweden
Denmark	1030119	2052288	Switzerland
Sweden	990159	1886289	Denmark
Taiwan, POC	837533	1702816	Norway
Mexico	832396	1657153	Poland
Norway	761490	1645695	Spain
Switzerland	758602	1438764	Australia

The following tables examines market evolution in ITTO consumer countries and a number of other key markets such as several key ITTO producer countries that have significant imports of HS 44 products. For each market, the top twenty suppliers (ITTO members as of mid-2013 in bold) are displayed for 2001 and 2011 along with the value of HS 44 imports.^{23, 24}

²³ All data in this section are taken from the ITC trade database. ITC has already made a uniform set of conversions to a common currency (\$US) and adjustments from the national statistics reported to the United Nations Commodity Trade Database. As a result, individual ITTO member countries may find slightly different values when consulting their national databases. The purpose of the comparison is to show rankings among suppliers and their relative positions in trade.

²⁴ The enclosed analysis focuses on the value of imports rather than import volumes. The *ITTO Annual Review and Assessment of the World Timber Situation* provides very detailed information on the volume of trade for the product categories covered by the ITTA – logs, sawnwood, veneer sheets and plywood. Volumes or weight measures are less meaningful when looking at a product group such as HS44 that extends from logs to broom handles. It should be noted that volume data reported internationally is converted to and from metric tonnes using uniform conversion rates. These standardized conversion rates cannot begin to cope with the variation in timber types and species. It is understood that value estimates are based on standardized currency conversion rates. Since trade in the volume/weight of secondary wood products would be less meaningful, the value of trade from major data sources is reported. The consultants believe that the evolution of the value of HS 44 imports and exports give a better overall picture of the market and it was decided not to overwhelm readers

Albania²⁵

The value of total HS 44 product imports into Albania has increased substantially from \$US 12 million in 2001 to \$72 million in 2011. Table 2 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. ITTO producer member countries are noted in **bold**. The only ITTO producer country that figures among the top twenty suppliers to Albania in 2011 is Gabon. Greece remains the top supplier of HS 44 products to the Albanian market. During the period, Turkey increased its ranking as a supplier from 8th to 2nd and China has become the 8th most important supplier. Imports to Albania from Austria have expanded by two orders of magnitude.

Table 2 Albania: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	12240	71648	World
Greece	5616	16979	Greece
Italy	4103	10227	Turkey
Bulgaria	380	8328	Italy
Serbia and Montenegro	351	7014	Bosnia and Herzegovina
Germany	319	4366	Bulgaria
The former Yugoslav Republic of Macedonia	275	3407	Austria
Spain	205	2813	Montenegro
Turkey	194	2697	China
Finland	187	2485	Hungary
Ukraine	156	2363	Germany
Sweden	83	2041	Finland
Romania	72	1728	Romania
Slovenia	71	1725	Serbia
United Kingdom	50	1669	Sweden
Norway	48	629	Slovenia
Austria	25	421	Switzerland
Israel	25	347	United States of America
Russian Federation	22	314	Ukraine
Belarus	14	293	Gabon
Switzerland	13	247	Poland

with volume data. The utility of volume/weight is further diminished by the fact that many ITTO producers have introduced policy measures such as log export bans to promote value-added processing. Where ITTO producers have reduced the volume/weight of their raw log exports while increasing the value of their sawnwood exports, the policy is considered a success.

²⁵ ITTO Consumer Member Country

Australia²⁶

The total value of HS 44 imports to Australia has increased from \$441 million in 2001 to more than \$1.4 billion in 2011. Table 3 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. ITTO producer member countries are noted in **bold**. In 2011, China was the 2nd most important supplier of HS 44 products to Australia followed by Indonesia and Malaysia. Papua New Guinea has figured prominently on the list throughout the decade. Fiji and Philippines, notable suppliers in 2001, no longer appear among the top 20 suppliers to Australia. HS 44 imports from Indonesia and Malaysia have more than tripled during the period. New Zealand has maintained its position as the leading offshore supplier of HS 44 products to Australia throughout the decade.

Table 3 Australia: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	441365	1438764	World
New Zealand	135155	316313	New Zealand
Malaysia	58855	248401	China
Indonesia	56414	234954	Indonesia
Canada	40913	155577	Malaysia
United States of America	32257	91234	United States of America
France	31248	59512	Chile
China	22354	42966	Canada
Thailand	6955	41671	France
Germany	6407	39750	Germany
Papua New Guinea	5039	29512	Czech Republic
Italy	4069	22200	Estonia
Belgium	3734	18532	South Africa
South Africa	3452	13703	Papua New Guinea
Finland	3238	12728	Thailand
Fiji	2812	12593	Sweden
Sweden	2788	11569	Italy
Taiwan, POC	2147	9980	Austria
Philippines	1919	9377	Finland
Singapore	1829	8831	Brazil
Czech Republic	1804	7168	Viet Nam

²⁶ ITTO Consumer Member Country

China²⁷

The total value of HS 44 imports to China has increased from just under \$3.5 billion in 2001 to almost \$16 billion in 2011. Table 4 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011. ITTO producer member countries are noted in **bold**. Indonesia and Malaysia were key suppliers to China in 2001. In 2011, the value of their HS 44 imports supplied to China is below that received in 2001. Russia, USA, Canada, New Zealand and Thailand have taken the five leading spots as HS 44 product suppliers. ITTO producer countries Papua New Guinea, Congo, Myanmar, Cameroon and Mozambique figure among the top twenty suppliers.

Table 4 China: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	3467759	15857712	World
Indonesia	701206	3487898	Russian Federation
Russian Federation	598843	2031732	United States of America
Malaysia	397046	1855277	Canada
Germany	258996	1312420	New Zealand
Gabon	209174	866526	Thailand
United States of America	166499	803107	Viet Nam
Thailand	117013	597701	Papua New Guinea
New Zealand	104847	484709	Indonesia
Papua New Guinea	103391	464588	Australia
Myanmar	89157	365087	Malaysia
Equatorial Guinea	78992	343704	Solomon Islands
Brazil	51411	288309	Congo
Canada	51319	281446	Myanmar
France	50762	230392	Lao PDR
Republic of Korea	42326	207291	Germany
Australia	37613	173840	Cameroon
Romania	37102	155266	France
Cameroon	33104	154604	Mozambique
Italy	30473	130002	Chile
Liberia	28786	123889	Equatorial Guinea

²⁷ ITTO Consumer Member Country

EU27²⁸

The total value of HS 44 imports into the EU27 has increased from \$25.4 billion in 2001 to almost \$49.6 billion in 2011. Table 5 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. ITTO producer member countries are noted in **bold**. Germany remains the largest supplier of HS 44 products to the EU27 market. China is now the 3rd largest supplier. Indonesia and Malaysia which figured among the top 20 in 2001 are no longer among the top 20 suppliers.

Table 5 EU27: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	25404788	49577948	World
Germany	2640617	6391402	Germany
Sweden	1634906	3896185	Austria
Finland	1497620	3050063	China
Austria	1425745	2916834	Poland
France	1368621	2464936	Sweden
Russian Federation	1282122	2180856	France
United States of America	1199941	2124000	Russian Federation
Poland	1001968	1872931	Belgium
Belgium	948645	1805665	Czech Republic
Latvia	741149	1698797	Finland
Indonesia	728481	1665091	Latvia
Brazil	680300	1186689	Netherlands
Italy	638675	1061214	United States of America
Czech Republic	615257	1059300	Spain
China	547346	995663	Italy
Netherlands	536435	991009	Estonia
Denmark	458684	806479	Brazil
Malaysia	444125	793318	Romania
Spain	441615	748550	Slovakia
Switzerland	418923	737529	Ukraine

²⁸ ITTO Consumer Member Country Group

India²⁹

The total value of HS 44 imports to India has increased roughly 4 fold during the decade from almost \$554 million in 2001 to more than \$2.4 billion in 2011. Table 6 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. ITTO producer member countries are noted in **bold**. The importance of India as a traditional and emerging market for ITTO producers is evident when examining the list of the top 20 suppliers in 2001 and 2011. Myanmar, Malaysia and Papua New Guinea are among the top 5 suppliers to India in 2011 and other ITTO producers that figure prominently are Ghana, Cote d'Ivoire, Indonesia, Ecuador, Benin, Panama and Cameroon.

Table 6 India: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	553915	2410820	World
Malaysia	140697	605794	Myanmar
Myanmar	121785	601043	Malaysia
Indonesia	73101	214003	New Zealand
Nigeria	51141	160734	China
Côte d'Ivoire	39031	67512	Papua New Guinea
New Zealand	16734	49107	Costa Rica
Ghana	10855	48045	Ghana
Singapore	10102	47757	Germany
Gabon	9213	46802	Thailand
Togo	7992	41398	Côte d'Ivoire
South Africa	5754	34192	Indonesia
Solomon Islands	5149	32776	United States of America
China, Hong Kong SAR	4895	32618	Ecuador
Australia	4501	24709	Nigeria
Bhutan	3894	22668	Benin
Italy	3517	22400	Panama
Thailand	3367	21363	Viet Nam
Nepal	3349	18120	Cameroon
France	3213	17803	Sri Lanka
Germany	3101	16441	Brazil

²⁹ ITTO Producer Member Country

Japan³⁰

The total value of HS 44 imports to Japan has increased from \$9.9 billion in 2001 to \$12.6 billion in 2011. Table 7 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. ITTO producer member countries are noted in **bold**. Indonesia and Malaysia have remained leading suppliers of HS 44 products to Japan during the 2001-2011 period. China was the number one supplier of HS 44 products in 2011. The Philippines has emerged as the 8th largest supplier of HS 44 products to Japan in 2011.

Table 7 Japan: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	9851811	12554538	World
Canada	1488113	1877927	China
United States of America	1434721	1477090	Malaysia
Indonesia	1256476	1314366	Canada
Malaysia	1075523	1037609	Indonesia
China	951555	848419	United States of America
Russian Federation	610917	816272	Australia
Australia	514436	726164	Chile
New Zealand	391910	628729	Philippines
Chile	342407	569488	Russian Federation
Finland	251986	468413	New Zealand
South Africa	249591	409329	Finland
Sweden	221735	378044	Viet Nam
Austria	183504	347775	Sweden
Philippines	118655	324417	Austria
Thailand	115448	301204	South Africa
Brazil	97541	198977	Thailand
Germany	85091	180129	Romania
Taiwan, POC	73590	151106	Brazil
Viet Nam	57967	84992	Germany
Papua New Guinea	57218	53188	Estonia

³⁰ ITTO Consumer Member Country

Korea³¹

The total value of HS 44 imports to Korea has increased from almost \$1.6 billion in 2001 to almost \$2.6 billion in 2011. Table 8 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. ITTO producer member countries are noted in **bold**. HS 44 imports into Korea from Indonesia and Malaysia have declined or remained roughly the same over the period. China has become the number one supplier of HS 44 imports. New Zealand has remained the number two supplier by value and the USA has maintained the number five position. HS 44 import values to Korea from Papua New Guinea and Myanmar have declined during the decade.

Table 8 Korea: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	1570942	2574747	World
Indonesia	287850	564669	China
New Zealand	254752	380748	New Zealand
Malaysia	233991	263458	Canada
China	175701	258068	Malaysia
United States of America	157541	206831	United States of America
Russian Federation	103122	167429	Indonesia
Australia	70019	147175	Viet Nam
Thailand	39232	105417	Russian Federation
Canada	36134	84091	Thailand
Papua New Guinea	25815	81497	Chile
Belgium	19812	49911	Australia
Italy	17625	38230	Romania
Solomon Islands	16280	22613	Brazil
Chile	16169	22493	Papua New Guinea
Germany	15839	20055	Germany
Brazil	13219	19827	Latvia
South Africa	11922	16944	Finland
Japan	11017	14546	Japan
Myanmar	10138	12136	Solomon Islands
Finland	8911	11700	Italy

³¹ The Republic of Korea is an ITTO consumer member country

Mexico³²

The total value of HS 44 imports to Mexico has increased from \$832 million in 2001 to almost \$1.3 billion in 2011. Table 9 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. ITTO producer member countries are noted in **bold**. Peru and Malaysia remain among the top 6 suppliers of HS 44 products to Mexico. Other prominent ITTO producers that supply Mexico include Indonesia, Guatemala and Ecuador.

Table 9 Mexico: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	832396	1264444	World
United States of America	498439	569629	United States of America
Chile	93543	277809	Chile
Indonesia	43863	127628	China
Canada	35089	47569	Peru
Brazil	28979	42486	Canada
Malaysia	28930	40571	Malaysia
Peru	24726	22792	Germany
China	15512	17491	Brazil
Ecuador	12007	16619	Austria
Bolivia	5282	15004	Uruguay
Spain	5214	13008	Indonesia
Italy	4598	12977	Spain
Germany	4401	7546	Italy
Japan	3022	7149	Viet Nam
Guatemala	3010	4350	Guatemala
France	2660	4007	Ecuador
Russian Federation	2410	3445	Bolivia
Belgium	2008	3333	Republic of Korea
Venezuela	1974	2619	Belgium
Czech Republic	1480	2240	Netherlands

³² ITTO Producer Member Country

New Zealand³³

The total value of HS 44 imports into New Zealand has increased from \$56 million in 2001 to \$137 million in 2011. Table 10 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. ITTO producer member countries are noted in **bold**. Australia has maintained its position as the leading supplier of HS 44 products to the New Zealand market just ahead of China whose imports have grown roughly 3 fold over the decade. The value of imports from Indonesia and Malaysia into New Zealand has more than doubled. Other ITTO producer countries supplying this market include Peru, Fiji and Guyana.

Table 10 New Zealand: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	56000	137810	World
Australia	12860	22221	Australia
Canada	8360	22117	China
France	6993	15492	France
Indonesia	5111	15091	Canada
United States of America	4755	14170	Indonesia
China	3178	9520	Chile
Fiji	2355	8722	United States of America
Papua New Guinea	2255	4622	Malaysia
Malaysia	2014	2428	Solomon Islands
Sweden	1055	2281	Italy
Denmark	976	1953	Peru
Myanmar	598	1748	Fiji
Italy	573	1726	Germany
Germany	543	1578	South Africa
Singapore	397	1408	Denmark
Brazil	331	1038	Thailand
India	276	1022	Guyana
Thailand	257	916	Brazil
Taiwan, POC	251	832	Finland
Viet Nam	219	805	Belgium

³³ ITTO Consumer Member Country

Norway³⁴

The total value of HS 44 imports to Norway has increased from \$761 million in 2001 to \$1.7 billion in 2011. Table 11 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. ITTO producer member countries are noted in **bold**. Sweden remains the largest supplier of HS 44 products to Norway. Imports from China have increased almost 4 fold. Imports from Indonesia and Malaysia have declined.

Table 11 Norway: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	761490	1702816	World
Sweden	367087	814974	Sweden
Finland	72845	98393	Germany
Denmark	43212	97402	Estonia
Germany	37966	89645	Finland
Estonia	34995	84185	Poland
Indonesia	24009	64849	Lithuania
Russian Federation	22845	64577	Latvia
Poland	15156	63437	Denmark
United States of America	14119	59522	China
Uruguay	11870	40944	Uruguay
Latvia	10870	33733	United Kingdom
Chile	10429	28744	Russian Federation
Lithuania	9348	22124	Belgium
China	9099	17868	Indonesia
Canada	8666	16318	Netherlands
Belgium	7404	14550	Ireland
Malaysia	7120	11220	United States of America
United Kingdom	6369	8352	France
France	5545	7951	Slovakia
Viet Nam	219	805	Belgium

³⁴ ITTO Consumer Member Country

Switzerland³⁵

The total value of HS 44 imports to Switzerland has increased from \$759 million in 2001 to almost \$2.1 billion in 2011. Table 12 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. With the exception of important HS imports from China and Thailand, the balance of Switzerland's imports come from EU27 member countries. No ITTO producer member countries figure among the list.

Table 12 Switzerland: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	758602	2052288	World
Germany	272626	930838	Germany
Austria	160555	401675	Austria
France	80392	148235	France
Italy	75496	143864	Italy
Finland	26559	60755	China
Sweden	17512	54199	Poland
Belgium	13619	35363	Czech Republic
Denmark	13033	32885	Finland
Poland	10536	30975	Belgium
Canada	9523	26000	Thailand
Norway	8340	21437	Netherlands
China	7529	21143	Sweden
United States of America	7160	16497	Slovakia
Thailand	6679	13949	Denmark
Netherlands	5923	12582	Croatia
Slovenia	5803	12442	Slovenia
Czech Republic	4489	7833	Latvia
Croatia	4223	7185	Romania
Hungary	3245	6255	Hungary
Slovakia	2571	5334	Spain

³⁵ ITTO Consumer Member Country

USA³⁶

The total value of HS 44 imports to USA has declined from \$15.9 billion in 2001 to almost \$12 billion in 2011. Table 13 reports the top twenty suppliers by value of HS 44 imports in both 2001 and 2011 to ascertain possible shifts in trade patterns. ITTO producer member countries are noted in **bold**. The top twenty supplier list to the USA has remained surprisingly stable over the decade although the value of HS 44 imports from Indonesia, Mexico and Malaysia has declined. Ecuador and India, ITTO producer countries have joined the list. HS 44 imports from China have tripled.

Table 13 USA: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	15949770	11981921	World
Canada	10541259	5488982	Canada
China	941247	3087174	China
Brazil	733994	619466	Chile
Chile	512653	579335	Brazil
Indonesia	425635	261663	Indonesia
Mexico	320612	205823	Mexico
Germany	279163	193539	France
Malaysia	239407	170807	Malaysia
New Zealand	226860	157993	New Zealand
Thailand	176176	124691	Germany
France	157783	118974	Russian Federation
Sweden	137437	88238	Italy
Russian Federation	135260	85319	Thailand
Italy	110643	64065	Ecuador
Taiwan, POC	100886	48993	Sweden
Austria	80859	48314	Argentina
Belgium	51942	42339	Austria
Peru	46932	41373	Viet Nam
Finland	44475	39339	Taiwan, POC
Spain	44259	36703	India

Emerging economies as important importers of tropical timber products

With many traditional markets remaining flat or declining, the above analysis show that ITTO producers may find opportunities in markets in emerging countries that continue to show robust growth. The market for HS 44 imports in Albania has grown 5 fold over the last decade and Gabon has found a foothold. China has emerged as the world's leading market for HS 44 products with imports growing more than 4 fold during the last decade. ITTO producer

³⁶ ITTO Consumer Member Country

countries Papua New Guinea, Congo, Myanmar, Cameroon and Mozambique have emerged as prominent suppliers.

Equally, India has quadrupled its HS 44 imports during the decade. ITTO producers Ghana, Myanmar and Malaysia have significantly increased sales to India and Papua New Guinea, Ecuador, Benin and Panama have made important inroads into the market.

Mexico has increased its HS 44 imports by 50 percent during the decade. Peru and Malaysia have boosted sales with important supplies provided by Indonesia, Guatemala and Ecuador.

Brazil³⁷

Although Brazil is a significant producer of wood products, Table 14 shows that Brazil has tripled HS 44 imports from \$54 million in 2001 to \$176 million in 2011. Ecuador and India have joined Indonesia among the 20 most prominent suppliers.

Table 14 Brazil: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	54204	176455	World
Argentina	19031	55546	Argentina
Paraguay	8696	35709	China
United States of America	4575	16122	United States of America
Germany	3898	16087	Paraguay
Italy	3653	8789	Ecuador
Uruguay	2402	6561	Germany
Chile	1865	6177	Italy
Sweden	1572	6167	Austria
Portugal	1402	5301	Bolivia
Spain	1341	3879	France
China	1008	2237	Uruguay
Bolivia	621	1386	Portugal
Hong Kong, China SAR	559	1358	Hong Kong, China SAR
Cape Verde	464	1203	India
France	461	1173	Spain
Costa Rica	416	1070	Indonesia
Indonesia	364	1065	Belgium
Austria	222	864	Chile
Australia	221	854	Switzerland
Taiwan, POC	185	600	United Kingdom

³⁷ At the time that this report was commissioned, Brazil was not on the list of ITTO members published by the organization.

Chile³⁸

Also a significant wood products producer, Table 15 shows the evolution in the Chilean market where HS 44 imports have more than tripled during the decade from \$67 million in 2001 to more than \$220 million in 2011. HS 44 Imports from Indonesia, Malaysia and Ecuador have all increased substantially.

Table 15 Chile: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	67222	220255	World
France	14283	44550	China
United States of America	13230	29384	France
Brazil	10576	28979	Germany
Germany	5845	25514	Argentina
China	3297	17284	Austria
Canada	2907	15480	United States of America
Paraguay	2835	13024	Brazil
Spain	2282	6683	Paraguay
Argentina	2160	6361	Spain
Bolivia	1625	6223	Uruguay
Uruguay	913	4231	Canada
Sweden	784	3143	United Kingdom
Netherlands	734	2725	Bolivia
India	694	2144	Switzerland
Thailand	560	1891	Belgium
Belgium	490	1453	Malaysia
Italy	471	1153	Denmark
Poland	381	1100	Poland
Denmark	351	1058	Indonesia
Indonesia	292	877	Ecuador

³⁸ Non-ITTO member

Dominican Republic³⁹

The Dominican Republic is an example of an emerging economy that has prospered from tourism with a significant expansion of housing and infrastructure over the last decade to support this economic activity with HS 44 imports of \$109 million in 2001 rising to \$140 million in 2011. Table 16 shows that ITTO producers Fiji, Peru, Guatemala, Mexico, Cote d'Ivoire and Cameroon are among the top 20 suppliers to this market.

Table 16 Dominican Republic: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	109415	140233	World
United States of America	58161	63862	United States of America
Brazil	29570	12676	Fiji
Chile	6572	11670	Brazil
Guatemala	2904	11573	China
Peru	2313	6927	Chile
Nicaragua	1646	6780	Peru
Spain	1248	5294	Spain
Uruguay	918	2914	Nicaragua
Colombia	719	2307	Bolivia
Argentina	592	2258	Argentina
Russian Federation	529	1256	Guatemala
Italy	493	1230	South Africa
Canada	400	1052	Mexico
China	358	805	Canada
Cape Verde	326	763	Côte d'Ivoire
Taiwan, POC	289	726	Honduras
Honduras	284	660	Netherlands
Belgium	219	644	El Salvador
Costa Rica	213	643	Russian Federation
Panama	179	635	Cameroon

³⁹ Non ITTO member

Philippines⁴⁰

Philippines has experienced steady economic growth over the decade with HS 44 imports growing from \$198 million in 2001 to \$279 million in 2011. ITTO producer members Malaysia, Papua New Guinea and Indonesia have maintained their roles as important suppliers of HS 44 products in this growing market.

Table 17 Philippines: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	198904	279095	World
Malaysia	61824	93901	Malaysia
United States of America	34591	41565	Canada
New Zealand	30160	35481	China
Canada	12599	25993	United States of America
Solomon Islands	9753	23236	Japan
Japan	8831	9783	Papua New Guinea
Indonesia	8537	9506	New Zealand
Australia	6180	7252	Germany
Singapore	3510	6974	Thailand
Thailand	3307	6223	Singapore
Brazil	3100	5022	Solomon Islands
Republic of Korea	2870	4705	Australia
Papua New Guinea	2755	1968	Taiwan, POC
China	2177	1513	Viet Nam
Portugal	1236	1274	Indonesia
Germany	1046	630	Romania
United Kingdom	778	568	Republic of Korea
Hong Kong, China SAR	763	494	Sweden
France	703	315	Hong Kong, China SAR
Taiwan, POC	677	303	Austria

⁴⁰ ITTO Producer Country

Senegal⁴¹

Senegal has experienced steady economic growth over the decade with HS 44 imports almost doubling from \$28 million in 2001 to \$55 million in 2011. ITTO producers Cote d'Ivoire, Cameroon and Ghana are leading suppliers to this market. Both Cote d'Ivoire and Cameroon has more than doubled their HS 44 product sales to Senegal.

Table 18 Senegal: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	28424	55455	World
Côte d'Ivoire	12898	30449	Côte d'Ivoire
Ghana	4991	9609	Cameroon
Cameroon	4735	3217	Ghana
Liberia	3027	2876	France
France	1217	1244	China
Gabon	637	1060	Spain
Italy	172	944	Switzerland
South Africa	109	887	Georgia
Spain	88	861	Belgium
Brazil	80	447	Equatorial Guinea
Equatorial Guinea	78	365	Germany
Morocco	66	365	Italy
China	56	356	Saudi Arabia
Belgium	53	352	Central African Republic
Romania	34	350	Morocco
Republic of Korea	25	307	Romania
United States of America	24	303	Turkey
Portugal	21	212	South Africa
Russian Federation	17	180	Iran (Islamic Republic of)
Sweden	13	133	Gabon

⁴¹ Not an ITTO member

South Africa⁴²

South Africa is the largest economy on the continent and a significant producer of wood products. Still, HS 44 imports have more than doubled over the last decade. ITTO producers Malaysia, Indonesia, Gabon and Ghana have each more than doubled sales to South Africa. Equally, ITTO consumers Austria, China, France, Germany and New Zealand have boosted sales in the range of HS 44 products.

Table 19 South Africa: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	128263	330978	World
Malaysia	23828	62324	Malaysia
United States of America	19604	58518	China
France	11885	36617	Brazil
Zimbabwe	11171	20816	Indonesia
Germany	6538	18075	France
Brazil	5967	16717	Argentina
Singapore	4471	15328	Germany
Canada	4270	15313	Gabon
Gabon	3997	13126	United States of America
Indonesia	3955	7575	Zimbabwe
China	3290	6673	New Zealand
United Kingdom	2429	5535	Singapore
Italy	2385	4949	Thailand
Ghana	1880	4201	Ghana
Cameroon	1632	3948	Spain
Taiwan, POC	1512	3570	Chile
Area Nes	1352	3184	Austria
Belgium	1234	2961	Malawi
Portugal	1164	2685	Netherlands
Dem Republic of the Congo	1159	2146	Belgium

⁴² Not a member of ITTO

Thailand⁴³

Thailand has experienced steady economic growth over the decade increasing HS 44 imports from almost \$389 million in 2001 to almost \$652 million in 2011. ITTO producer members Malaysia, India, Cambodia and Papua New Guinea have increased their sales of HS 44 products in this growing market. Equally, ITTO consumer members Australia, China, Germany, Japan and New Zealand have increased sales.

Table 20 Thailand: Top 20 suppliers of HS 44 products by value (thousands of \$US)

Supplier Country	2001	2011	Supplier Country
World	388896	651941	World
Malaysia	139638	248570	Malaysia
Lao PDR	68131	133430	China
Myanmar	64464	56497	Myanmar
United States of America	30187	50682	Lao PDR
Indonesia	22262	36770	New Zealand
New Zealand	13523	25846	United States of America
Brazil	9315	9566	Canada
China	7403	8128	India
Germany	3261	7843	Australia
Canada	3220	6719	Indonesia
Australia	2172	5880	Germany
Sweden	1974	5857	Cambodia
Italy	1961	5763	Japan
Taiwan, POC	1920	5532	Chile
Finland	1597	3955	Singapore
Solomon Islands	1455	3775	Solomon Islands
Poland	1386	3267	Brazil
Cambodia	1379	2942	Italy
Japan	1339	2822	Taiwan, POC
Gabon	1276	2290	Papua New Guinea

⁴³ Not a member of ITTO

Importing markets – points for consideration

- Globally, the value of HS 44 imports has almost doubled from 2001-2011.
- ITTO producers and consumers are competing globally in almost every market importing HS 44 products.
- Each ITTO member country is both a producer and consumer of HS 44 products. ITTO producer countries are also important growing markets for HS 44 products from other ITTO member countries.
- China has become the top importer of HS 44 products and also a leading exporter of HS 44 products.
- India has become the 13th largest importer of HS 44 products and it is also a growing exporter.
- The EU27, USA, Japan and Korea remain large and important markets for HS 44 products but the share of ITTO producers in these mature economies has declined. The share of China has increased prominently.
- ITTO producers are successfully supplying emerging economy markets.

2.3 Market shares of public and private procurement in importing countries

To assess economic and market effects of a timber procurement policy it is important to understand its area of impact. Generally, there are two types of effects: the direct procurement effects and the broader market effects where government or buyer requirements shape supplier specifications⁴⁴.

In the case of public timber procurement policies there has been the tendency to assert that the scope of impact is equal to the total government expenditure. This may be a misleading assumption for a number of reasons. OECD has analysed government expenditures in its member countries and noted an average of 12 per cent of GDP.⁴⁵

The example of Belgium will be reviewed in depth in this report, serving as a case study of a public timber procurement policy in implementation. In the case of Belgium, total government expenditure as a per cent of GDP is close to 50 per cent⁴⁶. Government as an expenditure category in Belgium includes the federal government, the autonomous regional governments, cities and municipalities and the social security fund. A significant share of these expenditures is transfer payments in cash or kind to households. There is neither an associated consumption of goods or services by the government sector nor requirement for procurement.

The final consumption expenditure of government as an element of GDP represents annual purchases by government to execute its functions and responsibilities. In the case of Belgium, this has varied between 22 and 25 per cent of GDP per annum during the period 1999-2010. Final consumption expenditures by government include payment of salaries, use of electricity and other consumables. Paper and paper products would be included in this category but not the solid wood products covered within the ITTA, 2006. Wood products used in construction or other long lasting uses such as furniture are considered part of an investment in capital stock because they have a useful and practical life of more than a year. Gross fixed capital formation (GFCF) accounts for additions to the capital stock (productive items such as machinery and

⁴⁴ Construction firms, architects and other suppliers may choose to carry and apply a single line of a given input (e.g. certified timber) that meets all customer standards rather than supply different inputs to government and non-governmental customers. The analysis of the impacts of the policy in the UK claims an expansion in the use of certified timber across the UK market to be an effect of the public timber procurement policy.

⁴⁵ OECD countries average 12%. For a quick overview on the general size of public procurement among OECD countries see OECD (2011), "Size of public procurement market", in *Government at a Glance 2011*, OECD Publishing http://dx.doi.org/10.1787/gov_glance-2011-46-en

⁴⁶ OECD, *Government at a Glance 2011*, Country Note – Belgium. Revenues and expenditures were just less than 50% of GDP in most years 2000-08, although expenditures jumped to 54% of GDP in 2009 as GDP fell and the government implemented fiscal stimulus in response to the crisis. While the central government collects over 50% of revenues, it represents less than 25% of all expenditures, indicating that regional and local governments have limited powers to raise their own revenues via taxes. Regional and local governments represent a much larger share of expenditures in Belgium, reflecting Belgium's devolved status.

buildings in use for more than one year) and replacement of used or exhausted capital stock⁴⁷. For Belgium, government gross fixed capital investment (purchases by the government of capital stock) has averaged 1.7 per cent of GDP from 1999-2012.

A precise illustration is important because there has been a tendency in the dialog on public timber procurement policy to make vague assertions that the share of the timber market impacted is equal to the share of government expenditure in GDP. As can be seen in the case of Belgium, a significant share of government expenditure is debt servicing and transfer payments which have no direct timber market impact. Second, a large share of government final expenditure is on consumables and salaries. Again, the consumables category would include paper and paper products but exclude solid wood products. Actual government expenditure on fixed capital assets, the category in which wood products might play a role, is generally under 2 per cent in the case of Belgium and averaged under 2.6 per cent in the European Union as a whole during the period of 1999-2012.

Advocates for public timber procurement policies, however, tend to argue three aspects in favour of adoption: The large share of government expenditure in GDP will create a market for sustainable goods (they cite the figures of gross government expenditure or government expenditure as a share of GDP). This might be referred to as a direct market effect and this is obviously much smaller than the figures often cited⁴⁸. Second, it is asserted that government should play a leadership role to inspire consumers and responsible players in the private sector. This might be referred to as a leadership effect. Third, the action by government is foreseen to have knock-on effects causing suppliers to simplify their supply chains around sustainable products. This might be referred to as a supplier consolidation effect.

Fripp, Carter and Oliver (2010) assessed the impacts of the UK Government's timber procurement policy. They identify the leadership role of government as significant.

It can be concluded that the impact of the Government's TPP on the UK timber market over the past 10 years has been to under-deliver in terms of direct spend (due to lack of full implementation by all mandated public sector organization) but to over-deliver on wider market impacts. It is clear from the consultation exercise that the Government's TPP has had a positive influence on timber traders and suppliers in terms of boosting the development of their own timber procurement policies. All trade respondents consulted for this study said that the Government's TPP policy had an impact on the way that they do business.

⁴⁷ EUROSTAT definition. Category P.51

where P.51, 'gross fixed capital formation': consists of acquisitions, less disposals, of fixed assets during a given period plus certain additions to the value of non-produced assets realised by the productive activity of producer or institutional units (fixed assets are tangible or intangible assets produced as outputs from processes of production that are themselves used repeatedly, or continuously, in processes of production for more than one year).

⁴⁸ In the case of Belgium, the share of the timber market possible to attribute to the federal timber procurement policy is less than two per cent.

Equally, Fripp et.al. (2010) identify the supplier consolidation effect:

A clear outcome from the stakeholder consultation exercise was that increasingly contractors are implementing responsible policies for purchasing timber which state a preference for PEFC or FSC only. This is done for two reasons, firstly it is simple and cost effective, it saves time and provides a clear message to timber suppliers. Secondly, some contractor reported that there is a risk that other certificates or Category B will not be accepted on site, at point of delivery.

For those that are now importing verified legal products, although the UK Government's policy does not explicitly accept it (accepted only in certain circumstances), the traders are meeting their UK TTF RPP requirements, reducing risk in their supply chain and positioning themselves for when the EU Timber Regulation comes into effect, likely in 2013.

The same report by Fripp, et.al., (2010) cites the difficulty in obtaining reliable estimates of market shares of public procurement. Their efforts included consultations with wood traders and supplier groups who believed that the public sector in the UK accounted for between 20-40 per cent of all sales.

OECD notes that most of its members have decentralized governments with delegated responsibilities for procurement. Only procurement actions exceeding a threshold are centralized. Generally, procurement actions are taken to obtain a stream of services, e.g., office space meeting certain standards. The volume of wood content is not specified and as such there is no direct connection between procurement and wood market share. In the case of a timber procurement policy, the buyer will specify that if wood is used it must meet certain requirements but rarely is there a requirement on wood volume or species.

Market Shares of public procurement – points for consideration

In summary, the market share of public procurement of any specific or even general line of wood products in a country is not directly obtainable from reliable public statistics. Market suppliers tend to have a “feel” for the role of public procurement in specific product lines. As the case of Belgium shows, the direct impact of a public timber procurement policy on wood imports may be quite limited – equal to central government procurement of building, furniture, landscaping or other uses of wood with an expected service life of more than a year. For Belgium, this is less than 2 per cent of GDP.

As the case of the UK shows, the effects of a central government timber purchasing policy may be much wider than the direct spend of central government. The leadership and supplier consolidation effects causes UK wood products suppliers to conclude that somewhere between 20-40 per cent of sales are impacted (directly or indirectly) by the central government's policy.

2.4 Common and different elements among procurement policies

National government timber procurement policies

As noted above, public timber procurement policies have changed little since Technical Series 34 was completed which documented their common and different elements. Most private sector initiatives have also stabilized. Implementation procedures for many European public timber procurement policies are undergoing or will require some adjustment to be aligned fully with the EU Timber Regulation. The role of timber licensed under the Voluntary Partnership Agreements (FLEGT-VPA) must be accommodated as well.

For the market and market participants, the standards for acceptable products adopted in the final rule making process are crucial. Since most public timber procurement policies have been in place since the mid-2000, the rule making process has been established. As such, market participants are more concerned about the common elements and differences in implementation standards rather than the policy documents.

An important part of the implementation process for many public timber procurement policies is a mechanism established in the policy or administratively by the government to examine certification schemes, mechanisms or standards that would meet the requirements of the policy. The Netherlands, for example, has established a Timber Procurement Assessment Committee with the explicit purpose of assessing timber certification systems and advising the Dutch Ministry of Infrastructure and Environment (I&M) on the outcome. The objective of the Committee is to facilitate the government's commitment to procure 100% sustainable timber against a set of 'Procurement Criteria for Timber' which have been developed with Dutch stakeholders.⁴⁹

Mexico requires that certifiers be registered with the Ministry of Environment and Natural Resources⁵⁰. The National Forest Commission maintains lists of certifiers and private forest management units that have obtained certification.⁵¹ The ministerial decree implementing the 2007 law on public procurement goes on to require specific documentation to demonstrate the wood is legally sourced.

⁴⁹ As of end Aug 2013, TPAC displayed on its web site that "Conform to the Dutch Procurement Criteria - FSC International and PEFC International, for the Dutch market, excluding MTCS."

⁵⁰ Diario Oficial, Miércoles 31 de octubre de 2007, Secretaría de Medio Ambiente y Recursos Naturales. Circular que contiene los Lineamientos generales relativos a los aspectos de sustentabilidad ambiental para las adquisiciones, arrendamientos, y servicios públicos.

⁵¹ <http://www.conafor.gob.mx/web/temas-forestales/certificacion-forestal/>

France, by contrast, does not have an explicit process or formal group to examine periodically forest certification processes for compliance with the objectives of the government directives on procurement of wood products from legal or sustainable sources⁵². A document to support implementation of the circular was published⁵³ that included a non-exhaustive list of forest certification systems meeting broadly the test. Cited in that document were national systems⁵⁴ and international systems. A subsequent circular in 2008 related to office furnishings and paper supplies requires legal or sustainable sources. FSC and PEFC are noted in the governmental circular⁵⁵ as certifications that meet the required standard.

The French government relies on verification of legality and sustainability by an independent third party. This approach has been defined as including both certification schemes and a range of other types of evidence, including evidence such as a legality license (anticipating the future FLEGT licenses), an independent verification of a supplier's declaration, attestation of a forest management plan, or verification of compliance with a code of practice, and existing custom documents to qualify legal/ sustainable products when entering the EU market. No assessment of evidence is undertaken by the Government.

Denmark's Nature Agency has been assigned responsibility for communicating the government's requirements and providing guidance on evidence to be requested by procurement agents for compliance with its timber procurement policy. Procurement agents are strongly encouraged to acquire wood products with a legal assurance and produced from sustainably managed forests. The guidance indicates that products appropriately labelled by FSC, PEFC, SGS (TLTV), VLC Smartwood and OLB meet the Agency's standards for legality

⁵² Circulaire du 5 avril 2005 portant sur les moyens à mettre en œuvre dans les marchés publics de bois et produits dérivés pour promouvoir la gestion durable des forêts. JORF n°82 du 8 avril 2005 page 6336 texte n° 1.

⁵³ Groupe Permanent d'Etude des Marchés « Développement Durable, Environnement » (GPED/DDEN) placé auprès du Ministère de l'Economie, des Finances et de l'Industrie. NOTICE D'INFORMATION SUR LES OUTILS PERMETTANT DE PROMOUVOIR LA GESTION DURABLE DES FORÊTS DANS LES MARCHÉS PUBLICS DE BOIS ET PRODUITS DÉRIVÉS. le 31 mars 2005

⁵⁴ pour l'Australie : AFS (Australian Forestry Standard) ;
 - pour le Brésil : CERFLOR (Certificação Florestal) ;
 - pour le Canada : CSA (Canadian Standards Association) ;
 - pour le Chili : CERTFOR (Sistema de Certificación de Manejo Forestal Sustentable) ; pour les États-Unis d'Amérique : ATFS (American Tree Farm System) et SFI (Sustainable Forestry Initiative) ;
 - pour la Finlande : FFCS (Finnish Forest Certification System) ;
 - pour l'Indonésie : LEI (Lembaga Ekolabel Indonesia) ;
 - pour la Malaisie : MTCC (Malaysian Timber Certification Council) ;
 - pour les Pays-Bas : Keurhout.

⁵⁵ Circulaire du 3 décembre 2008 relative à l'exemplarité de l'Etat au regard du développement durable dans le fonctionnement de ses services et de ses établissements publics, JORF n°0036 du 12 février 2009 page 2489 texte n° 4

assurance. Appropriately labelled products from FSC and PEFC meet the Agency's requirements for legality assurance and forest sustainability.

The Agency's governing board has established four principles for recognition by the Agency of certification systems:

- The standards should conform to those of Nature Agency's established standards for legal and sustainable timber.
- Traceability and labelling must provide that the timber can be tracked from the forest to the end user and provide precise rules for credible labelling of the product.
- The certification should be undertaken by an independent, competent and accredited third party and with relevant international guidelines for certification (ISO Guide 62, 65, 66 or equivalent).
- Accreditation should be made by a national or international body, the systems and procedures are in accordance with relevant international guidelines for accreditation bodies (ISO Guide 17011 or equivalent).

The UK timber procurement policy is founded on dual application of legality assurance and sustainability principles. The UK government's central point for expertise on timber (CPET – UK Department of Environment, Food and Rural Affairs) issued in June 2013 its 5th advice to central government departments on how to meet the UK policy. These advice notes keep government and the public informed of key adjustments in implementation procedures. CPET informs in its 5th advice note of the changes being implemented to assure conformance of the UK TPP with the EU Timber Regulation. These changes include, *inter alia*, a revision to the definition of legal and sustainable timber.

The revised UK definition of legal and sustainable is representative of what has emerged during the implementation of European public procurement policies as their rules are amended to conform to the EU Timber Regulation and make accommodation for FLEGT VPA timber.

“3. Definition of legal within the UK government's TPP

Within the UK government's TPP, 'legal' sources are defined to mean:

“Harvested in accordance with the applicable legislation in the country of harvest.” This definition is the same as in Article 2 of the EUTR. “Applicable legislation” is defined in the EUTR (and applies in the context of the TPP) to mean “the legislation in force in the country of harvest covering the following matters:

- L1. rights to harvest timber within legally gazetted boundaries;
- L2. payments for harvest rights and timber including duties related to timber harvesting;

- L3. timber harvesting, including environmental and forest legislation including forest management and biodiversity conservation, where directly related to timber harvesting;
- L4. third parties' legal rights concerning use and tenure that are affected by timber harvesting; and
- L5. trade and customs, in so far as the forest sector is concerned."

In some countries, laws may be unclear or conflicting making it difficult to clearly define "harvested in accordance with the applicable legislation in the country of harvest". The European Commission's FLEGT Action Plan³ has proposed that in such countries it will be necessary to have or develop a practical working definition of 'legal' or a set of core laws which must be met which has support from major stakeholder groups. This can be done through a national standard-setting process or other appropriate means.

- 3 The Forest Law Enforcement, Governance and Trade Action Plan is the European Union's response to the problem of illegal logging and trade in associated timber products. A key part of the FLEGT Action Plan is the negotiation of bilateral Voluntary Partnership Agreements (VPAs) between the European Union and timber-producing countries. Under the terms of a VPA a country agrees with the EU to implement a timber licensing system. From that country, the EU will only accept licensed products, and unlicensed products will be refused customs clearance with the aim of preventing illegal products from entering the EU market.

4. Definition of sustainable within the UK government's TPP

To meet the UK TPP definition of 'sustainable' sources, timber and wood products must:

- (1) meet the legality requirements listed above, and
- (2) come from a forest which is managed in accordance with a definition of sustainable that meets the requirements set out below:
 - S1. The definition must be consistent with a widely accepted set of international principles and criteria defining sustainable or responsible forest management at the forest management unit level.
 - S2. The definition must be performance-based, meaning that measurable outputs must be included and cover all the issues set out in S5 to S9.
 - S3. The process of defining sustainable must seek to ensure balanced representation and input from the economic, environmental and social interest categories.
 - S4. The process of defining sustainable must seek to ensure:
 - a. no single interest can dominate the process; and
 - b. no decision can be made in the absence of agreement from the majority of an interest category.
 - S5. Management of the forest must ensure that harm to ecosystems is minimised. In order to do this the definition of sustainable must include requirements for:
 - a. appropriate assessment of impacts and planning to minimise impacts;
 - b. protection of soil, water and biodiversity;
 - c. controlled and appropriate use of chemicals and use of Integrated Pest Management wherever possible; and
 - d. proper disposal of wastes to minimise any negative impacts.
 - S6. Management of the forest must ensure that productivity of the forest is maintained. In order to achieve this, the definition of sustainable must include requirements for:
 - a. management planning and implementation of management activities to avoid significant negative impacts on forest productivity;
 - b. monitoring which is adequate to check compliance with all requirements, together with review and feedback into planning;
 - c. operations and operational procedures which minimise impacts on the range of forest resources and services; and
 - d. adequate training of all personnel, both employees and contractors; and

- e. harvest levels that do not exceed the long-term production capacity of the forest, based on adequate inventory and growth and yield data.
- S7. Management of the forest must ensure that forest ecosystem health and vitality is maintained. In order to achieve this, the definition of sustainable must include requirements for:
 - a. management planning which aims to maintain or increase the health and vitality of forest ecosystems
 - b. management of natural processes, fires, pests and diseases; and
 - c. adequate protection of the forest from unauthorised activities such as illegal logging, mining and encroachment.
- S8. Management of the forest must ensure that biodiversity is maintained. In order to achieve this, the definition of sustainable must include requirements for:
 - a. implementation of safeguards to protect rare, threatened and endangered species;
 - b. the conservation/set-aside of key ecosystems or habitats in their natural state; and
 - c. the protection of features and species of outstanding or exceptional value.
- S9. The forest management organisation and any contractors must comply with local and national legal requirements relevant to:
 - a. labour and welfare; and
 - b. health and safety.

5. Social criteria

Application of the TPP includes certain social criteria within the contract conditions. The social criteria must not be included in technical specifications for procurement of timber and wood-derived products, but only in recommended contract conditions. The social criteria that are included in model contract conditions are noted below for information purposes, as contractors may be required by contract conditions to provide evidence of compliance, for example through certification schemes.

Social criteria

Management of the forest must have full regard for:

- SC1. identification, documentation and respect of legal, customary and traditional tenure and use rights related to the forest;
- SC2. mechanisms for resolving grievances and disputes including those relating to tenure and use rights, to forest management practices and to work conditions; and
- SC3. safeguarding the basic labour rights and health and safety of forest workers.”

CEPT informs that according to a 2010 review, FSC and PEFC certifications meet its Category A level of compliance with the UK TPP.⁵⁶ Specifically, CEPT indicates that “If you purchase a product that has one of these labels, it is **Category A Evidence** and is considered to be both legal and sustainable by the UK Government’s definition, provided that a minimum of 70% of the material is from a certified source. However, if you purchase it from a non-certified supplier, the product’s form or packaging cannot have changed from the time that it left the certified supplier.” CPET notes that PEFC is an “umbrella scheme” which endorses national schemes. The Canadian scheme, CSA and the North American, SFI has been endorsed by PEFC.

⁵⁶ <http://www.cpet.org.uk/uk-government-timber-procurement-policy/evidence-of-compliance/category-a-evidence/approved-schemes>

CEPT informs that the UK TPP accommodates Category B evidence. This is defined as documentary evidence (other than Category A evidence) that provides assurance that the source is TPP-compliant. Category B evidence include requirements parallel to those listed above ensuring compliance with the UK TPP definitions of legal and sustainable. Criteria, checklists and practical guides are provided. CEPT identifies two or more pathways for small woodland owners in the UK to meet the Category B standards for compliance.

The UK case is representative of the current evolution of the implementation of public timber procurement policies across Europe to adjust to the entry into force of the EU Timber Regulation. Typically, these include adjustments to:

- Reconcile the list of covered products;
- Introduce or align the definition of legal timber with that found in the EU Timber Regulation;
- Make provision for timber licensed through the FLEGT VPAs.

Whereas it was noted that the government of France relies on third party verification through forest certification, implementation of the UK TPP has rigorous requirements for documentation. CPET's 5th advice note provides a Model Contract to facilitate compliance with the UK policy. The Model Contract indicates the longevity requirements for document holding (sections 2.2 and 2.3) and a right to request an independent verification (section3).

Annex D Model Contract Condition - Timber and wood-derived products

Please note that terms in square brackets will need to be defined according to the relevant contract in which the model contract condition is used.

1. Requirements for Timber

1.1 All Timber and wood-derived products supplied or used by [the Contractor] in performance of [the Contract] (including all Timber and wood-derived products supplied or used by sub-contractors) shall comply with [the Contract Specification].

1.2 In addition to the requirements of clause 1.1 above, all Timber and wood-derived products supplied or used by [the Contractor] in performance of [the Contract] (including all Timber and wood-derived products supplied or used by sub-contractors) shall originate from a forest source where management of the forest has full regard for:

- ☐ Identification, documentation and respect of legal, customary and traditional tenure and use rights related to the forest;*
- ☐ Mechanisms for resolving grievances and disputes including those relating to tenure and use rights, to forest management practices and to work conditions; and*
- ☐ Safeguarding the basic labour rights and health and safety of forest workers.*

2. *Requirements for Proof of Timber Origin*

- 2.1 *If requested by [the Contracting Authority], and not already provided at the tender evaluation stage, [the Contractor] shall provide to [the Contracting Authority] evidence that the Timber and wood-derived products supplied or used in the performance of [the Contract] complies with the requirements of [the Contract Specification]. If requested by [the Contracting Authority] [the Contractor] shall provide to [the Contracting Authority] evidence that the Timber and wood-derived products supplied or used in the performance of [the Contract] complies with the requirements of the social criteria defined in section 1.2 above.*
- 2.2 *[The Contracting Authority] reserves the right at any time during the execution of [the Contract] and for a period of 6 years from final delivery under [the Contract] to require [the Contractor] to produce the evidence required for [the Contracting Authority's] inspection within 14 days of [the Contracting Authority's] written request.*
- 2.3 *[The Contractor] shall maintain records of all Timber and wood-derived products delivered to and accepted by [the Contracting Authority]. Such information shall be made available to [the Contracting Authority] if requested, for a period of 6 years from final delivery under [the Contract].*

3. *Independent Verification*

- 3.1 *[The Contracting Authority] reserves the right to decide whether the evidence submitted to it demonstrates that the Timber and wood-derived products comply with [the Contract Specification]. [The Contracting Authority] reserves the right to decide whether the evidence submitted to it is adequate to satisfy [the Contracting Authority] that the Timber and wood-derived products comply with the requirements of the social criteria defined in section 1.2 above.*

In the event that [the Contracting Authority] is not satisfied, [the Contractor] shall commission and meet the costs of an 'independent verification' and resulting report that will (a) verify the forest source of the Timber and wood-derived products and (b) assess whether the source meets the relevant criteria.

- 3.2 *In [this Contract], 'Independent Verification' means that an evaluation is undertaken and reported by an individual or body whose organisation, systems and procedures conform to ISO Guide 65:1996 (EN 45011:1998) General requirements for bodies operating product certification systems or equivalent, and who is accredited to audit against forest management standards by a body whose organisation, systems and procedures conform to ISO 17011: 2004 General Requirements for Providing Assessment and Accreditation of Conformity Assessment Bodies or equivalent.*

New Zealand provides an example of a public timber procurement policy that straddles the examples identified above. The key features of the policy include:

- Government departments are required to seek legally sourced timber and wood products.
- Government departments are strongly encouraged to buy timber and timber products from sustainably managed sources. The Government expects its agencies to take all reasonable steps to ensure products are from sustainably managed sources.
- Paper is now included under the TWPP policy (i.e. wood products includes paper).

- Government departments are required to document for audit their verification of the legality of timber and timber products purchased.

Timber and wood products are identified as rough, sawn and dressed timber; plywood and veneers; fabricated wood; wooden structural components, fittings and joinery; wooden furniture and paper products.

The policy applies equally to domestic and imported wood products and applies to all tender contracts and all term-supply contracts. Similar to the UK system, government agencies have been provided with model clauses for tender offers that address requirements for legality and sustainability. Similar to France, the New Zealand TPP identifies forest certification as a means to meet the requirements for legality and sustainability. FSC and PEFC are identified as meeting New Zealand's requirement. Explicitly identified also are the American Tree System, Canadian Standards Association, Sustainable Forest Initiative, Malaysian Timber Certification Council. "New Zealand also reserves the right to recognise any other systems that can, to New Zealand's satisfaction and verification, prove they meet New Zealand's requirements for legality and/or sustainability."

As noted above, public timber procurement policies tend to have different approaches for who holds the documentation for audit purposes. In the case of the UK, the supplier retains the documentation subject to audit on demand. In the case of France, the government agencies retain the documentation to meet any oversight requirements. These differences tend to reflect only the way that government treats audit requirements for agencies and contractors. In the case of New Zealand, government agencies are required to document for audit their verification of the legality of timber and wood products purchased. Tender specifications require verifiable documentary evidence of any supplier claims related to sustainability, chain of custody certification or other proof of origin from sustainably managed sources.

Government agencies should have in place systems for recording, on a contract by contract basis, timber and wood products procurements, noting steps to ensure legality, any supplier claims and documentation of certification or equivalence, and the reasons for sourcing decisions.

Private Sector wood product procurement policies

Private sector timber procurement policies tend to follow slight different paths depending on the role of the firm in the market chain: manufacture of wood products; or alternatively, wholesaler or retailer of wood furniture, building supplies or other wood based products.

Wood Manufacturers

Most modern multi-national forest product companies have established policies that speak directly to wood procurement with a focus on sustainable forest management. Most companies also address affirmatively the issue of legality in wood sourcing.

Boise Cascade is an example of an integrated forest products company that owns forest land, harvests and procures wood supplies externally, as well as produces and trades under its name products from other suppliers. Relevant sections of Boise Cascade wood procurement policy are provided below:

"Boise Cascade, L.L.C. (Boise Cascade) is an international wood products company that is committed to implementing and achieving sustainable forestry where it procures round wood, oriented strand board, and veneer from other forest landowners, wood suppliers, and manufacturers. To practice sustainable forestry is to meet the needs of the present without compromising the ability of future generations to meet their own needs by practicing a land stewardship ethic that integrates reforestation, and the managing, growing, nurturing, and harvesting of trees for useful products with the conservation of soil, air, and water quality, biological diversity, wildlife and aquatic habitat, recreation, and aesthetics.

Boise Cascade is committed to implementing internationally recognized forestry certification programs, including the Sustainable Forestry Initiative® (SFI®), Forest Stewardship Council™ (FSC®), and the Programme for Endorsement of Forest Certification™ (PEFC™) Standards and the requirements addressing responsible wood procurement from sustainably managed forests. Boise Cascade seeks to continually increase its procurement from certified sources.

Boise Cascade is committed to compliance with all national and international environmental, forestry, worker protection, and other relevant laws and regulations. Boise Cascade expects all of its wood suppliers to comply with laws and regulations pertaining to their forestry operations and provide information regarding fiber source and certification percentage.

Boise Cascade implements best efforts to avoid purchase wood that originates from illegal sources, fiber harvested in violation of traditional and civil rights, wood harvested in forests where high conservation values are threatened by management activities, wood harvested in forests being converted to plantations or non-forest use, wood from forests in which genetically modified trees are planted, or wood from old growth forests. When conducting harvesting operations in forests that contain threatened and endangered species and communities, Boise Cascade complies with all laws and regulations to protect these species and communities. Our procurement personnel are responsible for tracking the geographic origin, legality, and certification status of fiber purchased for our production facilities.

Approved: March 1, 2011
Tom Carlile, CEO"
Retail

IKEA is an example of a retailer that acknowledges that it sources wood widely and economically. It has established core principles for wood suppliers and personnel charged with enforcing its corporate concepts⁵⁷. It highlights that it recognizes FSC certified wood as a preferred source:

“Wood certified according to Forest Stewardship Council (FSC) Forest Management (FM) and Chain of Custody (CoC) standards meets the IKEA requirements for preferred sources.”

Equally, IKEA alerts wood suppliers that it intends to audit compliance with its principles:

“Suppliers must have procedures in place to secure this throughout their supply chain. They must know the origin of their wood and accept audits at every link in the chain. They regularly report the wood origin, volume and species used in IKEA products via the IKEA Forest Tracing System.”

Common and different elements among procurement policies -Points for Consideration

In summary, most public timber procurement policies have stabilized and passed through important phases of public consultations and rule-setting. Most of the more recent policy additions have been to include paper within a broader policy on timber and wood products giving emphasis to recycling and waste reduction. In implementation, many public timber procurement policies have been folded into a broader set of “green” or environmental guidelines or requirements addressing energy efficiency, waste reduction and recovery, water conservation, etc.

Similarly, policies on timber or wood product procurement by most private sector firms have been integrated into a broader code of ethics on the environment and forests. There is considerable variation in the implementation of government timber procurement policies with respect to the responsibility for record-keeping and audit management. These differences tend to reflect simply past practice in the country or firm. Many procurement policies accept third-party systems of verification as sufficient for legality assurance or forest sustainability. There continues to be significant divergence in policy implementation in both the public and private sectors on which forest certification systems are accepted as adequate.

Most European public timber procurement policies will require a round of adjustment to their implementation procedures to accommodate the recent entry into force of the EU Timber Regulation. Equally, adjustment in Australia in public sector procurement will come as the rules for the Illegal Logging Prohibition Act 2012 are finalized.

⁵⁷ http://www.ikea.com/ms/en_US/pdf/sustainability_report/group_approach_sustainability_fy11.pdf

Chapter 3: Economic impact of procurement policies on the tropical timber market and trade

3.1 Effects of procurement policies on demand, supply, market trade and prices

A key objective of this report is to understand the economic and market impacts of timber procurement policies on tropical timber market and trade. The analysis in Chapter 2 shows that timber sourced in both tropical and temperate regions is competing widely in the area of HS 44 products. In order to focus now on the economic and market impacts of timber procurement policies, it is vital to understand their evolution, adoption and implementation. National policies are conceived, adopted and finally implemented over a period of time of usually five to seven years in accordance with national rules for transparency and public involvement in the rule-making process. For market participants, the length of the rule-making process causes considerable consternation, anxiety and a sense of uncertainty.

Discussions surrounding public timber procurement policies have been characterized by strident positions about potential impacts by advocates and detractors. To explore closely the effects of public procurement policies on importing markets, a case study approach was adopted where the import history and patterns for Belgium and Italy were examined. These are two European importing markets about the same size: Belgium has established a policy governing procurement of timber for federal requirements; Italy does not have an explicit policy. A detailed economic assessment of the case of Belgium illustrates the challenge of measuring the direct and secondary effects of a public timber procurement policy and separating fact and outcome from fear and apprehension. The comparison of case studies is important to understand both how a policy goes from adoption to implementation and if the policy impacts are distinguishable from general trends in the economy.

Belgium: an illustration of the evolution of a public timber procurement policy

The policy context

A federal circular was issued 18 November 2005⁵⁸ requiring that all federal agencies and authorities use only wood derived from sustainable forest management. The adoption of the policy followed a number of years of national debate where forceful allegations were made by various interest groups about the use of wood in general, and the use of tropical wood in particular as a cause of tropical forest loss, associated declines in biodiversity and disruption of the lives of indigenous peoples. The design of the federal circular was assisted by a communication of the Federal Council on Sustainable Development (CFDD) a public advisory

⁵⁸ BELGISCH STAATSBLED — 09.02.2006 — MONITEUR BELGE

group that is convened to assist the government in addressing issues related to sustainable development⁵⁹.

The circular defines the basis for wood derived from sustainable forest management. A certification of sustainable forest management should be accompanied by an associated certificate of chain of custody. The circular identifies FSC and PEFC Belgium as meeting the criteria established. PEFC certification from other countries and other systems are required to meet equivalent standards and their approval is subject to the consideration of a committee established by the circular.

Currently, wood products carrying the relevant FSC and PEFC labels meet the requirements of Belgium's federal timber procurement policy for sustainability. Legality issues were widely discussed during the inception of the policy but not explicitly enshrined as a separate measure. The criteria to assess certification systems indicate that candidate systems must respect national laws and international conventions.⁶⁰ It is not clear how this procurement standard will be adjusted to respond to FLEGT licensed imports from VPA countries.

A review of the federal circular's effectiveness and its implementation was conducted by **ProForest** in 2008 to serve as a basis for a possible policy update. The review noted some incompatibilities among the criteria listed in the circular and the two endorsed certification systems. The review noted the challenges that federal sources would have in meeting their requirements as the supply of certified products was still limited especially in the area of tropical timber. Further, it highlighted the difficulty of meeting the traceability and certification requirements for products containing MDF and chipboard. The review noted that a policy review and update could help implementing agencies who were seeking clarity on a number of issues.

On 1 March 2011, relevant ministers, heads of government departments, wood product private sector associations and building trades signed an accord to use only legally sourced timber⁶¹. The agreement applies to all timber placed on the Belgium market and not just that used in publicly funded activities. The accord with duration until 2018, establishes goals for wood products from sustainably managed forests. The accord applies to both coniferous and non-coniferous sawn wood and panels. By the end of 2012, the share of timber placed upon the Belgian market by the signatories should have been 23.5 per cent, by the end of 2015, the share should be 29.25 per cent and by the end of 2018, at least 35 per cent of the timber placed on

⁵⁹ Conseil Fédéral du Développement Durable (CFDD), see http://www.frdo-cfdd.be/DOC/pub/ad_av/2005/2005a06f.pdf The CFDD report illustrates the range of debate, stakeholder groups and underlying issues being articulated.

⁶⁰ « Le système de certification des forêts doit garantir que la gestion forestière respecte les lois nationales et les conventions internationales; »

⁶¹ MONITEUR BELGE — 07.04.2011 — BELGISCH STAATSBLAAD

the market should be from sustainably managed forests. The accord indicates that its intent is to promote the use and public awareness of using timber from sustainably managed forests. Timber meeting these requirements may be accompanied by certification standards acknowledged by the relevant Belgium federal authority (currently PEFC or FSC) or an equivalent based on the criteria established the MCPFE or ITTO. The principles applied must be published publically and undergo a periodic independent audit. The systems of certification must be communicated to the Ministry of Environment for confirmation.

Currently, at the federal level, the federal circular has been enshrined in an online guide on sustainable procurement. FSC and PEFC certified products are identified as meeting the standard for interior and exterior construction and wooden floors⁶². Under all circumstances, wood sourcing should be in conformance with Circular P&O/DD/2 of 18 November 2005 which continues to define federal policy.

The market effects in Belgium

These policy discussions and associated news media reporting caused consternation among timber exporters and the timber trade. Many market participants feared that negative media will suppress demand for their products. Policy change and implementation causes near-term market uncertainty as exporters and importers seek clarification on the rules to be applied. In most countries, policy approval is followed by a long but very important period of rule setting often requiring an extended period of public input. The rule setting period is important because these rules establish the actual implementation standards and procedures. Again, the rule setting period gives way to considerable speculation on possible outcomes producing further anxiety among market participants. The new rules take time to understand and investment to meet the import/export requirements.

It is important to recall that timber producing and exporting firms invest continuously to match their products to changing market requirements. In some cases, these changes are fire-safety standards in target countries, in other cases, the changes may relate to use of adhesives and in others, the phyto-sanitary requirements for overseas shipment. In examining the market effects of public timber procurement policies, it will be important to measure the change in market performance rather than the anxiety levels of market participants.

Given the vibrant public policy debate promoting timber and wood products from legal and sustainable sources, significant measurable variations in Belgium imports might be hypothesized. One might suppose that the introduction of a public procurement policy underscoring sustainable forest management and/or policies on requiring legality assurance would have significant measurable effects.

⁶² <http://www.gidsvoorduurzameaankopen.be/fr/node/18>

As described in section 2.3, advocates for public timber procurement policies underline three aspects in favour of adoption: The large share of government expenditure in GDP will create a market for sustainable goods (they cite the figures of gross government expenditure or government expenditure as a share of GDP). This might be referred to as a direct market effect and this is obviously much smaller than the figures often cited⁶³. Second, it is asserted that government should play a leadership role to inspire consumers and responsible players in the private sector. This might be referred to as a leadership effect. Third, the action by government is foreseen to have knock-on effects causing suppliers to simplify their supply chains around sustainable products. This might be referred to as a supplier consolidation effect.

In the case of Belgium, a review of the public timber procurement policy and on-going national dialog greatly expanded this leadership effect with the adoption of the general accord of 2011 enshrining legality and sustainability across the economy throughout the building and trades sector. Equally, the Belgium and European Timber Trade Associations have underscored the need for their members to supply only timber meeting very rigorous standards. This supplier consolidation effect covers essentially the whole market for imports into Belgium.

In reviewing the utility and impact of a public timber procurement policy, it is important to examine what actually happened in the Belgium market for wood products imports in general and then tropical wood product imports more specifically. Did tropical wood products disappear from the Belgium market? Did non-tropical products replace tropical species in the market? How has the product mix imported to Belgium changed over time and how has the supply chain of tropical products changed?

A very complete picture of the overall trend in the Belgium market is provided by the European Timber Trade Federation⁶⁴ as part of an effort to understand the market effects of the implementation of the European Timber Regulation (EUTR). The data on Belgium used for the analysis in this study are taken from EUROSTAT and cross-checked against data from FAO and UNCOMTRADE, ITTO Market Analysis and the ETTF publication.

Table 21 displays economic data for Belgium from 1999-2012. This period is chosen as it bridges two economic recessions (2002-03; 2009-10) and two periods of greater economic prosperity (1999-2001; 2004-2008). The purpose is to see longer-term tendencies in the import market and changes in market shares across a number of product categories of interest to ITTO members. It will assist in an analysis of wood import statistics with possible explanatory

⁶³ In the case of Belgium, the share of the timber market possible to attribute to the federal timber procurement policy is less than two per cent.

⁶⁴ European Timber Trade Federation, 2012. *2011 Statistics – Belgium Timber trade monitoring in support of effective, efficient and equitable operation of the EU Timber Regulation (EUTR)*

variables to decipher any material economic change in the market as a result of the federal timber procurement policy⁶⁵.

Table 21 Belgium - Gross Domestic Product and Gross Fixed Capital Formation, 1999-2012⁶⁶

Millions of Euro	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP	238,877	252,543	259,803	268,620	276,157	291,287	303,435	318,829	335,815	346,375	340,739	356,069	369,981	376,229
GFCF	49,710	53,469	54,241	51,368	52,185	57,849	62,685	66,710	72,881	77,286	70,895	71,233	76,575	77,995
<i>private sector</i>	44,823	48,290	49,584	46,674	47,377	53,027	57,712	61,454	67,511	71,860	66,475	65,775	70,491	72,138
<i>public sector</i>	4,887	5,179	4,657	4,694	4,808	4,822	4,973	5,256	5,371	5,426	4,420	5,458	6,084	5,857

Table 22 shows the trends in the value in millions of Euro of Belgium's imports of industrial round wood, sawn wood and plywood from 1999-2011. The non-coniferous total is subdivided below each product into tropical and non-tropical. As will be demonstrated later, wood imports tend to mimic trends in the general economy as much of the wood imported from all sources is eventually used in construction or the production of other long-lasting goods such as furniture. Paper and paper products are excluded from this analysis.

Table 22 indicates that imports of industrial round wood have increased 28 per cent from 157 million Euro in 1999 to 202 million Euro in 2011. Equally, sawn wood imports have increased 23 percent from 486 million Euro in 1999 to 599 million Euro in 2011. Total plywood imports in 2011 at 196 million Euros remain just under the 198 million Euros imported in 1999.

The total value of *tropical* industrial round wood imported into Belgium during the period has declined by 49 per cent. The value of *tropical* sawn wood imports has climbed 45 per cent and the value of *tropical* plywood imports has declined 36 per cent.

⁶⁵ All data displayed in this report are in nominal terms. While some might argue for adjusting the data to an index in "real" terms, such adjustment creates a discussion about the choice of index, currency basis, purchasing power of parity, etc. Since many countries are discussed, it will be challenging to find a meaningful index of inflation comparable across all of the countries. For this analysis, it is desirable to keep it simple and comparable with data that can be extracted anytime from EUROSTAT or other public sources.

⁶⁶ EUROSTAT. Taken 15/07/2013 GFCF private sector is series P51_S14_S15. GFCF public is calculated as the difference between GDCF and GFCF private.

Table 22 Belgium imports of primary wood products (millions of Euro)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Industrial Round wood	157	168	141	102	100	113	115	137	202	169	139	192	202
Coniferous	58	73	57	42	43	48	45	56	104	79	60	100	95
Non-Coniferous	99	95	84	60	56	65	70	80	98	90	79	92	107
<i>non-tropical</i>	65	65	51	51	48	53	57	70	81	72	67	77	90
<i>Tropical</i>	34	30	33	8	8	12	13	10	17	18	12	15	17
Total Sawn wood	486	617	510	490	502	513	540	544	728	594	459	533	599
Coniferous	235	286	228	243	248	260	268	305	423	340	286	338	351
Non-Coniferous	251	331	283	247	254	253	271	238	305	254	172	195	248
<i>non-tropical</i>	129	144	143	126	124	122	125	35	117	106	76	71	72
<i>Tropical</i>	121	187	140	121	130	131	147	203	188	149	97	123	177
Total Plywood	198	217	205	179	183	216	224	265	232	223	165	181	196
Coniferous	51	58	46	46	49	69	66	70	62	63	53	64	62
Non-Coniferous	147	159	159	132	134	147	158	195	170	160	112	117	134
<i>non-tropical</i>	18	21	28	28	33	49	67	51	108	91	5	39	52
<i>Tropical</i>	129	138	131	104	101	98	91	144	62	69	106	78	82

Figure 1 shows the evolution over the period 1999-2011 of the market shares of imports by tropical, non-coniferous non-tropical and coniferous industrial round wood. The tropical share of industrial round wood imports declines noticeably from around 20 per cent during the period 1999-2001 to under 10 per cent after 2002. As will be shown later, this is largely due to a reduction in imports of industrial round wood from Indonesia as a result of a policy change favouring domestic production and restricting the export of unprocessed logs.

Figure 1 Belgium Imports of Industrial Round wood (millions of Euro)

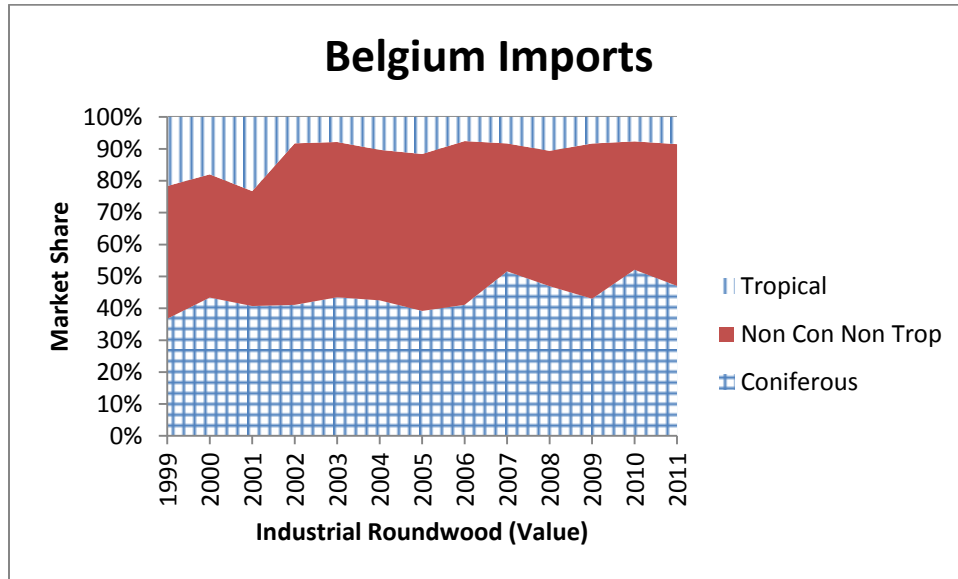
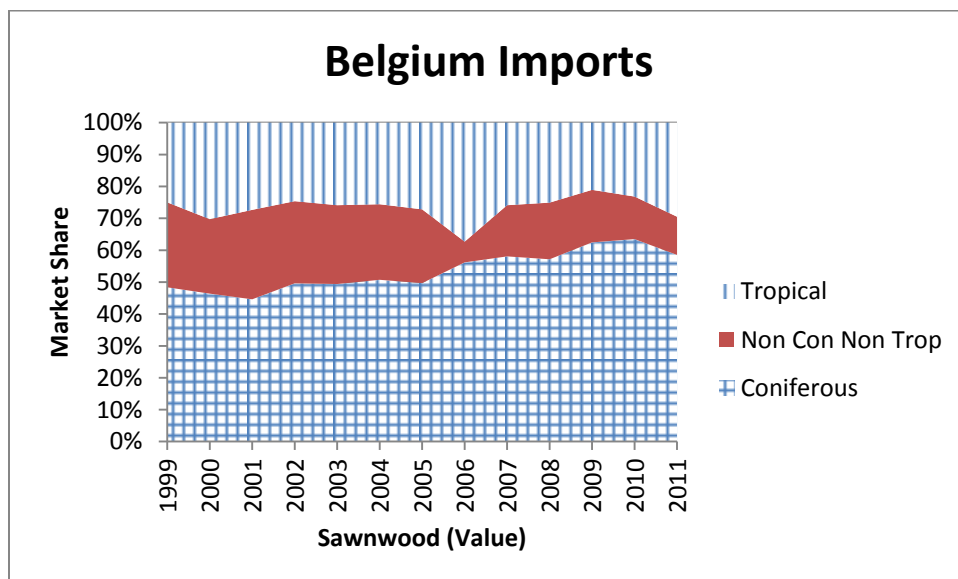


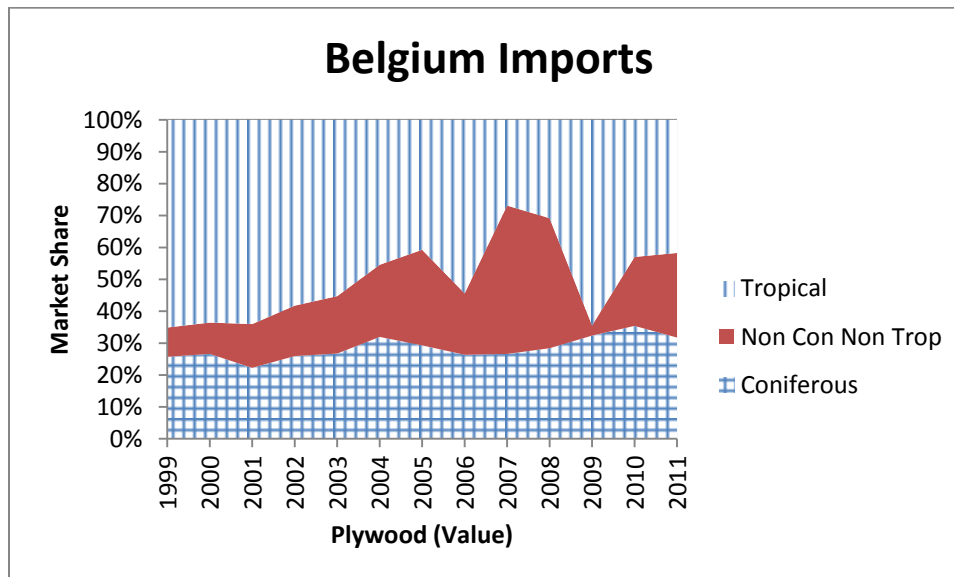
Figure 2 sketches the shifts in market share over the period of tropical, non-tropical non-coniferous and coniferous sawn wood imports into Belgium. The share of tropical sawn wood imports begins and ends the period at roughly 30 per cent. Coniferous sawn wood imports grow and non-coniferous, non-tropical species decline in share over the period.

Figure 2 Belgium Imports of Sawn wood (millions of Euro)



Equally, Figure 3 reveals profound shifts in the import market for plywood during the period. Non-coniferous non-tropical plywood began the period at 9 per cent of the import share and ended the period with 26 per cent of the import market. Belgium plywood imports from Indonesia declined substantially between 1999 and 2004.

Figure 3 Belgium Imports of Plywood (millions of Euro)



Important shifts in the market have occurred during the period of 1999-2011. There is an underlying trend in producer and developing consumer countries to add value to their timber resources before shipment. A number of consumer and producer countries limit exports of unprocessed logs and insist upon some level of primary processing. Table 23 shows the evolution in total HS 44 imports into Belgium from a number of non-EU (27) countries. A good number of countries are included in the table to address questions about market shifts among competing coniferous, non-coniferous non-tropical and tropical suppliers. Also notable are shifts from primary producers to value-adding suppliers. For example, China and Vietnam have emerged as major suppliers of furniture and wood components.

The table shows substantial declines in HS 44 imports from Indonesia and Malaysia. Imports from both countries peaked in 2000 and have experienced rather steady decline over the period. Brazil, Cameroon, China, Congo DRC and Gabon have substantially increased their exports to Belgium in HS 44.

Table 23 Belgium Imports HS 44⁶⁷ (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Albania		0		0		0	0	0	0	0	0			0
Australia	1	1	1	1	0	1	1	1	1	1	1	1	1	0
Benin	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Brazil	50	75	77	75	86	114	109	105	133	115	87	90	107	82
Cambodia	0			0	0	0	0	0	0	0	0	0	0	0
Cameroon	24	29	31	30	29	34	44	42	50	46	31	43	88	98
Canada	51	68	39	38	30	39	45	62	71	61	48	50	58	71
Chile	4	1	0	1	0	1	8	3	3	2	3	6	6	6
China	28	37	33	33	48	65	118	133	180	196	159	190	207	199
Colombia	0				0	0		0	0	0	0	0	0	0
Congo, DRC	2	2	5	7	7	11	17	22	27	26	11	16	20	16
Congo, Rep.	2	1	1	1	1	1	1	2	6	5	1	3	6	7
Côte d'Ivoire	8	9	9	5	6	7	7	9	11	9	7	8	10	17
Ecuador	0	0	0	0	0	0	0	0	0	0	0	0	1	0
Fiji		0			0		0				0			0
Gabon	3	3	6	6	5	5	7	8	8	9	8	17	21	25
Ghana	7	10	13	14	11	11	11	9	9	9	5	5	7	6
Guatemala		0				0	0	0	0		0	0	0	0
Guyana	0	0	0		0	0	0		0	0		0	0	0
Honduras	0	1	0	0	0	0	0	0	0	0	0	0	0	0
Indonesia	162	211	168	125	123	122	127	108	71	56	47	53	48	43
India	2	2	1	2	1	2	2	3	3	3	2	3	3	3
Japan	0	0	0	0	0	0	0	0	1	1	1	2	2	1
Korea, Rep.	1	1	0	0	0	0	0	0	0	0	0	0	0	0
Liberia		0	0	0	1	0					0		0	1
Mali	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Malaysia	90	139	87	67	71	66	60	79	74	52	41	44	47	47
Mexico	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mozambique	0	0	0	0	0	0	0	0	0	0	0		0	0
Myanmar	1	3	5	5	3	3	3	2	2	0	0			0
New Zealand	0	0		0		0	0		0	0	0	0	0	0
Nigeria	1	2	2	1	3	5	4	6	7	10	11	9	13	6
Norway	7	6	6	7	6	6	6	6	4	3	4	5	4	4
Panama					0	0	0		0	0	0	0	0	0
Peru		0	0	0	0	0	0	0	0	0	0	0	0	2
PNG	1	1	1	1	0	0	0	0	0	0	0	0	1	0
Philippines	2	2	2	3	5	6	6	7	4	3	3	4	3	1
Russian Fed.	51	60	38	46	50	41	42	65	73	35	38	47	58	46
South Africa	2	2	1	1	2	3	3	2	2	2	2	2	1	1
Switzerland	3	3	4	3	2	2	2	2	2	2	1	1	1	1
Trinid. &											0			0
Thailand	3	4	4	4	4	8	8	8	8	6	3	2	1	2
Togo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
USA	82	78	67	51	41	31	30	31	30	29	43	34	48	111
Uruguay	0	0	0	0	1	1	0	1	3	2	2	3	5	7
Vietnam	1	2	1	1	2	3	4	5	6	6	4	6	7	7

⁶⁷ EUROSTAT extraction 15/07/2013. Values are rounded to the nearest million Euros. Note that a value less than 500,000 euro yields a zero in display but is included in the total. A blank indicates no data reported by EUROSTAT.

Table 24 shows the total imports to Belgium over the review period by ITTO membership. Imports from ITTO producer members have declined from 306 million Euros in 1999 to 266 million Euros in 2012. Imports from ITTO consumer countries have increased from 1113 million Euros in 1999 to 1768 million Euros in 2012. EU27 imports to Belgium have increased from 991 million Euros in 1999 to 1451 million Euros in 2012. Imports to Belgium from non-EU27 ITTO consumers have increased from 123 million Euros in 1999 to 317 million Euros in 2012.

Table 24 ITTO group totals of Belgium Imports HS 44 (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ITTO Producer Countries	306	415	331	267	265	269	287	293	267	218	157	198	256	266
ITTO Consumer Countries	1113	1246	1242	1220	1233	1292	1361	1528	1881	1735	1501	1633	1714	1768
EU-27	991	1119	1132	1125	1136	1188	1205	1356	1664	1503	1293	1399	1451	1451
non-EU27	123	127	110	96	97	104	156	173	217	232	208	234	264	317

A series of simple regressions were conducted to examine correlations among the HS 44 import values and key economic indicators to serve as a basis for examining an effect on imports of the implementation of the federal timber procurement policy. Theory would suggest that wood imports in general would follow the pattern of evolution of the economy. Since this analysis concerns solid wood products used most often in construction and longer lasting uses such as furniture, there should be a better correlation with the formation of fixed assets. Gross fixed capital formation represents the total value of assets put into production during the year including replacement of used buildings and equipment as well as expansions of the capital base.

As can be seen in Table 21, gross fixed capital formation responds more quickly than GDP to changes in the economic outlook as GDP is dominated by more stable household and government final consumption expenditures. The part of Gross Fixed Capital Formation which is produced by the private sector dominates capital formation and also tends to react more quickly to changes in the economic outlook. Gross Fixed Capital Formation by government often moves against the economic cycle to buffer economic contraction. These are the “infrastructure, roads and bridges” programs funded by governments facing rising unemployment in the larger economy.

Given this theory, it might be expected that wood imports would be best correlated with gross fixed capital formation by the private sector, perhaps followed by a weaker correlation with gross fixed capital formation as a whole, then a still weaker correlation with GDP and a very weak correlation with gross fixed capital formation by government since it is less than 2 per cent of the whole economy.

Table 25 shows that outcome of the regression analysis. As anticipated, the value of imports from all ITTO members including the EU27 tends to track the general economy and has a good correlation with gross fixed capital formation. The best fit was expected to be with private sector gross fixed capital formation but the supposition was not supported by the data. Unexpectedly, imports from ITTO producer members were negatively correlated with both GDP and different measures of GFCF and yielded a poor fit.

Table 25 Simple regression results of wood imports, GDP and GFCF.

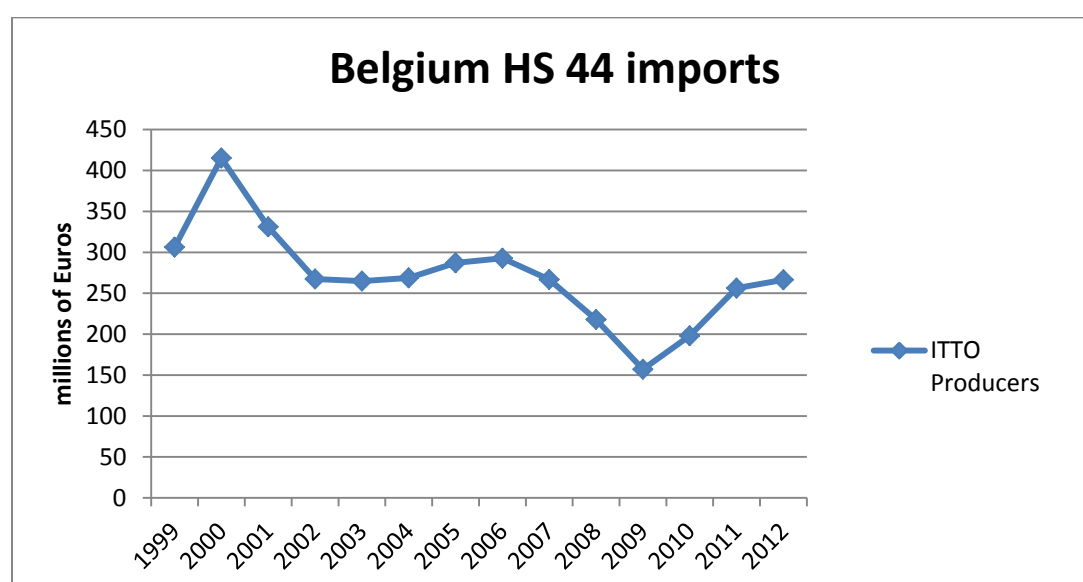
Dependent variable	Independent Variable	Estimated R squared	Estimated Equation
Annual value of HS 44 imports for all ITTO members	GDP	$R^2 = 0.688$	$y = 0.0041x + 457.43$
Annual value of HS 44 imports for all ITTO members	Gross Fixed Capital Formation	$R^2 = 0.801$	$y = 0.0192x + 507.62$
Annual value of HS 44 imports for all ITTO members	Private sector gross fixed capital formation	$R^2 = 0.786$	$y = 0.0196x + 581.87$
Annual value of HS 44 imports for all ITTO members	Public sector gross fixed capital formation	$R^2 = 0.6235$	$y = 0.3795x - 215.4$
Annual value of HS 44 imports for producer ITTO members	GDP	$R^2 = 0.4205$	$y = -0.0009x + 537.11$
Annual value of HS 44 imports for producer ITTO members	Private sector gross fixed capital formation	$R^2 = 0.3409$	$y = -0.0034x + 473.32$

The simple estimation process shows that solid wood imports tend to track reasonably well and consistently changes in the general economy. This implies that solid wood maintains a somewhat constant share in the building practices in use in the Belgium over time period studied. The decline in the value of tropical wood imports in the face of a growing economy suggests that the tropical wood has experienced a weakening preference by end users.

Attempts to estimate a time trend or a trend break with the introduction of the timber procurement policy produced statistically insignificant results. Figure 4 shows why a time trend and trend break are not statistically significant. From 2002 – 2006, imports from ITTO producers were relatively constant even as the economy grew. From 2006 -2008, imports

from ITTO producers declined markedly. This might be attributable to the market confusion caused by the introduction of the policy. 2009-2010 represented a period of broad economic contraction. In the face of this economic decline, imports from ITTO producers first shrank by 27.9 per cent and then expanded by 26.0 per cent. Belgium's economy rebounded in 2010 and continued a modest expansion in 2011. Imports from ITTO producer countries expanded by 29.5 and then 3.9 per cent. Thus the pattern after 2009 is more consistent with performance for wood imports under the general economic model suggesting that producers and importers had found the means and methods to re-integrate tropical timbers into the mainstream.

Figure 4 Belgium – HS 44 imports by ITTO producers (millions of Euros)



Tables 26, 27 and 28 record the changing situation of Belgium imports of HS 44 products from Indonesia, China and Gabon. The purpose is to show more product detail to examine if ITTO producer imports are trending towards value-added production as a consequence of changing market requirements and to understand how supply shifts are being manifest. Indonesia is an ITTO producer that has experience a marked decline of imports into Belgium. China is an ITTO consumer that has considerable expanded imports into Belgium, and finally, Gabon is an ITTO producer that has expanded imports into Belgium during the study period. Table 26 shows that HS 44 imports from Indonesia have declined from 162 million Euros in 1999 to 43 million Euros in 2012. Almost all HS 44 categories record a downward trend or absolute decline.

Table 26 Belgium imports HS 44 from Indonesia (thousands of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Imports	162,053	210,921	168,282	125,337	122,788	121,607	127,118	108,283	70,746	55,953	47,216	52,759	47,786	43,131
Fuelwood, chips, sawdust	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Charcoal incl from bamboo	638	551	518	491	788	485	450	461	756	641	1,109	875	463	1,695
Wood in the rough	0	12	24	0	23	142	0	0	44	1	0	55	0	3
Splits, poles, etc.	37	0	0	0	3	14	7	14	3	7	6	0	0	0
Wood wool, flour	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Railway sleepers	0	0	0	0	0	0	0	0	0	0	0	1	3	0
Sawn wood	7,470	13,941	10,157	5,178	7,524	5,788	7,223	6,727	2,194	2,618	1,384	1,112	803	796
Veneer sheets	0	0	36	23	25	151	0	50	58	135	0	108	1	0
Moulding, parquet elements	26,291	55,419	35,020	24,750	34,608	30,555	38,941	42,998	28,705	15,581	11,751	12,428	12,122	10,008
Particle board, OSB	0	0	0	0	0	0	15	0	0	0	0	0	0	0
MDF	126	0	0	0	0	0	0	12	0	0	0	0	80	0
Plywood	105,346	111,805	103,492	79,047	69,162	70,348	65,671	43,085	24,585	26,904	23,257	26,980	24,920	21,137
Densified wood in blocks, shapes	18	0	35	0	0	62	0	26	0	23	59	393	0	32
Wooden frames for mirrors, pictures, etc.	310	234	51	54	89	132	72	57	37	94	102	92	50	21
Packing cases, boxes, etc.	48	9	6	13	0	0	0	3	1	1	4	2	1	5
Casks, vats, barrels, tubs	3	2	0	0	1	19	29	9	0	2	0	0	1	0
Tool, broom handles	900	936	406	79	54	68	175	64	0	10	0	0	0	0
Builders' joinery and carpentry of wood, including assembled flooring panels	15,338	20,432	11,954	11,254	6,292	7,931	8,106	8,673	6,929	5,057	4,344	4,735	5,895	7,110
wooden tableware and kitchenware	1,082	435	558	130	86	191	216	173	78	88	199	92	54	87
Wood marquetry and inlaid wood; cases for jewellery or cutlery, and similar articles, of wood; statuettes and other ornaments of wood.	1,465	1,655	1,484	1,793	1,618	2,262	2,314	2,322	3,483	2,826	2,616	2,717	1,900	1,562
other articles of wood such as clothes hangers	2,982	5,490	4,540	2,527	2,515	3,460	3,900	3,607	3,874	1,966	2,384	3,171	1,494	675

Table 27 shows HS 44 imports into Belgium from China. Imports during the period increased from 29 million Euros in 1999 to 200 million Euros in 2012. Imports of sawn wood and veneer sheets expanded greatly and then contracted during the period. Plywood and other processed products have shown pronounced growth.

Table 27 Belgium imports HS 44 from China (thousands of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Imports	27,808	37,191	32,745	32,773	47,845	64,812	118,308	133,019	180,207	195,732	158,677	180,314	207,392	199,696
Fuelwood, chips, sawdust	0	0	0	0	0	5	8	23	4	9	13	10	6	89
Charcoal incl from bamboo	1	1	6	10	15	13	302	239	294	471	528	458	632	498
Wood in the rough	0	0	0	0	0	0	0	1	1	90	69	7	130	23
Splits, poles, etc.	74	76	160	110	104	73	112	113	46	71	51	26	83	62
Wood wool, flour	0	0	0	0	0	0	0	0	0	3	0	0	0	1
Railway sleepers	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sawn wood	870	594	447	439	1,196	597	1,102	2,661	2,454	2,399	3,022	2,290	926	843
Veneer sheets	655	605	523	761	482	1,168	1,881	1,927	2,869	2,129	497	818	730	473
Moulding, parquet elements	361	853	1,547	1,803	1,800	6,622	13,842	15,536	20,181	22,877	19,455	19,276	16,806	14,004
Particle board, OSB	0	0	0	0	45	140	65	94	163	473	1,209	730	589	134
MDF	0	0	0	0	0	39	202	1,440	1,308	1,091	1,010	663	625	1,032
Plywood	110	86	2,388	5,194	11,030	16,218	34,975	40,097	63,886	54,842	32,683	38,409	57,669	59,038
Densified wood in blocks, shapes	0	0	0	0	0	12	3	3	4	312	1,188	3,384	5,356	2,483
Wooden frames for mirrors, pictures, etc.	4,354	4,387	2,877	2,944	5,295	3,825	4,522	5,821	6,173	7,217	8,159	11,172	12,827	14,298
Packing cases, boxes, etc.	56	587	99	253	150	363	251	405	654	1,125	958	1,166	885	634
Casks, vats, barrels, tubs	8	0	0	13	19	3	23	108	96	26	16	3	16	2
Tool, broom handles	105	11	6	86	131	67	195	180	96	220	345	170	773	465
Builders' joinery and carpentry of wood, including assembled flooring panels	4,542	7,756	7,125	3,061	4,564	12,783	32,799	34,162	41,487	61,849	53,615	70,155	67,157	65,544
Wooden tableware and kitchenware	1,942	2,837	1,944	2,061	1,901	2,496	3,041	3,127	4,245	4,460	4,897	5,247	5,382	5,242
Wood marquetry and inlaid wood; cases for jewellery or cutlery, and similar articles, of wood; statuettes and other ornaments of wood.	7,059	8,541	7,971	8,949	11,424	8,880	8,767	12,257	15,304	14,075	9,907	11,318	9,603	11,563
Other articles of wood such as clothes hangers	7,670	10,858	7,652	7,090	9,688	11,507	16,218	14,826	20,942	21,995	21,055	25,012	27,197	23,268

Table 28 show HS 44 imports to Belgium from Gabon. Imports during the period increased from just fewer than 3 million Euros in 1999 to more than 25 million Euros in 2012. The most notable increase was in sawn wood from 2010 possibly reflecting Gabon's ban on log exports and emphasis on value addition.

Table 28 Belgium imports HS 44 from Gabon (thousands of Euros)

[illegible]

Italy – a EU27 country not implementing a public timber procurement policy

To understand whether the implementation of the federal public timber procurement policy in Belgium has had a material impact in the marketplace, it will be vital to compare the trends and changes in HS 44 import values with a comparator country where no public timber procurement policy has been established or implemented. This represents a control whether the variation in imports seen in Belgium is related to the existence of a public timber procurement policy or more simply a reflection of changing market conditions.

A review of relevant Italian ministry websites, documents and personal communications did not indicate an explicit public policy on timber procurement. Italy has been the home to a large and vibrant furniture and construction industry. A very detailed look at Italy's wood imports and wood supply situation has been prepared by the European Timber Trade Federation.⁶⁸

Table 29 shows the pattern of HS44 imports to Italy. It is a pattern that closely resembles that found for Belgium. Import value from the EU27 climbs from 2,057 million Euro in 1999 to 2,488 million Euros in 2012 (an increase of 21 per cent over the period). Imports from ITTO producer countries decline by 68 per cent over the period from 419 million Euros in 1999 to 174 million Euros in 2012. Imports from non- EU27 ITTO consumers declined by 17 per cent from 386 million in 1999 to 320 million in 2012.

⁶⁸ European Timber Trade Federation, 2012. *2011 Statistics – Italy Timber trade monitoring in support of effective, efficient and equitable operation of the EU Timber Regulation (EUTR)*.

Table 29 HS 44 Imports to Italy (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ITTO Producer Countries	419	484	489	453	445	459	472	456	451	386	222	242	210	174
Benin	1	2	3	2	2	2	2	2	2	1	1	0	0	0
Cambodia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cameroon	107	137	128	116	112	121	117	118	113	103	61	66	65	56
Colombia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	15	17	24	20	21	20	23	26	22	21	7	7	8	5
Côte d'Ivoire	99	105	109	100	84	86	86	78	81	77	42	44	33	28
Dem Republic of the Congo	5	4	3	4	6	8	9	14	18	7	4	2	4	2
Ecuador	1	1	0	0	0	0	1	0	1	0	0	0	0	0
Fiji	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gabon	20	28	37	39	46	64	72	65	64	56	32	43	34	28
Ghana	30	35	41	36	33	32	36	31	25	22	12	13	12	7
Guatemala	4	3	2	2	2	3	2	3	2	3	3	2	2	3
Guyana	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Honduras	0	0	0	0	0	0	0	0	0	0	0	0	0	0
India	4	5	4	4	4	5	4	4	4	5	4	4	3	4
Indonesia	85	83	67	56	60	59	62	56	58	49	26	31	27	22
Liberia	8	17	21	19	10	0	0	0	0	0	2	0	0	2
Malaysia	25	29	29	32	39	33	32	36	31	34	25	24	20	15
Mali	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mozambique	0	1	1	2	1	1	1	1	0	0	0	0	0	0
Myanmar	11	15	15	15	18	21	19	18	25	2	0	0	0	1
Panama	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Peru	2	2	1	1	2	2	2	1	1	1	0	1	0	0
Philippines	1	1	1	1	1	2	2	2	1	1	1	1	0	0
Togo	0	0	1	1	2	2	2	1	2	1	0	1	1	0
Trinidad and Tobago	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ITTO Consumer countries	2,443	2,760	2,616	2,702	2,667	3,168	3,153	3,697	3,861	3,322	2,676	3,248	3,309	2,808
Albania	7	9	8	9	7	7	7	7	8	8	7	8	8	8
Australia	0	1	0	1	2	1	1	1	1	0	0	0	0	0
China	34	46	51	47	52	73	103	148	213	218	150	193	190	158
European Union (27)	2,057	2,330	2,234	2,360	2,340	2,817	2,789	3,270	3,357	2,863	2,342	2,835	2,915	2,488
Japan	1	1	0	1	0	0	0	0	0	0	0	0	0	0
New Zealand	1	1	0	0	0	0	0	0	0	0	0	1	3	2
Norway	4	2	1	0	0	0	0	0	0	0	0	0	0	0
Republic of Korea	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Switzerland	121	127	120	103	99	101	98	112	105	96	81	86	75	66
United States of America	218	244	201	181	166	168	156	158	177	137	97	124	117	86
<i>Non EU27 ITTO consumer countries</i>	<i>386</i>	<i>430</i>	<i>383</i>	<i>342</i>	<i>327</i>	<i>351</i>	<i>364</i>	<i>427</i>	<i>504</i>	<i>459</i>	<i>335</i>	<i>412</i>	<i>394</i>	<i>320</i>

Since there was no public timber procurement policy, it is important to understand what might have been the driving change in imports. ETTF (2012) notes that,

Over the last five years, Italy's large wood product manufacturing sector has struggled against declining construction activity and falling furniture consumption. Italian construction activity plunged in 2008 and 2009 and has remained low ever since. Although still host to one of the world's largest furniture industries, production value in the sector fell by around 20% between 2009 and 2011 to €20.27 billion. The decline is due to falling furniture consumption in Italy (which plunged 13% in 2011) and increasing competition from other manufacturers, both within and outside the EU. These trends are reflected in a 21% fall in total solid timber supply to Italy between 2007 and 2011, from 28.4 million m3 to 22.5 million m3. Italy's wood manufacturers are heavily dependent on imports which accounted for 98% of all solid wood supply in 2011.

The review highlights the importance of imports to the construction and furniture sector in Italy and in particular underscores,

In 2011, Italy imported 16.8 million m3 (RWE) of solid timber products from inside the EU, 13% less than in 2007. Italy imported 5.2 million m3 from outside the EU in 2011, 34% down compared to 2007. Imports from inside the EU consist primarily of softwood sawnwood from Austria and Germany. There has also been a significant rise in imports of glulam from Austria in recent years. Imports from outside the EU are dominated by hardwood logs and sawn from Croatia, softwood sawn from Ukraine, hardwood sawn from the USA, softwood logs and sawn from Switzerland, and softwood sawn and hardwood plywood from Russia. In terms of product groups, there has been very little change in the overall profile of Italian timber imports from outside the EU during the last 5 years.

Table 30 compares market outcomes between a country with a public timber procurement policy (Belgium) and a country without an explicit policy (Italy). The decline in imports from ITTO producers has been much more steep (-58 per cent) in the case of Italy than in the case of Belgium (- 13 per cent). Non-EU ITTO consumer countries also suffered a decline in the case of Italy (-17 per cent).

Table 30 Market developments in HS 44 import values (Belgium and Italy)

Country / ITTO group	HS 44 import value in millions of Euros in 1999	HS 44 import value in millions of Euros in 2012	Percent change
Belgium			
ITTO consumers	1113	1768	59
<i>EU27</i>	991	1451	46
<i>Non-EU 27</i>	123	317	158
ITTO producers	306	266	-13
Italy			
ITTO consumers	2443	2808	15
<i>EU27</i>	2057	2488	21
<i>Non-EU 27</i>	386	320	-17
ITTO producers	419	174	-58

The comparison of market outcomes for ITTO members between Italy and Belgium is intended only to help illustrate the fact that in term of market outcomes, the presence of federal public timber procurement policy has not generated a market outcome distinguishable from a similar economy without such a policy.

Annex B includes data on HS44 imports over the period 1999-2012 for a number of European countries including those with and without public timber procurement policies. The pattern is fairly consistent across the group. The value of timber imports tends to move with the economic cycle. The period 1999-2001 was frequently the point of greatest import value from ITTO producers in Africa and Asia. A significant decline began during the 2002-2003 recession with total values already 20-30 per cent below their peak before most public timber procurement policies were established. The period of expansion 2005-2008 was advantageous for many ITTO members but a reorientation of trade in Asia is evident.

The period of 2009-2012 has been a period of general economic contraction across Europe that has slowed the pace of construction and imports. In the case of Ireland, Italy, Greece, Portugal and Spain, the economic contraction has been profound. The country by country examination of HS 44 import data show that EU27 countries as a block have gained market share in HS 44 imports. The share of ITTO non-EU27 consumers has varied; growing in some cases and declining in others. ITTO producer countries have experienced declines in import value of up to 60 per cent.

The value of HS 44 imports from China has expanded enormously in almost every European country. This reorientation of trade tends to disrupt the analysis of timber procurement

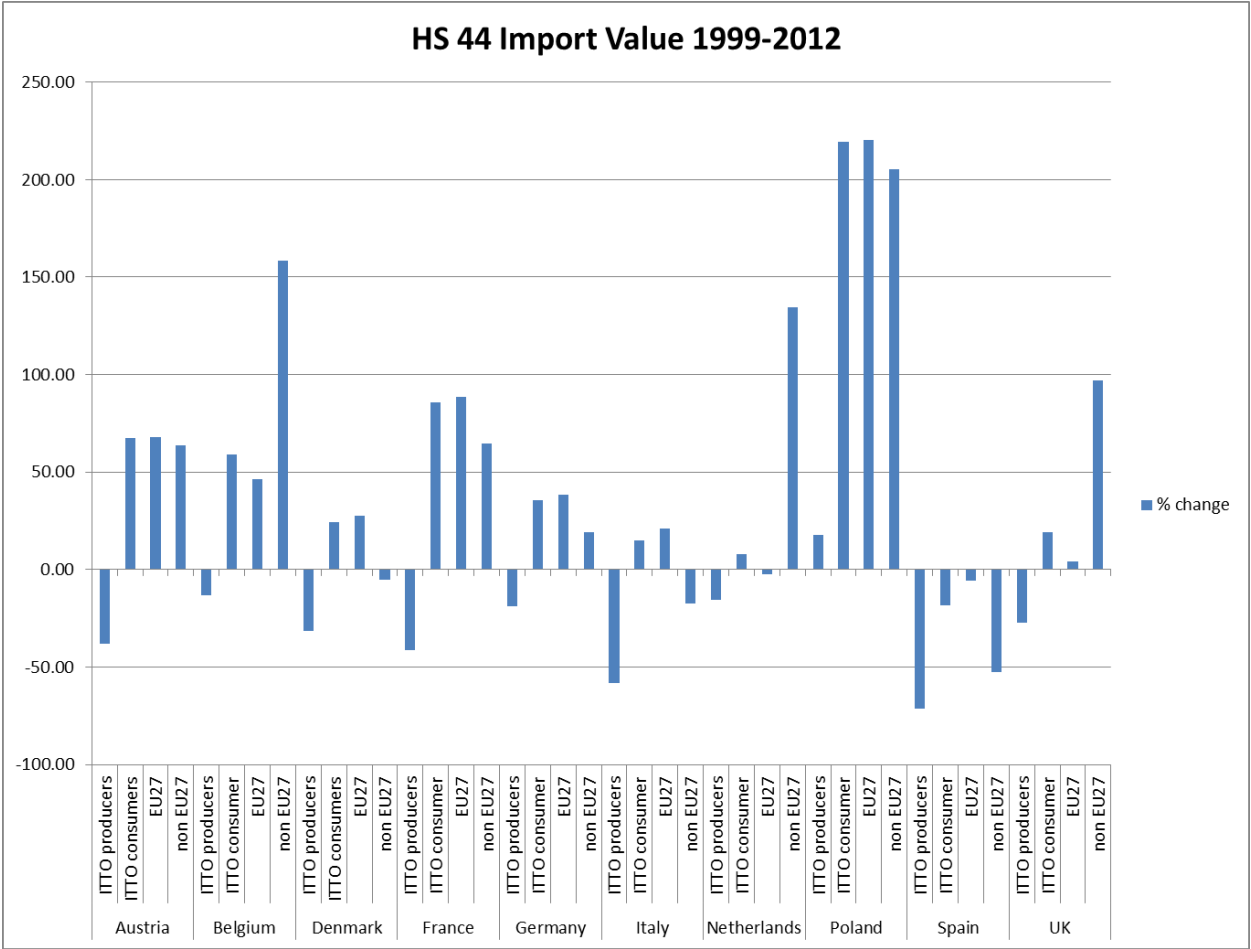
policies with many ITTO producers increasing their exports of primary timber products to China with some of these returning to Europe as HS 44 imports.

Figure 5 shows the growth or contraction in HS 44 import values in Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Poland, Spain and the UK. As mentioned earlier, Austria, Belgium, Denmark, France, Germany, Netherlands and UK have institutionalized public timber procurement policies requiring standards related to sustainability, legality or both. Italy, Poland and Spain do not appear to have formal policies in this regard. Italy and Spain were selected for comparison because they have been robust importers from ITTO producer countries in the past. Poland was selected to understand the comparability with more northern European countries that have sustained moderate to strong growth even in the period of economic crisis.

Poland was the only country where all categories of ITTO member countries experienced growth in import values over the period under review. In every other case, ITTO producers experience a contraction in HS 44 import values. Import values from ITTO producers contracted more severely in Spain and Italy (without public timber procurement policies) than the six European countries with such policies. This is not to imply that public timber procurement policies sustained growth but simply to demonstrate that the market has produced comparable trends and outcomes for countries without timber procurement policies as for those with them. As a result, it is not possible to conclude that these policies have had a material negative impact on the market. Imports from ITTO producers have declined across the board in European countries largely but not wholly as a consequence of the economic recession in Europe. Where the economy has been more resilient or there has been an uptick in construction – imports from ITTO producers have expanded rapidly.

More profound has been the general decline in tropical timber imports in Europe while imports from all other regions including China have grown or expanded. This could be attributable to a change in preferences by end use consumers, changes in the cost of production of tropical timber products or changes in the technologies in end use applications. Chapter 4 of this report examines some of the economic issues challenging tropical timber and their ability to meet timber procurement policies and practices.

Figure 5 Selected European countries with and without public timber procurement policies – percentage change in HS 44 imports 1999-2012.



Wood supplies meeting the requirements of public timber procurement policies

The supply of timber products offering assurances of legality and sustainability has expanded through time. The implementation standards for all national level public procurement policies accept an appropriate combination of FSC and PEFC certificates. While supply limitations were cited initially as these policies began implementation, ITTO has noted the rapid expansion of forest coverage by FSC and PEFC from past reports of its Committee on Economic Information and Market Intelligence.

PEFC (2012) reports

“the global certified area has grown by 40% over the past five years and Chain of Custody certification has increased four-fold.”

Furthermore, FSC and PEFC both assert that there is a good supply of their labelled products.

FSC (2012) reports in its 2012 global market survey that

There is sufficient supply of FSC Mix, FSC Controlled Wood and FSC recycled materials and products in the market. Also for FSC 100% a majority of 53% believes there is enough supply in the market.

Table 31 recounts FSC and PEFC data on forests certified by country and the number of chain of custody certificates issued. Neither system reports data on products sold. Capability to supply timber to meet national timber procurement policies can only be inferred from the expanding capacity. It can be inferred from the data that there is sufficient labelled product to meet the demands originating from activities guided by public timber procurement policies. It can also be seen that few timber suppliers in ITTO producer countries have achieved the certification required for public timber procurement policies.

Table 31 Hectares certified and the number of chain of custody certificates issued by FSC and PEFC for ITTO members⁶⁹.

Country	FSC		PEFC		Total ⁷⁰	
	Hectares	Chain of Custody	Hectares	Chain of Custody	Hectares	Chain of Custody
ITTO producers						
Benin					0	0
Cambodia	12,746	1			12,746	1
Cameroon	1,013,374	12			1,013,374	12
Colombia	113,520	31	0	1	113,520	32
Congo, Rep of	1,574,310	2			1,574,310	2
Côte d'Ivoire		1			0	1
Dem Rep of the Congo					0	0
Ecuador	53,765	5			53,765	5
Fiji					0	0
Gabon	1,873,505	9			1,873,505	9
Ghana	1,675	6			1,675	6
Guatemala	433,596	14			433,596	14
Guyana					0	0
Honduras	107,343	3			107,343	3
India	418,018	245	0	13	418,018	258
Indonesia	1,679,117	191	0	17	1,679,117	208
Liberia		1			0	1
Malaysia	464,568	158	4,649,912	253	5,114,480	411
Mali					0	0
Mexico	742,669	70	0	1	742,669	71
Mozambique	51,550	1			51,550	1
Myanmar					0	0
Panama	51,216	2			51,216	2
Papua New Guinea					0	0
Peru	915,365	31	0	7	915,365	38
Philippines		6	0	2	0	8
Togo					0	0
Trinidad & Tobago					0	0

⁶⁹ Extracted 29.9.2013 from the web sites of FSC and PEFC. A blank indicates no reported accreditation.

⁷⁰ Some double counting may occur where a company has accreditation from both systems.

Table 31 Hectares certified and the number of chain of custody certificates issued by FSC and PEFC for ITTO members⁷¹ (cont.).

Country	FSC		PEFC		Total ⁷²	
	Hectares	Chain of Custody	Hectares	Chain of Custody	Hectares	Chain of Custody
ITTO Consumers						
Albania					0	0
Australia	841,693	306	10,452,055	243	11,293,748	549
Austria	575	224	2,698,433	439	2,699,008	663
Belgium	21,016	304	289,050	244	310,066	548
Bulgaria	194,268	42	0	2	194,268	44
China	2,881,609	3,143	0	195	2,881,609	3338
Cyprus					0	0
Czech Republic	50,185	146	1,845,321	156	1,895,506	302
Denmark	198,664	243	250,986	68	449,650	311
Estonia	1,141,098	171	897,688	26	2,038,786	197
Finland	431,813	97	21,068,333	186	21,500,146	283
France	19,463	801	4,577,972	2065	4,597,435	2866
Germany	570,791	1997	7,387,074	1511	7,957,865	3508
Greece		11	0	0	0	11
Hungary	321,561	104	0	14	321,561	118
Ireland	446,591	88	0	32	446,591	120
Italy	33,723	1675	766,171	642	799,894	2317
Japan	400,692	1104	0	213	400,692	1317
Korea, Rep of	375,175	192	0	6	375,175	198
Latvia	1,740,297	203	1,683,641	26	3,423,938	229
Lithuania	1,058,750	157	0	8	1,058,750	165
Luxembourg	20,404	19	30,438	20	50,842	39
Malta		9			0	9
Netherlands	169,684	1362	0	485	169,684	1847
New Zealand	1,487,489	150	0	18	1,487,489	168
Norway	266,336	37	9,125,902	41	9,392,238	78
Poland	6,998,775	956	7,304,356	75	14,303,131	1031
Portugal	327,763	123	233,918	58	561,681	181
Romania	2,413,319	155	0	18	2,413,319	173
Slovakia	144,541	101	1,233,364	47	1,377,905	148
Slovenia	256,096	162	0	10	256,096	172
Spain	149,464	576	1,589,319	645	1,738,783	1221
Sweden	11,676,119	280	9,275,801	127	20,951,920	407
Switzerland	610,868	517	205,974	65	816,842	582

⁷¹ Extracted 29.9.2013 from the web sites of FSC and PEFC. A blank indicates no accreditation.⁷² Some double counting may occur where a company has accreditation from both systems.

United Kingdom	1,567,623	2352	1,298,047	1156	2,865,670	3508
United States of America	14,308,009	3350	32,961,753	317	47,269,762	3667

Table 31. Hectares certified and the number of chain of custody certificates issued by FSC and PEFC for ITTO members (cont)⁷³

Country	FSC		PEFC		Total ⁷⁴	
	Hectares	Chain of Custody	Hectares	Chain of Custody	Hectares	Chain of Custody
ITTO Producer Countries	9506337	789	4649912	294	14156249	1083
ITTO Consumer Countries	51124454	21157	115175596	9158	166300050	30315
ITTO Members	60630791	21946	119825508	9452	180456299	31398

3.2 Impacts of procurement policies on costs and financial implications to exporter countries.

Timber procurement policies imply that a timber purchaser sets a standard that must be met by suppliers. A more rigorous standard presents new challenges to suppliers. Not all suppliers may be able to or choose to meet the standard. By implication, a more rigorous standard will imply higher delivered costs. Each supplier will weigh the profit that can be maintained by serving this procurer versus serving other markets or other buyers.

Take New Zealand, Boise Cascade or Home Depot simply as examples respectively of public sector, private sector wood procurement and product manufacture, and finally, private sector retail. The cost to timber suppliers to serve these markets is to achieve certification using one or more of the nationally or internationally recognized forest certification schemes along with an associated chain of custody certificate. Some buyers favour one scheme over other whereas others accept certificates from a broad spectrum of certification schemes. For example, Home Depot recognizes only FSC certifications. Boise Cascade accepts FSC but also a number of others such as SFI and PEFC. Still broader, New Zealand recognizes both national schemes for sustainable forest management alongside recognizing a number of international schemes. New Zealand underscores that their policy does not endorse one scheme over another.

⁷³ Extracted 29.9.2013 from the web sites of FSC and PEFC. A “-” indicates no accreditation.

⁷⁴ Some double counting may occur where a company has accreditation from both systems.

In the case of the USA, the legality standard established through the Lacey Act 2008 amendment applies equally to all suppliers domestic or international. All suppliers must exercise “due care” in meeting the requirements of the law to ensure all relevant laws of the supplying country have been met.

Integration of the EU Timber Regulation within the European national timber procurement policies presents some particular challenges that are still being resolved. The national timber procurement policies in Europe were adopted often five to ten years before the European Timber Regulation was finalized along with its implementing regulations. As mentioned in the text of the report, these national policies put sustainability foremost and some make little mention of legality at all. FLEGT VPA was not mentioned in any of the original policies. The national policies are trying to retrofit EUTR and FLEGT VPA provisions within the national policy context and existing procedures.

For example, most of the national policy schemes accept FSC and PEFC certified timber as sufficient to meet their requirements and yet the rules for due diligence for the EUTR indicate that FSC and PEFC certifications are useful information that could assist operators but not wholly sufficient to meet the requirements. These uncertainties make production planning and marketing extremely difficult for operators in tropical countries. It is not possible to “estimate” financial costs associated with this period of prolonged uncertainty of how these markets will shape their rules but it is also not realistic to say that the effects are negligible.

The EU Timber Regulation and FLEGT Regulation regard FLEGT licensed timber as meeting the legality standard without any additional documentation and this timber can be placed freely on the European market. Establishment and validation of the Timber Legality Assurance System in the VPA countries has taken longer than foreseen with no FLEGT licensed timber currently flowing from these partner countries. FLEGT VPA countries have chosen to meet the challenge of the EU Timber Regulation by producing a public good – each constructing a national Timber Legality Assurance System. Some of the challenges of establishing the TLAS are described in Chapter 4.

The national public timber procurement systems, however, have requirements for timber from sustainable sources and not simply legal. The rules for treatment of FLEGT licensed timber products are not yet published. CPET alerts contractors serving central UK government procurement that they will need a chain of custody assurance from the port of entry of FLEGT licensed timber to the work site. CPET informs that timber imported from FLEGT VPA countries which do not yet have approved TLAS will be processed subject to Category B verification practices.

Financial Implications to exporter countries

To evaluate any financial implications to exporter countries of timber procurement policies, a base for the analysis must be established. Measures at the national level may include export earnings, taxes, industry employment and the like. Most domestic measures like employment in the forestry sector are poorly documented and are heavily influenced by domestic production and consumption. A reasonably clean and uniform measure across a series of countries may be total export earnings from HS 44 products.

Table 32 shows the total value of world imports of HS 44 components during the period 2001-2011. During the decade 2001-2011, total world imports increased by roughly 82 per cent from almost \$70 billion in 2001 to \$120 billion in 2011. It is worth noting that total imports reached zenith of \$129 billion in 2007 collapsing to \$92 billion in 2009. Table 33 shows the year-to-year variation in imports globally. The table shows that collectively wood product exporters suffered notable declines in earnings in 2007-2008 and significant declines of up to 30 per cent from 2008-2009.

These tables are noteworthy because they serve as benchmarks against which to compare the export earnings of ITTO producers to see how they fared against the underlying experience of all exporters globally. Table 34 shows the HS 44 export earnings of ITTO Producer Countries. ITTO Producer Country export earnings rose 48 per cent during the decade from \$8.3 billion in 2001 to \$12.3 billion in 2011. Table 35 shows the annual per cent variation in HS 44 export earnings of ITTO Producers as a group and individually.

As expected, individual countries will show more variation than a group or the world. On balance, export earnings for ITTO Producer countries as a group were more volatile than the variation seen at the global level up to 2006 and then more stable than world totals since 2006. They declined less during the global recession of 2008-2009 and have gained less in the more prosperous period of 2009-2011. 2011 HS 44 export earnings for ITTO Producer countries exceed their 2007 level whereas at the world level the 2011 is still below its 2007 peak.

In summary, HS 44 export earnings for ITTO Producer countries have proven to be more resilient than the variation seen at the global level among exporters of all types of timber. ITTO Producer Country export earnings were higher in 2011 than any preceding year. At the global level, HS 44 exports earnings have been more volatile and have not yet regained their 2007 level. The EU27 has been importing progressively lower levels of HS 44 products from ITTO Producer Countries. This trend began before public sector timber procurement policies were established in a number of European countries. The decline of European HS 44 imports from ITTO Producers is manifest broadly across Europe but the decline is even greater in Italy, Spain, Greece and a number of other countries without public timber procurement policies.

These declines in imports are largely attributable to broad-based economic recession that progressively deepened from 2008 -2012.

In the case of Australia and New Zealand, ITTO Producer Countries as a group have sustained market share during a period of greater prosperity. Export earnings of ITTO Producers from Asia to Australia have increased more than 5 fold from 2001-2012.

USA imports of HS44 products declined from roughly \$25.6 billion in 2005 to just under \$12 billion in 2011. This trade is dominated by softwood lumber imports from Canada. ITTO Producer Countries have maintained their share of total imports during this period of market contraction. The US market for HS 44 imports had contracted by more than \$10 billion by the end of 2008. As such, the entry into force of the Lacey Act 2008 amendments occurred after this strong market correction and implementation of the Lacey Act 2008 amendments has occurred during a period of increasing imports from ITTO Producer member countries.

Table 32 Total World Exports of HS 44 products (millions of \$US)

	Product descriptions	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
HS44	Total World	69,564	73,515	83,071	101,143	107,307	114,970	129,456	122,189	92,229	109,939	126,039
'4407	Wood sawn/chipped lengthwise, sliced/peeled	23,575	24,260	26,017	31,583	32,990	34,313	37,671	32,353	24,430	30,058	34,035
'4403	Wood in the rough	9,350	9,494	10,559	12,358	13,181	14,191	17,602	16,635	11,483	15,014	18,575
'4412	Plywood, veneered panels and similar laminated wood	7,083	7,572	8,557	10,878	11,633	12,731	14,004	13,120	9,039	11,345	13,142
'4418	Builders' joinery & carpentry of wood	6,057	6,602	7,739	9,458	10,161	11,689	13,185	13,047	10,130	11,233	12,459
'4411	Fibreboard of wood or other ligneous materials	3,621	4,425	5,322	6,731	7,453	7,910	9,268	9,104	7,365	8,208	9,491
'4401	Fuel wood; wood in chips or particles; sawdust&wood waste&scrap	2,523	2,508	2,896	3,432	3,880	4,409	5,272	6,229	5,384	6,780	8,189
'4410	Particle board and similar board of wood or other ligneous materials	3,796	4,072	5,474	7,437	7,565	7,471	7,599	7,071	5,316	6,170	7,044
'4421	Articles of wood, nes	2,973	3,203	3,782	4,508	4,743	5,128	5,687	5,698	4,805	5,208	5,760
'4409	Wood continuously shaped along any edges	2,821	3,157	3,664	4,753	5,142	5,817	6,114	5,526	4,081	4,668	4,913
'4408	Veneer sheets&sheets for plywood &other wood sawn lengthwise	2,458	2,628	2,875	3,340	3,490	3,659	4,040	3,759	2,574	2,912	3,179
'4415	Packaging materials of wood	1,396	1,445	1,729	1,862	1,925	2,121	2,722	2,934	2,120	2,443	2,909
'4420	Wood marquetry & inlaid wood; caskets & cases or cutlery of wood	1,294	1,350	1,437	1,510	1,565	1,655	1,858	1,831	1,424	1,567	1,666
'4419	Tableware and kitchenware of wood	556	583	639	695	731	798	885	979	800	863	976
'4402	Wood charcoal (including shell or nut charcoal)	288	304	384	425	503	537	627	738	765	802	962
'4414	Wooden frames for paintings,photographs, mirrors or similar objects	764	846	858	949	972	1,022	1,106	1,093	918	945	910
'4416	Casks,barrels,vats,tubs etc. of wood	361	383	386	413	456	517	622	721	606	538	609
'4406	Railway or tramway sleepers (cross-ties) of wood	147	167	200	191	228	234	262	378	270	390	306
'4417	Tools, tool & broom bodies & handles, shoe lasts of wood	171	181	193	211	224	240	271	288	239	266	328
'4413	Densified wood, in blocks, plates, strips or profile shapes	159	150	173	193	218	262	354	360	241	262	281
'4404	Hoopwood; split poles; piles, pickets, stakes;chipwood	143	151	147	171	195	209	237	250	179	193	217
'4405	Wood wool; wood flour	28	32	40	45	51	58	70	75	60	75	87

Table 33 Year to year variation in total export value globally (per cent)

	Product descriptions	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
HS44	Total World	5.7%	13.0%	21.8%	6.1%	7.1%	12.6%	-5.6%	-24.5%	19.2%	14.6%
'4407	Wood sawn/chipped lengthwise, sliced/peeled	2.9%	7.2%	21.4%	4.5%	4.0%	9.8%	-14.1%	-24.5%	23.0%	13.2%
'4403	Wood in the rough	1.5%	11.2%	17.0%	6.7%	7.7%	24.0%	-5.5%	-31.0%	30.8%	23.7%
'4412	Plywood, veneered panels and similar laminated wood	6.9%	13.0%	27.1%	6.9%	9.4%	10.0%	-6.3%	-31.1%	25.5%	15.8%
'4418	Builders' joinery & carpentry of wood	9.0%	17.2%	22.2%	7.4%	15.0%	12.8%	-1.0%	-22.4%	10.9%	10.9%
'4411	Fibreboard of wood or other ligneous materials	22.2%	20.3%	26.5%	10.7%	6.1%	17.2%	-1.8%	-19.1%	11.4%	15.6%
'4401	Fuel wood; wood in chips or particles; sawdust&wood waste&scrap	-0.6%	15.5%	18.5%	13.0%	13.6%	19.6%	18.1%	-13.6%	25.9%	20.8%
'4410	Particle board and similar board of wood or other ligneous materials	7.3%	34.4%	35.8%	1.7%	-1.2%	1.7%	-6.9%	-24.8%	16.1%	14.2%
'4421	Articles of wood, nes	7.8%	18.1%	19.2%	5.2%	8.1%	10.9%	0.2%	-15.7%	8.4%	10.6%
'4409	Wood continuously shaped along any edges	11.9%	16.1%	29.7%	8.2%	13.1%	5.1%	-9.6%	-26.2%	14.4%	5.2%
'4408	Veneer sheets&sheets for plywood &other wood sawn lengthwise	6.9%	9.4%	16.2%	4.5%	4.8%	10.4%	-7.0%	-31.5%	13.1%	9.1%
'4415	Packaging materials of wood	3.5%	19.7%	7.7%	3.4%	10.2%	28.4%	7.8%	-27.8%	15.2%	19.1%
'4420	Wood marquetry & inlaid wood; caskets & cases or cutlery of wood	4.4%	6.4%	5.0%	3.6%	5.8%	12.2%	-1.4%	-22.3%	10.0%	6.4%
'4419	Tableware and kitchenware of wood	4.9%	9.5%	8.7%	5.3%	9.2%	10.9%	10.6%	-18.2%	7.8%	13.1%
'4402	Wood charcoal (including shell or nut charcoal)	5.9%	26.2%	10.6%	18.4%	6.7%	16.7%	17.8%	3.7%	4.8%	19.9%
'4414	Wooden frames for paintings,photographs, mirrors or similar objects	10.8%	1.4%	10.6%	2.4%	5.1%	8.3%	-1.2%	-16.0%	3.0%	-3.7%
'4416	Casks,barrels,vats,tubs etc. of wood	6.1%	0.6%	7.1%	10.3%	13.4%	20.3%	15.9%	-16.0%	-11.2%	13.2%
'4406	Railway or tramway sleepers (cross-ties) of wood	13.5%	19.9%	-4.9%	19.5%	2.8%	11.9%	44.3%	-28.7%	44.7%	-21.6%
'4417	Tools, tool & broom bodies & handles, shoe lasts of wood	6.3%	6.3%	9.4%	6.3%	7.1%	13.0%	6.0%	-16.9%	11.2%	23.6%
'4413	Densified wood, in blocks, plates, strips or profile shapes	-5.6%	15.1%	11.6%	13.1%	19.9%	35.2%	1.8%	-33.0%	8.6%	7.0%
'4404	Hoopwood; split poles; piles, pickets, stakes;chipwood	5.1%	-2.4%	16.6%	13.4%	7.6%	13.2%	5.5%	-28.5%	8.1%	12.4%
'4405	Wood wool; wood flour	16.6%	22.8%	14.0%	13.6%	12.2%	21.2%	7.1%	-20.0%	24.4%	16.6%

Table 34 HS 44 Export Earnings of ITTO Producers (millions of \$US)

HS44	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total World	69,564	73,515	83,071	101,143	107,307	114,970	129,456	122,189	92,229	109,939	126,039
ITTO Producer Countries	8,281	8,015	8,450	9,577	10,355	11,660	12,153	12,207	9,621	11,212	12,291
Benin	3	8	5	4	4	5	4	5	4	5	7
Cambodia	23	16	9	9	10	10	9	4	5	38	52
Cameroon	288	274	355	462	433	528	508	601	355	446	482
Colombia	29	34	31	32	33	39	68	69	46	35	33
Congo	-	-	-	-	-	-	214	225	170	115	-
Côte d'Ivoire	277	-	259	345	340	308	356	380	218	236	205
Dem Republic of the Congo	26	28	40	67	98	143	192	204	112	131	158
Ecuador	69	65	85	86	96	116	148	176	155	206	228
Fiji	0	19	17	24	28	22	32	38	20	43	-
Gabon	331	291	193	372	475	502	665	634	558	-	-
Ghana	-	-	179	-	640	281	299	286	221	196	483
Guatemala	23	17	20	21	49	28	67	63	51	48	57
Guyana	37	38	30	50	50	66	72	58	46	43	51
Honduras	141	58	60	58	46	67	63	59	40	40	29
India	30	43	50	82	100	120	149	187	147	164	221
Indonesia	3,354	3,278	3,181	3,271	3,111	3,356	3,128	2,880	2,341	2,936	3,375
Liberia	109	147	103	0	-	0	0	1	6	7	39
Malaysia	2,812	2,953	3,139	3,798	4,049	4,656	4,695	4,725	3,767	4,319	4,489
Mali	0	0	0	0	0	0	0	0	-	0	-
Mexico	387	358	331	381	408	468	422	388	295	288	299
Mozambique	12	18	16	34	32	36	32	39	38	56	146
Myanmar	-	-	-	-	-	-	-	-	-	607	-
Panama	9	7	9	-	9	15	13	10	7	16	30
Papua New Guinea	83	105	67	183	-	-	-	-	-	-	-
Peru	78	103	97	122	153	199	196	209	149	164	158
Philippines	147	144	165	167	181	688	814	960	866	1,068	1,747
Togo	2	1	1	1	1	-	1	1	1	2	2
Trinidad and Tobago	11	10	8	8	10	6	6	6	4	5	-

Table 35 Annual Per cent Variation in Export Earning for ITTO Producers 2001-2011

HS44	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Total World	5.7%	13.0%	21.8%	6.1%	7.1%	12.6%	-5.6%	-24.5%	19.2%	14.6%
ITTO Producer Countries	-3.2%	5.4%	13.3%	8.1%	12.6%	4.2%	0.4%	-21.2%	16.5%	9.6%
Benin	167.9%	-44.5%	-21.0%	16.8%	25.5%	-25.0%	23.7%	-9.5%	1.6%	44.8%
Cambodia	-30.1%	-41.5%	-0.3%	1.6%	4.0%	-9.7%	-60.5%	34.2%	695.0%	37.8%
Cameroon	-5.1%	29.9%	30.1%	-6.3%	22.1%	-3.9%	18.3%	-40.9%	25.8%	8.0%
Colombia	16.7%	-9.0%	2.6%	3.0%	19.3%	71.7%	2.5%	-33.7%	-24.2%	-4.9%
Congo	na	na	na	na	na	na	5.5%	-24.7%	-32.4%	na
Côte d'Ivoire	na	na	33.5%	-1.6%	-9.5%	15.8%	6.7%	-42.6%	8.1%	-13.0%
Dem Republic of the Congo	9.7%	40.2%	68.3%	45.9%	46.5%	34.5%	6.0%	-45.1%	16.5%	21.1%
Ecuador	-5.2%	30.3%	1.2%	12.2%	20.6%	27.5%	18.6%	-11.5%	32.4%	10.7%
Fiji	na	-8.9%	42.6%	14.4%	-19.6%	44.9%	16.4%	-48.0%	117.1%	na
Gabon	-12.1%	-33.5%	92.5%	27.6%	5.6%	32.4%	-4.7%	-11.9%	na	na
Ghana	na	na	na	na	-56.1%	6.5%	-4.4%	-22.6%	-11.1%	145.8%
Guatemala	-29.3%	18.8%	7.6%	130.5%	-41.9%	137.5%	-6.4%	-18.7%	-5.2%	18.0%
Guyana	3.1%	-22.3%	67.7%	0.3%	32.5%	9.6%	-19.1%	-21.9%	-5.6%	17.6%
Honduras	-59.1%	3.1%	-3.1%	-19.7%	44.6%	-5.7%	-7.3%	-32.3%	-0.1%	-27.1%
India	40.9%	17.0%	64.9%	21.0%	20.7%	24.4%	25.2%	-21.7%	11.8%	34.7%
Indonesia	-2.2%	-3.0%	2.9%	-4.9%	7.9%	-6.8%	-7.9%	-18.7%	25.4%	15.0%
Liberia	35.7%	-30.4%	-99.8%	na	na	-59.7%	1158.8%	416.1%	24.0%	467.2%
Malaysia	5.0%	6.3%	21.0%	6.6%	15.0%	0.8%	0.6%	-20.3%	14.6%	4.0%
Mali	-41.5%	-39.5%	239.1%	-70.5%	-17.4%	842.1%	87.2%	na	na	na
Mexico	-7.3%	-7.6%	15.1%	7.1%	14.6%	-9.8%	-8.0%	-24.0%	-2.3%	3.8%
Mozambique	45.6%	-11.2%	110.4%	-3.7%	10.0%	-10.8%	22.7%	-2.0%	46.6%	161.4%
Myanmar	na	na	na	na	na	na	na	na	na	na
Panama	-17.1%	26.3%	na	na	64.3%	-14.4%	-24.6%	-28.3%	118.1%	93.8%
Papua New Guinea	26.8%	-36.3%	172.8%	na	na	na	na	na	na	na
Peru	32.4%	-5.5%	25.4%	25.2%	29.9%	-1.4%	6.8%	-28.6%	9.6%	-3.5%
Philippines	-2.2%	15.0%	0.9%	8.2%	281.1%	18.2%	18.0%	-9.8%	23.4%	63.5%
Togo	-54.6%	-36.2%	0.8%	87.5%	na	na	127.2%	-13.1%	64.4%	31.4%
Trinidad and Tobago	-9.5%	-11.6%	-5.7%	19.3%	-36.0%	-6.4%	8.8%	-40.3%	33.7%	na

Chapter 4. Challenges faced by producer and consumer country members in complying with the requirements of timber procurement policies and in developing and implementing these policies.

4.1 Identify and examine the difficulties and obstacles faced by tropical timber producers and consumers in meeting the requirements of timber procurement policies.

In their adoption or amendment, all known national public timber procurement policies establish two means to comply with their requirements. One category of compliance is through the use of selected certificates of forest management and certificates demonstrating chain of custody control. This is often referred to as Category A compliance. A second category of compliance is established whereby a set of explicit standards must be met through other documentation (which could include certificates of sustainable forest management and chain of custody). This is referred to as Category B compliance. At the national level, most of these apply to both domestic and imported timber, are required for central government procurement and advisory for decentralized government.

In the case of national level public timber procurement policies, the detail and rigor of their requirements for legal and/or sustainable timber has caused most users of the system to rely exclusively on labelled timber products. Users of the system are defined as government procurement agents and central government contractors. The consulting team could not find any evidence of a Category B acceptance.

In their implementation, all known public and private timber procurement policies accept the combined FSC forest certification and associated FSC chain of custody certificate as meeting full compliance with their requirements. In principle, there is no difficulty or obstacle for tropical timber producers and consumers if all forest owners, all forest product producers and all wood products importers only process, transport or import FSC certified wood.

In their implementation, some but not all public and private timber procurement policies accept PEFC certificates. In the practice of implementing the policy, an even smaller group accepts certificates from national standard setting processes.

In principle, tropical timber producers and consumers can meet the requirements of timber procurement policies. In practice, this is rarely observed. Tropical timber producers in

ITTO member countries find it extremely difficult to understand the applicable rules and standards to meet the many of the public and private sector procurement policies.

The shared principles are straightforward. No ITTO member country condones the practice of illegal timber harvest or trade in illegal timber products. No ITTO member country wishes to export illegally produced products and no ITTO member country wishes to import products not meeting the laws of the exporting country. All ITTO member countries have affirmed this through their support of a number ITTO Council decisions on illegal trade.

Equally, ITTO members have endorsed numerous guidelines on sustainable forest management covering various aspects of tropical forests – plantations, natural forests, conservation of biological diversity, etc. The ITTO Council has taken various decisions supporting forest certification, standard setting and the role of third-party audits as a voluntary practice.

In most ITTO member countries, the harvest, processing, export and import of tropical timber products is conducted by private sector entities. Each ITTO member country faces a challenge of supervising these firms and ensuring that they meet national laws and standards. All ITTO members seek additional funds either internally or externally to improve their supervision of private sector compliance with national laws and regulations.

Forest certification, chain of custody certification and third-party auditing emerged as private sector solutions to broker trust and confidence in the products marketed by private sector firms. Numerous national certification standards were established to help reduce the costs of building confidence in forest products and helping small landowners maintain access to domestic and international markets.

Forest certification is a competitive field with different systems vying for recognition, market share and customer support. The challenge is not necessarily the process of administering the forest certification systems themselves but each system has a cadre of champions promoting specific issues or causes within the standard setting process of each forest certification system.⁷⁵

The challenge faced by tropical timber producers and consumers is that implementation of public and private timber procurement policies has fallen under the sway of the competing forces in forest certification.

Well-known leading environmental non-governmental organizations were pivotal in the launching of FSC. They have remained key supporters as they feel strongly that its governance

⁷⁵ This is not unusual in commerce and tropical timber trade has not been singled out. The giants of the electronics world have done battle over every imaginable standard for two decades. These include recording standards for video (PAL, VHS, NTCS, Blue-ray), wireless transmission, web browsers, et.al.

process is more socially-responsive than other systems. They have been key supporters in the establishment of national public timber procurement policies and they have been instrumental in persuading important private firms to embrace FSC standards. They have been very effective in working at the national level in committees and review processes to champion FSC certification and cast doubt on the use of other standards. In the end, this is not about economics or following the right procedures. It is simply a consequence of effective public advocacy based on deep convictions.

For example, Australia and New Zealand recognize most national systems of forest certification and chain of custody certification as documenting 'legal and sustainable' timber where the public policy requires legal timber but prefers further timber from sustainably managed sources. The Malaysia Timber Certification Scheme (MTCS) is one of the recognized forest certification standards verifying legality and sustainability.

As mentioned earlier, one of the procedural factors that vary among the governments with a public timber procurement policy is their processes to review forest certification systems and other evidence of compliance with the implementing standards. The implementation of the public timber procurement policy of the Netherlands is guided by the document entitled *Framework for Evaluating Evidence of Compliance with Timber Procurement Requirements (February 2010)*. The relevant minister established a Timber Procurement Assessment System and a Timber Procurement Assessment Committee (TPAC) which serves in an advisory capacity to the relevant Minister. The policy requires timber meet a rigorous test of sustainability through "a set of clear 'Procurement Criteria for Timber' which have been developed with Dutch stakeholders"⁷⁶.

The Dutch review has concluded that MTCS did not meet their standards for sustainability. Specifically, the published TPAC review of the MTCS⁷⁷ concluded that standards for social aspects – interests of stakeholders and biological diversity maintained or enhanced were not met. TPAC's Stakeholder Forum Report of March 3, 2010 where it documents public comments on its review of the MTCS is effectively a dialog with Greenpeace –Netherlands.

Further, when TPAC, the authority charged with review, considered the adoption of the PEFC International label, procedural appeals were launched claiming that PEFC could not maintain sufficiently rigorous oversight over national systems under the PEFC umbrella such as the Australian National System and the Sustainable Forestry Initiative and thus the umbrella label

⁷⁶ <http://www.tpac.smk.nl/32/home.html>

⁷⁷ <http://www.tpac.smk.nl/Public/TPAC%20Assessments%20results/Overview%20of%20scores%20MTC%20S.pdf> Overview of scores of the revised judgement of the Timber Procurement Assessment Committee (TPAC) on the Malaysian Timber Certification System (MTCS) dated 22 October 2010.

provided risk that unsustainably managed timber could be procured for use by the federal government. TPAC persuaded the arbitration board that it could demand adequate compliance from the national systems directly and PEFC where needed.

Recalling this by example does not call into question the decisions of TPAC or the right of concerned national non-governmental organizations to challenge government. It simply demonstrates unequivocally the active advocacy of national groups in standard setting for the implementation of public timber procurement policies and the competition, direct or implied among the forest certification systems.

It should be noted that this dispute over acceptance of certification systems is not limited to tropical suppliers. The U.S. Green Building Council (USGBC) is currently establishing their newest Leadership in Energy and Environmental Design (LEED) rating tool, LEED v4. The Sustainable Forest Initiative, Canadian Standards Association and American Tree Farm System have been in a long running debate with the USGBC on LEED's "Building product disclosure and optimization - sourcing of raw materials" credit, which recognizes only certified wood from the Forest Stewardship Council (FSC).

In summary, tropical timber suppliers can meet the requirements of timber procurement policies by providing their consumers with the correct certifications for their products. In many cases, tropical timber suppliers and consumers have demonstrated an ability to comply with public and private procurement policies. However, complying with the necessary procedures, including certifications typically requires sustained commitment on the part of the suppliers as well as significant financial, organizational and social resources. It should be remembered that even in those countries with a policy, central government procurement remains a niche segment of that country's market. Seen in the larger context, not all producers will find it profitable to obtain the required certificates when they have competitive market options.

Unfortunately, a reasonable degree of reciprocity, mutual recognition and respect among the proponents of competing forest certification systems has not been achieved. The subtle variations in certification requirements among various national timber procurement policies and private sector procurement practices increase cost and confusion among suppliers and consumers. This failure to achieve a reasonable degree of reciprocity, mutual recognition and respect among the proponents of competing forest certification systems has become a significant impediment to sustaining tropical timber trade and advancing sustainable forest management in the tropics.

4.2 Analyze and assess the ability of suppliers of tropical timber in meeting the requirements and costs of timber procurement policies.

A small number of suppliers of tropical timber have already met the requirement and costs of timber procurement policies and are supplying these markets both public and private. These tend to be specific firms operating in the tropics with direct marketing relationships with consumer country firms focusing on high value niche markets. They have gained FSC or PEFC certification and have the ability to control their wood supplies and product transport. As noted in section 2.4, these two certifications are considered Category A evidence of compliance with most public timber procurement policies.

However, what is true for a few select firms is unlikely to be true for the bulk of tropical timber production. Oliver & Donkor (2010) identified for ITTO the strengths, weaknesses, threats and opportunities that tropical timber producers face in a rapidly evolving marketplace. Oliver & Donkor (2010) note that the wood products industry remains fragmented with firm size quite small compared to industries offering competing building materials such as aluminium, cement, plastics and steel. This fragmentation and small size is even more pronounced in the tropics than other major wood producing regions. They note the significance of firm size in capacity to undertake research, development and marketing of new products. Larger firms also have the capacity to market the environmental credentials of their products and processes in key end use products.

An example of the importance of research, development and marketing capacity can be seen in the success of Malaysia in developing its rubberwood resource.

Oliver & Donkor (2010) note that tropical hardwoods from natural forests face steep competitive pressures from rapidly evolving substitutes in their traditional markets (Japan, Europe and North America). In general, they find that market shares for tropical products are being eroded by competitively priced substitute wood products and this is squeezing the price margins for the products still present. The analysis in this paper shows this to be strongest in Europe and somewhat in Japan with tropical timbers holding share in Australia and North America.

It is important to distinguish among public timber procurement policies, private sector firm procurement practices and legality assurance requirements. Public timber procurement policies apply to government purchases of timber that in reality are a very small portion of the modern marketplace. Private firms' procurement practices are intended to be economically advantageous while maintaining social credibility. Only a small but visible number of direct retail firms have policies related to wood. The preponderance of the policies on forest products

in firms relate to the use of paper with recycled content. Legality assurance requirements represent the greatest challenge to tropical producers supplying traditional markets.

Some analysts have argued that it is impossible to expect a single operator to conduct business according to the rules if his neighbour is able to cut costs by ignoring the rules. This is basis for a “rule of law” that serves the common good. The ITTO Thematic Programme on Forest Law Enforcement, Governance and Trade (TFLET) is based on the same concept.

Australia, the EU and the USA have been actively communicating their legality requirements to their trading partners. An extensive and broad based outreach effort has been conducted by the EU through voluntary partnership agreements within the context of their Forest Law Enforcement and Governance and Trade initiative (FLEGT VPA). FLEGT VPA aims to facilitate trade in legal timber through capacity building and civil society involvement.

The EU FLEGT VPA intends to assist the trading partner country build the capacity to issue FLEGT licences for timber exports to the EU market. The capacity building component seeks to assist the EU’s timber trading partners to define clearly the laws applicable to forest extraction, processing, transport and export. Civil society’s engagement throughout the process is considered vital. Timber accompanied by a FLEGT export licenses is considered by the EU as meeting the legality requirements described under the EU Timber Regulation.

Central to the success of the FLEGT timber export licensing is a transparent system within the timber producing country to verify product compliance with the applicable national laws. This system of verification or validation of legal compliance is broadly referred to as a Timber Legality Assurance Systems or TLAS although the specific nomenclature varies from country-to-country.

Progress in implementation of VPA in producer countries

Annex C identifies most of the tropical timber producing countries engaging with the EU in the FLEGT VPA process as of mid-2013. Some of the difficulties and challenges faced in achieving FLEGT licenses are indicative of the economic, social and administrative complexities of demonstrating unequivocal legality of timber exports at a national scale

It is understood that trade agreements are complex to negotiate and complex to implement. Still, as of mid-2014, none of the countries that have engaged in VPA have succeeded in issuing FLEGT licenses for entry into the EU. The FLEGT community is aware that in order for forest legality verification to be effective, countries must have in place forest governance systems where the machinery integrating policies with legal framework and institutional architecture, operates in a consistent and coherent manner. At the moment, tropical timber producing countries face serious constraints of lack of capacity to cope with timber legality and other

procurement policy requirements. Indeed, most are still saddled with the fundamentals of poverty with all round inadequacies such as under-strength enforcement capabilities, shortages in human and financial resources, knowledge and skill, transportation and communication infrastructure. There are additionally, several other basic constraints that pose as challenges in complying with procurement requirements. These are listed on page 16.

Nonetheless, there is general keenness shown among FLEGT practitioners and VPA stakeholders in striving to attain the goals of FLEGT. The economically weaker countries see value in the VPA beyond the market benefits that it offers. Through VPA, they see among others, new opportunities to get international assistance to strengthen law enforcement to reduce the incidence of illegal felling and impose greater restraint over rampant exploitation of their forests.

Countries currently involved with VPA are at varying stages of progress. Malaysia (despite not having signed the VPA) and Indonesia are virtually ready. Both have started issuing timber export licences, which in effect are the precursor to FLEGT licensing.

The EU has engaged in formal negotiations under the context of VPA with eighteen tropical timber producing countries. These VPA countries, as well as several others that have not associated themselves with the EU VPA, have already begun developing national FLEG systems and have now reached various levels of advancement (Prescott, et al. 2010).

Experience has shown that building the social and administrative infrastructure necessary to issue a FLEGT license is quite challenging, and perhaps more elaborate and time-consuming than any of the parties have estimated. Assessments of tropical timber suppliers' ability to meet TPP requirements should appropriately refer to VPA issues, based along the following VPA goals:

- policy and legal reform
- governance and transparency
- capacity building
- improved control, tracking and verification of legal compliance
- better rent capture and revenue collection, and
- secure and improved market share.

This is a comprehensive and ambitious set of goals, the attainment of which will meet the primary objective of trading in legally and sustainably produced timber. Each VPA will need to incorporate a national **timber legality assurance system (TLAS)** that:

- defines what constitutes legal timber
- verifies compliance with this definition

- traces product movement from forest to export for legality verification
- issues FLEGT licenses for exports, to provide assurance to markets, and
- subjects TLAS to periodical independent monitoring.

(Adapted from EU Commission Briefing Notes, 2012)

There cannot be generalisation in performance. Assessments of VPA implementation will need to take into consideration the **inherent national differences and complexities of individual countries** in addressing issues involving forest governance, forest-related legislation, the nature of forest and land rights, the nature of timber trade, current forest sector initiatives and the capacity to implement agreements.

In the process to meet these commitments, some developing countries will obviously require considerably more time than others, and require greater intensity in institutional strengthening and capacity building. VPAs will need to recognise these variations and the different levels of need of the participating countries for technical and financial assistance.

Cost of compliance and the journey to the market

Establishing a country's TLAS, within the context of an EU FLEGT VPA reinvigorates the country's existing process of control and oversight. It is a positive development but a rigorous process that can be a heavy financial burden to the country, depending on its current level of development. The issue of the country's financial capability as well as its social and administrative infrastructure needs to be considered as these are pivotal to the long-term success.

Typically, TLAS is a managerial process involving a series of technical activities which makes it more complex than what is generally perceived. It is a composite package of tasks which are largely done manually in the field, but increasingly move towards application of electronic systems. For production areas under permanent forests, the tasks normally begin with initial planning and risk mapping (relating to forest security or sustainability) at the office, prior to the issuance of the forest harvesting licence. Monitoring work follows in the licensed area, where the supply chain begins, right at the tree stump, and ends only at the export point. It involves overseeing site preparations (boundary clearing and road mapping), tree marking and identification, recording of harvested logs, log tracking, revenue assessment and collection, and transportation to the mills, where inspections may be made en route or at the mill for log entry verification. Aerial detection and satellite imagery technologies may also be used. Final checking and verification of timber in transit will take place at the export point where the FLEGT export licence will be issued and the product allowed for dispatch to the EU market.

TLAS is implemented through multi-agency collaborations to meet all criteria for FLEGT licensing, but the two agencies, forestry authorities and export licensing authorities form the crucial parties in ensuring completion of the process.

The cost of TLAS is the sum total of the costs of above process. TLAS in the context of EU FLEGT will serve to secure that legality status of the products from the source through the shipment point to the market. For an effective EU FLEGT process, TLAS must be executed with consistency and efficiency.

At this point of time, it would be futile to work on the realistic costs of implementing TLAS under EU FLEGT in the context of developing partnership agreements (VPA), as none of the signatory member countries are structurally geared for the system. VPA countries have yet to issue FLEGT licenses. It does appear that VPA signatory countries may require more time before they are fully ready to go start. Socio-political and technical (forestry) situations, and not the least, practical problems on the ground for geographical and geophysical reasons, have already seriously deferred published launch dates.

In summary, the EU FLEGT VPA process including the establishment of a supporting TLAS is illustrative of the conceptual problem faced by tropical timber producing countries. The existing timber procurement policies require timber from sources judged to be sustainably managed or legally verified (depending of the policy of the purchasing agent). Timber coming from any country or produced within any country is not all the same. Company XYZ could follow all of the rules, pay all the fees and obtain all necessary permits. Company ABC could have done none of the above. For these and other reasons, countries cannot prohibit imports solely based on country of origin. Many tropical timber producing countries have reacted to the establishment of timber procurement policies and legality issues as a national issue necessitating a national level control mechanism for the whole sector.

The challenge is to recognize openly that what is vital for a select set of firms may not be so important or even relevant for the full set of producers. In most countries, only a few firms export timber products and not all of these firms export to markets with legality assurance requirements. As mentioned above, the firms with market advantage and capacity meet the Category A evidence of compliance with public timber procurement policies through FSC and PEFC certification for sustainable forest management and chain of custody control. In general, these certifications will also meet the “due diligence” requirements under most legality assurance systems.

It is equally clear that most tropical timber producing firms cannot and would never even try to meet the requirements of some legality assurance systems. Most serve local markets or regional markets without legality assurance requirements.

ITTO members would do well to consider carefully the evolving nature of the international tropical timber market and the implications for public versus private investment in timber control systems. The traditional markets for tropical timber (Europe, Japan and North America) are mature whereas the ITTO producer countries markets and China are growing rapidly. GDP growth rates in Africa, Asia and Latin America are robust. Populations are booming. Urbanization is rapid. The market analysis has shown that tropical producers are supplying well emerging markets that are growing. The mature markets take declining share of total tropical timber output. More and more is consumed domestically, regionally and shipped to other emerging markets. ITTO members would do well not to find themselves overinvesting to serve declining markets while underinvesting in serving growing markets.

This does not in any way negate the importance of good forest governance. Its achievement is the construction of a public good – a platform that will help all market participants and maintain an orderly market but is a completely different question than meeting the very specific requirements of timber procurement policies or the “due diligence, due care” responsibilities of private sector firms. As mentioned, these are met by having the relevant FSC and PEFC certifications.

A government decision to engage in a broad partnership to improve forest governance and legality assurance for the whole sector is worthy objective but it cannot be characterised as a necessary requirement to meet the existing timber procurement policies. It can be characterized as a sufficient condition for legality assurance – if a country has a supported and endorsed TLAS – all timber with a FLEGT license is considered as meeting their requirements to be placed on the EU common market.

In summary, the ability of suppliers of tropical timber to meet the requirements and costs of timber procurement policies is a function of their ambition and capacities. Well-organized and capitalized firms are meeting the requirements by obtaining the relevant FSC or PEFC certifications. A public decision to provide legality assurance through a sector-wide approach has proven to require considerable skill, capacity and technological resources. It is a laudable objective but represents costs not really directly attributable to timber procurement policies.

Chapter 5. Recommendations for further action by ITTO to promote trade in tropical timber and timber products in the context of governmental procurement policies

5.1 Identify and address recommendations to ITTO and its members on further actions relating to procurement policies with a view to promoting trade in tropical timber and timber products from legal and sustainable sources.

Simula (2010) hints at the growing interest in both public and private sectors towards TPPs initiatives that promote improved governance and SFM in producer countries. This reflects changing values of society which are inclined towards favouring improved market transparency, while rejecting practices such as illegal operations, money-laundering and social injustice. Similarly, this is reflected in EFI (European Forest Institute) Policy Brief 5 "Changing International Markets for Timber and Wood Products," indicating a clear, positive trend across the EU towards demand for "good wood."

Yet there are persistent reports in the media of deforestation and illegal logging, quite often implying governance failures and market indifference as the causative factors. Much has been debated. Three of the suggestions are included here as recommendations for mitigating measures:

1. Use trade policy to create clear market signals. All countries that import wood need to send the market signal that trade in illegal timber is no longer acceptable in those countries.
2. Help ITTO member countries create a supply of certified legal timber to fill demand from increasingly environmentally conscious consumers creating a financial incentive for tropical timber producing countries to create a legal, sustainable supply of timber.
3. Use procurement policies to drive demand: Procurement policies of government provide a leadership role in the marketplace helping raise the profile for sustainable forest management. A renewed focus on sustainable forest management is welcomed by all ITTO members.

Collectively, ITTO Technical Series 36 "Levelling the playing field", ITTO Technical Series 39 "Raising the standards" and ITTO Technical Series 41 "Riding out the storm" have offered almost one hundred technical recommendations for Council's consideration that are highly relevant. The recommendations of Technical Series 36, reported in Chapter 1 Background of this report, identifies a significant number of specific actions to strengthen information sharing and capacity building to respond to emerging market requirements. Equally, Technical Series

39 describes a number of actions that members and the organization could take to address issues of image and competitiveness of tropical timber in global marketplace. Finally, Technical Series 41 addresses specifically the most recent global economic crisis and recommends a number of actions to strengthen producer member capacity to prepare for and respond to economic shock. Each of the recommendations reported in these three most relevant Technical Series Studies could be repeated again here as all remain pertinent. In particular, each of the Technical Series reports has recommended communication tools and methods such as seminars to exchange information in order to improve the image of tropical timber, build confidence in its future and improve understanding of market requirements.

Globally, ITTO and its members face a number of challenges. Three take away messages from this analysis are offered.

Seek to reinforce the presence and relevance of ITTO in expanding and emerging markets for tropical timber.

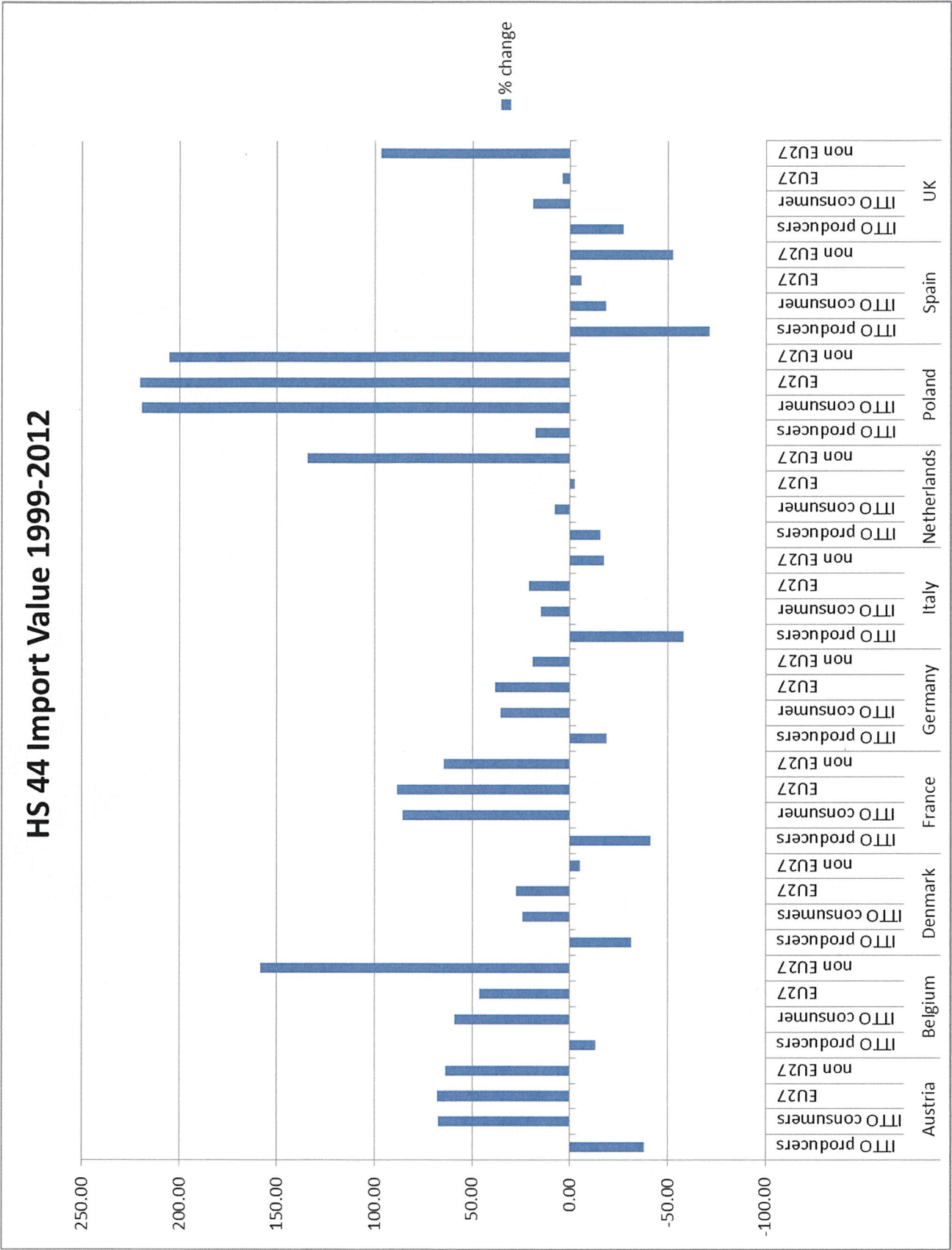
The analysis of recent market conditions shows that tropical timber suppliers are competing successfully in many emerging markets. In addition, south-south trade and domestic markets in producing countries account for a rapidly increasing share of tropical timber consumption. These markets should be an increasing focus of ITTO's efforts to develop and showcase producer-friendly policies to promote legal and sustainably produced timber.

Seek to understand why there are relatively few forest products firms with market clout and global presence operating in the tropics

This and prior analysis for ITTO has shown that well-capitalized firms can invest in product research and development and will invest in marketing to protect the reputation of their products and processes. Equally, these firms will undertake investments to assure their consumers of the environmental credentials of their products.

Give up the old arguments and operate in today's markets.

The policy dialog in ITTO must move beyond old battles over access to traditional markets. Although these markets remain important they nevertheless consume a declining share of the output from tropical forests. Patterns of economic growth, tropical timber consumption and trade have shifted dramatically over the last 30 years. ITTO producers and consumers should increasingly focus on emerging markets promoting fundamental concepts of sustainability, legality, life cycle analysis and renewability. These markets represent the future and ITTO can play a central role in helping develop and implement trade, procurement and other policies- such as green building codes – that are effective and promote consumption of legal and sustainable tropical timber as a building material of choice.



Annex A Consultant Terms of Reference

Annex A. Consultants Terms of Reference

TERMS OF REFERENCE FOR THE CONSULTANCY TEAM

Background

Legality requirements and timber procurement policies are being introduced in many countries. These requirements and policies are principally aimed at addressing public concerns about the legal and environmental credentials of products. Many purchasers are demanding that products should come from sustainable, or at least legal, sources and that this be verifiable, in order to maintain credibility with buyers in the market place. These requirements and policies have significant and far reaching implications for tropical timber suppliers. As developments are occurring at a rapid rate, there is an urgent need for tropical wood product exporters to monitor these developments, assess their ability to meet these requirements which are being widely adopted, and explore the market implications and opportunities presented by these developments.

This proposal by the Secretariat is to assist in analyzing the economic impact of governmental procurement policies on tropical timber markets through the update of the developments of legality requirements and timber procurement policies and the assessment on market implications and opportunities for ITTO producer and consumers.

Output 1: Update of the ITTO study “The Pros and Cons of Procurement”, published as Technical Series 34 in April 2010

- Activity 1.1: Update on developments and progress on the issues relating to legality and procurement policies since the issue of the study;
- Activity 1.2: Overview the developments and trade flows in major importing countries;
- Activity 1.3: Identify the market shares of private and public procurements in importing countries;
- Activity 1.4: Review common and different elements among procurement policies.

Output 2: Comprehensive analysis of the economic impact of procurement policies on the tropical timber markets and trade

Activity 2.1: Conduct analysis on the effects of procurement policies on demand, supply, market, trade and prices;

Activity 2.2: Assess the impacts of procurement policies on costs and financial implications to exporter countries.

Output 3: Examination and assessment of the challenges faced by producer and consumer members in complying with the requirements of timber procurement policies and in developing and implementing these policies

Activity 3.1: Identify and examine the difficulties and obstacles faced by tropical timber producers and consumers in meeting the requirements of timber procurement policies.

Activity 3.2: Analyze and assess the ability of suppliers of tropical timber in meeting the requirements and costs of timber procurement policies.

Output 4: Recommendations for further action by ITTO to promote trade in tropical timber and timber products in the context of governmental procurement policies

Activity 4.1: Identify and address recommendations to ITTO and its members on further actions relating to procurement policies with a view to promoting trade in tropical timber and timber products from legal and sustainable sources.

Annex B Statistical Summaries – Selected EU27 Import Markets

Table 36 Austria HS 44 Import Values (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ITTO Producer Countries	5	5	3	2	2	3	4	4	3	4	3	3	3	3
Benin	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cambodia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cameroon	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Colombia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Côte d'Ivoire	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dem Republic of the Congo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ecuador	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fiji	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gabon	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ghana	0	0	0	0	0	0	1	0	0	1	0	0	0	0
Guatemala	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guyana	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Honduras	0	0	0	0	0	0	0	0	0	0	0	0	0	0
India	0	0	0	0	0	0	0	1	0	1	1	0	0	0
Indonesia	4	4	2	1	1	1	1	2	2	2	1	1	2	1
Liberia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Malaysia	1	0	0	1	0	1	1	1	0	0	0	0	1	1
Mali	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mozambique	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Myanmar	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Panama	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Peru	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Philippines	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Togo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trinidad and Tobago	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ITTO Consumer countries	1,278	1,388	1,353	1,331	1,406	1,582	1,640	1,943	1,920	1,788	1,703	1,925	2,132	2,143
Albania	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Australia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
China	5	6	7	7	6	6	11	13	19	17	16	19	21	20
European Union (27)	1,222	1,262	1,250	1,268	1,353	1,514	1,572	1,863	1,832	1,702	1,624	1,827	2,035	2,051
Japan	0	0	0	0	1	0	0	0	0	1	0	0	0	0
New Zealand	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Norway	6	5	1	0	0	0	0	0	0	0	0	0	0	0
Republic of Korea	0	0	0	0	0	0	0	2	3	1	0	0	0	0
Switzerland	34	107	89	51	41	54	49	54	58	59	58	72	70	67
United States of America	10	8	6	4	6	8	7	9	9	8	5	7	6	5
<i>Non EU27 ITTO consumer countries</i>	<i>56</i>	<i>27</i>	<i>103</i>	<i>62</i>	<i>53</i>	<i>68</i>	<i>68</i>	<i>80</i>	<i>89</i>	<i>86</i>	<i>80</i>	<i>98</i>	<i>97</i>	<i>92</i>

Table 37 Denmark HS 44 Import Values (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ITTO Producer Countries	48	57	59	50	44	44	62	62	70	55	34	29	32	33
Benin	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cambodia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cameroon	1	1	2	1	1	1	1	2	2	3	1	1	1	1
Colombia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	1	0	0	1	1	1	1	2	2	1	0	1	0	0
Côte d'Ivoire	1	1	2	1	1	1	1	1	2	2	1	1	1	1
Dem Republic of the Congo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ecuador	0	0	0	0	0	3	11	11	15	15	8	6	6	5
Fiji	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gabon	0	0	0	0	0	1	1	0	1	0	0	0	0	0
Ghana	2	2	2	1	1	1	1	2	2	2	1	1	0	4
Guatemala	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guyana	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Honduras	0	0	0	0	0	0	0	0	0	0	0	0	0	0
India	1	0	1	1	1	1	1	1	2	1	1	1	1	1
Indonesia	22	26	19	17	17	15	20	19	16	12	7	8	6	5
Liberia	0	0	0	0	0	0	0	0	0	0	0	0	4	1
Malaysia	16	19	24	20	15	15	17	20	21	17	12	10	11	12
Mali	0	0	0	0	0	1	1	0	0	0	0	0	0	0
Mexico	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mozambique	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Myanmar	4	5	8	6	4	4	7	4	5	0	0	0	0	0
Panama	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	0	0	0	0	0	0	0	0	2	0	0	1
Peru	0	0	0	0	1	0	0	0	0	0	0	0	0	0
Philippines	0	0	1	0	1	0	0	0	1	1	0	0	0	0
Togo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trinidad and Tobago	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ITTO Consumer countries	971	1,062	1,011	1,082	1,125	1,159	1,242	1,471	1,554	1,315	1,008	1,103	1,205	1,208
Albania	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Australia	1	1	1	2	2	1	2	3	1	1	0	0	0	0
China	7	9	11	16	20	29	41	48	54	52	34	45	39	39
European Union (27)	877	949	910	973	1,030	1,061	1,130	1,336	1,420	1,201	928	1,003	1,115	1,118
Japan	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New Zealand	0	0	0	0	0	1	0	0	0	0	0	0	0	0
Norway	53	63	51	56	50	46	49	58	56	46	38	35	38	38
Republic of Korea	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Switzerland	2	3	6	6	3	0	1	1	1	2	0	0	0	1
United States of America	31	36	32	28	19	20	18	26	22	13	7	19	12	12
<i>Non EU27 ITTO consumer countries</i>	<i>95</i>	<i>113</i>	<i>101</i>	<i>110</i>	<i>95</i>	<i>98</i>	<i>112</i>	<i>135</i>	<i>134</i>	<i>114</i>	<i>80</i>	<i>100</i>	<i>91</i>	<i>90</i>

Table 38 France HS 44 Import Values (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ITTO Producer Countries	364	429	414	367	349	344	360	346	392	359	232	258	247	214
Benin	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cambodia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cameroon	65	61	61	40	39	37	43	42	50	44	31	38	37	30
Colombia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	20	16	18	25	28	43	33	29	21	25	14	30	24	24
Côte d'Ivoire	28	30	32	28	21	23	20	21	22	20	12	12	8	9
Dem Republic of the Congo	3	5	4	3	4	8	20	24	33	29	12	17	14	12
Ecuador	1	1	1	1	0	1	3	2	3	3	2	3	4	5
Fiji	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gabon	113	132	142	133	132	130	129	125	155	140	93	71	71	58
Ghana	20	22	21	20	17	18	18	15	14	12	5	7	6	3
Guatemala	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guyana	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Honduras	4	3	1	1	1	0	0	0	0	0	0	0	0	0
India	4	5	5	5	5	4	5	5	7	6	4	5	4	4
Indonesia	46	63	55	48	48	45	51	50	45	48	32	39	37	31
Liberia	17	36	32	32	20	0	0	0	0	0	0	1	5	4
Malaysia	30	42	28	19	24	23	24	25	32	25	20	30	30	25
Mali	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mozambique	0	0	0	0	0	0	0	0	0	0	1	1	1	0
Myanmar	5	4	6	5	5	6	9	6	3	0	0	0	0	0
Panama	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Peru	0	0	0	0	0	0	0	0	0	1	1	1	4	5
Philippines	8	8	6	5	3	3	3	2	4	4	1	2	2	2
Togo	0	0	0	1	0	0	0	0	0	0	0	0	0	0
Trinidad and Tobago	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ITTO Consumer countries	1,657	1,932	1,939	1,873	2,000	2,159	2,448	2,669	3,230	3,139	2,683	3,018	3,169	3,080
Albania	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Australia	0	0	0	1	2	2	2	2	1	1	1	1	1	1
China	43	53	62	65	64	68	95	116	172	173	158	210	205	215
European Union (27)	1479	1726	1737	1689	1831	1998	2261	2461	2958	2870	2453	2725	2877	2788
Japan	1	1	1	0	0	0	1	1	1	1	0	1	1	1
New Zealand	0	0	0	0	0	0	0	1	0	1	1	2	4	1
Norway	4	4	3	2	2	1	1	0	0	0	0	0	0	1
Republic of Korea	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Switzerland	48	61	58	53	54	47	50	51	64	64	47	51	53	48
United States of America	80	88	77	63	47	43	37	38	34	30	23	27	27	25
<i>Non EU27 ITTO consumer countries</i>	<i>178</i>	<i>206</i>	<i>202</i>	<i>184</i>	<i>169</i>	<i>161</i>	<i>187</i>	<i>209</i>	<i>272</i>	<i>269</i>	<i>231</i>	<i>293</i>	<i>292</i>	<i>292</i>

Table 39 Germany HS 44 Import Values (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ITTO Producer Countries	284	337	269	251	218	236	261	296	300	264	224	248	237	231
Benin	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cambodia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cameroon	25	30	31	26	25	27	28	27	36	28	13	16	16	13
Colombia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	8	11	9	6	4	5	4	8	6	3	3	2	2	2
Côte d'Ivoire	13	13	15	11	12	14	17	14	14	15	9	11	8	11
Dem Republic of the Congo	1	2	1	2	1	2	1	1	1	1	1	0	0	0
Ecuador	2	1	1	1	1	1	6	7	7	8	9	9	10	12
Fiji	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gabon	5	8	10	8	6	12	14	15	15	11	6	3	0	1
Ghana	32	31	29	25	22	20	18	16	18	17	12	13	15	12
Guatemala	1	0	0	0	0	0	0	0	0	1	1	0	0	0
Guyana	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Honduras	1	2	1	1	1	1	2	1	2	1	1	1	1	1
India	3	3	2	2	2	3	3	4	5	6	7	7	7	10
Indonesia	132	172	117	125	107	111	129	150	131	119	108	134	129	114
Liberia	1	2	5	4	2	0	0	0	0	0	0	0	0	1
Malaysia	49	52	37	31	25	30	29	43	48	46	48	49	45	49
Mali	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	1	1	1	1	0	0	0	0	1	1	1	1	1	1
Mozambique	1	2	1	1	1	0	0	0	1	1	2	0	0	0
Myanmar	6	5	6	5	5	5	6	7	12	2	0	0	0	2
Panama	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	1	0	1	1	1	0	1	0	0	0	0	0
Peru	0	0	0	0	0	1	0	0	0	0	0	0	1	0
Philippines	3	2	2	2	2	2	2	2	2	2	2	2	1	2
Togo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trinidad and Tobago	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ITTO Consumer countries	4,130	4,367	3,723	3,558	3,612	3,585	3,706	4,350	4,846	4,613	3,957	4,882	5,441	5,609
Albania	1	1	0	0	0	1	0	0	0	0	0	0	0	0
Australia	1	1	1	1	1	1	1	1	1	0	0	0	0	0
China	86	114	113	111	123	159	195	242	334	316	281	347	355	360
European Union (27)	3,560	3,761	3,223	3,124	3,160	3,078	3,182	3,736	4,114	3,959	3,380	4,199	4,750	4,928
Japan	6	5	4	4	4	2	2	2	1	1	2	2	2	2
New Zealand	0	0	0	0	0	0	0	0	2	1	0	2	1	1
Norway	77	51	37	40	23	23	18	22	24	18	18	26	35	39
Republic of Korea	2	1	0	0	0	0	0	0	0	0	0	1	1	1
Switzerland	146	161	134	118	153	181	174	205	231	210	187	197	198	187
United States of America	251	272	210	159	147	140	133	142	139	107	88	108	100	89
<i>Non EU27 ITTO consumer countries</i>	<i>570</i>	<i>606</i>	<i>500</i>	<i>433</i>	<i>452</i>	<i>507</i>	<i>524</i>	<i>614</i>	<i>732</i>	<i>654</i>	<i>577</i>	<i>683</i>	<i>691</i>	<i>680</i>

Table 40 Netherlands HS 44 Import Values (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ITTO Producer Countries	299	399	330	320	297	310	343	467	447	417	301	314	307	253
Benin	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cambodia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cameroon	31	49	43	37	28	29	29	41	54	48	39	39	21	21
Colombia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	2	0	0	0	1	1	1	2	0	1	1	0	1	1
Côte d'Ivoire	20	10	9	5	3	4	5	6	10	9	5	5	7	4
Dem Republic of the Congo	0	0	0	0	0	0	5	17	18	16	8	6	4	1
Ecuador	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fiji	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gabon	8	11	12	10	7	7	6	10	16	19	21	15	15	15
Ghana	4	4	4	5	7	6	8	6	8	5	1	1	2	1
Guatemala	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guyana	1	1	1	1	1	1	1	2	2	3	2	4	4	2
Honduras	1	1	0	0	0	0	0	0	0	0	0	0	0	0
India	4	4	4	4	4	4	3	4	5	7	5	4	6	9
Indonesia	91	126	110	115	110	119	145	183	149	130	102	107	112	94
Liberia	0	2	2	1	1	0	0	0	0	0	0	0	0	0
Malaysia	134	186	140	137	129	133	133	190	177	176	115	129	132	101
Mali	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mozambique	0	0	0	0	0	1	0	0	0	0	0	0	0	0
Myanmar	2	2	3	3	4	3	4	4	5	1	0	0	0	0
Panama	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Peru	0	0	0	0	0	0	0	0	0	1	0	0	1	1
Philippines	1	1	1	1	1	1	1	1	1	0	0	1	1	1
Togo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trinidad and Tobago	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ITTO Consumer countries	1,866	2,063	1,928	1,781	1,687	1,744	1,759	2,007	2,434	2,310	1,772	2,018	2,086	2,014
Albania	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Australia	1	0	0	1	1	1	0	1	1	0	1	9	3	3
China	44	65	73	80	81	85	110	139	182	214	162	202	206	203
European Union (27)	1,727	1,895	1,781	1,644	1,559	1,619	1,611	1,830	2,213	2,054	1,552	1,731	1,793	1,690
Japan	1	1	1	1	1	1	1	0	0	0	0	1	1	1
New Zealand	0	0	0	0	0	0	0	0	2	4	2	12	2	5
Norway	29	27	17	10	10	9	8	5	4	2	1	1	2	2
Republic of Korea	7	1	0	0	0	0	0	0	0	0	0	0	0	0
Switzerland	12	7	8	11	7	4	5	5	5	4	3	2	3	7
United States of America	45	65	49	33	28	25	23	28	27	30	50	60	77	103
<i>Non EU27 ITTO consumer countries</i>	<i>138</i>	<i>168</i>	<i>148</i>	<i>137</i>	<i>128</i>	<i>125</i>	<i>148</i>	<i>177</i>	<i>221</i>	<i>256</i>	<i>220</i>	<i>287</i>	<i>293</i>	<i>325</i>

Table 41 Poland HS44 Import Values (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ITTO Producer Countries	18	24	21	26	23	20	20	31	36	35	27	24	20	21
Benin	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cambodia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cameroon	0	0	0	1	1	0	1	1	1	1	0	0	0	0
Colombia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	1	0	0	0	0	0	0	1	1	2	1	1	1	0
Côte d'Ivoire	1	1	1	1	1	1	1	1	1	1	0	1	1	0
Dem Republic of the Congo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ecuador	0	0	0	0	0	0	0	0	0	0	0	0	1	1
Fiji	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gabon	0	0	0	0	0	0	0	0	0	1	0	0	0	0
Ghana	1	1	1	1	1	0	0	1	1	1	0	0	1	2
Guatemala	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guyana	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Honduras	0	0	0	0	0	0	0	0	0	0	0	0	0	0
India	0	0	0	0	0	0	0	1	1	1	1	0	0	0
Indonesia	13	20	16	21	17	15	14	22	26	24	19	16	11	10
Liberia	0	0	0	0	0	0	0	0	0	0	0	0	1	1
Malaysia	1	1	1	2	2	2	2	4	5	4	4	5	4	3
Mali	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mozambique	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Myanmar	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Panama	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Peru	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Philippines	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Togo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trinidad and Tobago	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ITTO Consumer countries	271	341	387	410	423	539	666	802	947	1,055	685	830	957	866
Albania	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Australia	0	0	0	0	1	1	1	0	0	0	0	0	0	0
China	2	3	6	5	6	7	13	17	29	37	29	38	41	43
European Union (27)	255	324	369	393	408	524	643	775	907	1,007	649	786	907	816
Japan	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New Zealand	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Norway	1	1	2	2	3	3	2	2	2	2	2	1	3	3
Republic of Korea	0	0	0	0	0	0	0	0	1	0	0	0	0	0
Switzerland	3	1	1	1	1	1	1	1	1	1	1	1	1	0
United States of America	10	12	9	9	5	4	6	6	7	6	4	4	6	3
<i>Non EU27 ITTO consumer countries</i>	<i>16</i>	<i>17</i>	<i>18</i>	<i>17</i>	<i>15</i>	<i>15</i>	<i>22</i>	<i>27</i>	<i>40</i>	<i>47</i>	<i>36</i>	<i>44</i>	<i>51</i>	<i>49</i>

Table 42 Spain HS 44 Import Values (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ITTO Producer Countries	202	221	245	211	205	208	223	180	191	169	71	79	79	58
Benin	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cambodia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cameroon	75	84	88	72	77	70	84	64	65	58	22	24	22	16
Colombia	0	0	0	0	0	0	0	0	1	0	0	0	0	0
Congo	11	15	20	20	15	18	17	12	16	16	5	12	10	8
Côte d'Ivoire	70	70	80	61	51	62	63	48	39	35	10	14	13	10
Dem Republic of the Congo	1	1	0	1	2	2	2	2	2	2	1	1	1	3
Ecuador	1	1	1	1	0	2	3	5	9	10	4	3	3	1
Fiji	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gabon	6	6	8	9	9	9	10	7	8	11	7	6	10	5
Ghana	9	9	10	9	11	9	8	7	7	6	2	2	3	2
Guatemala	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guyana	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Honduras	2	3	3	3	2	2	1	1	1	0	0	0	0	0
India	4	5	6	7	9	8	8	8	8	6	4	4	4	3
Indonesia	15	16	17	14	14	13	13	15	20	16	9	9	9	6
Liberia	1	3	4	4	3	0	0	0	0	0	0	0	0	0
Malaysia	4	4	6	8	7	7	7	8	9	7	3	2	2	2
Mali	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	0	0	0	0	0	0	0	0	0	0	1	0	0	0
Mozambique	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Myanmar	0	1	1	0	2	1	1	1	1	0	0	0	0	0
Panama	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	0	0	0	0	1	0	0	0	0	0	0	1
Peru	1	0	0	0	1	1	1	1	3	1	1	0	1	0
Philippines	1	1	1	1	1	1	1	1	1	0	0	1	0	0
Togo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trinidad and Tobago	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ITTO Consumer countries	1,052	1,418	1,440	1,472	1,594	1,643	1,735	1,916	2,058	1,548	1,049	1,098	997	858
Albania	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Australia	1	1	1	1	1	2	1	1	1	0	0	0	0	0
China	32	42	47	54	71	96	129	159	212	160	93	115	99	86
European Union (27)	765	1,041	1,102	1,164	1,297	1,335	1,402	1,541	1,645	1,264	886	907	833	722
Japan	0	0	0	0	0	0	0	0	0	0	0	0	1	0
New Zealand	2	1	1	1	2	4	3	4	5	3	3	5	4	2
Norway	1	1	1	1	1	0	0	0	0	0	0	0	0	0
Republic of Korea	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Switzerland	6	9	13	10	3	2	2	3	2	2	1	2	1	1
United States of America	245	322	274	241	219	203	198	208	193	118	66	69	59	46
<i>Non EU27 ITTO consumer countries</i>	<i>287</i>	<i>377</i>	<i>338</i>	<i>308</i>	<i>297</i>	<i>308</i>	<i>333</i>	<i>375</i>	<i>413</i>	<i>284</i>	<i>163</i>	<i>191</i>	<i>164</i>	<i>136</i>

Table 43 UK HS 44 Import Values (millions of Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ITTO Producer Countries	349	402	390	360	311	330	302	339	353	311	212	265	227	253
Benin	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cambodia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cameroon	20	28	23	20	21	22	25	26	31	18	14	19	22	26
Colombia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	1	1	1	2	4	2	1	3	4	6	5	7	7	4
Côte d'Ivoire	8	13	10	13	12	16	14	14	19	17	10	12	10	10
Dem Republic of the Congo	1	0	0	0	0	0	0	0	0	1	1	1	1	1
Ecuador	0	0	0	0	0	1	2	1	3	2	1	1	1	0
Fiji	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gabon	1	1	1	1	1	1	1	0	0	0	0	0	0	0
Ghana	16	16	15	14	12	12	12	8	9	6	5	5	4	4
Guatemala	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guyana	6	8	7	6	3	4	4	6	5	2	2	2	0	1
Honduras	2	2	2	1	1	1	1	1	1	0	1	0	0	1
India	7	7	9	11	10	9	9	11	9	9	9	11	8	10
Indonesia	158	183	190	165	135	121	109	108	105	91	58	76	72	85
Liberia	0	1	2	2	1	0	0	0	0	0	0	0	0	0
Malaysia	121	130	122	118	104	134	118	153	159	153	104	128	99	107
Mali	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	1	1	0	0	0	0	0	0	0	0	0	0	0	0
Mozambique	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Myanmar	2	8	4	3	3	2	3	3	2	0	0	0	0	0
Panama	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Peru	1	0	0	0	1	1	0	0	0	0	0	1	1	1
Philippines	4	4	3	3	3	3	2	3	5	3	2	2	1	1
Togo	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trinidad and Tobago	0	0	0	0	0	0	0	0	0	0	0	0	0	1
ITTO Consumer countries	2,707	3,153	3,171	3,451	3,397	3,576	3,476	3,704	4,227	3,216	2,537	3,068	2,999	3,226
Albania	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Australia	6	5	9	10	12	11	10	10	7	4	3	3	3	3
China	83	101	126	166	179	255	318	427	494	447	370	492	507	589
European Union (27)	2,264	2,656	2,677	2,952	2,937	3,058	2,878	2,992	3,450	2,526	1,971	2,337	2,268	2,354
Japan	1	2	1	1	1	1	1	1	1	1	1	1	1	1
New Zealand	1	3	1	2	2	2	1	1	1	1	1	1	3	1
Norway	60	66	61	60	54	52	57	56	56	44	31	34	29	28
Republic of Korea	22	3	1	1	1	1	1	0	1	0	0	0	0	0
Switzerland	17	25	29	41	20	7	5	3	5	3	2	3	3	3
United States of America	253	293	265	219	192	190	204	213	213	189	157	196	185	247
<i>Non EU27 ITTO consumer countries</i>	<i>443</i>	<i>497</i>	<i>494</i>	<i>499</i>	<i>460</i>	<i>518</i>	<i>598</i>	<i>712</i>	<i>778</i>	<i>690</i>	<i>566</i>	<i>731</i>	<i>731</i>	<i>872</i>

Table 44 Summary of National HS 44 imports by country. Provides basis for Figure 5.

Country	ITTO group		1999	2012	% change
Austria	ITTO producers		5	3	-37.96
	ITTO consumers		1,278	2,143	67.68
	EU27		1,222	2,051	67.86
	non EU27		56	92	63.88
Belgium	ITTO producers		306	266	-13.00
	ITTO consumer		1113	1768	58.81
	EU27		991	1451	46.47
	non EU27		123	317	158.52
Denmark	ITTO producers		48	33	-31.54
	ITTO consumers		971	1,208	24.36
	EU27		877	1,118	27.56
	non EU27		95	90	-5.22
France	ITTO producers		364	214	-41.08
	ITTO consumer		1,657	3,080	85.94
	EU27		1,479	2,788	88.52
	non EU27		178	292	64.50
Germany	ITTO producers		284	231	-18.58
	ITTO consumer		4,130	5,609	35.79
	EU27		3,560	4,928	38.44
	non EU27		570	680	19.26
Italy	ITTO producers		419	174	-58.36
	ITTO consumer		2,443	2,808	14.92
	EU27		2,057	2,488	20.96
	non EU27		386	320	-17.20
Netherlands	ITTO producers		299	253	-15.50
	ITTO consumer		1,866	2,014	7.99
	EU27		1,727	1,690	-2.16
	non EU27		138	325	134.72
Poland	ITTO producers		18	21	17.99
	ITTO consumer		271	866	219.47
	EU27		255	816	220.37
	non EU27		16	49	205.26
Spain	ITTO producers		202	58	-71.36
	ITTO consumer		1,052	858	-18.42
	EU27		765	722	-5.64
	non EU27		287	136	-52.46
UK	ITTO producers		349	253	-27.45
	ITTO consumer		2,707	3,226	19.17
	EU27		2,264	2,354	3.96
	non EU27		443	872	96.98

Annex C Participating Countries in the VPA Negotiations

Data drawn from various sources by consultants.

Country	VPA Timeline	Country Brief
Cambodia	Phase 1 - Informal and pre-negotiation. (In communication with EU on FLEGT 2009-2010)	<p>Cambodia has 10.7 million hectares of forest, covering 59% of land area.</p> <p>Illegal forest activities resulting in deforestation and degradation are major obstacles for sustainable development and drain socio-economic revenue in Cambodia. They are attributable to inadequate forest law enforcement and governance such as poor monitoring and reporting, lack of prevention and suppression, insufficient facilities, counterproductive trans-border cooperation, unorthodox negotiation with prosecutors and judges and misguided public participation in forest management.</p> <p>In early 2002, Cambodia suspended all forest concessions. Since then export activities have plunged. All forest concessionaires have now to submit Strategic Forest Management Plans but the timber industry has not recovered since.</p> <p>Government plans to enter into VPA negotiations and with assistance of EU, and build the capacity to develop TLAS and enable orderly timber flow enter the EU market. However, forest land encroachment and land grabbing are still the main issues confronting FLEG implementation. Rising populations, economic development and suboptimal forest law enforcement and governance exacerbate the situation.</p> <p>The Forest Authority and EU organised a regional FLEGT Conference (04-05 May 2010), at the capital, Phnom Penh.</p>
Cameroon	Phase 3 - System development. <u>VPA Agreement</u> signed 6 Oct 2010.	<p>Cameroon has a total forest area of 21.25 million hectares, covering 45.6% of the land area. The forest is public owned.</p> <p>Cameroon's forest is in an economically stable part of the West Africa and is one of the largest. The country however, faces problems of desertification in the north and deforestation in the tropical rainforests region in the south, resulting from logging, fuelwood collection and conversion to plantation agriculture, and subsistence farming. The situation was exacerbated in the previous decade by the declining prices of commodities including oil, coffee and cocoa.</p> <p>There is a call for an effective forest conservation programme. There are reports of concern over developments "at the edge of several protected areas," where a large extent of dense natural forests are being converted to oil palm plantations. Scientists argue that these activities "destroy rich forests, imperil the endangered species and sow conflicts with local people."</p>

Central African Republic	Phase 3 - System development. <u>VPA Agreement</u> signed 28 Nov 2011.	<p>Forests cover 31% of the Central African Republic and forestry plays an important role in the country's economy contributing to 4% of GDP, and 40% of the country's total export revenues. The most important markets are Europe (60 per cent), China, North America and Africa, more specifically Cameroon and the Chad.</p> <p>Under the agreement, in which local stakeholders, such as timber companies and NGOs, have been involved, the Central African Republic intends to set up a national system to ensure legal compliance in timber production, covering all wood products destined for the EU as well as those sold on the domestic market and to non-EU markets. Upon implementation of the VPA, EU will guarantee unrestricted access to its markets for all wood products from the Central African Republic.</p>
Cote d'Ivoire	Phase 2 -Formal negotiation (began Feb 2013).	<p>Cote d'Ivoire with a land area of 318,000 sq. kilometres has been heavily logged. Reports indicate that less than 2% of the country's land is covered by primary forest, which today, totals some 2.5 million hectares. Ivory Coast has conducted reforestation actions for the production of teak (<i>Tectona grandis</i>), black afara (<i>Terminalia ivorensis</i>) and gmelina (<i>Gmelina arborea</i>). An estimated 150,000 cubic metres of timber are exported yearly.</p> <p>Social and environmental civil society organisations received funding from the Food and Agriculture Organisation (FAO) to develop a representative, neutral and legitimate civil society platform to participate effectively in negotiations and advocate for improved forest governance and recognition of rights in the VPA processes.</p> <p>Key issues of concern include the high deforestation rate due to agricultural expansion, the tenure insecurity that has already led to land-use conflicts, a lack of implementation of the land code, and the need for revision of the forest code.</p>

Democratic Republic of Congo	Phase 2 -Formal negotiation. (Start of negotiation Oct 2010).	<p>The Democratic Republic of Congo (DRC) has the largest forest area in the Congo Basin, totalling around 100 million ha of forests. Timber exports are conservative at around half a million cubic meters per year. Europe is the primary consumer, accounting for 80-90 per cent of the export.</p> <p>DRC is making progress on the VPA assurance system, with the negotiation teams discussing on the legality definition and exploring ways of monitoring compliance with legal requirements.</p> <p>Improving civil society engagement in the VPA dialogue remains a key issue in discussions held between environmental and social NGOs and the DRC government and with the EU. Working sessions for civil society are focussed on improving public awareness by providing greater opportunities for NGOs and communities, both in the capital and in the provinces, to positively contribute to the process.</p>
Gabon	Phase 2- Formal negotiation. (Start of negotiation Sept 2010).	<p>Gabon's forest covers some 21.75 million hectares or 85% of the country's land surface (Wold Bank, 2012). Gabon is reported to be the largest exporter of raw wood in the region and its sales represent 20% of Africa's raw wood exports.</p> <p>Gabon supplies 90% of world's okoume, which makes excellent plywood and produces other popular hardwoods as well, such as mahogany, ebony and African walnut. Roundwood removals were estimated at 4 million cubic metres in 2004, 13% of which is used as fuelwood.</p>
Ghana	Phase 3 - System development. <u>VPA Agreement</u> signed 20 Nov 2009; ratified 19 Mar 2010.	<p>Ghana has a total forest area of approximately 9.2 million hectares, covering about 40 per cent of its land area. The northern part of the country is dominantly savanna woodlands, while tropical high forest exists mostly in the south west. The rainforests total 8.5 million hectares of which about 1.8 million hectares are conserved as forest reserves and managed mainly for protection. The production forests in the forest reserves are placed under sustainable management regimes.</p> <p>Land belongs to the communities, but community tenure rights do not extend to the ownership of trees, which belong to the state. The government has made arrangements to provide a share of the revenue from the forest to the respective communities.</p>

		<p>There remains pressure on the forests, not confined to the non-reserved forests, where more than half of Ghana's annual timber production takes place. There are increasing demands for fuelwood extraction (75 per cent of Ghana's energy needs are met with fuelwood and charcoal), also problems of illegal chainsaw logging by local individuals.</p> <p>On a more organised scale is forest conversion to other uses for economic development, such as for cocoa, oil palm and not the least, mining. This intervenes, and to an extent, hinders community-based development efforts which may include sustainable forestry and forest conservation activities.</p> <p>The government recognizes these challenges and has taken several positive steps to address forest governance problems, an important element being to foster closer collaboration between local communities and forest concession operators.</p> <p>Signing of the VPA under the EU FLEGT programme is an important step as it will provide greater opportunities towards combating illegal logging - an essential basis for developing responsible timber trade.</p> <p>Ghana's interest in the VPA lies in the continued access to the EU timber market. Exporters are finding it increasingly difficult to land uncertified and unlicensed wood and wood products in the EU. This is largely attributed to changing consumer preferences – discerning purchasing habits – and procurement policies being deployed across the EU member states.</p> <p>Participation in the initiative positions the country to measure up to this changing international market for timber.</p>
Guyana	Phase 2 - Formal Negotiation. (Negotiation began May 2012).	<p>Approximately 76% of Guyana's land area or about 15 million hectares are under forest, of which 60% is classified as primary forest. Production is low, at 350,000 to 400,000 cu. metres per year from an area of 6 million hectares of production forest.</p> <p>Forest products exports in 2006 were valued at US\$55 million, but declined to US\$48 million by 2010. Exports range from "raw and sawn timber, to plywood, moulding and furniture."</p> <p>From the available information, there are few activities that give negative impacts to the forest where forest harvesting is based on a conservative selection felling system. The main problems to watch are illegal chainsaw logging, the use of unlicensed portable mills in the forest, and wildlife poaching.</p>

Honduras	Phase 2 - Formal negotiation. (Start of negotiation April 2012).	<p>Honduras' 6.59 million hectares of forest covers 59% of the republic. The state owns 47% of the forest, while private landowners and the communities own 39% and 14% respectively.</p> <p>There are grave issues of communal land rights and land use conflicts that it needs to address. A major problem is deforestation, caused by forest conversion to agricultural plantations (oil palm) as well as other land uses such as mining and hydropower stations.</p>
Indonesia	PHASE 3 - System development. (Start of negotiations March 2000). <u>VPA agreement</u> signed 4 May 2011.	<p>Indonesia's forest of over 98 million hectares, covers almost 60 percent of the land area. This is of global significance as it represents 10% of the world's remaining tropical rainforest.</p> <p>Indonesia is one of the world's largest producers of tropical timber. The majority of Indonesian forest products are exported to China, Japan, Korea and the EU. Indonesia was one of the earliest countries to start VPA negotiations with the EU and it was the first Asian country to initial the VPA.</p> <p>Illegal logging and associated trade continue to pose problems for the forestry sector in Indonesia by generating considerable financial loss as well as environmental degradation. Therefore, the Indonesian Government is paying special attention to addressing these issues.</p> <p>Soon after the reformation era illegal logging increased in Indonesia, but through major government campaigns and strong coordination among related institutions it decreased significantly to the extent that in recent years incidences had been far fewer. The Ministry of Forestry cannot eradicate illegal logging by itself, but with more inter-sectoral coordination, effective law enforcement and governance can take place.</p> <p>Beginning 1 January 2013 Indonesia requires the export of timber products to be accompanied by V-Legal Document, that assures legality of timber and timber products from the stump through the processing mill, to the export point.</p> <p>The independent evaluation of Indonesia's timber legality assurance system (known as the SVLK) was officially launched on 16 April 2013. This was to assess the system's robustness in meeting the FLEGT requirements as set out in the VPA. Observance of the V-Legal Documentation in compliance with SVLK, for the export of timber will lead the way to eventual FLEGT export licensing.</p> <p>Indonesia's timber product exports to the European Union increased by 114 per cent during the first quarter of the year over the previous year, following the introduction of a "self-made certification system" (V-Legal Document) that helped the country comply with international legality regulations.</p>

		<p>Illegal logging in Indonesia causes major financial losses as well as environmental degradation. The government, through strong coordination with 18 institutions related to suppression of forest crimes, has successfully achieved a 77.6 per cent reduction within the last five years.</p> <p>Indonesia however, faces global outcry that it needs to address quickly, about the massive conversion of natural forest to agriculture in particular, oil palm plantations. In addition, there is reportedly, a high industrial demand for wood fibre which runs far in excess of the legal supply.</p>
Laos	Phase 1 - Informal and pre-negotiation. (Initiation letter with EU 28 Feb 2012).	<p>At close to 16 million hectares, the forest in Laos covers 68% of the country (World Bank 2012). Laos has launched its Forestry Development Strategy to 2020.</p> <p>Laos is in the early stages of developing a FLEG strategy or action plan. The introduction of the revised Forest Law and Wildlife and Aquatic Life Law in 2008 and regulations on the harvesting, processing and export of wood products will provide legislative support for wider enforcement and governance measures that need to be taken to meet international requirements.</p> <p>In 2010 the Laotian government with the assistance of EU and EFI (European Forest Institute), conducted a baseline study of the forest resource and timber flow aimed at strengthening forest governance and the internal control mechanisms.</p> <p>The industry is keen to access the high-value wood product markets of EU</p>
Liberia	Phase 3 - System development. <u>VPA Agreement</u> signed 26 July 2011.	<p>Liberia has about 4.3 million hectares of tropical rainforest which covers almost 45% of the country.</p> <p>Liberia had been inflicted with prolonged civil wars, but since 2003, it has taken significant steps towards reform of the forestry sector and increasing access to timber resources. For better transparency the government has instituted a national timber traceability system (LiberFor) to facilitate timber tracking and payment of revenues. It is in the process of introducing further reform to the Forestry Development Authority.</p> <p>Liberia has developed and implemented a national communications strategy to strengthen public understanding of the VPA, and in the latter half of 2011, developed another national communications strategy to engage the public in VPA implementation. It embraces policies that promote mutual understanding and people support through information-sharing and dialogues.</p>

Malaysia	Phase 2 - Formal negotiation. (Start of negotiations Sept 2006).	<p>Malaysia has 55 percent of its land under forest cover of a little over 18 million hectares. Timber is an important export product and a significant contributor to the nation's economy. Timber and timber products exports reached more than 180 countries in 2012 to the value of about USD 9.3 billion. The three most important markets were Japan (21%), USA (12%) and the EU market (10%).</p> <p>Malaysia and the EU are at the advanced stage of VPA negotiations. Delays in signing are mainly on the streamlining of plans to institute VPA on phased basis starting with the two sub- regions, Peninsular Malaysia and Sabah, to be followed by Sarawak. Work on resolving native customary rights issues in some parts of the country also put a hold on the conclusion of the VPA.</p> <p>System development is completed in Peninsular Malaysia and Sabah where the TLAS (known as MYTLAS) is put into operation</p> <p>Peninsular Malaysia started issuing MYTLAS licence on 1st February 2013, to meet EUTR due diligence requirements. By June, 2013 more than 4 thousand MYTLAS licences have been issued. Sabah is due to follow suit on 1 February 2014.</p> <p>MYTLAS in Peninsular Malaysia has undergone a successful independent monitoring when a trial compliance auditing was done earlier this year (2013).</p> <p>Malaysia is fully committed to FLEG initiatives. The current legislation, as well as enforcement procedures and measures, are in place to combat illegal logging and other forest crimes although illegal logging in Malaysia is not considered a major issue. Nevertheless, Malaysia will institute further measures to strengthen MYTLAS which include:</p> <ul style="list-style-type: none"> • Allocating more resources to undertake effective forest law enforcement; • Educating the public and forest communities, private timber companies as well as other relevant parties on forest conservation.
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Myanmar	Phase 1 - Informal and pre-negotiation. (Assessment of Myanmar TLAS in relation to EUTR done with ETTF, March 2013).	<p>About 31.8 million hectares of Myanmar is forested, covering 48.3% of the land area. Of this about 10% (3.19 million hectares) is classified as primary forest. Myanmar has 988,000 hectares of planted teak forest.</p> <p>Myanmar is the only country in the world that harvests quality teak trees from the natural forests. It accounts for one-third of the world's total teak production. It has a long history of management, now called MSS (Myanmar Selection System), and founded on the concept of sustained yield from rich natural forests.</p> <p>Myanmar has in place legislation with appropriate regulations to manage and control forest harvesting. It has developed certification for natural forest and plantation management and CoC (Chain of Custody) procedures for the timber supply chain.</p> <p>MFCC (Myanmar Forest Certification Council) governs forest certification, based on standards it had developed through a process of multi-stakeholder consultations. MFCC is constituted of representatives from NGOs, research and academic institutions, private enterprises, government sectors and relevant stakeholders.</p> <p>Forestry in Myanmar remains challenged by forest encroachment in the inaccessible areas at the remote ends of the country, where stealing of timber and rattan takes place, and the products removed across the national borders.</p> <p>The following FLEG measures will be undertaken:</p> <ul style="list-style-type: none"> • Institutional strengthening and capacity building of institutions under the Ministry of Forestry. • Raising awareness among all stakeholders about forest law and rules and procedures regarding the legal removal of forest resources. • Implementation of more extension activities related to the rights and responsibilities of forest users. • Enhancement of participation by all stakeholders. • Launching special operations for regular monitoring and inspections of forest products and forest reserves.
Philippines	Phase 1 - Informal and pre-negotiation. (Initial meeting with EFI 12 Nov 2012).	<p>The Philippines has 15.8 million hectares of forests out of the country's total land area of 30 million hectares.</p> <p>The Philippine government is declaring a moratorium on timber cutting in natural and residual forests and is setting up an anti-illegal felling task force as well as TLAS mechanisms to combat illegal logging through the its Multi-sectoral Forest Protection Committee (MFPC) that will operate nationwide.</p>

		<p>Other effective measures and initiatives that further support FLEG in the Philippines include the Deputation of Environment and Natural Resources Officers (DENRO) of the Department of Environment and Natural Resources (DENR), which directly involves citizens in the protection and conservation of the country's environment and natural resources. Another is the establishment of the National Law Enforcement Coordinating Committee (NALECC).</p> <p>Furniture export to EU 17% average 2008-2012 Rp31 million (USD 0.7mil)</p>
Republic of Congo	<p>Phase 3 - System development. <u>VPA Agreement</u> signed 17 May 2010; ratified 17 Feb 2013.</p>	<p>The forest area of the Republic of Congo covers around 65% of the land area. Around 3.5 million hectares of forest have been set aside as protected zones, while 19 million hectares are intended for production. The country's major markets are EU and China.</p> <p>The Congolese government is updating existing legal texts and regulations and is setting up its Legality Assurance System (LAS) in keeping with the VPA requirements..</p> <p>The LAS covers the entire timber production and control process, verification of legality of forest companies, a wood traceability system throughout the supply chain, the issuing of FLEGT licenses and independent audits.</p> <p>FLEGT licences will be issued by the Forest Product Control Service for Export (SCPFE) under the supervision of the Forest Economy General Inspection Unit (IGEF).</p>
Thailand	<p>Phase 1 - Informal and pre-negotiation. (EU FLEGT team met Thai government 2009).</p>	<p>Forests cover some 14.4 million hectares or some 28% of the land area of Thailand (World Bank 2012). Thailand has a strategic position in the Mekong region and is an important player within ASEAN (Association of Southeast Asian Nations). Thailand is a major producer of (plantation grown) rubberwood and a net importer of tropical hardwood. It exports US\$3 billion in wood products annually.</p> <p>The EU is an important market. Approximately one third of Thailand's forest product exports go to markets that require proof of legal origin.</p> <p>Thailand is establishing a National FLEGT Negotiation Committee in anticipation of formal VPA negotiations with the EU and has a legal framework to address FLEG with three key strategies to strengthen FLEG implementation:</p> <ul style="list-style-type: none"> • Stopping forest encroachment immediately and consistently; • Granting rights for marginalized people to live in forest areas

		<p>without impacting negatively on the environment; and</p> <ul style="list-style-type: none"> • Enforcing and promoting forest rehabilitation.
Vietnam	Phase 2 - Formal negotiations (Start of negotiations 29 Nov 2010)	<p>At an area of 12.6 million hectares the forests in Vietnam cover 38% of the country (World Bank 2012)..</p> <p>Vietnam is a significant player in the timber sector in South-East Asia. Being primarily a processing country, Vietnam imports its timber from a number of countries in the region, including Laos, Cambodia, Indonesia and Malaysia. Vietnam's furniture export sales reached USD 3.9 billion in 2012, the largest in ASEAN (Association of the Southeast Asian Nations).</p> <p>Wood products account for more than 80 per cent of Viet Nam's total exports, according to industry reports.</p> <p>The furniture industry looks forward to the imminent creation of the ASEAN Economic Community, which holds prospects for substantial increase in the volume the timber trade.</p> <p>The need for FLEGT systems is evident as violations of state forestry laws are common. Urgent government interventions are necessary to address problems of interference with forest protection and forest management in the field.</p> <p>Priorities need to be given to perfecting forestry laws and policies to enhance forest protection capabilities.</p>

<p><u>OTHERS:</u></p> <p>In Africa: Sierra Leone.</p> <p>In Asia Papua New Guinea, and the Solomon Islands.</p> <p>In Central and South America: Bolivia, Columbia, Ecuador, Guatemala and Peru</p>	<p>FLEGT information missions on VPA have been extended to these countries under the EU FLEGT Regional Support Programme.</p>
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Annex D Comments Received from Member Countries

AUSTRALIA

Comments on the draft report on “Analysis of the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets”

Dear ITTO Secretariat

Reference: L.14-0014

Thank you for the opportunity to review the draft report TMT-SPD 013/12 Rev.1 (M) *Analysis of the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets*.

Australia wishes to make the following corrections to and observations on the draft report.

At page 10 the report says “In the case of Australia and New Zealand, also with public timber procurement policies”. It explains this at pages 19-20.

At page 19 the report refers to a publication by Dam and Savenije (2011). The full reference for this report is Jinke van Dam and Herman Savenije. 2011. *Enhancing the trade of legally produced timber. A guide to initiatives*. Tropenbos International, Wageningen, the Netherlands.

The draft ITTO report states that the Dam and Sevenije report documents public procurement initiatives for Australia. The Dam and Savenije report at page 35 says “China, Japan, Mexico, Brazil (state of Sao Paulo), New Zealand and Australia also have operational procurement policies...Australia aims to improve the environmental performance of government operations through guidelines for paper and cardboard products in its purchasing policy, but as yet has no specific procurement policy on timber.” It then summarises these policies in Annex 1. The Australian public procurement initiative is set out at pages 130-131 of Annex 1. The publication listed is the *Environmental Purchasing Guide* published in 2003. The report says “These guidelines include the environmental purchasing checklist for paper and cardboard, and the Ecologically Sustainable Development Design Guide for Australian Government buildings.”

Therefore, the report to ITTO, TM-SPD 013/12 Rev.1 incorrectly states that Australia has a public timber procurement policy as the source the report relies on, does not state that. Dam and Sevenije say “as yet there is no specific procurement policy on timber.”

At the time Dam and Sevenije wrote their report, the *Environment Purchasing Guide* was still the current policy. However, since then this report has been replaced by the *Sustainable Procurement Guide*, 2013. This new guide sets out principles for the sustainable purchase by government of all goods and services but no longer has specific checklists for specific goods – for example, it does not have checklists for the purchase of paper and cardboard.

If the consultants wish to check current Australian Government policies on sustainable procurement please refer them to the relevant sites listed below.

<http://www.environment.gov.au/resource/sustainable-procurement-guide>
<http://www.environment.gov.au/topics/sustainable-communities/government-sustainability>.

Note while there are apparent links to the 2003 guide and checklists on this web page, these links are no longer active and those documents no longer represent government policy.

<http://www.environment.gov.au/resource/esd-design-guide-office-and-public-buildings>

Please also note that Australian Government agencies are legally required to observe the *Government Procurement Rules* which dictate the efficient, effective, economic and ethical purchase of goods and services by the Australian Government. These rules are for all goods and services and thus do not specifically name any individual products.

These rules can be found at:

http://www.finance.gov.au/sites/default/files/cpr_commonwealth_procurement_rules_july_2012.pdf

I also note that Australia has three levels of government. Local, state/territory and national. All levels of government make their own policies on procurement and it is possible that some councils (local government) or State or Territory governments may have specific guidelines on government purchasing of paper or timber products.

I trust this has helped clarify policies in Australia on the purchase of timber or timber derived products by Australian Governments. Thank you again for the opportunity to provide comments on the draft report.

I am happy to discuss the Australian comments if any clarifications are required.

Yours sincerely
Malcolm Jamieson
Australian ITTO contact point

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**Comments and suggestions on Draft Report on Analyses of the Economic Impact of
Governmental Procurement Policies on Tropical Timber Markets—China**

1. The data in the draft report are mainly of HS44 products. Since the forest products in this code are mainly raw material or semi-products, in order to fully reflect the changes of demand and consumption in the timber markets, it is suggested that the market changes of furniture products in HS94 be included as well. If considering paper and paper products, the report can also refer to data of HS47, HS48 and HS49 products.
2. The draft report has made analysis on HS44 products as a whole, which may lead to the misunderstanding that the export of emerging countries occupies the market share of mature traditional markets. In order to avoid that misunderstanding, it is suggested that the analysis of specific products shall be made, not the category as a whole.
3. In the draft report, the analysis is mainly made on the changes of the trading value of forest products rather than changes in the trading volume. In the past decades, great changes have taken place in the market demand and consumption of forest products in many countries. When comparing the trading value of forest products, exchange rates are one of important elements to be considered. It is suggested that, besides trading value, the comparison of trading volume of various forest products are also made in the draft report.
4. Due to the said reasons, it is not convincing enough to make the observation that the traditional markets remaining flat or declining and markets in emerging countries continue to show robust growth. Although many developing countries have increased import of raw material and semi-products in HS44, the traditional markets in Europe and American remain to be the destiny of most of manufactured products including furniture. Those developing countries only get limited labor payment.
5. In the draft report, different standards of compliance are mentioned and the role of FSC and PEFC in regulating forest products markets is highlighted. But the report has not made sufficient analysis on how various systems impact the producers and consumer markets. It is expected that feasible recommendations and actions made to forest product enterprises on how to respond to these market requirements.



EUROPEAN COMMISSION
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ENVIRONMENT
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Subject: EC comments on report TMT-SPD 013/12 Rev.1 (M) "Analyze the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets"

Dear Mr Ze Meka,

The European Commission would like to thank the ITTO secretariat for the letter Ref. L.14-0014 of 22 January 2014 inviting ITTO members to provide comments on the report "Analyze the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets" which was presented at the 49th Session of the International Tropical Timber Council (ITTC49) held in Libreville last year.

As reflected in the statements made by the EU during the discussions on this subject at ITTC49, the EU broadly welcomes this study which provides a balanced analysis and interesting recommendations that could serve as the basis for future discussions on this important topic amongst ITTO Members. While acknowledging the challenges and opportunities for producer countries to adjust to evolving market requirements, including with regard to the different timber procurement policies that have been put in place by a number of countries, both consumers and producers of tropical timber, we read with interest the overall finding of the study about the non discernible economic impact of timber procurement policies and the main factors in explaining the current declining tropical timber markets in "mature" economies, including the EU, i.e. the long-term market trends, the increased importance of domestic markets, changes in economic structure of producer countries, the reorientation of trade towards emerging economies and their increased roles as processing countries. Against this background, the EU

supports the overall message of the report which encourages the ITTO and its Members to "give up old arguments" about pros and cons of procurement policies and to "operate in today's market". We take note in particular that, fully in line with the core objectives set for the organization under the ITTA, 2006, the report highlights the fact that the ITTO could play a bigger role in promoting demand for legal and sustainably produced tropical timber. This entails an increased and more pro-active focus of efforts by ITTO members to promote these concepts in emerging markets.

In addition to our general views on the report expressed above, we have identified a number of areas for improvement and would like to offer our comments.

1. General comments

First of all, we would like to provide some general points. The report presents a major gap insofar as there is no reference to, let alone an analysis of, measures taken with regard to timber public procurement policies by a number of producer countries, as well as emerging economies not only at the national level, but also regional and local level. Also, the report dedicates extensive space to issues related to national legislation establishing legality requirements for timber and timber products. However, it should be clarified that such measures do not constitute and cannot be characterized as procurement policies, and it should be better explained what is the rationale for dealing so extensively with such instruments in a study on "the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets". Furthermore, the methodological choices and any limitations of the study should be better explained. This relates for instance to the choice to analyse trade data for products falling under HS44 only. Finally, the report would benefit from professional editing, with a view to improve its internal consistency, logical flows of the various chapter and sections, and to make the language used clearer.

2. Executive summary

The executive summary will need to be adjusted in line with any proposed amendment in the substantive chapters of the report.

3. Chapter 1 - Introduction

a) p.14 – last sentence of the 4th paragraph:

"Furthermore, the EU had promulgated a Timber Regulation that would place new responsibilities on importers and EU member countries to assure legality of timber and timber products placed on the internal market".

We suggest reformulating as follows in order make the description of the provisions of the EU Timber Regulation more complete and accurate:

"Furthermore, the EU had promulgated a Timber Regulation that prohibits the placing on the EU market of illegally harvested timber and timber products and

requires operators to exercise due diligence in order to minimize the risk of illegal timber being placed on the EU market, as well as obligations for EU Member States concerning the enforcement of the Regulation."

- b) p.17 - 1st paragraph under the title "The challenge ahead". A more explicit reference to the rise, over the past decade, of major timber processing countries (e.g. China, Vietnam) and the effects of this on trade patterns concerning tropical timber would be appropriate.
- c) p.17 - penultimate sentence: "*In more than one national case, the national policy dialog on sustainability has been overtaken by legality standards*". We suggest adding at the end of the sentence: "*as a necessary first step towards ensuring sustainable forest management*". We also wonder whether the verb "overtaken" reflects accurately the nature of the dialogue in question. In the EU the focus on legality has been complementary, rather than replacing, the dialogue on sustainability, as evidenced in the ultimate objective of the EU Forest Governance, Law Enforcement and Trade (FLEGT) Action Plan which is to promote Sustainable Forest Management (SFM) by improving governance frameworks and combating illegal logging and associated trade.

4. Chapter 2: Update of the ITTO Study "the Pros and Cons of Procurement", technical series 34

- a) p.19 - The sentence "The use of public sector procurement policies as a pro-active tool to *promote the consumption of forest products from sustainable forest management has subsided measurably from the active period 1999-2005*" needs to be clarified. What's the message that the authors intend to convey here? Elsewhere in the report (see. p.56) they refer to the fact that after an intense period of policy development (e.g. 1999-2005) where a number of public procurement policies were put in place and refined, such policies have now "stabilised". Is the intention of this sentence to highlight that there have been less new initiatives in this field in the more recent period? If this is the message of the sentence, we suggest reformulating as appropriate (e.g. if any, it's not the use of the policies that has gone done, but the number of new initiatives). We would nonetheless request the consultants to consider further this argument. While the number of new initiatives at the national level in some consumer countries may have diminished, there are continuous efforts at local, district and regional level. Furthermore, as mentioned above, such initiatives are not limited to consumer countries. Many producer countries (e.g. Brazil, Mexico, Indonesia, Ghana) have developed or are discussing timber procurement policies, at various levels (national, local, municipal, etc.).
- b) p. 20 – second paragraph. The following sentence should be added at the end of the paragraph to better characterize Germany's timber procurement policy:

At least in the case of Germany policies relating to the procurement of timber products have to be observed on a strictly mandatory basis without regard to any cost-effectiveness approach or value for money considerations.

- c) p.20 (bottom) – "a number of ITTO consumer countries have given precedence to legality considerations in the last years". We suggest completing the sentence with the following addition, "as a necessary first step towards ensuring sustainable forest management". At least in the case of the EU, we would also question the use of the word "precedence", and think that it would be more accurate to speak about "strong attention", "focus on".
- d) p.22 (top) – Please correct the reference to the Commission implementing regulation (EU) No 607/2012, which deals with "the detailed rules concerning the due diligence system and the frequency and nature of the checks on monitoring organisations as provided for in Regulation".
- e) p. 22 - it should be noted more clearly that the adoption of the EU Timber Regulation is part of a coherent set of actions, defined in the EU's FLEGT Action Plan, aimed at tackling illegal logging through a combination of demand- and supply-side measures. One of the major pillars of the action plan is the support to producer countries to improve forest governance and law enforcement. This includes, but is not limited to, the conclusions of Voluntary Partnership Agreements (VPAs) with interested partner countries. It also involves broader support to producer countries through a range of initiatives (EU and Member States bilateral cooperation, FAO FLEGT Programme, EFI FLEGT Facility, etc.). The FLEGT Action Plan deals with several, mutually supporting areas of work: development cooperation, timber trade, financing and investment safeguards, public procurement, private sector initiatives. This shows clearly the EU commitment to provide support to producer countries to adjust to new market requirements.
- f) p. 23 – first paragraph under the heading "EUTR implementation procedures"

"While the EU Timber Regulation is binding on all EU member states, the exact implementation modality is established by each EU member state within a context adopted in the legislation and delegated regulations of the European Commission."

This sentence does not correctly reflect the functioning of EU legislation. We suggest rephrasing as follows:

"While the EU Timber Regulation is binding on all EU Member States, the responsibility for enforcing the legislation lays with each EU Member State, which is obliged to appoint a competent authority and undertake any step required to make the regulation fully operational at the national level, in line with the provisions of the legislation and delegated regulations of the European Commission."

- g) pp. 25-26 – Introduction to the section 2.2. Developments and trade flows. While acknowledging the importance of HS44 as category of products to be analysed to understand tropical timber markets, it may be appropriate to provide a more detailed explanation of why other HS codes have been excluded from the analysis so that parameters and limitations of the study can be fully understood.

5. Chapter 3: Economic Impact of procurement policies

- a) p. 83 – 1st paragraph / top of the page. *"Integration of the EU Timber Regulation within the European national timber procurement policies is challenged by the requirement to integrate licenses from FLEGT VPA in a distinctive way."* This paragraph is unclear and needs to be clarified.
- b) p. 83 – 2nd paragraph. The sentence *"FLEGT VPA countries have chosen to meet the challenge of the EU Timber Regulation by producing a public good – each constructing a national Timber Legality Assurance System"* does not reflect accurately the motivations behind the choice of many partner countries to engage in a VPA process. It should also be recalled that several VPAs were initiated and concluded, well before the drafting and entry into force of the EU timber regulation. VPA partner countries have several motivations when deciding to engage in a VPA with the EU. Enhanced access to the EU market is only one, and not necessarily the strongest, motivation. Other frequently stated objectives relate to: promoting Sustainable Forest Management at the national level, improving forest governance, strengthening law enforcement, better controlling and sustainably managing the resource base.

6. Chapter 4: Challenges faced by producer and consumer countries

- a) pp. 89 – 92 - Section 4.1 "Identify and examine the difficulties and obstacles faced by tropical timber producers and consumers in meeting the requirements of timber procurement policies. The entire section needs to be revised, in order to make sure that its logic flows better and key messages are adequately reflected. From the EU point of view the key messages are those reflected in the last two paragraphs of this section. However, these concluding paragraphs are supported only to a certain extent by the preceding ones.
- b) p. 89 – second paragraph. With regard to the last sentence *"the consulting team could not find any evidence of a Category B acceptance"*, we would like to be noted that the EU public procurement legislation requires accepting equivalent certificates.
- c) p. 89 – penultimate paragraph. The sentence *"In principle, tropical timber producers and consumer can meet the requirements of timber procurement policies. In practice, this has not been the case"* needs some qualifications. We do not believe it would be accurate, and this was not probably the intention of the consultants, to state that in practice it is not possible to meet the requirements of timber procurement policies. The latter part of the sentence could be modified along the following lines: *"In practice, meeting such requirements has been difficult for some countries/operators due to...."*. Furthermore, it would be appropriate to mention here what are the main issues that have made meeting this requirement difficult in practice and under which circumstances.

The difficulties may be related to certain type of forest enterprise or group of stakeholder, challenges in getting certain type of schemes recognized, etc.

- d) pp. 93 – 107 - The final paragraph at the bottom of the page 93 correctly recognises that it is important to distinguish public or private procurement policies, as compared to legislation prohibiting trade in illegal timber. Considering the main objectives of

the study, the report fails to explain the rationale for dedicating a significant amount of attention to the latter. Extensive information is then provided on the Voluntary Partnership Agreements between the EU and a number of producer countries. We also note here that private procurement policies are addressed only marginally in the report.

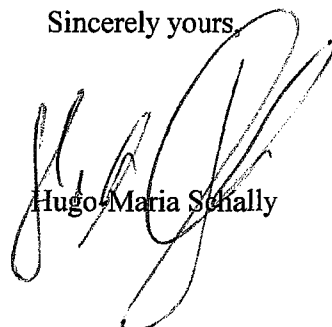
- e) p. 94 – third paragraph. The characterisation of the scope and objectives of the FLEGT Action Plan is not entirely accurate, as there seems to be a confusion between the FLEGT Action Plan, the VPAs (which are only one of the "pillars" of the FLEGT Action Plan), and the EU Timber Regulation (another measure stemming from the FLEGT Action Plan). Please see comment above.
- f) p. 94 – fourth paragraph. The sentence "EUTR disallows placing of illegal timber on the EU market. Timber exporting nations are obliged to define and enforce legality of their respective timber products" is incorrect. The EUTR does not establish any obligation on third countries. On the contrary, the legislation explicitly defines illegal timber as timber that does not comply with existing legislation in the country of harvest. The paragraph also seems to give the impression that entering into a VPA with the EU and being able to issue FLEGT-licensed timber is the only way for a country to facilitate access to the EU market of its timber products. This should be rectified.
- g) p.94 - Missing country in the list of VPA processes: please add Thailand with which the European Union has started negotiations in the course of 2013.
- h) p.95 – reference to no VPA country having met the initial deadline for producing FLEGT licences. There is no such a thing as a "deadline" in the VPAs.
- i) p.96 – It is unclear what is the added value of a table showing progress in the negotiation and implementation of VPA agreements between the EU and VPA partner countries in a context of a report dealing with public procurement policies. We recommend deleting this table. In any case, it should be clarified what is the source of the data used in the Table 36 and until which date this information is updated. Note for instance that the date of signature of the Indonesia VPA is incorrect. The agreement was signed only in September 2013 and is still undergoing ratification on both sides.
- j) pp. 106-107 – section on "Cost of compliance and the journey to the market". The entire section focuses on the "costs" of the FLEGT process, without any mention of the wide and recognized benefits of the process. The efforts towards establishing a TLAS appear to be presented as a decision taken exclusively as a reaction to external requirements rather than as a strategic choice by VPA countries that are pursuing wide policy objectives in the forest sector with a view to accrue a range of expected economic, social and environmental benefits. Arguments on costs are not balanced with adequate considerations on overall benefits (level playing field, better management of the resource base, increased access, consumer confidence, etc.). The language of this section seems to reflect strongly held views by the consultants, which do not appear to be supported by strong factual analysis.

7. Chapter 5. Recommendations

- a) p. 110 – first recommendation: "use trade policy to create clear market signals". *All countries that import wood particularly EU member countries, need to send the market signal that trade in illegal timber is no longer acceptable in those countries.* It is unclear to us why this recommendation is addressed to "particularly EU member countries". In line with the subsequent recommendation included in p.111, we believe that this recommendation is in fact addressed to all ITTO members. As a matter of fact, the EU and its Member States, through the implementation of the FLEGT action plan and the EU timber regulation are already making an effective use of trade policy instruments (VPAs, Free Trade Agreement chapters on Trade and Sustainable Development) to send market signals against illegal logging.
- b) p. 110 – second recommendation: "*Help FLEGT VPAs supplier countries create a supply of certified legal timber to fill demand from increasingly environmentally conscious European consumers. Such facility will create a financial incentive for developing countries to create a legal, sustainable supply of timber.*" This recommendation should only be addressed to FLEGT VPA partner countries, but rather to all ITTO producer countries. Furthermore, building capacity to supply certified timber and timber products from legally and sustainably harvested sources it's an ever increasingly important market requirement which goes well beyond European Consumers, but characterizes global timber markets as a whole. It is therefore unclear why the reference only relates to Europe. Finally, the reference to "Such facility" in the final sentence is unclear.
- c) p.110 – third recommendation: "*The EU has flexed its government procurement muscle to drive demand for sustainable wood. Evidence already suggests that EU government is stimulating the market for legal timber even further.*" As reflected in the report, public and private procurement initiatives go well beyond the EU and are sprouting across the world, both in producer and in consumer countries. The recommendation should reflect this. The scope of the report is not limited to the EU or European markets. It would also be more correct to refer to "some EU member states" since there is no single EU wide timber procurement policy.
- d) p.111 – "*Efforts by ITTO producers and consumers to promote fundamental concepts of sustainability, life cycle analysis and renewability should increasingly focus on emerging markets.*" It is strange considering the text of the ITTA, 2006 and the amount of attention given to legality considerations in the report, that no reference has been included here to the concept of "legality". We strongly suggest this to be added here.

We hope that the views and inputs provided will be useful to the consultants in improving and finalizing the report.

Sincerely yours,



Hugo Maria Schally

MALAYSIA:

COMMENTS

**DRAFT REPORT ON ANALYSIS OF THE ECONOMIC IMPACT OF
GOVERNMENTAL PROCUREMENT POLICIES ON TROPICAL
TIMBER MARKETS**

After having a series of internal consultations with our stakeholders, we wish to submit the following comments.

General Comment

Malaysia considers this study of great importance which has direct impact on the tropical timber trade. The findings of the study would be much useful to producer member countries in their efforts to meet the stringent market requirements. But the terms of reference of the study must be fully addressed so that the challenges faced by producer members may be identified and critically analyzed with recommendations for an action plan to be implemented within a framework of cooperation between producers and consumer. Such a revised report can then be the basis of a workshop as proposed by Malaysia in order to make progress.

Specific Comment

- i. The draft report is relatively superficial, lack of focus and the study does not seem to address the substantive items in the Terms of Reference. For example, one of the main outputs of this study is to have a comprehensive analysis of the impacts of procurement policies on markets and trade, taking into consideration their relevant effects on demand, supply, costs,

prices as well as financial implications for exporting countries. However, these elements have not been adequately analyzed.

- ii. The challenges faced by members, especially producers have not been assessed in depth. The draft report fails to address the issues on the difficulties of producer member countries to meet the requirement of government procurement policies imposed by importing countries related to the implementation of sustainable forests management (SFM).

Proposed Recommendations

- i. The consultants may focus on the core issues.
- ii. The study must also consider from the viewpoint of the capacity of producer member countries to implement SFM. There must be a linkage between consumer requirements and the realities on the ground faced by producers.
- iii. The study to also indicate the responsibility of consumer countries in providing assistance towards achieving SFM. Implementation of SFM or the requirements to implement measures for the report of timber verified for legality, as required under the US Lacey Act, the EU Timber Regulations and similar legislation proposed by other consumer countries must be a shared responsibility by both producer and consumers within the framework of the ITTA.

MEXICO

Comments on the draft report on “Analysis of the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets”

(Translated from the Original Submission in Spanish)

In Mexico there is a document entitled “Decree establishing new measures regarding acquisitions, use of paper and sustainable forest management certification by the Federal Public Administration”, which was published in the Official Gazette of the Federation (*Diario Oficial de la Federación – DOF*) on 5 September 2007. This document stipulates that Federal Public Administration agencies should monitor the acquisition of paper, timber products and furniture originating from legal harvesting operations in accordance with the legislation and should also ensure the support of sustainable forest management.

A second instrument is the Mexican Certification Standard, which has been adjusted to national forest harvesting standards in accordance with the Mexican legislation. This instrument, known as “NMX-AA-143-SCFI-2008 for Sustainable Forest Management Certification”, was published in the DOF on 8 September 2008.

The National Certification Strategy of Mexico has led to the development of the Mexican Forest Certification System (SCEFORMEX), which integrates various sustainable management certification stakeholders through the National Council for Forest Certification, whose membership includes representatives of producers, the industrial sector, environmental sector institutions and other interested stakeholders.

These stakeholders include certifying agencies, FSC, PEFC and federal government institutions, as well as consumers demanding certified products such as private companies with export markets, federal government agencies and some state agencies.

Furthermore, the National Forest Commission (CONAFOR) has a special project entitled “Biodiversity in Production Forests and Certified Markets (GEF)”. The aim of this project is to promote the certification of sustainable forest management by strengthening institutional and producer capacities, developing and consolidating a domestic market for certified products, and monitoring biodiversity conservation conditions in the field.

Finally, to support the certification of forest management and secondary processing of products, the Secretariat for the Environment and Natural Resources (SEMARNAT), through the National Forest Commission, offers financial support to carry out certification actions at the national and/or international levels for authorized forest management and to assess the industry, manufacturing processes and marketing of certified products through chain-of-custody certification with the Forest Stewardship Council (FSC).

With regard to international efforts to establish procurement policies for tropical timber markets and their future impact on those markets, we consider that the reduced purchasing activity in the traditional markets of Europe and the US obviously means that a significant part of the marketed products had previously entered those markets in an irregular manner.

The enforcement of public policy by tropical timber product importing countries (e.g. Lacey Act, FLEGTH) for the purchase of forest products has served as a filter for the trade of products of verified origin that have been harvested and processed in accordance with the legislation of ITTO producer member countries.

The forest management certification mechanism provides certainty as regards to the origin of forest products (roundwood, sawnwood) by ensuring traceability from the harvesting operation to the point of product processing and consumption.

This traceability is ensured by establishing a chain of custody through the processing of tropical forest raw materials as both processors and traders of forest products only receive products of legal origin under certified forest management. This gives confidence to consumers about timber products and byproducts from ITTO member countries, including Mexico.

In general, timber and timber product procurement provisions are good because they provide the public with certainty about the origin of products, as public opinion is divided everywhere regarding the sustainability of forest harvesting, particularly in tropical forests, whose management and regeneration tend to be more challenging than for temperate and boreal ecosystems.

However, this implies additional regulations to timber harvesting and carries associated costs. The possibility of government support, as is the case in Mexico, can somewhat guarantee compliance with established procedures in the different stages of the tropical timber production chain – from the forest through processing to the market.

Annexes

Copies of the following documents are attached: “DECREE reforming and adding provisions under the Law of Public Sector Acquisitions, Leasing and Services” and “DECREE establishing measures regarding acquisitions, use of paper and sustainable forest management certification by the Federal Public Administration”, as well as “NMX-AA-143-SCFI-2008 for the Certification of Sustainable Forest Management”.

**'Draft Report on Analysis of the Economic Impact of
Governmental Procurement Policies on Tropical Timber Markets'**

New Zealand Comments

Summary

Overall, we welcome the findings of the report. We appreciate the work undertaken by the consultants given the difficulty of such analysis and agree with the conclusion that it is impossible to distinguish the effect of procurement policies from wider trends in the global timber markets. We also find the final recommendation to be constructive; that there is a need to move beyond old policy debates centred on traditional markets and for ITTO to embrace more forward-thinking discussions, with a greater focus on emerging markets

Given the conclusions and recommendations in the report, we would question the need to hold a workshop to discuss it further. The report is comprehensive and takes the analysis as far as it can possibly go given the data available.

General Comments

a) A lot of the report is taken up with discussion of the regulatory measures taken by a number of states (particularly the EU, USA, and Australia). Whilst it is useful to include regulatory developments in an overview of global trends, continued reference to it takes away from focus (as outlined in the Terms of Reference) solely on procurement policies.

There are a number of instances where regulatory measures are included in the analysis along with procurement policies, which muddies the water between the two. There are substantial differences between regulatory measures and procurement policies; the two can't be analysed as equivalent (and, according to the Terms of Reference, regulatory measures shouldn't be analysed at all in this report).

b) In many places the document is repetitious and much of the material is descriptive and as such should either be summarised or, if important, should be relegated to the annexes.

Specific Comments on New Zealand

c) Of particular concern to New Zealand are a couple of instances where the New Zealand procurement policy and the Australian regulatory measures are discussed as if equivalent. The report gives an overview of New Zealand's procurement policy (p.53-54) and Australia's regulatory measures (p.25), but does not discuss Australia's procurement policy other than to note that there is one (p.20) and that the policy will need to be adjusted when the regulatory measures come into effect (p.56).

Given this focus on the Australian regulatory measures, when there are mentions later to similarities between New Zealand and Australia (page 82, page 84, and page 91) it is not clear if these similarities are between our procurement policies, or between a procurement policy and a regulatory measure.

Our recommendation is that an overview of the Australian procurement policy is given at some point early on, and that it is made clear later in the report that the joint references to Australia and New Zealand specifically regard our procurement policies.

d) The New Zealand policy is also slightly misrepresented in the second paragraph of section 3.2 (p.82). It is clearly stated in the New Zealand procurement policy that:

“New Zealand also reserves the right to recognise any other systems that can, to New Zealand's satisfaction and verification, prove they meet New Zealand's requirements for legality and/or sustainability”

The list of certification schemes is not exclusive and the New Zealand government will consider any requests to have other certification schemes recognised.

Section 3.2 also states that *“It is understood that some of these buyers favour one scheme over others.”* The ‘buyers’ the sentence refers to are mentioned earlier in the paragraph and include New Zealand. However, the New Zealand policy clearly states that *“The Timber and Wood Products Procurement Policy does not endorse any one scheme over another”*.

Specific Comments on the Study

e) The study noted that it only uses HS code 44 in the analysis, in line with the ITTO's focus on timber. However, government procurement policies extend beyond timber, including furniture, paper, and other forestry products. Whilst we are happy to keep the study focused on HS 44, it may be worth pointing out that the study is only capturing the effect of procurement policies on timber and not on wider forestry products. At the moment it is implied, by the second output being a ‘comprehensive analysis of the impacts of procurement policies on markets and trade’, p.5, 16, 114, that the study's scope is more wide ranging than it really is.

f) The economic effect of procurement policies is estimated in the report by using the gross fixed capital formation spending by government as a percentage of GDP. In the case study of Belgium 1.7 percent of GDP is given as the gross fixed capital formation. This figure is then transmogrified into ‘less than 2 percent of GDP’ and is used on pages 7, 8, 10, 45, 46, and 61. In several instances it seems to suggest that this is the direct economic impact of the procurement policy. This may be slightly miss-leading as gross fixed capital formation covers a much wider range of products purchased than just timber.

g) The final paragraph on page 93 usefully states *“Public timber procurement policies apply to government purchases of timber that in reality are a very small portion of the modern marketplace.”* Given this is the case, it is not clear why the report spends so many words looking at the entrails of government expenditure and GDP in Belgium to try to figure out the possible size of the spend and therefore the proportion of tropical timber imports affected. It would be useful to cite economic and research work that indicates that the methodology used in this report is a useful and accurate way to gauge the value of government spend.

On this, the draft report at page 46 notes that the Fripp report “cites the difficulty in obtaining reliable estimates of market shares of public procurement. Their efforts included consultations with wood traders and supplier groups who believed that the public service in the UK accounted for between 20-40 per cent of all sales.” So how does the 1.7% of GDP compare to this figure? Are they broadly compatible? The only two figures for government spending and therefore the quantum of government procurement spend are for Belgium and UK. Are these representative of government procurement spending in all ITTO consumer countries? We would find this unlikely in New Zealand given both the budgetary differences and structural differences in public sector procurement.

h) The final paragraph on page 93 notes the differences between private and public procurement policies, and also legality assurance regulation. It also gives a rough evaluation in the marketplace. We think that the differences between private and public procurement policies need to be given greater visibility within the report and be placed further upfront. An analysis of how these policies work, how they compare and differ, and how they impact on the market (in more detail) would be useful.

i) In several places the draft report comments about the changes in general demand for timber and timber products and links this to the global economic crisis. This is useful but should have gone much further in that the draft report should specifically reference other works done recently and then try to identify (if it was possible) the specific effects that arose out of the advent and implementation of public and/or private procurement policies. In the same way, there have recently been other ITTO reports (including from the Trade and Market Access Group) that have considered other pressures on tropical timber producers. In order to fulfil its objectives, the draft report should have also disaggregated these from the effects of procurement policies.

j) The draft report also notes the “leadership” effect of public procurement policies – and gives precisely one example. The United Kingdom. Did the consultants find any other examples? For example, (and accepting that this is a regulatory approach) in the US with the Lacey Act?

k) Page 17 of the draft report notes the “challenges in complying with procurement requirements” and yet the concern re common elements and differences in implementation standards (discussed on page 47) is not mentioned in this list.

l) It is not clear what the discussion on private sector wood procurement policies – page 54 page - (or the two examples provided) is trying to say. “Tend to follow different paths” is the language in the chapeau paragraph. So does this different pathway make a difference in terms of economic impact, issues for the supplier or leadership role?

m) Page 56 – points for consideration. It is noted in the first paragraph that many public timber procurement policies have been folded into a broader set of “green” or environmental guidelines or requirements. This is the first mention of this factor – it is not described of any of the procurement policies that we noticed. And what precisely is the point for consideration? Does this factor make it better or worse for suppliers? Does it change the overall impact? Does it require more than forest certification in some form?

n) Similarly for the discussion on policies for procurement by most private sector firms. Two examples were given with no other data – how does this conflate to “by most private sector firms”. Is there a market share value or some other indicator that could be pointed to? How do the consultants know that there is considerable variation in the implementation of these private sector policies with respect to responsibility for record keeping and audit management?

o) The second paragraph on page 56, states “many procurement policies accept third party systems of verification such as sufficient for legality assurance or forest sustainability.” It then goes on to state that there is “significant divergence in policy implementation in both the public and private sectors on which forest certification systems are accepted as sufficient.” These two statements are not consistent and the latter is a very broad generalisation given the descriptions in the draft report of the various regulatory and procurement policies around the world. It would have been helpful if there had been some kind of table showing this “significant divergence”.

p) Page 57 – “analysis in Chapter 2 underlines that tropical and temperate timbers are broadly inter-changeable in most end use applications.” Not sure that chapter 2 shows that at all. It shows changing trade flows but it does not consider what kind of timber is being traded; does not factor in the fact that timber processing is often happening offshore (eg China and Viet Nam) and fundamentally misunderstands the differences between different types of timber – hard or soft wood.

q) Page 57 and 59 – the argument is that slow processes with long time lags causes considerable ‘consternation’ among market participants. Are the authors suggesting, turning the whole thing on its head, that a fast process with no time for implementation would have been better?

r) There are several places in the report (bottom of page 68 and page 75 for example) where simplistic action and consequence statements are made without considering or even acknowledging that there might be alternative explanations. For example, on page 75 there is a lengthy quote on the problems felt by the Italian wood manufacturing sector – the question has to be asked if Belgium did not experience the same issues and the same possible causes.

s) Given that this report is about the effects of procurement policies (either government or private) we are unclear of the utility of the discussion about the politics of third party certification and would question why it is relevant when most/all of the public procurement schemes described accept both FCS and PEFC (and a range of national certification schemes as well). A point made on page 91, first full paragraph. In this paragraph, what is the point of the last sentence on the Malaysian Timber Certification Scheme?



February 6, 2014

Mr. Steven E. Johnson

Assistant Director

Trade and Industry

International Tropical Timber Organization

INTERNATIONAL ORGANIZATIONS CENTER, 5TH FLOOR

PACIFICO-YOKOHAMAM 1-1-1, MINATO-MIRAI, NISHI-KU,

YOKOHAMA, 220-0012, JAPAN

Dear Mr. Johnson:

TMT-SPD 013/12 Rev. 1 (M)

“Analyze the Economic Impact of

Governmental Procurement Policies on Tropical Timber Markets”

The Bureau would like to express gratitude for being given the opportunity to express its views on the draft report on the Analysis of the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets which are as follows:

1. We value the need for Timber Procurement Policies for their potential to promote sustainable forest management and responsible consumption of forest products make them very suitable alternatives to holistically restricting the harvest and use of timber. The Bureau, in fact has been undertaking initiatives to establish a national level forest certification system to ensure both the protection and preservation of forests and the continued availability of the resources it carries.
2. As a general comment, while it is important that features of selected policies be briefly presented it is also essential that their limitations be introduced and discussed. The Bureau believes that this extension of analysis will potentially determine if these limitations influence the economic impact of policies and the extent if any.

3. Of another concern, in light of the study being representative of various economic climates, the selected cases (i.e. Belgium and Italy) only reflect the potential economic impacts of policies to developed states, it is therefore recommended that the pool of case studies presented be broadened to illustrate potential effects to developing states (e.g. to what extent do policies affect developing economies in terms of GDP as studied in Belgium and Italy) as they perform fundamental functions in the trade of tropical timber more specially as they are key stakeholders in the production side of the market.
4. As the objectives of the report mainly focus on the development and reinforcement of timber markets as institutions of exchange, the Bureau also finds importance in emphasizing the liabilities of both producers and consumers of timber to foster responsible participation in the market; hence it is suggested that – *advocating that accountability of timber producers and consumers be concretized through internationally recognized legal instruments that serve as bases for checks and balances as necessary* – be added to the end goals of the report.

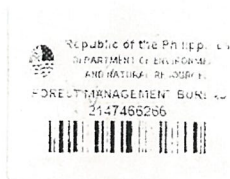
In conclusion, the said recommendations seek to enrich this report by suggesting expansions and additions of analyses and goals in order to have a more extensive and representative research output that will also be of benefit to all ITTO members.

Please be informed that the undersigned is the focal person for the Forest Management Bureau regarding matters on the ITTO.

Best regards.

Yours sincerely,


RICARDO L. CALDERON, CESO III
Director



**Annex E Response from the Consultants on
Comments Received from Member Countries**

Incorporation of Member Comments

Australia

Dam & Savenije (2011). Excellent point and clarification appreciated. Reference to Sustainable Procurement Guide has been incorporated. Effort made to distinguish between procurement guides and “a specific procurement policy on timber.”

China

HS 44 and alternatives

Point is well-taken that a broad look at the market for forest products is highly desirable. The span of HS codes to review was a difficult decision but boundaries had to be established to make the study feasible. The broader the market scope, the more difficult to attribute changes to timber procurement policies which are the focus of the study. If the boundaries are too narrow then it would not help the membership see the broader evolution in the market.

The ITTA 2006 provides a very narrow definition of tropical timber under the agreement – logs, sawnwood, veneer sheets and plywood produced in countries between the Tropic of Cancer and the Tropic of Capricorn (Article 2 Definitions).

In practice, to better understand the evolution of the market for tropical timber and appreciate the opportunities presented by secondary processing, the Secretariat has supplied at members’ request data and analysis on a broader range of product categories, see *ITTO Annual Review and Assessment of the World Timber Situation 2011*. Generally, the categories reported for member information under Secondary Wood Processing are those found in HS44. Paper and paper products are not reported or discussed within the context of ITTO.

In short, HS44 was selected as a middle road, not as strict as the ITTA 2006 but not too broad to lose member agreement that it was relevant to the spirit of the agreement. It is largely consistent with the products listed in the Annual Review and Assessment of the World Timber Situation which informs members on the evolution of the market for tropical timber. A footnote on this subject has been added to the report.

Single products versus product groups.

Footnote added to the report to explain consultants’ rationale: Import value for specific products such logs, sawnwood, veneer sheets and plywood is reported in detail for the illustrative case of Belgium (Table 22, Figures 1, 2, & 3). Tables 26, 27 & 28 report the import value by Belgium for each HS44 component from Indonesia, China and Gabon for the period 1999-2012. The consultants advise against drawing conclusions from changes in a single product category such as log imports. Rather, it is preferable to look at a larger picture like HS 44 because throughout the study period, tropical producing countries have introduced policy measures to promote further domestic processing. Log exports bans were introduced early by Malaysia and Indonesia and later in the study period by other producers such as Gabon. A more exhaustive list of log export bans is found at http://risk.forestlegality.org/files/fla/Export_bans_restrictions_2012_06.pdf

Bans on certain types of sawnwood have also been introduced. The explicit purpose of these bans is to promote domestic processing and/or prevent illegal harvest of CITES listed species. Table 28 illustrates this point precisely. In 2009, Gabon began to enforce with vigour its ban on log exports in favour of converting logs to sawnwood. The value of Belgium's imports of logs dropped from roughly 4 billion euro in 2009 to under 1 billion euro in 2010. At the same time, Belgium's imports of sawnwood climbed from 2.3 billion euro in 2009 to 13.5 billion euro in 2010. Thus, Gabon met its policy objective of increasing exports of sawnwood while reducing exports of logs and increasing its total export revenue from the Belgium market several-fold. The consultants contend that this increase in sawnwood imports had nothing to do with Belgium's government timber procurement policy but a lot to do with the change in policy in Gabon and a period of slight uptick in Belgium's economic growth. In summary, the consultants remain convinced that the HS 44 product group as a whole gives more insights on the impacts of procurement policy of the importing country rather than looking at specific products of the ITTA such as logs, sawnwood, veneer sheets or plwood.

Value vs. volume and the role of currency conversions

The question of volume versus value is always present. The *ITTO Annual Review and Assessment of the World Timber Situation* provides very detailed information on the volume of trade for the product categories covered by the ITTA – tropical logs, sawnwood, veneer sheets and plywood so this information is already widely reviewed by ITTO members. It should be noted that all of the volume data presented there have been converted from metric tonnes using uniform conversion rates. These standardized conversion rates cannot begin to cope with the variation in timber types and species.

In a sense then, the volume estimates suffer many of the same weaknesses that value estimates face with currency conversion rates. Since trade in the volume of secondary wood products would be less meaningful in volume, the trade values from major data sources are reported. The consultants believe that the evolution of the value of HS 44 imports and exports give a better overall picture of a market and it was decided not to overwhelm readers with volume data.

Traditional markets remain important.

The consultants agree that traditional markets for tropical timber remain important to ITTO producers. A key question for the membership in reviewing the report will be what to do next? Most economists will propose investing where the potentials gains are greatest relative to their cost. The consultants humbly suggest that there is more to gain for ITTO, as a membership organization, to focus more of its efforts on building market acceptance and share for tropical timber in the growing, emerging markets rather than spending all of its energy for declining shares in overcrowded mature markets. The organization's path, of course, will be decided by its membership based on factors beyond those found in the report of the consultants.

Important role of FSC and PEFC in compliance standards for timber procurement policies.

The consultants have underscored in the report the important point raised by China. For example, p10 of the Executive Summary in the draft report states, "Unfortunately, a reasonable degree of reciprocity, mutual recognition and respect among the proponents of various certification systems has not been achieved. The subtle variations in certification requirements among various national timber procurement policies and private sector procurement practices increase cost and confusion among

suppliers and consumers.” It is the consultants view that this failure to achieve harmony among the certification systems “has become a significant impediment to sustaining tropical timber trade and advancing sustainable forest management,” p92 of the draft report. The consultants seek China’s understanding that a review of the impact of certification systems on markets is not part of the terms of reference for this study.

European Commission

1. General comments

Need to refer to timber procurement policies in producer countries and emerging economies.

Publicly available information on implemented timber procurement policies by producer countries, as well as emerging countries was incorporated where it could be found or made available to the consultants. Information provided by Mexico has been incorporated in the revision. It is important to distinguish, however, between what is discussed or talked about in international fora and what actually becomes public policy. Advocates, detractors and concerned entities often refer to policy debates as if they were actually adopted policy. The study notes that many, many debates on public timber procurement policies were, in fact, incorporated or implemented through a much more generalized set of good practices for sustainable procurement that are not timber specific at all.

Extensive space to national legislation establishing legality requirements for timber and timber products.

While recognizing the sensitivity of this issue within the Council, the consultants seek the understanding of the EU given that the consultants believe that their assignment includes reporting on legality requirements as listed in Activity 1.1 of the consultants’ terms of reference, see Annex A of the report. Whereas timber procurement policies are specific to the purchases of a firm or government entity, national measures that require legality assurance are applied to the whole market; domestic production and imports from all sources. Since most timber procurement policies are being amended to include legality assurance measures, it is conceptually difficult to embrace a view that there is no interplay between them.

As the ITTO Council reports show, the membership is quite divided on the issue of legality assurance and specifically the associated nomenclature. A number of ITTO producer countries express that there is no boundary between legality assurance and timber procurement policies and they refer to these instruments interchangeably. An equal number of consumer countries argue vigorously that these are very different instruments. The consultants cannot have a position on this issue and must work within the confines of their TORs. These TORs, repeated in Annex A of the report, request updates on actions related to legality assurance. The consultants would highlight that their work assignment is to assist in the implementation of project TMT-SPD 013/12 Rev.1 (M) “Analysis of the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets” under the ITTO Thematic Programme on Trade and Market Transparency (TMT) which includes the following text in the chapeau of the “Terms of the Reference for the Consultancy Team” on page 13 of the project document:

“Legality requirements and timber procurement policies are being introduced in many countries. These requirements and policies are principally aimed at addressing public concerns about the legal and environmental credentials of products. Many purchasers are demanding that products should come from sustainable, or at least legal, sources and that this be verifiable, in order to maintain credibility with buyers in the market place. These requirements and policies have significant and far reaching implications for tropical timber suppliers. As developments are occurring at a rapid rate, there is an urgent need for tropical wood product exporters to monitor these developments, assess their ability to meet these requirements which are being widely adopted, and explore the market implications and opportunities presented by these developments.

This proposal by the Secretariat is to assist in analyzing the economic impact of governmental procurement policies on tropical timber markets through the update of the developments of legality requirements and timber procurement policies and the assessment on market implications and opportunities for ITTO producer and consumers.”

Focus on HS 44

1. A footnote has been added to the report to explain the consultants decision to use the HS 44 product grouping in relation to the scope of the ITTA 2006 and to current practice within the organization.

2. Executive Summary

Modified in line with revisions incorporated from member comments.

3. Chapter 1

- a. Suggested changes incorporated to extent practicable.
- b. Reference included
- c. Modified

4. Chapter 2

- a. *P18.* Text modified. To the knowledge of the consultants, only Mexico has issued an official national level decree on public procurement in 2007 intended to advance sustainable forest management through the purchase by federal agencies of paper, wood products and wooden furniture. The intention of the consultants is as stated -- the linkage between public procurement and promoting the purchase of good and services that meet a set of environmental, ethical and social standards remains widely discussed at all levels of government as noted in the footnotes. While a number of other countries have discussed the role of public procurement as a catalyst to underpin sustainable forest management, the operational action by public administrations related to promoting sustainable forest management has been taken largely through other means such as legality standards, forest management guidelines, certification, green building initiatives, etc.

In short, the idea of policies specific to public timber procurement has been superseded by other tactical approaches to promote sustainable or “green” procurement.

- b. *P19. Second paragraph:* The paragraph attempts to say this for all of the European countries listed in that paragraph: Austria, Belgium, Denmark, France, Germany, Netherlands, Norway and UK. A number of countries listed in the paragraph preceding such as Australia and until recently the EU put timber procurement within a larger context of value for money. Paragraph adjusted to seek to reflect the sentiment requested.
 - c. *P19 (bottom):* Text modified
 - d. *P21 (top):* modified
 - e. *P21:* Arguments in favour of the EU Timber Regulation and EU FLEGT action plan as an integrated package have been reported widely through EU interventions in the ITTO Council and elsewhere. The TORs request an update on changes in implementation of legality issues. The reference to the FLEGT Action Plan dated 2005 is to show that the EU Timber Regulation is, in fact, part of a larger picture and given its long gestation should not be regarded as a surprise by ITTO members.
 - f. *P22:* modified
 - g. *Pp 25-26.* Explanatory footnote added to the text as suggested.
5. Chapter 3
- a. *P85 1st paragraph.* Modified.
 - b. *P85 – 2nd paragraph.* There must be some confusion on the definition of a public good. Typically, a public good is a service or good where the beneficiaries of production, consumption or trade in a product extend beyond those directly consuming or producing the good. If the TLAS does all of the things indicated in the comment and meets the motivations outlined then it has really produced social, economic and legal benefits beyond those directly benefiting the specific entities trading forest products. This would be a very good definition of a public good. Each VPA partner country and the EU have different motivations to invest in the creation of the TLAS. Given the level of public funds invested by both the EU and the partner country, one would certainly hope that the benefits of the TLAS extend beyond the market participants. The EU hopes that the FLEGT VPA is more than simply a TLAS that only serves to issue FLEGT licenses and the partner countries hope that the TLAS does much more than only give FLEGT licenses but also assures other markets that their whole system of governance and monitoring is robust.
6. Chapter 4
- a) *Pp92-95 Section modified*
 - b) *P 92 second paragraph.* Most if not all of the national timber procurement policies make provision for Category B evidence – accepting equivalent certificates. The reality is that none of the European implementers could cite an example where such an equivalent certificate had been accepted. The practice is that the procurement authorities either prescribe directly FSC or PEFC certified products and/or suppliers do the same. Typically, the cost of the timber used in a public works project is a small fraction of the total value of the contract. No prudent

contractor would jeopardize a complete project for a small uncertain input. Each of the countries with a public procurement policy has a committee or other process to examine equivalent certificates. Procurement officers work from the list provided by the lead agency/ministry. The statement seems to remain factual noting the difference between principle and practice.

- c) *P92 penultimate paragraph.* Modified
- d) *Pp 92-101.* The project document that provides basis for the study and the associated ITTO Council reports reference repeatedly timber procurement policies, legality aspects and the overall confusion in the market to understand the evolving situation. ITTO consumers and producers do not agree on the boundary between the rules and regulations to implement timber procurement policies and legality legislation. The existing timber procurement policies were conceived during the vibrant debate on forest sustainability and reflect largely those concerns. Subsequent national level initiatives and legislation in ITTO consumer countries to address legality as a necessary condition for sustainability are forcing amendment and revision of public sector procurement policies to more explicitly address this consideration. Thus, the key factor public policy factor requiring adjustment and amendment to public timber procurement policies is the legality debate. For this reason, it is not really possible to ignore legality issues when describing the impact of timber procurement policies and how this situation is evolving.
- e) *P97 third paragraph.* Modified.
- f) *P97 fourth paragraph.* Modified.
- g) *P104 reference to Thailand.* Section revised. Table including reference to Thailand moved to Annex C.
- h) *P97 reference to deadline.* Modified.
- i) *P118 Value of Table.* Table moved to Annex C.
- j) *PP 99-101. Modified.* The benefits of the program are acknowledged in the paragraphs. It should be noted that the consultants are obliged to report not only the views of the EU concerning the benefits of the FLEGT VPA process but also the constraints, challenges and difficulties faced by ITTO tropical timber producing countries.

7. Chapter 5 Recommendations

- a) *P102 first recommendation.* Modified.
- b) *P102 second recommendation.* Modified.
- c) *P102 third recommendation.* Modified.
- d) *P103.* Modified to include reference to legality.

Malaysia

General Comment

The consultants regret that they have not met Malaysia's expectations for the report. In addressing the TOR, for practical reasons this report has to refer to the concerns of producer countries on macro basis (that is, as it applies to producers in general) rather than on micro basis (detailed accounts of challenges facing producers from country to county). Challenges to both producer and consumer countries in complying with the timber procurement policy requirements are dealt with in Chapter 4 (page 93) of this report. Earlier, Sub-section "The challenge ahead" (page 16) of Chapter 1, as introduction, implies problems of international trade in forest products in the context of the disturbing developments in the economic environment, prevalent in the global marketplace today.

It is well understood that generally speaking, problems that producers face from government procurement policies on tropical timber markets are universal, however, the solutions and priorities for action needed may vary in nature, from country to country. This is a matter which is beyond the scope of this study. In this respect, it may be useful as suggested, that a workshop be held specifically to deliberate on the effects on the individual countries. Only through such forums will it be possible to arrive at an assessment of the impacts on costs and financial implications, country to country. A generalised treatment of financial and institutional impacts on producers and their possible solutions may not be of much practical value to the countries concerned.

Specific comment i.

It should be noted that impacts of specific national or local timber procurement policies on the overall level of trade, market evolution, etc. were found to be negligible in the context of the overall global macroeconomic developments over the period 2001-2011. The quantity or value of wood products purchased by government in general, let alone tropical wood products in particular, in national government contracting is not available in any national statistical series. Direct purchase by government in durable goods (buildings, infrastructure) is found to average less than 2 percent of GDP per annum. If military procurement is excluded the percentage would be radically smaller. As indicated in the report, the direct impact of purchases by government of wood in general, let along tropical timber in particular, has been vastly overstated in the debate.

ITTO producer member countries continue to supply tropical wood products to countries where private sector firms or governments have procurement policies related to sustainable forest management. Companies in both producer and consumer countries have demonstrated the capacity to supply even the niche markets influenced by procurement policies.

The report demonstrates (draft report pages 86-91) that ITTO producers have experienced growing export earnings during the study period and that their earnings have been more resilient to economic shock than that experienced globally.

Specific comment ii.

As noted in the report, a careful reading of the existing timber procurement policies shows that they specify required outcomes related to sustainability of forest management and, in some cases, have been amended to address legality considerations. These are specific for the wood products themselves and their accompanying certifications and not the country of origin. Admittedly, the timber procurement

policies as adopted in their final form and their rules of implementation are truly difficult to find and understand. Still, as implemented, all accept FSC and many accept PEFC certificates for sustainable forest management and certificates guaranteeing chain of custody for the products as sufficient for Category A proof of sustainability and product control. For this reason, the financial burden is upon the forest enterprise and not the producer member country.

A number of countries have entered into FLEGT VPA negotiations to address the EUTR which is a legality assurance issue and not directed solely at public sector timber procurement. Trade agreements are complex and costly to prepare and implement. The FLEGT VPA process addresses many aspects of sustainable forest management, wood products manufacture and export control. It is fair to say that the FLEGT VPA processes have proven to be very challenging for all the partners requiring significant investment by the EU and its partners. It should be underlined, however, that the choice made by a number of tropical timber producers to engage in VPA negotiations was an option selected to address a number of political objectives and issues for both parties. It was not a market requirement of government procurement policies. Government timber procurement requirements can be met with simply the appropriate FSC or PEFC certifications for the wood shipment. It should be noted that wood products from a wide range of country origins continue to enter and will continue to enter markets shaped by procurement policies. These include both tropical and non-tropical producers most of whom have not engaged in a VPA or made any specific investment other than what was in their own national interest to promote sustainable forest management, tax revenue collection and export control.

Proposed Recommendations

Issues to be addressed by the Committee and Council rather than by the consultants.

Mexico

The consultants thank Mexico for the valuable information provided. References added and points noted in the text.

New Zealand

General comments

- a) Agreed that an update on selected regulatory measures has been a significant part of the narrative. The consultants beg the understanding of New Zealand noting that most of the ITTO Council debate related to “timber procurement policies” has often been in specific reference to regulatory measures. The breadth across the market of these instruments are so different that they must be distinguished – the impact of government procurement of timber is quite limited whereas national legislation related to legality verification of domestic production and imports encompasses the whole market. As New Zealand recognizes, market-wide regulation is intended to prevent the ‘free-rider’ problem of some benefiting while others incur the costs of following the rules. While there are costs to producers associated with market-wide regulation, they are borne by all suppliers and the effect is considered market neutral. Given the continuing levels of frustration and exasperation expressed by ITTO members on the issue, the consultants seek to distinguish very carefully the impact of these instruments.

Elements of the consultants' TORs, repeated in Annex A of the draft report, request updates on actions related to legality assurance. The consultants would highlight that their work assignment is to assist in the implementation of project TMT-SPD 013/12 Rev.1 (M) "Analysis of the Economic Impact of Governmental Procurement Policies on Tropical Timber Markets" under the ITTO Thematic Programme on Trade and Market Transparency (TMT). The consultants find the following text in the chapeau of the "Terms of the Reference for the Consultancy Team" on page 13 of the project document:

"Legality requirements and timber procurement policies are being introduced in many countries. These requirements and policies are principally aimed at addressing public concerns about the legal and environmental credentials of products. Many purchasers are demanding that products should come from sustainable, or at least legal, sources and that this be verifiable, in order to maintain credibility with buyers in the market place. These requirements and policies have significant and far reaching implications for tropical timber suppliers. As developments are occurring at a rapid rate, there is an urgent need for tropical wood product exporters to monitor these developments, assess their ability to meet these requirements which are being widely adopted, and explore the market implications and opportunities presented by these developments.

This proposal by the Secretariat is to assist in analyzing the economic impact of governmental procurement policies on tropical timber markets through the update of the developments of legality requirements and timber procurement policies and the assessment on market implications and opportunities for ITTO producer and consumers."

- b) Agreed that sharp and succinct is highly desirable. The consultants would again seek the understanding of New Zealand that the majority of ITTO member countries are not English mother tongue and thus sometimes it is worthwhile repeating a point two or three times from different angles to fully communicate the results of the study. An effort is made in the revision to be sharper and more concise.

Specific Comments on New Zealand

- c) Australia clarifies that they do not have a specific timber procurement policy and requested revision. An effort has been made to better distinguish New Zealand's procurement policy using the material provided.
- d) The text provided has been added to section 2.4 Common and different elements among procurement policies, subsection on National government timber procurement policies. There is a specific section on New Zealand's TWPP.

Specific Comments on the Study

- e) A footnote has been added to the text to explain the consultants' selection of the HS 44 product grouping in relation to the scope of the ITTA 2006 and current practice within the organization. Point is well-taken that a broad look at the market for forest products is highly desirable. This was a difficult decision but boundaries had to be established to make the study feasible. The broader the market scope, the more difficult to attribute changes to timber procurement

policies which were the focus of the study. If the boundaries are too narrow then it would not help the membership see the broader evolution in the market.

The ITTA 2006 provides a very narrow definition of tropical timber covered by the agreement – logs, sawnwood, veneer sheets and plywood produced in countries between the Tropic of Cancer and the Tropic of Capricorn (Article 2 Definitions). It is noted that the “scope” of the agreement was heartily debated in both ITTA 1994 and ITTA 2006.

In practice, to better understand the evolution of the market for tropical timber and appreciate the opportunities presented by secondary processing, the Secretariat has supplied at members’ request data and analysis on a broader range of product categories. See *ITTO Annual Review and Assessment of the World Timber Situation 2011*. Generally, the categories reported for member information under Secondary Wood Processing are those found within in HS44.

In short, HS44 was selected as a middle road, not as strict as the ITTA 2006 but not too broad to lose member agreement that it was relevant to the spirit of the agreement. It is largely consistent with the products listed in the Annual Review and Assessment of the World Timber Situation which informs members on the evolution of the market for tropical timber.

The consultants thank New Zealand for highlighting the point that government purchases extend beyond timber and include numerous other forest products. The consultants have been asked to work from project document International Tropical Timber Organization (ITTO) Thematic Programme On Trade And Market Transparency (TMT) Small Project Document Analysis Of The Economic Impact Of Governmental Procurement Policies On Tropical Timber Markets TMT-SPD 013/12 Rev.1 (M). It is correct that the precise element of the consultants TORs includes this broad formulation. It is equally fair to say that the project document serves as the basis for the study and reflects the scope of work of ITTO’s Committee on Economic Information and Market Intelligence. In proposing the work to be undertaken by the Secretariat on this issue, the project document indicates that, *“This proposal focuses on the development- of legality requirements and of timber procurement policies in key consumer markets, assessment of impacts and implications for the tropical timber markets and enhancement of the capacity of ITTO producer member countries in meeting the policy requirements.”* Admittedly, the language in the objectives of the study and the TORS has the broader formulation but the proposal outlining the scope of work refers repeatedly to timber procurement policies rather than government procurement in general.

- f) The consultants thank New Zealand for underscoring our point. As noted in earlier replies, ITTA 1994 and ITTO 2006 concern the international trade of tropical timber defined as logs, sawnwood, veneer sheets and plywood. It has been repeated in ITTO fora and elsewhere that the share of market impacted by public timber procurement policies is approximated by total expenditure of government. Advocates of this approach then go on to cite government expenditure as 30-50 of the national GDP thus asserting that 30-50 percent of total imports of tropical timber are consumed by government and thus impacted by public timber procurement policies. Belgium is an example of a country where a cursory glance at GDP figures would leave an innocent reader to conclude that government contributes 50 percent of GDP by expenditure thus implying that government consumes 50 percent of the imported tropical timber. The consultants dispute this misrepresentation of facts. The large categories of Belgium’s GDP are reported to help the reader see than much of this expenditure is transfer payments. The consultants have

noted that only 1.7 percent of GDP could be characterized as possible wood procurement (at most 2 percent to be extremely generous). Clearly, as noted by New Zealand, actual gross fixed capital formation is composed of many purchases. The point of the analysis is to calculate the maximum likely market share (2 percent) attributable to direct government purchase and thus directly attributable to government policy.

- g) The consultants note the point made by New Zealand. The generalization about government expenditure and its impact on timber markets has plagued the debate in ITTO for more than a decade. Citing general economic theory, trade studies and accepted methodologies has not reshaped the thinking of the any of the key players in the debate. As is the case in many international organizations, ITTO members want to see the details about their specific context citing the unique and special characteristics of tropical timber.

In reference to the Fripp report, the consultants again thank New Zealand for emphasising our point. When asked what they think the impact of the public procurement policy could be, the numbers reported by UK traders make quantum leaps from a strict accounting of direct government procurement. Advocates for timber procurement policies seek to have an effect on the market which is larger than direct procurement. These effects are described in the report as a “leadership” effect by government and a “supplier consolidation” effect. In the reports cited, the UK government claims a policy impact on the market for certified timber far greater than the effect of direct government purchase. In summary, the public timber policy impact may be far larger than direct purchase (a poor measure of impact) but probably far less than the figures cited in the UK. Effectively, this is why the quantitative analysis of specific cases is so important to move beyond the somewhat trapped debate on the subject.

- h) Referenced paragraph has been added to the executive summary.
- i) ITTO Technical Studies 36, 39 and 41 appear to be the most relevant to the current study. TS 36 was cited in the Draft Report highlighting the increased competitiveness and attention given to substitutes for tropical timber in the European market. TS 39 highlights the gains that tropical timber producers might make by improving the rigor of domestic processing geared towards the export market. TS 41 addresses directly to the global economic crisis that manifest itself in 2009 and the vulnerabilities of tropical timber producers. The consultants believe that the findings of this report parallel the conclusions of TS 41 and that the take-away messages echo the main conclusions of TS 41: invest in local and regional markets; compete to succeed in emerging countries experiencing rapid growth; recognize that it is firms that compete in the marketplace and address the paucity of firms in the tropics with research and marketing capacity to compete globally.
- j) The leadership effect of the government’s timber procurement policy was observable also in the case of Belgium and the Netherlands but difficult to document and is not reported in an independent report as is the case of the UK. The role of the Timber Trade Federations and the non-governmental organizations is palpable in the accord signed in 2011 in Belgium referred to on page 60 of the draft report. The federal government of Belgium first action in 2005 was under review for effectiveness and was cited as an example of what could be possible under a larger market accord.

- k) The first paragraph on page 16 of the draft report including the eight bulleted items is taken from the project document guiding the work of the consultants. The consultants did not feel it would be appropriate add or subtract from the list. See section 2.2 Problem Analysis project document International Tropical Timber Organization (ITTO) Thematic Programme On Trade And Market Transparency (TMT) Small Project Document Analysis Of The Economic Impact Of Governmental Procurement Policies On Tropical Timber Markets TMT-SPD 013/12 Rev.1 (M). A footnote indicating this has been added to the revised report.
- l) Modified
- m) See page 7 of the Executive Summary of the draft report where this is also mentioned. Page 19 of the draft report notes the many initiatives cited by *Dam & Svenije(2011)* and indicates that, "Most of these initiatives were embodied into broader procurement guidelines applicable to government purchase and no change in implementation among these has been identified." The point is the following: many local, regional and even national initiatives targeting tropical timber with the described objective to slow tropical deforestation are started and discussed. While understandably naïve, these initiatives cause serious concern among ITTO producer members and have consumed lots of the ITTO Council's time to deliberate. It is useful for the readers to be reminded that as these local, regional and national debates are informed about the depth of some of the issues and the options open to government, the actual administrative action is often very different than that discussed originally. The purpose of this study is to see if there is a measurable effect of timber procurement policy. Where the expressions of concern about tropical forests have been transformed administratively to become part of general government policy on responsible procurement, a specific timber related impact is not really discernable and thus the answer to the question, what is the impact of a government timber procurement policy is two-fold: there is no specific policy on timber procurement and any market impact is not empirically distinguishable.
- n) Modified
- o) For the limited number of countries that have a specific government timber procurement policy, each has a process established to review certification systems that would qualify to meet the policy objective. Differences in which certification systems are considered Category A evidence of compliance are noted in the text.
- p) Section modified. HS 44 imports to China are reported in Table 4 of the draft report. The role of China and Vietnam as suppliers of HS 44 is seen in the import values for HS 44 for each major ITTO consumer market. The tables of Chapter 2 show the top twenty suppliers to key ITTO consumer markets at the beginning and end of the study period taking special note of imports from ITTO producer member countries. It is understood that many temperate countries offer both hardwoods and softwoods thus the distinction is not between hardwood and softwood but the tables show the value of HS 44 imports from ITTO consumer member countries, ITTO producer member countries and other sources. A reason to use total HS44 value is to see how the whole picture is shifting among suppliers of HS 44 products not limited to logs, sawnwood, veneer sheets and plywood but all HS 44 products. This explicitly shows the emerging role of countries that have taken important market positions providing "offshore" capacities for value-added.

- q) The consultants do not propose that sovereign states change their administrative rule making procedures. It is noted that private sector participants such as the timber traders are working in real time facing risk and uncertainty. They seek to manage risk and avoid uncertainty where possible. Traders and manufacturers manage risk through the use of forward currency exchange markets and futures contracts on product delivery and supply. Rule changes, however, present considerable uncertainty causing firms to open or close whole business lines. Evidence of profound consternation about the direction of the market for tropical timber is found in the reports of the ITTO Trade Advisory Group and the Annual Market Discussions (reported as attachments to the Report to the ITTO Council of the Committee on Economics, Statistics and Markets and the Committee on Forest Industry). In summary, it would be unfair to ITTO participants not to acknowledge that national rule making is long, methodical process and one that generates considerable consternation among market traders. The report explicitly acknowledges this but clarifies that the purpose of the analysis is to go beyond consternation (always present) and see if the data reveal any real discernable change in imports attributable to the policy change.
- r) The ETTF source cited on page 77 is considered authoritative. The author prepared ITTO Technical Report 36 Leveling the Playing Field: Options for boosting the competitiveness of tropical hardwoods against substitute products. He consults and publishes widely and regularly for key organizations involved in timber trade in Europe.

It is noted that Belgium also experienced reduced economic growth or contraction during the financial crisis. The comparative analysis shows the following: Belgium's imports contracted notably over the 11 year study period. Belgium has a public timber procurement policy. Some ITTO members have said that this is *de facto* proof that the public timber procurement policy has caused Belgium's imports of tropical timber to decline. By contrast, Italy has experienced even more marked decline in the import of tropical timber during the study period. Italy does not have a public timber procurement policy. The "*with and without*" analysis (a common standard for public policy comparisons) could naively suggest that having a public timber procurement policy will actually mitigate declines in tropical timber imports. Many ITTO members would find this counterintuitive and thus a more profound explanation of why Italy's imports declined so dramatically is called for. The tendency is to look at the countries with timber procurement policies under a microscope without examining comparable cases. ITTO producers members tend to look very closely at changes in traditional markets and Europe has been a very important market for them.

- s) The report must serve to inform both ITTO consumer and producers. New Zealand has embraced the most magnanimous of all procurement policies with respect to its willingness to examine a wide range of certification standards for compliance with New Zealand's expectations on sustainability and legality. It is simply not the case for the preponderance of public and private procurement policies. The lack of reciprocity in accepting various national certification standards is a major issue for ITTO tropical timber producers. ITTO producer countries have expressed repeated in the Council that the lack of reciprocity has significant material costs and places them at a distinct disadvantage in the marketplace. These arguments are not entirely unfounded as evidenced by the fact that the area of forest achieving certification for forest management in the tropics is a tiny fraction of that achieved by temperate forests in either the FSC or PEFC. Among that small fraction of tropical forests able to achieve certification under PEFC are products sourced through the Malaysian Timber Certification Scheme. The discussion concluding on P94 of

the draft report notes it was decided by the appropriate authorities of the Government of the Netherlands to exclude explicitly from the list of PEFC certifications acceptable for public procurement those certified under the Malaysian Timber Certification Scheme. The consultants believe but cannot empirically support the thesis that the lack of reciprocity among the certification schemes has created more uncertainty in the marketplace for tropical timber products than the actual public procurement policies themselves. It should be noted that the Government of Netherlands would argue that it has adopted the same approach as New Zealand in establishing a rigorous public process for review of certification schemes.

Philippines

1. Fully agreed.
2. The consultants' work is constrained to update on events since Technical Series 34 which describes aspects of many of these procurement policies. As noted, what were originally explicitly timber procurement policies have been expanded in most countries to include paper and paper products, recycling content, disposal and other issues within a larger context of sustainability. Often, the words timber and wood products have disappeared as they have become part of a larger green procurement context. An effort has been made to provide the direct internet references where the policies remain stand alone.
3. Fully agreed that this would have been desirable. Mexico, an ITTO consumer country, was the only emerging economy that reports that it has established a procurement policy at the national level.
4. The consultants thank the Philippines for the suggestion. Fully concurring with the suggestion of the Philippines for the need for collaborative action, the consultants hesitate to advocate the establishment of an internationally recognized legal instrument as this has long been debated at the global level. The ITTO Committee and Council discussion on report would seem to represent the best opportunity for the Philippines to present the case for such concerted action.

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