



## Annex I: Project Description

**Independent timber market monitoring: analysis of the reception of FLEGT (Forest Law Enforcement, Governance and Trade) licensed timber on the EU market as framed by VPAs (Voluntary Partnership Agreements)**

**(DCI-ENV/2013/ 316-244)**

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*prepared by*

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## 1. IDENTIFICATION

Title/Number	Independent timber market monitoring: analysis of the reception of FLEGT licensed timber on the EU market as framed by Voluntary Partnership Agreements (Forest Law Enforcement, Governance and Trade) DCI-ENV/2013/316-244		
Total cost	Total estimated cost: EUR 4 375 000 Total amount of EU budget contribution: EUR 4 000 000		
Aid method / Method of implementation	Project approach –Joint management – International Tropical Timber Organization (ITTO)		
DAC-code	31210	Sector	Forestry policy and administrative management

## 2. BACKGROUND

### 2.1. Sector context

#### 1) *Illegal logging and the EU FLEGT Action Plan*

Illegal logging is having a devastating impact on some of the world's most valuable remaining forests. Its environmental effects include deforestation, the loss of biodiversity and the emission of greenhouse gases. Its direct impacts on people include conflicts with indigenous and local populations, violence and human rights abuses, the fuelling of corruption and exacerbation of poverty. The World Bank has estimated that the governments of some of the poorest countries in the world lose over USD 15 billion per year as a result of illegal logging – money that should be spent improving the lives of their people.

In light of this, the European Commission published the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan in 2003, setting out a range of measures available to the European Union (EU) and its Member States to tackle illegal logging in the world's forests (see sub-section 4 below). The Action Plan combines measures in timber producer countries (supply side) with measures in consumer countries (demand side). Voluntary Partnership Agreements (VPA) are at the core of FLEGT implementation. VPAs are bilateral trade agreements between the EU and tropical wood exporting countries, which aim to improve forest governance and guarantee that the wood imported into the EU is from legal sources. So far, 6 countries have concluded a FLEGT VPA with the EU: Ghana, Cameroon, Congo Brazzaville, Liberia, the Central African Republic and Indonesia. Nine other VPAs are being negotiated with Laos, Malaysia, Thailand, Vietnam, Côte d'Ivoire, Democratic Republic of Congo, Gabon, Guyana and Honduras.

#### 2) *Strong FLEGT VPA partner country expectations*

This project is framed in response to requests from FLEGT VPA partner countries and commitments made in the agreements. VPAs establish legality verification systems and licensing scheme between the EU and timber producing countries to ensure that timber exported to the EU is legal. As part of the VPA, partner countries commit to improve governance and law enforcement of their forest sectors. One aspect of governance is ensuring legal production and trade of timber. To do so, partner countries develop and implement i) their own legality definition for timber products, ii) verification systems to check if production complies with national legal requirements, iii) traceability systems from stump to point of export so as to avoid mixing of verified and unverified timber, iv) the issuance of licenses which accompany each shipment; and v) an independent audit to check regularly if the system in place is functioning properly.

The independent auditor of the system will check if the system which is developed by the partner country works successfully. During VPA negotiations, partner countries requested the establishment of independent scrutiny to assess concrete changes in the EU timber market and to see whether the EU market recognises and appreciates FLEGT timber (hereafter the Independent Market Monitoring – IMM – system).

Indeed, FLEGT partner countries want evidence that their policy, technical and financial efforts to fight illegal logging and the systems that they develop under the VPA to improve law enforcement and to provide verified evidence of legality have a positive impact on the acceptance of their timber on the EU market and that it is appropriately rewarded in terms of market share and prices. The VPA also establishes a system of annual reporting which should include information on trade flows and on the measures taken by the EU to fight illegal logging and to promote FLEGT licensed timber.

The independent EU market monitoring (IMM) will provide information that will be integrated into the Annual Reports to address questions and concerns on EU market acceptance. The information generated is expected to contribute to the monitoring of some of the FLEGT Action Plan's impacts and to better-informed decision-making.

### 3) FLEGT VPA provisions

VPA agreements, which are international legally binding treaties between the EU and timber producing countries, stipulate that regular reports on the acceptance of FLEGT licensed timber will be provided to the VPA joint implementation committees.

In addition current VPAs include specific provisions on market information, including:

- *monitoring and reporting of the market situation at regular intervals;*
- *analysis of the performance of FLEGT-licensed timber and non FLEGT-licensed timber in the Union market;*
- *examination of the impact of market-related measures taken in the Union on the demand for FLEGT-licensed timber, such as public procurement policies, green building codes and private sector action such as trade codes of practice and corporate social responsibility;*
- *promotion of FLEGT-licensed timber and derived products on the Union market.*

These provisions will have to be implemented over the duration of the agreements.

The project will also, as far as possible, take into account and address the needs related to market monitoring that are identified by partner countries currently undertaking VPA negotiations.

### 4) EU policies

The communication "Increasing the impact of EU Development Policy: an Agenda for Change" (COM(2011) 637 final), which was endorsed by the Council in May 2012, emphasizes amongst its priorities, that the EU should scale up its support for oversight processes and bodies and continue to back governance reforms that promote the sustainable and transparent management of natural resources, including raw materials.

The FLEGT Action Plan (2003) is the EU response to fight illegal logging and to improve forest governance. The "FLEGT" regulation 2173/2005 establishes rules for implementing the FLEGT licensing scheme and introduces the concept of FLEGT partnership agreements. In particular, Member State Competent Authorities shall verify FLEGT licenses and each Member State shall submit an annual report on quantities of FLEGT timber products imported into the Member States and the number of FLEGT licenses received. The EU Timber Regulation 995/2010 (EUTR) introduces new obligations for EU operators. EU operators who place timber products on the EU market shall reduce the risk of placing illegally harvested timber on the market. The regulation indicates clearly that timber products covered by a FLEGT license are considered to have been legally harvested for the purpose of the Regulation. This Regulation was welcomed by VPA partner countries. However they are waiting to see the impact of its full implementation, after 3 March 2013. They are interested to understand the extent to which it is seriously implemented by EU operators, and whether as a consequence FLEGT licensed timber is sought by EU operators and actually provides the anticipated added value. EUTR implementation is likely to have a significant impact on timber trade. Furthermore, Member States of the EU have developed their own policies to promote legal timber, including public procurement policies; some of them favouring FLEGT licensed timber as well as timber verified through private certification schemes.

### 5) VPA implementation: state of play

VPA countries are currently building their systems and no FLEGT license has yet been issued. However, progress has been made introducing legal reforms, clarifying legal requirements, developing timber verification and traceability systems, improving communication and transparency, involving stakeholders in national decision making processes, and in knowledge sharing amongst stakeholders. The first shipments of FLEGT licensed timber are expected on the EU market in 2014. Joint implementation committee meetings have been organized. At these meetings VPA partners have asked for updates on the EU market and preparations for implementation of the EU Timber Regulation.

In summary, there are strong VPA country expectations that FLEGT timber is positively received and increases market share in the EU. Analysis of the reception of FLEGT licenses by the EU market is enshrined as part of VPAs agreed to date. Such analysis is important for monitoring the impacts of the FLEGT VPAs and for guiding the implementation of the FLEGT Action Plan.

Demonstrating changes in trade of legally verified timber will maintain momentum in VPA countries which will then accelerate implementation of forest sector reforms to meet market expectations.

## 2.2. Problem analysis

- 1) Currently, specific EU market monitoring as framed in the VPA does not exist. There is routine trade data collection (see section 2.4) and data providers but:
  - statistics are not available through normal reporting channels on FLEGT licensed timber and timber products. There is no data structure to record trade in FLEGT timber; there is no provision for FLEGT timber in existing initiatives. Under existing international customs classifications, currently FLEGT licensed timber is not differentiated from other timber. So it has no specific custom code and it is difficult to track in customs databases;
  - data are often inconsistent;
  - data need to be collated for the purpose of VPA reporting;
  - data are not available to answer specific partner country questions and so new activities (surveys) should be launched;
  - data are not analysed in a way that meet VPA provisions;
  - there is no analysis of the context that explains trends and would provide appropriate interpretation of data suited to the VPA expectations; and
  - there is no mechanism to regularly monitor how FLEGT licensed timber is perceived and received by the market.
- 2) Because of the above, the amount of work required to carry out a credible analysis as framed in VPAs is more significant than originally conceived and discussed during VPA negotiations.
- 3) A financing mechanism for independent EU timber market monitoring hasn't been agreed in VPAs. VPA countries however expect the EU to finance IMM.
- 4) There is no FLEGT licensed timber yet. First FLEGT licenses are expected to be issued in early 2014. In this context, the design of an IMM is complicated as it would be easier to establish working relationships and financing mechanism if FLEGT licenses existed. However, the EU needs to establish a baseline for comparison and future monitoring and to be prepared for IMM as soon as FLEGT licenses are issued.
- 5) Regular reports are needed. The partner countries don't expect a one-off study but an on-going monitoring mechanism.
- 6) VPA countries may have different expectations on format, public disclosure, etc. For example some countries may want to make the analysis public, whereas other countries would prefer to keep it confidential.
- 7) The EU prefers an EU-wide approach while VPA partner countries may want a country-specific approach. The European Commission will continue to explain to VPA countries that one consolidated response will be a more effective and informative answer to their expectations. In addition it will get more visibility than FLEGT importing country specific approaches.

## 2.3. Lessons learnt

In collaboration with the Commission and Member States, the EU FLEGT Facility (funded by the European Commission, 6 Member States and the European Forest Institute) commissioned a study to identify the issues related to market monitoring methodologies. This work was completed in February 2012 and has helped to assess the current situation and to identify appropriate scenarios for the IMM as contained in this project proposal.

## 2.4. Complementary actions

Numerous organizations are engaged in work which partly overlaps with that of the IMM, mainly trade data collection and/or provision of other information. The most obvious source of data from VPA countries would be from their FLEGT licenses; these should be made available to the IMM by the EC as they become available, hopefully starting in 2014.

There is considerable experience of monitoring timber trade by other institutions and the implementation of the project will build on this. Notable existing experience that will be drawn upon in the establishment of a baseline and operation of the IMM includes:

One-off studies of trade flows/markets: European Timber Trade Federation, UK Timber Trade Federation, Association Technique Internationale des Bois Tropicaux - ATIBT, Forest Trends, Malaysian Timber Certification Council, Royal Institute of International Affairs - Chatham House, World Resources Institute - WRI, European Forest Institute – EFI, donor agencies, private companies (Global Trade Information Services, Inc – GTI – or the Business Trade Statistics – BTS Ltd –provide commercial trade statistics services).

More systematic data collection: International Tropical Timber Organization – ITTO, Eurostat, and United Nations bodies such as the UN Statistics Division (UN Comtrade – UN commodity trade statistics database), UN Economic Commission for Europe (UNECE) Timber Committee and the Food and Agriculture Organization. The FAO, UNECE, ITTO and Eurostat have a well-established cooperation on collecting and analyzing forest and timber statistics. UNEP-WCMC maintains a database on trade in relevant products from CITES-listed tree species. The European Forest Institute (EFI), where the EU FLEGT Facility is located, is re-establishing its Forest Products Trade Flow Database (FPTF). The database is based on UN Comtrade statistics, and will be validated and updated with other available trade statistics. UN Comtrade statistics are global, for all products with customs codes, and therefore have a long lag time before being published electronically. Support for the FPTF and for related statistical analysis is provided in the IMM project budget.

## 2.5. Donor coordination

Donor coordination is ensured at EU level through the FLEGT ad hoc working group which meets every 4 to 6 months and focuses on technical VPA issues and on the coordination of Member State support. This working group is comprised of EU Member States and European Commission. It is chaired by the European Commission.

Donor coordination is also expected within the ITTO. Two of the four currently operational ITTO thematic programmes have objectives relevant to the EU's FLEGT Action Plan and the proposed project: TFLET (Tropical Forest Law Enforcement, Governance and Trade) and TMT (Trade and Market Transparency). All 28 EU Member States are members of the ITTO (or will be soon; Croatia's accession to the ITTA 2006 was imminent in late 2013 as part of its EU membership), along with other major consumer countries (including China) and the majority of tropical timber producer countries. The EC will determine the appropriate forum for donor coordination regarding the IMM.

## 3. PROJECT DESCRIPTION

### 3.1. Objectives

*Overall objective:* Information from timber market monitoring reinforces incentives for effective VPA implementation and improved forest governance and law enforcement.

*Specific objective:* Generate information that demonstrates changes in trade of legally verified timber and timber products in the EU market.

An indicative logical framework matrix (LFM) is presented in Annex 3: it links the objectives, results and impacts of the IMM. The LFM will be reviewed and refined during the inception phase of IMM implementation.

### 3.2. Expected results and main activities

#### *Results*

1. An independent EU timber market monitoring mechanism is established and responds to the needs of VPA partner countries as identified in the VPAs. This result corresponds to the planning phase of the IMM.
2. An Independent EU timber market monitoring is functioning and complies with FLEGT VPA provisions: it collects, analyses, reports and disseminates relevant information on the acceptance and trends of FLEGT-licensed timber on the EU market, and as such, contributes to document the impacts of VPAs on timber prices, trade and market trends globally. This result corresponds to the implementation phase of the IMM.
3. A long-term strategy for sustaining the Independent Market Monitoring system beyond this project is defined in consultation with the EU and VPA partner countries. Through generating essential information on the reception of FLEGT timber on the EU market, the project is also expected to contribute to monitoring the impacts of the FLEGT Action Plan and to inform its implementation.

#### *Impacts*

- VPA countries and EU provide reliable statistics and information on FLEGT timber trade and acceptance in their reporting.
- Timely and accurate information on market trends informs discussions and decision-making in VPA Joint Implementation Committees which can plan actions to address any identified problems. EU and partner countries are able to better assess the effectiveness of current policies, and to adjust efforts for the promotion of FLEGT licensed timber.

- VPA countries maintain confidence in the VPA and in the FLEGT Action Plan. Information collected/disseminated reinforces private sector engagement with and active support of the VPA.
- Timely and accurate information on FLEGT timber trade and acceptance contributes to assessing the effectiveness and impacts of the FLEGT Action Plan and to informed decision-making to achieve the Plan's objectives.

The project is also expected to contribute to strengthening ITTO's capacity to assess the international trade of legally verified timber and to improving the understanding of the impact of improved law enforcement and legality verification on tropical timber markets.

#### *Main activities*

##### *For result 1:*

- 1.1 Establishment of project team and network of correspondents/partners;
- 1.2 Consultations with the EU Member States, VPA partner countries and relevant stakeholders, including the timber private sector, to agree on specific outputs and the appropriate methodology during the first 9 months of the project;
- 1.3 Drafting and submission of the report on the agreed EU timber market monitoring mechanism, including the template for periodic reports on independent EU timber market monitoring, the structure of the website and database and the detailed implementation plan, to be approved by the end of the 10<sup>th</sup> month of the project (draft report to be submitted by end of 8<sup>th</sup> month of the project);
- 1.4 Collation of baseline data covering the past decade on timber flows into the EU market from VPA and potential VPA countries, taking into account data and information already available from ITTO and partners (including ETTF, UK TTF, EFI, Eurostat and others) and where necessary collecting additional data; production of draft baseline report by the end of the 12<sup>th</sup> month of the project. Baseline data will help to identify factors impacting timber markets apart from the EUTR (see Risks);
- 1.5 Development of a database (based on existing ITTO databases for production, trade and prices of tropical timber) incorporating the information collated in activity 1.3 and including proposals/mechanisms for handling confidential data; and
- 1.6 Meetings, interviews and drafting of documents to prepare for the functioning of the monitoring mechanism.

##### *For result 2:*

- 2.1 Collection of statistics (quantitative information) on FLEGT timber trade to the EU, on timber trade to the EU, in particular tropical legally verified timber, and to other consuming areas, and on temperate and tropical timber trade to take into account global trends. Information will include details of ports being used and relevant clearance times for shipments in these ports. This activity will rely mainly on existing data sources on timber trade but new mechanisms will have to be established to collect missing data, including to collect and compile data generated by FLEGT licensing authorities in VPA countries and by Competent Authorities in EU member states. The possibility to work towards a customs code for FLEGT licensed timber within the EU and/or internationally will be explored;
- 2.2 Collection of information on forest and timber related policies in Europe, in VPA countries, in other consuming countries/regions to take into account global trends with particular attention to legality and sustainability issues;
- 2.3 Surveys and market studies to produce and to collect qualitative information on the EU (and possibly other) market acceptance of FLEGT licensed timber and processed timber products and the impact of EU Timber Regulation implementation on European demand for timber (with a focus on tropical timber);
- 2.4 Activities to improve quality of statistics;
- 2.5 Production of statistics as necessary for the purpose of the project;
- 2.6 Regular updating of the database developed under activity 1.4 to include statistics collected/generated under activities 2.1, 2.2 and 2.5;
- 2.7 Analysis of data focusing on FLEGT timber trade to and within the EU and providing detailed explanation or interpretations of facts and trends, and comparing those trends with international timber trade;
- 2.8 Issuance of annual reports on the performance of FLEGT licensed timber on the EU market that meet VPA expectations globally. These reports shall contain VPA country specific sections to meet specific VPA expectations;
- 2.9 Development of a dedicated website to disseminate all IMM outputs and project information and regular updating. Decisions on hosting of the website and treatment of confidential data

will be taken by the Project Steering Committee (PSC; see section 4.4). Provision of material for regular updating of the website will be a component of the job description of all project team members;

- 2.10 Ad hoc reports as requested by stakeholders and approved by the PSC; and
- 2.11 Meetings to present the above reports. The first annual report is expected at the end of the 15<sup>th</sup> month of the project. The first report will include a robust baseline for comparison and future monitoring.

*For result 3:*

- 3.1 Meetings and interviews with concerned stakeholders and studies to explore options for a long-term strategy to sustain the Independent Market Monitoring system; the possibility to mainstream the IMM system into the regular work of cooperating institutions will be explored; lessons from and coordination with other relevant initiatives on timber trade analysis or monitoring will be taken into account to maximize synergies;
- 3.2 Drafting reports on options for long term strategy. A report should be submitted to the EU and VPA partner countries at the beginning of the third year of the project, at the latest; and
- 3.3 Meetings, interviews and studies to lead and to facilitate discussions between relevant stakeholders to agree on the long term sustainability strategy, including financing aspects, and to prepare for its implementation.

The activities under result 3 will form the basis for defining the project “exit” strategy, which will aim at institutionalizing the IMM system and at identifying sustainable financing mechanisms. Activities to consider the long-term sustainability of the IMM will begin during the second year of project implementation.

Activities will be carried out in close cooperation with existing initiatives and/or partly delegated to active institutions in the domain, such as competent authorities of EU Member States, licensing authorities from VPA countries, the FAO, the UN-ECE, EFI and/or Eurostat. Coordination mechanisms will be defined at the beginning of the project and will be ensured through the consultation mechanism (see section 4.4). The confidentiality of specific commercial data and information will be maintained, with the PSC (section 4.4) to decide on the degree of transparency/access for project reports and outputs, including the database and website to be developed.

As IMM reports are expected to feed into the annual joint VPA country reports and into EU reports on FLEGT implementation (including on EUTR implementation), they will need to take into account the relevant reporting requirements for these processes.

### **3.3. Stakeholders and target beneficiaries**

*Global timber trade data providers*

This group of stakeholders will be brought together to provide quantitative data on global timber trade statistics. There are many existing institutions (see section 2.4). The European Commission, Member States' customs and FLEGT Member States' competent authorities, Eurostat, EFI and other bodies will provide valuable information. For example FLEGT Member States' competent authorities will receive and verify all FLEGT licenses issued by VPA partner countries to their exporters. They will contribute to the FLEGT VPA annual report (on trade flows and on measures taken to promote FLEGT-licensed timber). This group of stakeholders may be interested in the results to improve their own data base and to strengthen data collection and data quality. Some of these stakeholders will be involved in this project through the advisory committee (see section 4.4).

*EU forest sector operators (EU companies, EU NGOs)*

This group of stakeholders will be associated with the IMM through interviews with EU based agents and importers that are current or potential customers of FLEGT licensed products from VPA countries. They will provide qualitative data (perceptions, prices, practices, choices etc.). They include the European Timber Trade Federation and other national industry/trade associations. This group of stakeholder may be interested in the validated data and trends reported by the project as well.

*VPA country stakeholders*

VPA countries exporting timber to the EU are the primary beneficiaries for the EU market monitoring which is part of VPA provisions. VPA countries have already been involved in the development of this project through the negotiations of VPAs and in follow-up discussions. Within the countries, the stakeholders include partner country government officials (forestry department,

trade department etc.), FLEGT licensing authorities, timber producers, exporters and importers, and their trade associations. There are various timber producers in VPA countries: from small national vulnerable companies to big international companies. As a result of negotiation, VPAs have established comprehensive multi-stakeholder platforms and associated structures to follow up VPA implementation, and many of these groups submitted proposals for monitoring principles during VPA negotiations and will benefit from the information generated. In particular, the analysis of the reception of FLEGT licenses in the EU market may reinforce in-country stakeholder support to VPA and forest governance improvements. VPA countries will provide useful information for IMM, for example data on FLEGT licensing and any change of their national forest strategies that may impact their timber product exports.

#### *Joint implementation committees of FLEGT VPAs*

Joint implementation committees (JICs) are established by VPAs to facilitate monitoring and review of the VPAs. Joint implementation committees consist of representatives of the EU and partner countries. Practicalities of IMM will be discussed by these committees during the formulation phase. The outcome of the market monitoring and analysis will be feeding the joint implementation committees, in particular the joint annual reports, and possibly trigger development of corrective measures or other appropriate measures depending on the information provided by the IMM. The JICs will be the main avenue for VPA countries to provide input to development and implementation of the IMM; ITTO and/or IMM staff may be invited to attend JIC meetings as appropriate.

#### *The EU*

The outcome of this project should show unbiased trends about perception and reception of FLEGT-licensed timber and information on trade of illegal or unknown timber in the EU timber market. Such independent information and analysis may be used by the European Union later to assess effectiveness of EU policies against illegal logging and illegal forest products trade and to fulfil the reporting obligations on the implementation of the FLEGT licensing scheme.

#### *Other countries*

Several other countries are implementing or considering implementing schemes that parallel or have similarities to the EUTR. These countries will all benefit from the information generated by the IMM. Non-EU European countries like Norway and Switzerland that are considering EUTR-like schemes will be included in the stakeholder analysis/discussions undertaken in the inception phase. All countries will in general benefit from better knowledge of the large EU timber market.

### **3.4. Risks and assumptions**

#### *Delays in having VPA legality assurance systems up and running*

Getting a legality assurance system functioning takes time. It is anticipated that some VPA countries will deliver the first FLEGT licenses in 2014. If FLEGT licenses were to be issued later, the monitoring of the reception of FLEGT licensed timber may be operational whereas no FLEGT licensed timber yet exists. In this case, the project will deliver a baseline report and informative reports on the EU timber market trends. The issuance of the first full report on the FLEGT licensed timber performance will be postponed. This risk is not felt to be excessive, as some VPA countries are making satisfactory progress in the development of systems to allow for FLEGT license issuance. In addition, the project is likely to start at the earliest in late 2013 which means that the first report on FLEGT licensed timber flows into the EU would be expected in early 2015. Project management arrangements will maintain flexibility in order to adjust to the pace of FLEGT license issuance.

#### *EU market operator reluctance to provide sensitive information (such as on prices)*

The risk of limited collaboration of the private sector is high and may be reduced by:

- involving relevant trade associations in the detailed design of the independent monitoring system,
- producing information/analysis meeting some of the interest/expectations for the private sector
- choosing the most credible) monitoring institution and method of implementation for dealing with confidential data,
- including confidentiality provisions in the contract to implement this project.

#### *Market impact of EUTR may be hard to distinguish from other factors*

There is a risk that it may prove difficult to differentiate the market impact of the EUTR from other factors (general economic conditions, fashion, etc). The baseline data collected under the inception phase, along with in-depth market analyses during Phase II, will help to offset this risk.



#### *Lack of relevant information along the supply chain in the EU*

Operators working at the entry ports of the EU market may choose to buy FLEGT licensed timber. However, there are no provisions for a tracking system for FLEGT licenses within the EU market. On the other hand, exporters of FLEGT-licensed timber will record information on its volume, values, destinations etc. Whether FLEGT licenses will be tracked along the supply chain and processing mills inside the EU is not yet known. Once in the EU, FLEGT timber may be mixed with other legally harvested timber. NGOs and certification bodies may provide information that can help to offset this risk. This risk will be analysed further during the formulation of the methodology.

#### *Data availability*

VPA partner countries should provide up-to-date, accurate information on their exports of FLEGT-licensed timber; otherwise the quality of the monitoring will be jeopardized. The risk is low because the FLEGT agreement implementation will lead to a robust and functioning legality assurance system which includes information gathering. However the project includes a small component to improve current data collection in VPA countries (activity 2.4) which will build on ITTO's existing networks and capacity-building initiatives to support Licensing Authorities in VPA countries to meet their reporting obligations. Since limited support for capacity building for data collection in VPA countries is available under the IMM; synergies will need to be found with other VPA (and non-VPA) related initiatives.

#### *Partner country non-acceptance of a single monitoring mechanism*

Partner countries may have strongly divergent views on IMM and particularly on an EU-wide approach rather than an IMM specific for their country. There is a risk of proliferation of market monitoring efforts if the solution developed under this project doesn't meet VPA country expectations. The risk is medium and may be reduced by involving partner countries at the very beginning of the project and by creating country specific components in the IMM reports.

### **3.5. Cross-cutting Issues**

Through its contribution to monitoring the impacts of the VPAs on the acceptance of legal timber by the EU market, the project is expected to support and better inform the implementation of the FLEGT Action Plan. The project would thereby contribute to more effective efforts to combat illegal logging, with positive impacts in terms of sustainable forest management and the related environmental benefits, respect for the rights of forest dependent communities, decent employment generation, value addition and economic development. It is expected to have indirect effects on law enforcement (including, environmental, social and local communities related regulations) in VPA countries because it may provide evidence that VPA country efforts towards good forestry governance are worthwhile.

Synergies will also be explored and enhanced with other relevant ITTO projects and programmes, particularly the largely EU-funded ITTO-CITES Programme given that CITES export certificates grant access to the EU market to timber bearing them (see section 2.4 on data sources).

While the IMM will need to be aware of the status of EUTR implementation (including relevant enforcement actions), it is not intended to focus or report on such issues or to undertake any assessment of the effectiveness of the EUTR, except insofar as implementation issues may be affecting market trends.

### **3.6. Sustainability**

The long term sustainability of the IMM system to be developed under this project will be addressed through activities under Result 3. Assuming that the IMM provides information deemed relevant and valuable to the broad range of stakeholders identified in section 3.3, ITTO will make efforts to explore with relevant stakeholders the possibility of sustaining the IMM, for example by mainstreaming the IMM system into the regular work of cooperating institutions. Lessons from and coordination with other relevant initiatives on timber trade analysis or monitoring will be taken into account to maximize synergies, and the possibility of establishing a fee structure for users of IMM data will be investigated. However the ultimate sustainability of the IMM will depend on its perceived utility to a wide enough range of stakeholders to allow resources (financial or in-kind) to be made available for its continued operation.

## **4. IMPLEMENTATION AND MANAGEMENT ARRANGEMENTS**

### **4.1. Method of implementation**

The project will be implemented by joint management through the signature of a Standard Contribution Agreement with the International Tropical Timber Organization (ITTO) in accordance with Article 53d of the EU Financial Regulations. The ITTO complies with the criteria provided for in the applicable Financial Regulation.

### **4.2. ITTO's comparative advantage**

The ITTO has the mandate to promote international trade in tropical timber from sustainably managed and legally harvested forests and to promote the sustainable management of tropical timber producing forests. The ITTO has a broad membership covering the majority of tropical timber producer and consumer countries. It therefore has the legitimacy and mandate to work on timber market monitoring with timber producing and consuming countries and relevant stakeholders. Furthermore the ITTO has a long track record of statistical capacity building, data collection and market information systems and has the expertise to develop the appropriate methodology to meet VPA provisions. In parallel, ITTO implements another EU funded project on CITES species with which synergies may be explored in implementing this project. The project will reinforce ITTO's core competence of promoting and monitoring tropical timber trade. It is expected to contribute to maintain FLEGT related issues high on the ITTO's agenda and programme of work and, thereby, to support EU's priorities in the work of the Organization. ITTO may also be a vehicle to raise awareness of ITTO members, including China, on illegal logging and illegal forest products trade issues and to support international efforts to tackle these issues.

### **4.3. ITTO management and oversight**

A senior staff member of ITTO (Assistant Director level) will oversee implementation of the IMM project under the supervision of ITTO's Executive Director. This staff member will be supported by other resources of the ITTO Secretariat to ensure appropriate oversight and supervision of the project team and all technical and administrative aspects of project implementation. Project management arrangements will maintain flexibility in order to adjust to the progress in VPA implementation and the pace of FLEGT license issuance.

### **4.4. Oversight, guidance and coordination**

A Project Steering Committee (PSC) will be established and be comprised of the ITTO and representatives of the European Commission. Relevant entities (for example Eurostat, EFI, EU Member States FLEGT competent authorities, VPA countries' competent authorities) could be invited, as observers to the PSC meetings as appropriate. The PSC will monitor progress and provide oversight and guidance to the project implementation; it will review annual work plans and budgets; it will ensure consistency with VPA provisions and the broader FLEGT agenda. Meetings of the PSC will take place at least annually and principally in Brussels unless mutually agreed otherwise. The first PSC meeting will be organized during the project inception phase, in the first quarter of 2014 if the contribution agreement is signed as planned by the end of 2013. A second PSC meeting will be scheduled in 2014 towards the end of the inception phase.

ITTO will propose to the PSC, and on its concurrence will establish an advisory committee which will involve ITTO, FAO, UN-ECE, Eurostat, EFI, VPA countries and other stakeholders as appropriate. This advisory committee will advise ITTO on technical aspects of the project. Members may also be sub-contracted to carry out project activities. The advisory committee will promote coordination between stakeholders and should therefore meet at least annually during the implementation of the project. The first meeting will take place at the latest by the end of the 6<sup>th</sup> month of the project. Other relevant stakeholders, such as Member State FLEGT competent authorities and private sector representatives, could be involved as well.

Other oversight and monitoring mechanisms/bodies will be decided on by the PSC, which may also receive input from representatives of other organisations engaged in monitoring of impacts of FLEGT and other policy measures designed to eradicate illegal wood from trade. These organisations could include (but may not be limited to): relevant government agencies (e.g. DFID), European TTF, ATIBT/IFIA, STTC, Global Timber Forum, Chatham House, WRI, and any marketing entity that might emerge to raise the profile of FLEGT VPA licensed timber. It may also include representatives of donor agencies, Eurostat, and UN agencies such as FAO and the UNECE Timber Committee. Producer country partners could also be included. The role of the TMMC would be to ensure that duplication of efforts and resources in collecting information (for example interviewing private sector actors) and monitoring market trends are avoided, thus reducing costs through a mechanism of sharing, without violating confidentiality issues.

#### 4.5. Implementation strategy

ITTO will put in place a project team and establish a network of correspondents to collect and analyse information on the flow of FLEGT-licensed timber and its acceptance in the EU timber market. A database and dedicated website will be developed (the latter possibly as a special section of the ITTO website) to generate and disseminate information and reports needed by the EC, Member States, VPA partner countries and the broader public. Summary reports will be produced at least annually, and tailored reports focusing on individual stakeholder requirements will be produced on request consistent with the project objectives and resources. Such tailored reports will be approved in advance by the PSC and/or advisory committee. The website will be regularly updated with new reports, findings and news.

A lead consultant will be retained to oversee the network of correspondents in Europe and technical aspects of the work to be carried out under the project. This consultant will most likely be based in Europe. ITTO will build on its existing network of correspondents for its Market Information Service (which currently maintains correspondents in 4 European countries) and partnerships with countries and organizations in the region, including the competent authorities for the EUTR in EU countries. All EU member countries are members of ITTO. Close links will be established (or existing links strengthened) with licensing authorities in VPA countries. ITTO will also establish new partnerships in order to build and implement a successful IMM that responds to the needs of stakeholders, using insofar as possible existing capacities. This will include establishing links with emerging initiatives such as the Sustainable Tropical Timber Coalition established by the European Timber Trade Federation (ITTO has recently accepted an invitation to serve on the STTC's steering committee) and the evolving Global Timber Forum which convened its first meeting in Rome in May 2013 under the leadership of the EITF. The EITF is implementing a multi-year project on "Engaging the Timber Trade in International Forestry Initiatives" funded by the UK Department for International Development (DFID) under its Forests Governance Markets and Climate Programme. Synergies between this project and the IMM will be sought.

#### 4.6. Scope of the IMM

The IMM will be implemented in phases as detailed below, with transitions from one phase to the next and the details of indicators to be monitored to be based on the amount of FLEGT-licensed timber in the market and on recommendations from the PSC and advisory committee. The detailed budget contained in Annex 1 allows for this phased approach, providing for the inception phase and to cover the basic requirements and core set of indicators included in phase 1, and expanding in the second year of implementation (2015) to cover the additional dimensions and indicators included in Phase 2 and at least part of the dimensions and indicators in Phase 3.

- Phase 1 (including inception phase): Core set of indicators which establish a baseline and monitor the immediate trade impacts of VPAs and FLEGT licensing. This Phase assumes that the role of FLEGT VPA licensing is limited to reassuring the timber market about the legality of wood and minimising the risk of prosecution under the terms of the EU Timber Regulation (EUTR) and this is the focus for the indicators. The option involves monitoring the immediate trade impacts of VPAs and FLEGT licensing and on the effectiveness of EUTR implementation as this is likely to be by far the most significant driver of European timber market interest in VPAs and FLEGT licensing.
- Phase 2: Core indicators plus levels of acceptance and perceptions of FLEGT VPA licences in the wood trading chain. In addition to areas covered in Phase 1, this approach extends the scope of monitoring to include assessment of recognition of FLEGT VPA licenses in labelling systems such as FSC and PEFC, procurement policies and standards of both the private and public sector. It also includes assessment of messages conveyed about forestry practices in FLEGT VPA countries by the major European ENGOs and by the European media.
- Phase 3: Comprehensive set of indicators. This involves monitoring the core indicators, plus levels of acceptance and perceptions of FLEGT licensed timber in the wood trading chain and amongst key end user groups. This option also monitors the level of commitment to positive communication activities. This assumes that the FLEGT VPA process should be creating genuinely new demand for FLEGT VPA products by overcoming any prejudices against timber and timber products from FLEGT VPA countries, and by shifting attitudes and trends in the specifier and design communities to positively favour these products over other wood and non-wood materials. It assumes that the VPA process should be encouraging greater capital in-flows into the forestry sectors of FLEGT VPA countries. In addition to activities undertaken in Phases 1 and 2, this option includes monitoring the reach and effectiveness of proactive marketing activities for VPA licensed timber and monitoring of forest sector investment flows and guidance.

Details of the systems and methodology to be adopted under the IMM and the indicators to be covered under Phase 1 will be agreed during the inception phase, after consultations with the EC, VPA partner countries, EU member states, private sector and other stakeholders. The budget in Annex 1 includes provisions for these consultations.

#### 4.7. Reporting and dissemination

As noted above, the IMM will produce at least annual reports, with country specific appendices. Tailored reports may also be produced on request and/or when recommended by the PSC or advisory committee, as IMM resources allow. Reporting to the EC will include one report by the end of the inception phase and then annual reports that will support payment requests. Annual reports to the EC including annual workplans, budgets and relevant IMM reports will be produced 1 month before PSC meetings to serve as the basis for discussions. A regular newsletter will also be published detailing relevant IMM activities, findings and/or events. These outputs and other information will be regularly published on a dedicated website established for the IMM and may also be published in hard copy where relevant. Relevant IMM outputs will be made available in English, French and Spanish with other languages possible based on recommendations of the PSC/advisory committee.

#### 4.8. Procurement and grant award procedures

All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents adopted and published by the ITTO.

#### 4.9. Budget and work plan

The EU budget available to implement the action is EUR 4 million, allocated as shown in the estimated budget summary table below. The detailed budget breakdown by expenditure lines including details of the personnel (professionals, consultants, support staff) and other means needed to implement the IMM is contained in Annex 1. ITTO estimates that it will provide a contribution of 375,000 euros over the project's duration in terms of staff time, office facilities, communications, financial support, etc.

#### Estimated budget summary

Component	Amount (euro)		
	EU	ITTO	Total
Result 1: an independent EU timber market monitoring mechanism is established and responds to the needs of VPA partner countries as identified in the VPAs	400 000	45 000	445 000
Result 2: Independent EU timber market monitoring is functioning and complies with FLEGT agreement provisions	2 900 000	310 000	3 210 000
Result 3: A long-term strategy for sustaining the Independent Market Monitoring system beyond this project is defined in consultation with the EU and VPA partner countries	200 000	20 000	220 000
Visibility	100 000		
Evaluation, audit	138 318		
Sub total	3 738 318	375 000	4 113 318
Indirect costs (max 7% of the direct costs)	261 682		261 682
<b>Total</b>	<b>4 000 000</b>	<b>375 000</b>	<b>4 375 000</b>

The operational duration of the project is 60 months as from signature of a contract between ITTO and the EC. The timing and projected start-up of the project (beginning of 2014) is in line with current VPA implementation status. Below is the summary work plan for project implementation; detailed annual budgets and work plans for the second and subsequent years will be provided in each annual report and will be reviewed by the PSC, which will assess whether adjustments to the pace of implementation are needed, taking into account progress in VPA implementation and FLEGT licensing.

## Work plan summary

Key milestones in project implementation	2013		2014				2015		2016		2017		2018	
	Q3	Q4	Q1	Q2	Q3	Q4	S1	S2	S1	S2	S1	S2	S1	S2
EUTR full application (from 3 March 2013)	[Shaded bar]													
FLEGT licensed timber on EU market	[Shaded bar]													
Inception phase	[Shaded bar]													
Methodology and template report approved	[Shaded bar]													
Full implementation phase	[Shaded bar]													
First report including baseline	[Shaded bar]													
2nd annual report	[Shaded bar]													
3rd annual report	[Shaded bar]													
4th annual report	[Shaded bar]													
5th annual report	[Shaded bar]													
Sustainability strategy	[Shaded bar]													
Closure phase	[Shaded bar]													

A detailed work plan for the first year of implementation and a logical framework matrix are contained in Annexes 2 and 3, respectively.

### 4.10. Performance monitoring

A performance monitoring system will be developed based on ITTO's well-established internal monitoring system to monitor and report on the performance of activities it funds. Monitoring will be based on a set of indicators to be agreed upon by the PSC during the project inception phase. In addition, the European Commission will organize Results Oriented Monitoring (ROM) missions as appropriate.

### 4.11. Evaluation and audit

Independent mid-term review and final evaluation will be conducted as per the decision and regulations of the EC. Any audit requirements beyond those required under ITTO's rules and procedures will be spelled out in the general conditions of the contribution agreement.

### 4.12. Communication and visibility

Visibility of the EU will be assured in line with EU guidelines. All IMM project outputs will clearly identify the role of the EU as donor. As part of the EU FLEGT action plan, the project will promote EU visibility and ownership of its FLEGT initiative.