

Implementing the FLEGT Independent Market Monitoring (IMM) mechanism

51st session of International Tropical Timber Council
Kuala Lumpur, 18 November 2015

Rupert Oliver
ITTO IMM Lead Consultant



IMM Methodology

- Framework of 52 indicators for quantitative assessment of market impacts

Elements for inclusion in an IMM	Indicators	Means of Verification			
		Source of Information	Primary data	Secondary data	Purchased data sets
i. EU Timber Regulation	Application of EUTR compliant due diligence systems by operators in EU Member States	Publicly available reports from EUTR competent authorities (CAs) and Monitoring Organisations (MOs). EC are preparing a template for standard reports by CAs. Reports of ENGOs. Depending on scope of these reports, IMM may undertake structured interviews with CAs and MOs	✓	✓	
	Sanctions imposed on non-compliant operators in EU Member States	As above	✓	✓	
	Prosecutions of non-compliant operators in EU Member States	As above	✓	✓	
	Recognition that FLEGT VPA licensed timber meets EU TR and needs no further risk assessment or mitigation action, through reliable and consistent communication .	As above. As required IMM may undertake additional review of formal guidance issued by EUTR Competent Authorities and MOs.	✓	✓	
	Volume and value of EU imports of wood products from non-VPA countries considered potentially high risk from perspective of illegal logging	Eurostat/FII Ltd, ENGO/trade country risk assessments	✓	✓	



33 EU-wide indicators

- Overall EU market for all FLEGT VPA timber
- Examples:
 - market impact of EUTR implementation;
 - scope and content of public sector procurement policies;
 - timber procurement requirements established by EUTR MOs, TTF's & major retailers
 - handling of VPA licenses in FSC and PEFC CoC standards
 - perceptions of VPA licensed timber in design and architectural community
 - recognition of FLEGT VPAs in guidelines for assessment of forest sector risk in the financial sector



19 VPA partner-specific indicators

- Changing market for each VPA partner country
- Examples:
 - monitoring of volume and value of trade flows between the VPA partner country, the EU and other markets;
 - prices for specific indicator products from the partner country;
 - time to clear customs
 - size and quality of investment in the VPA partner country
 - changing perceptions of timber from the partner country resulting from VPA licensing.

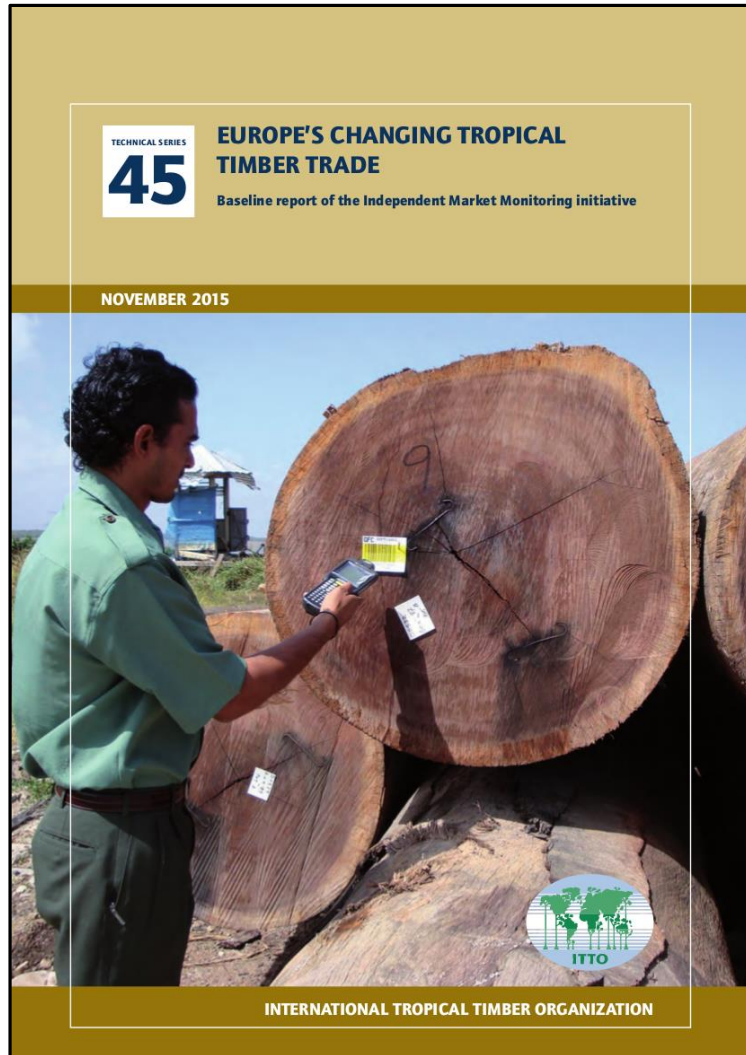


Key operational issues

- Phased approach - progressively widen monitoring against indicators as more licensed timber becomes available & with rising awareness
- IMM support for EFI World Forest Products Trade Flow database - new freely accessible tool to rectify statistical errors, fill data gaps & visualise data
- Close working relationship with JMRM in Ghana and JICs in other VPA countries
- Network of IMM correspondents in VPA Partner Countries & priority EU Member States reporting regularly
- Additional surveys undertaken directly by IMM or other agencies commissioned by IMM
- Linkage to trade associations to encourage input from private sector



IMM Baseline Report

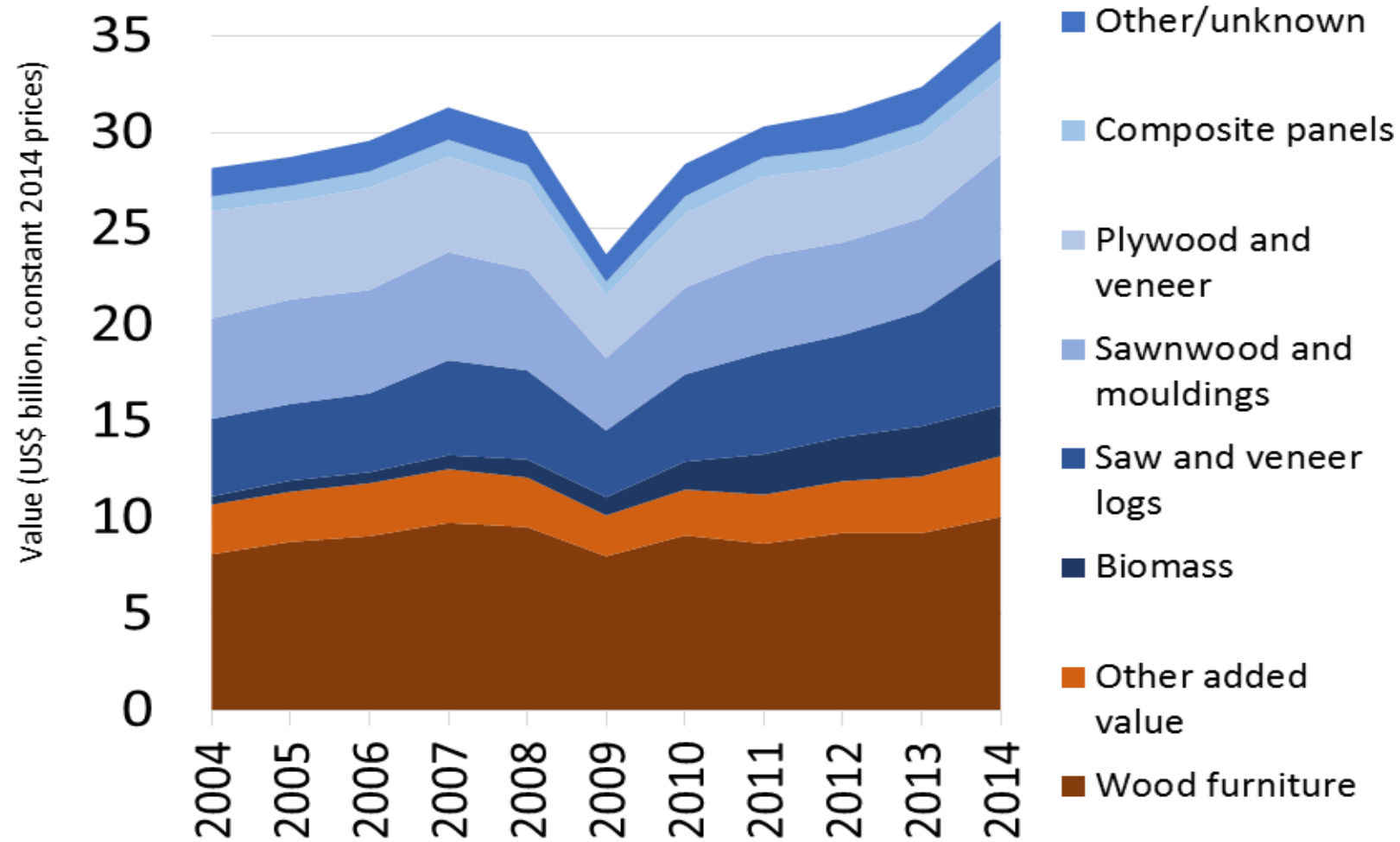


- Market position of timber products from VPA Partners prior to issue of licenses
- EU's share of exports from VPA Partners
- Market share within the EU
- All products within scope of existing and potential future VPAs
- 17 tropical timber supplying countries at various stages of VPA process

http://www.itto.int/news_releases/id=4575

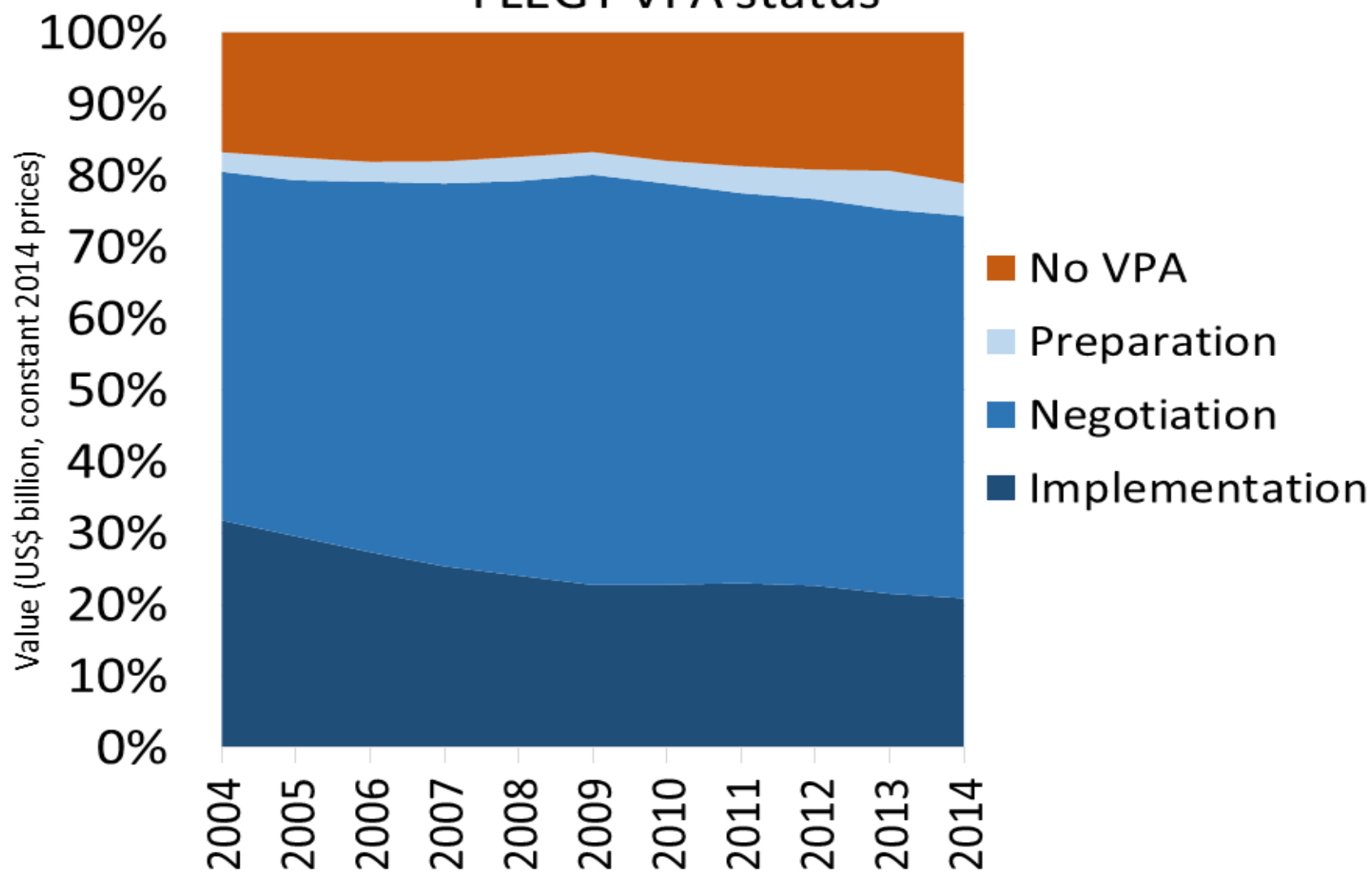


Global trade in tropical wood by product group

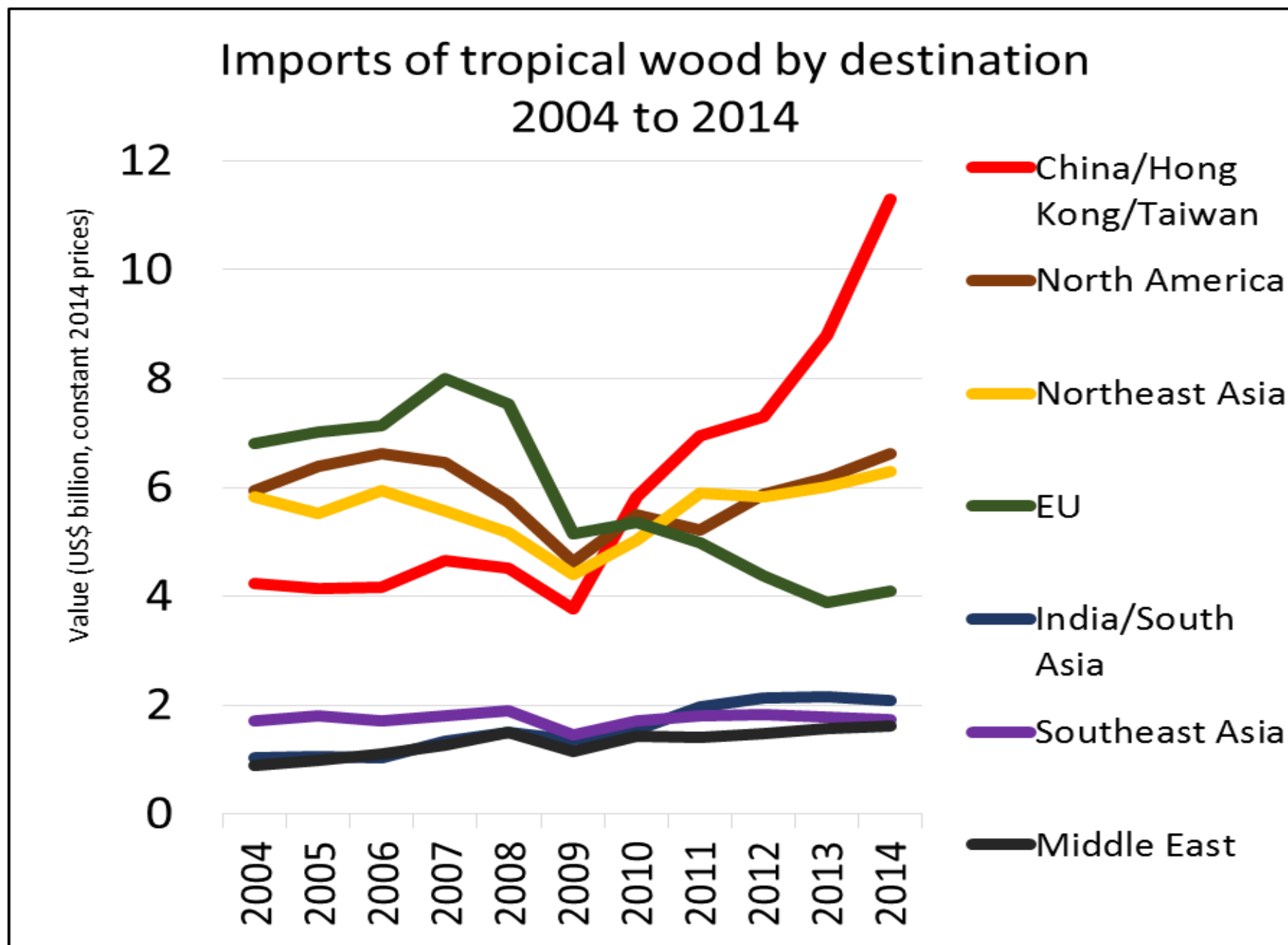


Source: ITTO IMM analysis of Global Trade Atlas & UN COMTRADE

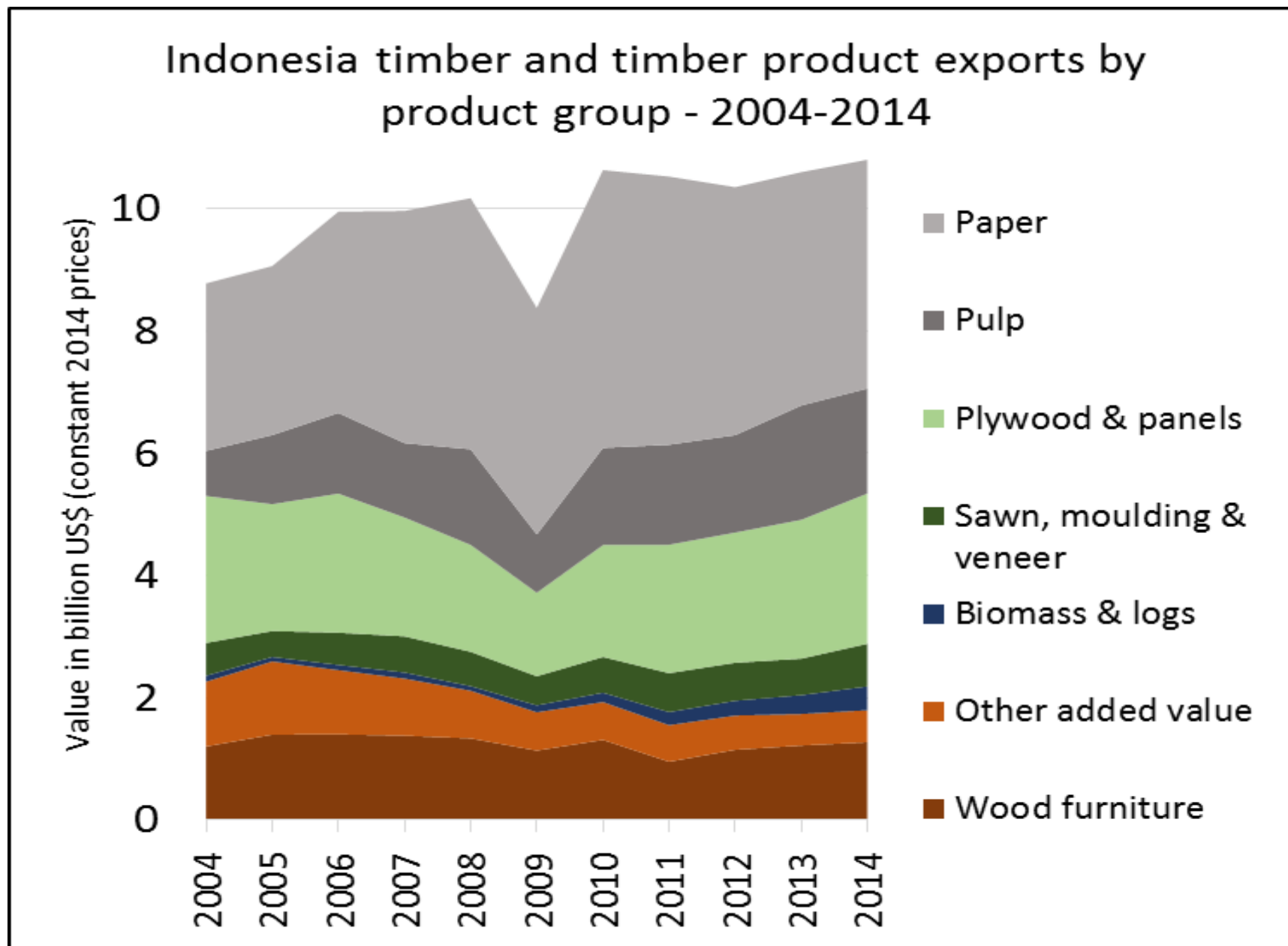
Global trade in tropical wood products by FLEGT VPA status



Source: ITTO IMM analysis of Global Trade Atlas & UN COMTRADE

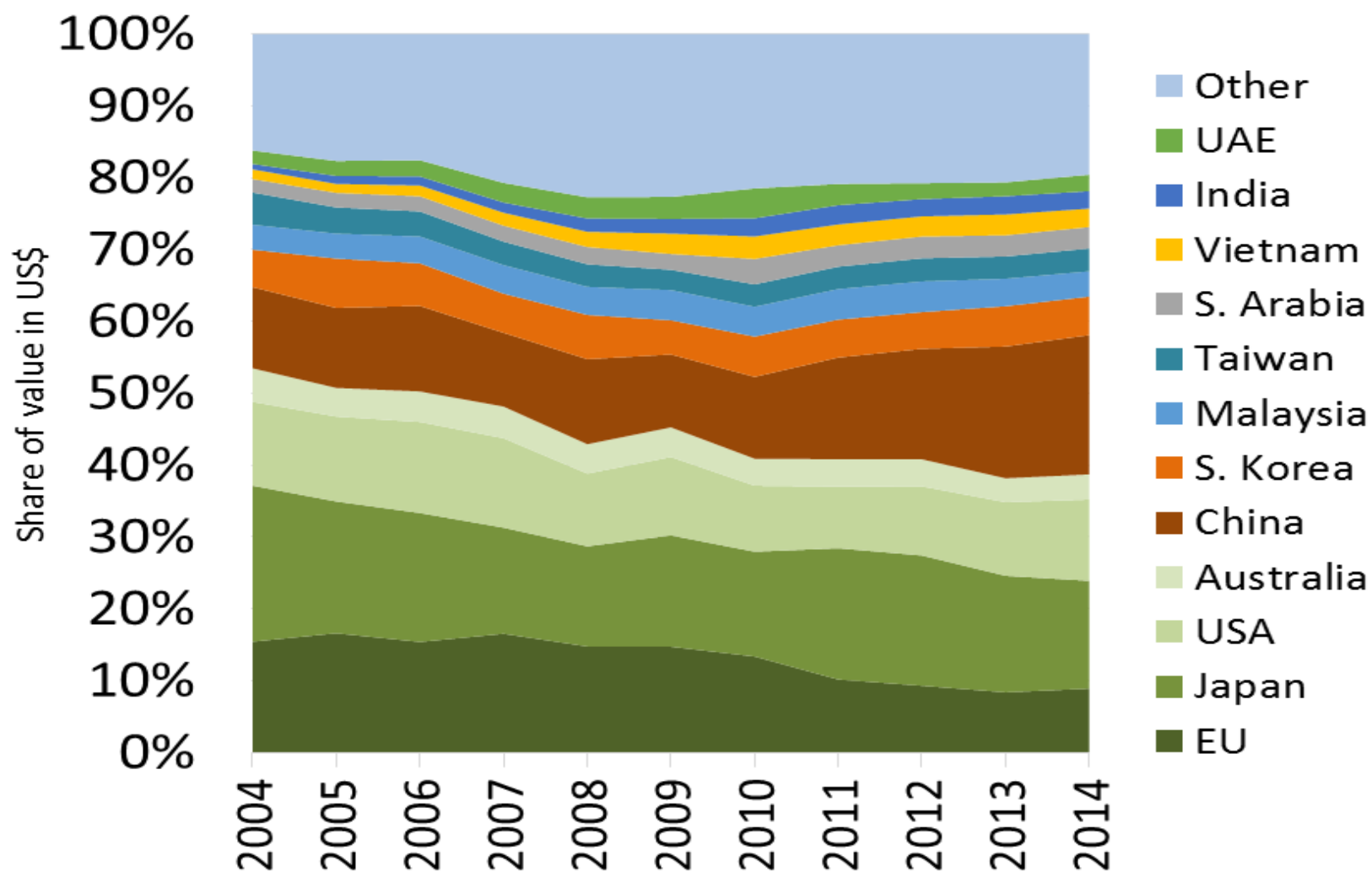


Source: ITTO IMM analysis of Global Trade Atlas & UN COMTRADE



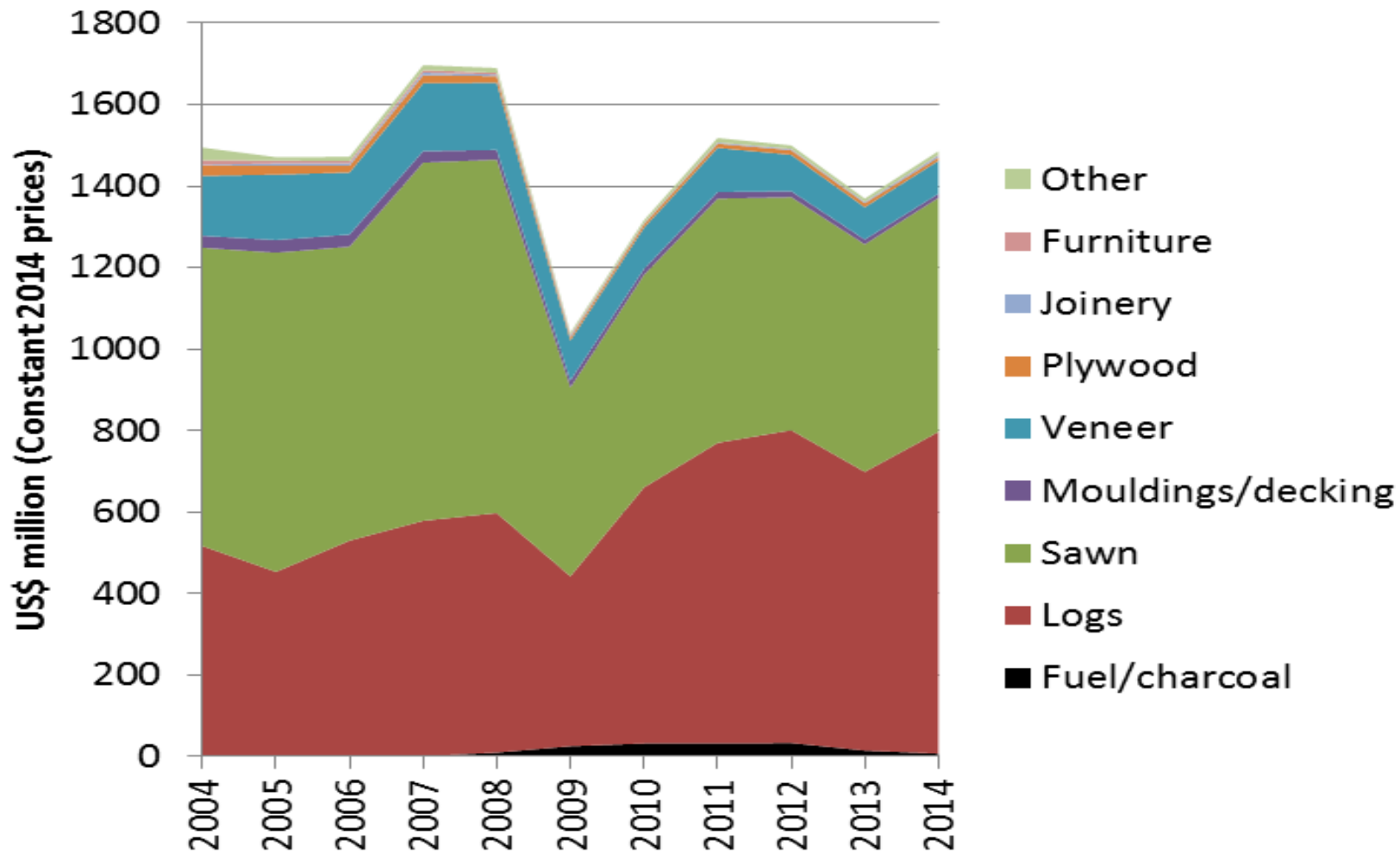
Source: IMM analysis of Global Trade Atlas

Indonesia timber and timber product exports Share by destination - 2004 to 2014



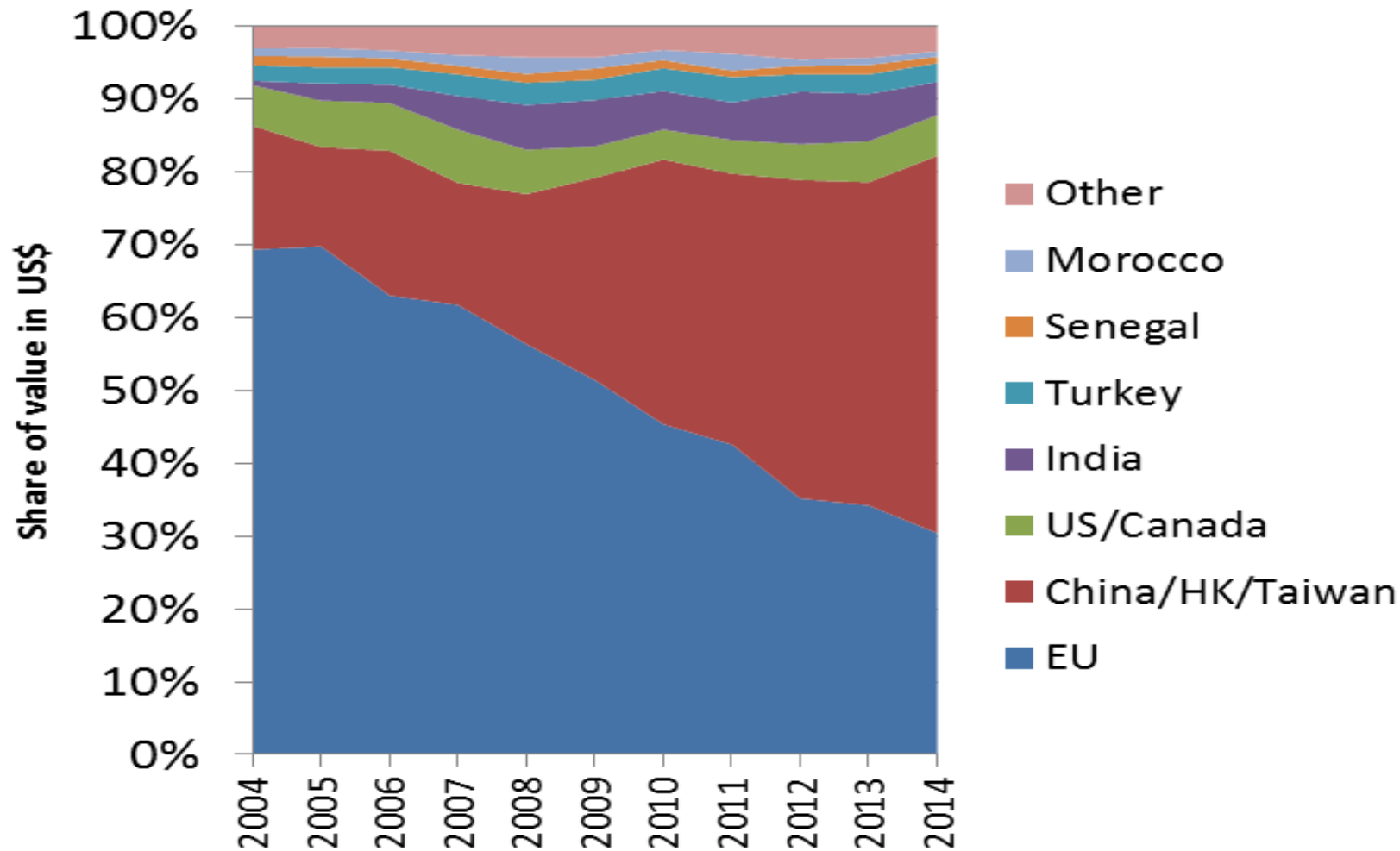
Source: IMM analysis of Global Trade Atlas

Global value of timber product imports from VPA Implementing Countries in Africa 2004 to 2014



Source: ITTO IMM analysis of Global Trade Atlas & UN COMTRADE

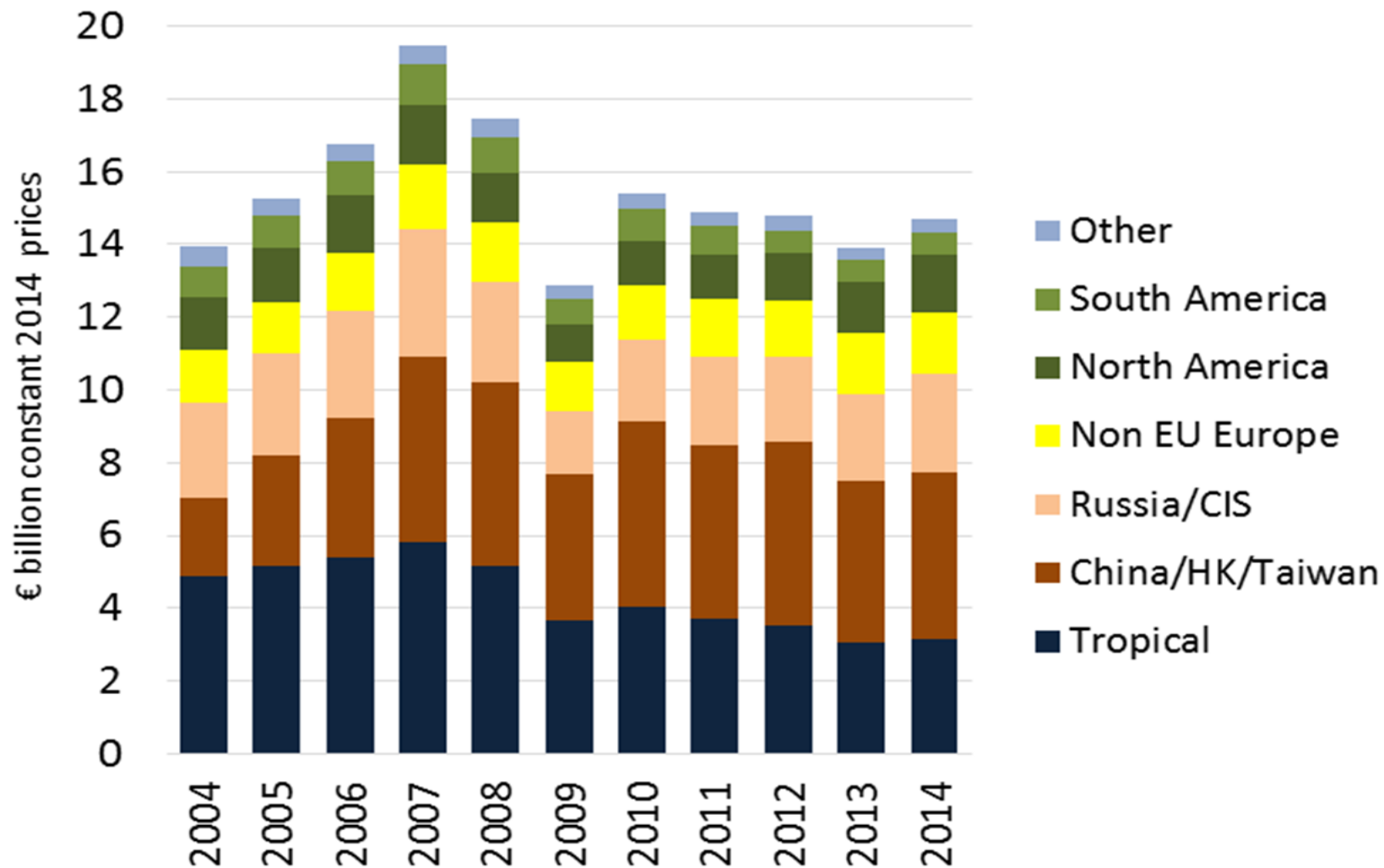
Destination share of itimber product imports from VPA Implementing Countries in Africa 2004 to 2014



Source: ITTO IMM analysis of Global Trade Atlas & UN COMTRADE

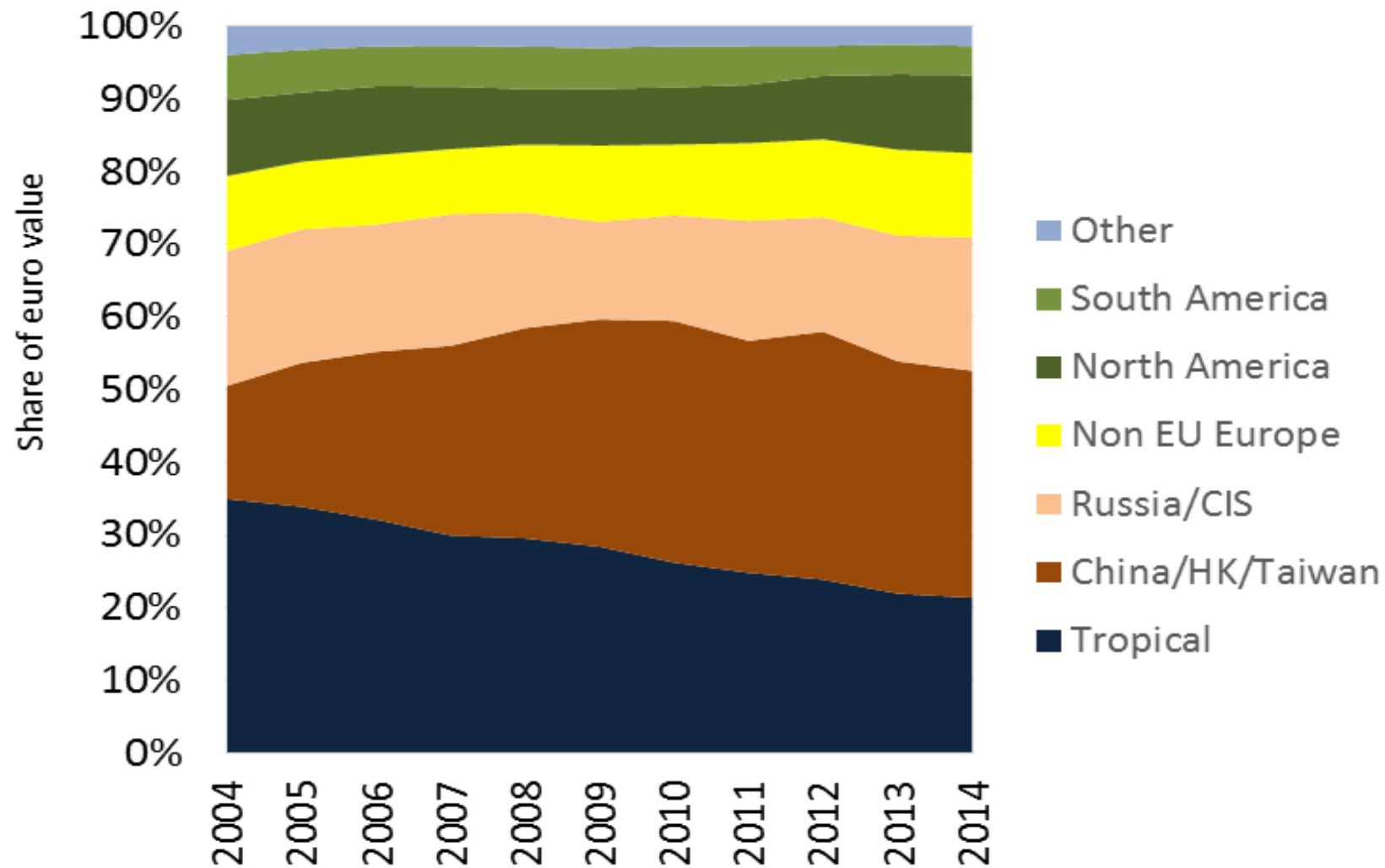


Value of EU28 import of timber products by source of supply - 2004 to 2014



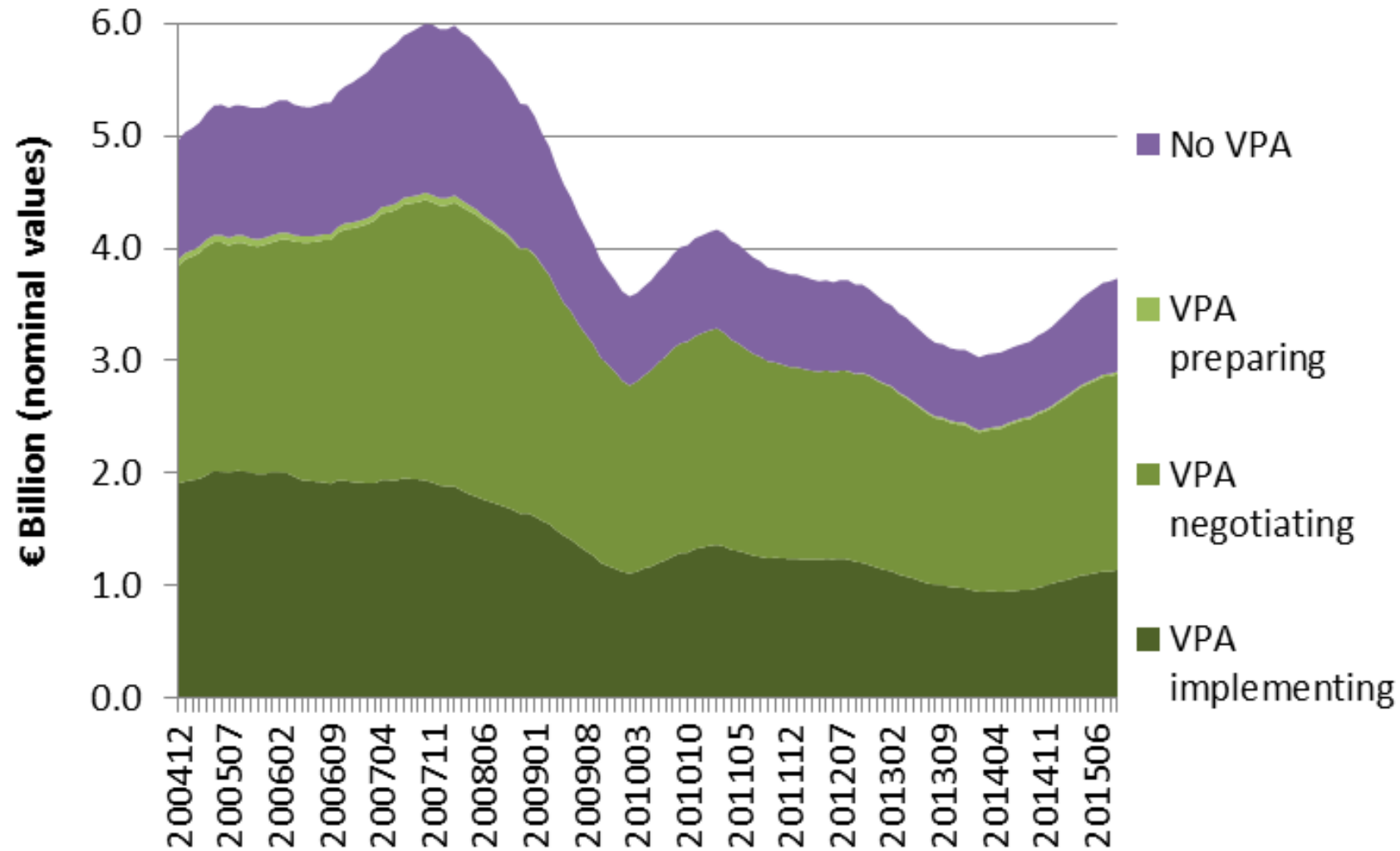
Source: ITTO IMM analysis of Eurostat COMEXT

Share of Value of EU28 import of timber products by source of supply - 2004 to 2014



Source: ITTO IMM analysis of Eurostat COMEXT

EU28 import of tropical timber products by VPA status Dec 2004-Sept 2015 - 12 month rolling total



Source: ITTO IMM analysis of Eurostat COMEXT



Barriers 2004-14

Barriers 2015-24

- Financial crises & fall out
- Product innovation in non-wood materials
- Shift in global economic activity to emerging markets
- Less availability of 'big name' tropical hardwoods
- Freight & transport factors
- EU production of panels & new surfacing technologies
- More hardwoods from Europe and N. America
- Global plantation expansion
- Wood modification
- Prefabrication in construction
- Exchange rate movements

Barriers 2004-14

Opportunities 2015-24

- Interior design trends
- Forest certification
- Environmental campaigns
- Marketing initiatives
- Architect and structural engineer's timber knowledge
- Technical performance standards & CE Marking
- Green building
- Public procurement
- Corporate Social Responsibility

Neutral 2004-14

Opportunities 2015-24

- EU Timber Regulation (EUTR)
- FLEGT VPA process
- GSP and timber import tariffs
- Climate change/carbon footprint
- Hardwood use for higher value structural applications

IMM Baseline Report
Systematic Review of
Factors Impacting on
EU market for timber
from VPA countries

Next steps

- **Build VPA Correspondents network**
 - Gustav Adu appointed VPA Correspondent in Ghana
 - On-going search for Indonesia correspondent
 - Correspondents for Cameroon, CAR, Congo Republic, & Liberia in 2016
 - Germany, Spain, UK Correspondents now pilot testing EU survey tools
 - Additional correspondents in Belgium, France, Netherlands in 2016
- **2015 Annual Report**
 - Update baseline data to 2014
 - National statistical annexes: all 17 VPA countries & 27 EU countries
 - Preliminary data from Correspondents surveys
- **Facilitate Sustainable Timber Information Exchange - STIX**
- **Expanded Outreach Activities** - quarterly IMM e-newsletter, redevelop website (www.itto.int/imm), input to ITTO TTMR and TFU



FLEGT Independent Market Monitoring

www.itto.int/imm

Rupert Oliver

Lead Consultant

rupert@forestindustries.info



IMM Background

- IMM condition of some FLEGT VPAs (e.g. Indonesia)
- Funded by EU (DEVCO) & hosted by ITTO
- Budget: €4.4 million over 5 years (2014-2018)
- Project Steering Committee (PSC)
 - Monitors IMM progress, review work plan and reports
 - ITTO & EC representatives
 - Observers e.g. EFl, Eurostat, government agencies



IMM Correspondents Network

- **Scope:** individual VPA Partner countries & largest EU markets
- **Role:** regularly collect & report data from market participants to understand drivers of change in line with IMM indicators
- **Data:** timber product prices, types, qualities, availability, delivery times, standards, procurement policies, perceptions
- **Structure:** contracted to ITTO on a part time basis, 3-5 days consultancy work per month, co-ordinated by Lead Consultant
- **Timing:** pilot testing Germany, Spain, UK, Ghana Sept-Dec 2015. On-going search for Indonesia correspondent. Roll out to other VPA Implementing countries & Belgium, France, Italy, Netherlands in 2016
- **Output:** IMM e-newsletter, website & reports, ITTO TTMR



IMM Input to EUTR Biennial Review

- June 2015 assessment of trade impact of EUTR
- Stats based analysis of 3 questions
 - Has EUTR increased reliance on domestic production at expense of imports?
 - Has EUTR led to a shift from sources perceived to be "high-risk" to those perceived to be "low risk"?
 - Is EUTR leading to diversion of EU imports from "high-risk" sources away from Member States with fully implemented regulatory regimes towards those where regulatory regimes are yet to be implemented?
- Key conclusions
 - No clear step-change in trade in direction expected due to EUTR
 - Severe limitations of analysis based only on published stats
 - Need to better identify: (a) levels of risk associated with individual trade flows; and (b) the changing trading practices of individual operators



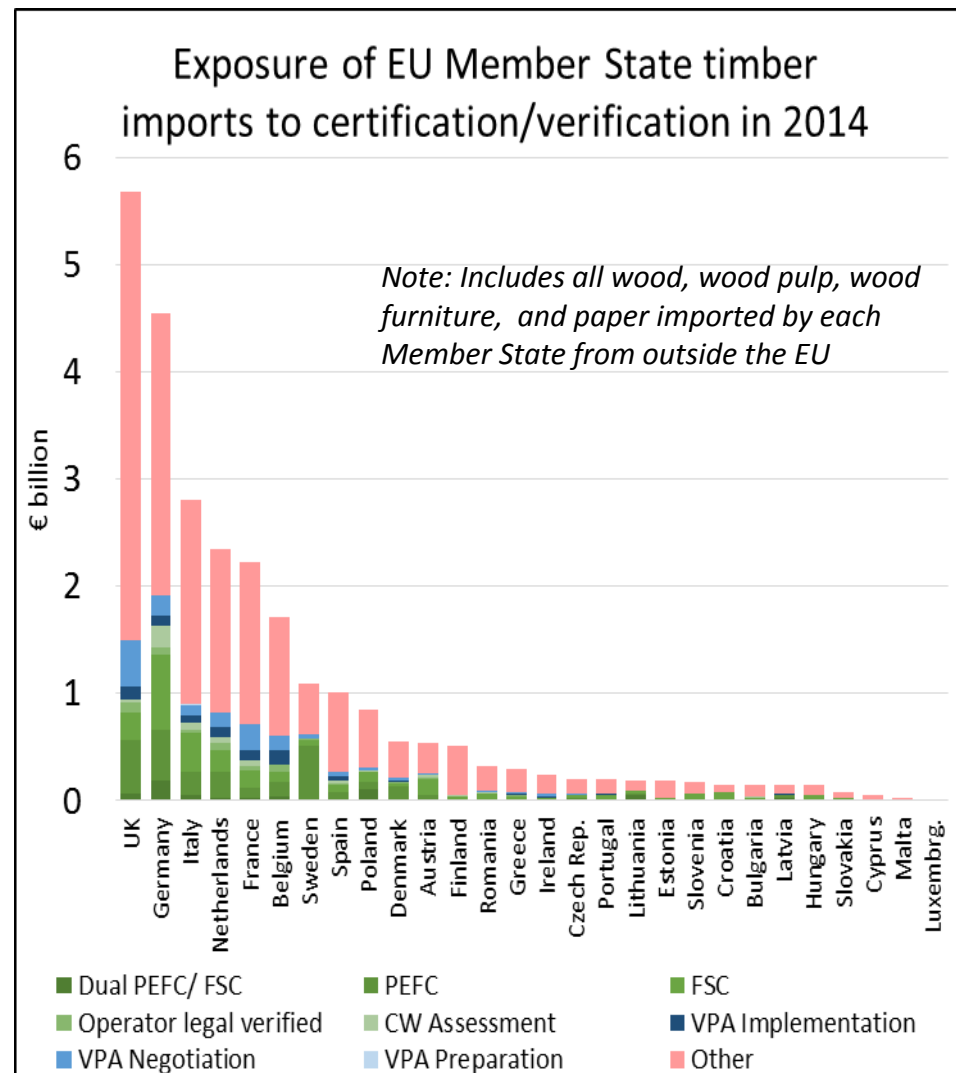
Innovations in trade statistics

- IMM support for EFI World Forest Products Trade Flow database

- New tool to rectify errors & fill data gaps

- Data visualisation

- Measuring & visualising trade “exposure” to legality verification & forest certification



Sustainable Timber Information Exchange - STIX

- **Objective:** Global platform for analysts monitoring impacts of policies to prevent illegal logging & promote sustainable timber
- **Open to:** any organisation or expert interested in and willing to share experience of monitoring impacts
- **Roles:** Facilitate project & partner identification; avoid duplication; improve statistics & develop common data protocols; shared databases; develop innovative survey and visualisation tools
- **Activities:** Inception workshop in 2016 and annual meetings thereafter; website for information exchange; working groups on specific topics; more regular on-line conferences & workshops



Concluding comments

- **Can't keep working in yesterday's markets**- dynamics of tropical wood market transformed over last decade
- **Key role of emerging markets, particularly China** – need for market recognition of Legality Assurance Systems in these markets
- **Post-2009 rebound in N. American and Japanese market** - shows that there are good opportunities for tropical products in industrialised nations
- **EU taking more time to recover but long term prospects are good**
 - Rising recognition of technical & environmental advantages of wood
 - FLEGT licensing not a magic bullet to overcome all market constraints
 - But a central component of wider market development strategy
 - Foundation to overcome prejudice, build consumer confidence in tropical products & improve climate for long-term investment
 - Focus on: (a) matching species more closely to specific end-uses;
(b) moving up value chain



IMM Objectives

- Generate information that demonstrates changes in trade of legally verified timber and timber products in the EU market
- Improve knowledge and understanding of the impacts of VPAs on timber prices, trade and market trends globally
- Ensure VPA countries & EU provide reliable stats and info on FLEGT timber trade and acceptance in their reporting
- Inform decisions by VPA Joint Implementation Committees (JICs) by providing timely & accurate info on market impact
- Contribute to monitoring the impacts of the FLEGT Action Plan and to inform its implementation
- Develop a long-term strategy for sustaining the IMM in consultation with the EU and VPA partner countries

