

Strong potential of independent market monitoring to overcome obstacles to tropical wood market access

Data gathered as part of ITTO's Independent Market Monitoring (IMM) project suggests the FLEGT VPA process has strong potential to overcome some of the most significant existing obstacles to market development for wood products from tropical countries. The project is generating market intelligence that will help better target resources for market development and promotion of FLEGT-licensed when it becomes available. FLEGT Licensing systems are close to being finalised in Indonesia and Ghana, while significant efforts to develop these systems are also underway in a wide range of other tropical countries. Information being gathered by the IMM project has potential to help refine FLEGT licensing procedures to ensure they are more stream-lined and cost effective. These were key messages from the FLEGT IMM Side Event at ITTC-51, Kuala Lumpur, on 18 November 2015.

Opening the side event, Mr Bojan Grlas from the European Commission's Directorate-General for the Environment explained that the multi-year Independent Market Monitoring (IMM) project has been established to assess the market impact of policy measures designed to eradicate trade in illegally harvested timber and to promote legally licensed timber. The project is supervised by ITTO and financed by the EU to support implementation of bilateral Voluntary Partnership Agreements (VPA) between the EU and timber supplying countries.

VPAs are a key element of the EU's Forest Law Enforcement Governance and Trade (FLEGT) Action Plan which defines the EU's policy to promote legal logging and trade in legally licensed timber. Once agreed, the VPAs include commitments and action from both parties to develop a Legality Assurance System (LAS) which licenses timber and timber products for export to the EU.

Alongside the VPAs, the FLEGT Action Plan includes implementation of the EU Timber Regulation, which since March 2013 has required anyone placing timber on the EU market to perform due diligence to ensure no illegal wood enters the supply chain.

Tropical countries requests for independent scrutiny of market markets

Mr Steven Johnson, ITTO Officer in Charge, said that the IMM responds to requests for independent timber market monitoring from VPA partner countries and commitments to impact assessment made in the agreements. He noted that ITTO is well placed to implement the IMM. Independent assessment of the market impacts of FLEGT licensing is entirely in line with ITTO's mandate to bring transparency to the international tropical timber trade. All but one of the 17 tropical countries now involved in the VPA process are producer members of the ITTO.

Mr Rupert Oliver, IMM Lead Consultant, said that the market intelligence being gathered by IMM will be valuable in both producer and consumer countries. It will help refine FLEGT licensing procedures to ensure they are more stream-lined and cost-effective. It should also help to better target resources for market development and promotion of FLEGT-licensed timber when it becomes available, expected now in 2016.

Mr Oliver noted that ITTO has published the report "Europe's changing tropical timber trade" prepared by the IMM to establish the baseline for long term monitoring of market impacts of FLEGT licensing. The report describes how the EU market for timber from VPA partner countries developed

during the decade 2004 to 2013. The report quantifies VPA countries' shares in relevant sections of the EU timber market including logs, sawnwood, decking, mouldings, veneer, plywood, joinery products, furniture, pulp, and paper.

Mr Oliver emphasised that the IMM report goes further than statistical analysis, also identifying and weighting factors driving changes in EU trade in timber from VPA countries. The report highlights that there are many factors currently acting as significant barriers to this trade, for example the lingering effects of the global financial crises, ongoing shift in global economic activity to emerging markets, continuous product innovation to broaden applications for temperate wood and non-wood products, and the relative lack of freight infrastructure in most VPA partner countries.

While no magic bullet, legality licensing is a firm basis for market development

According to Mr Oliver, this implies that the FLEGT licensing process, even when combined with the EUTR, cannot be regarded as a "magic bullet" that, on its own, will transform the EU market for wood products from VPA partner countries.

On the other hand, the FLEGT VPA process has strong potential to overcome some of the most significant existing obstacles to market development for wood products from VPA partner countries. The process can help improve the long-term security of wood supply from VPA partner countries, a factor that has become even more relevant in a market environment in which there is intense and mounting pressure on financial and physical resources. By strongly emphasizing good governance—which aligns with lower commercial risk—the process can help remove barriers to inward investment in sustainable tropical timber industries. It can also help overcome market prejudice against tropical timber in the EU and turn around environmentalist campaigns so that they become a voice in support of the industry.

Ms. Mariana Lubis of the Indonesian FLEGT Licensing Information Unit said that Indonesia and the EU both ratified the VPA in 2014 and are implementing a joint action plan to accelerate progress toward FLEGT licensing. According to Ms. Lubis, the VPA provides a way by which Indonesia can simultaneously address the problems associated with illegal logging, improve its forest management, and strengthen market opportunities for timber products in European and other markets.

Building on Indonesia's long-term efforts to improve forest governance

Ms. Lubis noted that the VPA builds on Indonesia's long-term efforts to provide credible assurance of legal and sustainable forestry practices in the country. The FLEGT licensing system itself is based on Indonesia's SVLK forest certification and timber legality assurance system initiated and developed by Indonesian forestry stakeholders since 2003. SVLK was launched and the first V-Legal proof of legality documents for Indonesian timber product exports issued on 1st January 2013.

Ms. Lubis noted that since launch of SVLK in January 2013, there has been a rapid increase in the value of legally verified exports. Export value increased from US\$6.1 billion in 2013 to US\$6.6 billion in 2014. To end of October this year, Indonesia's legal timber export value is already in excess of US\$10 billion.

Internal preparations for issuing of FLEGT licences are now far advanced, according to Ms. Lubis. The action plan agreed by the FLEGT Joint Implementing Committee (JIC) has involved, on the Indonesian

side, adaptation of the SVLK system to meet the terms of the VPA. This has required the nationwide rollout of SVLK to all sectors of Indonesia's diverse forest industry, including small and medium enterprises, together with steps to improve access to information for independent monitors of the SVLK. On the EU side, actions are being taken to prepare the EU market for receiving FLEGT licences. Subject to further field visits and final approval by the JIC, the first FLEGT licenses could be issued in Indonesia as early as January 2016.

Good progress towards timber legality licensing in Ghana

Mr Gustav Adu, IMM Correspondent for Ghana, described the good progress now being made, after initial setbacks, to finalise the FLEGT legality assurance system in Ghana. The system consists of five modules, three of which have been completed, tested and training carried out. These are: (i) the Timber Validation Department (TVD) module covering the central administrative functions; (ii) the Forest Module, covering auditing of forest operations against the legality standard; and (iii) Transport Module covering transfer of harvested logs to the processing location.

The two remaining modules have been designed and are currently being pilot tested and training is being provided. These are: the Processing Module which ensures integrity of the supply chain for legal timber during transformation; and the Trade Module which governs the delivery of legal timber from Ghana, including to: overseas markets (to receive a FLEGT-license for the EU and export permit for other markets); domestic markets (to receive a Product Permit); and to neighbouring countries (to receive an Overland Certificate). Testing and training for these modules is on-going in ten companies selected to include a mix of mix of large, medium and small operators. The first full end-to-end tests of the wood tracking system are expected to take place before the end of 2015.

Mr Adu suggested that the technical aspects of the Legality Assurance System in Ghana are nearly complete and the system could be fully operational before July 2016. However, there are several factors likely to delay issue of the first FLEGT licenses for some time after that date. Forest management plans still need to be completed for some production forest reserves. Clear criteria need to be finalised for verification of compliance with Social Responsibility Agreements with communities affected by logging operations. Civil society organisations still require assurances on the scope and availability of information to put in the public domain. There are also outstanding judicial issues that need to be resolved between government and industry relating to stumpage fees and conversion of forest leases to Timber Utilisation Contracts.

IMM maps flows of tropical wood into Europe

Sarah Storck, IMM Correspondent for Central Europe, provided an overview of the IMM market survey work now underway in the EU. Starting in Germany, Spain and the UK, timber trading companies are being sent a questionnaire to map trade flows of timber from the 17 VPA partner countries. European companies are being asked about types and volumes of timber and wood products sourced and also for wider perspectives on FLEGT-licensed timber, such as whether it will be given priority treatment in procurement or and willingness to pay a price premium.

According to Ms. Storck, early results of the survey work suggest European traders are generally frustrated by the delays to arrival of the first licensed timber. They are also calling for clearer communication of the role and benefits of FLEGT-licensing and its relationship to private sector

forest certification schemes like PEFC and FSC. Many traders interviewed so far believe there is lack of awareness of the broader role of the VPA process to promote nationwide participation and improvements in forest governance and transparency. This in turn may undermine the willingness of EU buyers to proactively promote FLEGT licensed timber or to pay price premiums.

On the other hand, Ms. Storck also said that, with better communication, market prospects for FLEGT licensed timber are good. Importing companies urgently want FLEGT-licensed timber to be available as it will reduce to zero the risk of EUTR prosecution for importing such timber. Importers say that exercising due diligence for tropical timber remains time-consuming and costly in many countries. Therefore FLEGT-licensed timber would usually be given preference over unlicensed competing timber. Most companies interviewed say they would be willing to pay a small price premium (roughly 2%) for licensed timber. Some leading EU importers say they are ready to give licensed timber profile and preferential shelf space.

Ms. Storck ended with some quotes by large EU importers which suggest strong underlying enthusiasm for the FLEGT process and what it stands for. One importer said that “If we can communicate that FLEGT motivates suppliers to maintain their forest and supports livelihoods that pass down the generations, that’s a really powerful message.” Other comments were that: “EUTR and FLEGT are critical to restoring the image and market share of tropical timber, a great resource”; and “our customers pick up on social stories about supply chains like those provided by FLEGT licensing. They associate with them and subsequent purchases mean more.”

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