FLEGT VPA Independent Market Monitoring (IMM)

Presentation for ITTC Yokohama, November 2018

ITTO

IMM

Independent Market Monitoring of FLEGT-Licensed Timber

IMM Background

- Mandated by FLEGT VPAs
- Funded by EC DG DEVCO & managed by ITTO
- Project term extended to January 31, 2022
- Objectives
  - Independently monitor FLEGT VPA market impacts
  - Improve understanding of impacts 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
  - Contribute to monitoring the impacts of the FLEGT Action Plan and to inform its implementation

- IMM has no direct mandate to promote FLEGT licenses or specific procurement policies

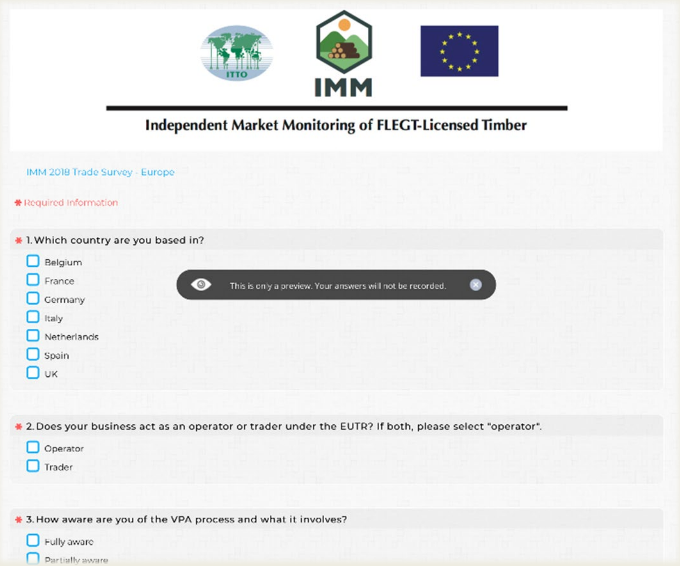
IMM 2018 key outputs/activities

Reports:

- Publication of IMM 2017 annual report in November 2018
- Draft IMM 2018 annual report to be produced by June 2019

Surveys:

- Continuation of key EU country and VPA partner country trade and other stakeholder surveys
- Selected 2018 results published in IMM newsletters, detailed results in IMM 2018 report



IMM 2018 key outputs/activities

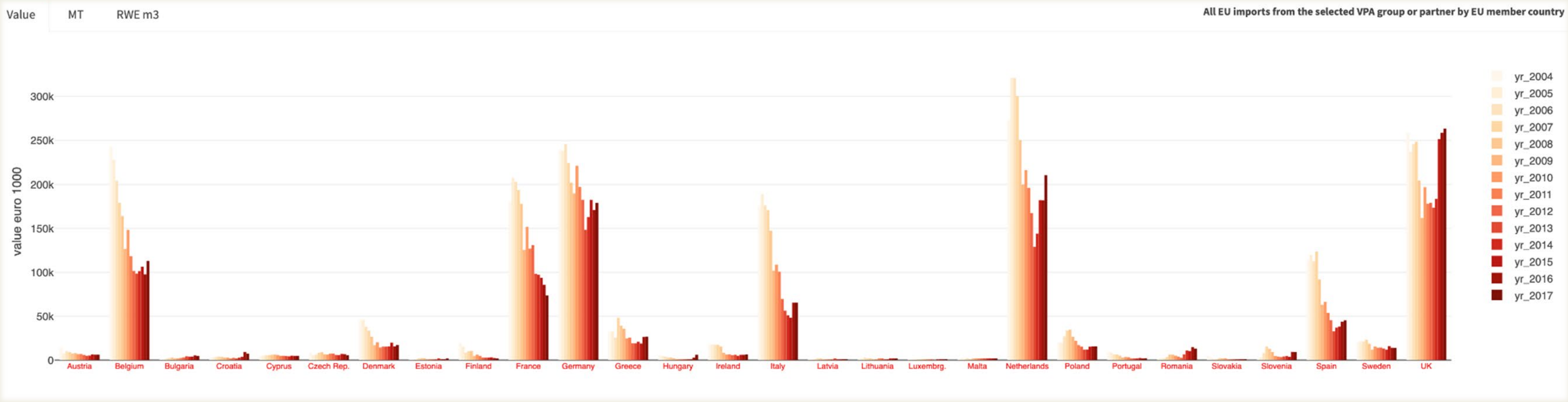
<u>Special studies</u>

- ***IMM furniture sector scoping*** study published https://www.itto.int/resources/view/id=5782
- ***IMM study of EU wood promotion programmes*** and their recognition of FLEGT under way and due to be submitted before the end of the year
- ***IMM study of EU private sector green timber procurement policies and sustainability definitions*** and their recognition of FLEGT under way and due to be submitted before the end of the year
- Scoping ***study of FLEGT impact on forest sector investment*** to be commissioned in Q4

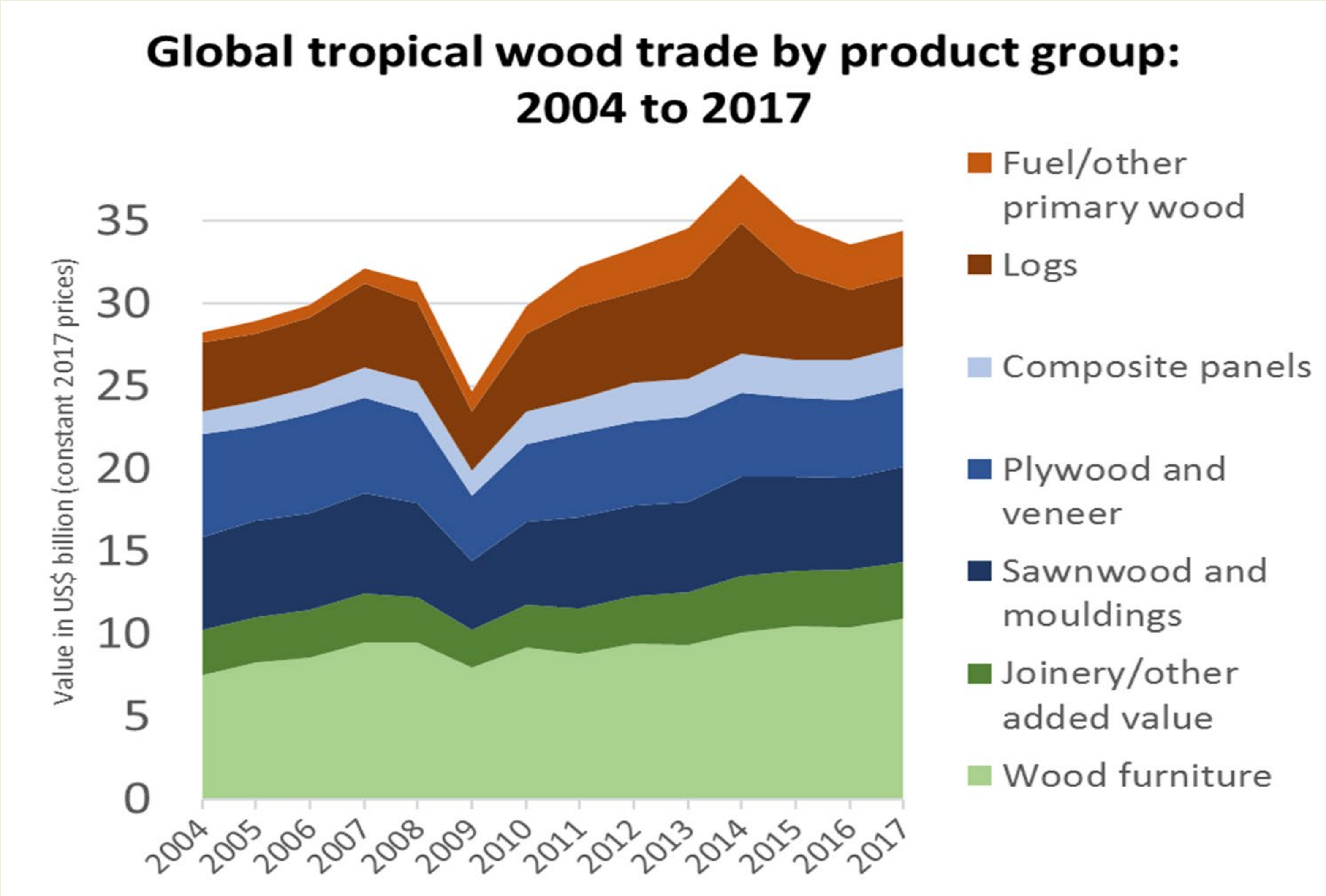
IMM 2018 outputs/activities

IMM information sources/communications

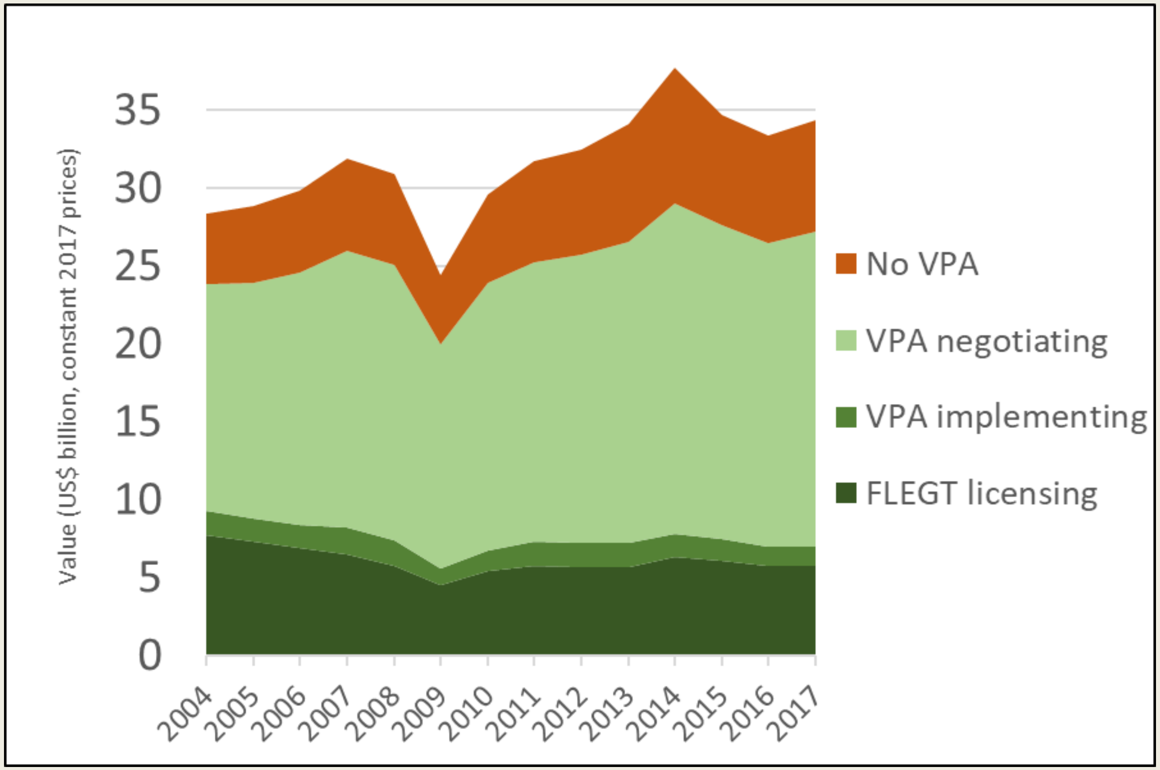
- IMM data dashboard for download and visualisation of EU-VPA partner country timber trade flows has gone live at http://www.stats.flegtimm.eu. Near real-time monitoring of trade flows.
- 2 IMM Trade Consultations organised in London/UK and Nantes/France. Third consultation to take place in Berlin/Germany on 16 November
- Two IMM newsletters published in April and June. Third newsletter due in late November/early December



Global tropical wood trade



VPA partner country share of global tropical wood-product trade



Source: ITTO IMM analysis of Global Trade Atlas

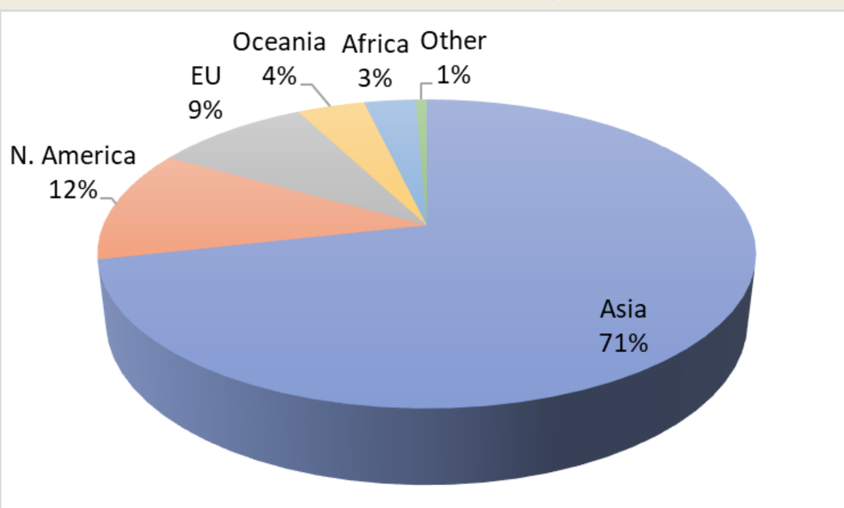
- Share of the 15 VPA partner countries in global tropical wood products trade stable at around 80% between 2013 and 2017.
- Longer-term decline from 84% in 2009 due to increased exports from a variety of non-VPA countries (logs from PNG, Solomon Is, Mozambique, rosewood from Nigeria, furniture from India)

SVLK (Sistem Verificasi Legalitas Kayu)

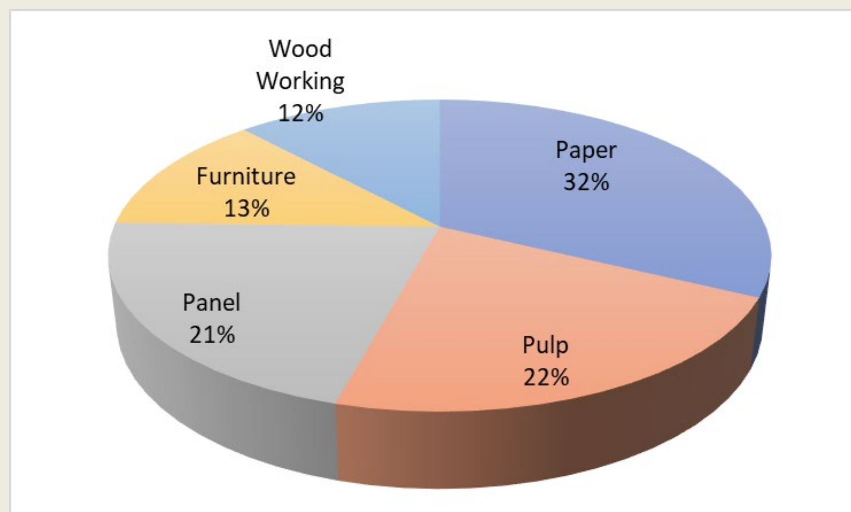
Indonesian® LEGAL Wood

- Indonesia world's largest tropical exporter in 2017
  - Over 200,000 V-legal certificates
  - FOB Value US$10.8
  - 15 million tons

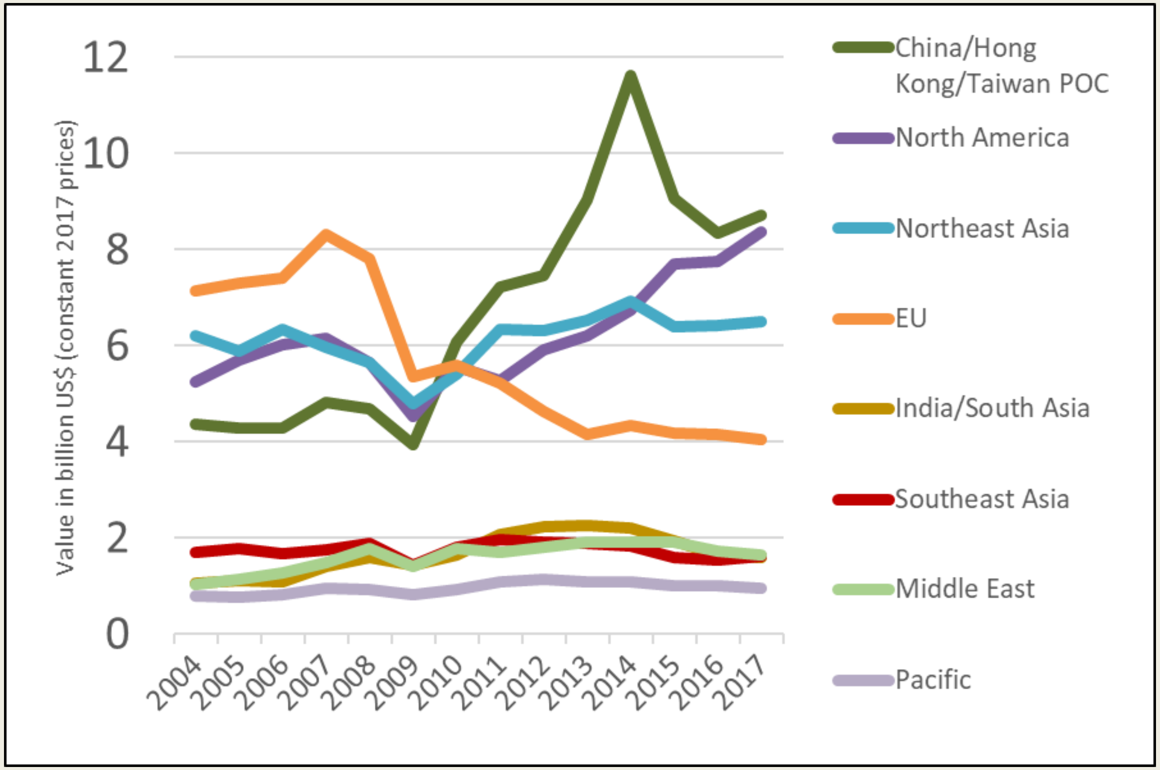
Share of value by export region



Share of value by export product



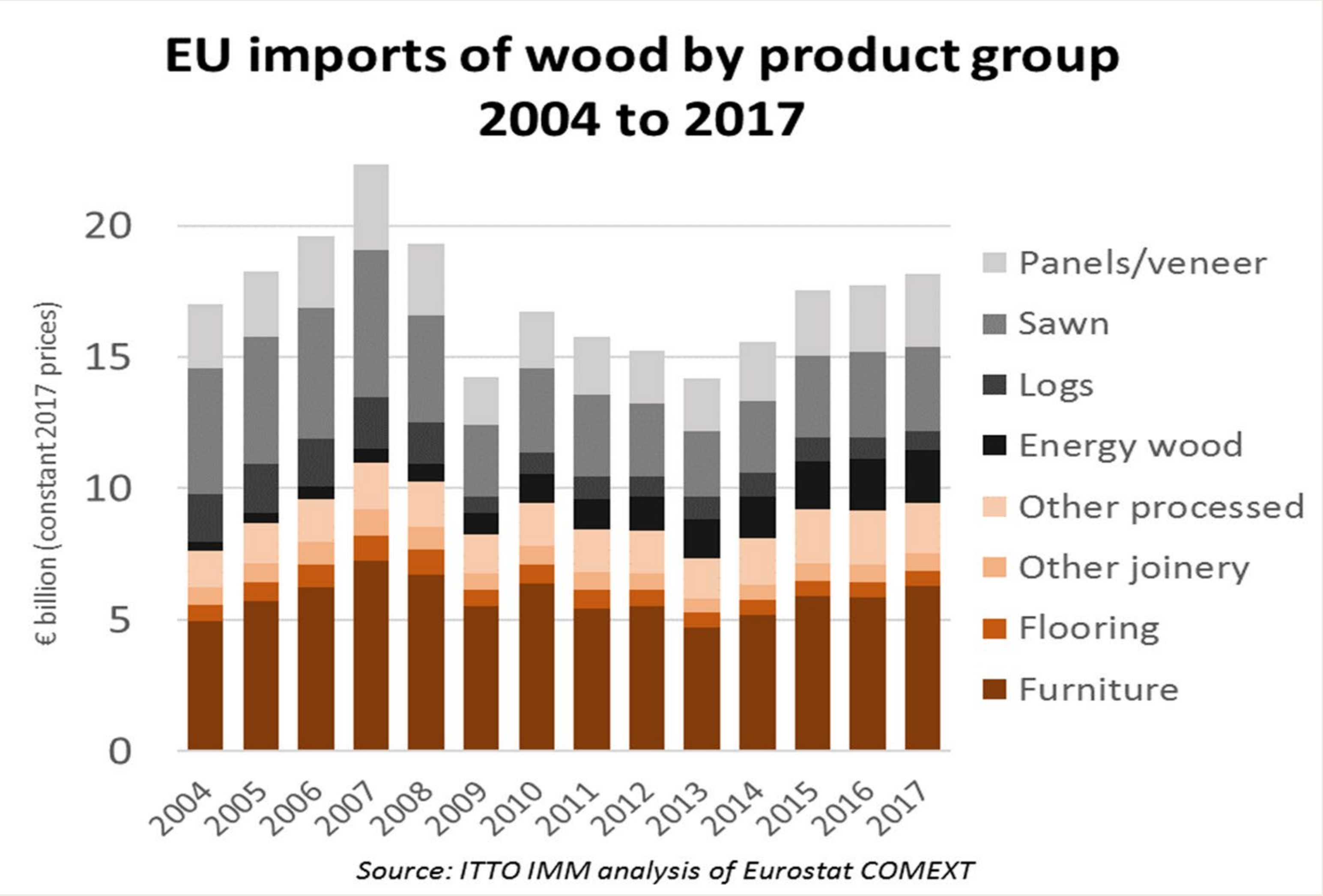
Global tropical wood-product trade by region of import



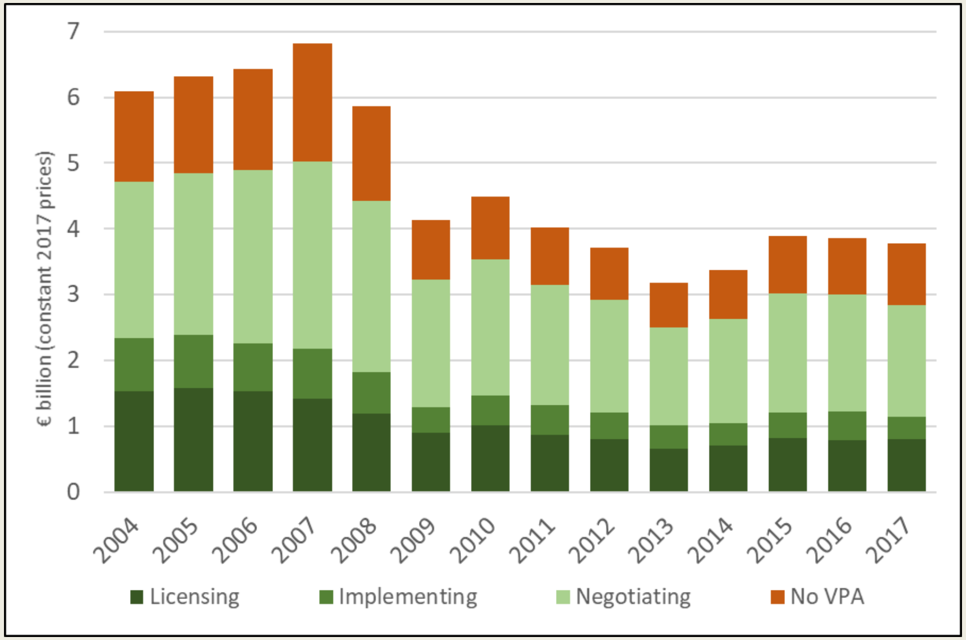
Source: ITTO IMM analysis of Global Trade Atlas

- EU import value broadly flat at US$4 billion since 2013
- During this period imports into China have been volatile but remain high at over US$8 billion in 2017
- Imports into N. America also increased to over US$8 billion in 2017
- Overall EU role in global tropical wood trade has reduced

EU wood imports by product group



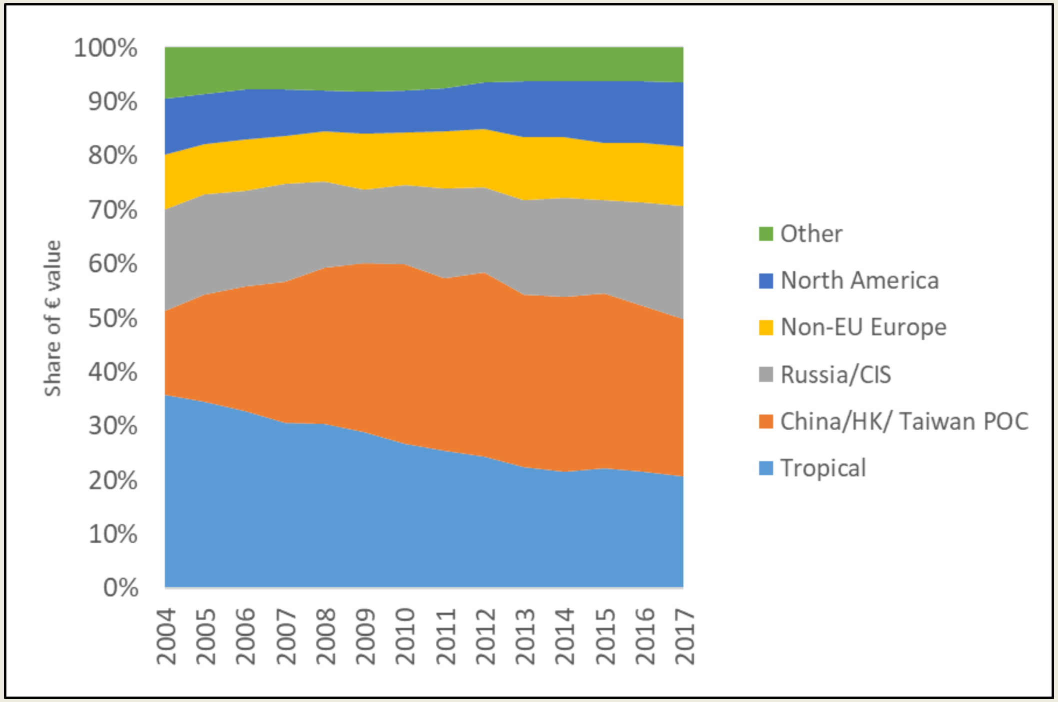
Value of EU imports from the tropics, by VPA status



Source: ITTO IMM analysis of Eurostat COMEXT

- **Total EU imports from the tropics declined 2% in 2017, to €3.78 billion**
- Imports from **Indonesia** increased 1% in 2017, to €0.80 billion, (**21%** of total EU tropical wood-product imports).
- After rising 25% in 2015-16, EU imports from the **5 African VPA-implementing countries** declined 21% to €0.34 billion in 2017 (**9%** of total EU tropical wood-product imports).
- Imports from the **9 VPA-negotiating countries** decreased 4% to €1.70 billion in 2017 (**45%** of total tropical wood product imports)
- Share of **non-VPA countries** in tropical wood product imports increased from 22% in 2016 to 25% in 2017 (notably tropical plywood from China & furniture from India)

EU Imports of wood products by source



Source: ITTO IMM analysis of Eurostat COMEXT

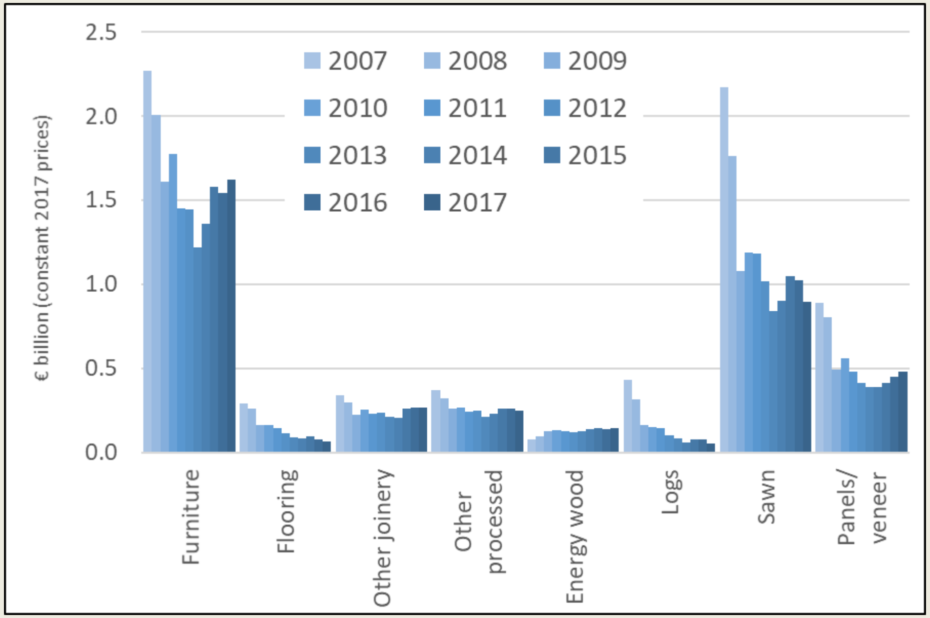
- The share of tropical countries in total EU wood product import value fell continuously from 36% in 2004 to 21% in 2014, rebounded to 22% in 2015-16, but fell back to 21% in 2017.
- Loss in share initially to China, then to North America, Russia/CIS and non-EU European countries.

A perfect storm

Drivers of tropical timber's decline in Europe

Economic downturn 2008 to 2013	Diversion of supply to other markets	Erosion of infrastructure for EU supply
Importers & bankers increased aversion to commercial risk	Just-in-time favours more regular less volatile supply	Substitution by temperate wood & composites
Prefabrication: Switch from adaptable utility woods to tightly specified materials	Competition from China for material access and in markets for finished goods	Environmental prejudices & uncoordinated marketing

Value of EU imports from the tropics, by product type



Source: ITTO IMM analysis of Eurostat COMEXT

- Recovery in 2015-16 most pronounced for furniture & sawn

- In 2017:
  - sharp fall in imports of tropical sawn (mainly Africa)
  - continued rise in imports of tropical furniture (part. India & Malaysia) and plywood (China, Indonesia)

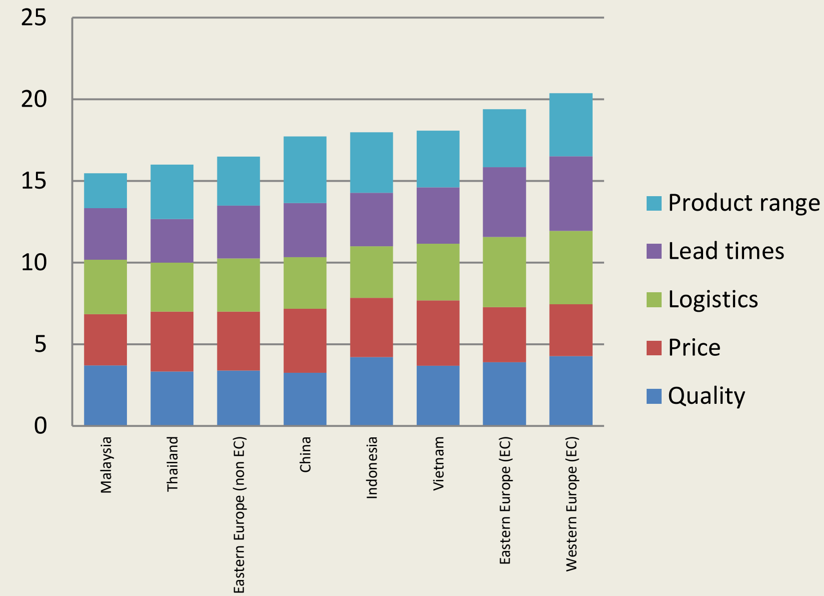
- Stable imports of tropical joinery (glulam & doors), other processed products and biomass

- Continuing long term decline in imports of tropical logs & flooring

Insights from 2018 survey work in Europe – Furniture sector study

- 53 companies interviewed in key EU countries (Belgium, France, Germany, Netherlands, Italy, Spain, UK) between March and May 2018 regarding e.g.:
    - Origin and type of wood furniture imports
    - Trade relationships and supply chains
    - Competitiveness of supplier countries

Relative competitiveness of VPA partner countries



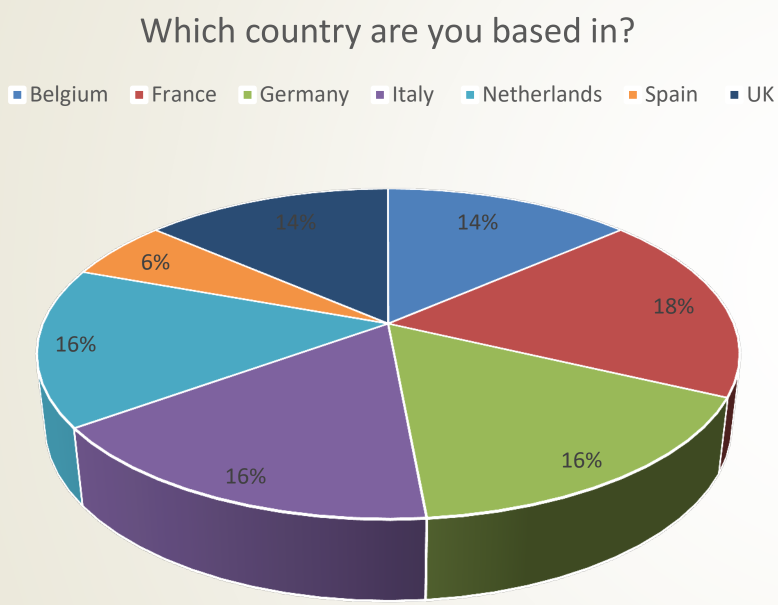
Source: IMM furniture sector scoping study

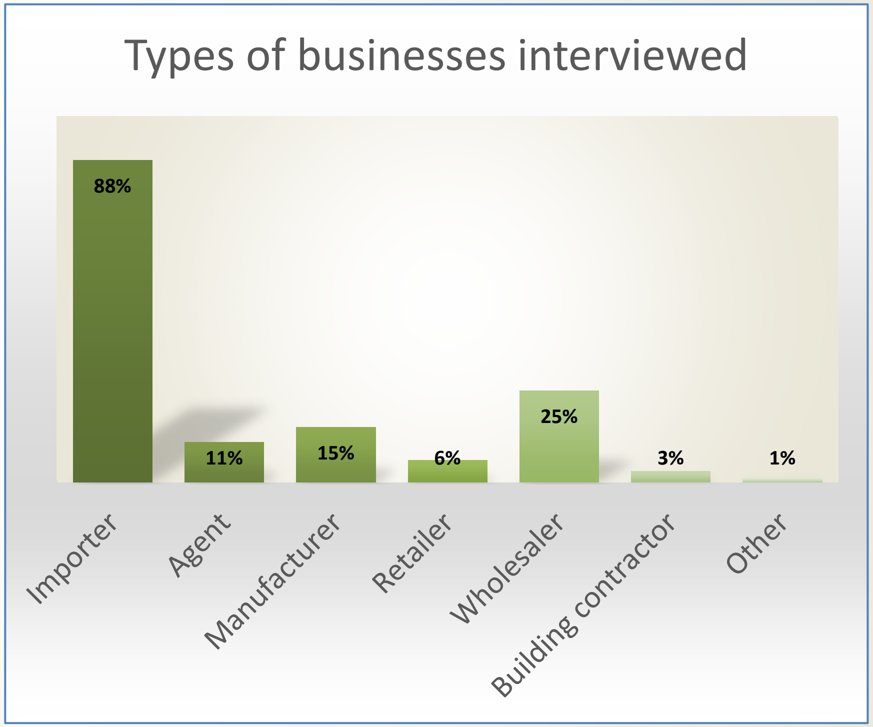
Study available for download at https://www.itto.int/resources/view/id=5782

Insights from 2018 survey work in Europe

- 96 companies interviewed in key countries (Belgium, France, Germany, Netherlands, Italy, Spain, UK) between May and October 2018 regarding e.g.:
  - Perception of Indonesian FLEGT-licenses / import procedures of licensed timber
  - Impact of FLEGT-licensing on tropical timber imports
  - Impact of the EUTR on tropical timber imports
  - Impact of FLEGT-licensing and EUTR on imports of third-party verified sustainable tropical timber
  - Awareness of the FLEGT VPA process (in general and in Indonesia in particular)
  - Rating of factors responsible for the continuing decline in EU tropical timber imports

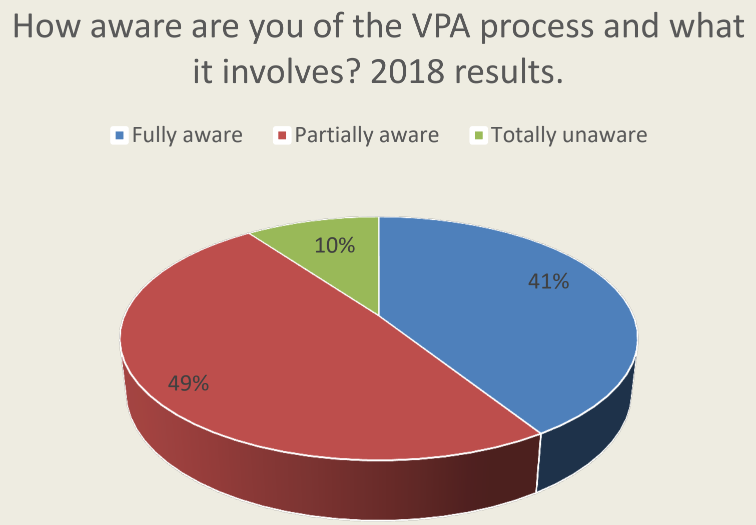
EU trade survey participation by country/type of business

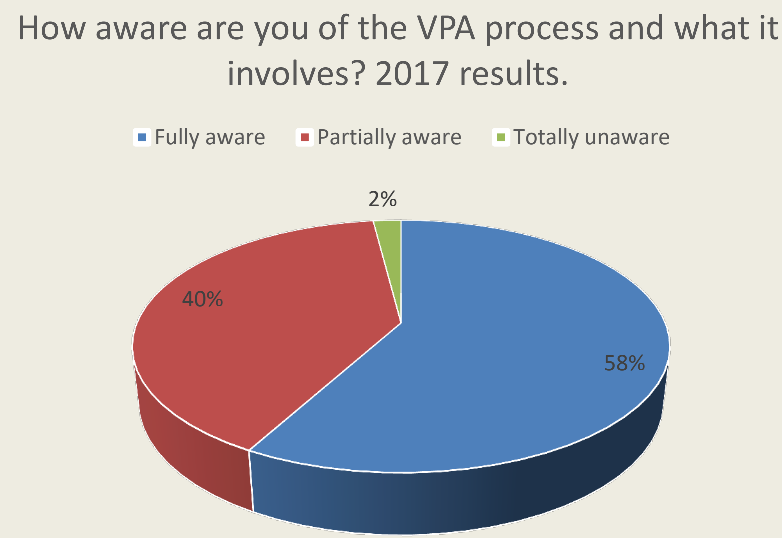




Source: IMM European Trade Survey 2018

Awareness of the FLEGT VPA Process



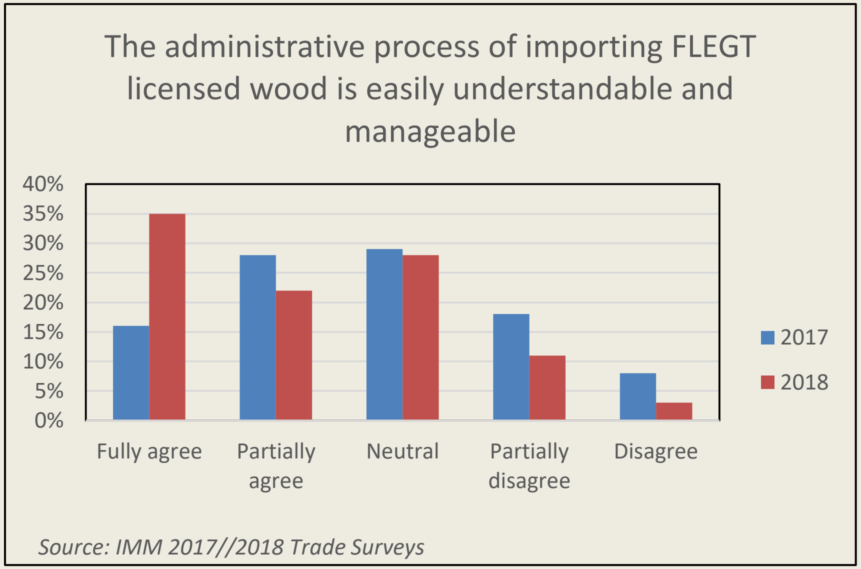


Source: IMM European Trade Surveys 2017 and 2018

Significantly lower average awareness in 2018 – possible explanations:

- Sectors/types of companies that had shown lower awareness in 2017 may have been more strongly represented in 2018 (small companies, not core timber sector)
- "FLEGT fatigue" setting in again. Low awareness rating expressing frustration rather than real lack of awareness
- With more information becoming available companies realise that they know less about VPAs than they had previously assumed (such views were expressed during the IMM London trade consultation)

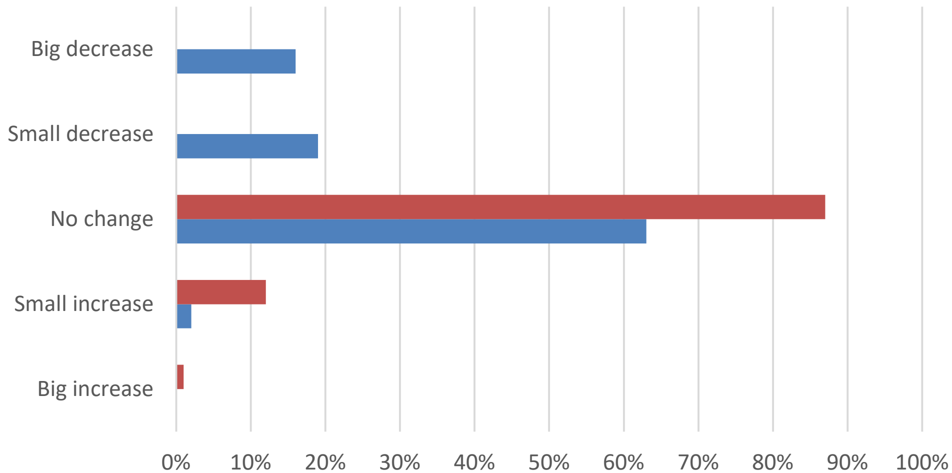
Perception of FLEGT-licensed timber



- EU operators have become accustomed to FLEGT-licensed import procedures. In 2018, a much higher proportion finds import procedures easily manageable and a much lower proportion reports difficulties.
- The vast majority now agrees that FLEGT licensing is making importing timber products from Indonesia easier.
- Only 1% still finds licensing is making things more complicated, compared to more than 30% last year.

EUTR/FLEGT-licensing impact on tropical timber imports

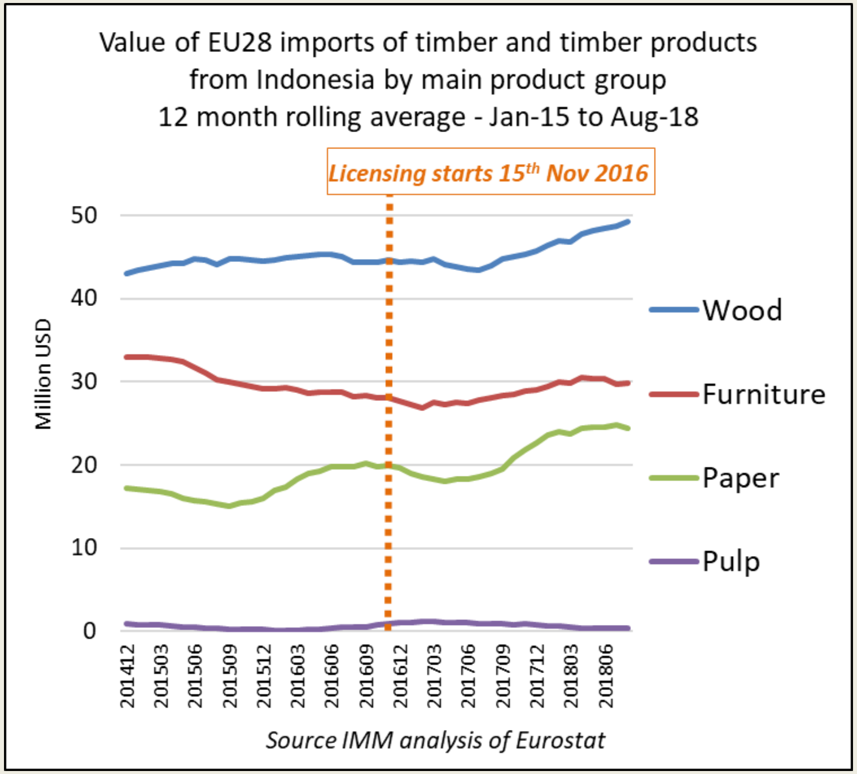
To what extent has the share of tropical timber and timber products in your imports changed due to EUTR and FLEGT-licensing



	Big increase	Small increase	No change	Small decrease	Big decrease
The market introduction of FLEGT-licensed timber	1%	12%	87%	0%	0%
The introduction of EUTR	0%	2%	63%	19%	16%

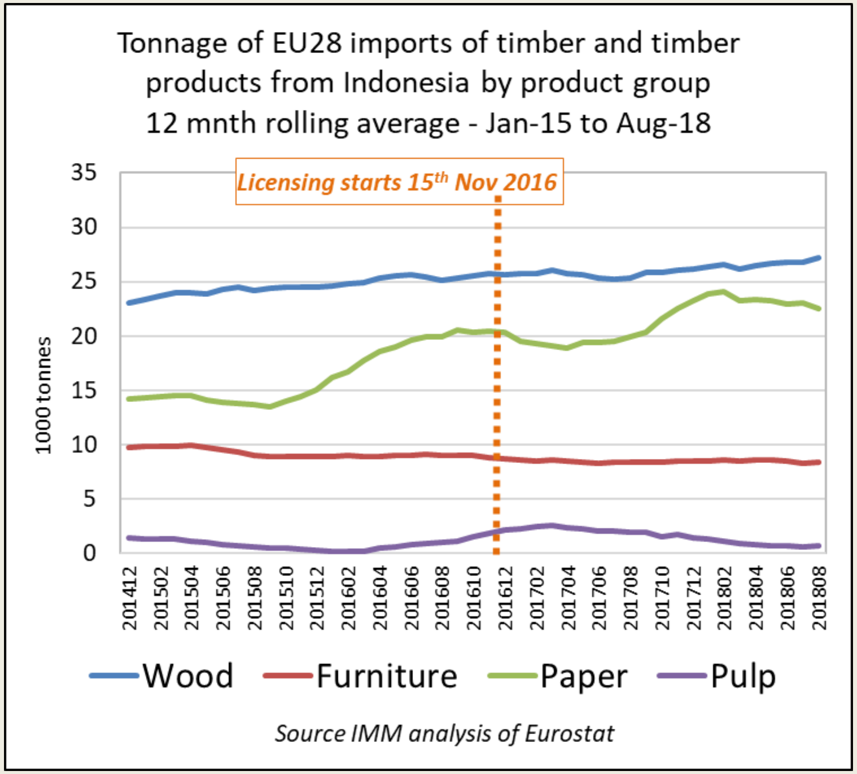
- Market introduction of FLEGT-licensed timber had a small positive effect.
- No respondent mentioned a negative effect.
- 35% of respondents attributed decline in their tropical timber imports to some extent to the EUTR

Indonesia/EU timber trade since the start of licensing



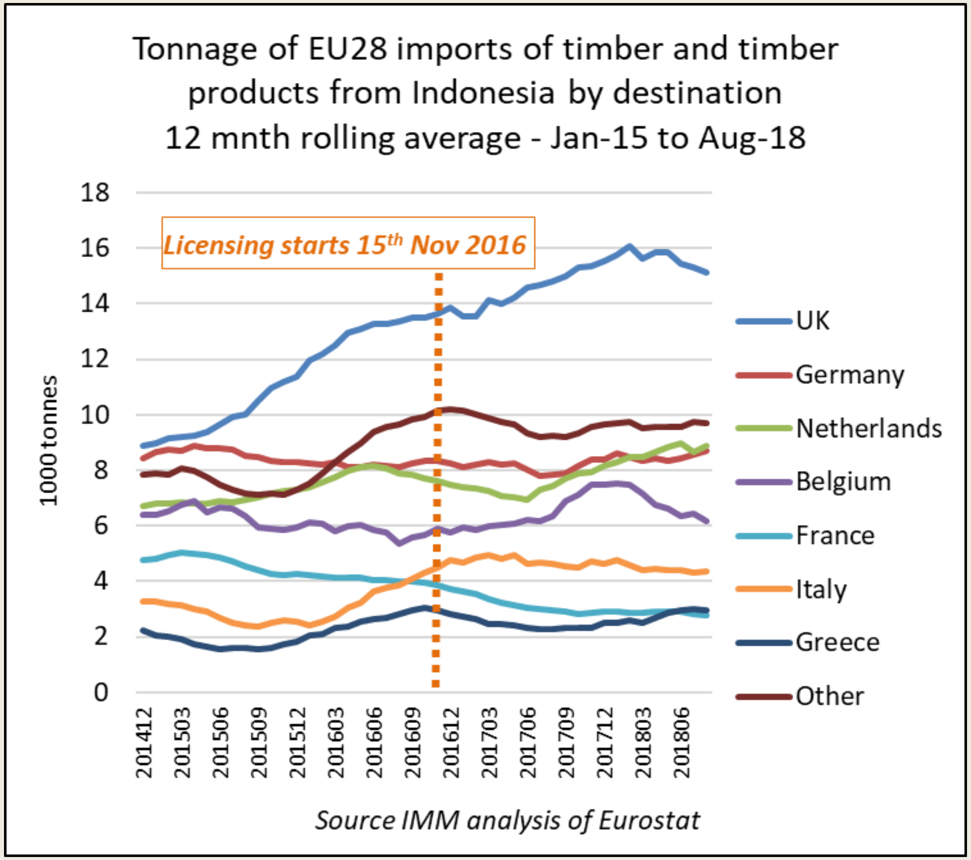
US$ value trend

Euro at 14 year low against dollar in December 2016, rate strengthened from May 2017



Quantity trend in metric tonnes

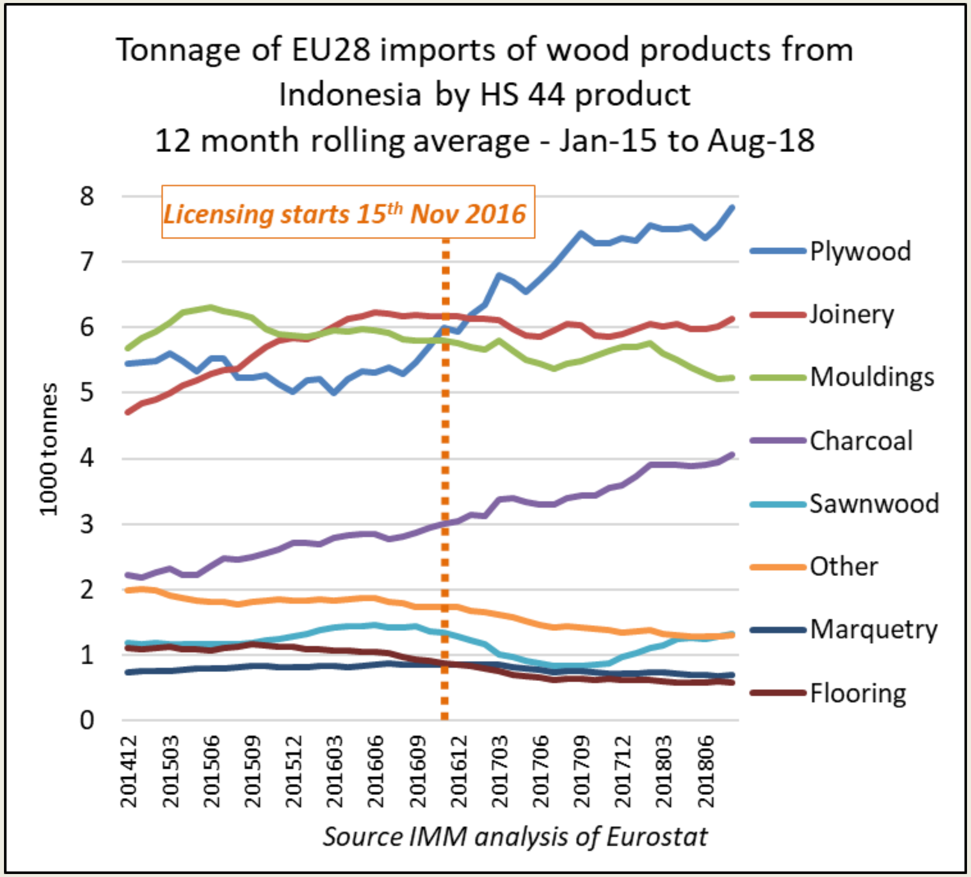
Indonesia/EU timber trade since the start of licensing



Highly variable trends at national level in the EU

- UK imports began to rise strongly in Q2 2017 but peaked in Q1 2018
- Germany slight fall to Q3 2017 then slowly rising
- Netherlands declined to Q2 2017 then rising after that
- Belgium surged in Q4 2017, fell back again in 2018
- Italy recovered in 2016 but flat since then
- France sliding in 2017, then flat in 2018

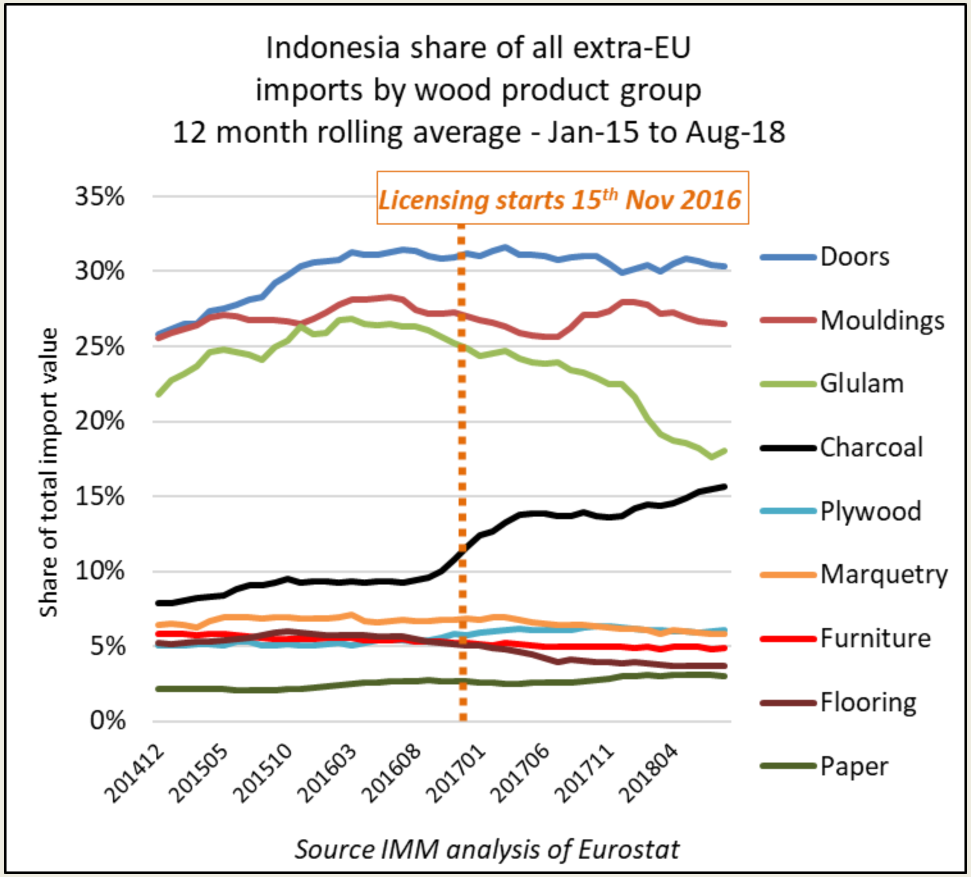
Indonesia/EU timber trade since the start of licensing



Also highly variable trends for individual wood (HS 44) products:

- Strong increase in plywood
- Consistent rise in charcoal (not covered by licensing)
- Joinery (doors & glulam) stable
- Sawnwood (S4S) declined to Q3 2017, rising after
- Mouldings, flooring, other (n.e.s.) continued to slide

Indonesia/EU timber trade since the start of licensing



- Share of total EU imports:
  - Doors stable
  - Mouldings volatile but broadly stable
  - Glulam (scantlings & kitchen tops) declining
  - Charcoal rising
  - Furniture flat
  - Flooring falling
  - Paper rising from low levels

Recommendations of IMM 2017 annual report

- FLEGT licences can underpin market development for tropical products in the EU, but this a long-term process
- FLEGT-licensing countries should develop a targeted promotion programme for the licensed wood products they want to sell in Europe
- Need to improve communication and raise market awareness of the steps required to implement a FLEGT licensing system
- Private sector must be engaged in positive marketing of FLEGT licensed timber, not treated as passive actor responding to regulatory signals.
- Consistent enforcement of EUTR most effective way to assure market advantage for FLEGT licensed timber

Recommendations of IMM 2017 annual report

- Go ahead with the transition to fully electronic licensing/import procedures for FLEGT-licensed timber to maximise green lane benefits.
- Ensure that IND authorities are aware of all cases of FLEGT-license mismatches
- A wider geographic spread is essential for the market development of FLEGT-licenses. Completion of VPA implementation, especially in key supplier countries should be a priority.
- FLEGT/EUTR Competent Authorities should reach out to the private sector as much as possible.
- Public sector procurement policies send important signals to the wider market – FLEGT-licensed timber should be accepted as evidence of legality and sustainability.
- EU MS abandoning fees for processing FLEGT licenses would help maximise the benefit of FLEGT-licensing.

Thank you

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