INTERNATIONAL TROPICAL TIMBER ORGANISATION / FLEGT INDEPENDENT MARKET MONITOR (IMM)

VPA partner timber trade and market perceptions

UPDATE

AN IMM REPORT – No 2/ 2022

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Carrefour 2022. PHOTO: IMM

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Background

Between 2017–2021, IMM distributed annual market overviews, summaries of the previous year's survey results, and detailed analysis of trends against all IMM indicators in the form of **IMM Annual Reports**. To allow for a timelier distribution of this information, IMM decided to switch to shorter, modular reports in 2022. These reports are covering the latest market trends, combined with either survey results or updated analysis against specific IMM indicators.

This report is the second IMM modular report and includes a trade update for the first quarter of 2022, with a specific focus on trade between the EU and Indonesia and trade commentary from the IMM 2022 EU trade survey. It also covers results from IMM stakeholder consultations in Jakarta and Nantes.

Acknowledgements

The IMM would like to thank companies, institutions and experts who gave up their time to provide the insights presented in this report. The IMM also thank all **IMM national correspondents** for their efforts in recording interviews accurately and for the large amount of information they gathered.

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1 EU tropical timber market trends 2022

1.1 More market mayhem

The situation in key EU sales markets for tropical timber and timber products[1] has remained buoyant but tense in the first few months of 2022, according to IMM trade survey respondents,[2] with demand frequently still exceeding supply, despite sharp price increases.

Companies sourcing timber and timber products in Southeast Asia and South America quoted high freight costs as the main reason for price hikes. Moreover, at least some suppliers were still working at reduced capacity and unable to satisfy additional orders, according to survey respondents. The situation in Africa was said to be a little easier, both where freight rates and timber supply are concerned. The strict lockdowns in several major Chinese cities have reportedly eased the competitive pressure on the procurement markets at least temporarily.

Until the end of the first quarter, survey respondents reported strong demand from the building, carpentry, renovation, and DIY sectors in key EU markets. At the same time, the supply situation had gradually improved and some respondents were expecting a more balanced market in the second quarter.

However, Russia's war against Ukraine and European sanctions against Russia became another game changer in March and April.

1.2 Summer cool-down and deteriorating prospects

Economic sanctions against Russia[3] have created a significant supply gap for the European timber and downstream industries,[4] as a result of which prices continued to rise in the second quarter. While the Russian supply gap is creating considerable market opportunities for other producer countries, price inflation has now reached a critical level and in some countries construction companies as well as the DIY sector and private consumers are beginning to postpone projects and timber product purchases, said IMM survey respondents. In May, June, and July, demand for tropical timber products has slowed down noticeably as a result, with the exception of the Netherlands, where many respondents still reported strong demand.

Given the significant uncertainties caused by the war in Ukraine and economic sanctions, future developments are difficult to predict, even in the short term. Some survey respondents were expecting demand to pick up again soon, bolstered by government subsidies for thermal renovation projects and public investment in urgently needed housing developments.

Others were more guarded, especially where tropical timber is concerned. Private investment, in particular, was expected to focus more on basic necessities rather than luxury or "cosmetic" home repairs and improvements in the near future.

At the same time, all players along the supply chain are expected by survey respondents to manage their stocks very carefully and wait as long as possible for prices to soften. As a result, many market players are expected to focus more on products with short and reliable supply chains and delivery times.

Market drivers and trends:

- Product supply and freight capacity remain limited in many countries and regions in the aftermath of the COVID pandemic.
- Demand for timber products in general, including for tropical timber, was strong and tended to be higher than supply in key EU countries well into the first quarter of 2022.
- The war between Russia and Ukraine and related economic sanctions against Russia have created new supply gaps for timber products in Europe.
- Prices for timber products reached a critical level in the second quarter of 2022. Construction projects and other investments are being postponed as a result.
- The war between Russia and Ukraine, the impacts of sanctions, and price inflation have eroded consumer confidence.
- Inventories are being managed carefully and products with short lead times preferred.

1. Key EU markets monitored by the IMM include Belgium, France, Germany, Italy, and the Netherlands. Together, these markets account for roughly 80% of EU tropical timber imports.
2. All responses quoted in this article are from the annual EU trade survey (2022), as a part of which trade representatives from the key EU markets are consulted on the FLEGT VPA process, FLEGT Licensing and market trends.
3. https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/history-restrictive-measures-against-russia-over-ukraine/
4. https://www.fastmarkets.com/insights/russian-sanctions-mount-as-lumber-traders-seek-more-clarity

EU-VPA partner countries trade overview – first quarter of 2022

The total value of VPA partner countries[5] timber products[6] exports to the EU increased 36.1% to USD 854 million in the first quarter of 2022 following a 3.6% decline in the same period of 2021 where it was valued at less than USD 626 million. The total value of EU imports from VPA partner countries in the first quarter of 2022 stood 36% higher in value than it was in the equivalent period of the last pre-COVID year – 2019. Indonesia remains the only VPA partner country that that exports FLEGT Licensed products. *[Figure 2.1]*

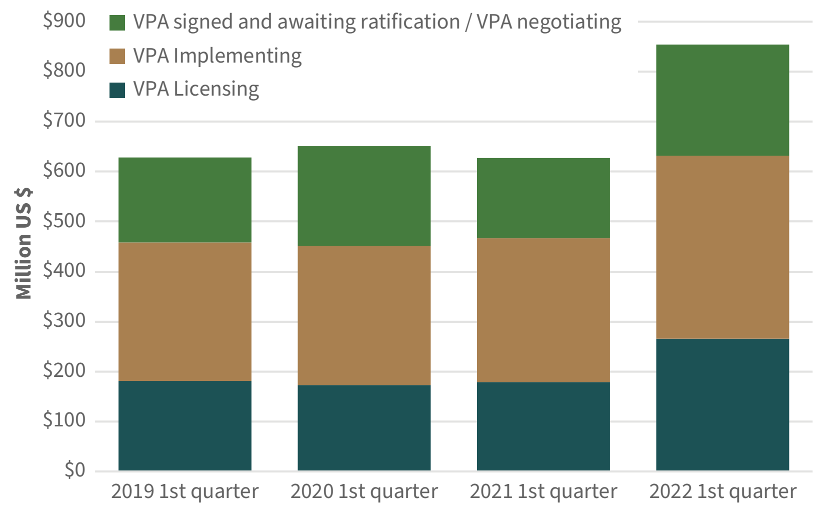

Figure 2.1: Total value of EU imports from partner countries, first quarters of 2019-2022, by VPA implementation status (Million US dollars). *Source: IMM STIX*

The first quarter of 2022 saw overall volumes imported by the EU from VPA countries increase to 368,000 tons, a rise of almost 20% compared to the same quarter of 2020 and nearly 6% more than the volume for the same quarter in 2019. *[Figure 2.2]*

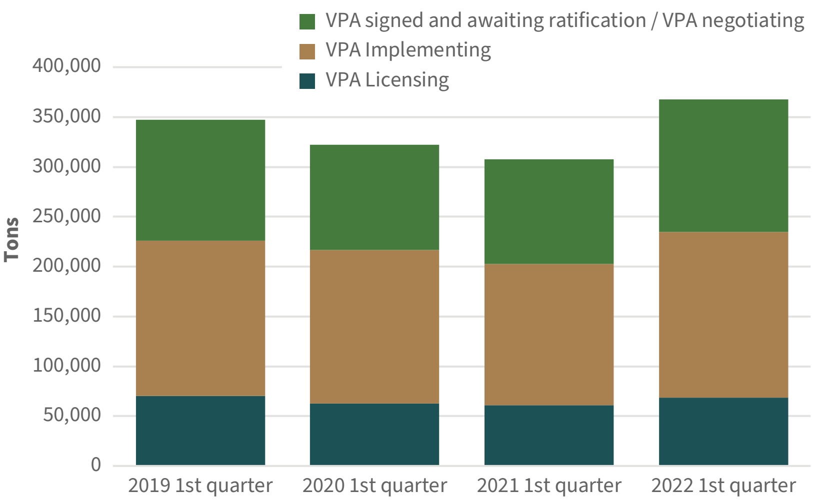

Figure 2.2: Total volume (tons) of EU imports from partner countries, first quarters of 2019-2022, by VPA implementation status (tons). *Source: IMM STIX*

In the first quarter of 2022 wooden furniture continued to be the dominant product category imported by the EU from VPA partner countries. With a 32% value increase compared to the same quarter in 2021, and 46% growth compared to the same quarter in 2019, imports of wooden furniture to the EU from VPA partner countries amounted to USD 405 million in 2022.

Sawnwood continued to be the second largest material type in terms of value for imports to the EU from VPA partners in the first quarter of 2022. With imports valued at USD 150 million in the first quarter, this showed growth of 40% compared to the same quarter in 2021 and a 15% increase in value compared to 2019.

Wood mouldings and product imports to the EU from VPA partners grew by nearly 46% in value in the first quarter of 2022, compared to 2021. At a value of over USD 55 million, import value is nearly 34% higher than in the first quarter of 2019.

Veneer imports to the EU from VPA partner countries rose to USD 52 million in the first quarter of 2022. This represents nearly 29% growth compared to the same

5. This report focuses on exports of timber products by VPA partner countries to EU countries. VPA partner countries include countries at the following stages of the FLEGT VPA process in 2021:
   - FLEGT licensing: Indonesia.
   - VPA implementing: Cameroon, Central African Republic, Republic of Congo, Ghana, Liberia, and Viet Nam.
   - VPA signed and awaiting ratification: Guyana and Honduras.
   - VPA negotiating: Côte d'Ivoire, Gabon, DR Congo, Laos, Malaysia and Thailand.
6. The report covers all products – referred to collectively as "timber products" - in the scope of existing VPAs including all those in the following chapters (and parts thereof) of the international Harmonized Commodity Description and Coding (HS) System:
   - primary wood products: logs (HS 4403), sawnwood (HS 4407), veneers (HS 4408), plywood (HS 4412);
   - secondary processed wood products (SPWP): mouldings (HS 4409), picture frames (HS 4414), packing cases (HS 4415), barrels and casks (HS 4416), tools (HS 4417), joinery (HS 4418), tableware (HS 4419), marquetry & ornaments (HS 4420), and other secondary processed wood products (HS 4421);
   - wood furniture (HS 940161, 940169, 940330, 940340, 940350, 940360, and 940390).

period in 2021 and nearly 25% compared to the first quarter of 2019.

Plywood imports by the EU from VPA partner countries grew by 62% in the first quarter of 2022 compared to 2021, and by 22% compared to the first quarter of 2019. With a value in the first quarter of 2022 of over USD 35 million, plywood and related materials are the fifth largest product group imported from VPA partner countries. *[Figure2.3]*

Figure 2.3: Total value of EU imports from partner countries, first quarters of 2019-2022, by main material types. (US dollars). *Source: IMM STIX*

3 Indonesia 2022 first quarter trade trends

Indonesia's global exports of all timber products (HS 44, 47, 48 & 94) grew almost 15% compared to the same quarter in 2021 to over USD 3.8 billion. The total value of first quarter exports now stands almost 27% higher than the equivalent period in 2019.

HS 44 wood product exports amounted to USD 1.33 billion in the first quarter of 2022, representing an increase in value of almost 30% compared to the equivalent quarter in 2021. The value of wood product exports in the quarter have grown over 37% when compared to 2019.

HS 48 paper products were exported to the EU to the value of USD 1.07 billion in the first three months of 2022, an increase of 1% on the same quarter in 2021 and a rise of just under 2% on the same period in 2019.

HS 47 wood pulp exports amounted to USD 0.79 billion in the first quarter of 2022, up 13% compared to the same period in 2021 and nearly 34% on the same period in 2019.

HS 94 wood furniture exports in the first quarter of 2022 were up around 18% on the same period in 2021 and 57% on 2019 at USD 0.61 billion *[Figure 3.0]*.

3.1 Value of Indonesian timber product exports to the EU shows strong first quarter growth in 2022

Indonesian exports to the EU across the four main product groupings (HS 44, 47, 48 & 94) saw growth in value in the first quarter of 2022 over the same period in the previous three years, reaching USD 288 million *[Figure 3.1.1]*.

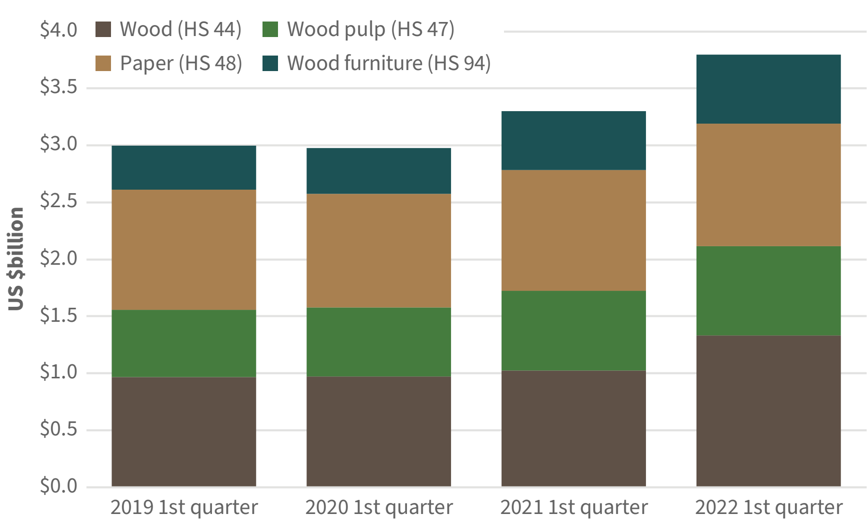

Figure 3.0: Value of Indonesian timber products export by main HS chapter, 2015 to 2021. *Source: IMM STIX*

Netherlands imports across the four categories were up 20% on the same period of 2019, Belgium's 15%, France's 32% and Spain's 3% . *[Figure 3.1.2]*

The Netherlands remains Indonesia's largest EU trading partner, with imports worth over USD 79 million in the quarter. That represented around 15% growth year-on-year. Germany remains its second largest, with first quarter imports worth over USD 50 million, a growth up 8% year-on-year. Belgium comes next with first quarter 2022 Indonesian imports worth nearly USD 37 million, up 15% compared to the same period in 2021.

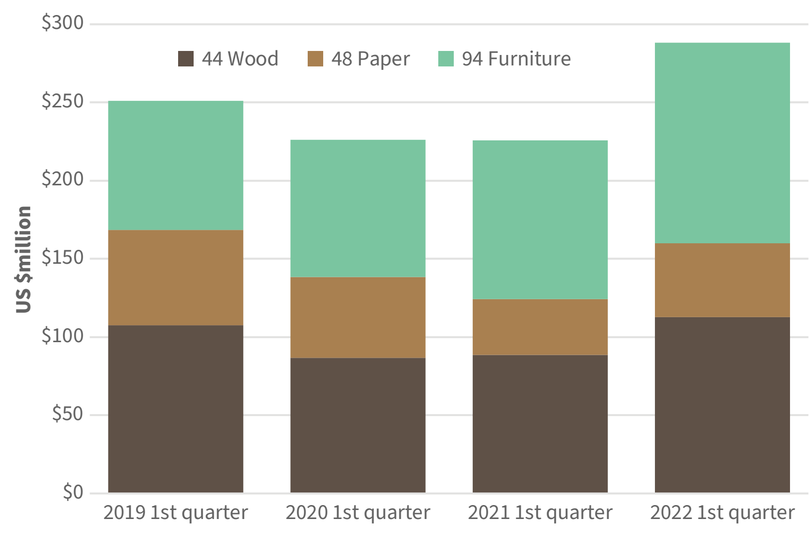

Figure 3.1.1: Value of Indonesian imports of HS 44, 47, 48 & 94 products into the EU27 by material type - first quarter 2019 to 2022. *Source: IMM STIX*

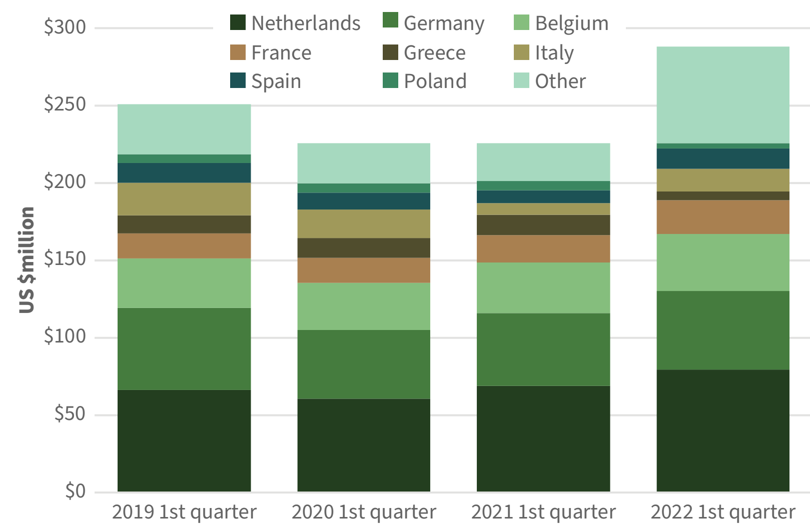

Figure 3.1.2: Value of Indonesian imports of HS 44, 47, 48 & 94 products into the EU27 by country of import - first quarter 2019 to 2022. *Source: IMM STIX*

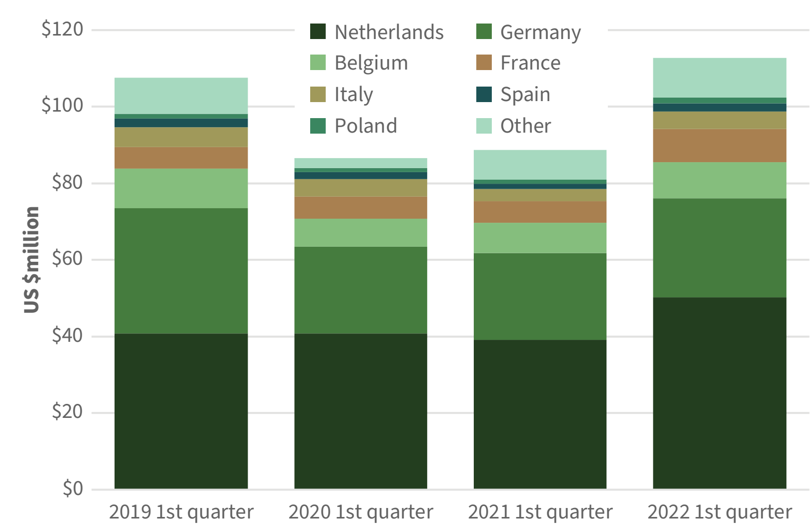

Figure 3.2: Value of Indonesian imports of HS 44 products into the EU27 by country of import - first quarter 2019 to 2022. *Source: IMM STIX*

3.2 HS 44 wood product imports return to 2019 levels in first quarter of 2022

At USD 113 million, the value of EU imports from Indonesia of HS 44 wood products in the first quarter of 2022 were up 27% on the same period in 2021 and nearly 5% on 2019. *[Figure 3.2]*

Netherlands remains the largest EU MS importer by value of Indonesian HS 44 products, with its total reaching USD 50.1 million in the first quarter of 2022, up 28% on the same period in 2021 and 23% on 2019. Germany's HS44 Indonesian imports in the first three months of were USD 25.9 million, a 15% increase on 2021, but down 21% on the first quarter of 2019.

Belgium's HS 44 imports in the first quarter of 2022 were worth USD 9.5 million, down 9% on the same period of 201. France's imports were up by nearly 54% on the same period in 2021 and 54% on 2019. Italy's imports were nearly 11% below 2019 levels at around USD 4.6 million, but up 44% on 2021.

3.2.1 Secondary processed wood products return to 2019 levels in first quarter of 2022

Of secondary processed wood products, joinery (such as doors and windows) became the most valuable EU import product group from Indonesia in the first quarter, standing at USD 36.2 million. This represents 35% growth in value over the equivalent period in 2021 and 21% on 2019.

Mouldings imports grew to USD 30.9 million in the first quarter of 2022, a year-on-year quarterly rise of nearly 13% , but around a 5% reduction on 2019. Marquetry imports grew 57% in comparison to the same quarter in 2021 and nearly 18% compared to the same quarter of 2019. *[Figure 3.2.1]*

3.3 HS 48 paper products still below pre-COVID levels

The value of EU imports from Indonesia of HS 48 paper products in the first quarter of 2022 were 32% up on the same period of 2021, but 22% below 2019 levels at around USD 47.2 million.

Belgium's imports of HS 48 products remained the largest among the EU MS, at over USD 9.0 million in the first quarter of 2022, up 84% compared to the same quarter in 2021, but 2% down on 2019.

Greece's imports of HS 48 Indonesian in the first quarter of 2022 were worth USD 8.4 , a 28% decline on the same period of 2021, but 3% higher than the same period in 2019.

Italy's imports stood at USD 6.1 million the first quarter of 2022, double the value of imports in the same period of 2021, but 45% below 2019 levels. *[Figure 3.3]*

3.4 HS 94 wooden furniture imports from Indonesia continue to grow

EU imports of Indonesian wooden furniture in the first quarter of 2022 were worth USD 128 million, up 26% on the same quarter in 2021 and 55% on 2019. Wooden furniture is the only product grouping that has consistently grown year-on-year for 2019 to 2022. *[Figure 3.4]*

The Netherlands was the biggest importer of Indonesian wooden furniture among the EU MS in the first quarter, with its total at USD 32.2 million, up 19% compared to 2021 and 46% on 2019.

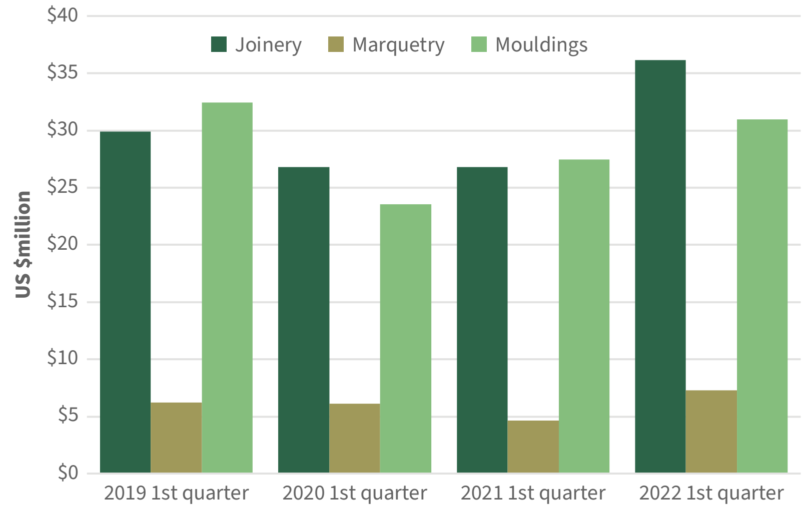

Figure 3.2.1: EU27 import value of selected Secondary Processed Wood Products from Indonesia – first quarter 2019 to 2021. *Source: IMM STIX*

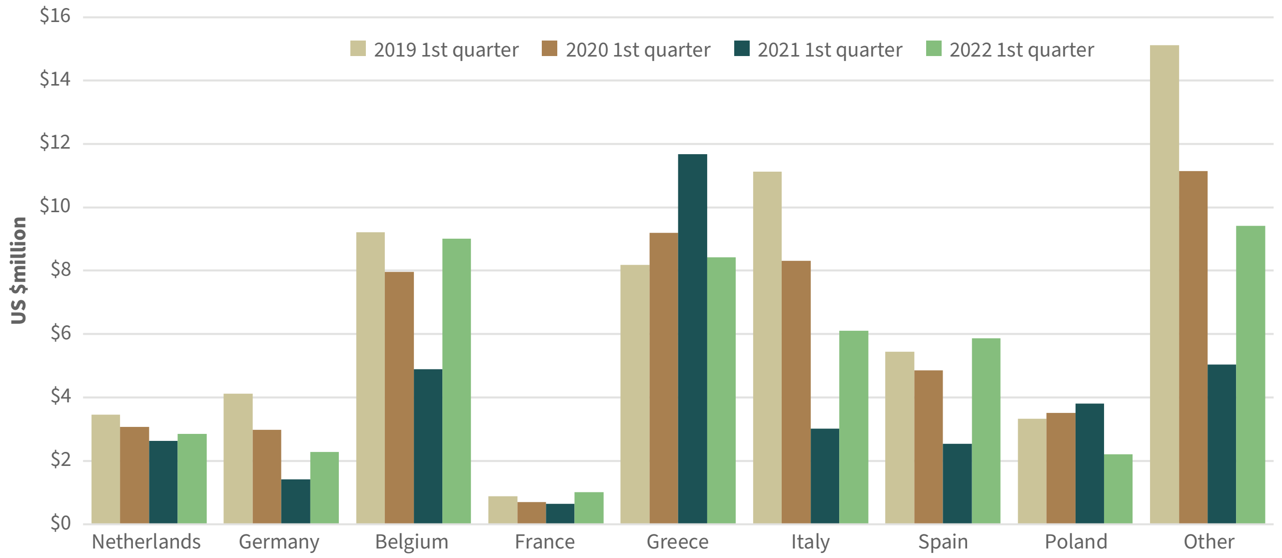

Figure 3.3: Value of Indonesian imports of HS 48 products into the EU27 by country of import - first quarter 2019 to 2022. *Source: IMM STIX*

Germany imported Indonesian wooden furniture worth USD 25.8 million in the first quarter of 2022, an increase of nearly 13% on 2021 and 61% on 2019.

Belgium's Indonesian wood furniture imports in the first quarter of this year were worth nearly USD 23 million, up 16% on the same quarter in 2021 and nearly 85% on 2019.

France's imports of Indonesian wood furniture reached USD 14.4 million in the first quarter of 2022, up nearly 30% on 2021 nearly 48% on 2019.

Italy, Spain and Denmark's imports of Indonesian wood furniture imports followed the general EU trend, with significant growth in the first quarter of 2022 compared to both 2021 and 2019.

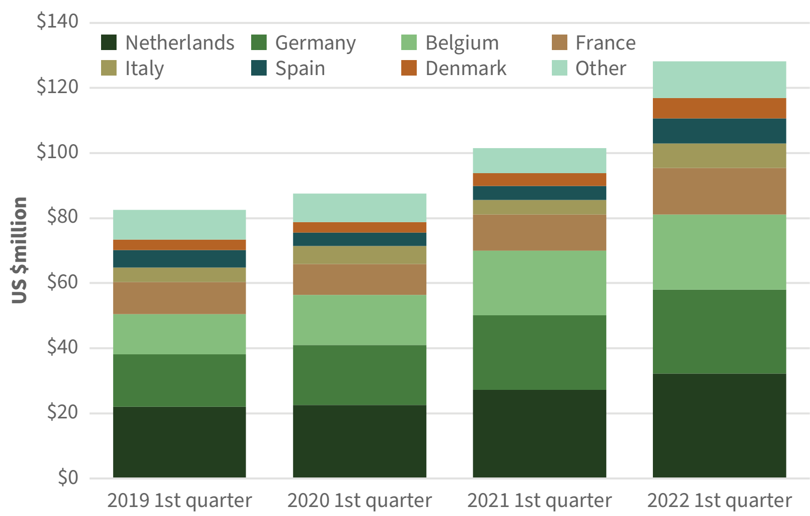

Figure 3.4: Value of Indonesian imports of HS 94 products into the EU27 by country of import - first quarter 2019 to 2022. *Source: IMM STIX*

Jakarta consultation highlights usefulness of IMM data

Established in 2015, the IMM has been designed to comply with the role of an Independent Market Monitor as outlined in Annex VII of the VPA between the EU and Indonesia.[7] It has focussed on monitoring timber trade flows from Indonesia, other VPA supplier countries, and competing countries to the European Union (EU), assessing the impact of FLEGT licensing and other market-related measures implemented in the EU (e.g. the EUTR or public procurement policies) on trade, and gauging EU trade perceptions of FLEGT and FLEGT licensing. Currently the project is set to wind down at the end of 2022.

Dr. Krisdianto Sugiyanto (MoEF) opening the first session of IMM stakeholder consultations in Jakarta. *Source: IMM*

Representatives from Indonesian government agencies, Civil Society Organisations, and the private sector came together in Jakarta on the invitation of the FLEGT Independent Market Monitor (IMM) on 17 and 18 May 2022 to give feedback to the project team and discuss needs for future market monitoring. The stakeholder consultation was held in three separate sessions and convened around 35 key stakeholders in total.

One of the conclusions across all three sessions was unanimous support among Indonesian forest and timber sector stakeholders for continuation of the work of the IMM. Stakeholder recommendations for extending the IMM's future role stretched from further analysis of Indonesia's and other VPA countries' competitiveness in international timber markets, more in-depth analysis of Indonesia's trade with regulated markets[8] outside the EU, and improved communications (including a stronger social media presence), to requests for IMM to undertake advocacy work on behalf of VPA partner countries. Clearly many of these suggestions fall outside the mandate of IMM at present, though they may be worthy of future discussion between the partners.

IMM Indonesia correspondent Daru Asycarya at IMM stakeholder consultation in Jakarta. *Source: IMM*

4.1 Feedback on past IMM activities

Of IMM's past and ongoing activities, government stakeholders highlighted "information and data on the EU market and EU policy", the **IMM website** and **data dashboard** and background information on market dynamics as particularly useful.

The private sector appreciated especially that IMM was operating independently and considered the published data as "comprehensive, high quality and great value".

Delegates from Civil Society Organisations stated that they would value all **IMM studies** and use them as points of reference for their own work. They were also very appreciative of the IMM data dashboard, and several delegates were regular users of the more comprehensive STIX[9] database.

Stakeholders from all three groups unanimously agreed that the IMM "has an important role in measuring the achievements and impacts of the VPA" and should continue in 2023 and beyond. Ideally, it was felt that the project should not re-start from scratch in 2023 but build on past work and capacity.

4.2 Stakeholders propose stronger communications function

Stakeholders across all three groups also highlighted a range of additional activities, some related to previous and ongoing IMM work and some entirely new, in which

7. Voluntary Partnership Agreement between the European Union and Indonesia – text and annexes: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015D1158&from=EN
8. "Regulated markets" are considered for the purposes of this report as those where a legal framework is in place designed to prevent market access for illegally harvested wood. In addition to the EU, IMM currently considers the following eleven markets as regulated: Australia, Iceland, Indonesia, Japan, Lichtenstein, Malaysia, Norway, Republic of Korea, Switzerland, the United Kingdom and United States of America.
9. Sustainable Timber Information Exchange: www.stix.org STIX was developed by ITTO as a part of the IMM project in cooperation with the Global Timber Forum. The IMM data dashboard derives its data from STIX.

IMM could support the FLEGT VPA process in Indonesia and beyond. The latter activities are not necessarily reflected in the role of the IMM as envisioned by the VPA, but highlight critical gaps in support and cooperation identified during the first five years of FLEGT Licensing that could be taken into consideration for future VPAs or other types of partnerships.

4.2.1 Communications and outreach

Communications and outreach featured highly on the agenda of all three groups, although with different priorities and interests.

Private sector stakeholders asked for IMM to communicate more frequently and in more digestible formats, in addition to the main reports. A proposal that met with general approval of the group was to set up a "communications hub" in the form of an IMM app, through which news stories and comments could be shared more easily on mobile devices. It was also suggested that links to the IMM newsletter and other communication materials should be distributed via WhatsApp in addition to email.

Another private sector proposal was that IMM should work more closely with VPA partner country trade associations and reach out more to SMEs and MSMEs, recognising their key role in implementation of the VPA.

Private sector stakeholders also asked that IMM should help raise awareness and understanding of SVLK inside and outside of Indonesia.

The need for more frequent and shorter publications using social media more widely was also emphasised by the CSO and government groups. In addition, CSOs asked for more materials to be translated to Bahasa and for IMM to coordinate more closely with VPA monitoring projects in Indonesia. A stakeholder from the CSO group also proposed that IMM should help build links between Independent Monitors in Indonesia and other VPA partner countries to facilitate information-sharing and coordinate approaches.

Stakeholders representing government agencies proposed even wider outreach and advocacy functions for the IMM that would go far beyond the original mandate. Proposals included that IMM should "act as an unofficial channel between governments (and the EU)", support closer coordination and exchange of experience between VPA partner countries, and represent VPA partner country interest on issues including:

- harmonisation of public procurement policies;
- further harmonization of the use of HS codes between the EU and VPA partner countries as well as other producer countries;
- the role of FLEGT Licences under the proposed EU regulation for deforestation free supply chains.

4.2.2 Market and policy analysis

The EU's share in global tropical timber trade and the related level of leverage has declined over the last two decades. Besides China, other regulated markets, especially the US, have played a more dominant role in recent years and additional countries, e.g. Japan and South Korea, have introduced import regulations for timber and timber products.

Participants at IMM stakeholder consultation in Jakarta.
Source: IMM

The share of product from Indonesia and some other VPA partner countries destined for regulated markets has been rising and stakeholders from the government and private sector groups asked IMM to provide more in-depth analysis of trade between Indonesia and the other regulated markets outside the EU and to highlight market opportunities – created by the FLEGT Licence and otherwise – in these regions.

Stakeholders from the CSO sector were particularly interested in more in-depth information on the Indonesian domestic market, including on the provenance of Indonesian timber imports and the functioning of the Indonesian import regulation.

Other suggestions included:

From Government agencies:

- Providing more information on the status of VPA processes in other countries;
- Comparison of Indonesia's market development with non FLEGT-licensing competitors and assessment of the relative competitiveness of the countries included in the analysis;
- Building links with researchers in Indonesia to improve data and to fill gaps on both sides. Contribute to MoEF's "State of Forests in Indonesia" report due for publication in 2024;
- Explaining the draft **EU regulation on deforestation and forest degradation-free supply chains** and how due diligence for FLEGT-licensed products will work under this regulation;
- Covering also other commodities included in the new EU regulation on deforestation and forest degradation-free supply chains;
- Systematically comparing SVLK and TLAS systems in other producer countries.

From Private sector:

- Providing more information on EU consumer purchasing preferences;

- Providing more regional and sectoral analysis, including on China;
- Explaining the new EU regulation on deforestation and forest degradation-free supply chains and how due diligence for FLEGT-licensed products will work under this regulation.

From Civil Society Organisations:

- Providing updated analysis of acceptance of FLEGT licensing in EU MS public procurement policies;
- Working more closely with CSOs to help them better understand the level of market acceptance of SVLK inside and outside Indonesia;
- Systematically analysing if/how the EU complies with Article 13 of the VPA.

4.3 Perceived benefits of FLEGT-licensing in Indonesia

One private sector representative called Indonesia's "pride of achievement" the "ultimate benefit" of the VPA and FLEGT licensing. And this sense of pride of being the first country to reach FLEGT licensing status, along with a strong spirit of optimism and eagerness to take the achievements further and build on structures and systems created by the VPA, was predominant across all three stakeholder groups.

Private sector representatives said that they now felt reassured regarding the timber supply situation for the longer term. They also highlighted a "feeling of solidarity" between the government and industry, as both parties were committed to improving governance, which in turn had led to widespread legal compliance.

The existence of the "green lane" in trade with the EU was mentioned as the key trade benefit.

Civil Society representatives cited improved forest management and better market access as perceptible benefits of the VPA. Moreover, they appreciated the formalisation of their own role and that their input was sought after and valued in the process. The CSO sector in Indonesia has been perceptibly strengthened by the multi-stakeholder process of VPA negotiation and implementation, said CSO representatives.

4.4 Perceived challenges facing FLEGT Licensing in Indonesia

When asked to highlight concerns or difficulties facing the FLEGT VPA process in Indonesia, private-sector representatives raised the costs of SVLK certification, which, from their perspective, had not yet resulted in sufficient growth in trade and which SMEs, in particular, were struggling to meet.

Other than that, the main issues highlighted by stakeholders from all three groups were doubts regarding the reception and acceptance of FLEGT Licences in the EU market, the level of support given by the EU Commission and member state governments to the market development of FLEGT licensing, as well as concerns regarding the impact of the proposed regulation on deforestation on forest degradation-free products on market advantages for FLEGT-licensed timber.

4.5 Mixed opinions of support in Europe

Several delegates at the Jakarta stakeholder consultations said that the level of market acceptance of FLEGT Licences in the EU market was insufficient from their perspective and the impression prevailed that EU institutions had "failed to promote licensing" both to member states and to businesses within the EU. Stakeholders also pointed to perceived "inconsistencies in EU member states' positions and communication around licensing" and that, in their experience, some Competent Authorities within the EU would "not value licensing".

Delegates further criticised that public procurement policies in EU member states did not specifically give preference to FLEGT-licensed timber. "The EU does not seem committed, and the market incentives are not there" summarised one participant.

This general feeling of disappointment was further intensified by uncertainties created by the draft regulation on deforestation and forest degradation-free products and the expected status of FLEGT Licences under the new regulation. In its current form (November 2021), the Regulation requires additional due diligence for FLEGT-licensed timber and timber products, which would "be the end of the green lane", which is currently considered the key trade benefit of the FLEGT Licence, both in Indonesia and by EU traders.

"It would be a tragedy if the new EU Regulation undermined the success we had", summarised one delegate.

European stakeholders consulted during a similar meeting in Nantes, France, on 2 June 2022 shared their Indonesian counterparts' concerns regarding the deforestation regulation.

The stakeholder meetings, which are held under the Chatham House Rule, are an essential part of the IMM 2022 work plan and aim to:

- Collect feedback on IMM activities and outputs in terms of scope and quality;
- Evaluate needs for continued market monitoring in the EU and VPA partner countries;
- Evaluate needs for adapting the IMM scope and indicators;
- Evaluate needs for additional support for market development of FLEGT-licensed timber.

Meetings were held in Jakarta, Indonesia, on 17 and 18 May and in Nantes, France, on 2 June. Additional meetings are planned in Ghana and Viet Nam.

The IMM is also collecting feedback and suggestions for its future development via an online survey. **Click here to participate!**

5 Nantes consultation backs ongoing FLEGT and tropical trade market monitoring

Established in 2015, the IMM has been designed to comply with the role of an Independent Market Monitor as outlined in Annex VII of the VPA between the EU and Indonesia.[7] It has focussed on monitoring timber trade flows from Indonesia, other VPA supplier countries, and competing countries to the European Union (EU), assessing the impact of FLEGT licensing and other market-related measures implemented in the EU (e.g. the EUTR or public procurement policies) on trade, and gauging EU trade perceptions of FLEGT and FLEGT licensing. Currently the project is set to wind down at the end of 2022. Stakeholder consultations to collect feedback on IMM's activities and outputs and evaluate needs for future market monitoring are being held in Indonesia, the EU (Nantes, France), Ghana, and Viet Nam.

The consensus of the Independent Market Monitor's (IMM) recent stakeholder consultation in France was clear – that the IMM's role, tracking international tropical wood trade flows and gauging market perceptions and impacts of the FLEGT timber legality assurance initiative and FLEGT licensing, should continue and develop. Against a backdrop of increasing global spread of import market legality requirements and evolving regulation to combat deforestation, delegates felt its independent monitoring activities were of ongoing and, in fact growing, value to timber buyers, suppliers, policy makers and other timber and forest sector stakeholders.

The 15 participants at the meeting included representatives of European business, trade federations, EU competent authorities, an NGO and a forest and timber consultancy. It was held under Chatham House Rules in Nantes at the Carrefour International du Bois exhibition.

It was the second in a series of consultations, following the one in Jakarta, organised to canvas opinion on the quality and value of the IMM's work and to pose the question as to whether it, or a successor body, should continue to undertake its functions in some form beyond December 2022, when, after seven years of operation, its EU contract is set to end.

IMM stakeholder consultation in Nantes. *Source: IMM*

5.1 Significance of IMM's role

The operation of IMM was described as having been integral to the wider EU-FLEGT project. Delegates said its provision of 'real-time data' on VPA country trade flows in the context of the global timber market and canvassing of market views and perceptions had informed not just the European Commission, EU trade and FLEGT partner countries on how FLEGT was progressing, but the wider industry and policy makers internationally.

It was also highlighted that having an independent market monitor was mandated in Indonesia's FLEGT Voluntary Partnership Agreement (VPA) with the EU and that its role was seen as crucial by other supplier countries engaged in the FLEGT process. One delegate noted that, while Malaysia remained at the negotiation stage, it still considered independent market monitoring as key to informing FLEGT's development and to understanding if and how FLEGT and FLEGT licensing influenced market sentiment and trade.

5.2 Perceived value of IMM activities

Another delegate said that 'the IMM had delivered a lot of good and useful market data, feedback and inputs' of relevance to businesses and trade bodies and valued as a reference in their work. One federation representative said they recently gave an update on tropical trade at a major industry conference using figures from the IMM's online Data Dashboard and the Sustainable Timber Information Exchange (STIX) it draws on.

Another said they invited IMM consultants to address their member events on FLEGT and tropical trade developments more widely.

On their awareness of the range of IMM's work and outputs, delegates knew most about its annual trade surveys, trade consultations, annual report, newsletter and website. A federation representative said they referred to all three of the latter. "They're a useful resource for widening knowledge not just of FLEGT but of the marketplace. They help us as a federation keep up with tropical trade flows and other developments and to keep members informed."

Another delegate said these outputs provided a useful service in collating disparate information about FLEGT country and wider tropical timber trade developments and presenting it clearly in one place. "Technically, we could trawl the web for some of this information, but in business you don't have the time," they said.

5.2.1 IMM surveys and trade consultations

The IMM annual trade surveys, which, to date, have involved more than 1000 interviews with timber suppliers, importers, traders, retailers and others in the wood and wood products sector, were seen as an important channel for gathering on-the-ground trade information and for businesses to share their views on FLEGT and trade developments and policy.

"We always advise members to participate," said a federation representative. "It provides a unique opportunity to get their voice heard, to share views, explain their industry's interests and express concerns to EU policy makers."

Among feedback from surveys highlighted by delegates was that importers, traders and others appreciate a FLEGT Licence's provision of 'a green-lane' through further EU Timber Regulation (EUTR) due diligence. They said it made importing from Indonesia easier and reduced businesses' risk of breaching the EUTR to zero.

Surveys, delegates pointed out, also picked up on trade dissatisfaction with aspects of FLEGT's administration. One recurring criticism mentioned was that what was viewed as `inconsistent messaging and lack of endorsement for FLEGT' had created confusion about licensing's value and affected market uptake.

Survey respondents also felt the EUTR has not been uniformly enforced across the EU, undermining a Licence's appeal as a `due diligence-free pass into the market'.

An ongoing trade disappointment surveys picked up on is that still only one country, Indonesia, is issuing FLEGT licences, limiting licensed product availability and choice and FLEGT's market profile.

Delegates in Nantes also appreciated the value of IMM trade consultations for sounding out trade opinion and channelling business and other stakeholder views back to decision makers, learning about grass roots impacts of FLEGT and how business operates, notably in procurement. It was considered important 'for any monitoring body to engage with the market and its audience in this way'.

The Nantes consultation itself was also regarded as important to gather market views on IMM's operation; whether its role should have a future and what that future should look like. These, felt delegates, should be considered in any decision on the matter.

5.2.2 Special reports

Delegates also said they valued the IMM's special reports. These have examined the degree to which FLEGT and timber and wood products' legality and sustainability assurance more widely are taken into account in such fields as timber promotion, international timber and forest investment, architectural specification, furniture importing and public and private sector procurement generally.

One delegate, however, felt reports could be better promoted through news bulletins and IMM website summaries.

5.3 Room for improvement

Consultation delegates made further suggestions on how the IMM could improve and develop its service. Some felt its newsletter was not concise enough. In today's fast-paced work environment businesses and business organisations said they needed brief bulletins, where salient information could be taken in at-a-glance, with the option of linking to more detailed reports and analysis online.

Echoing views from its Jakarta stakeholder consultation, it was also felt the IMM should develop an app for rapid dissemination of 'bitesize' news to mobile devices and potentially for flagging up and linking through to other IMM outputs, such as special reports. "An app can be used to broadcast key developments that might otherwise be buried in a long report," one delegate remarked.

It was highlighted too that an app can be customised to users' requirements, so it flags up news of particular interest to them; for instance reports on specific products or timber from particular sources.

Another suggestion was that, while IMM surveys were considered an important channel for sounding out trade perceptions on FLEGT impacts, the part licensing plays in business procurement and views on market and regulatory development, they should be biennial rather than annual. A delegate said trade perceptions did not evolve at a rate justifying an annual survey, which asked some of the same questions year on year. Making it biennial would also avoid 'survey fatigue'.

5.4 Future of FLEGT and IMM

Delegates also brought prospects for FLEGT VPAs and FLEGT licensing going forward into discussions and raised the repercussions for both of the proposed new EU Regulation on Deforestation-free Products, referred to by participants as the `EU Deforestation Regulation' or `EUDR'.

The proposed Deforestation Regulation's aim[10] is to prevent the EU contributing to 'imported deforestation'. In its proposed form it would impose new due diligence and other rules on trade in six forest and ecosystem risk commodities, including timber. It would replace the EUTR, with importers having to undertake due diligence on commodity imports to ensure not just legality, but zero risk of implication in deforestation or forest degradation. A FLEGT Licence would be accepted as proof of legality, but current drafts would not grant a 'green lane' for licensed timber and wood products through the Regulation's due diligence requirements. Supplier countries would also be deforestation and forest degradation risk benchmarked.

Several delegates felt timber and wood products should not be 'lumped together' with other forest risk commodities under the new rules, as the timber sector was already 'years ahead in terms of assured legality and sustainability'. Rather, it was suggested, FLEGT should be further developed and strengthened and run in tandem with, or as an integral but independently operating element of the proposed Deforestation Regulation.

It was acknowledged FLEGT was 'not perfect', with only one country licensing so far. However, delegates said it had resulted in major advances in partner countries in terms of establishing timber legality assurance systems, strengthening forest governance and growing stakeholder engagement.

It was also noted that, while there was no categoric evidence FLEGT licensing had increased Indonesia's EU timber market share, 'the positive attitude of IMM survey respondents implied licensing may have contributed

10. https://environment.ec.europa.eu/publications/proposal-regulation-deforestation-free-products_en

Exhibition at Carrefour International du Bois in Nantes. *Source: IMM*

to stabilising its share'. It was underlined too that Indonesia saw their FLEGT licensing and the SVLK Forest Legality and Sustainability System that underpins it as strengthening their timber export prospects in the growing number of 'regulated' markets worldwide requiring some form of legality assurance.

The question was also raised as to whether the proposed Deforestation Regulation might discriminate against higher risk supplier countries. FLEGT VPAs, it was maintained, had provided a route for these to make step by step progress in legality performance and governance reform, supported by the EU. But, it was asked, would the Deforestation Regulation take the same approach, or exclude higher risk countries, which can't overnight become forest degradation-free?

However, another delegate felt the Deforestation Regulation would not wholly devalue a FLEGT Licence or disincentivise countries from progressing through VPAs to achieve licensing status. Providing proof of legality would remain critical to accessing the EU market, they said. So, a FLEGT Licence would still be valued in terms of reducing importers' due diligence workload.

Others said that, whether the Deforestation Regulation was introduced in its proposed form, or with amendments, independent monitoring would still be needed to track its effects on tropical timber trade flows.

"It will be important to track the trade impacts of risk benchmarking and the benefits to countries of entering Forest Partnerships and of continuing investment in strengthening governance. An impartial market monitor will be needed to provide this information."

It was also suggested the IMM or a successor body could to an extent 'decouple' from FLEGT and take a broader role monitoring tropical timber trade more generally. It could address areas from certification developments and tropical supplier country competitiveness, to impacts on trade flows, forest management and governance of EU and other regulated consumer market import controls to ensure timber legality and combat deforestation.

Another participant agreed the spread of importer country legality requirements made for a new dynamic in the tropical timber trade which merited monitoring. It was pointed out that such 'regulated markets' now accounted for 65% of timber and wood products exports from lower to middle income supplier countries, a category covering all countries engaged in the FLEGT process.

Summarising, a timber and forest sector consultant said that, via IMM's data work, surveys and other outputs, and its creation of a 'strong private sector network' in the EU and VPA partner countries, it had developed a resource for identifying and analysing timber trade trends of use to timber trade, government and civil society. Given ever increasing global focus on forest maintenance, timber legality and sustainability and growing appreciation of timber's value as a low carbon raw material resource, this could become even more valuable for informing public policy and business sector strategies in the future.

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