

# FLEGT VPA Independent Market Monitoring (IMM)



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**Independent Market Monitoring of FLEGT-Licensed Timber**

# IMM Background

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**EUROPEAN COMMISSION**  
DEVCO office for development and cooperation

- IMM is a condition of some FLEGT VPAs (e.g. Indonesia)
- Funded by European Commission through DEVCO
- Budget: €4.4 million
- Managed by the International Tropical Timber Organisation (ITTO)



# IMM Objectives

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- 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
- 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

# IMM outputs April-December 2017

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- Setting-up of IMM network of correspondents in seven key EU markets (UK, Germany, Belgium, Netherlands, France, Italy, Spain) as well as Indonesia and Ghana
- IMM 2015/16 annual report published in August 2017
- Scoping studies in key EU markets
- Scoping studies in Indonesia and Ghana

# IMM outputs April-December 2017 (continued)

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- Creation of a stand-alone IMM website designed to attract private-sector attention
  - Background information on VPA partner countries and EU trade with partner countries
  - News stories on findings of the IMM project, policy developments and market trends/trade flows etc.
  - Links to trade statistics resources and in the medium-term integration of a user-friendly tool for downloading cleaned trade data
- Launch of a quarterly IMM newsletter in the fourth quarter
  - Inform on latest developments and raise awareness of FLEGT-licensed wood and the VPA process
- Outline of IMM 2018 Annual Report

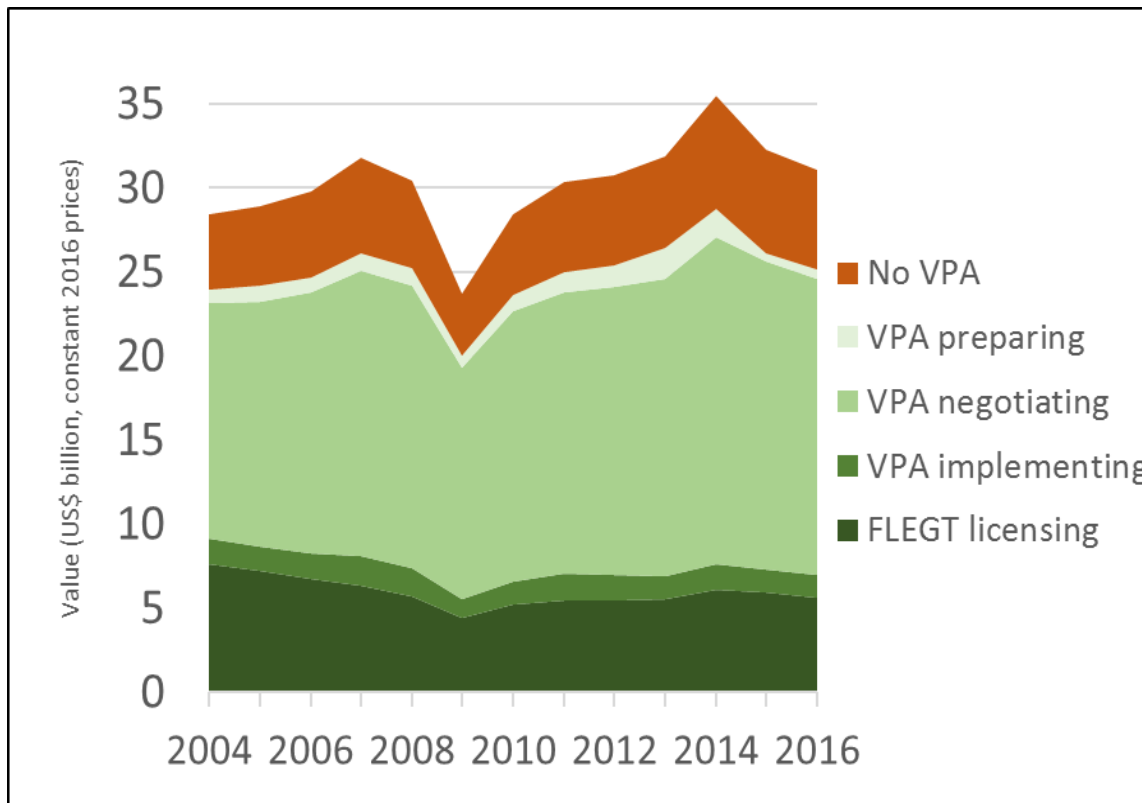
# IMM outputs planned for 2018

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- IMM 2017 Annual Report
- Continuation of key EU country and VPA partner country market surveys
- In-depth studies of relevant EU consumer sectors identified as a part of the scoping studies
- In-depth studies of economic impacts on key sectors in Indonesia
- Outline of 2018 Annual Report
- 4 IMM newsletters
- Continuous publication of relevant news on IMM website
- Awareness-raising workshops in 2-3 key EU countries

-> Further activities to be developed in cooperation with partners.

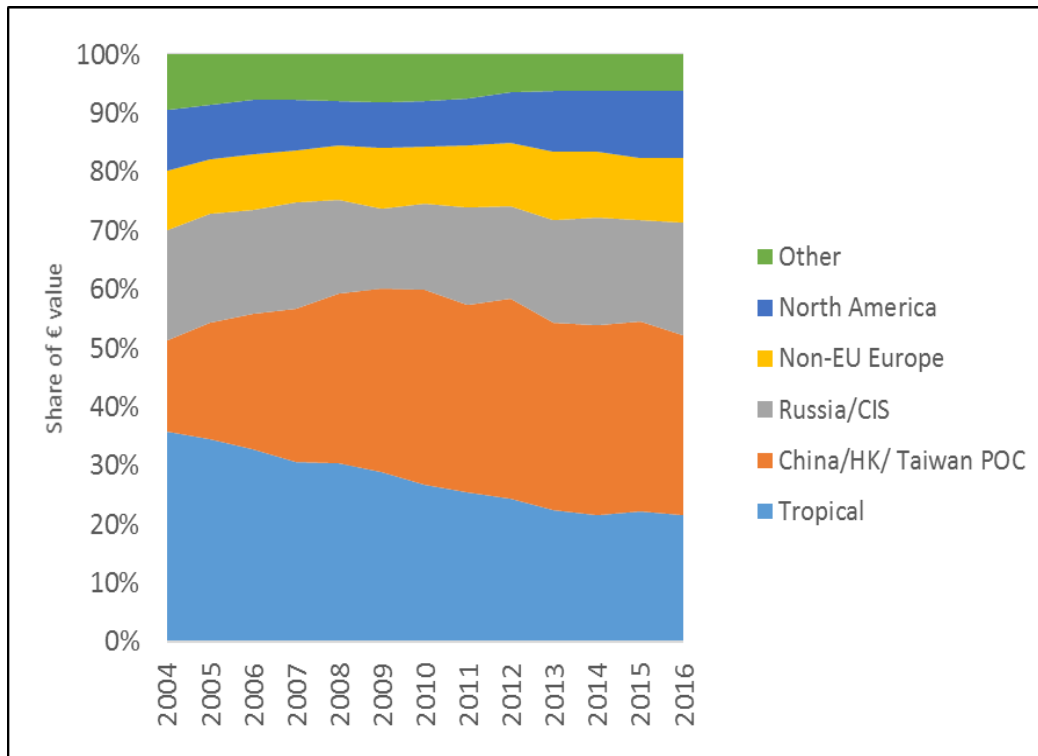
# VPA partner country share of global tropical wood-product trade



Source: ITTO IMM analysis of Global Trade Atlas

- Share of the 17 VPA partner countries in global tropical wood products trade remained stable at 81% in the three years between 2014 and 2016.
- Longer-term it declined from 84% in 2009 due to increased exports from a variety of non-VPA countries.

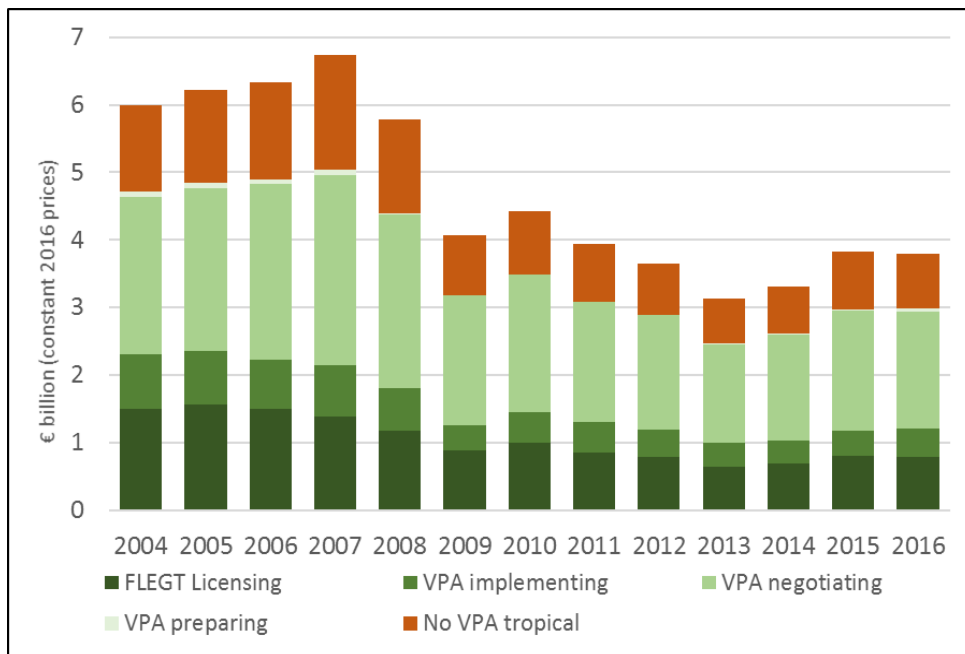
# EU Imports of Wood Products by Source



Source: ITTO IMM analysis of Eurostat COMEXT

- 2015 saw the first improvement in the fortunes of tropical countries in the last decade (+15%), followed by slight decline (-1%) in 2016.
- The share of tropical countries in total EU wood product import value fell continuously from 35% in 2004 to 21% in 2014, before rebounding slightly to 22% in 2015 and 2016.
- Loss in share initially to China, then to North American, Russian/CIS and non-EU European countries.

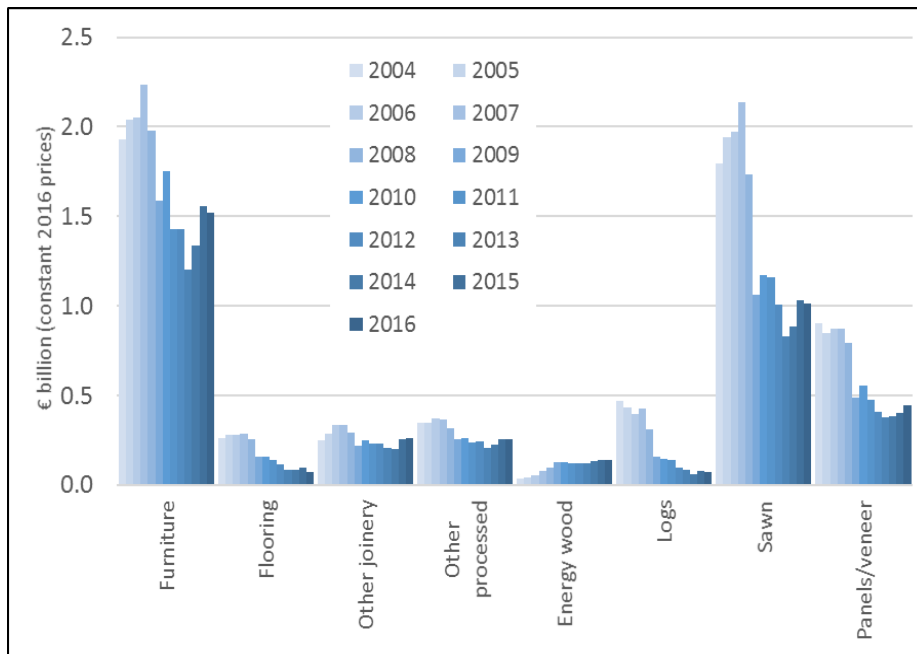
# Value of EU imports from the tropics, by VPA status



Source: ITTO IMM analysis of Eurostat COMEXT

- Imports from **Indonesia** increased 16% in 2015 and then declined 2% in 2016. Indonesia accounted for **21%** of the total value of EU tropical wood-product imports in 2016.
- Imports from the **five African VPA-implementing countries** increased 12% in 2015 and then an additional 13% to in 2016, accounting for **11%** of the total value of tropical wood-product imports.
- Imports from the **nine VPA-negotiating countries** increased 13% in 2015 before declining 2% in 2016 when they accounted for **46%** of tropical wood product imports
- Share of **non-VPA countries** in tropical wood product imports increased slightly from 21.3% in 2014 to 22.1% in 2015 before falling back to **21.4%** in 2016

# Value of EU imports from the tropics, by product type



- Recovery in 2014 and 2015 particularly pronounced for furniture and sawn wood
- Minor gains also for all other product groups.
- 2016: partial reversal of the gains in imports of tropical wood furniture (-2.2%), sawn wood and decking (-1.9%), energy wood (-2.9%), flooring (-20.3%), and logs (-4.2%). However, there was continued rise in imports of tropical plywood and veneer (+9.5%) and other joinery (+3.2%)

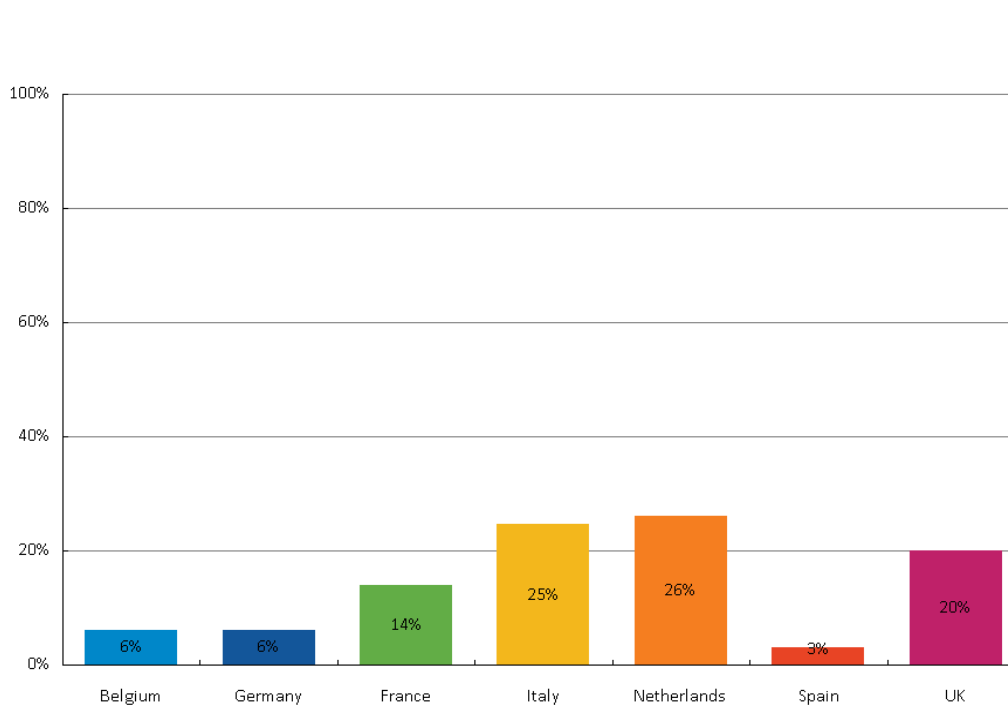
Source: ITTO IMM analysis of Eurostat COMEXT

# Insights from first three months of survey work in Europe

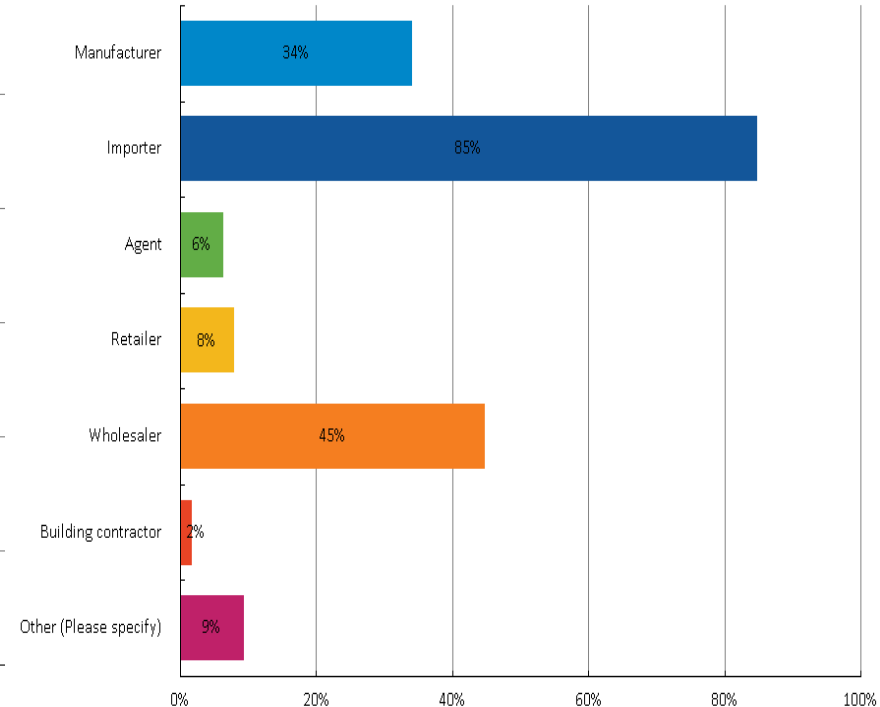
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- 65 companies interviewed in key countries (Belgium, France, Germany, Netherlands, Italy, Spain, UK) between June and August 2017 regarding:
  - Types of products/wood species imported from VPA partner countries
  - Import volumes from VPA partner countries
  - Identification of key end-use sectors of wood and wood products from VPA partner countries
  - Perception of competitiveness of FLEGT-licensing and VPA-implementing partner countries
- Initial interviews with Competent Authorities, Trade Associations and Monitoring Organisations in key countries

# EU Trade Survey Participation by Country/Type of Business



Source: IMM European Trade Survey 2017\_interim results

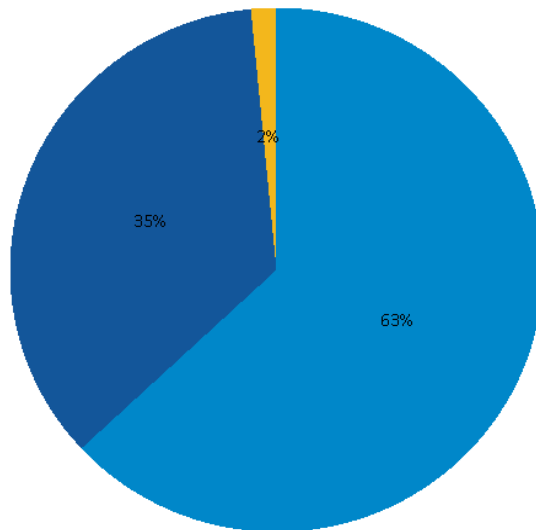


Source: IMM European Trade Survey 2017\_interim results

# Awareness of the FLEGT VPA Process

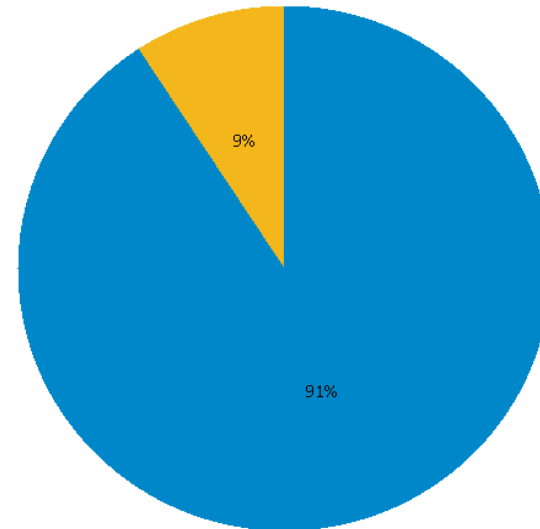
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How aware are you of the FLEGT VPA Process and what it involves?



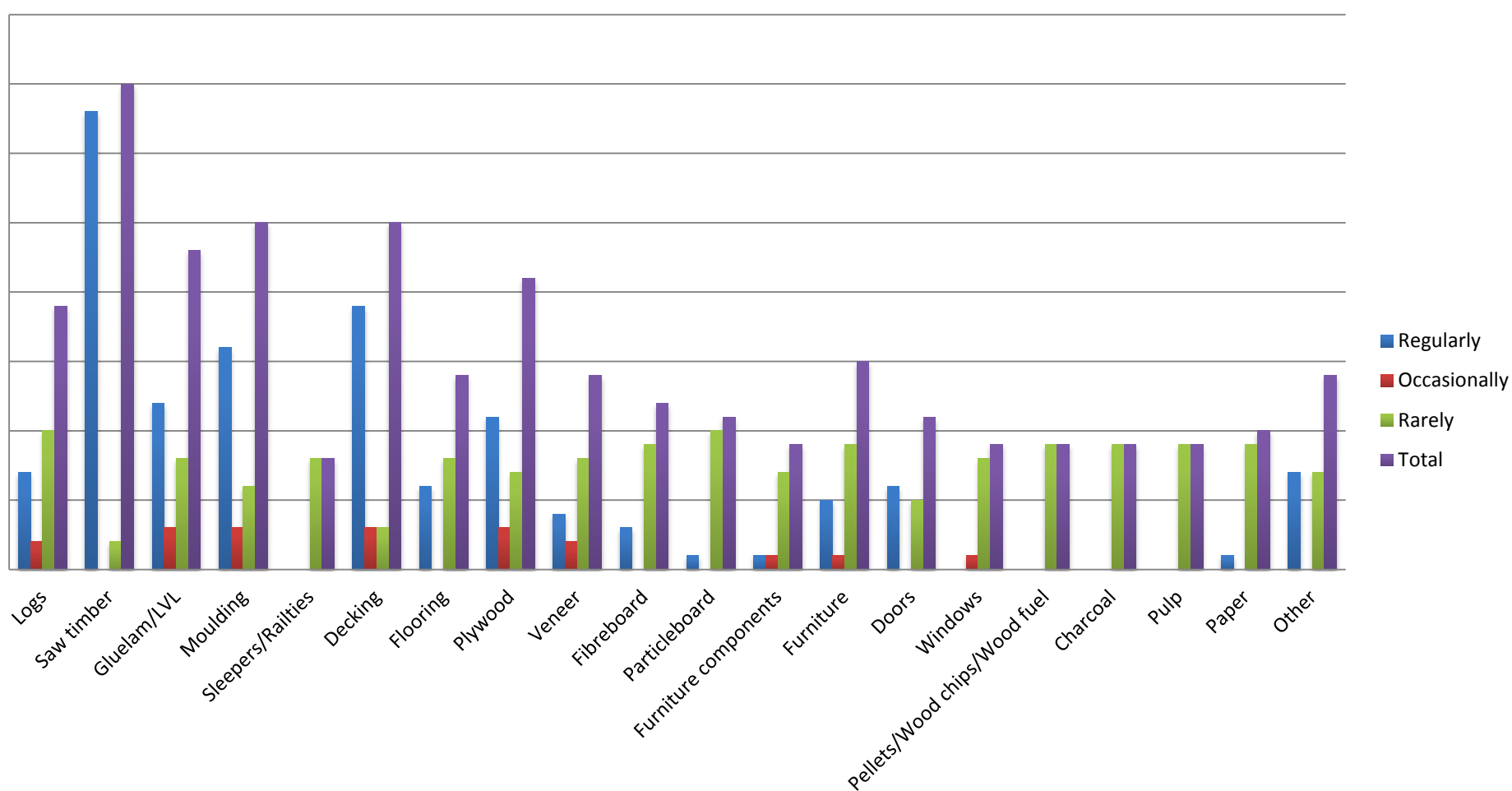
■ Very aware ■ Partially aware ■ Totally unaware

Is your business an operator or trader under the EUTR?



■ Operator ■ Trader

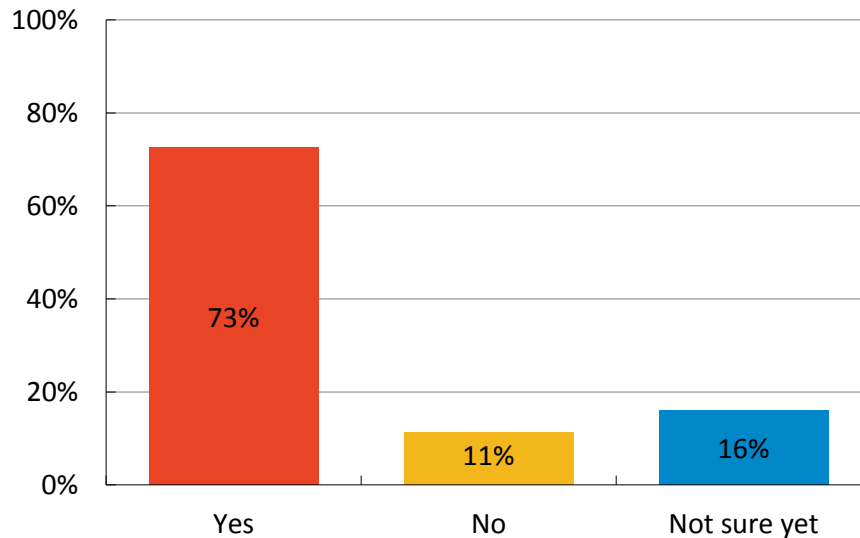
# Wood Products Imported from VPA Countries by IMM Respondents



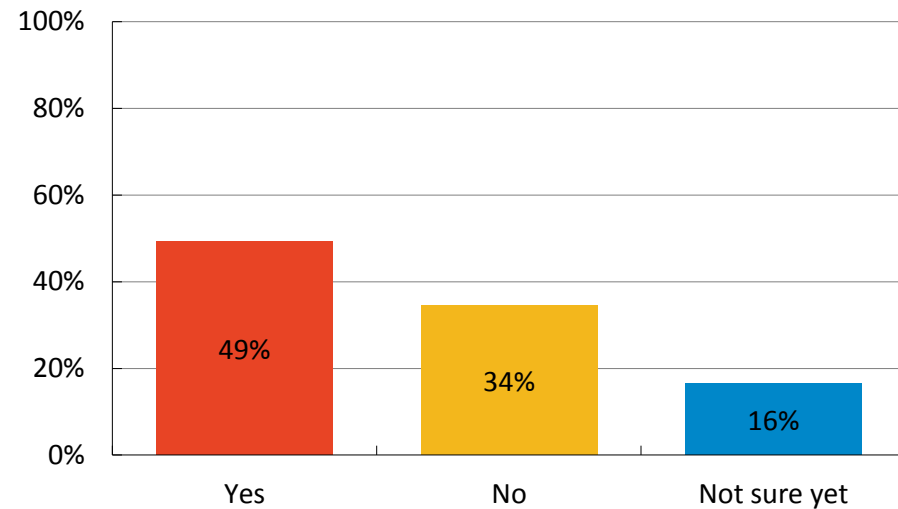
# Perception of FLEGT/VPA Process

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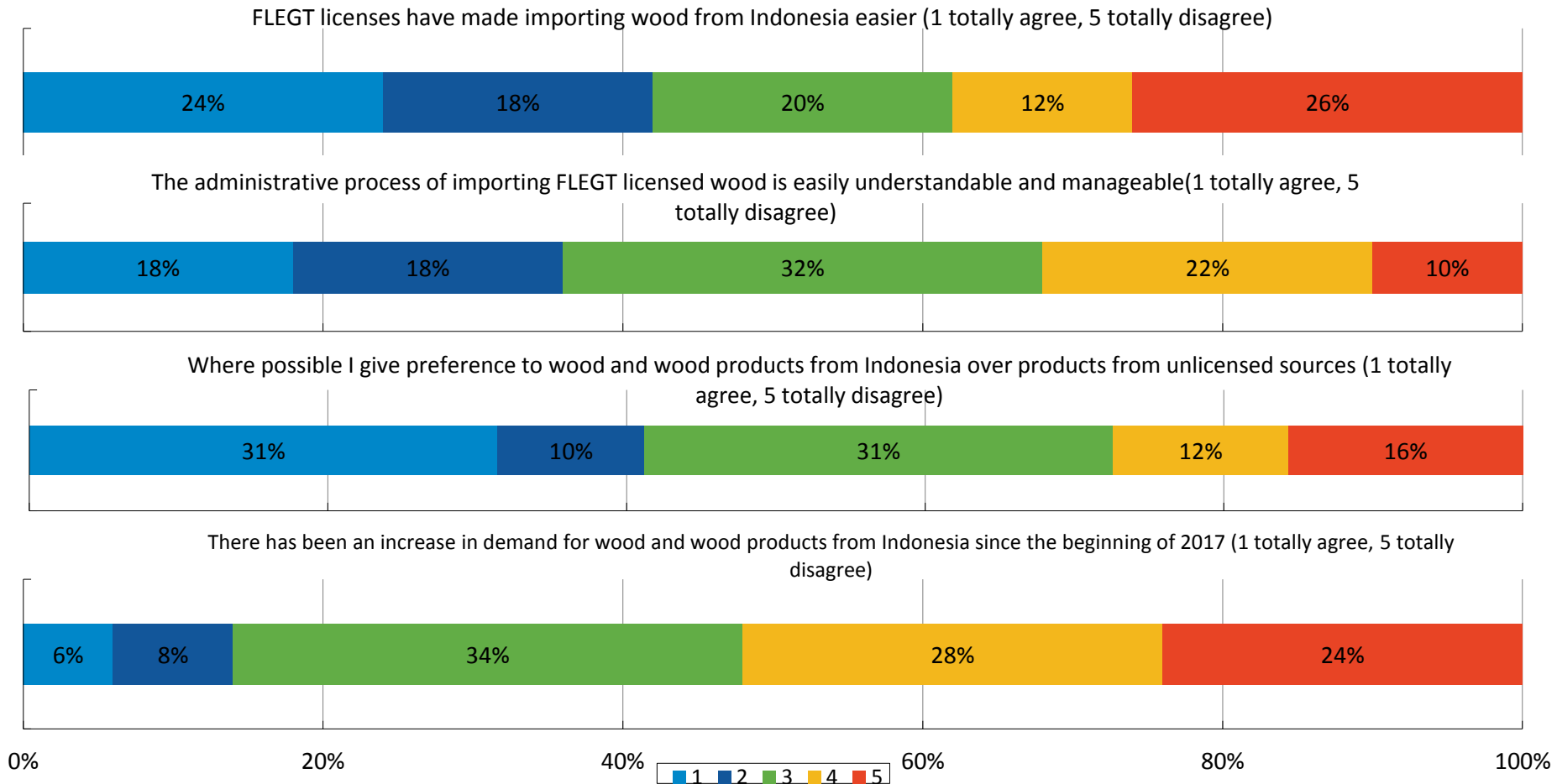
Would your organisation give preference to FLEGT-licensed timber over unlicensed timber from competing sources?



Is your organisation giving preference to timber from VPA implementing countries over timber from non-VPA partner countries?

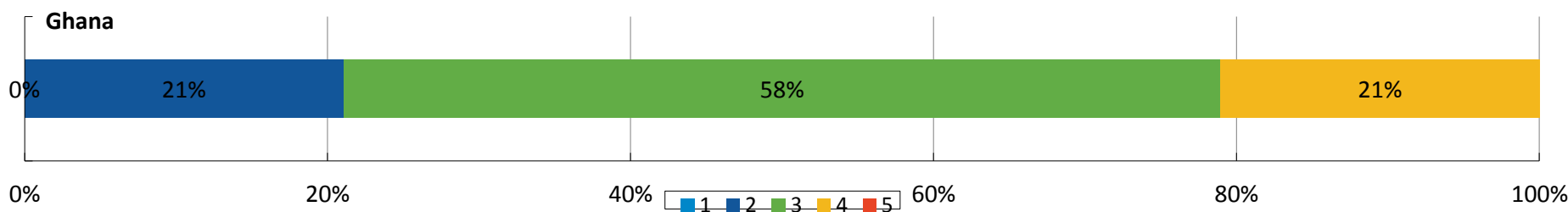
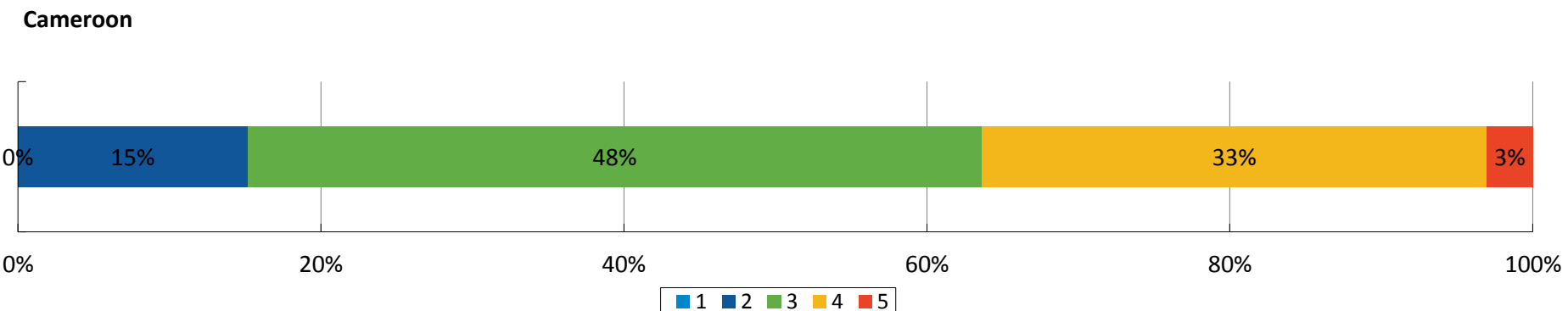
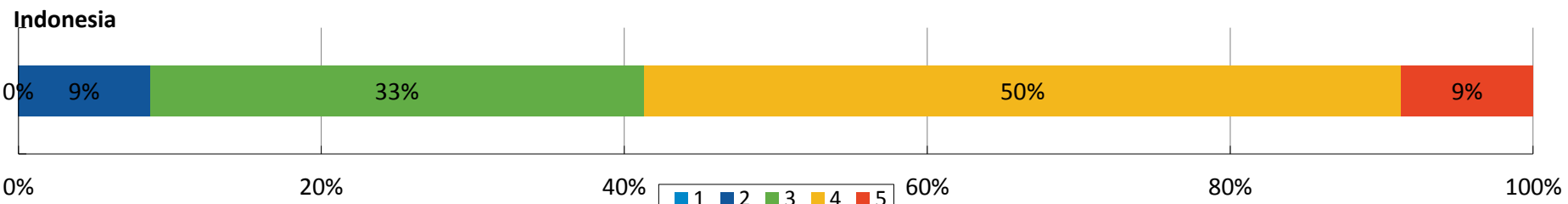


# Perception of Indonesian FLEGT Licenses



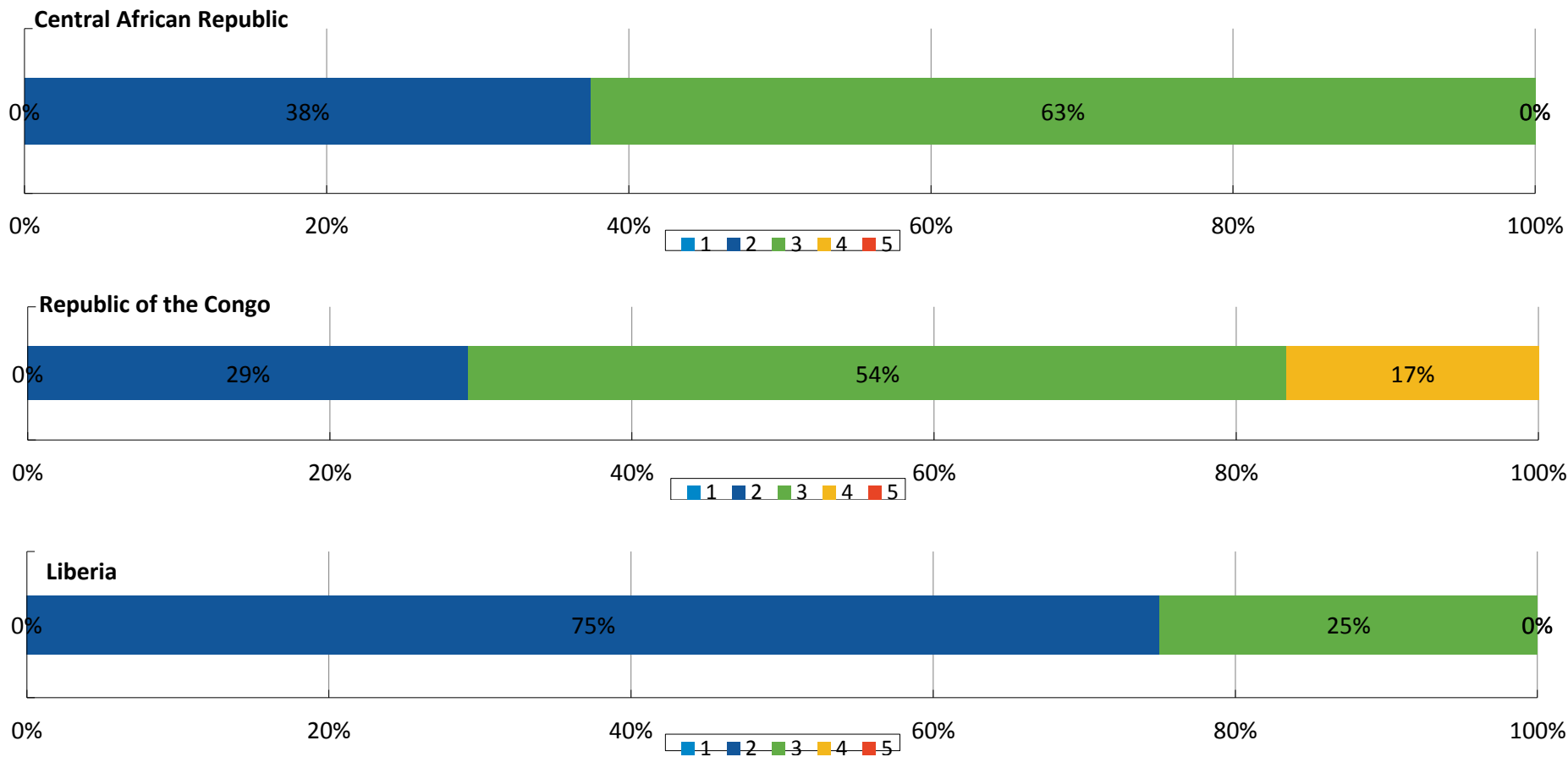
Source: IMM European Trade Survey 2017\_interim results

# VPA-Implementing/FLEGT-Licensing countries: Perception of Overall Competitiveness (scale from 1 (uncompetitive) to 5 (very competitive))



Source: IMM European Trade Survey 2017\_interim results

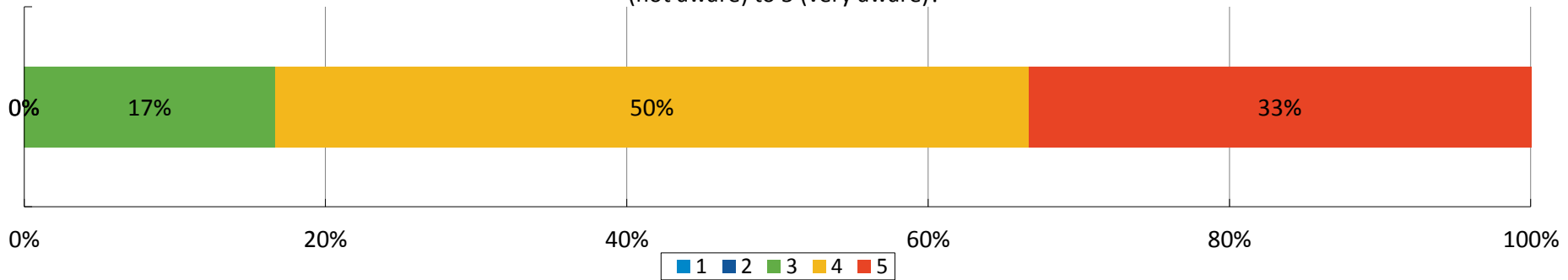
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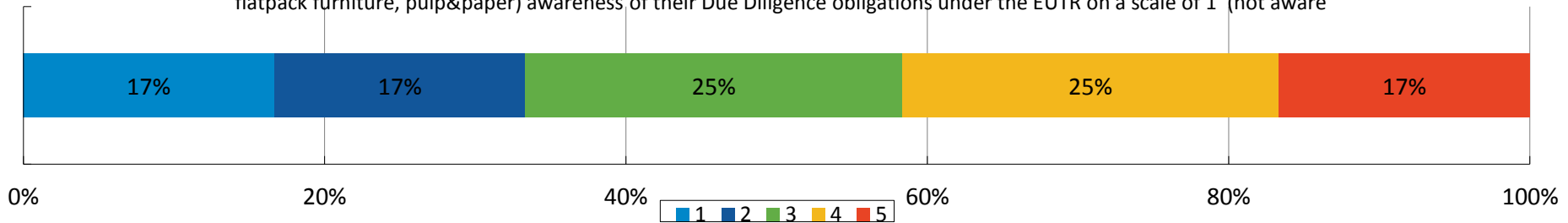
Source: IMM European Trade Survey 2017\_interim results

# EUTR Awareness: Survey of 12 MOs and Associations in 7 Key EU Countries

How would you rate your members' average awareness of their Due Diligence obligations under the EUTR on a scale of 1 (not aware) to 5 (very aware)?

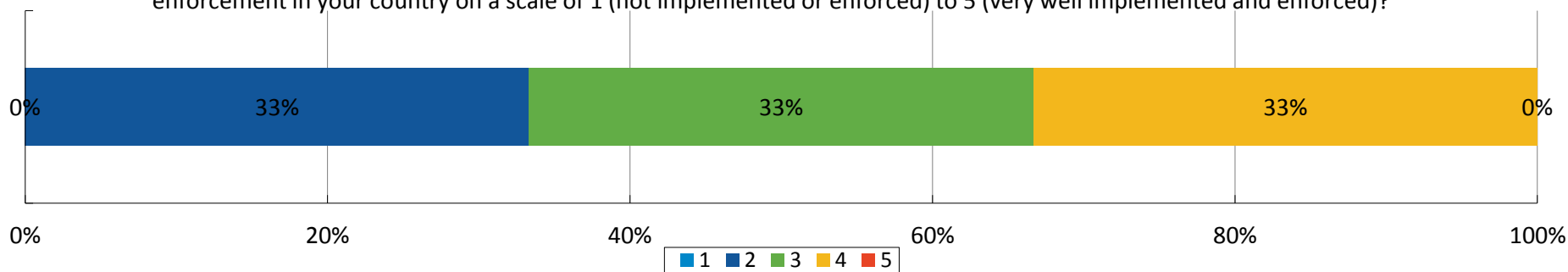


How would you rate your country's wood and wood-based product importing sectors' (including products like picture frames, tool handles, flatpack furniture, pulp&paper) awareness of their Due Diligence obligations under the EUTR on a scale of 1 (not aware



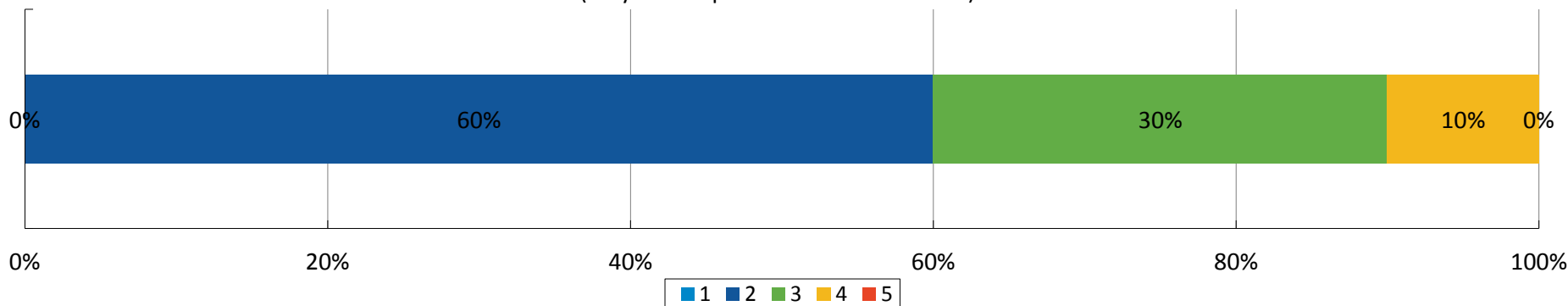
# EUTR Implementation: Survey of 12 MOs and Associations in 7 Key EU Countries

Judging by your own and your members' experience, how would you rate the level of EUTR implementation and enforcement in your country on a scale of 1 (not implemented or enforced) to 5 (very well implemented and enforced)?



- Associations/MOs in Italy, Spain and France gave the negative rating "2"

How would you rate EU-wide EUTR implementation and enforcement on a scale of 1 (not implemented or enforced) to 5 (very well implemented and enforced)?



- In all countries except Spain and the UK at least one organisation voted "2"

# Issues raised/Comments by European traders

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- Differences in interpretation of HS codes
  - became apparent through checks of FLEGT licenses against customs declarations
  - in isolated cases this has led to higher import duties than usual on certain products, e.g. window scantlings.
  - has also led to delays in processing of shipments through customs
  - > HS Code-related problems still seems to occur quite frequently, anecdotal reports of several cases per week.
- Delays in clearance of shipments in Europe as volume/weight of containers does not match the FLEGT license considered a disadvantage
- In the UK FLEGT-licensed goods are not allowed to go into bonded storage
  - disadvantage in terms of customs payments

## Issues raised/Comments by European traders

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- Some importers found FLEGT IT system difficult to use – at least to start with
- FLEGT licensing could reduce demand for third-party certified timber
- FLEGT licenses should be accepted in national GPP schemes alongside FSC and PEFC
- Importers are hoping that Chinese, Russian and Brazilian legality assurance systems could be aligned with FLEGT
- UK Trade is for EUTR and FLEGT licensing to be retained post Brexit

## Issues raised/Comments by European traders

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- More and clearer communications on FLEGT licensing and continued assurance that the system is robust is needed
- Indonesian licensed timber revived interest in FLEGT -> overall attitudes more positive than during 2015 surveys
- Some importers and traders are taking a wait-and-see attitude as they are uncertain of how NGOs will deal with Indonesian FLEGT-licensed timber

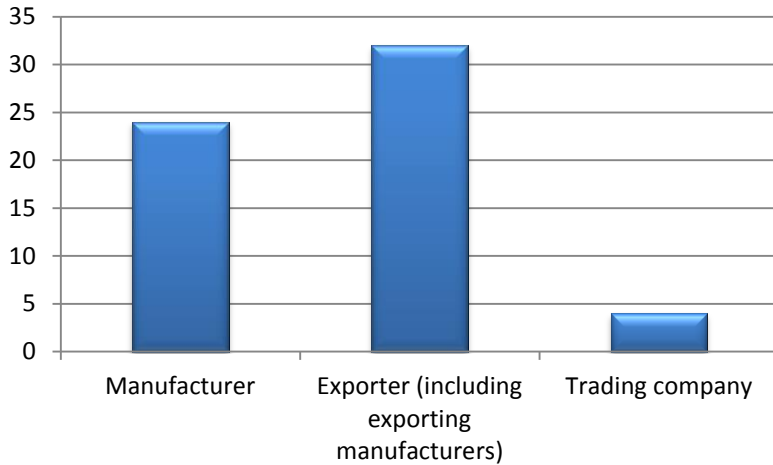
# Insights from the first two months of market monitoring in Indonesia

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- 40 Companies in Indonesia online surveyed in May and June
- Mainly SMEs, some larger companies
- Interviewed regarding:
  - Types and volumes of products traded with the EU
  - Perception and impacts of the VPA process and FLEGT licensing
  - Changes in administrative processes
  - Changes in trading patterns

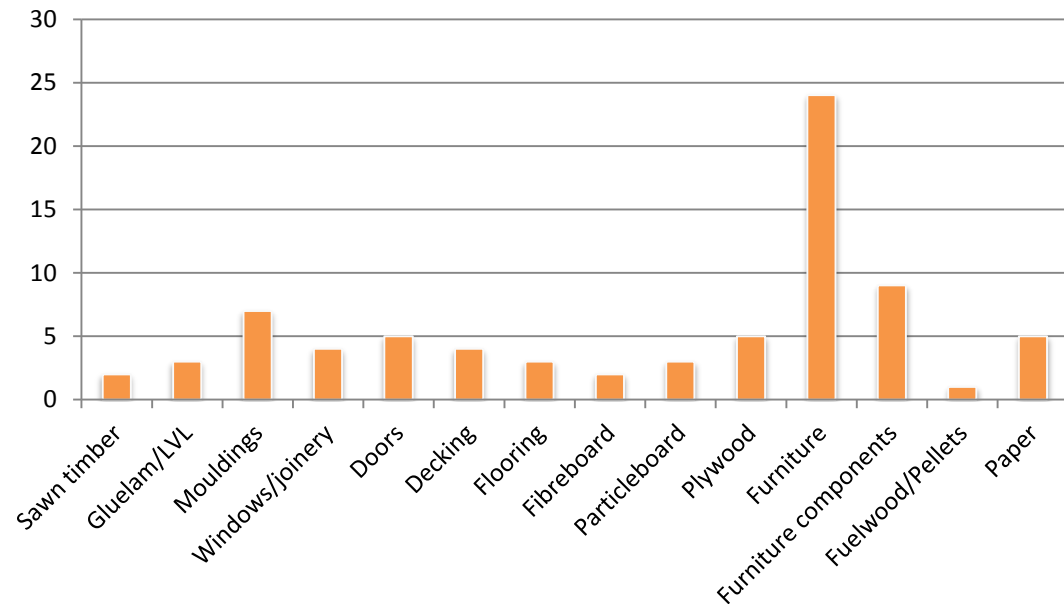
# Insights from the first two months of market monitoring in Indonesia

### Surveyed companies by type



Source: IMM Indonesia Trade Survey\_interim results

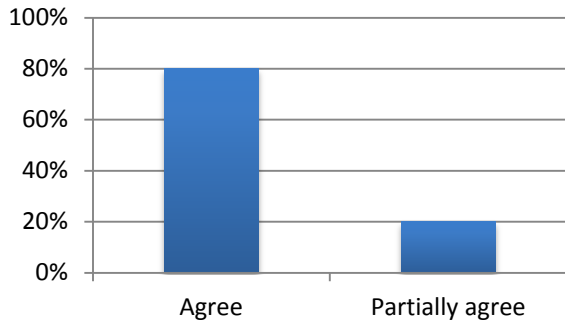
### Products sold to the EU (number of surveyed companies selling a specific product to the EU)



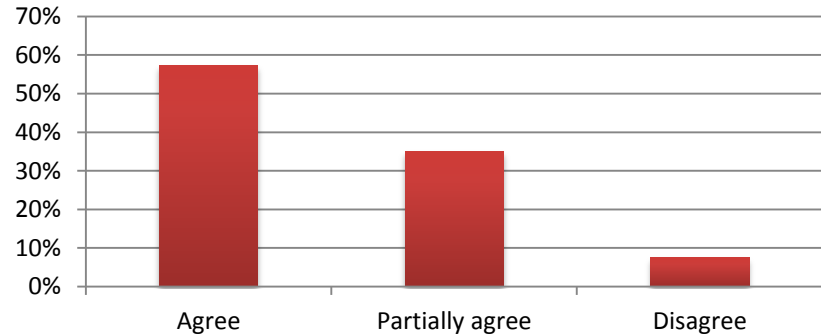
Source: IMM Indonesia Trade Survey\_interim results

# Perception of the FLEGT VPA process

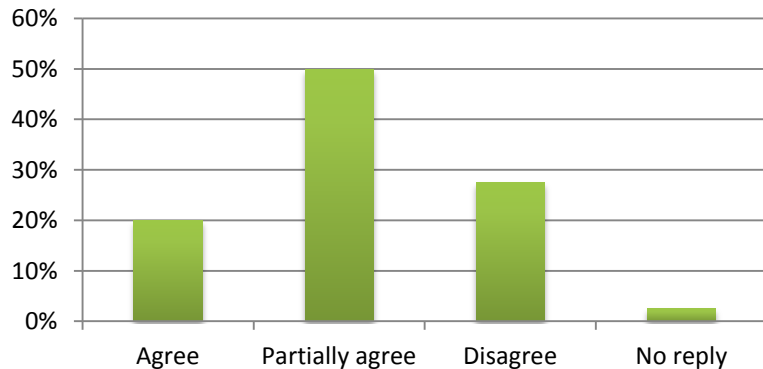
**FLEGT is helping to improve forest management in my country**



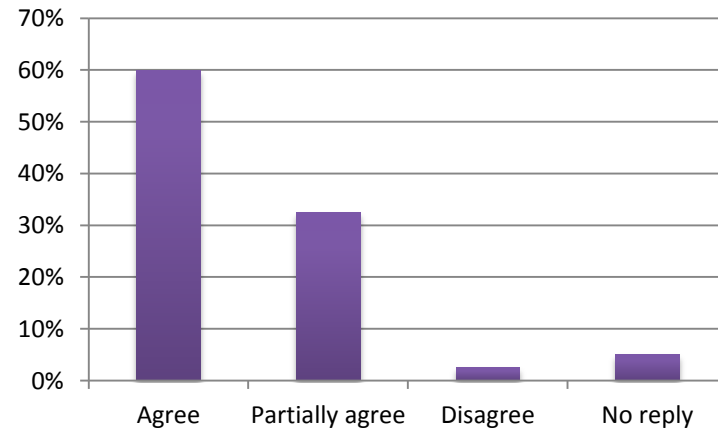
**FLEGT is helping to improve governance in my country**



**My company's exports to the EU have increased since the start of FLEGT licensing**

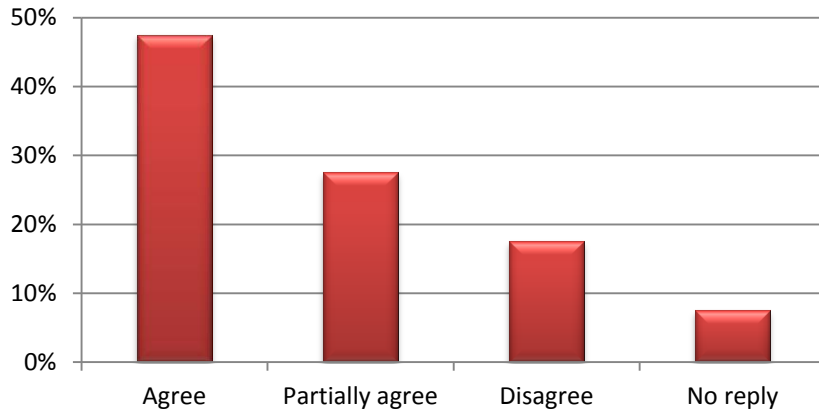


**Implementing the VPA and getting SVLK certified has been worth the effort**

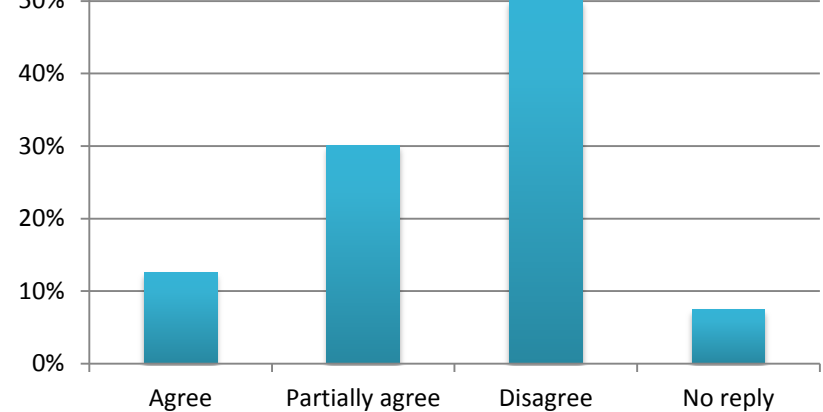


# Perception of the FLEGT VPA process (continued)

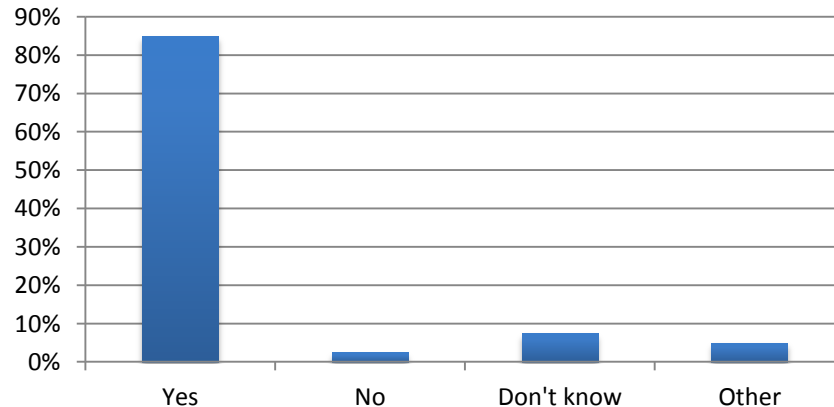
**Exporting wood has become easier as a result of FLEGT licensing**



**My company has been able to raise EU export prices as a result of FLEGT licensing**

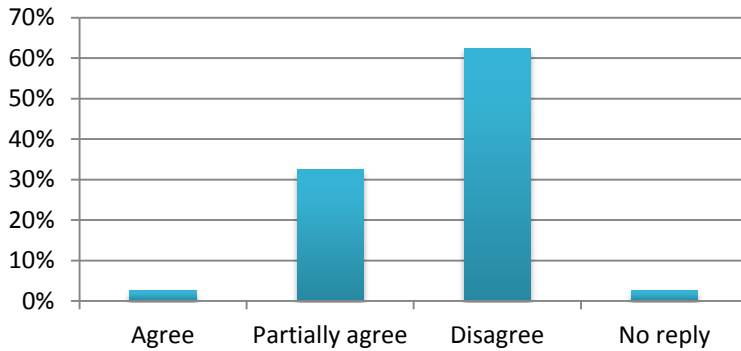


**My company expects an increase in European demand once the concept of FLEGT licensing is more widely known**

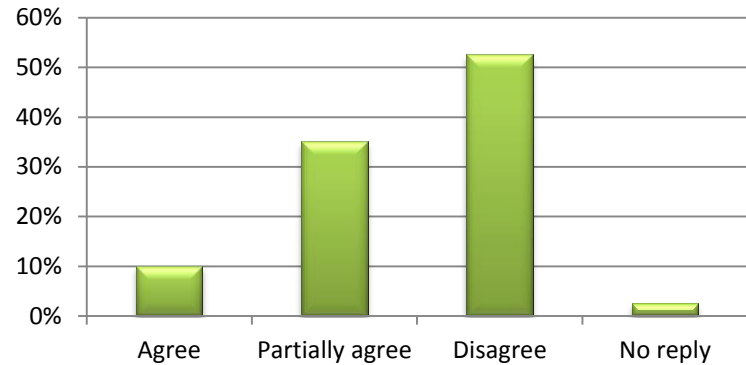


# Perception of the EUTR

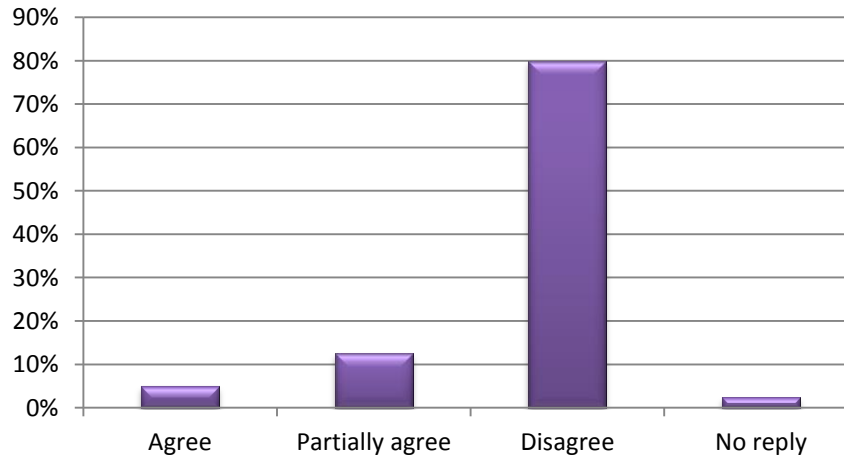
**My company's exports to the EU have decreased as a direct result of the EUTR**



**Selling wood to the EU market has become more difficult as a result of the EUTR**



**My company has diverted wood products to other sales markets as a result of the EUTR**



# Issues raised by Indonesian companies, associations and government officials

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- No perceptible increase in export volumes or prices has been achieved since the start of FLEGT licensing
- The process of customs clearance for FLEGT-licensed timber in the EU is seen as too complicated by some. The fact that each license is being verified is regarded by some as a disadvantage for FLEGT-licensed timber compared to unlicensed timber
- Some buyers still prefer FSC/PEFC over FLEGT and demand third-party certification in addition
- FLEGT-licensed wood should be accepted by European public procurement schemes and promotion/awareness raising of FLEGT should be stepped up
- The EU should address EU import tax issues and delays in processing of FLEGT-licensed shipments triggered by differences in the interpretation of the Harmonised System
- EU member countries shouldn't charge fees for processing FLEGT licenses

# IMM/MS CA Cooperation: IMM Wish List

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- Access to information on the number of FLEGT licenses received and quantities and value of timber products imports on a monthly basis (ideally at CN 8-digit level) from each member state
- Access to information on the number of FLEGT licenses and the amount of timber products involved that did not fulfil all legal requirements on a quarterly basis
- Access to the number and outcome of physical inspections of FLEGT licensed shipments on a quarterly basis
- Access to the number and outcome of physical inspections of unlicensed timber on a quarterly basis

# IMM/MS CA Cooperation: IMM Wish List

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- Access to the number of remedial action notices issued in connection with checks on operators (including information on countries of origin and types of products involved) on a quarterly basis
- Access to the number and type of penalties imposed in connection with checks on operators (including information on countries of origin and types of products involved) on a quarterly basis
- Contact persons in all EU countries willing to liaise with IMM national correspondents, IMM Market Analyst or IMM Lead Consultant on issues flagged up during our market surveys
- Information on the average time required to process FLEGT licensed shipments (from arrival in Europe to clearance) on a yearly basis

-> The EC's FLEGT reporting template provides interesting details to inform IMM work. On some issues, IMM needs more frequent information than once a year in order to report back to the private sector and VPA partners in a timely manner. The data on FLEGT-licensed imports are also of interest as they will help to improve trade data. They may, for example, help giving added credibility to Eurostat data (which sometimes differ significantly from Indonesian export data)

# Thank you

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**Independent Market Monitoring of FLEGT-Licensed Timber**