

## **Public comment invited on new FLEGT market report**

Public comments are invited on a draft report by the Independent Market Monitor (IMM), which is a multi-year project implemented by ITTO and financed by the European Union (EU) to support implementation of the FLEGT Voluntary Partnership Agreements between the EU and timber supplying countries.

The new IMM report reviews the latest data on forest resources in VPA partner countries and on the timber trade between partner countries and the EU during the 2014 to 2016 period. The report aims to establish the baseline conditions for entry into the EU market of FLEGT licensed timber.

Recognising that the first ever FLEGT licenses were issued by Indonesia in November 2016, the report includes additional commentary on the prospects for Indonesian timber in the EU market.

The report also provides information on the status of EUTR implementation and the market position of FLEGT licensing in relation to private sector legality verification and certification initiatives. The report concludes with recommendations for future monitoring by IMM and FLEGT-related communication.

The summary report is available at: <https://tinyurl.com/IMM-Summary>

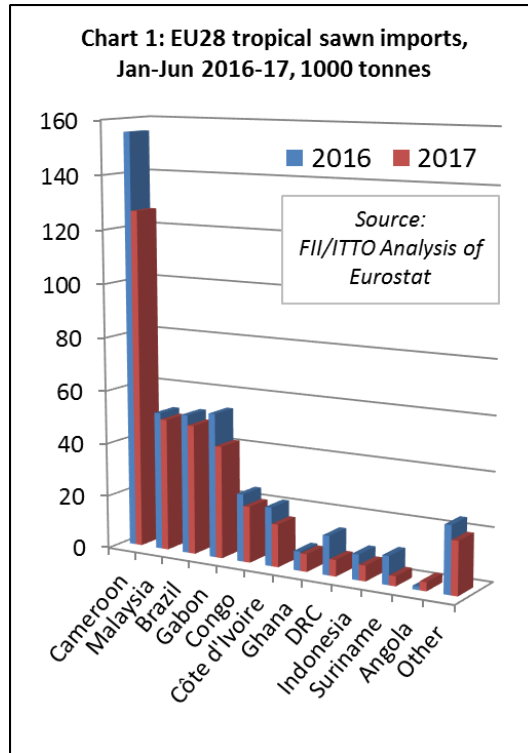
The main report is available at: <https://tinyurl.com/IMM-FLEGT-Main>

Comments should be sent by email to [technical@flegtimm.eu](mailto:technical@flegtimm.eu) before 30 September 2017.

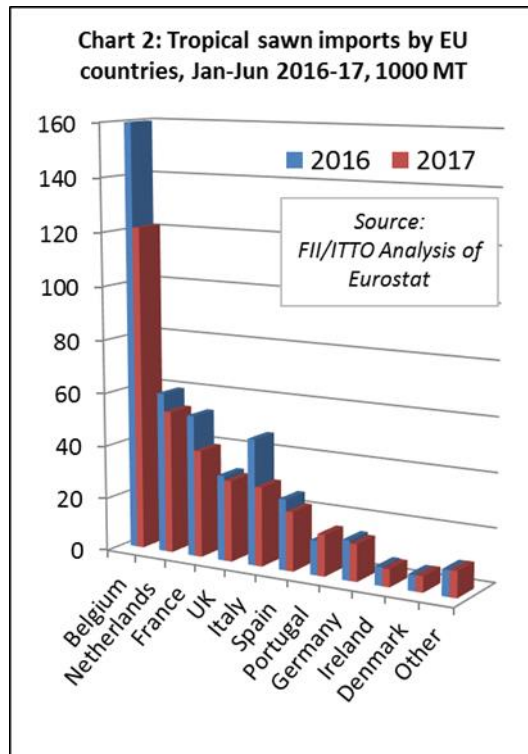
## **Tropical sawn wood imports decline in nearly all EU countries**

EU imports of tropical sawnwood in the first six months of 2017 were 348,600 metric tonnes (MT), 19% less than the same period in 2016. The decline was particularly pronounced for trade between Cameroon and Belgium, following a surge last year, but also affected nearly all exporting countries and EU member states. The only minor exception was a slight upturn in imports from Angola, mainly destined for Portugal.

Imports were down from all the leading supply countries including Cameroon (-19% to 126,500 MT), Malaysia (-4% to 49,500 MT), Brazil (-7% to 48,500 MT), Gabon (-22% to 42,000 MT), Congo (-17% to 21,000 m<sup>3</sup>), Cote d'Ivoire (-27% to 15,900 MT), Ghana (-9% to 6,500 MT), DRC (-58% to 6,100 MT), Indonesia (-39% to 5,800 MT), and Suriname (56% to 10,000 m<sup>3</sup>). (Chart 1).



EU imports of tropical sawnwood in the first half of 2017 fell in Belgium (-24% to 121,300 MT), Netherlands (-11% to 53,400 MT), France (-24% to 40,100 MT), UK (-5% to 30,400 MT), Italy (-37% to 29,600 MT), Spain (-16% to 22,100 MT), Germany (-7% to 13,800 MT), and Ireland (-4% to 6,600 MT). Imports in Portugal increased 20% to 15,500 MT during the period (Chart 2).



Weak consumption in the EU remains a factor behind the decline in EU imports of tropical sawn wood in some parts of Europe, notably Italy where the economy continues to struggle. However, this

factor alone cannot explain such a widespread downturn across the whole of the EU, particularly as economic activity in the region has been showing signs of improvement this year.

Some supply side issues have contributed to the decline in EU trade this year. European importers complained of long delays in shipment from Douala port during the first half of 2017, although this factor can only have had a short-term effect.

There are also indications that tropical exporters were concentrating on other more profitable and less demanding markets for sawn wood during the period. Malaysia is focusing less and less on the European sawnwood market these days, despite the country's considerable efforts to meet the EU's demanding green procurement requirements. Malaysia's exports of sawnwood have increased sharply to the Indian sub-continent and China this year. Brazil is exporting more to the US and India. Gabon's exports of sawnwood to China increased 35% in the first 6 months of 2017.

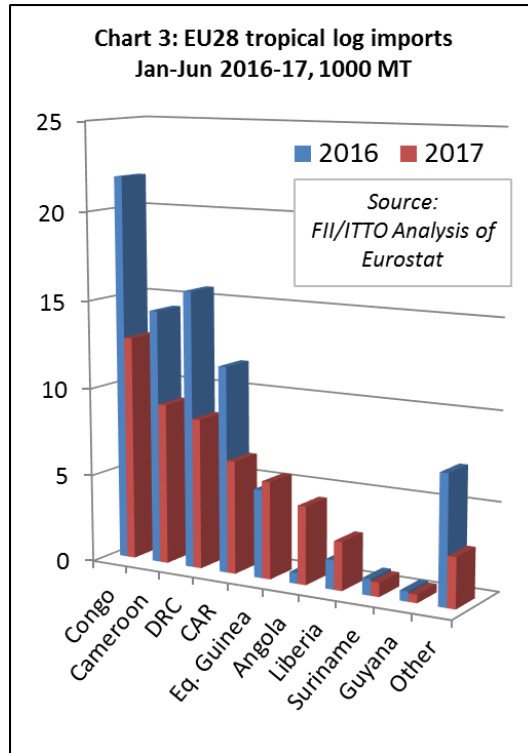
With good demand elsewhere, supplies restricted, the EU market still slow and difficult to satisfy as the EU Timber Regulation begins to bite, and with rising competition from modified temperate hardwoods, it's almost inevitable that tropical sawn wood imports into the region will continue to fall.

### **EU imports of tropical logs continue to slide**

Tropical log imports into the EU fell in 2016 and this decline continued in the first half of 2017. EU tropical log imports declined 33% to 53,630 MT in the first half of 2017. Imports declined from the four leading supply countries; Congo (-42% to 12,760 MT), Cameroon (-37% to 9,150 MT), DRC (-46% to 8,530 MT), and the Central African Republic (-45% to 6,400 MT).

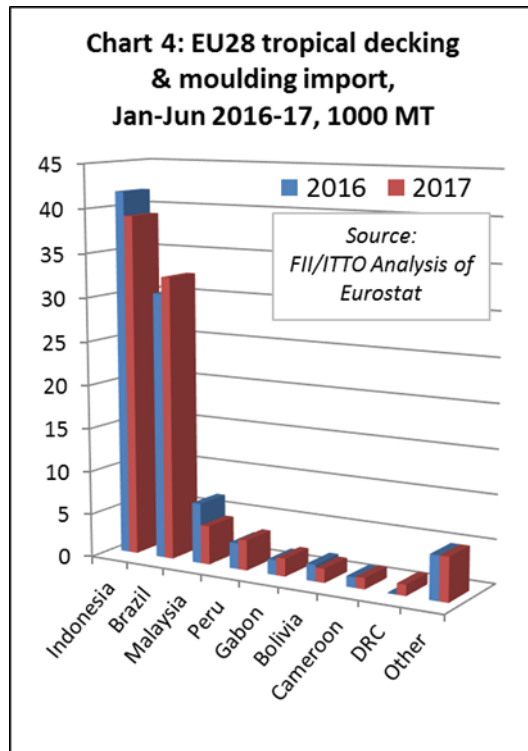
These declines were partly offset by rising EU imports of tropical logs from Equatorial Guinea (+10% to 5510 MT), Angola (4420 MT from a negligible level in 2017), and Liberia (+65% to 2730 MT). (Chart 3).

The EU trade in tropical logs is now concentrated in France, Portugal and Belgium. Imports into all three countries fell sharply in the first 6 months of 2017, down 62% to 18,700 MT in France, down 11% to 11,100 MT in Portugal, and down 43% to 11,800 MT in Belgium.



#### Slight fall in EU imports of tropical decking

EU imports of “continuously shaped” wood (HS code 4409), which includes both decking products and interior decorative products like moulded skirting and beading, were 90,555 MT in the first half of 2017, down 2% on the same period in 2016. Imports fell 6% to 39,000 MT from Indonesia and were down 36% to 4,400 MT from Malaysia. These losses were partly offset by a 6% rise in imports from Brazil, to 32,400 MT. (Chart 4).

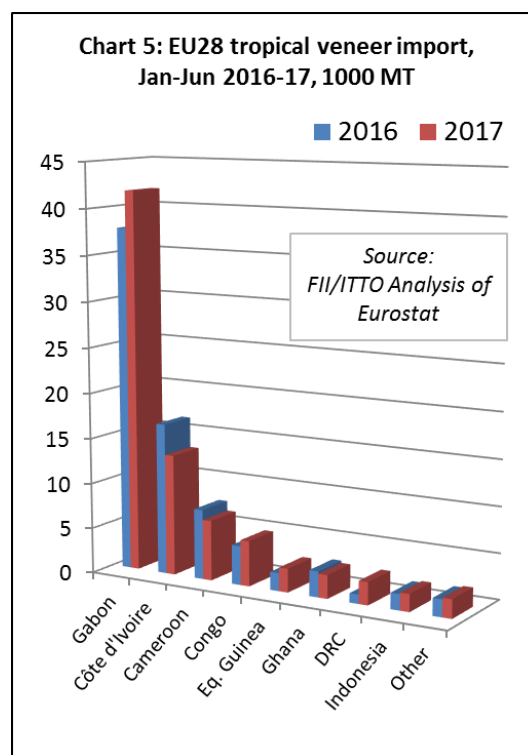


In the first half of 2017, imports of tropical decking and mouldings increased 17% to 19,400 MT in France, but declined into all other leading EU destinations including Germany (-6% to 23,000 MT), Belgium (-10% to 15,800 MT), Netherlands (-16% to 15,400 MT), and the UK (-3% to 5,600 MT).

### EU imports of tropical veneer recover some lost ground

EU imports of tropical hardwood veneer increased 3% to 78,400 MT in the first 6 months of 2017 compared to the same period in 2016. The rise was mainly due to an 11% increase in imports from Gabon, to 41,800 MT, building on gains made the previous year. This is due both to better consumption in the EU and to rising investment in veneer production capacity in Gabon which has been on-going ever since the country banned log exports in May 2010.

Strong growth in EU imports of Gabon veneer in the first half of 2017 was sufficient to offset declining imports from Cote d'Ivoire (-20% to 13,300 MT) and Cameroon (-14% to 6,600 MT). (Chart 5).



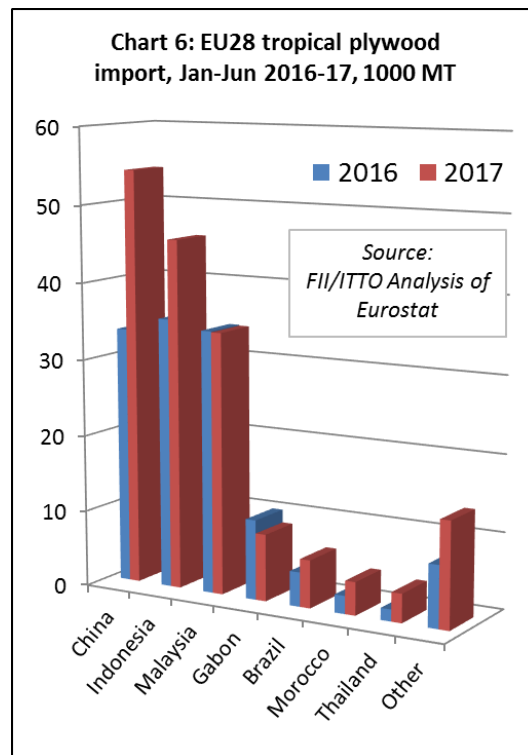
Imports of tropical veneer declined into the two largest EU markets in the first half of 2017, falling 5% to 29,500 MT in France and 7% to 17,000 MT in Italy. However, these losses were offset by larger increases in imports in Spain (+10% to 11,500 MT) and Greece (+40% to 7700 MT).

### EU imports more tropical plywood, but mainly from China

Plywood is one of the few sectors of the EU market where tropical products have been performing reasonably well, although much of the gain has been in indirect imports from China rather than direct imports from tropical countries.

In the first six months of 2017, EU imports of products faced with tropical hardwood manufactured in China increased 62% to 54,300 MT, while direct imports from tropical countries increased 21% to 171,100 MT. Most of the gains in direct imports were from Indonesia, rising 29% to 45,700 MT.

Imports from Malaysia were stable at 34,200 MT and imports from Gabon fell 16% to 8,700 MT in the first half of the year. (Chart 6).



These are mixed results for those looking for evidence of immediate market gains after issue of the first FLEGT licenses in Indonesia at the end of last year. The 21% rise in EU imports from Indonesia is encouraging and seems to confirm early anecdotal reports that some EU importers are favouring Indonesian product as it avoids the need for time-consuming and expensive due diligence assessments.

On the other hand, plywood manufacturers in China, even though using tropical hardwood veneers, appear to be conforming to the EUTR due diligence requirements to the satisfaction of many importers and regulators.

There are also reports that some plywood buyers in Europe are still avoiding Indonesian plywood because of lack of clear information on the exact species content when orders are placed, usually a month or two before shipment. Many Indonesian plywood mills do not know ahead of time the exact mix of logs that will be available and importers only have access to species information when the order has been shipped and the FLEGT licence issued.

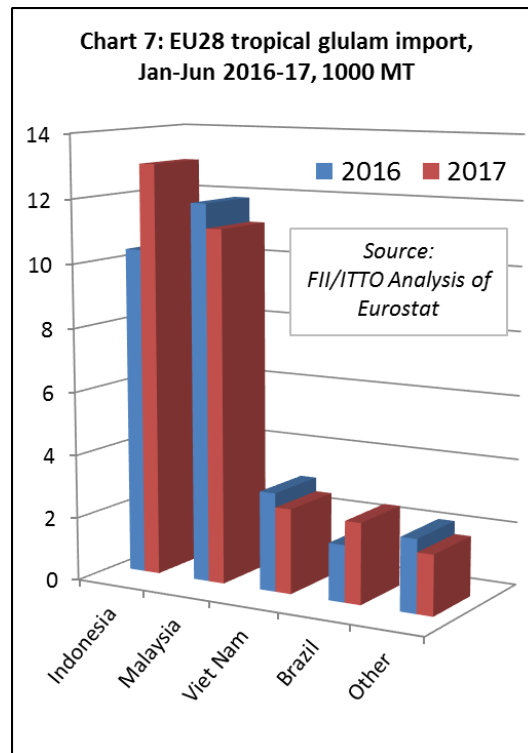
That conflicts with the internal procurement policies of some large corporate buyers who now require, well in advance, clear information on the exact species content of all delivered timber products. Some of the larger Chinese mills are better able to meet this requirement, while also satisfying those buyers' needs for more regular large shipments.

The rise in EU tropical plywood imports in the first half of this year was mainly driven by the UK (+29% to 82,000 MT), Belgium (+52% to 30,300 MT), and Germany (+24% to 11,000 MT). These gains offset a decline in imports in the Netherlands (-29% to 16,400 MT) and France (-20% to 10,300 MT).

### Tropical glulam

EU imports of glulam from tropical countries increased 6% to 31,200 MT in the first six months of 2017. 'Glulam' here refers to all those products listed in code 44189910 of the EU Combined Nomenclature and, with respect to imports from tropical countries, includes mainly laminated window scantlings and kitchen tops.

In the first half of 2017, EU imports of glulam from Indonesia increased 26% to 13,000 MT. There was also a 42% increase in imports from Brazil, to 2,500 MT. In contrast, imports fell 6% to 11,100 MT from Malaysia, and were down 14% to 2,700 MT from Vietnam. (Chart 7).



From a FLEGT licensing perspective, there was an encouraging increase in Indonesia's share of the EU market for tropical glulam, from 35% last year to 42% in the first half of this year.

The quantity of glulam and other engineered wood products supplied by tropical countries into the EU is still very modest. There are also significant challenges for tropical suppliers in this market – notably intense competition from European manufacturers and the requirement for often complex technical standards. This is particularly true of structural glulam products, none of which are currently imported from the tropics.

However, demand for glulam and other engineered wood products is rising in the EU and there may be a larger role for tropical countries in this sector in the future, particularly as it provides opportunities to add value to smaller and lower grade wood material.

### **Another fall in EU imports of tropical hardwood flooring**

EU imports of tropical flooring products fell 11% to 18,700 MT in the first half of 2017, continuing a long-term decline. Imports from Indonesia, the largest supplier in 2016, declined 37% to 4,000 MT. This fall was only partly offset by minor gains in imports from Brazil (+7% to 5,300 MT), Malaysia (+3% to 5,100 MT), and Viet Nam (+18% to 1,800 MT). (Chart 8).

Tropical wood flooring remains out of fashion in the EU market which has become increasingly dominated by oak and domestic European manufacturers. Share also continues to be lost to a wide variety of non-wood substitutes.

