

More positive attitude to tropical timber emerges in Europe

The first quarter of 2015 has been a busy time for EU policy initiatives linked to tropical forest and market development programs for tropical timber. There seems now not only to be a new urgency surrounding these initiatives but also a growing pragmatism with potentially positive implications for the tropical timber industry.

Specifically, there is a growing realisation that the EU can achieve very little by yielding a “big stick” and simply demanding that tropical timber products meet unrealistic standards of forest certification. In order to avoid becoming irrelevant in issues surrounding tropical forests, the focus needs to be on building constructive partnerships with tropical countries and on ensuring demands for “legal and sustainable” timber are balanced by positive promotion of progress.

This new more positive attitude was in evidence at two high profile and well attended meetings focused on tropical forestry issues hosted in the EU during the first quarter of 2015. In February, the second annual conference of the Sustainable Tropical Timber Coalition (STTC) in Valencia, Spain, attracted 70 delegates, a large proportion of which were from the trade and industry.

In March, FLEGT Week was held in Brussels, an event which attracted over 300 invited delegates representing a wide spectrum of interests including private sector, governments and civil society from about 40 timber producing and consuming countries. Again, and unlike previous years, there was significant participation from trade and industry, the African contingent being particularly well represented.

Two other European-based trade associations also deserve credit for promoting this more positive and pragmatic approach to tropical timber issues in the EU. The European Timber Trade Federation (ETTF) is becoming more active and vocal in its support for tropical timbers – well illustrated by the quarterly ETTF newsletter now being published quarterly and freely available (see <http://www.ettf.info/spring-ettf-newsletter-out-now> for the latest copy).

The Association Technique Internationale des Bois Tropicaux (ATIBT) based in Paris is also busy transforming itself into an international organisation with a stronger focus on accelerating recovery in the tropical timber sector in Europe and wider international market place. The ATIBT's latest newsletter (currently in French only) is available from www.atibt.com.

Practical experience of EUTR and VPAs

While these organisations are playing a role, perhaps a more important reason for the EU's “new pragmatism” in tropical timber issues is practical experience of implementing the EU Timber Regulation (EUTR) and the FLEGT Voluntary Partnership Agreements (VPAs). This seems now to be raising awareness amongst European policy makers of the real challenges of forest governance reform in tropical timber countries, the considerable efforts being undertaken to overcome these, and the sheer complexities of the tropical timber trade.

The quality of information on Europe's role in the tropical timber industry is also improving. This information is being acquired through a variety of projects now underway aimed at reviewing the impact of the EU's FLEGT Action Plan which is a decade old this year. One such project – the FLEGT Independent Market Monitor (IMM) – has been operational now for 12 months and is being run by the ITTO.

Also underway are the first formal biennial assessment of the EUTR and the formal 10-year Review of the FLEGT Action Plan which looks more broadly at the full range of EU forest governance measures, of which the VPAs are probably the most significant.

An important output from these various monitoring processes has been to highlight the dramatic fall in the EU's share of global tropical timber trade over the last decade. The IMM's Baseline Report, soon to be published by ITTO, shows that the EU's share of global tropical timber trade fell from 24% to 12% between 2004 and 2013. During the same period, China's value share rose from 15% to 28% while India's increased from 4% to 7%. These figures, which consider only international trade, underestimate the extent of the shift in trade as there has also been considerable growth in many tropical countries' domestic consumption in the last decade.

FLEGT's major influence on the supply side

While trade data highlights the diminishing role of the EU on the demand side, it also demonstrates just how influential the FLEGT process is proving to be on the supply side. Data from the IMM Baseline Report, widely quoted during FLEGT Week, shows that in 2013 the 15 countries implementing or negotiating VPAs accounted for 75% of the value of global tropical timber trade and 80% of the EU's tropical timber imports.

At FLEGT Week, the EC noted that the level of ambition and influence of the VPA process is even more extensive than envisaged when the FLEGT Action plan was launched a decade ago. All six countries now implementing Timber Legality Assurance Systems (TLAS) in line with VPA commitments are extending these procedures to all exports, not just those destined for the EU, and also, in most cases, to domestic markets. A strong commitment to participation, transparency and legislative reforms is also the norm in VPA processes. Civil society monitoring, governance reforms and legislative clarity are other key outcomes.

There were positive reports during FLEGT Week of the progress to finalise TLAS in line with VPA requirements in both Indonesia and Ghana. Dr Agus Sarsito of the Indonesian Department of Forestry told the audience that Indonesia's SVLK system is already working well and delivering national licenses. It just needs the EU to confirm that these align with their expectations for FLEGT licenses. Raphael Yeboah of the Ghanaian Forestry Commission noted that the TLAS in Ghana is nearing completion and FLEGT licences are "almost there". Both countries' now expect FLEGT licences to be issued either later this year or the first half of 2016.

Challenges of VPA implementation

This recognition of the scope of the FLEGT process and the progress made was tempered during FLEGT Week with concerns over the significant challenges of finalising TLAS procedures and securing market benefits. The extent of these challenges was particularly highlighted at a workshop for the private sector during FLEGT Week.

In addition to noting the sharp decline in European imports of tropical wood in the last decade, the workshop report concludes that "the selective logging of natural forest is in crisis". Private sector participants highlighted that conversion of forest land to alternative uses continues to increase in many countries under pressure of population and with low economic returns from sustainable timber production. In place of selection harvesting, more timber is coming from forest conversion and monoculture plantations of fast growing lightwoods for the paper industry, panels and engineered products.

The move to value-added timber industries has also stalled in many tropical countries, particularly in Africa, as they have struggled to compete with other timber processing countries. Exports of logs and rough sawn lumber have increased from many countries relative to semi-finished and finished goods.

Low financial returns and competitiveness imply a significant obligation on policy makers to ensure that the new TLAS are both cost-effective and adequately rewarded in the market place. It is a considerable challenge to balance these demands with the equally important need to ensure systems are robust, equitable for the full range of timber suppliers, both large and small, and widely recognised and endorsed by representatives of civil society. And this is a balance that has to be achieved in an environment where financial and technical resources are limited, existing institutions may be weak and there is little or no rule of law.

As one participant at the FLEGT Week workshop noted, "FLEGT may be one of the smartest governance programmes, but the process is messy, unpredictable and taking longer than first thought."

Delay in VPA licensing a challenge for the private sector

The long delays in implementation and issue of VPA licenses are a significant cause of concern for the private sector. EU importer representatives at the workshop stressed that lack of licenses is becoming a more significant obstacle to trade in tropical timber in the risk averse market environment that has developed in the EU following the economic crises and with implementation of EUTR.

In his presentation to FLEGT Week, ATIBT Director Ralph Ridder noted that while there were many positive developments in FLEGT over the past decade, there has been a loss of momentum in some VPA processes. This has made parts of the private sector sceptical about the value of VPAs and encouraged disengagement. Ridder emphasised that the EU must address this, specifically by providing support for positive market development of timber from VPA countries and a strong focus on delivering more cost effective approaches.

Other private sector participants at FLEGT Week emphasised the need for more stepwise approaches in VPA countries, with intermediate benefits during the long process of negotiation and implementation. Participants also said that a TLAS should be built from existing systems to maximize efficiency and cost. Linkage to existing private-sector legality verification and certification systems should be actively encouraged.

One participant went further, calling for risk-based approaches in the future, noting that auditing costs are increasing and that it would be good to contain them. A risk-based approach would mean less control in countries where there is good governance and a culture of compliance and increasing levels of control where there is a systematic lack of compliance.

Mixed picture on EUTR enforcement

The issue of market recognition for VPA licensed timber is closely tied to implementation of the EU Timber Regulation and similar legislation in other major consuming countries that impose due diligence requirements on importers. In the EU, VPA licenses and CITES certificates are the only forms of evidence formally recognised in law as requiring no further due diligence on the part of importers. This fact alone should provide VPA licensed timber with a competitive edge compared to

unlicensed timber in the EU market. Just how much of a competitive edge is heavily dependent on the real effectiveness of EUTR implementation.

Overall discussions at FLEGT Week suggest the impact of EUTR has been mixed to date. EUTR enforcement measures are still being developed and are not yet being universally or consistently applied across the EU. Several EU Member States have barely begun the process of implementation and have only limited staff appointed within their EUTR Competent Authorities. Interpretation of the law is still variable between Member States and agencies, leading to uncertainties and contributing to greater risk avoidance in procurement practice. This is particularly the case for tropical timbers which so far have been the main focus of environmentalist campaigns.

A practical example of this was provided by the Brazilian ipe episode last year, as reported by Bart de Turck, Secretary General the Belgian Timber Importers Federation (BFHI), in the ETTF newsletter. In response to allegations of illegality made by Greenpeace, several containers of Brazilian ipe were blocked entry into Belgium last year and their legality probed by FPS, the Belgian Competent Authority. This action prompted several large European distributors to immediately remove ipe from sale and announce suspension of future purchases. This attitude prevailed despite the ipe eventually being confirmed as legal and cleared for entry into the EU following liaison between FPS, BFHI and the Brazilian authorities.

It is clear that there have been problems in the early stages of EUTR implementation. However, presentations at FLEGT Week by EU government and industry representatives suggest that enforcement is becoming more effective and consistent. EU Competent Authorities in some of the largest EU importing countries – including Belgium, Germany, Netherlands, and UK – have been actively seeking to improve enforcement procedures. The European Commission is working to promote uniform implementation. It has demanded and expects to receive from all EU Member States in April 2015 reports on the status of EUTR implementation and details of sanctions and enforcement actions. Representatives of EUTR Competent Authorities from across the EU are now meeting regularly every 6 months to exchange information and work towards a consistent approach.

EU private sector responds well to EUTR

The private sector in the EU also seems to be responding well to the EUTR. Speaking at FLEGT Week on behalf of the EU timber importing associations, Nils Petersen of the German trade association GD Holz expressed strong support for the regulation and the VPA process and called for consistent and firm enforcement throughout the EU. He described the on-going co-operative efforts of importing associations across the EU to build on voluntary codes of conduct and certification schemes to ensure that principles of legal and sustainable procurement are applied throughout the continent.

Petersen noted that several EU timber importing associations – including in Belgium, France, Germany, Italy, and the Netherlands – are seeking and in some cases have already achieved the formal status of EUTR “Monitoring Organisations” (MO). As such they provide group due diligence services on behalf of their members, reducing costs and improving consistency of EUTR application across the industry. In the case of Italy, the private sector system is actually well ahead of the government in promoting conformance to EUTR.

Meanwhile, the ETTF with support of ITTO is developing a new on-line data platform to deliver tropical supplier country forestry legislation and wider business information. The dual aim is to help EU operators meet EUTR due diligence requirements and the development of tropical trade links.

In those EU Member States where EUTR enforcement actions are already quite well advanced, the results indicate a relatively high level of conformance to the law. Representatives of EUTR Competent Authorities in Germany and the Netherlands speaking at FLEGT Week both reported that about 75% of companies assessed so far had adequate due diligence systems in place. The main failing of companies with inadequate systems was that, while documents may have been collected to support legality claims, scrutiny of those documents and of the broader governance context in supplier countries was deemed insufficient to allow a credible assessment of negligible risk.

Value of VPA licenses relative to forest certification

A key question arising at FLEGT Week is the relationship between certification and VPA licensing. A view expressed by some (mainly larger) operators in the private sector is that VPA licensing procedures offer little or no added value compared to private sector certification systems.

This was the view of Hans-Joachim Danzer, speaking at the FLEGT Week opening plenary, who expressed scepticism about the feasibility of VPAs, with their country-level approach to assuring legality. He also noted that while legal conformance is expected as the minimum standard for market access, the “absence of illegality does not help sell timber”. He suggested that market differentiation required a more positive demonstration of good practice. A representative of IKEA, speaking at the same event, said that market development should build on private sector initiatives, notably FSC.

An analysis of public sector procurement policies in the EU by Chatham House, presented at FLEGT Week, indicates this attitude prevails in many government departments. The Chatham House research showed that those EU Member States with the most active and well enforced public sector procurement policies – Belgium, Germany, Netherlands, and the UK – equate “sustainable timber” with FSC and PEFC certification. With the exception of the UK, VPA licenses are not currently identified as compliant with public procurement requirements in any of these countries. However some other EU countries, with less far-reaching public procurement codes, do reference VPA licenses as evidence of good forestry practice.

Taking their lead from government procurement policies, promotional campaigns of certification systems, and the campaigns of environmental groups, many companies in the EU and elsewhere have made very far-reaching commitments to forest certification. The Netherlands Timber Trade Association (NTTA) established a target of 85% certification (to FSC or PEFC standards) of all timber procured by member companies by 2015, a target which it claims to have achieved in the first half of 2013. The NTTA accounts for 60–70% of the country’s timber imports. Similar far-reaching targets to progressively increase the proportion of certified wood have been established by timber trade associations in France, Belgium and the UK.

The WWF in the UK has just launched a campaign seeking to reinforce this trend, pushing for procurement policies for all wood products in both the public and private sector throughout the UK to go beyond timber legality and to require 100% certified sustainable by 2020. The campaign has already been signed by 34 UK companies. Quoted in the ETTF newsletter, WWF Global Forest Trade Network UK head Julia Young said that WWF wants the Campaign to move from UK to EU level. “We’ll be asking companies across Europe to engage politicians for action to transform the market,” she said.

Weakness of a certification-only approach

This attitude that certification is the only legitimate evidence of sustainable forestry practice might limit opportunities for EU market acceptance of VPA licenses as anything other than a minimum assurance of legality. However discussions during FLEGT Week and at the STTC annual conference focused in on the problems created by such a restricted view of sustainability. These discussions highlighted some of the key divisions that exist in the private sector, particularly between larger and smaller operators and between those in industrialised and developing countries.

A key conclusion of the FLEGT Week workshop on demand-side measures was that an exclusive focus on certification could make the European timber market largely irrelevant in the drive to encourage sustainable tropical forestry. It would simply fuel the on-going decline in European imports of tropical timber and encourage yet more diversion to less demanding markets.

Data from the IMM Baseline Report reported at the workshop flags up the continuing divergence in certification take-up between industrialised and developing countries. FSC and PEFC certified forest area worldwide is 440 million hectares, but under 20 million is tropical. There is less data on certification variance between small and large forest enterprises, but the former are clearly still less engaged, despite new group and regional schemes.

EU buyers no longer have the leverage to insist on particular forms of certification and must instead focus more on building constructive partnerships with suppliers based on clearer mutual understanding of needs and challenges, shared benefits and recognition for progress in line with agreed targets. The FLEGT approach of linking positive support through VPAs for forest governance reform encompassing all suppliers, with a regulatory measure in the form of EUTR to ensure market recognition for progress, is a solid framework on which to build this approach.

Participants at FLEGT Week frequently highlighted the role played by the VPA process to bring the full range of stakeholders together at national level, something which has yet to be achieved by private sector certification initiatives in tropical regions. The fact that VPA TLAS procedures are being applied to all exports and, in many cases, domestic trade has encouraged a concerted effort to bring representatives of all operators, both large and small, to the table.

The VPA process is also providing a mechanism to remove long-standing obstacles to participation by community and other small operators in formal timber markets – obstacles such as poorly defined tenure rights and overly complicated and bureaucratic legal requirements. There was recognition that the VPA process can help resolve broader issues of forest governance, such as corruption, that lie outside the scope of forest certification.

Synergies between VPAs and forest certification

Overall, there seemed to be widespread agreement during FLEGT Week that VPAs and certification should not be seen as competing, but rather as complementary processes with strong synergies. The VPA process helps establish the preconditions for much wider and more equitable participation in forest certification initiatives in tropical countries.

For their part, representatives of certifiers working with both FSC and PEFC noted that FLEGT legality standards are being recognised as a component of certification standards. It was acknowledged that the FLEGT approach has been a success for stakeholder engagement in countries where certification has so far had relatively little traction. An FSC representative said the FSC system has benefited and learned from VPAs, in particular from VPA legality definitions. These definitions have strengthened FSC country standards in several VPA countries. It was also noted that, in the absence of chain of

custody procedures for VPA licensed timber once it leaves the country of harvest, any downstream claims will be dependent on private sector traceability systems.

Moving forward, some key recommendations to build on FLEGT progress to date can be drawn from the discussions during FLEGT Week. These include the need:

- To clearly communicate that the VPA process is about more than “legality” (which will have little traction in the market) but is about forest sector reform and demonstrating good governance;
- To ensure that the “stick” of EUTR and public procurement is balanced by the “carrot” of strong positive promotion for VPA licensed timber;
- To ensure widespread recognition of VPA licensing as firm evidence of good practice alongside forest certification in government procurement policies and by promotion campaigns such as STTC;
- To actively support participation by small operators both in VPA Partner countries and consuming countries; and
- To promote consistent application and interpretation of procurement requirements not only in the EU but as far as possible in other major consuming markets.