

ETTF newsletter highlights strong trade support for EUTR

The latest issue of the European Timber Trade Federation (ETTF) newsletter suggests firm industry support for the EU Timber Regulation (EUTR), although not without criticism of some aspects of implementation. It also reports on a range of initiatives linking the public, corporate, and NGO sectors to improve the effectiveness and efficiency of the regulation.

A prominent supporter of the EUTR, according to ETTF, is Vandecasteele Houtimport, a leading player in the European timber importing trade. The company's Belgian site covers 16ha and carries 120,000m³ of stock, comprising 180 species, from European, American, Brazilian, Asian and African hardwoods, to softwoods and clears. From here, Vandecasteele distributes wood throughout Europe.

"EUTR is important, not just for protecting the forest, but protecting our legitimate EU timber trade too," said Vandecasteele Export Manager Geneviève Standaert in an interview with the ETTF. "The forest and the timber from it are our business. We don't want to see its future threatened by illegal logging, or the illegal trade undercutting our markets. We also don't want illegal timber in our supply chains, for moral reasons and the reputational damage it does to businesses and timber. The EUTR defends our reputation. It helps level the playing field with the illegal trade and, hopefully, will eventually help eradicate illegal wood completely." Ms Standaert says working together to meet the requirements of the EUTR has also strengthened its connections with its suppliers worldwide.

Immediate impact of EUTR on procurement quite limited

From Vandecasteele's perspective, the immediate effects of EUTR on procurement were quite limited. Ms Standaert suggests this is because much of the work was already carried out as part of the company's long term commitment to responsible procurement. 70% of timber procured by the company is FSC, PEFC, or third party legally verified. Adapting to the EUTR mainly involved fine-tuning of existing legality assurance systems – although because of the number of species and sources handled by Vandecasteele, that in itself took time. A laborious, but key part of the process, which Vandecasteele started in 2012, was translating Due Diligence System (DDS) documents for suppliers into numerous languages. "We also undertook extensive staff training, appointed a dedicated due diligence manager and developed specialist software, centralising all EUTR data," said Ms Standaert.

However, according to Ms Standaert, EUTR has impacted on internal distribution within the EU. "EUTR is a big undertaking for smaller companies too," said Ms Standaert. "They may not have our volumes, but have fewer resources to cope. In fact some have switched from direct import to buying from larger importers' as a result. That benefits companies like us, but ultimately reduces market diversity, which is not so good for consumers, suppliers and potentially the forest, given it's more sustainable to use a wider range of species and sources."

Need for collaboration with suppliers

Vandecasteele has been conscious of the challenge EUTR presents for suppliers and the need to avoid demanding 100% instant compliance. Where possible, Vandecasteele put suppliers that struggled on hold, trading again once they'd taken necessary actions. "This is a collaborative effort and dropping suppliers is counter-productive to tackling illegality and preserving the forest," said Ms Standaert. "If we're no longer trading partners, we lose any influence. Suppliers may sell to less demanding markets, or even convert forest to other commercial uses, and there are big powerful companies ready to plant soy and palm oil instead".

Obstacles to efficient operation of EUTR

In her interview with ETTF, Ms Standaert mentioned several obstacles to more efficient operation of EUTR that still need to be resolved. There needs to be greater pan-EU standardisation of due diligence documentation to assist suppliers and greater coordination on proof of legality with other anti-illegal timber market regulations, such as the US Lacey Act.

There's also a need for the European Commission to accelerate appointment of EUTR Monitoring Organisations (MOs), the bodies authorised to create and manage DDSs for operators. There are now just only four. "MOs would help smaller operators especially," said Ms Standaert.

Vandecasteele also wants greater trade and government impetus behind the EU's Forest Law Enforcement Governance and Trade Voluntary Partnership Agreement (FLEGT VPA) initiative. "We need those first VPA signatories at the FLEGT-licensing stage and to increase awareness of the initiative in the industry and marketplace," said Ms Standaert. "It would be a big benefit to both buyers and suppliers."

Support for VPA process and EUTR echoed by other big players

Many of Ms Standaert's comments are echoed by other big players in the EU timber importing industry interviewed for the ETTF newsletter.

Paul-Emmanuel Huet, Social and Environmental Manager Rougier, France said: "We welcomed the EUTR as a measure to effectively fight against unfair illegal competition and combat imports of illegal timber in Europe. We had our own internal due diligence system prior to the EUTR, but had to make some updates in terms of procedure to show we had all the necessary controls in place. Consequently the impact on our supplier base was insignificant. In terms of improving EUTR implementation we'd like to see greater significance given to private third party certification in due diligence, and Europe to take an official position on the set of documents from each producer country which has to be considered by importers for due diligence."

Tom Van Loon, Group Environmental Manager Danzer, Germany, commented that: "we already had ISO 14001 certified procurement to verify legality and environmental impact from Africa, but since EUTR we expanded these procurement procedures to all sources, and added a new level of systematically auditing non-certified, high risk area suppliers. The EUTR is creating a level playing field, but we need more focus on third party verification and certification systems, and less on documentation, which may not be reliable in high risk countries."

Chris Sutton, Managing Director James Latham, UK, observed that "EUTR helped formalize what our industry should already have been doing. We had to tighten some procedures, but already followed the UK Timber Trade Federation Responsible Purchasing Policy, and had a computer system that could deal with necessary supplier information. We had to play hardball with a few suppliers on paperwork, but worked with them, visiting them worldwide, and as a result only lost one or two. EUTR has been a benefit. We just hope all EU countries now enforce it as effectively as the most rigorous do already."

According to Ad Wesselink, Managing Director Wijma Kampen, Netherlands: "A central listing of current documents proving legality would strengthen EUTR. But critically we'd like stronger programmes to support supplier country take up of Forest Law Enforcement Governance and Trade Voluntary Partnership Agreements (FLEGT VPAs), which ultimately lead to them issuing FLEGT licences providing legality assurance and allowing timber access to the EU without further EUTR due

diligence. Overall EUTR and FLEGT are critical to restoring the image and market share of tropical timber, a great resource.”

Good response to EUTR in Germany

Further evidence that overseas suppliers and European timber importers seem to be responding well to the EUTR comes from the latest enforcement data of the German EUTR Competent Authority, one of the most active to date.

According to an article in the Germany based timber trade journal EUWID, drawing on comments by Thorsten Hinrichs, senior government official at the Federal Ministry for Food and Agriculture (BLE), between January and December 2014 the BLE investigated 140 companies affected by the EUTR to check on how effectively it was being implemented.

In the course of the investigations, only three cases of serious violations based on clearly insufficient compliance with due diligence requirements of EUTR were ascertained. Proceedings concerning these three cases are still under way. The likely outcome is, however, that a penalty will be imposed which, under the terms of the German EUTR implementing act, can amount to as much as €50,000. In addition, seven minor violations were identified by BLE, each of which merited an official warning.

Selection of companies for investigation was partly based on information received by third parties. For example, the World Wide Fund for Nature (WWF) bought timber products from market players, had the types of timber analysed and informed BLE about any false declarations.

According to EUWID, during on-the-spot investigations, companies have to present due diligence systems and explain them to the BLE investigators. In addition, ten deliveries are selected and scrutinised. Timber samples are also analysed by the Heinrich von Thünen Institute in Hamburg.

The implementation of the EUTR in Germany, according to Hinrichs, has got off to a good start despite a certain amount of uncertainty on the part of many market players.

Joint ITTO-ETTF project to streamline EUTR implementation

A key project to facilitate more efficient implementation of the EUTR, now being developed by ETTF with ITTO support, is to establish an on-line platform to constantly update EU importers on supplier country laws which timber must comply with to meet due diligence requirements.

The first \$100,000 of the required \$150,000 was pledged by Netherlands and Japanese donors at the International Tropical Timber Council meeting in Yokohama in November, following a presentation on the project by ETTF Secretary General André de Boer.

According to the ETTF newsletter, Mr de Boer is confident of securing the rest of the funding early in 2015, including a contribution from the Sustainable Tropical Timber Coalition which is now actively promoting tropical wood in the European market.

Under the EUTR, timber must be legal under the laws of the country of origin. But currently companies are on their own when it comes to researching this legislation. According to Mr de Boer, the project “would effectively establish a one-stop shop for EUTR applicable producer country legislation and documentation”.

“A central data resource would not diminish individual due diligence responsibilities, but make their task more straightforward and raise standards,” said Mr de Boer. “Ultimately if all companies, and EUTR Competent Authorities (CAs), referred to the same current information it would also ensure

more uniform implementation of the Regulation and enhance its effectiveness against illegal timber.”

Mr de Boer also noted how the platform would benefit suppliers. “Under EUTR, EU ‘operators’ must have access to documentary evidence of legality and they are currently doing this individually. This is leading to suppliers being asked for all kinds of information and feeling overwhelmed by a tsunami of requests”. A one-stop online EUTR legality information database would help streamline information flow and reduce the burden on suppliers.

Major reviews of FLEGT Action Plan and EUTR underway

The ETTF newsletter reports that the European Commission is undertaking major reviews of the EUTR and Forest Law Enforcement Governance and Trade Action Plan (FLEGT AP) during 2015. According to Bernard Crabbé of the EC Directorate General for Development and Cooperation (DEVCO), quoted by ETTF, these reviews will be as wide-ranging and consultative as possible. “The Commission wants a balanced mix of stakeholders consulted, including governments, private sector and civil society,” said Mr Crabbé.

Consultants appointed for the EUTR Statutory Review have now started collating implementation and enforcement data. Online stakeholder consultation will also take place early in 2015 and EU member states will additionally submit EUTR biennial reports in April. The Commission will subsequently submit its EUTR report to the EU Council and Parliament by December 3 2015. It will review the functioning and effectiveness of EUTR and will be made publically available. Any reforms to EUTR required will follow in 2016.

The review of the wider FLEGT AP, including the FLEGT Voluntary Partnership Agreement (VPA) initiative to help producer countries implement forestry and timber legality assurance systems, began with a November meeting between consultants and the EC Steering Committee. Wider consultation starts February this year, including surveys of private sector and civil society FLEGT engagement in member states and VPA signatory countries, bilateral meetings and a “multi stakeholder workshop” during Brussels FLEGT Week from 16-19 March. A “web-based tool” will allow further stakeholder input. The FLEGT review team will also visit VPA signatory and other producer countries, China and member states. The process completes in October. For review updates: <http://ec.europa.eu> and www.euflegt.efi.int/eu-flegt-evaluation

According to the ETTF newsletter, the European trade sees scope for the reviews to drive improvement in implementation, operation and greater clarity in both the EUTR and the FLEGT VPA process. The ETTF itself is currently talking with other bodies, including the European Confederation of Woodworking Industries (CEIBois) and Association Technique des Bois Tropicaux (ATIBT) to establish joint positions to put to review panels.

“Among our points is the need for more guidance on the scope of EUTR applicable producer country timber and forestry legislation,” said Secretary General André de Boer. “Ensuring more equal enforcement across member states is also essential.” The latter view was echoed by Anand Punja, Head of Sustainability at the UK Timber Trade Federation (TTF). “It is quality of enforcement that is of interest as there’s a perception it is higher in parts of Europe than others,” he said. “This puts companies in certain countries at a competitive disadvantage.”

Mr de Boer also said the EUTR Review should address the role certification could play in ‘operator’ importers’ due diligence illegality risk assessment and mitigation. “There’s a view that certification schemes which fully address its proof of legality criteria should get a semi-green lane through the

EUTR," he said. However Mr de Boer cautioned the EUTR reviewers that "if there was any pressure to raise its bar from legality to sustainability, the industry will oppose it".

ETTF members also want the EUTR exemption for wooden seating to be removed so that it is covered in line with all other forms of wooden furniture.

European specifiers need to be more flexible in their choice of hardwood

Use of verified sustainable timber could be limited by specifiers being too restrictive in choice of species and certification scheme. This was the conclusion of a seminar on sustainable timber in government projects organised by the Netherlands Green Deal initiative reported in the ETTF newsletter. An alliance of industry, end users, retailers, NGOs and government, including Tropenbos and the Royal Netherlands Timber Trade Association (NTTA), the latter aims to make sustainable certified timber the Netherlands market norm. The seminar, under the title "Stimulating Sustainable Forestry", took place in Tiel at the Rivierenland Water Board (Waterschap).

Delegates heard that certified sustainable timber has risen from 58% to 86% of NTTA members' total imports since 2008. However, in hardwood certified material's share is only 55%, so "considerable" efforts were needed to boost sales, particularly in Netherland's key marine products sector, said speakers. One route to market growth, it was suggested, was to give contractors greater specification freedom.

The Netherlands government's Timber Procurement Assessment Committee (TPAC) accepts FSC, PEFC and Malaysian MTCS certification as proof of sustainability. According to Annemieke Visser Winterink of the Probos forestry foundation, specifiers should therefore opt for material verified under any of these schemes, and focus on technical capabilities rather than specific species.

"By adhering to government certification criteria and specifying physical mechanical properties rather than species, you give contractors freedom of choice," she said. "That not only potentially increases the quality and cost effectiveness of the project, but helps broaden use of wood from sustainably managed forests."

International Hardwood Conference

The ETTF will jointly host the 2015 International Hardwood Conference in Copenhagen on September 17 2015 with the European Sawmillers Organisation (EOS). Consequently it will broaden to encompass non-European species, including tropical, as well as European hardwoods.

European hardwood trade struggles with low profitability and investment

The Annual Review published at the turn of the year by the Germany based EUWID journal provides a wealth of information on European and North American corporate investment, divestment and bankruptcies in the forest products sector during the previous 12 months. As such it's a rare and valuable insight into the underlying financials and direction of development of the sector as a whole.

The hardwood sector, being generally dominated by smaller fragmented firms, does not feature strongly compared to the much larger more consolidated softwood and panels industries. However there are some interesting observations, most reinforcing the image of an industry struggling with low levels of investment and innovation and rising levels of competition. For example:

- In the European import trade, the main news in 2014 identified by EUWID was the break-up of Danish Group Dalhoff Larsen and Horneman A/S (DLH) which formerly had several large

stock holding operations in Western Europe and was also a leading distributor of tropical wood into Eastern Europe.

- EUWID note that “furthermore, other importers of tropical wood have also experienced economic difficulties. A prominent example in this context is the Swiss group Precious Woods Holding AG which in the third quarter of the year announced that continuation of its business was in jeopardy. In February German company B&T Wood Trading GmbH, Meerbeck, was compelled to submit an application for insolvency. Dutch company Zuid-Nederlandse Houtindustrie B.V. terminated its business activities in October”.
- The rate of reduction in European sawmill capacity (both softwood and hardwood) during 2014 was much lower than in 2013. EUWID notes that “the consolidation in the European sawmill sector which in the estimation of market participants continues to be necessary has not taken place this year”. The implication is that the domestic wood sector continues to suffer from a degree of over-capacity, always a problem for external suppliers selling into the market.
- On the other hand, nor is there any news of any large new investments in the European hardwood sawmilling sector during 2014.
- Similarly, there were very few new developments in European wood-based panel and surfaces sector in 2014 after a large number of transactions in 2013.
- The European Luxury Vinyl Tiles (LVT) continues to expand and, according to EUWID, this is likely at the expense of other material suppliers to the flooring sector.
- The main trend identified in the wood flooring sector is a continuing shift in production from Western to Eastern Europe, with reference made to new or expanding facilities in Lithuania, Romania and the Czech Republic.

WPC taking greater share of European markets important for tropical wood

Sales of Wood Plastic Composites (WPC) in Europe increased to roughly 179,000 tonnes in 2014. This according to an article in EUWID drawing on a presentation by Jon Nash, director of the British research and consulting company Applied Market Information (AMI) Ltd.

Sales of WPC products in the EU (EU-25) plus Norway and Switzerland increased from 143,000 tonnes in 2010 to 179,000 tonnes in 2014. Sales for exterior use, a market where WPC competes directly with tropical hardwood decking and cladding products, rose by an average of 6% per year during this period to 150,000 tonnes. Nash forecast continuing annual growth in the exteriors sector of 7% to 200,000 tonnes by 2018.

WPC is having a particularly significant impact in markets for exterior products in Germany, France, UK, Belgium, Netherlands and Spain. WPC products sold in Europe are mainly imported from the USA and China.

This data needs to be considered alongside the decline in EU imports of tropical hardwood decking profiles from around 747,000 m³ in 2007 to less than 300,000 m³ in 2013. It's clear that the expansion in EU consumption of WPC combined with the installation of around 300,000 m³ of capacity for thermal treatment of temperate wood in Europe, not to mention expansion of capacity for acetylation and other forms of chemical treatment, presents a significant challenge to tropical wood in European markets for exterior products.