

## **Survey highlights benefits of FLEGT licensing to European market prospects**

A survey of over 130 companies in the EU+UK, including a significant proportion of the region's largest importers of tropical timber products, highlights that FLEGT licensing has helped boost market prospects for Indonesian products. It also shows that implementation of the EU Timber Regulation (EUTR) and associated rising dependence on certified products has led to a narrowing in the range of tropical companies supplying the region overall.

But while EUTR contributed initially to the fall in share of tropical timber products in the EU+UK market, the survey reveals that this effect may be moderating and a significant minority of respondents now suggest that the existence of EUTR is helping to reduce reputational problems surrounding trade in tropical timber.

The survey was undertaken in 2020 by the FLEGT Independent Market Monitor (IMM), the ITTO project supported by EU funding, and covered tropical timber trading companies in six countries (Belgium, France, Germany, Italy, the Netherlands and the UK) which together account for over 90% of EU+UK timber imports from VPA partner countries.

The 2020 survey built on earlier IMM surveys undertaken each year between 2015 and 2019 and covered a broad range of private sector players, including importers and agents as well as manufacturers, retailers, wholesalers and building contractors.

In response to a question on which country respondents believed would be the most important supply country for tropical timber five years from now, Indonesia received by far the most individual votes in the 2020 survey, overtaking all four countries identified as potentially more important when the same question was asked in 2018 (Cameroon, Brazil, Malaysia and Congo Republic).

Indonesia received 45 out of a total of 293 votes in 2020 (survey respondents were allowed multiple answers), compared to 38 votes for Malaysia, 36 votes for Cameroon, and 32 votes for Brazil. Vietnam ranked only 9th in the 2020 survey, a result likely due to the fact that most respondents are importers of HS44 wood products, rather than furniture which dominates imports from Vietnam.

India (3 votes) emerged for the first time as a potential key supplier in the 2020 survey. Over the last decade, Indian exports of wood products and especially furniture increased substantially to a number of countries in the EU+UK including Germany, the Netherlands, the UK and France.

Brazil made a sharp recovery in 2020, after a drop to just 12 votes and 9th place in the ranking in 2019. However, according to survey respondents, doubts still persist regarding the political situation in Brazil and the implications for timber legality and EUTR due diligence.

Several other South American countries were mentioned as having potential to gain in importance as suppliers to Europe, including Peru (8 votes), Bolivia (3 votes) and Suriname (3 votes). Among South American VPA partner countries, Guyana (3 votes) was considered to have slightly more potential as a supplier than Honduras (1 vote) in 2020.

Surveyed companies were asked whether FLEGT Licensing and the introduction of the EUTR has had any direct impact on the share of tropical timber in their overall timber imports.

Two thirds of respondents confirmed fully or partially that, where possible, they would give preference to FLEGT-licensed timber from Indonesia over unlicensed timber from competing

sources. The proportion of respondents reporting small increases in Indonesian timber product imports due to introduction of FLEGT-licensed timber rose sharply to 28% last year; this compares to 12% in both 2018 and 2019. A few respondents indicated that Indonesia had gained market share from South American and Malaysian suppliers.

Nevertheless, a significant majority (71%) of respondents reported that FLEGT-licensing has led to “no change” in the share of Indonesian products in their purchases, a fact at least partly due to Indonesia supplying limited, even negligible, volumes of some key timber products (notably rough sawn hardwood).

The 2020 survey also showed that 60% of respondents found that the administrative process of importing FLEGT-licensed timber was easily understandable and manageable, a rise from around 50% in 2019 and less than 20% in 2017 survey. The number of respondents highlighting challenges in the FLEGT licensing procedure stabilised at a low level in 2020, after declining sharply in 2018 and again in 2019.

The number of respondents stating that they are “fully aware of the FLEGT process and what it involves” increased by 10 percentage points to nearly 60% between 2019 and 2020, the third year of increase. The proportion of respondents that was partially aware was close to 40% in 2020 and those stating they were “unaware of FLEGT” fell to a negligible level in 2020.

#### **EUTR gradually shifting from a negative to a positive factor for tropical imports**

On the impact of EUTR, the proportion of respondents reporting either small or large decreases in the share of tropical timber in their overall timber imports due to introduction of EUTR fell from 38% in 2019 to 24% in 2020. In 2020, 67% of respondents said there was no change in their purchase of tropical timber as a result of EUTR and 8% said the regulation was encouraging increased purchases of tropical timber.

Respondents who noted an increase in tropical timber imports due to EUTR said that this was a result of an increased level of trust in the legality of tropical timber amongst their customers. Although only a minority had this view, it seems to be a rising trend. No respondents in 2018 and just 2% of respondents in 2019 said their imports of tropical timber had increased as a result of EUTR.

Survey respondents reporting negative impacts on market share of tropical timber said that EUTR due diligence had narrowed their supply base in tropical countries. Also noted was an increasing concentration of tropical timber and timber product import trade in the hands of “specialist” exporters and importers. This means that overall volumes produced and traded are not necessarily declining, but the number of companies involved in trade is, with larger companies typically taking over from smaller competitors.

Respondents also indicated that EUTR has caused the sector to reconsider its supply chain relationships, which sometimes resulted in increasing substitution of tropical hardwoods with alternatives, including temperate hardwoods and chemically or thermally modified timber as a result of EUTR.

Around two thirds of respondents reckoned that the preference for certified timber products has increased since introduction of EUTR, although not necessarily to a large extent and with FSC

benefiting more than PEFC. 12% of respondents noted a big increase in the share of FSC certified tropical timber and an additional 43% a small increase due to EUTR. This compares to 5% noting a big increase and 32% a small increase in share of PEFC certified tropical timber as a result of EUTR.

Some respondents to the survey suggested that the extent to which certified products has increased share is significantly constrained by capacity and cost constraints for certified tropical timber against the background of limited further progress towards forest certification in tropical countries.

As a result, the stronger focus on certified products, both to support EUTR compliance and to achieve goals set by procurement policies, has, according to a number of IMM survey respondents, further intensified substitution of tropical timber products with alternatives made of temperate wood, which are much more readily available with FSC or PEFC certification.

### **Interaction between certification and licensing**

When asked whether the market introduction of FLEGT-licensed timber from Indonesia has had any impact on their purchases of certified timber, a large majority of respondents (around 80%) answered “no change” in 2020, similar to previous IMM surveys. Only a very small proportion of respondents (less than 5%) suggested that introduction of licensing had reduced the share of tropical timber certified by FSC or PEFC .

In 2020, there was a significant change with several respondents from the Netherlands and the UK, in particular, reporting increases in the share of certified timber due to FLEGT-licensing. These companies said that they had started buying from Indonesia as FLEGT-licensing had increased their trust in the country’s environmental performance. However, due to company policy they still only buy certified products, so certification benefitted indirectly from FLEGT-licensing in Indonesia.

In short, the evidence from this survey is that FLEGT licensing does not detract from market demand for certified tropical wood. Instead, it can assist market development of certified timber from countries also offering FLEGT licenses by improving confidence in the overall framework of forest governance in those countries.

While the IMM survey indicates that confidence in certified products may be boosted by FLEGT licensing, a significant proportion of respondents believed that FLEGT Licenses should themselves be recognised as evidence of sustainability in procurement policies.

In 2019, 42% of survey respondents either fully or partially agreed that Licensing should be recognised as evidence of sustainability. In 2020, this proportion increased sharply to 61%. Only 12% of respondents fully or partially disagreed with such a recognition in 2020, down from 22% the year before. The remaining respondents were neutral on the subject.

On the other hand, the response to another question implied a greater level of uncertainty in the European trade on the extent to which FLEGT licensing should be regarded as evidence of sustainability. In each annual survey between 2018 and 2020 respondents have been asked to indicate the extent to which they agree or disagree with the statement “FLEGT means ‘just legal’ and has nothing to offer in terms of sustainability”.

In every survey to date, the proportion wholly or partially agreeing with this statement (and thereby implying that FLEGT did not provide proof of sustainability) has been significantly higher than those disagreeing. In 2020, 55% wholly or partially agreed while 25% wholly or partially disagreed (20%

were neutral). This result was less favourable than in 2019 when 43% tended to agree and 33% tended to disagree.

This highlights the still significant need for consistent communication on FLEGT and what it delivers in relation to sustainability. It also emphasises that if FLEGT licensing is to fulfil its full market development potential, it needs to be endorsed more widely as evidence of sustainability in public sector and corporate procurement policies.

Further details are available from the FLEGT Independent Market Monitor ([www.flegtimm.eu](http://www.flegtimm.eu))

### **IMM webinar on tropical timber trade trends during the pandemic**

Tropical timber trade trends through the pandemic and the latest on FLEGT, including UK promotion of the initiative, are topics of an Independent Market Monitor (IMM) webinar at 10 am-12 noon on CET June 24. The IMM's mandate is to monitor trade impacts and perceptions of FLEGT Voluntary Partnership Agreements (VPAs) and market performance of FLEGT-licensed timber in the EU and UK.

The webinar will feature IMM's analysis of the tropical trade over the last 12 months and the effect of the COVID-19 health crisis on supply and demand. It will also include a summary of recommendations and conclusions around the FLEGT initiative from four years of IMM market surveys and trade consultations.

A key point voiced by the trade in IMM studies is the need to raise the market profile and awareness of FLEGT. The UK Timber Trade Federation is among the most active players in promotion of the initiative and will outline the initiatives and impacts of its FLEGT communications programme to date and plans for the future.

To sign up to this free event visit:

[https://us02web.zoom.us/webinar/register/WN\\_vwZH7iihS061CM2JN5vX6w](https://us02web.zoom.us/webinar/register/WN_vwZH7iihS061CM2JN5vX6w)

### **Record penalty imposed for illegal timber import into the EU**

According to a report by the Environmental Investigation Agency (EIA), WOB Timber, a logging company based in Hamburg, Germany, has been ordered by a court to pay a €3.3 million fine for illegally trading Myanmar timber. The April 27 decision was one of the highest financial penalties for this type of crime in the European Union.

On 27<sup>th</sup> April, the Regional Court in Hamburg found that WOB Timber had evaded the EU sanctions on 31 separate shipments of timber worth millions of euros from 2008-11, when the previous military junta –the State Peace and Development Council (SPDC) – was sanctioned by the EU.

According to an investigation by EIA, many of the shipments involved timber being processed in Taiwan and declared as originating from that country, rather than Myanmar, to evade the sanctions.

In addition to fining the company, the Court sentenced director Stephan Bührich to a 21-month suspended prison sentence and a fine of €200,000 – and warned further cases would result in even harsher penalties.

More details at <https://eia-international.org/news/german-firm-investigated-by-eia-convicted-for-breaking-eu-sanctions-by-trading-illegal-myanmar-teak/>.

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15 June 2021 4 | 8

## **EU and Honduras sign FLEGT agreement**

On 27th of April, the European Parliament adopted a non-legislative resolution regarding the draft Council decision on the conclusion of the voluntary partnership agreement (VPA) between the European Union and the Republic of Honduras. This resolution follows the agreement on forest law enforcement, governance and trade in timber, which – after several years of negotiations – the EU and Republic of Honduras reached at the end of February this year. It aims at ensuring that timber and timber products from Honduras that enter the EU market have been legally sourced and licensed, and thereby fulfill the requirements of the EUTR.

## **TTF webinar on UK Timber Regulation**

The Timber Trade Federation hosted a webinar on UK Timber Regulation with the participation of the Office for Product Safety & Standards (OPSS) – the competent authority for enforcing the UK Timber Regulation. The webinar provided the audience with detailed information about the scope, contents, enforcement and potential market implications of the UK Timber Regulation, particularly how it compares to the EU Timber Regulation. It highlighted that a major distinction lies in the fact that all imports of wood products into the UK from the EU must now be subject to due diligence and that, even if certified, wood imported from the EU can no longer be assumed to be legally sourced. In addition only direct imports into the UK of FLEGT licensed timber from Indonesia are exempt from due diligence. Indirect imports by way of the EU are not exempt.

The full webinar can be viewed at: <https://www.youtube.com/watch?v=JUhmYQPoxw>

## **EU Forestry Crime project – events in June held by WWF, Interpol and ClientEarth**

On the 1st and 2nd of June, the EU Forestry Crime project group held workshops for civil society organisations on forestry crime. The event aimed at providing the participants with practical knowledge on tackling illegal logging and related issues and presenting the main results of the report “Recommendations for improvement of forestry crime law enforcement”.

This report can be downloaded at <https://www.wwf.de/fileadmin/fm-wwf/Publikationen-PDF/Wald/WWF-EU-Forest-Crime-Recommendations.pdf>. It is notable for the focus on illegal logging in European countries dealing with the main gaps in forestry legal frameworks of Belgium, Bulgaria, France, Romania, Slovakia, and Ukraine.

The final conference evaluating the project is being held on 15th and 16th of June. The event is addressed to both EU and national decision-makers dealing with the EUTR, foresters, customs agents, prosecutors, judges, competent authorities, police, investigation and anti-corruption bureaus, representatives of environment/agriculture ministries, as well as civil society organisations. Details of the conference are at: <https://hopin.com/events/joining-forces-against-illegal-timber-on-the-eu-market>

## **Claim of rising European harvest relies on flawed reading of satellite data**

Is forest harvesting increasing in Europe? Yes, but not as much as reported last July in a controversial study published in Nature. This is the conclusion of a response article published in April, also in Nature, joint authored by 30 scientists from 13 European countries which set out to demonstrate that the large harvest changes reported by the European Commission’s Joint Research Centre (JRC) was the result of methodological errors.

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The contents and implications of the response article are explained in a blog posted by Dr Marc Palahí, the Director of the European Forest Institute (EFI), on the EFI website in May (<https://blog.efi.int/is-forest-harvesting-increasing-in-europe/>).

Dr Palahí, who co-led the response, notes that the original report authored by the JRC in Nature, entitled “Abrupt increase in harvested forest area over Europe after 2015”, used satellite data to assess forest cover and claimed an abrupt increase of 69% in the harvested forest in Europe from 2016. The JRC suggested that this increase resulted from expanding wood markets encouraged by EU bioeconomy and bioenergy policies.

According to Dr Palahí, the publication of the JRC report in Nature triggered a heated debate, both scientific and political, as the EU Parliament and Council were discussing the Post-2020 EU Forest Strategy. This encouraged preparation of the co-ordinated response from forest scientists across Europe.

Dr Palahí states that “our response showed methodological errors, relating to satellite sensitivity improving markedly over the period of assessment, as well as to changes in forests due to natural disturbances – for example drought and storm related die-back and tree-falls – being often attributed wrongly to timber harvests”.

“In the future forest information should be more carefully assessed, taking into account a wide variety of methodological issues and factors, before drawing hasty conclusions. This requires enhanced collaboration as well as scientifically robust and common approaches between the European Commission and Member States to enable better informed forest-related policies in the context of the EU Green Deal.”

In his blog, Dr Palahí goes on to quote Professor Gert-Jan Nabuurs from Wageningen University, an IPCC lead author who contributed to the response: “the harvest across Europe’s forests has increased in recent years, but by just 6%, not the 69% claimed by the JRC study. This is due primarily to a moderate economic recovery after the 2008–2012 recession. What is really striking is the unprecedented levels of natural disturbances affecting our forests in many parts of the continent in recent years.”

Dr Palahí concludes “The implications of the errors found by Palahí and colleagues are of global relevance, as many studies to inform policy-makers and society at large on the state of the world forests are nowadays based on remote sensing. The analysis of products based on satellite imagery is becoming key for instance to understand the extent of global deforestation, and thus we need scientifically robust remote sensing methods for sound policy-making”.

### **More than enough wood in European forests, according to EFI experts**

In a related EFI blog post, Professor Gert-Jan Nabuurs, Bas Lerink and Mart-Jan Schelhaas argue that the sharp increases in timber prices worldwide since the middle of 2020 do not reflect any long-term shortfall in the supply of wood. Rather the trend is due to the combined effects of a spike in demand driven by economic stimulus measures at a time when supplies have been severely disrupted during the pandemic.

The authors argue that in Europe the supply imbalance will even out in the medium term but that does not mean that changes to forestry policies and practices are not needed to help satisfy the

anticipated long-term rise in demand for carbon-neutral wood products. Specifically, there needs to be increased harvesting (not an easy process by the way), more investment in reforestation and efficient processing capacity, and increased recycling.

The authors note that during the corona lockdowns, many people in Europe and North America started home renovations or building new homes. These and other construction activities have been boosted by central bank policies in the EU and USA, which have kept interest rates record low. Also, fiscal stimulus packages due to the corona crises have supported public investments, for example to fund construction. All these activities contributed to increasing demand for wood.

In addition, say the EFI authors, there is simply a shortage in wood processing capacity so that supply has been lagging behind demand now for several years. In addition, in 2020 as many sawmills and logistics were partly closed down due to corona restrictions, the supply of timber declined and deliveries were delayed.

The EFI authors also suggest that the US softwood dispute with Canada has contributed to rising timber prices. As early as 2018, to protect the US domestic market, the Trump administration significantly increased import tariffs on Canadian timber. As a result, Canada now supplies timber to China, and the United States purchases much more softwood from Europe, including from Austria, Germany and Scandinavia.

With increased demand for European timber, there are now shortages, according to the EFI authors. Even the oversupply from Germany and Czech Republic caused by the increased loggings in forests affected by bark beetles have not made up for these shortages, as a fair share of their supply was exported to China. Also, in this central European region, coniferous log prices are still below the level of five years ago.

The EFI authors ask the question, “Is there really a shortage of wood [in Europe]?” and offer the response, “No, definitely not...There is more wood in the European forests than at any time since the late Middle Ages. Including countries in eastern Europe such as Ukraine and Belarus, this stock of wood amounts to almost 35 billion m<sup>3</sup>. Due to forest growth, a billion m<sup>3</sup> of wood is added every year. The harvest is only 600 million m<sup>3</sup>/year. So there is certainly no physical shortage”.

They note that building more buildings with wood in Europe would do little upset this supply balance: “even if the EU were to build 30% of its new homes with wood (equivalent to 300 000 dwellings per year), that would mean only an extra demand of 15 million m<sup>3</sup> of sawn timber (for comparison: Sweden alone produces annually 18 million m<sup>3</sup>). A small increase”.

The EFI authors also emphasise that “For clarity, it is important to stress that the current price increase has nothing to do with the bioenergy market, because these are completely different types of wood and qualities”.

They conclude “If we must get rid of fossil fuels, the demand for wood may increase. That is possible under two requirements: we should further improve efficiency and reuse of wood products. And in addition, we need to invest in good forest management and reforestation. The EU Green Deal and Timmermans’ Green Deal’s 3 billion trees are a good start” (a reference to the EU’s ambitious strategy published last year to plant 3 billion trees alongside other measures to protect the region’s natural resources for which EU aims to raise €20 billion per year).

See <https://blog.efi.int/more-than-enough-wood-in-the-european-forest/>