

Trade flows, illegality hot-spots and data monitoring

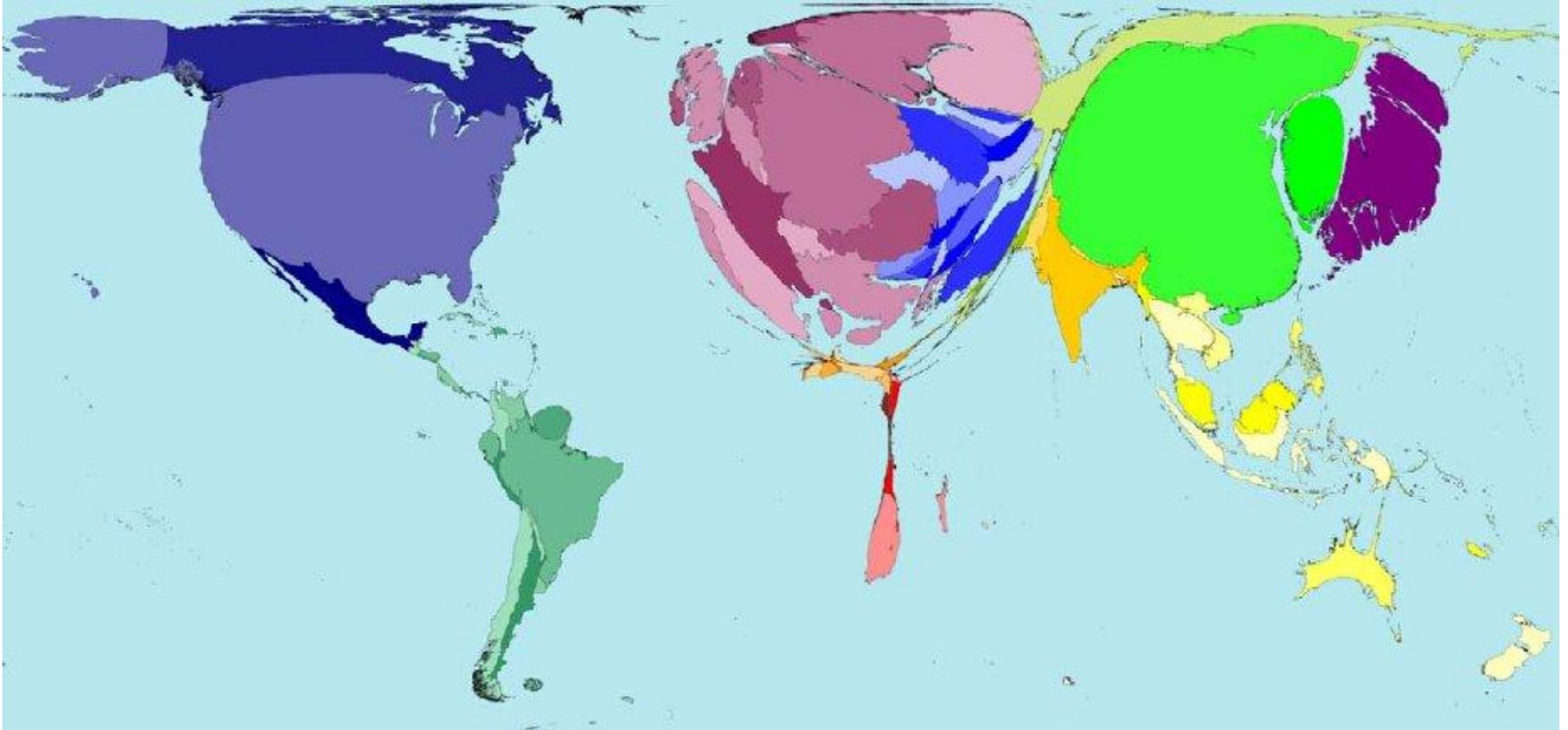
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Intelligence Ltd

Introduction

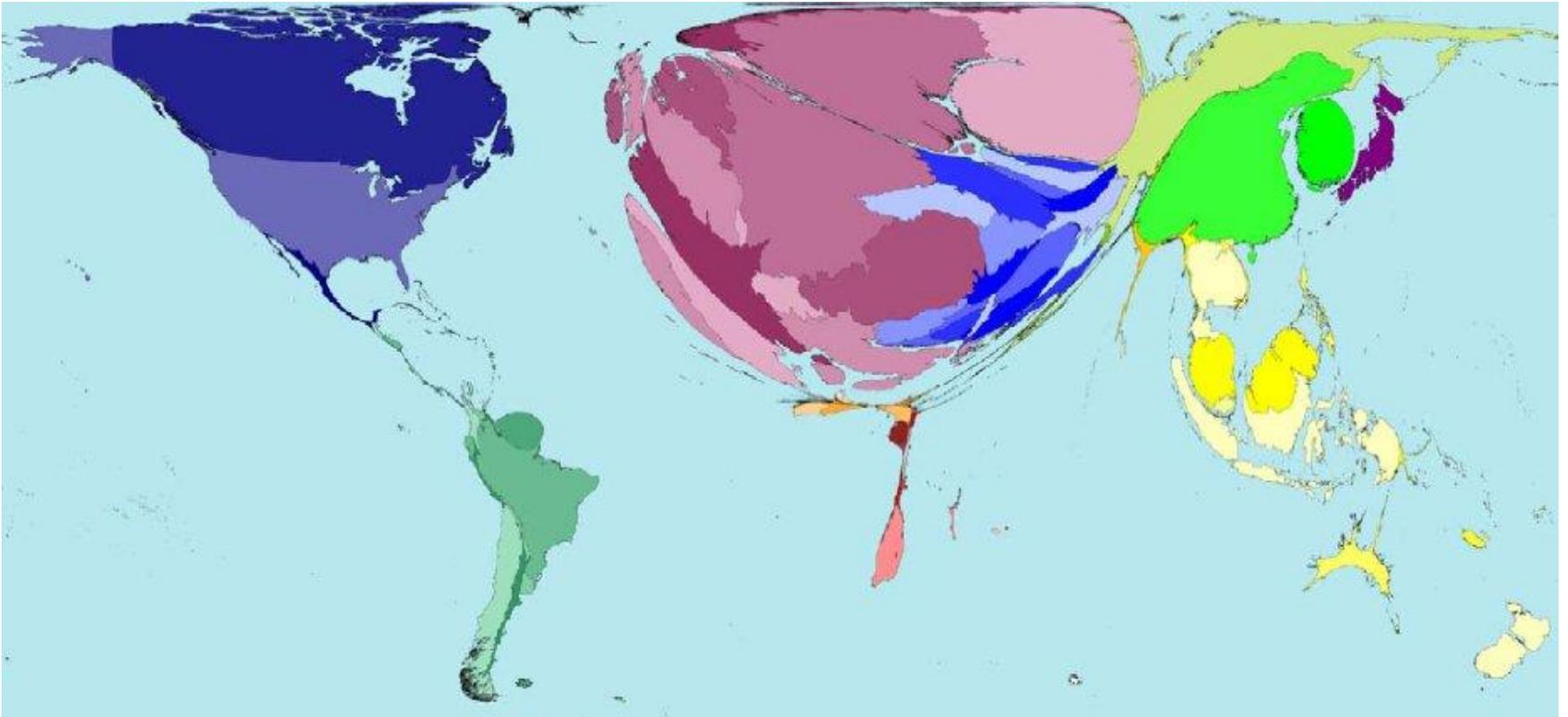
- Acknowledgements: CH/FT/ETTF/DFID
- Brief overview of EU's place in international timber trade
- Assessing risk of illegal logging in EU imports
- Summarise EU “high risk” imports
- Focus in on high risk supply regions:
 - China, Russia/CIS, South East Asia, East Europe, Latin America, Central Africa
- Comment on trade monitoring

World shaped by wood production volume



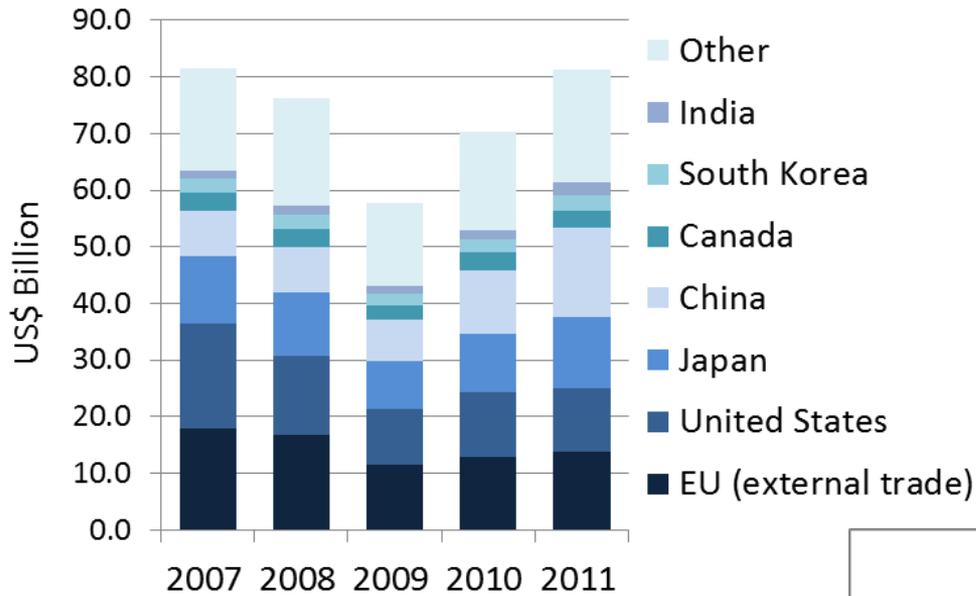
Source: UNECE Timber Committee and Worldmapper 2009

World shaped by wood export volume

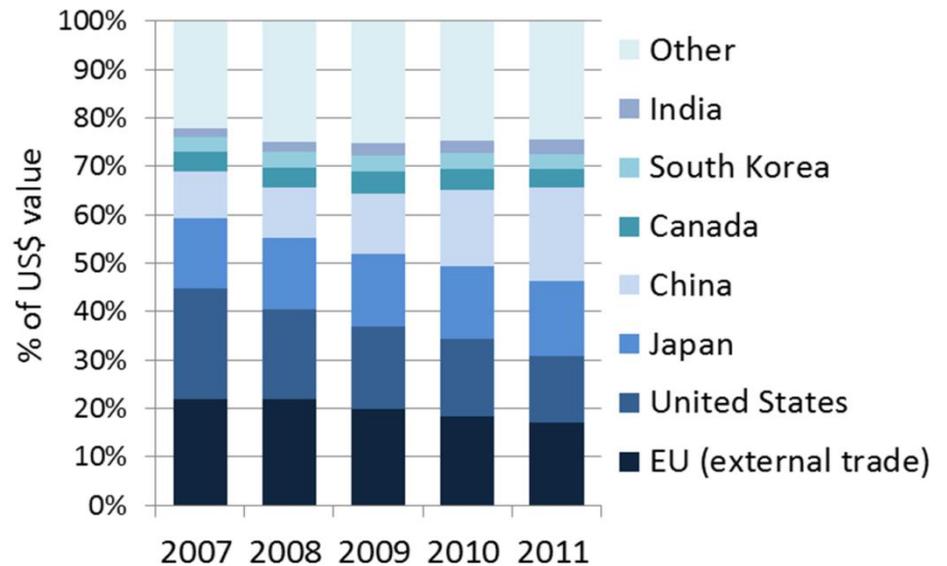


Source: UNECE Timber Committee and Worldmapper 2009

Value of international trade in timber products by importing country 2007 to 2011

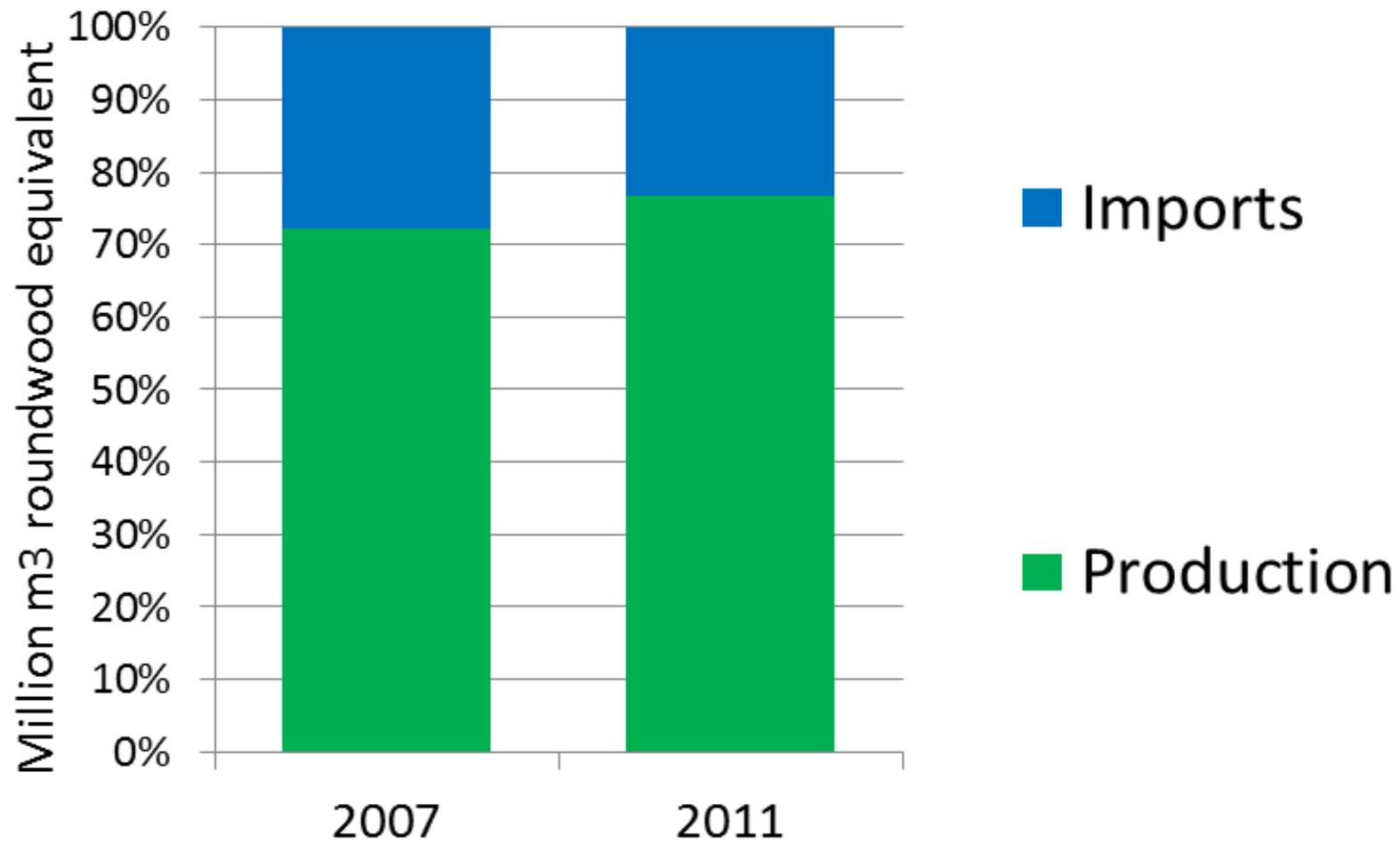


% share of international trade in timber products by importing country 2007 to 2011



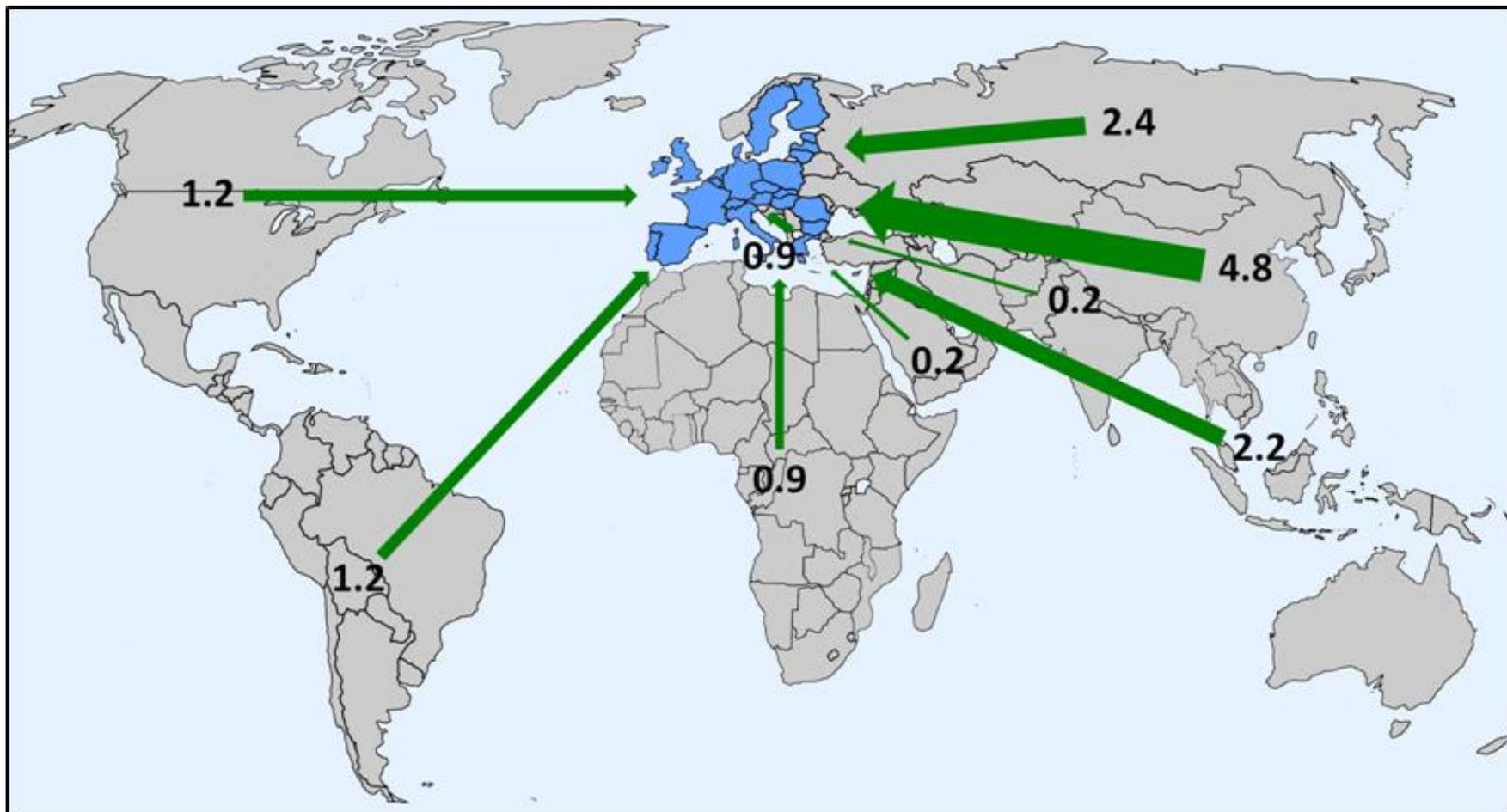
Source: FII Ltd/European TTF analysis of Eurostat data

Share of supply of solid timber products to the EU-25 in 2007 and 2011



Source: FII Ltd/European TTF analysis of Eurostat and UN FAOStat data

EU-27 imports of timber products

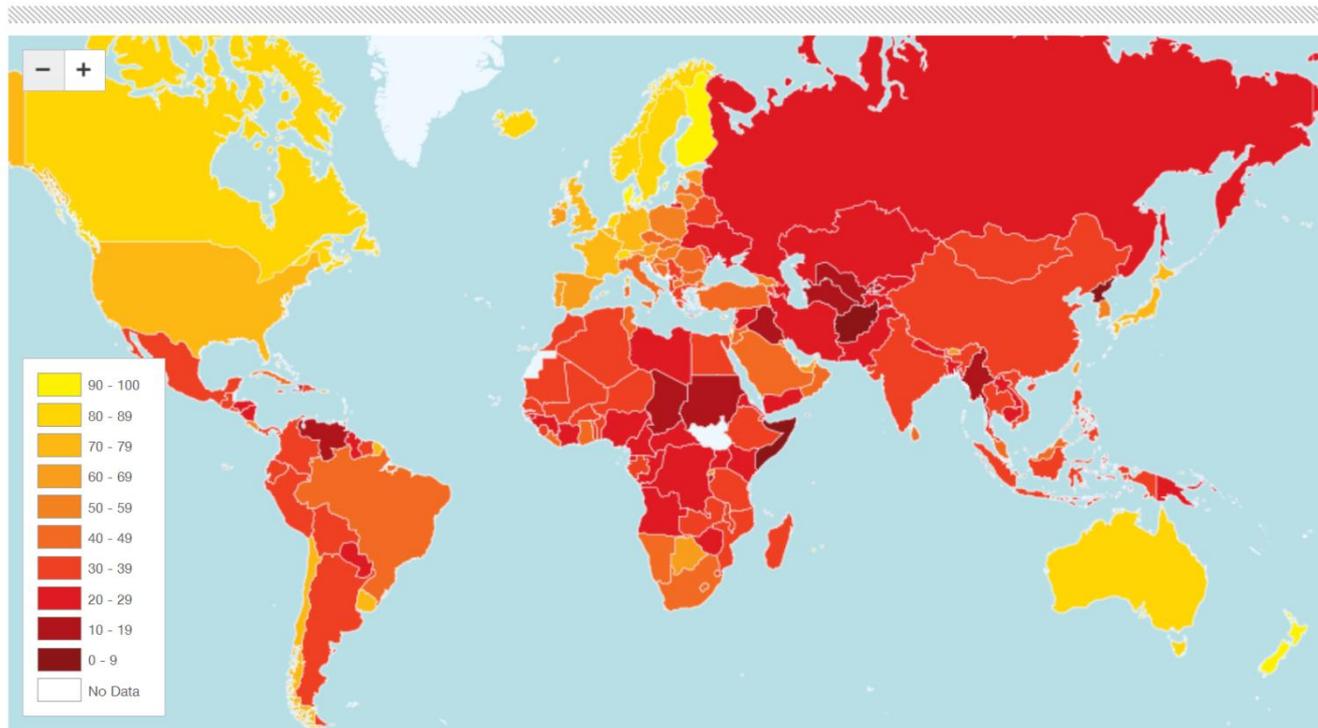


Data in import value (€1 billion) includes all products in CN44 (wood) and wood products in CN94 (furniture). Prepared by Forest Trends based on FII Ltd/European TTF analysis of Eurostat data

Assessing risk of illegal logging in EU imports

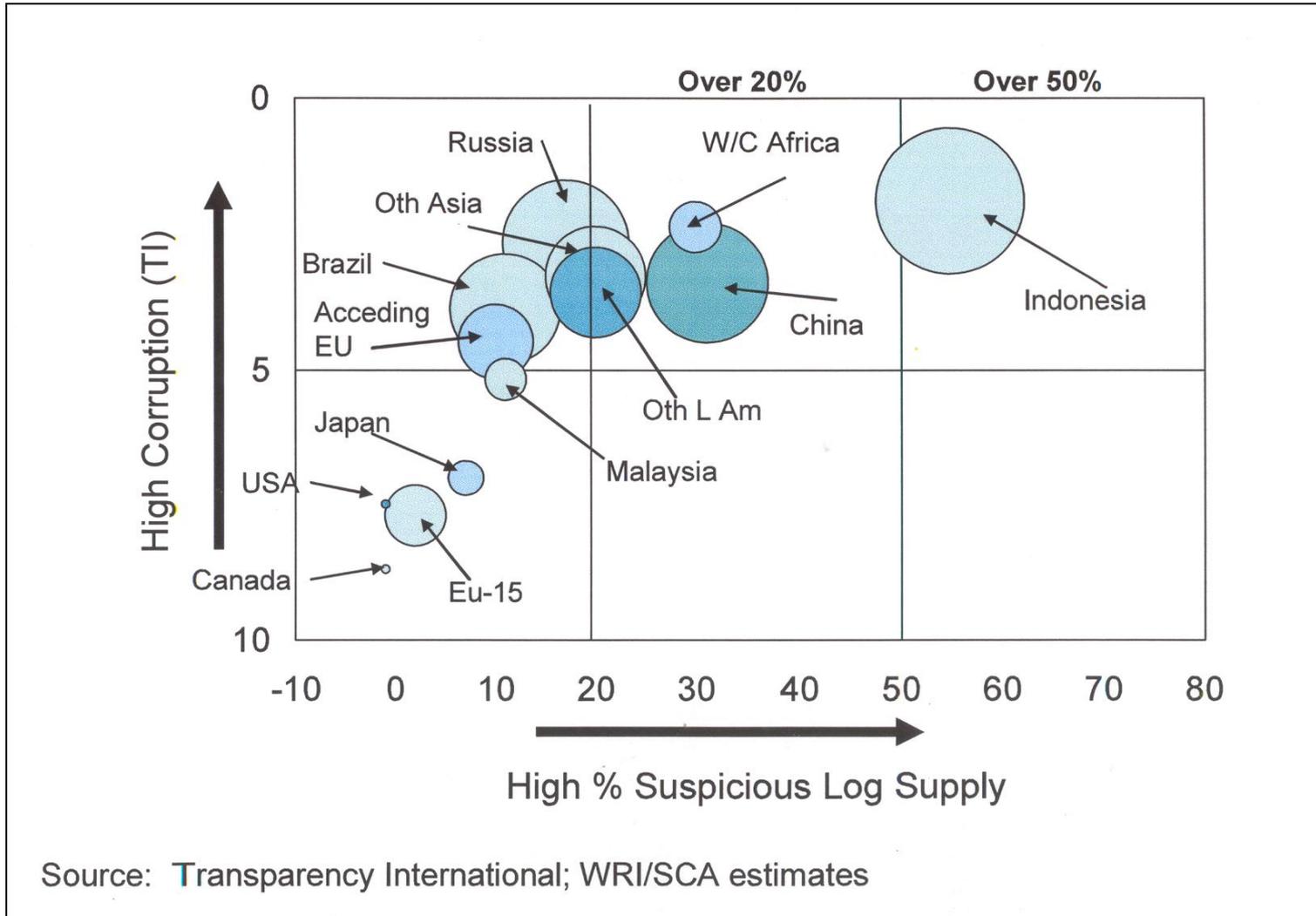
- Earlier studies attempt to provide estimates of EU import volumes from illegal sources
"Between 16% and 19% of wood imports in the EU come from illegal logging" (WWF 2008)
- Combine rough estimates of % illegal wood in supplier countries with EU import trade data
- Approach not adopted here: country coverage very incomplete, inconsistent approach to assessment of illegal wood supply, variable definitions, potential for researcher bias, no direct relation between illegal production and exports, impossible to assess illegal trade via 3rd countries

CORRUPTION PERCEPTIONS INDEX 2012



- Alternative approach to assume “high risk of exposure” to illegal trade in imports from any country with TI CPI < 50
- Inconsistencies exist
- Simpler and more transparent
- Some evidence of link between CPI & illegal logging

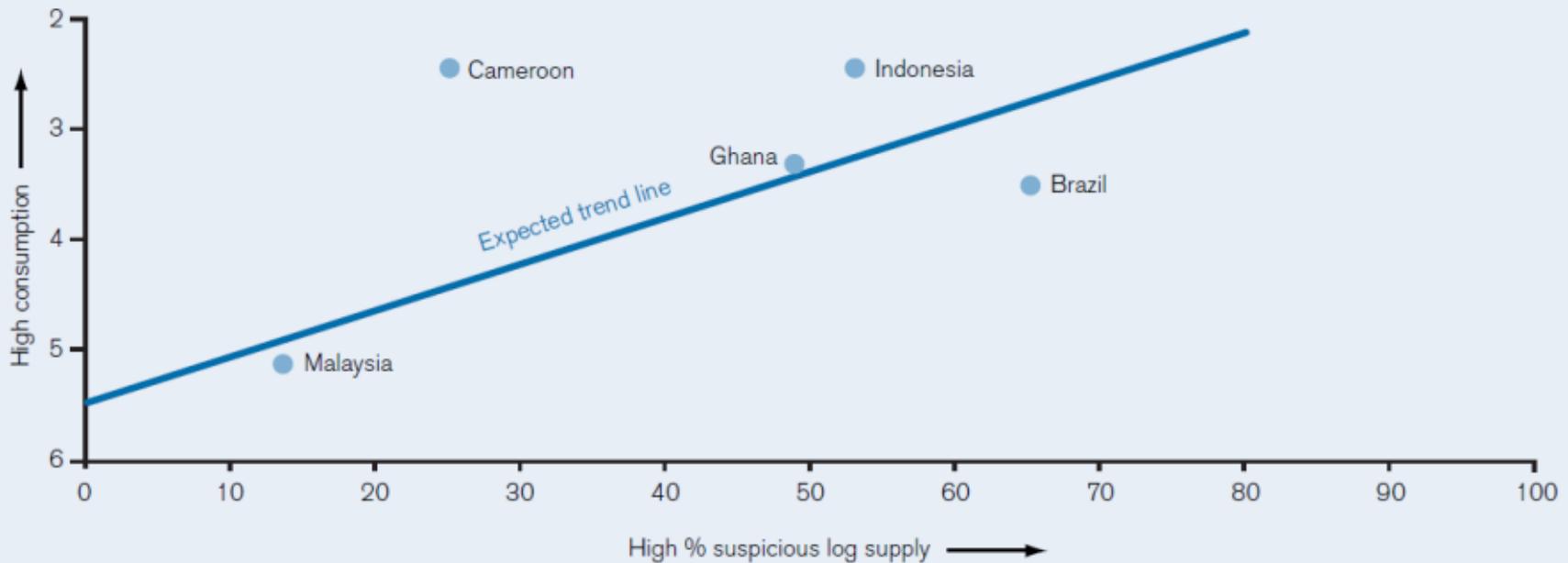
Corruption and illegal logging (1)



Reproduced from *Illegal Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry* Prepared for American Forest & Paper Association By Seneca Creek Associates, LLC, November 2004

Corruption and illegal logging (2)

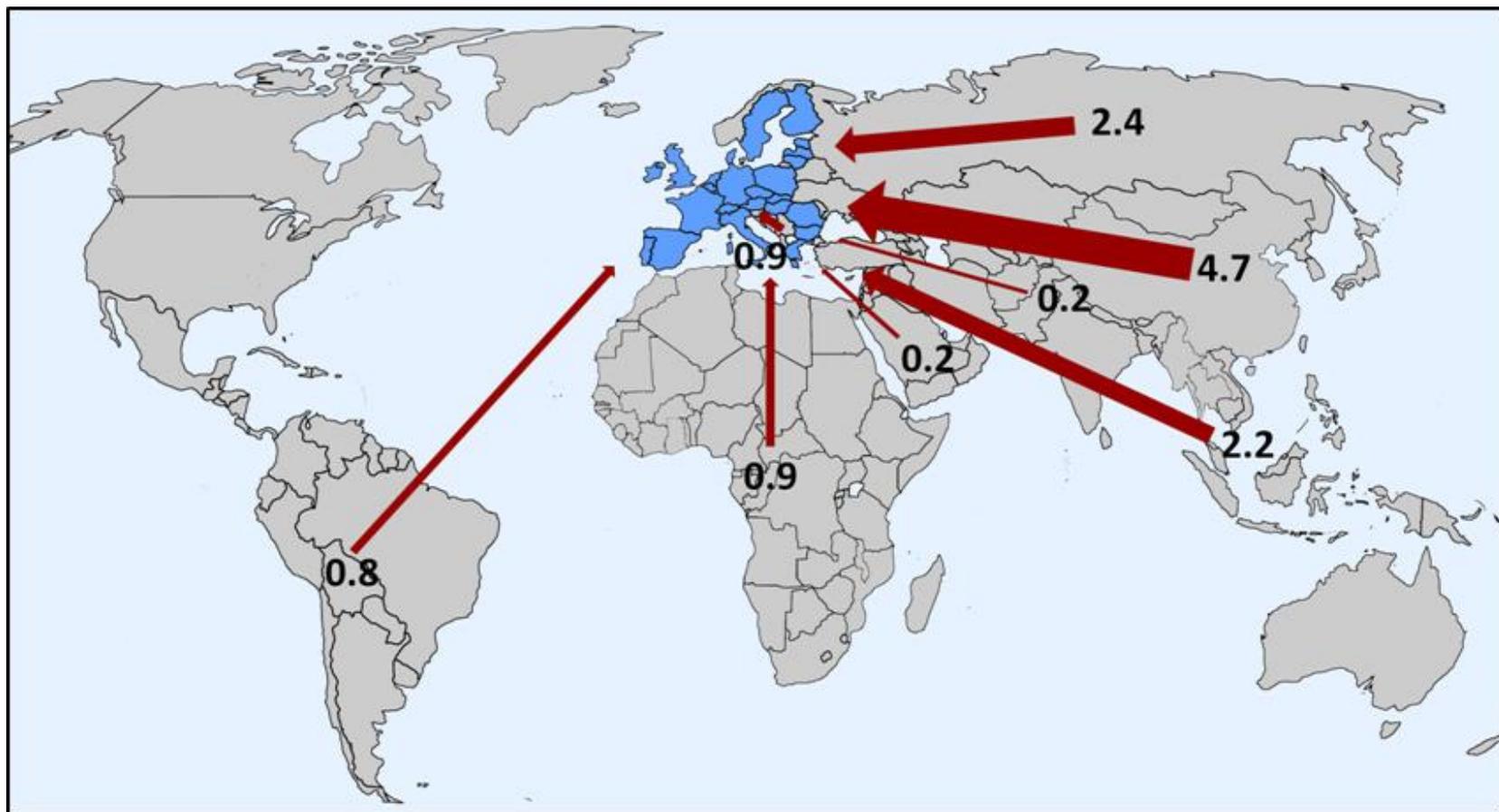
Figure 5.8: Relationship between corruption and illegal logging in focus producer countries



Source: Transparency International CPI scores; Chatham House Illegal Logging Expert Perceptions Survey.

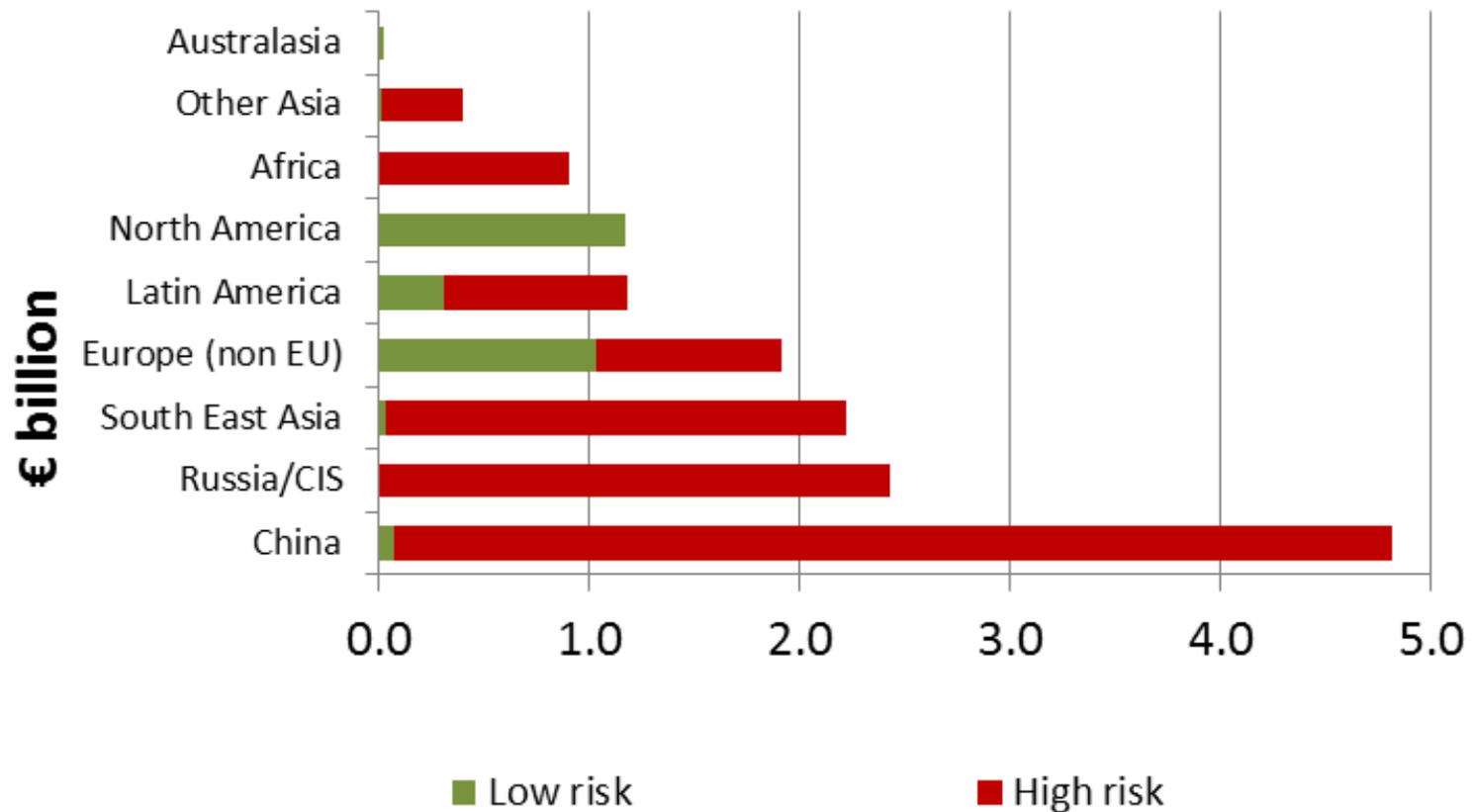
Note: Malaysia survey estimate of illegal logging is a low-end estimate, all others are mid-point estimates. For methodology and rationale behind the use of a low-end estimate for Malaysia, see Section 5.1.1.

EU-27 imports of timber products from “High Risk” Countries



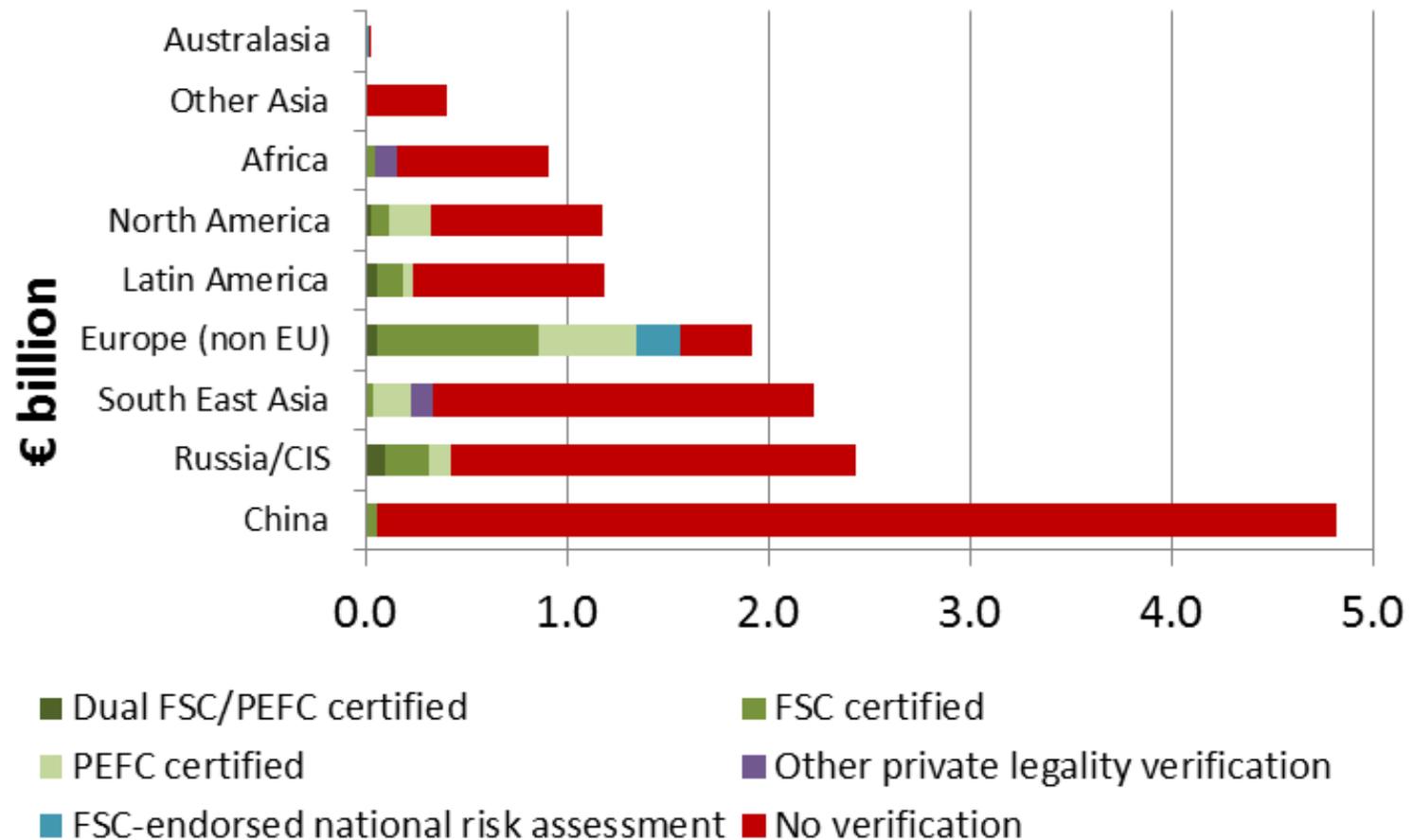
*Data in import value (€1 billion) includes all products in CN44 (wood) and wood products in CN94 (furniture). “High risk” countries are those with CPI < 50.
Prepared by Forest Trends based on FII Ltd/European TTF analysis of Eurostat data*

EU-27 value of timber imports from high and low risk countries, by region in 2011



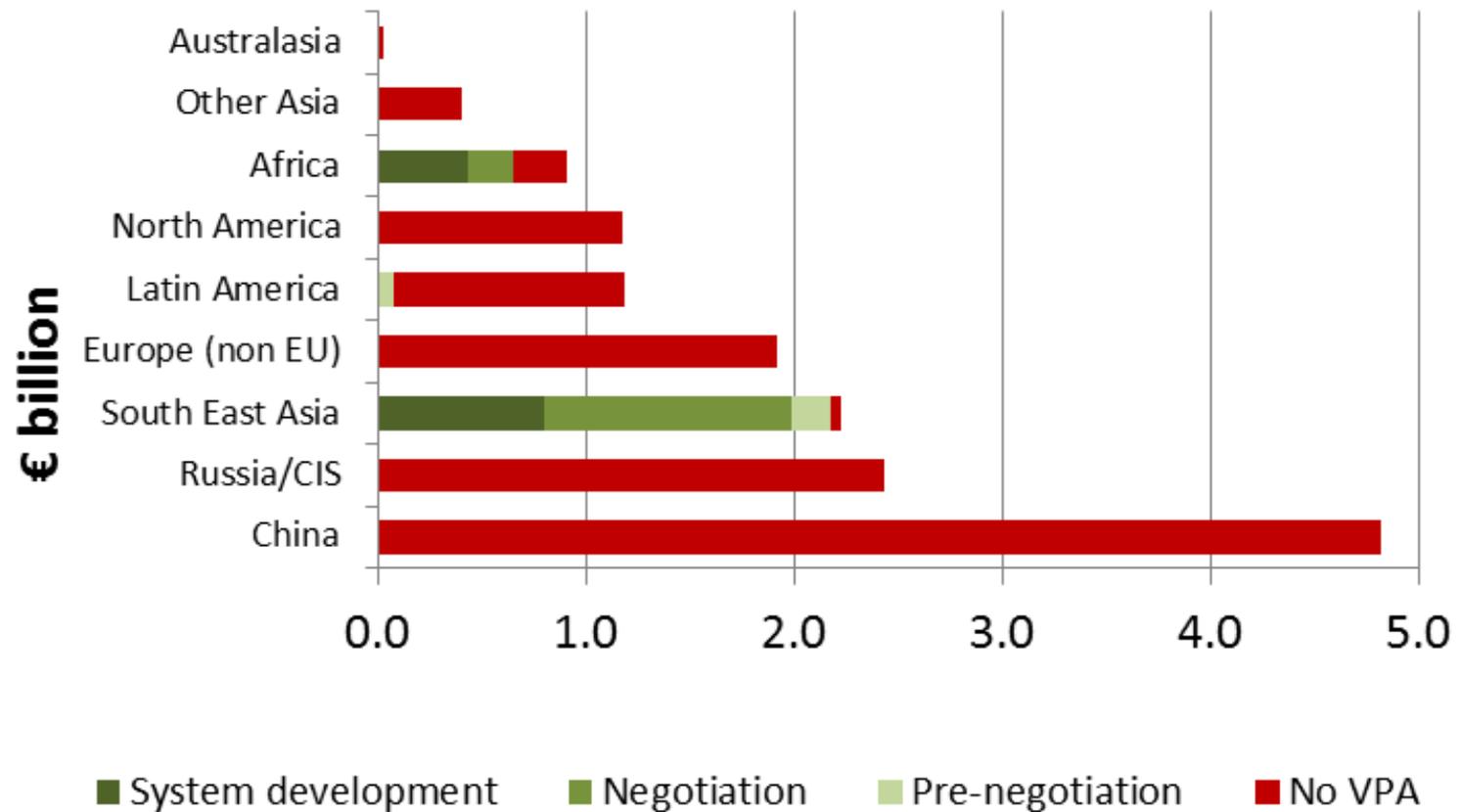
*Includes all products in CN44 (wood) and wood products in CN94 (furniture).
“High risk” countries are those with CPI < 50. Based on FII Ltd/European TTF analysis of
Eurostat and CPI data*

EU-27 value of timber imports , by region and exposure to 3rd party verification in 2011



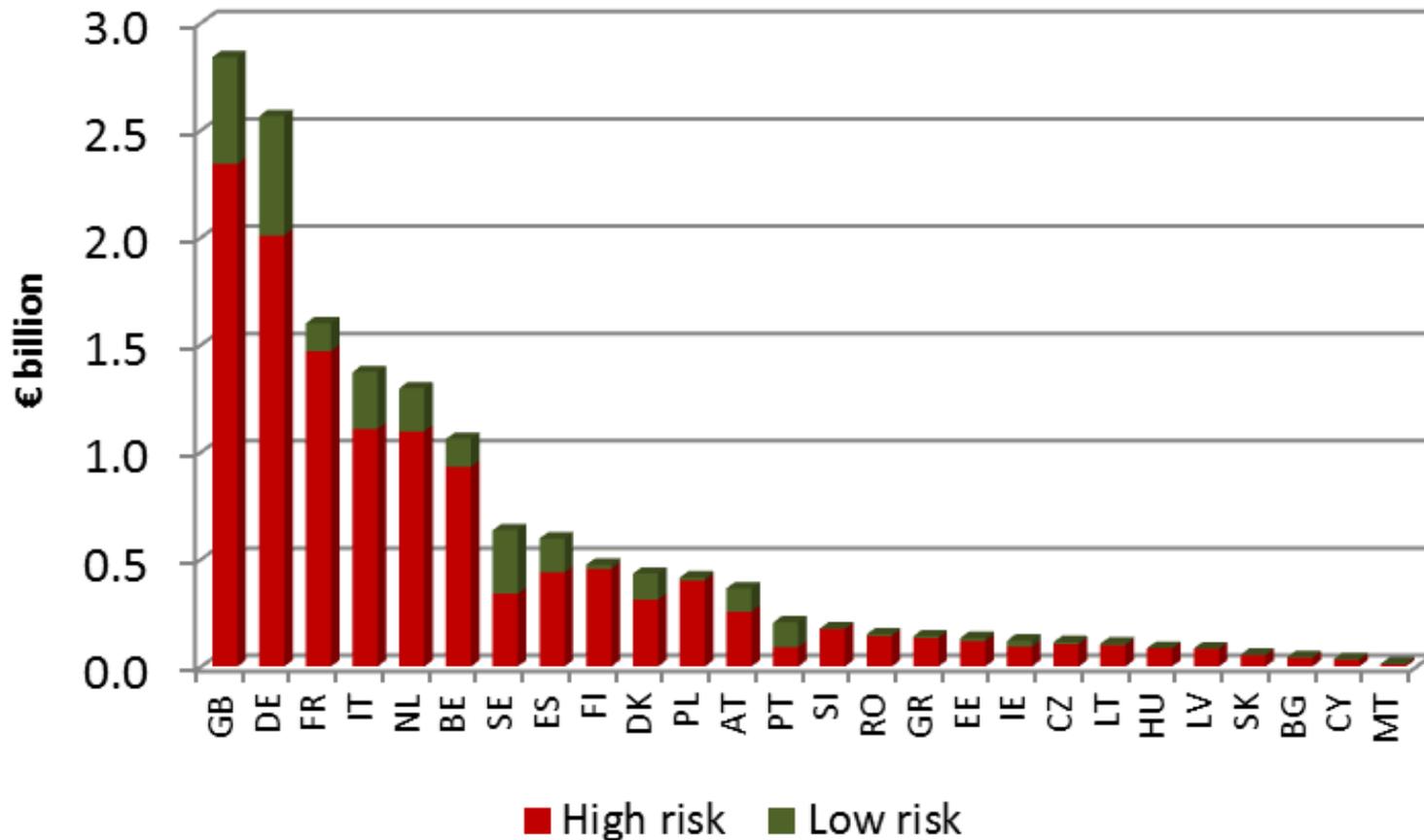
*Includes all products in CN44 (wood) and wood products in CN94 (furniture).
Based on FII Ltd/European TTF analysis of Eurostat and data derived from
certification/legality system websites and Keurhout*

EU-27 value of timber imports , by region and exposure to VPA process in 2011



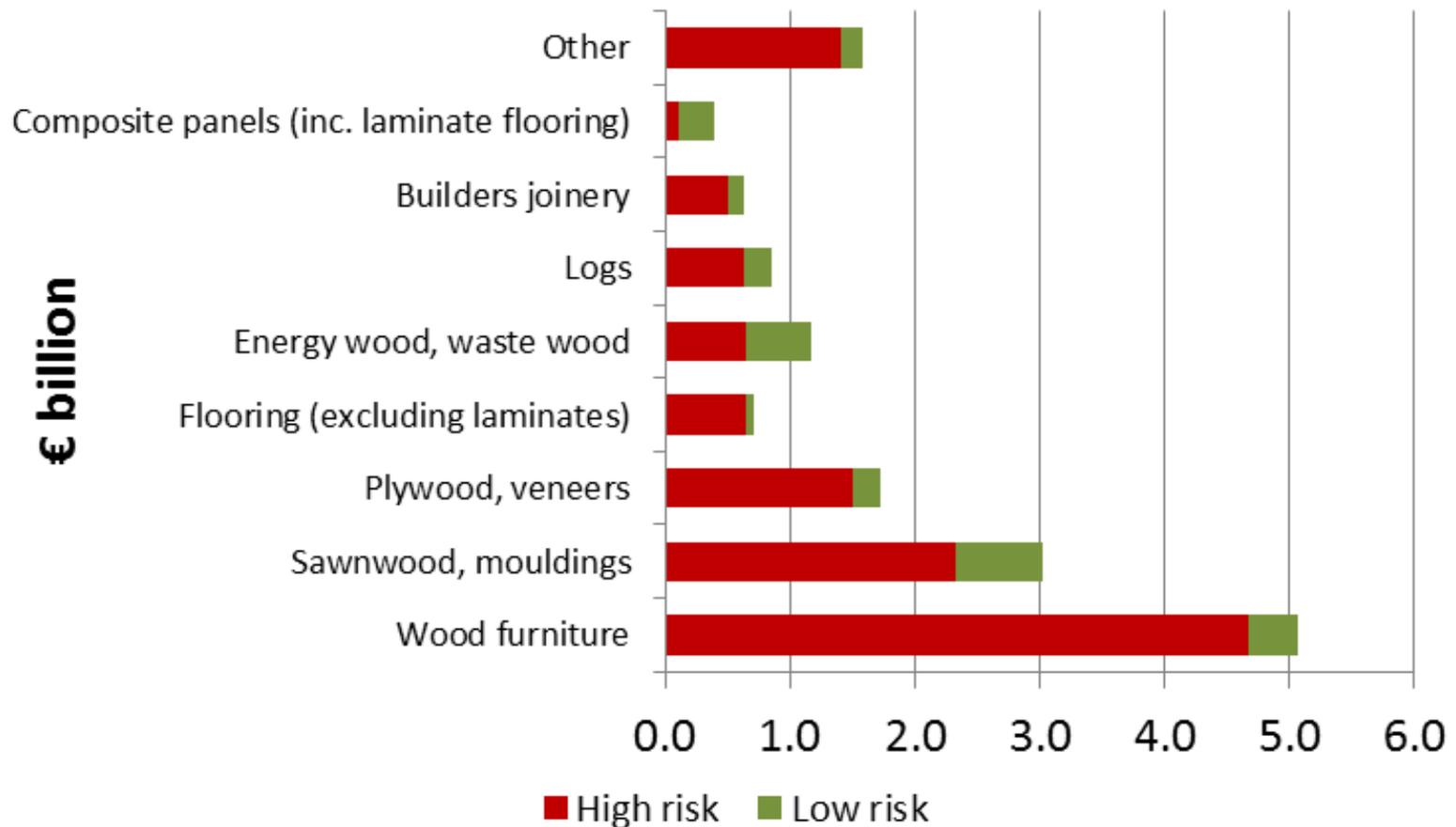
*Includes all products in CN44 (wood) and wood products in CN94 (furniture).
Based on FII Ltd/European TTF analysis of data from Eurostat and EFI FLEGT Facility*

EU-27 value of imports from high and low risk countries, by Member State in 2011



*Includes all products in CN44 (wood) and wood products in CN94 (furniture).
 "High risk" countries are those with CPI < 50. Based on FII Ltd/European TTF analysis of
 Eurostat and CPI data*

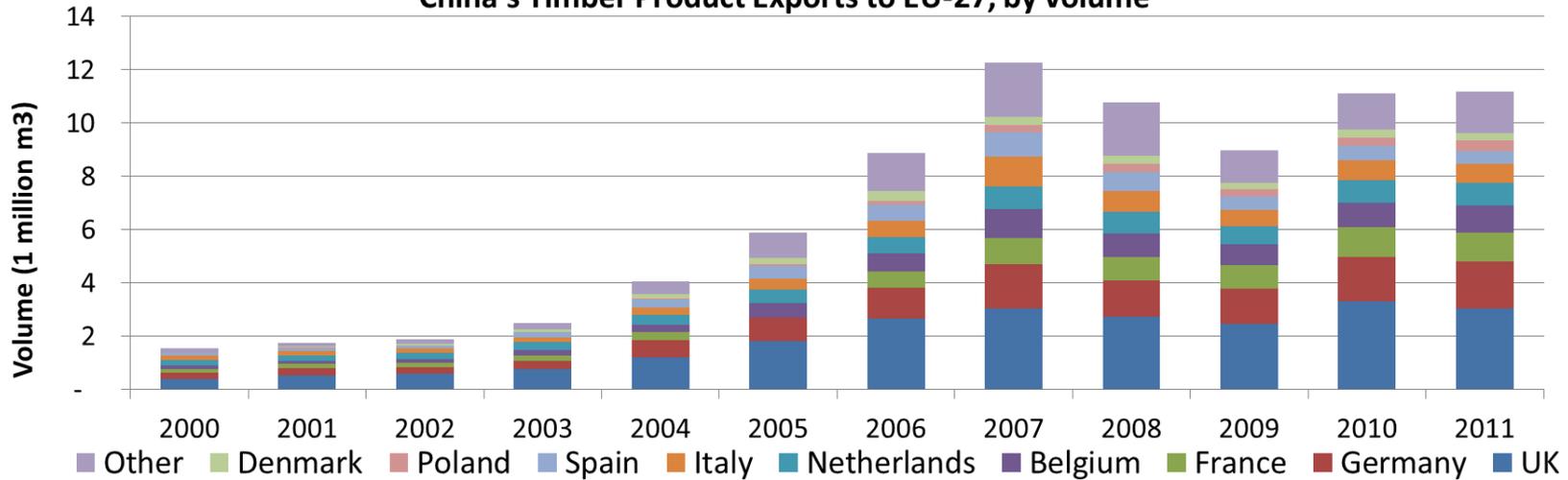
EU-27 value of timber imports from high and low risk countries, by product group in 2011



*Includes all products in CN44 (wood) and wood products in CN94 (furniture).
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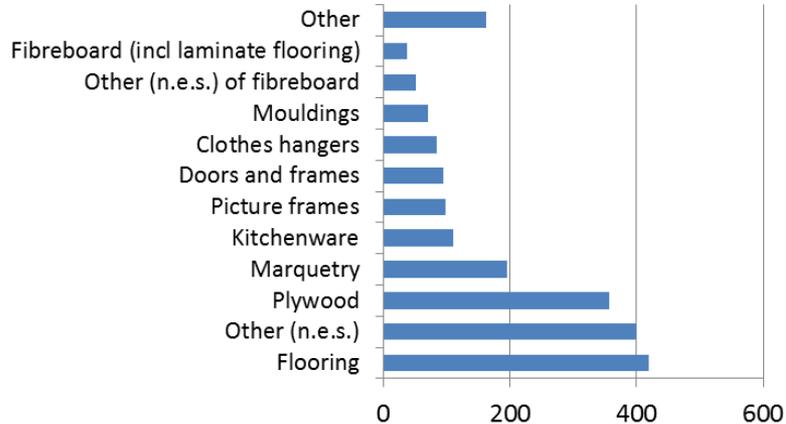
EU timber trade with China

China's Timber Product Exports to EU-27, by volume

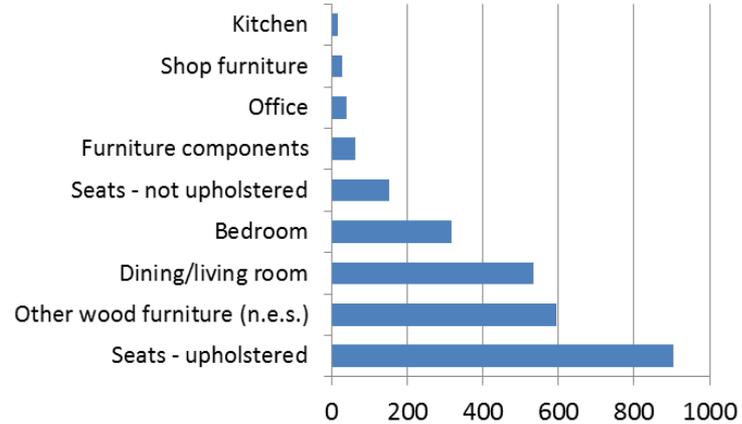


Source:
Forest
Trends
analysis
of Chinese
Customs

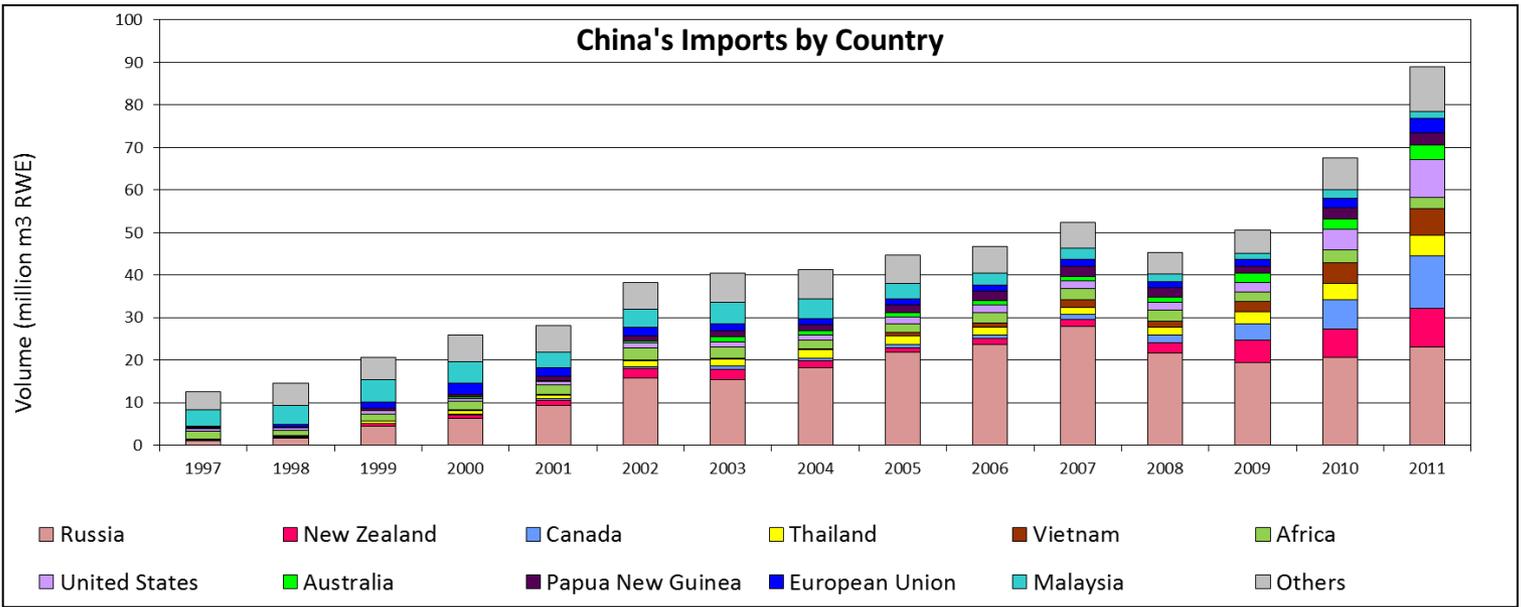
EU-27 value of wood product imports (HS 44 only) from China by product in 2011 (€ million)



EU-27 value of wood furniture imports (HS 94) from China by product in 2011 (€ million)



Source:
FII Ltd &
European
TTF
analysis
of Eurostat

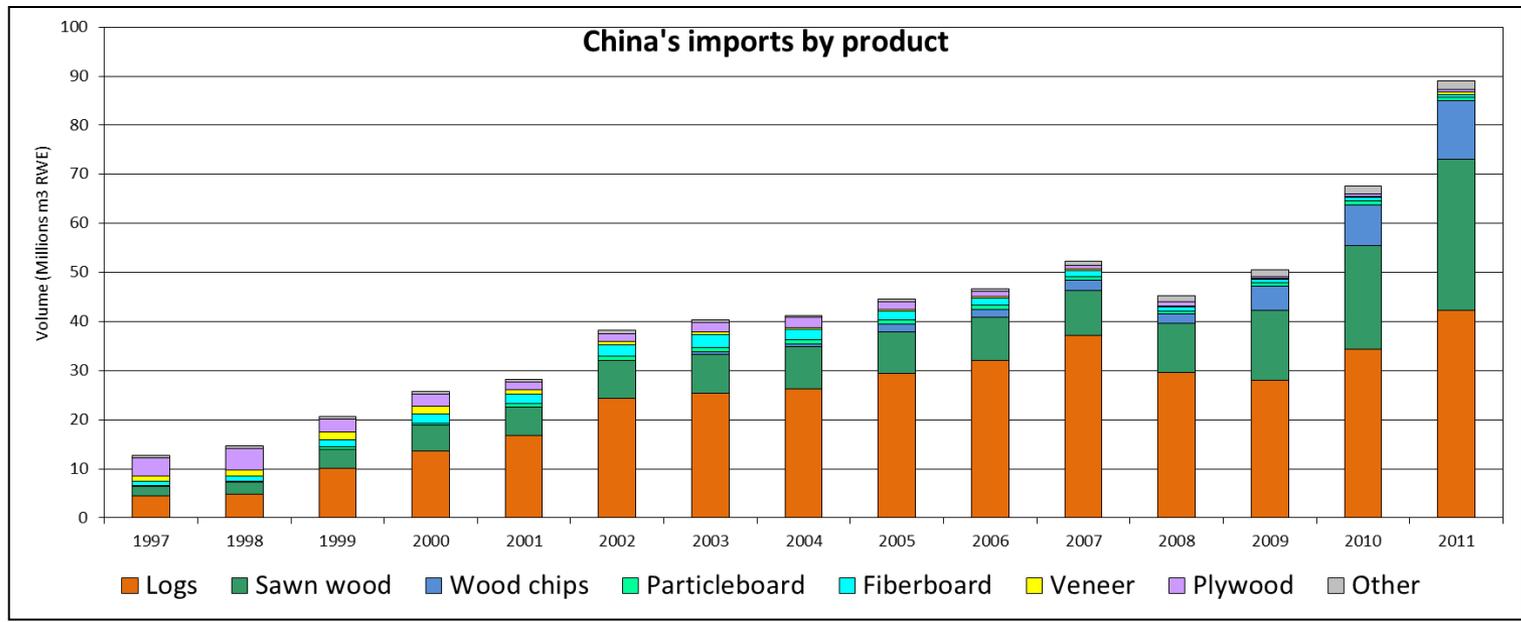


China has largest plantations in the world (24 million has.) with total production 80 million m3

But imports are high & rising

High proportion from high risk countries, but share from low risk countries has been rising (NZ, Canada, US, EU)

Initially mainly logs, switching to sawn due to log export bans



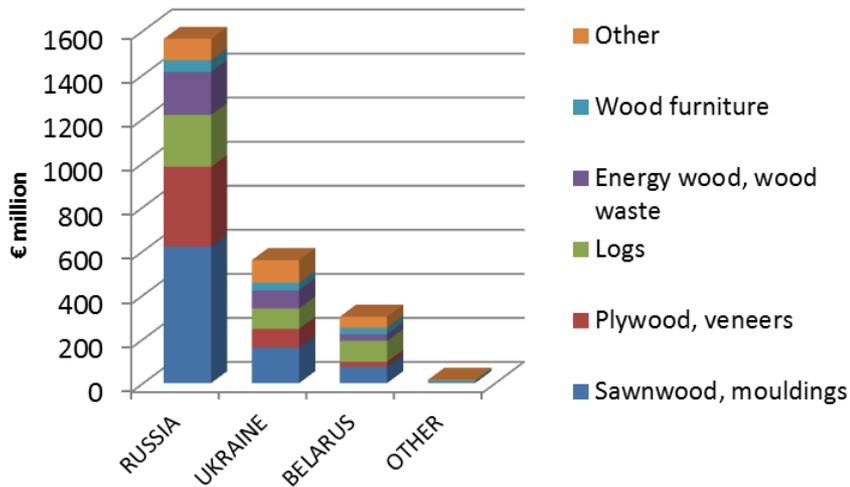
Source: Forest Trends analysis of Chinese Customs

Legality of China Wood Supply

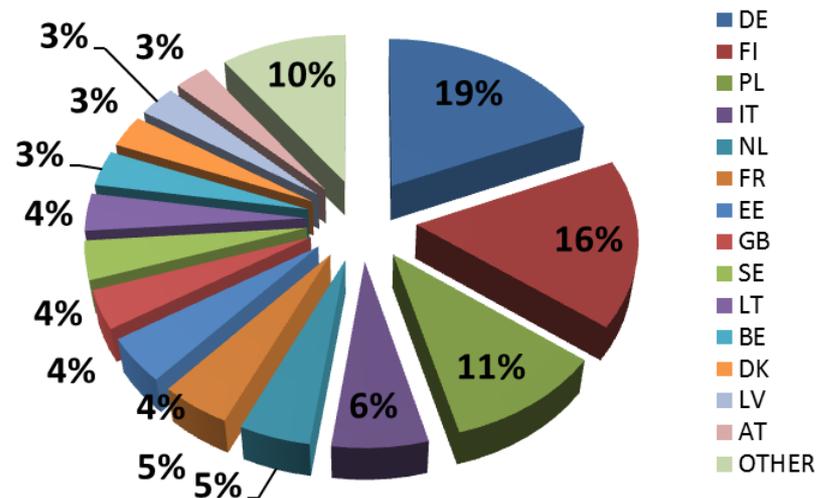
- Illegal harvest not major problem in domestic supply - main issue tenure rights of local people
- In 2011, 53% of China's wood import volume from high risk countries (CPI<50), down from 85% in 2007
- Fragmented supply chain in China
 - 100,000 individual companies, mainly SMEs
 - Some consolidation in recent years in the export sector
- On-going initiatives
 - Forest Management System seeking PEFC endorsement
 - National Timber Legality Verification system launched 2009 with DFID support
 - Forest industry association due diligence systems mirroring EUTR requirements

Russia and CIS

EU-27 value of imports from high risk countries in CIS, by product group in 2011



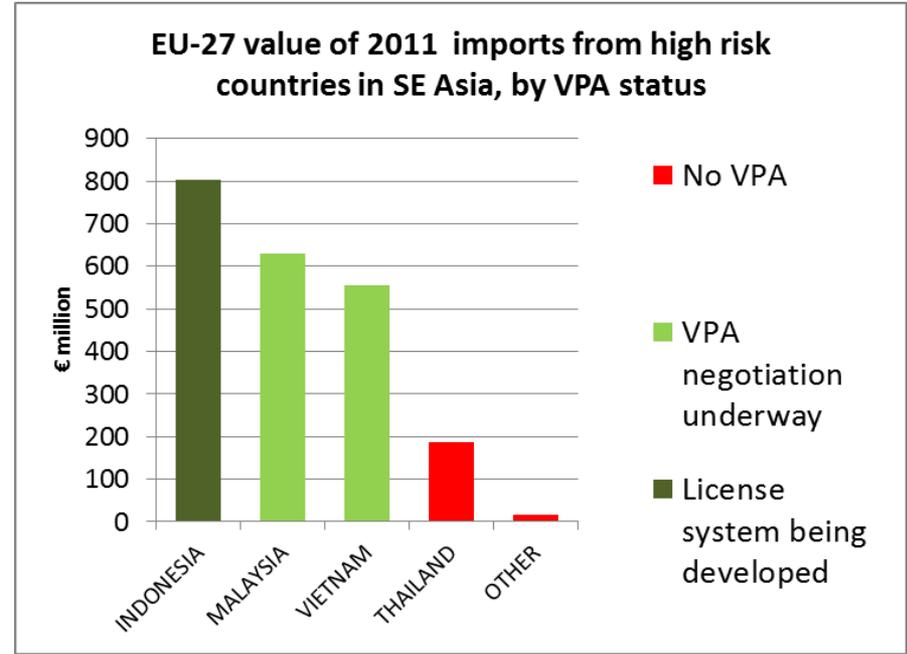
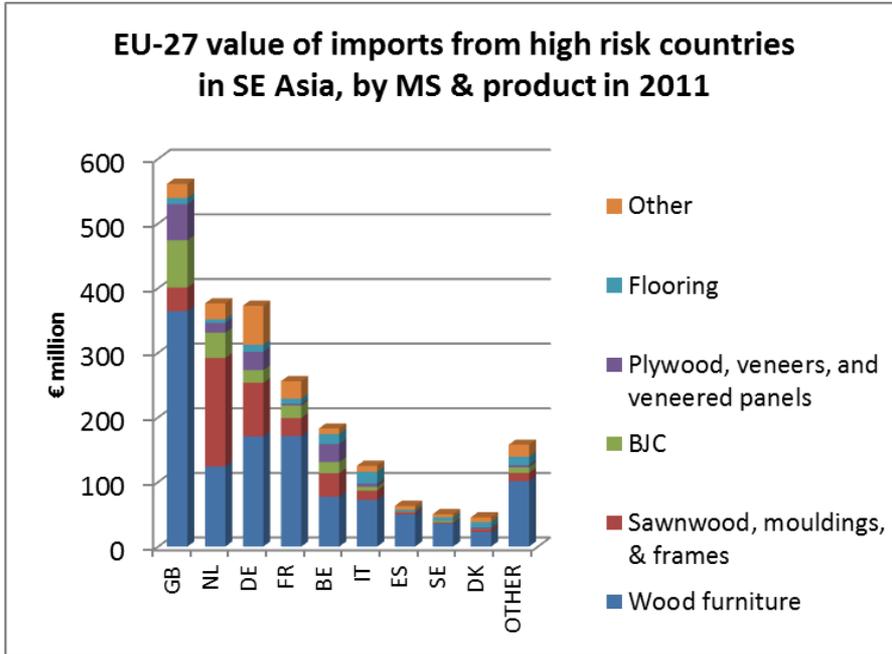
EU-27 value of imports from high risk countries in CIS, by Member State in 2011



Source: FII Ltd/European TTF analysis of Eurostat

- EU log imports from Russia down since 2010 due to log export taxes
- Russian sawn (mainly softwood) and plywood (mainly birch) important to EU supply
- Russian paper-based licensing systems vulnerable to forgery and fraud
- Large EU companies dealing with Russia have corporate tracking systems - 75% of timber from NW Russia imported by EU in 2005 covered by these systems
- Ukraine - 99% forest centrally managed by State Forestry Committee, but numerous small private sawmills operating without permits
- Belarus - nearly all FSC certified

South East Asia

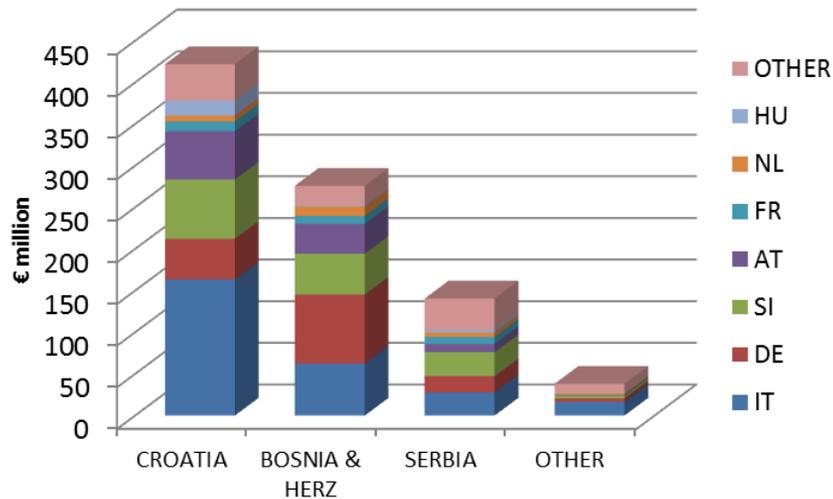


Source: FII Ltd/European TTF analysis of Eurostat

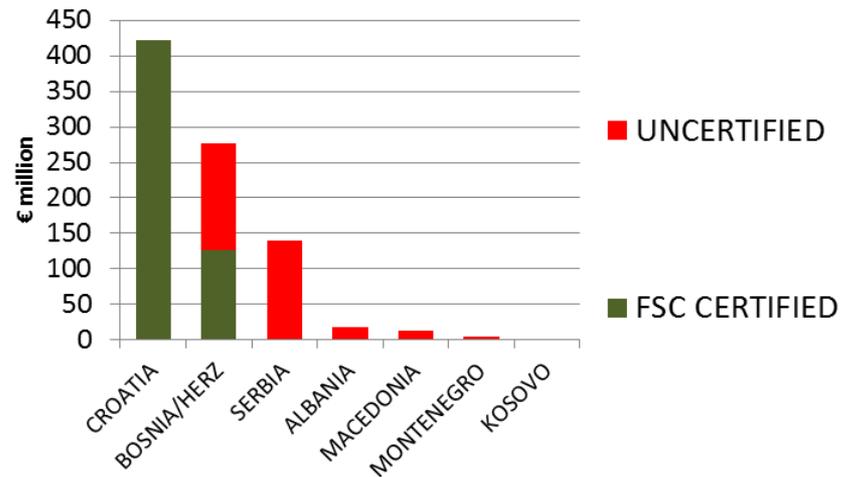
- 6 EU MS (UK, Netherlands, Germany, France, Belgium, and Italy) account for >85% of EU imports
- Plywood trade with EU falling rapidly & only Netherlands and Germany now source significant volumes of SE Asian sawnwood (meranti for windows, bangkirai decking).
- EU trade now dominated by wood furniture and other secondary processed products
- SE Asian manufacturers switching from tropical hardwoods to plantation and temperate woods
- Illegal logging a significant problem in regional supply, supply chain complexity major challenge
- Malaysia and Indonesia invested heavily in certification (MTCS, SVLK)
- Much hinges on progress to develop VPAs

South East Europe

EU-27 value of imports from high risk countries in East Europe, by MS & country in 2011



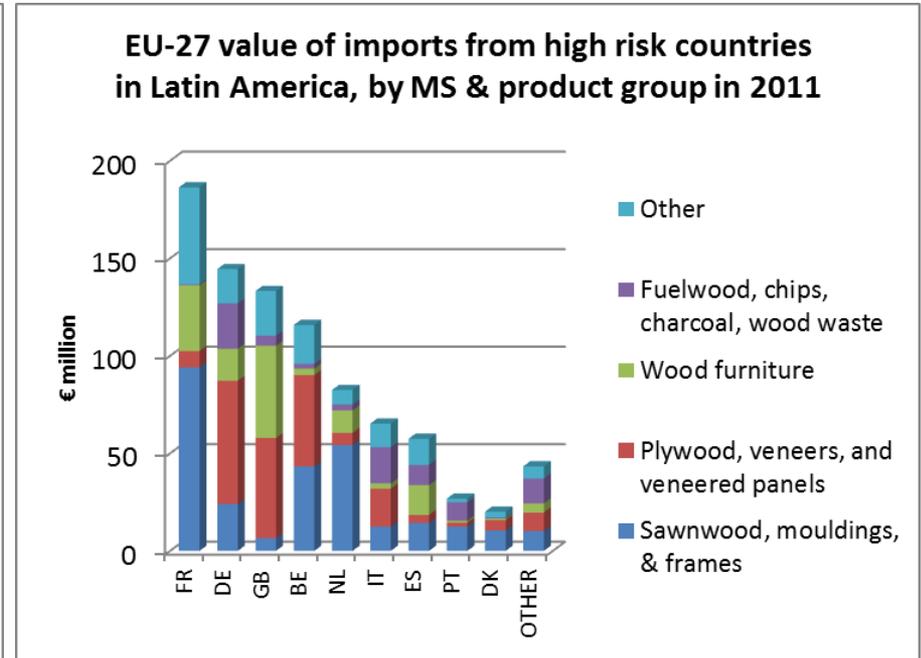
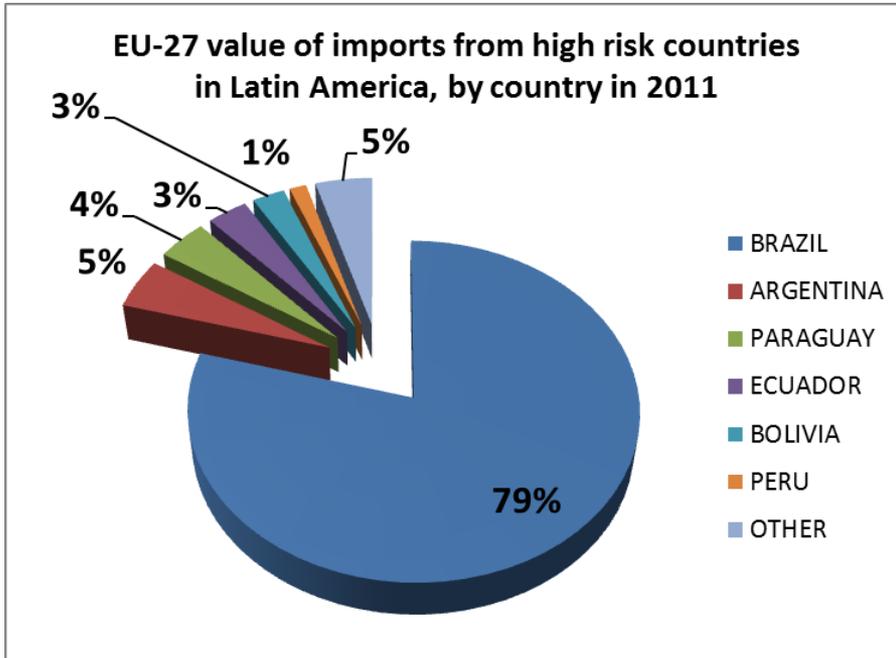
EU-27 value of 2011 imports from high risk countries in East Europe, by country and private sector legality verification status



Source: FII Ltd/European TTF analysis of Eurostat

- Less relevant as an “external” supplier after 1 July 2013 when Croatia joins the EU
- Main importers Germany (furniture), Italy, Slovenia, Austria (all mainly sawn & energy wood)
- Region suffers overcapacity of production lines & raw material shortages
- 2010 report by Regional Environmental Center for Central and Eastern Europe (REC)
 - *“Volumes of illegal logging are increasing or at best stagnating....official figures of illegal logging (typically 1% to 10%) are grossly underestimated”*
- FSC certified nearly 100% Croatia forest & 50% Bosnia forest area – all state owned land
- Legality assurance for timber from fragmented private forest lands much more challenging

Latin America

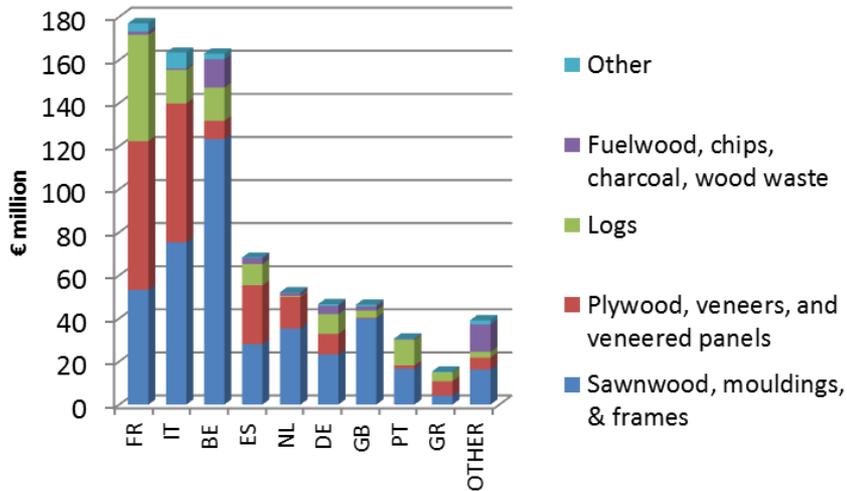


Source: FII Ltd/European TTF analysis of Eurostat

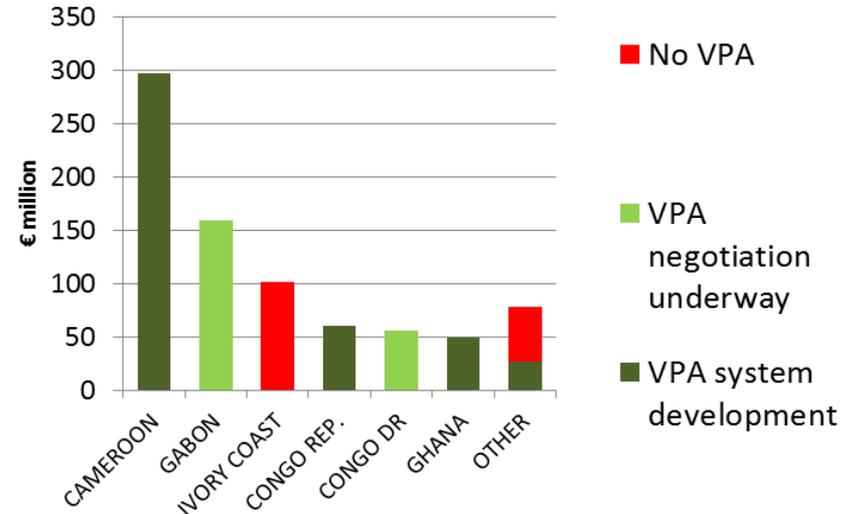
- >95% of sawnwood imported from S. America is hardwood, mainly from Amazonia where there is a high risk of illegal logging
- EU imports of tropical hardwood plywood from S. America have fallen dramatically
- >90% of plywood imported from S. America is softwood from plantations (>50% of area certified)
- Wood furniture imported from S. America now more likely to be manufactured from temperate and plantation woods than from tropical hardwood
- Concerted efforts to improve governance in Amazonia, but still major institutional constraints (e.g. unresolved land tenure, under-resourced enforcement).

Central Africa

EU-27 value of imports from high risk countries in C. Africa, by MS & product in 2011



EU-27 value of 2011 imports from high risk countries in Central Africa, by VPA status



Source: FII Ltd/European TTF analysis of Eurostat

- EU imports mainly sawn & veneers. Log export controls, uncompetitive in added-value products
- Belgium/Italy buyers focusing increasingly on Cameroon, France still buys much from Gabon
- Illegal logging serious problem – demand exceeds resource capacity, poorly conceived legal frameworks, forest authorities lack capacity and support
- Early adopters of FLEGT VPA, concerted efforts to reform regulatory frameworks
- Large concessionaires supplying EU far-reaching commitments to SFM - e.g. nearly 40% of Cameroon forest area certified/legally verified. DRC - 2 million has legally verified
- Uncertain timescale for VPA licenses - verification challenging if sourcing through 3rd party traders

Monitoring impact of EUTR on trade

- European Timber Trade Federation/FII Ltd/DFID
 - annual stats reports of changing trade flows to the EU-27 and individual ETTF Member Countries. Program of interviews with traders/retailers beginning March/April 2013
- International Market Monitor
 - EC funded, EFI/EFECA options paper prepared early 2012, responds to partners request for VPA market impact assessment, possible hosting by UN
- EFI FLEGT Facility
 - considering examining in first half of 2013 "scenarios of the impacts of the FLEGT Action Plan, including the EUTR, on the timber trade"
- ITTO Market Information Service
 - bi-weekly, reinstated after lull in 2012 - broad monitoring of tropical wood markets - likely focus on EUTR/Lacey impacts during 2013

Improving Market Monitoring

- Develop international protocol for regional risk assessment in line with EUTR legality definitions (potential link to FSC Risk Register)
- Develop “Forest Governance Perceptions Index”, draw on TI CPI
- Publish aggregated data on volume/value of forest products trade in FLEGT VPA and CITES licenses
- Publish data on number of “operators” & “traders” captured by EUTR (consolidation or fragmentation in importing sector?)
- Publish data on numbers of importers engaged in MOs
- Encourage private sector systems to gather and publish data on certified/legally verified trade flow volumes
- Review and update CN product codes in light of EUTR, e.g. in 2011, EU imported €710 million of wood products under code 44219098 (“Other not elsewhere stated”). €400 million came from China.
- Make cleaned, aggregated and analysed Eurostat data on timber products production and trade readily available on-line.

Thank you!

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Illegal practices leading to trade of
“illegally harvested timber”