cirad
LA RECHERCHE AGRONOMIQUE
POUR LE DÉVELOPPEMENT

Report

Potential causes of the contraction of the demand for FSC certified tropical timber in the European Union

December 2014

This report has been prepared by Alain Karsenty, Sophie Lemaître and Hélène Dessard with the assistance of the European Union (EU) and European Forest Institute (EFI). The content of this report is the sole responsibility of the authors and can in no way be taken to reflect the views of the EU and EFI.

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Section 1: Introduction

A- Background

During the "*Forum International sur le développement durable de la filière bois du Bassin du Congo*" held in Brazzaville in October 2013, several concessionaires exporting both unprocessed and processed timber in Europe mentioned a drop in their certified tropical timber sales towards Europe in the last 12 months. Major players of the timber industry and timber syndicates operating in Central Africa stated that this contraction of certified tropical timber demand is a drawback effect of the European Union Timber Regulation (EUTR) which entered into application on 3 March 2013. The hypothesis expressed publicly and recurrently reiterated is that EU timber importers and retailers would think that the enforcement of the EUTR would give most of their clients a sufficient guarantee about the presumable legality of the timber they import. If a potential drawback of the EUTR was confirmed, it would have negative consequences since it is generally acknowledged that the FSC certification plays a positive role in leading concessionaires to be in compliance with legal rules and foster some kind of self-regulation as the companies invested for obtaining a label which would be costly to lose during a negative audit.

From a statistical stand point, the European Union (EU) consumed around a quarter of the volume of tropical timber emerging on the international market in 2007 while in 2013, this proportion was reduced to about 10%. Nevertheless, several factors could explain this contraction, in particular the economic crisis of 2008 with consumers less willing to pay a higher cost for tropical timber.

Therefore, ***in order to determine whether the EUTR negatively impacted the demand for FSC certified tropical timber, the European Forest Institute FLEGT Facility asked CIRAD to lead a research study on the potential causes of the contraction of the demand for FSC certified tropical timber in the European Union***. The study was conducted over a period of 6 months (April – October 2014).

The present report introduces the main findings of the research study based on the interviews conducted. Inasmuch as the EUTR had been entered into application for a year when the research study started, further researches should be conducted in the coming months with the benefit of hindsight.

B- Objective

The ultimate aim of the research study is to inform decision makers in Europe and the private sector on causes of the contraction of the demand for FSC certified tropical timber in the European Union.

The present study has investigated professionals operating in the timber market and importing FSC certified tropical timber in the EU market to:

1. Assess the magnitude of the alleged contraction of the demand for certified tropical timber by collecting and analyzing the information provided by the importers who reported a change in their proportion of FSC certified tropical timber;

2. Determine if the contraction of demand (if confirmed) for FSC certified tropical timber is attributable to a drawback effect of the EUTR or to other factors, and try to proportionate these factors if several are involved;
3. If relevant, support the formulation of recommendations to the EC and also African governments for advancing the agenda of timber legality and SFM in Central Africa;

C- Methodology

The research team was composed of Mr. Alain KARSENTY, Ms. Sophie LEMAITRE and Ms. Hélène DESSARD and closely worked with CIRAD agents based in the field as well as with relevant partners.

The research team noted the importance of differentiating the continued drop in demand for tropical timber from a possible greater loss of share for FSC certified tropical timber within this general contraction. Hence, a two-step wise approach was undertaken by 1) assessing the tropical timber production and import evolution and 2) determining the causes of this evolution. The research team first assessed the timber production evolution from FSC certified concessionaires in Cameroon, the Republic of Congo and Gabon exported to Europe based on the year 2012, 2013 and early trends of 2014 with the support from CIRAD agents in the field. The questionnaires sent to the concessionaires enabled to identify the importing countries in Europe and the timber volume exported in these countries. Interviews were then conducted with the identified importers and retailers in order to deepen the diagnosis established with FSC certified tropical timber concessionaires which lead to highlight the causes of the contraction of the demand for FSC certified timber. Whenever possible, the importers pointed out the final customers which allowed the research team to assess the entire supply chain.

Three specific questionnaires were developed for the following targeted stakeholder groups:

- Concessionaires in Africa (Cameroon, Republic of Congo and Gabon),
- Importers in Europe, and
- Final customers in Europe.

Contacts with the three stakeholders groups were made either by email, phone or face-to-face meetings.
In addition to the responses provided by concessionaires, exchanges with the national timber trade federations enabled the research team to identify the major tropical timber importers in Europe. Interviews were conducted with national timber trade federations in France, Belgium, Portugal and the UK. The German, Dutch and Spanish timber trade federations never responded to the research team's emails and phone calls.

Finally, to feed the reflection and complement the information obtained by the three stakeholder groups, discussions took also place with experts in the field. A meeting with the team took place in Paris in April 2014, at the invitation of ATIBT, with the CEOs of FSC certified companies operating in Central Africa. Moreover, one member of the team participated in the event "Carrefour International du bois" that took place on 4-6 June 2014 in Nantes. It was an opportunity to reach and interview importers as well as final customers that had not yet responded.

If the research team succeeded to reach a wide range of stakeholders, it faced various challenges during the research study, namely:

- The difficulty to obtain reliable data on the volume of timber imported in Europe through Eurostat data.
- The absence of a database storing the volumes of FSC timber traded on the market.
- The difficulty to reach importers in the UK, Spain, Portugal, Italy and Germany which could be explained by their reluctance to communicate on sensitive issues with non-nationals (this was for example confirmed by two national timber trade federations). The UK and Portuguese timber trade federation contacted their importers to demonstrate the support to the research study, but it did not change the game.
- Several persons complained that they receive too many questionnaires from various sources and that it is excessively time-consuming. Contacts made by phone were more effective, but most of the time the resource persons were not available to respond and several tries were needed to get a chance to speak with someone who can provide pertinent information.
- Refusal of some importers and final clients to participate in the study.
- The lack of response from several national timber trade federations despite our emails and calls which makes it challenging to identify the relevant importers from these countries.

The following sections present the contacts made with the targeted stakeholder groups. At the request of the respondents, no company names are disclosed in the report.

1) Concessionaires in Africa

The research team contacted 16 concessionaires:

- 5 FSC and 3 non-FSC certified concessionaires in Cameroun,
- 2 FSC and 1 non-FSC certified concessionaires in the Republic of Congo, and
- 3 FSC and 2 non-FSC certified concessionaires in Gabon.

It was crucial to contact both FSC and non-FSC certified concessionaires in order to assess the alleged contraction of the FSC certified tropical timber production. On the other hand, the research team excluded concessionaires without management plans.

The responses received are shown in Table 1. Out of the 16 concessionaires contacted, 11 responded positively. The remaining contacted concessionaires have never responded to the research team enquiries despite several emails, phone calls and personal meetings.

Table 1: Number of responses received from concessionaires

Concessionaires	Number of responses received	Number of concessionaire with no responses
Cameroun	6	2
Republic of Congo	2	1
Gabon	3	2
Total	11	5

2) *Importers in Europe*

Based on the responses provided by the concessionaires and the national timber trade federations, the research team identified the major tropical timber importers in Europe. Contacts were made with importers in France, Belgium, Germany, Italy, Spain, Portugal and the UK. When contacted by the research team, some importers refused to participate in the study. Other only accepted to respond on the qualitative part, not willing to disclose what they consider commercial sensitive information (this statement was often reiterated). The limited number of responses in some countries can be attributed mainly to this concern (in spite of the confidentiality commitment displayed in the introductory messages sent by the team).

Table 2: European importers contacted

Importers	Number contacted	Number of responses received
France	27	21
Belgium	7	6
United Kingdom	9	2
Germany	4	2
Spain	1	0
Portugal	6	1
Italy	3	1

3) *Final clients*

In order to have a comprehensive understanding of the trend in demand for FSC certified tropical timber, whenever possible, the research team interviewed final clients. Only French importers accepted to communicate some of their clients' names. Out of 17 final clients contacted, 12 responded, 2 did not want to participate in the study and 3 never replied to the research team's enquiries.

Section 2: Findings

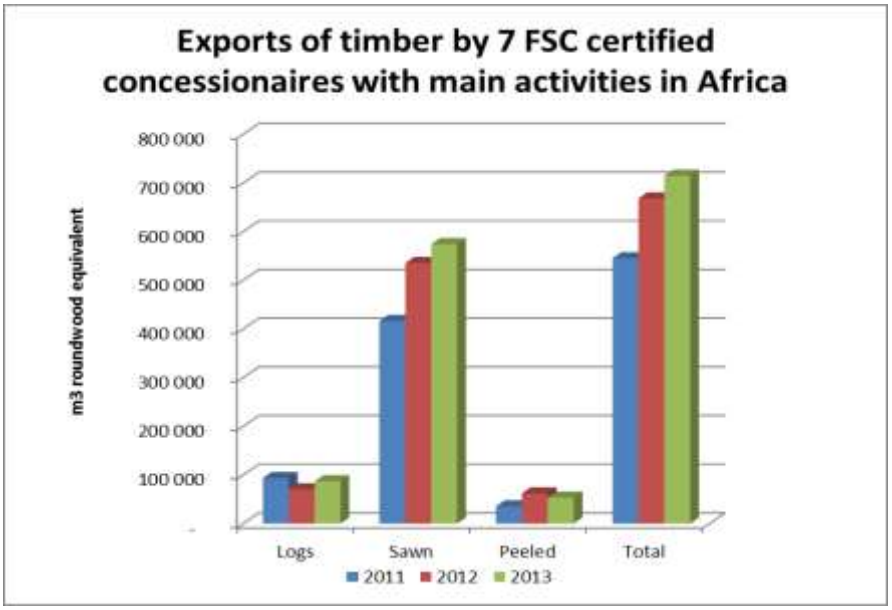
The following section provides an analysis of the interviews made during the research study; the main conclusions are introduced in Section 3.

A- Evidences from concessionaires' figures

The certified concessionaires but two provided detailed numbers on their exports while for the non-certified concessionaires, only two shared their figures. Given the limited number of responses from the non-certified group, we decided not to use it as a "matching sample" (to compare "with" and "without" rather than "before" and "after").

Below is the rough evolution of exports of FSC certified concessionaires operating mainly in Central Africa (one is also operating in Brazil). The volumes have been converted into roundwood equivalent.

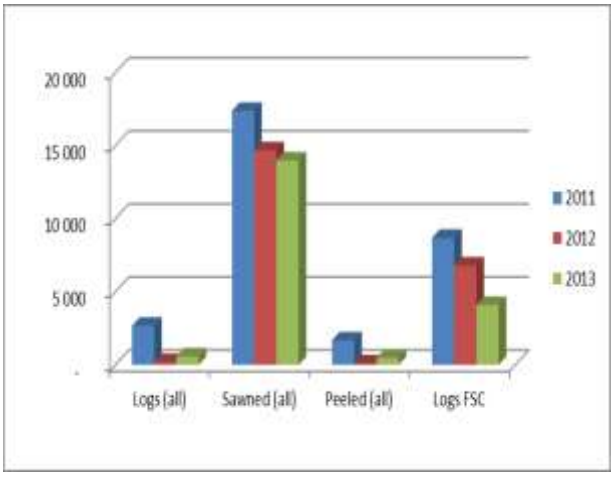
Figure 1: Exports of timber by FSC certified concessionaires in Africa

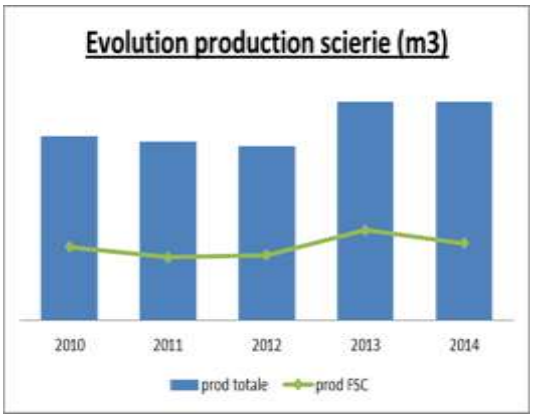


(Only a fraction of the timber exported is FSC certified)

Based on the responses received from concessionaires and importers (see Section B), the drop in the demand for FSC certified tropical timber in Europe is not tangible (it is even the opposite), except for two concessionaires (one in Cameroon and another one in Gabon) who experienced a more than proportional drop of their exports for FSC certified tropical timber against the total of their exports (see figure 2).

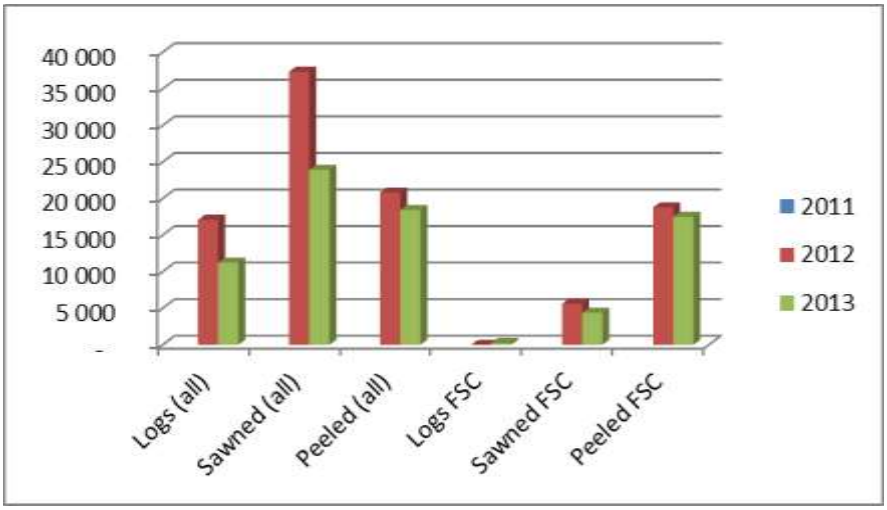
Figure 2: **Concessionaire A and concessionaire B experiencing a decrease of sales of FSC certified timber**





Another concessionaire (named C) insisted on the idiosyncrasies associated with each situation, leading to discrepancies between the trends expressed by the statistics and the impressions expressed by the commercial branch. The statistics below (see figure 3) suggest a better resilience for the FSC certified tropical timber (especially sawnwood) compared to the overall timber exported, but the concessionaire C warns the figures are explained by the commercial decisions of the company who decide to sell timbers (arbitrage between Asia, Europe and North-America) where it is the most beneficial to the company, i.e. the decision is based upon price at which the timber can be sold (and the premium got for FSC sales) and the commercial opportunities.

Figure 3: Concessionaire C



Furthermore, it is interesting to present the contrasting views expressed in September 2014 by two FSC certified concessionaires experiencing different situations:

- "We are more and more under pressure of the importers who want to lean on EUTR to substitute verified timber to FSC. The main asset of the FSC was the guarantee of legality, which is not that evident anymore with EUTR and does not justify the price premium. Before the EUTR, our share of FSC was increasing, but now it is the opposite." (translated and adapted from French)

- “The gambling of some importers who say they do not need any more FSC-certified timber as their EUTR "due diligence" is sufficient to ensure the continuity of their business without having to pay additional costs for certified wood, is a dead end because large final clients still require FSC certified timber.” (translated and adapted from French)

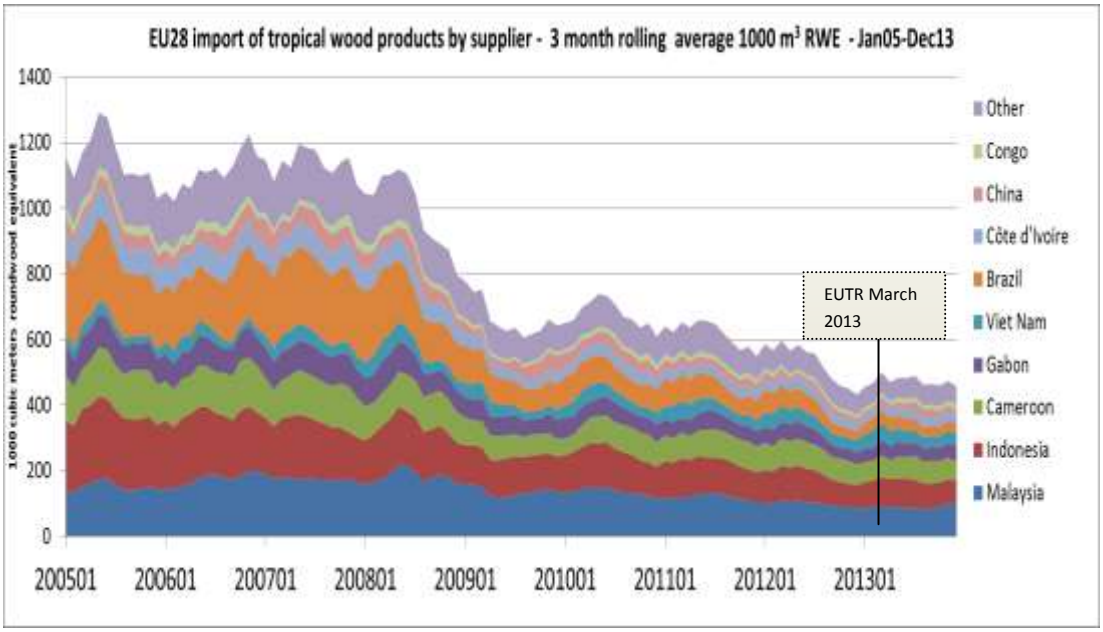
The difference between the two quoted concessionaires is on their respective outlets: the first one is selling essentially in countries were the economic, especially building activity is down while the second one has his markets in Northern Europe, where economic conditions are better (see Section 3).

Another effect of the EUTR highlighted in ITTO Tropical Timber Market Report of 2013 is the renewed concentration that it triggers in production chains. Small and medium companies in producing countries often do not have the means to set up traceability systems, and decide either to stop exports to the EU, or to join forces and sell their timber to bigger companies. The same phenomenon is observed among European importers. The small firms avoid importing tropical timber in order to escape obligations of due diligence associated with initial entry into Europe, and prefer, if the need arises, to buy timber from large-scale importers.

B- Evidences from importers’ responses

Most importers have not noted a change in proportions, i.e. a decrease of FSC certified tropical timber proportional to the decrease noticed for tropical timber in general. However, the overall statement from both targeted groups (concessionaires and importers) is that for the last several years there has been a general decline of the demand for tropical timber in Europe. This statement is confirmed by figures, with a sharp drop in the last 5 years. However, no significant new change has occurred after March 2013, according to the available statistics so far.

Figure 4: EU import of tropical wood products



(Source: Forest Industries Intelligence Ltd – Rupert Oliver – March 2014)

Nevertheless, although not visible in their own figures, some importers (4-5 in our sample) stressed out that this drop worsened with the entry into application of the EU Timber Regulation. The actions from environmental NGOs against tropical timbers are also very often quoted as a major factor of switch in the purchasing policies of buyers. All respondents emphasized that, FSC or not, tropical timbers have a "bad reputation" and are associated in the public opinion's mind to deforestation and illegal logging. They also underlined that FSC certified tropical timber is often between 5 and 15% (exceptionally up to 25%) more expensive than non-certified tropical timber. They indicated that in a context of economic crisis, it is more challenging to justify the purchase of more expensive timber (while for example PEFC price is between 0-5%). Moreover, in areas where both FSC and non-FSC certified tropical timber is offered, the tendency goes towards buying non-FSC certified tropical timber except when customers specifically request FSC certified tropical timber. It is worth noticing the irritation of several importers vis-à-vis the FSC ("they dictate us how to do"), and their will to get alternatives.
Although for the last several years, importers have been more concerned about the conditions in which the timber is produced and certification is an approach to satisfying these concerns, the quantities certified are still insufficient to meet the importers' needs. For example, France does not find enough logs on the African markets where it is in strong competition with China and other emerging countries. Substitutions of construction materials are generally to the detriment of timber, and particularly of tropical timber.

A couple of importers pointed out that if there is no tangible substitution / eviction effect of FSC with the context of EUTR's enforcement, the situation is likely to evolve quickly once timber with FLEGT licences will become available on the markets. The rationale behind such anticipation is that for timber entering the EU market with a FLEGT licence, due diligence is not requested; consequently, for importers which final clients do not request expressly FSC certification, importers could propose only FLEGT licenced timber and disregard FSC certified tropical timber. Such an analysis is also endorsed by some non-FSC certified concessionaires. However, final clients who currently ask for FSC certified tropical timber clearly make a distinction between "legal timber" and "sustainable timber", this last being clearly associated with certified forest exploitation.

The issue of national competent authorities' action:

Importers in France and Belgium expressed the wish for the competent authority to make controls in order to avoid unfair competition between importers that comply with the EUTR (and who do thoroughly their due diligence, which may entail costs) and those that still do exercise a due diligence procedure. According to the respondents, controls should be dissuasive and "exemplary".

The issue of the due diligence system and certification's role:

National timber trade federations and importers highlighted that the European Commission is not specific enough regarding the exercise of a due diligence system, in particular with respect to the role of FSC certification within this system. According to the respondents, FSC certification should be deemed sufficient to demonstrate that the risk of placing illegal timber is negligible. This vision was also share by the French Competent Authority. It was further noted that insofar as the European

Commission does not expressly inform Competent Authorities and importers on the status of FSC certification, it leads to interpretation, uncertainty and various applications among the different Member States by the national Competent Authorities who may therefore have different understanding of the due diligence system. Lastly, some importers stressed out that they had hoped that with the EUTR new markets would open for FSC certified timber but this is not the case insofar as certification systems are not expressly recognized and the EUTR is not implemented in a harmonious way throughout the EU.

On the other hand, because of the ambiguous status of certification, additional documents are requested by importers to ensure compliance with the EUTR. In that regard, being FSC certified is not seen as an "advantage". This is specifically pointed out by an Italian importer who suggested that controllers in Italy disregard FSC certificates. Many actors call for a systematic classification of FSC certified timber as "negligible risk" on the EU market, but it seems that this is not a view unanimously shared amongst the national Competent Authorities. Moreover, some importers highlighted that clients ask for unnecessary additional documents and information which consume importers' time and resources.

Overall, there is still a certain lack of understanding of the EUTR and how the due diligence system works. Some respondents expressed the concerns that customers and traders believe that with the entry into application of the EUTR, all timbers placed on the EU market are automatically "EUTR compliant" and legal; therefore no additional procedures should be undertaken. Besides, often confusion exists among importers as to what is expected with the EUTR and the due diligence system.

Section 3: Diverging markets characteristics and key factors underlying strategic behaviours

With the entry into application of the EUTR, some importers have adopted an "opportunistic" behaviour ("*I replace FSC certified tropical timber by non-FSC certified timber*") using the fact that with the EUTR, consumers feel that there is no more problem of illegality for imported tropical timber in Europe. Sometimes these behaviors are motivated by the price of FSC certification (they do not want to pay more) but also by problems of unavailability of FSC timber in due quantities and time. **These strategies are mostly focused in the southern Europe, where the issue of price is the most sensitive and where environmental awareness is the lowest**. In fact, it was noted by both French importers and the UK timber trade federation that "northern markets" (i.e. where the economic crisis is less acute) are more sensitized to social and environmental issues and are therefore ready to pay a higher price for certified timber while in "southern markets" (i.e. where economic difficulties, especially in building, are stronger) these aspects are not well marketed. Additionally, **public markets for certified timbers are willing to pay the price premium associated to FSC, while private buyers are more and more reluctant to do so** (especially in countries where the economic crisis is felt in building activities). In sum, the hypothesis tested - EUTR as a disincentive for buying FSC certified tropical timber - would be only marginally confirmed (so far) in countries where the market is depressed (and where price is one of the first criteria), but not in countries with resilient timber markets and significant public purchasing policies for certified timber. **Therefore, one**

can say that, so far, EUTR is not significantly impacting FSC-certified tropical timber demand, even though some "weak signals" are detectable.

The (perceived) sensitivity of the consumers is an additional factor: in markets already asking for FSC-certified timber, importers have recourse to FSC certified tropical timber to fulfil their obligations under the EUTR. Those diverging market characteristics have to be confirmed by figures in the coming years. However, when tropical timber exported with FLEGT licences will become available at a large scale, it is likely that the "weak signals" will amplify and those who currently use FSC purchasing to fulfill their due diligence obligations will have no reason to continue to do so. On the other hand, final clients currently asking for FSC-certified timber as they make a clear distinction between "legal" and "sustainable" will have no reason to change their purchasing policies. Nevertheless the potential market share of FSC-certified timber will be limited to those who clearly make this distinction between legality and sustainability, and the EU market for tropical timber will tend to split into two relatively distinct markets. Furthermore, since the legal provisions in producing countries pretend ensuring sustainable management of forests (through mandatory management plans with sustainable yields targets and social clauses), the distinction between (fully) legal and sustainable will tend to be blurred, and might question the added value of private certificates such as the FSC; providing the FLEGT initiative fully succeeds.

Annexe 1 - Some useful figures

The statistics are based on data from the Eurostat database. As mentioned above, timber imports are recorded both in euros and weight (1 tones) and not in volume (m3). Since the conversion of weight to volume is inoperable for various categories of wood, all statistics are calculated in euros. The timber products (furniture) are not considered in the following figures.

Figure 5: Year 2013 - countries' share of tropical timber imports in the EU (in euros)

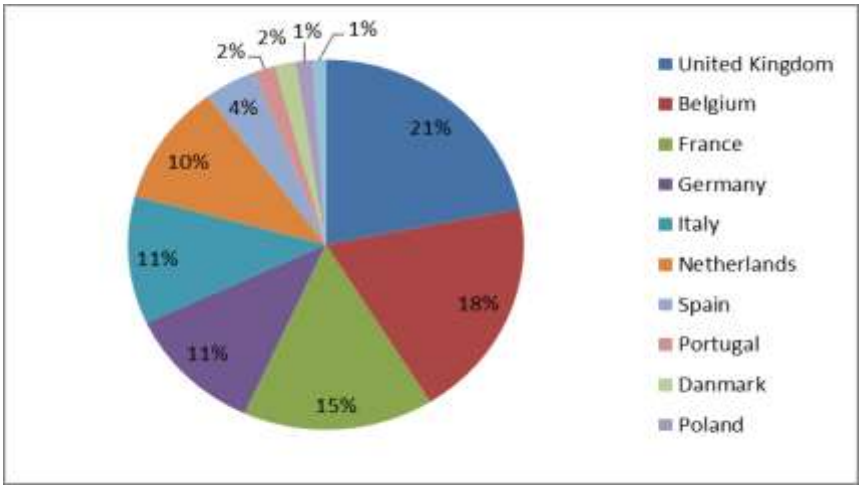
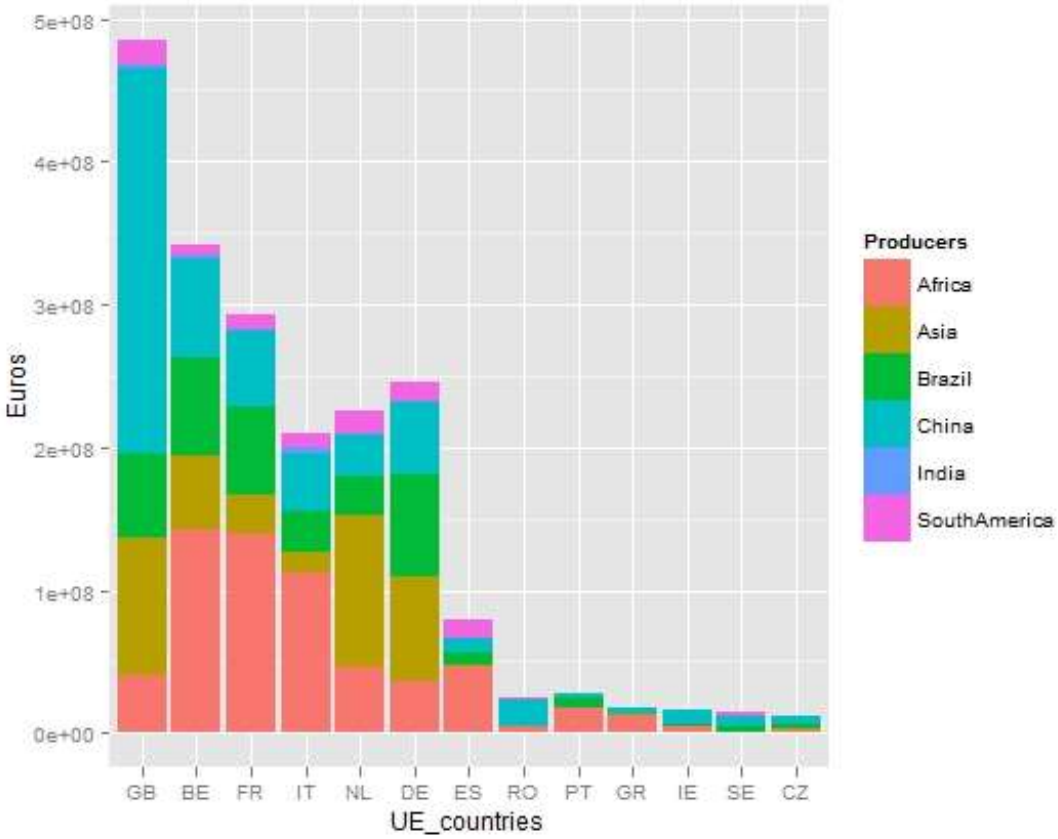


Figure 6 : Year 2013 - imports of tropical timber by countries by EU importing countries (in euros)



The breakdown of timber imports from producing countries differs depending on the importing country. The imports of timber from Africa represent less than half of the total value imported in Belgium, France, Italy and Spain, and barely one-fifth for the UK, the Netherlands and Germany.

Timbers from China are an important part of the UK import market (slightly more than half of the imported value) and about one-fifth in other countries. The timber imported from Brazil and Asia is also well represented among the European countries. Although we cannot link the euro value of timber products and their volume, it can be assumed that purchasing timber from China is cheaper than buying African timber.

Several importers reported not only that the quantities of FSC certified timber from Africa are still insufficient but also that the transport takes too long to meet their expectations (congestion at the port of Douala in particular). Therefore, they are turning to Asian timber, almost all PEFC certified, or even to the Brazilian Ipe also certified.

Figure 6 reflects these exchanges between European importers and timber producing countries and Figure 7 confirms this distribution for the first half of 2014.

Figure 7 : Year 2014 (first half) - imports of timber by countries by EU importing countries (in euros)