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## **Legality Constraints: the emergence of a dual market for timber product?**

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### **Presentation outline**

- Background
- The questions: are the legality constraints creating a dual market?
- Some data: results and discussion
- Conclusions: the role of regionalization

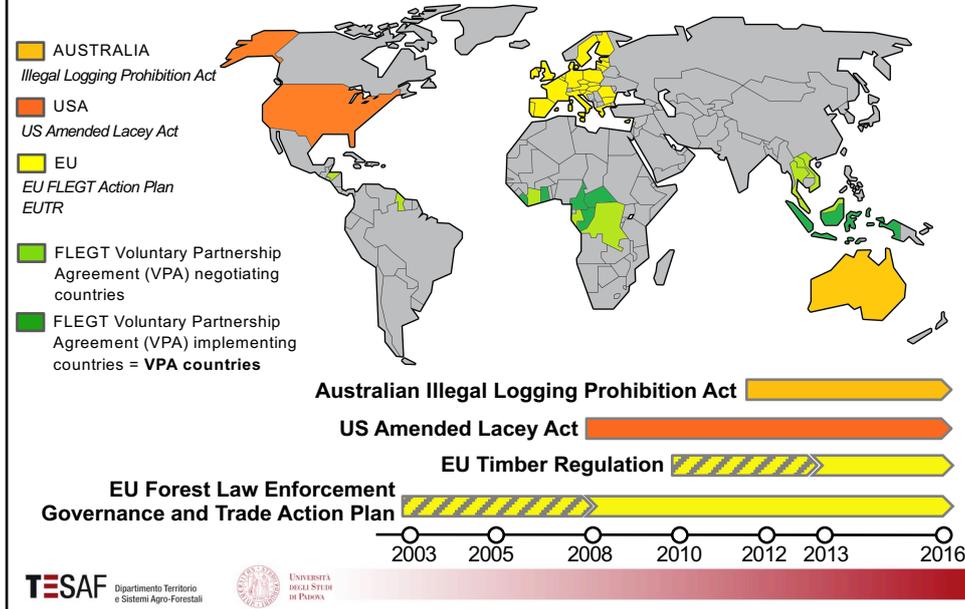
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## Timber trade legality regulations (1/2)



## A changing context

- Regulations implemented **only** by **some countries** (USA, EU and AUS )
- Regulations **not** covering **all** traded timber **products** (e.g. some finished products excluded)
- Regulations on legality requirements are overlapping with **new market trends** (emerging economies), **new trade policies** ("neo-protectionism") and **initiatives by civil society** (certification, deforestation commitments)



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## Objectives

To analyze:

- The state of **timber flows at global level** with a focus on **selected tropical timber and timber-based products**
- The **changes in timber flows** to the **EU, the USA, and Australian markets**, and changes in flows to **selected emerging economies** without specific legality verification regulations
- Are the **new legality regulations** contributing to timber diversion towards destinations with lower legality requirements, thus **creating a “dual market”**?

## Research methodology (1/3)

### 1. Product selection

#### 17 Selected products (primary tropical wood products)

Commodity groups	CN code (4-digits)	CN codes (6-digits)
Roundwood (logs)	<b>4403</b>	440341 and 440349
Sawnwood	<b>4407</b>	40721 to 440729
Veneers	<b>4408</b>	440831 and 440839
Plywood	<b>4412</b>	441213, 441222, 441229 and 441231

CN = Combined Nomenclature

Note: volume in roundwood equivalent

## Research methodology (2/3)

### 1. Product selection

### 2. Country selection

- Global trade
- **Traditional importers** (with legality constraints) → **EU, USA and Australia (AUS)**
- **Emerging economies** → **China (CHN), India (IND) and Vietnam (VNM)**

Reference to:

- Total imports
- Imports from VPA countries

## Research methodology (3/3)



Source: UN COMTRADE database

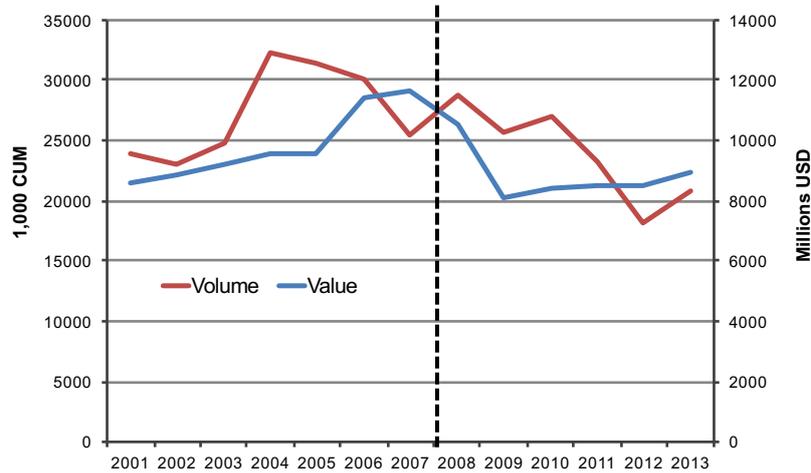
Cleaning to avoid **data shortcomings, double reporting, presence of outliers, missing quantities, and use of different measure units.**

Spreadsheet-based tool developed and tested by the FP7 StarTree project (Pettenella *et al.*, 2014) adapted and used



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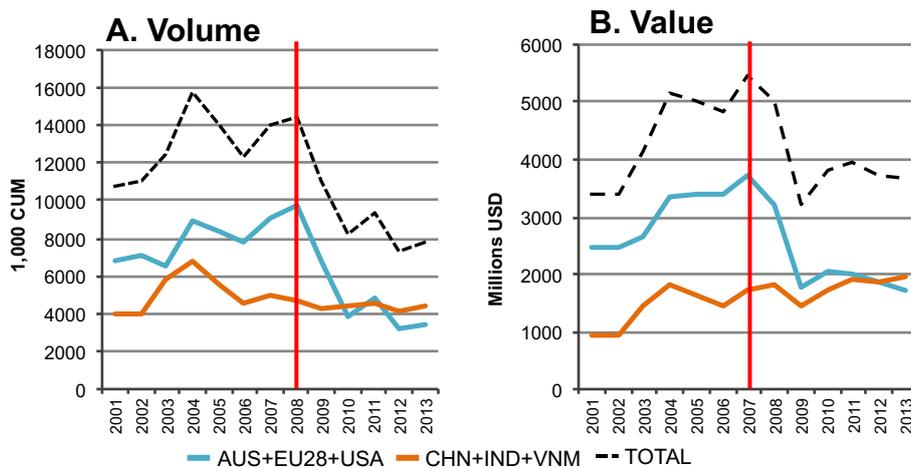
## International trade in primary tropical timber products



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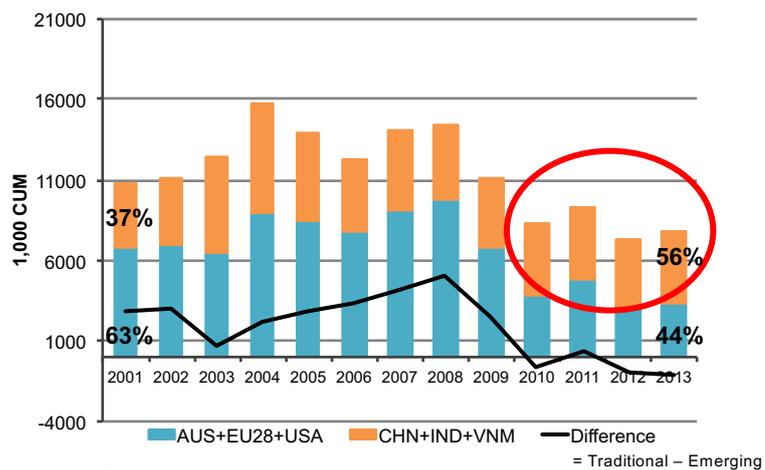
## Total imports of primary tropical timber products by Traditional importers and Emerging economies



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### Share of imports of primary tropical timber products by Traditional importers and Emerging economies (Volume)

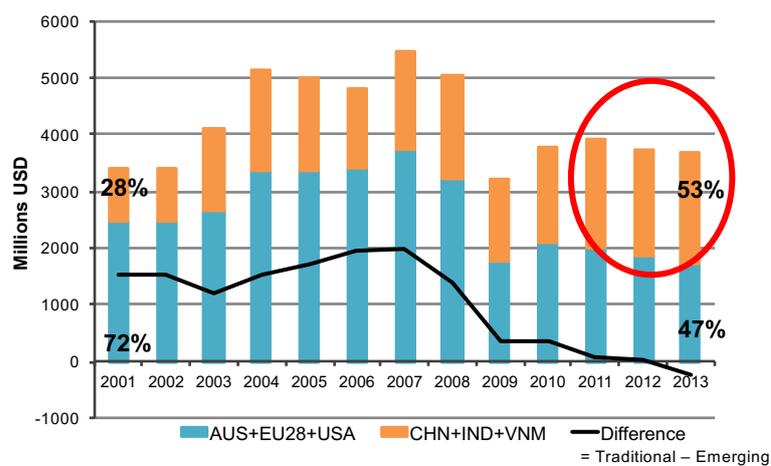


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### Share of imports of primary tropical timber products by Traditional importers and Emerging economies (Value)

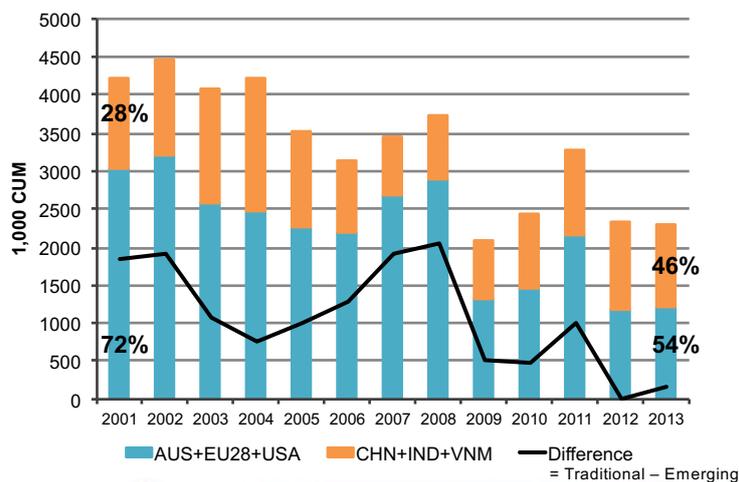


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### Share of imports of primary tropical timber products from VPA countries by Traditional importers and Emerging economies (Volume)

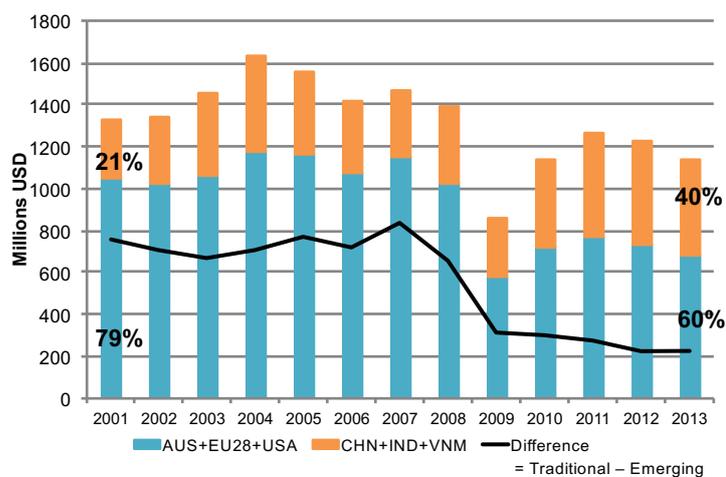


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### Share of imports of primary tropical timber products from VPA countries by Traditional importers and Emerging economies (Value)

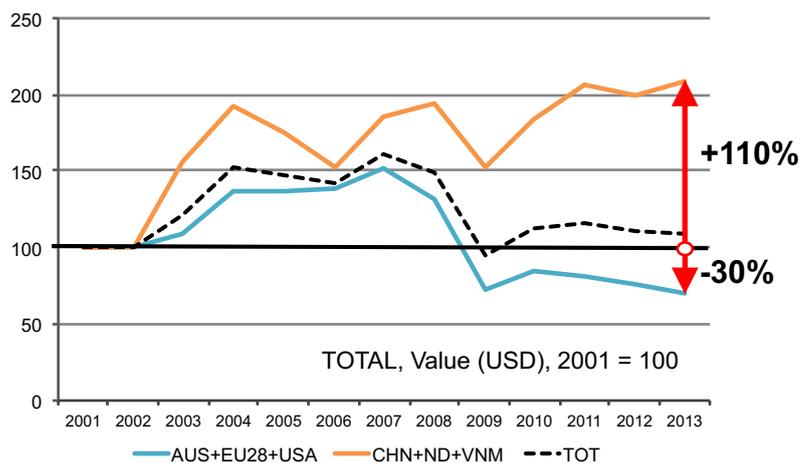


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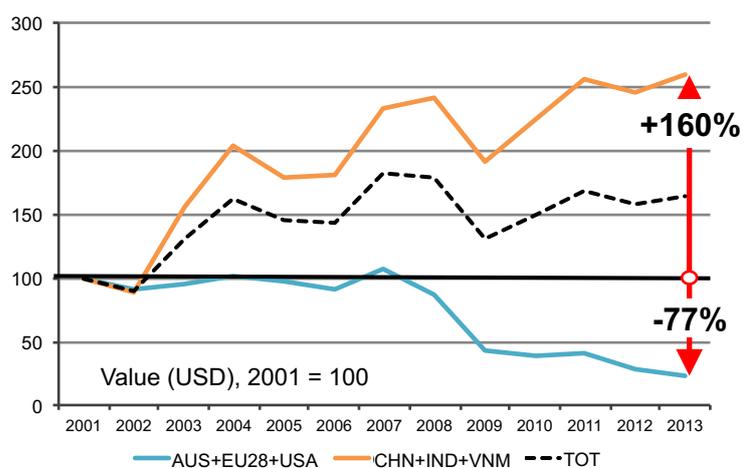
### Value of total imports of **primary tropical timber products** by Traditional importers and Emerging economies indexed to 2001



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### Value of total imports of **tropical logs** by Traditional importers and Emerging economies indexed to 2001



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## In short

- **General decrease** (in volume) in the global trade of primary tropical timber products
- **Different patterns** between Traditional importers (decrease) and Emerging Economies (increase)
- **Partial shift form** Traditional importers to Emerging Economies + **increasing South-South trade**
- These trends are mostly influenced by **logs** (and partially by **sawnwood**)

→ **Dual trade development**, but is it just the effect of timber trade legality regulations?

## More in detail

- Decline of tropical imports by Traditional importers started around **2007-2008** = financial crisis
- **Additional drivers** at play e.g. increasing domestic demand by emerging economies, log export bans, anti-dumping measures on plywood, shift to temperate species, ...
- **VPA countries hold better** than other tropical countries → more processed products exported, reinforced links with EU, measures adopted for FLEGT
- **Additional (“hidden”) effects of legality constraints policies:** enterprise concentration (Karsenty *et al.*, 2014), reduced number of imported species (Jonsson *et al.*, 2015), increased prices (Prestemon, 2015), ...
- More time needed to understand the technical/political complexities introduced by an ever-evolving legal framework



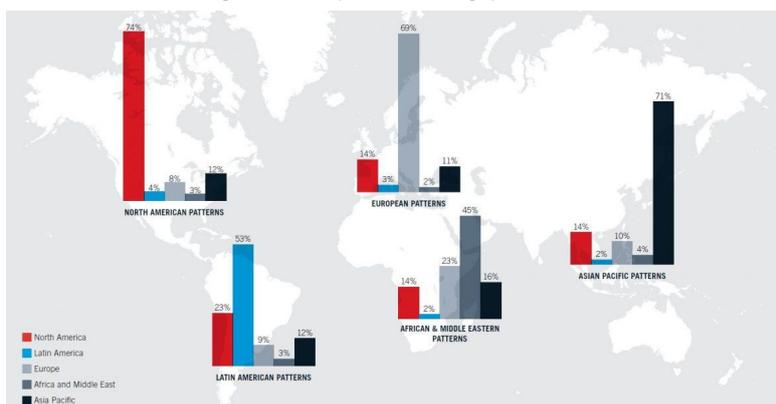
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## Conclusions

- **A general trend: regionalization = trade flows between countries of the same region**

## 2017: a year of regionalization, not de-globalization

Many analysts are forecasting that the advent of Trump, Brexit and a populist resurgence to herald a new era of protectionism. But 2017 will not bring in deglobalization, rather will see an increase in regionalization, as near-shoring trade will spike to fill the gap.



[www.forbes.com](http://www.forbes.com) – Based on data from Procurement Leaders

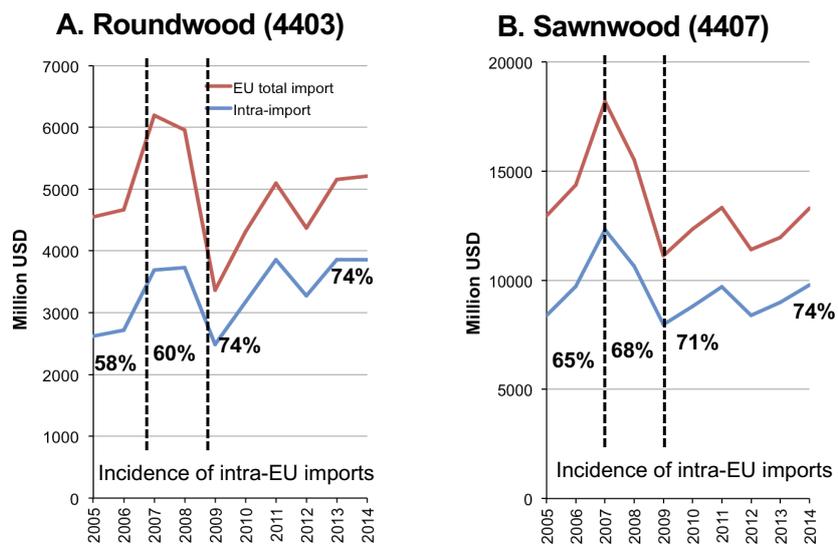
## Conclusions

- **A general trend: regionalization** = trade flows between countries of the **same region**
- **Common pattern** for many goods despite growing multilateral agreements and decreasing transportation costs (WTO, 2015)
  - Role of **regional trade agreements** (20 in 1990 → 283 today) and **policies** (WTO, 2017)
- EU Forest sector → **only in the last months** Reg. EU Timber Regulation (EUTR) is having its **concrete implementation**

## Conclusions

- **Decreasing role of EU-28** within **global** roundwood and sawnwood **import trends**
- **Intra-EU trade incidence on increase since 2007**, reduced role of extra-EU imports (part. for logs)

## EU-28 trade values; total and intra-EU

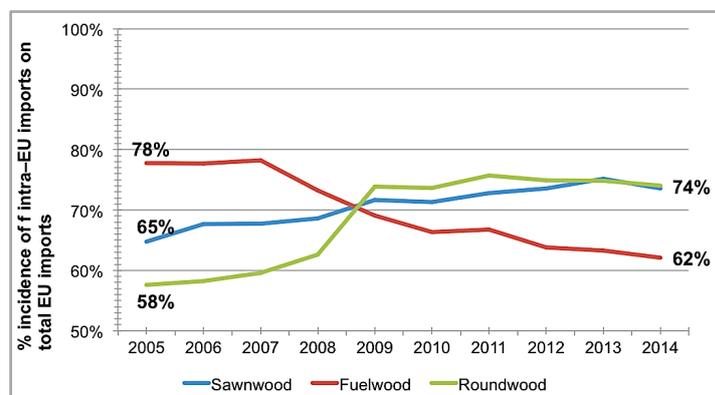


## Conclusions

- **Decreasing role of EU-28 within global roundwood and sawnwood import trends**
- **Intra-EU trade incidence on increase since 2007**, reduced role of extra-EU imports (part. for logs)
- **Not all products within EUTR scope show the same trend**

## Wood biomass for energy

Total EU imports on increase (+200% in quantity; +300% in value), but **intra-EU contribution is on decrease**

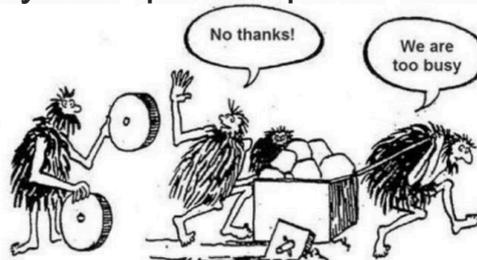


## Conclusions

- **Decreasing role of EU-28** within **global roundwood and sawnwood import trends**
- **Intra-EU trade incidence on increase since 2007**, reduced role of extra-EU imports (part. for logs)
- **Market regionalization** of the wood trade seems a **much stronger driver than legality constraints** in the development of a dual market



A personal impression:  
while public institutions are discussing trade regulations and new legality constraints, market is autonomously changing along different and partly unexpected patterns



Presentation available on the web. Search for "pettenella"