



FOREST POLICY TRADE AND FINANCE INITIATIVE

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# TOWARDS TIMBER IMPORT PROVISIONS IN THAILAND

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## INTRODUCTION

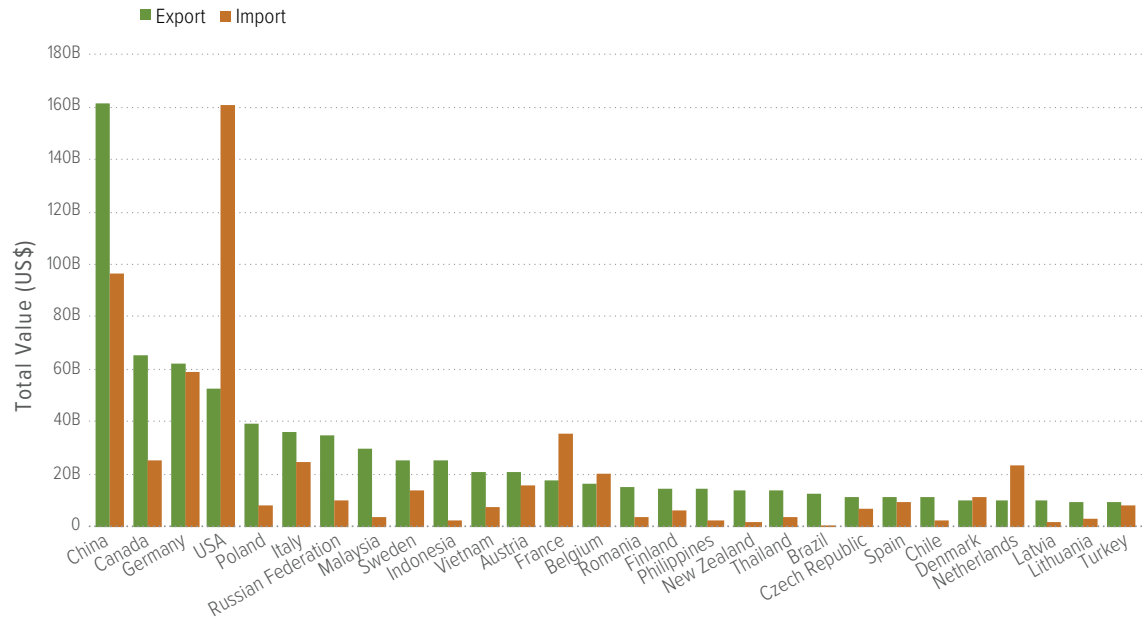
Between 2012 and 2016, Thailand was the nineteenth most significant global exporter of timber products (Figure 1) with exports worth close to \$4.5 billion, annually. Thailand is increasingly ambitious in seeking to become a regional manufacturing hub for wood-based products and it is a major supplier of furniture and other wood-based products to European, US and Asian markets. Most of the timber supplying this growing processing industry either comes from domestic plantations or is imported.

As Thailand positions itself an export-focused manufacturer, maintaining access to markets will increasingly require efforts to verify that all timber in its products (both imported and domestically produced) is legal. Regulations to tackle the trade in illegal wood have now been operational across the European Union (through the EU Timber Regulation or EUTR), in the US (through the US Lacey Act) and in Australia (through the Illegal Logging Prohibition Act or ILPA) for several years, with implementation and enforcement modalities well established.



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**FIGURE 1** Top global importers and exporters of timber, pulp and paper products between 2012 and 2016 (by value in USD)



Source: Data from UN Comtrade, 2018. Compiled by Forest Trends, 2018.

More recently, Japan and the Republic of Korea have established requirements to promote the trade in legal timber products, while Indonesia and Vietnam have committed to exclude illegal wood from their imports as a key component of the timber legality assurance systems that underpin Forest Law Enforcement Governance and Trade (FLEGT) Voluntary Partnership Agreements (VPAs). China is also reportedly considering import controls on timber. This momentum reflects concerns about both market access for processed timber, and countries' contribution to global climate change through 'imported' illegal deforestation.

Thailand started exploring a FLEGT VPA with the EU in September 2013 and held first formal negotiations in June 2017. Under the VPA process, Thailand is developing a timber legality assurance system to verify that wood products conform to national laws, whether they are domestically harvested or imported.

This information brief therefore discusses Thailand's main risks associated with exports and imports of timber, pulp and paper products, and considers the likely impact of the increasing number of global demand-side timber regulations/timber legality assurance systems on Thailand's processing industry. The brief then analyses the key legislative parameters required for Thailand to develop an effective import control system, drawing from lessons in designing and implementing existing efforts to regulate imports of illegally logged timber.



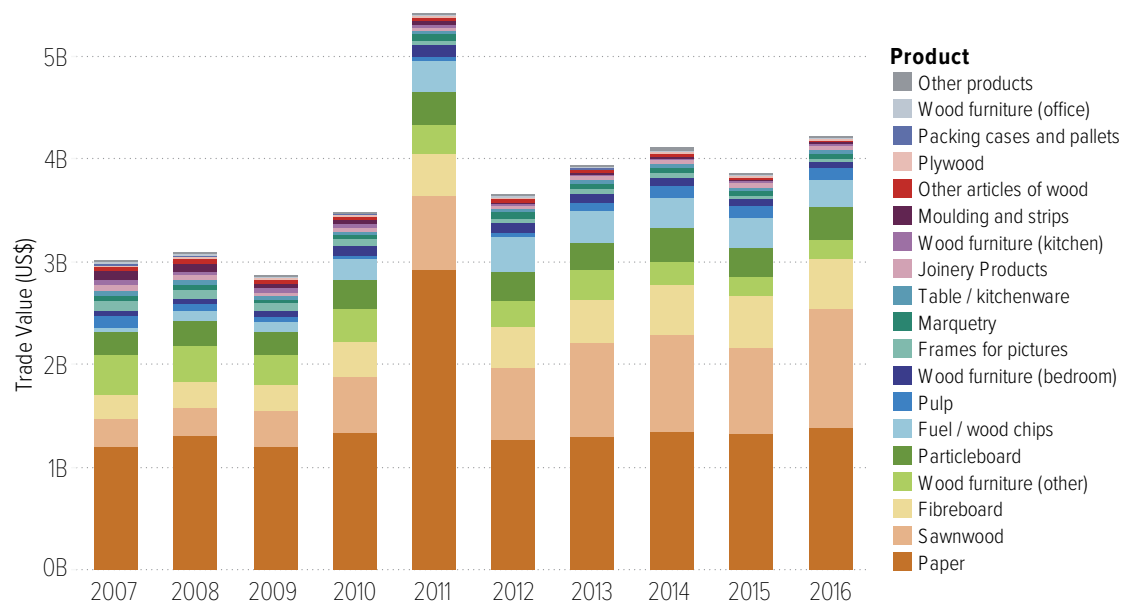
## Thailand's main exports

**According to Thai Government statistics, major export products include pulp and paper, sawnwood, fiberboard, wood furniture and particleboard.**

Thailand's exports of timber, pulp and paper products have been increasing steadily, particularly since 2012 (Figure 2). By 2016,<sup>1</sup> exports were worth 33 percent more than in 2007 (based on value in USD). According to Thai Government statistics, major export products include pulp and paper, sawnwood, fiberboard, wood furniture and particleboard. However, pulp, sawnwood, joinery products, tables and kitchenware, particleboard, kitchen and office wood furniture have shown the most significant increases in exports over the last five years. Since 2012, more than 70 percent of kitchen and office wood furniture exports have been shipped to the US, while 70 percent of Thai table and kitchenware exports have also been destined for the regulated markets of the US (35 percent) and the EU (35 percent).

Thailand exported 30 percent of its pulp exports to France between 2012 and 2016, with the majority (65 percent) of pulp, and almost all sawnwood exports over the period (99 percent), destined for China. Data analyzed from Thailand's Forestry Statistics Database, which includes some species information for log and sawnwood exports, shows that rubberwood accounted for more than 86 percent of sawnwood exports over the period. Exports of joinery

**FIGURE 2** Thai exports of timber, pulp and paper products between 2007 and 2016  
(by value in USD)

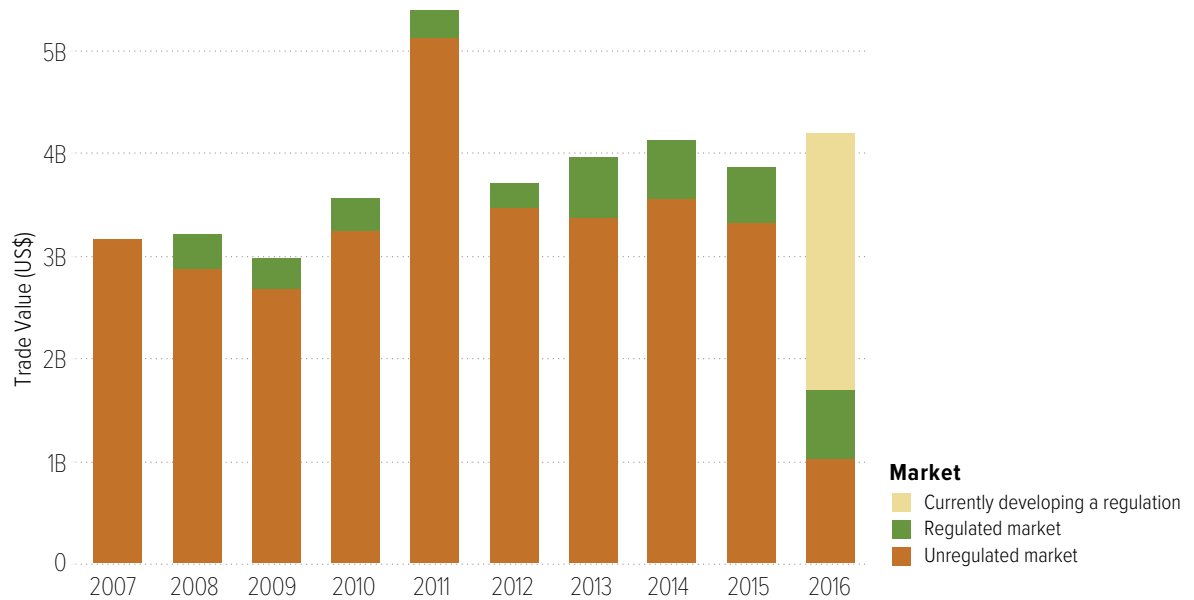


Source: Data from UN Comtrade, 2018. Compiled by Forest Trends, 2018.

<sup>1</sup> Data reported by Thailand to UN Comtrade (<https://comtrade.un.org/data/>). As of April 2019, Thailand had reported up until 2016.



**FIGURE 3** Thai exports of timber, pulp and paper products between 2007 and 2016 to regulated and unregulated markets (by value in USD)



Source: Data from UN Comtrade, 2018. Compiled by Forest Trends, 2018.

products have been more dispersed with 90 percent destined for Japan, the US, India, Malaysia, the EU28 Member States, Vietnam, Myanmar, Philippines and Turkey. Particleboard exports are predominantly destined for the Republic of Korea (35 percent), Malaysia (20 percent), Indonesia (13 percent) and China (11 percent).

Figure 3 highlights the overall value of exports destined for markets with import regulations currently in place. Over the last decade, the number of national regulations aiming to exclude illegal timber from imports has risen significantly, increasing the incentive for Thai operators dealing in verifiably legal timber. The US was the sole operational regulated market in 2008 and accounted for just 10 percent of Thailand's exports. As the EUTR and the Australian ILPA became operational from 2013 and 2014, Thailand's timber product exports to regulated markets reached 14 percent. By 2016, the value of exports to these three regulated markets had increased again, accounting for 23 percent of Thailand's annual exports, and the trend continues towards more trade with regulated markets.

Japan, the Republic of Korea, China, Vietnam, Indonesia, and Malaysia have all taken steps to develop import regulations designed to exclude illegally logged timber from their markets. The move to regulate Asian markets is likely to have significant impact on Thailand's exports. Based on 2016 export data, the Asian countries now designing or implementing import legislation were the destination for 54 percent of Thailand's timber, pulp and paper exports. Together with the US, EU, and Australia, Thailand exported 76 percent of its timber products to markets that will require verification of legal timber in the coming years. While a number of



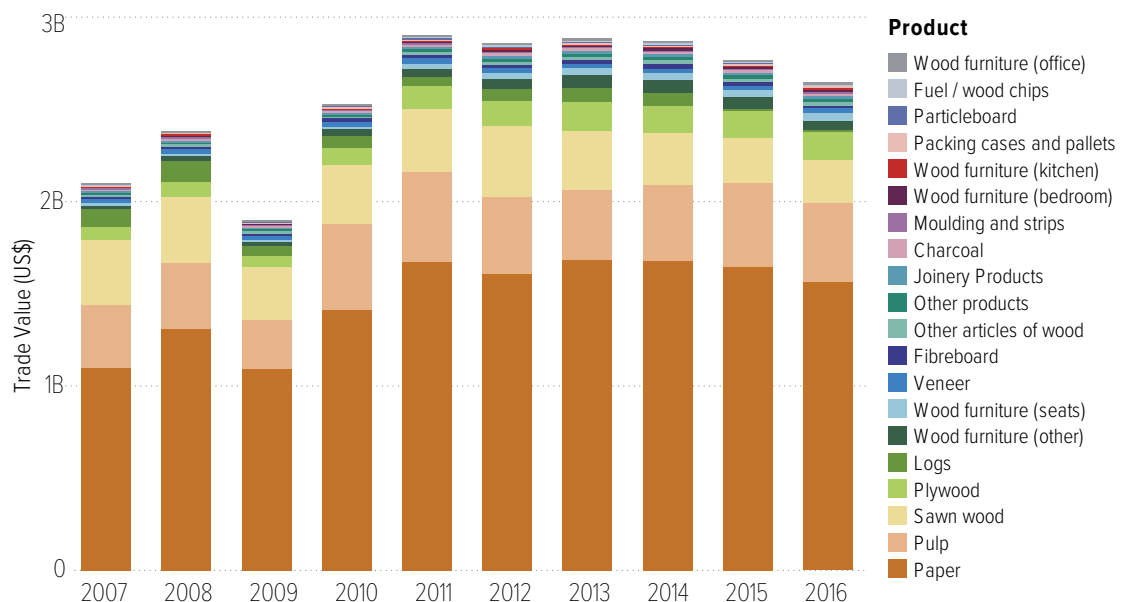
leading Thai companies are likely to have systems in place to verify the legality of their timber, mainstream industry will increasingly need to demonstrate that their products are made from legally harvested timber as these demand-side regulations come into force in the Asia Pacific region.

### Import profile

Thailand’s processing industry is increasingly relying on imported raw material in addition to the timber produced domestically in plantations. In line with Thailand’s positioning as a major export-focused manufacturer, imports of timber, pulp and paper products rose significantly between 2009 and 2011 (Figure 4). Since 2011, imports have been worth between \$2.6 and \$2.9 billion annually. The main timber products imported into Thailand by value are paper, pulp, sawnwood, plywood and logs. Together, these five products account for 93 percent of Thailand’s imports between 2012 and 2016.

Thailand has sourced 90 percent of these five timber products from China, the EU28 Member States, Malaysia, Japan, Singapore, the US, Indonesia, Canada, the Republic of Korea, South Africa and Brazil between 2012 and 2016. However, according to UN Comtrade’s Thai Government reported figures, Thailand has most significantly increased sourcing of paper, pulp, plywood, logs and sawnwood from Benin, Pakistan, Peru and Guinea since 2012.

**FIGURE 4** Thai exports of timber, pulp and paper products between 2007 and 2016 to regulated and unregulated markets (by value in USD)

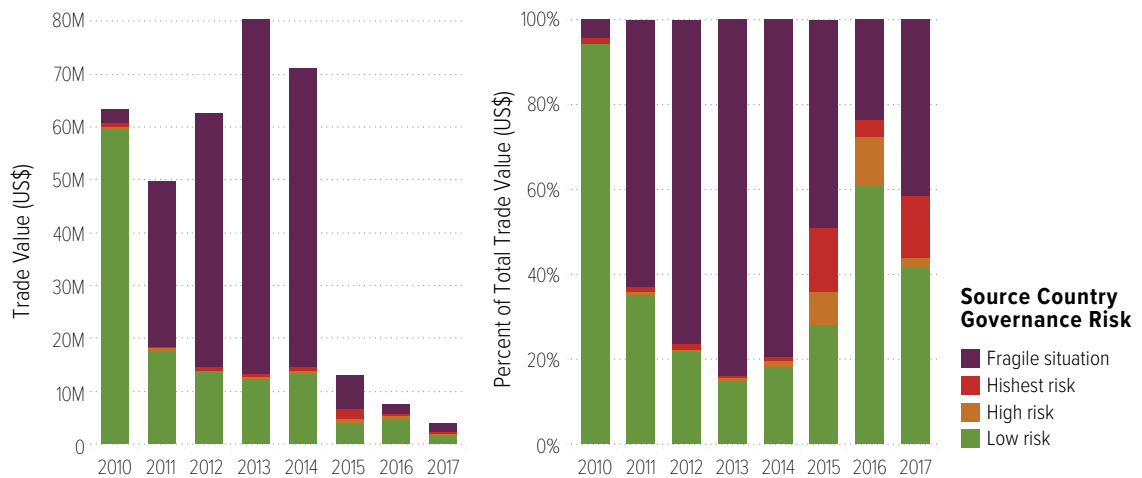


Source: Data from UN Comtrade, 2018. Compiled by Forest Trends, 2018.



Logs and sawnwood are used as raw materials in many processed products exported from Thailand. A large proportion of log and sawnwood imports are sourced from countries with poor forest governance and significant documented reports of illegal logging (Figures 5 and 6).<sup>2</sup> Since 2010, Thailand has sourced two thirds of all log imports from Myanmar (45 percent of imports based on value between 2010 and 2017) and Malaysia (18 percent). New Zealand,

**FIGURE 5** Thai exports of timber, pulp and paper products between 2007 and 2016 to regulated and unregulated markets (by value in USD)



Source: Data from Thailand Forest Statistics Database, 2018. Compiled by Forest Trends, 2019.

**FIGURE 6** Governance risks associated with imports of sawnwood over time (by value in USD and percentage of total value in USD)



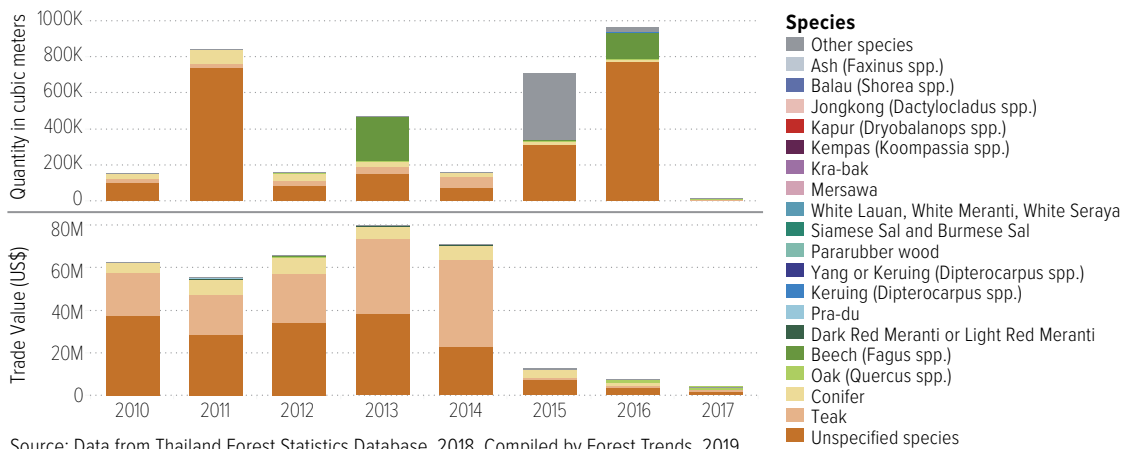
Source: Data from Thailand Forest Statistics Database, 2018. Compiled by Forest Trends, 2019.

<sup>2</sup> “High-risk” and “low-risk” source country categories shown in Figures 5 and 6 reflect country scores on Forest Trends’ Average Relative Country Governance Percentile Rank which provides an average relative governance and corruption risk score between 1 and 100 for 211 countries globally. Countries with a higher percentile rank are associated with greater governance and corruption challenges. For the sake of the analysis in this paper, Forest Trends has followed others in labeling countries ranked lower than 50 on the percentile rank as “low-risk”, labelling countries ranked between 50 and 75 as “high-risk,” and those ranked between 75 and 100 as “highest-risk.” Imports from countries listed on the 2019 World Bank’s annual Harmonized List of Fragile Situations are labeled as “fragile situations”.





**FIGURE 7** Species of logs imported over time (by value in USD and quantity in cubic meters)

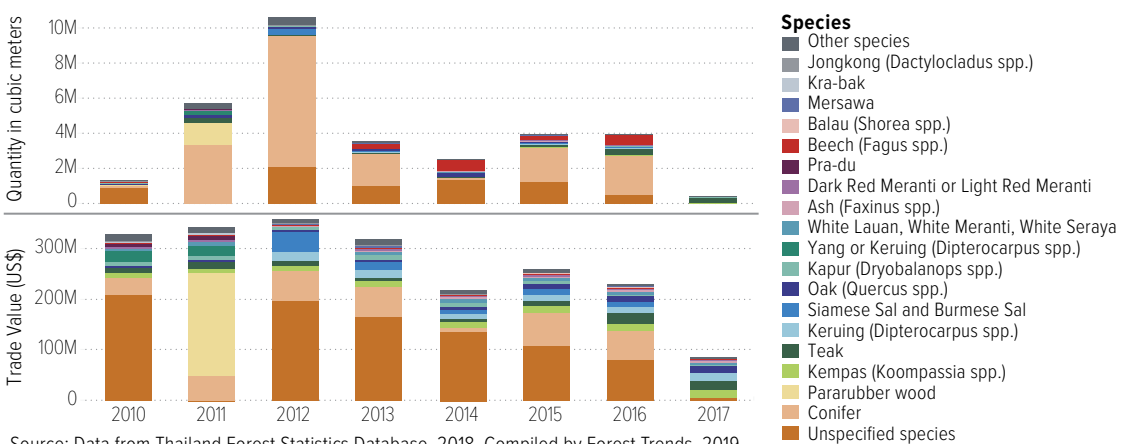


Source: Data from Thailand Forest Statistics Database, 2018. Compiled by Forest Trends, 2019.

Republic of Congo, Solomon Islands and the US have also supplied the Thai market (accounting for around 12 percent combined). However, log imports have declined significantly over the last few years, particularly after a period of stockpiling teak logs from Myanmar in 2013 and early 2014 ahead of the April 2014 log export ban (Figure 7).<sup>3</sup> In 2017, Thai demand for teak logs has therefore shifted away from Myanmar (which only accounted for 2 percent of log imports) to Brazil and South Africa as well as to sourcing logs of lookalike species (such as Afzelia or “doussie”) from countries including the Republic of Congo and Central African Republic.

Sawnwood imports have also declined since 2012 but not as significantly as logs. Since 2010, Thailand has sourced over half of sawnwood imports from Malaysia and 14 percent from Laos. Together, New Zealand, the US and Myanmar have accounted for one fifth of Thailand’s imports. As Myanmar enacted a log export ban in 2014, Thai companies have also switched to buying teak sawnwood, which accounted for 21 percent of total sawnwood imports in 2017 (Figure 8).

**FIGURE 8** Species of sawnwood imported over time (by value in USD and quantity in cubic meters)



Source: Data from Thailand Forest Statistics Database, 2018. Compiled by Forest Trends, 2019.

<sup>3</sup> Data used in Figures 5, 6, 7 and 8 has been collected from Thailand’s Forest Statistics Database. Species information is only available for logs and sawnwood. Data directly linking species to source country is not presented in the Database.



A significant number of these log and sawnwood producers rank high globally for governance challenges and corruption, or are currently listed on the World Bank's Harmonized List of Fragile Situations<sup>4</sup> indicating significant challenges for respective governments to maintain the Rule of Law. Complicity of government officials in corruption in many states compromises the enforcement of laws and regulations relating to forest protection and management, and suggests an increased risk of buying illegal wood.<sup>5</sup> NEPCon<sup>6</sup> has reported significant risks of illegal timber production in many of Thailand's main source countries, while Forest Trends has shown that the Republic of Congo, Central African Republic, Myanmar and the Solomon Islands consistently rank in the bottom quartile of countries globally for national governance and corruption concerns.<sup>7</sup>

While a number of leading Thai companies have developed Due Diligence Systems to demonstrate the legality of their timber, small and medium operators are likely to require further support to establish legal suppliers and maintain market access. Some Thai companies are importing high percentages of logs and sawnwood from countries with some of the most severe governance and corruption risks globally. At the same time, Thailand's main export markets are taking regulatory action to eradicate illegal timber from their markets, meaning that Thai companies are likely to come under growing pressure to be able to demonstrate the legality of their timber products.

## Thailand's road to import control

The Thai government is responding to these shifting demands for legal timber from key consumer markets. As part of the first official negotiations with the EU in June 2017, Thailand committed to develop a system to document and verify the legality of timber products that Thai companies export, as well as a range of other initiatives aimed at increasing sector transparency and independent monitoring.

The second round of negotiations took place in July 2018 and focused on developing the Legality Definition and Timber Legality Assurance System, as well as highlighting the need for effective provisions for import control within the national TLAS. The Minister of Natural Resources and Environment offered high-level political commitment to a swift VPA negotiation process with the third negotiation planned for October/November 2019. Over the last year, the Thai Import Control Sub-Working Group has developed a draft due diligence system in line with the objectives of the TLAS.

<sup>4</sup> "Harmonized list of Fragile Situations FY2019," World Bank, last modified July 1, 2018.

<sup>5</sup> Norman, M. Saunders, J. and Canby, K. National Governance Indicators. Relevance for the Regulation of the Trade in Illegal Timber. (Washington DC: Forest Trends, 2017).

<sup>6</sup> The FSC Global Forest Registry. NEPCon, FSC and Rainforest Alliance. Available at <https://www.globalforestregistry.org/>

<sup>7</sup> Norman, M. Saunders, J. and Canby, K. National Governance Indicators. Relevance for the Regulation of the Trade in Illegal Timber. (Washington DC: Forest Trends, 2017).





*Thailand committed to develop a system to document and verify the legality of timber products that Thai companies export, as well as a range of other initiatives aimed at increasing sector transparency and independent monitoring.*

### ***Designing model provisions for an import control***

The breadth of timber product categories or Customs HS codes covered under the product scope of a VPA is important. For example, Vietnam's import provisions apply to all timber and rubberwood products entering Vietnam and regulate all timber operators (classified as either households or organizations). This broad application scope is more likely than a narrower scope to ensure that all timber brought into the country, and potentially used in processed product exported to the EU and other regulated markets, is legal. Thailand has developed a draft product scope covering many of the main products or HS codes imported into the country.

An additional strength in designing import control measures is the setting of clear expectations for how companies should meet the requirements. Clarity encourages regulated companies to take active steps to put in place a system that reduces the risk of illegal timber entering the market, and is also consistent with the approach of the EUTR and the Australian ILPA. The similar 'Due Diligence' requirements in the EU and Australia have already been found to change company-sourcing behavior, shifting sourcing away from suppliers who are unable to provide full document sets, or unwilling to verify the legality of the timber, towards suppliers who can.

### ***Effectively enforcing an import control***

Once a system is fully designed and in force, Thailand will need to develop proportional checks on business operators to ensure compliance with the provisions and to ensure that the Thai Market is not polluted with illegal timber.

Vietnam's import regulation requires Due Diligence and documentary checks at the border for all shipments with shipments considered high- and medium-risk expected to be subject to physical checks. This scale of pre-import checks is significant and appears to run counter to the wider trend of speeding up customs clearance to facilitate trade. In order to maintain efficient port processing without compromising an effective screen for illegal wood, significant customs resources will need to be available. Without those resources there is a risk that pre-import Due Diligence checks will becoming meaningless "tick box" exercises that do not ensure that documentary claims are attached only to legal timber. Thailand is likely to take a risk-based approach to border checks, with the Thai Customs Department examining shipments considered "high-risk" at the border. Shipments considered "low-risk" will be automatically cleared. It will therefore be critical for Thailand to consider a broad set of best practice approaches to these checks, including spot checking, the use of scientific analysis to identify mis-declarations of species or point of harvest, and well-resourced product investigations.

It may also be necessary for Thailand to establish a mechanism to hold suspicious shipments rather than delay their passage through customs, to allow for further information to be provided by suppliers. This approach is also under consideration in the Republic of Korea. In the EU, where checks are post-import and companies are given time to justify or improve



their Due Diligence, this is often accompanied by an injunction on further sales of suspicious products. Strategic use of injunctions is critical to cost effective enforcement, since the expense of storage is taken on by companies rather than government agencies.

Requiring checks on “high-risk” timber prior to import means that Thailand expects to detect any illegal timber before it enters the country. If illegal timber is detected, the Customs Department will deny entry into Thailand. However, it will also be important to establish the legal possibility of penalties for companies that attempt to circumvent the measures through mis-declaration, such as declaring that an import is a “low-risk” species or country of harvest to avoid checks at the border. Stated penalties across global demand-side regulations have in many cases been relatively soft and there is scope for Thailand to take a leading role in demonstrating a serious and robust approach to penalties for consistent offenders. Vietnam’s timber import regulation is perhaps one of the boldest approaches to date, allowing for administrative sanctions, suspension of activities, and/or prosecution dependent on the severity of the violation. Across the EU sanctions vary but are expected to be adequate, proportional, and dissuasive, with harsher penalties for repeated non-compliance.

## Conclusions

As Thailand positions itself as a major export-focused manufacturer, it’s main export markets are increasingly taking policy and regulatory action to stem the trade in illegal timber. Based on the last reported data, for 2016, Thailand exported 76% of its timber products to markets that either currently require verification of timber legality, or will require it in the near future. Therefore, as new Asian demand-side regulations start to come into force, new requirements for responsible sourcing are likely to have significant impact on mainstream Thai companies, and particularly small and medium operators, many of whom will need support to develop effective Due Diligence Systems.

The Thai government is responding to these shifting demands for legal timber from key consumer markets, with the development of a timber legality assurance system, which will best support Thai exports if it includes import provisions that:

- Cover a broad scope of timber, pulp and paper products – to be most effective, import provisions will need to apply at a minimum to pulp, paper, sawnwood, logs, plywood, veneer, particleboard and fiberboard. The current draft product scope for imports suggests that Thailand will regulate these products.
- Set clear expectations for meaningful risk assessment.
- Set clear guidelines for acceptable evidence of risk mitigation with a legal requirement on companies to submit only valid documents.
- Ensure that resources are available for proportional checks on physical shipments to ensure compliance with the provisions and to secure the market from any illegal timber.
- Are broadly consistent in approach with other Asian countries now developing and implementing demand-side timber import measures. Together, these provisions will provide a strong regional market incentive for companies to only trade in legal timber.



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Forest Trends works to conserve forests and other ecosystems through the creation and wide adoption of a broad range of environmental finance, markets and other payment and incentive mechanisms. This brief was released by Forest Trends' Forest Policy, Trade, and Finance program, which seeks to create markets for legal forest products while supporting parallel transformations away from timber and other commodities sourced illegally and unsustainably from forest areas.

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