



Brexit, FLEGT, and the Timber Trade

This Information Brief examines the implications that a withdrawal of the United Kingdom from the European Union would have on timber trade-related processes such as FLEGT and the EUTR.

Overview

Last week the population of the UK voted in a referendum to leave the EU. The legal status of the referendum was “advisory,” and thus the UK Parliament must now vote on whether and how to trigger the 2-year process by which the UK can leave the EU. This process is described in Article 50 of the Lisbon Treaty. Until this 2-year process has been formally started and completed, *all EU law remains in force in the UK*.

A significant group of stakeholders in the UK are considering legal options for the Parliament to reject the conclusion of the referendum, so it remains possible that the UK will not leave the EU.

Implications for UK Implementation of EU Regulations (Including the EUTR)

The United Kingdom’s withdrawal from the EU will herald the beginning of a complex process under which the terms of the UK’s withdrawal from, and future relationship with, the EU are negotiated and any necessary legislation is enacted. A number of models are available for a future economic and legal relationship between the UK and the EU, including:

- 1. Full independence:** This would look something like the relationship between the EU and Switzerland or Canada, with partial access to the single market and low trade tariffs contingent on respect for relevant European laws. This would mean that UK products could be sold in the EU, but only if they fully respect the relevant European regulations, without exemption.
- 2. Membership of the European Economic Area (EEA):**¹ Membership of the EEA allows full access to the single market contingent upon Members enacting domestic versions of all EU legislation and making a significant contribution to the European budget. Notably, the EU Timber Regulation (EUTR) was transposed into the EEA Agreement in May 2015, so membership would *de facto* require that the UK maintain the EUTR.

While the next step for the UK is an emerging political question and nothing is yet certain in London or Brussels, the European Commission and all other Member States have made it clear that the UK will not be offered access to the EU single market, if it does not implement similar legislation to the Member States of the Union, including the EUTR. Powerful financial and commercial interest groups in the UK have been very clear that access to the single market is critical to the health of the UK economy, so it is therefore expected that membership to the European Economic Area (EEA), with all that entails, is the best option if the result of the referendum is acted upon.

¹ The Agreement on the European Economic Area, which entered into force on 1 January 1994, brings together the EU Member States and the three EEA European Free Trade Agreement (EFTA) States — Iceland, Liechtenstein, and Norway — in a single market, referred to as the “Internal Market.” Switzerland is a member of the European Free Trade Agreement but is not part of the EEA Agreement, but has a bilateral agreement with the EU.

1. Will the UK still implement the EUTR?

As mentioned above, until the 2-year process of leaving the EU is completed, *all EU law, including the EUTR, remains in force in the UK*. The Timber and Timber Products (Placing on the Market) Regulation of 2013 is the UK's national statutory law reflection of the EUTR. The current timetable for leaving the EU is 2 years after the UK formally notifies the European Council of a decision to leave. The earliest this notification can be sent is September 2016 when the UK Party in power will select a new leader.

If the UK is outside the EU but wishes to maintain access to the single market (which powerful British interests insist is an absolute priority), then the UK will be required to implement the same environmental laws as the Members of the EU – as Norway does now. It is therefore highly likely that the EUTR requirements for Due Diligence and prohibition on the import of illegal wood will not change, but may be renamed. In this scenario, any future amendments to the EUTR by the European Commission (EC) would require equivalent changes in parallel UK legislation in order to ensure continued access to the EU single market.

2. Will the UK draft new regulations and if so, how long would it take?

In the unlikely event that the EUTR is removed, or different standards to the Timber and Timber Products (Placing on the Market) Regulation are negotiated, these would not come into effect until late 2018. Any process for negotiating would need to be transparent and undertaken within a realistic timeline. However, it is important to note that the UK has been among the leaders in implementing the EUTR, and all available information suggests that it remains fully committed to it.

3. Does the UK leaving the EU risk the weakening of EUTR implementation in the remaining 27 Member States?

Implementation of the EUTR in remaining EU Member States will not be affected. In mid-June 2016, the EU Council adopted conclusions on the evaluation of the FLEGT action plan, which emphasize the positive contribution that VPAs and the EUTR have made toward reducing the market for illegal timber and which call upon Member States to do even more to tackle the global trade in illegal wood. They also reaffirm the mandate of the European Commission to support consistent implementation across the EU.

The UK has been and will continue to coordinate enforcement approaches with EU Member States, just as non-EU countries Norway and Switzerland have been doing, along with the US, Canada, and Australia, in an informal government process known as the [Timber Regulation Enforcement Exchange](#) (TREE).

4. What would be the role of the UK in FLEGT VPA negotiations?

During the two years between Article 50 being invoked and the UK formally exiting the EU, it is unclear what the status of UK officials would be in VPA negotiations. If the UK leaves the EU in 2018, UK officials would definitely no longer have a formal role in the negotiation of VPAs. However, the UK has been a leader in the negotiation of VPAs, investing significant financial and intellectual resources in the processes and will very likely continue to play an important role.

As a significant donor to the forest sector (again following the Norway model), the UK will likely be represented as an observer in FLEGT Committee meetings. Institutional arrangements would likely be established to ensure coordination in aid spending and business-to-business engagement with the UK Timber Trade would not be affected.

Although the UK forest sector support is relatively small, it may be impacted if the UK's commitment to spending 0.7% on aid is reduced as a result of economic deterioration or a devaluation of the British Pound.

Also, aid budgets may be vulnerable if the government has to further reduce public spending or switches public spending to domestic programs with a greater potential to stimulate the UK economy.

5. Would FLEGT-licensed timber meet UK market requirements if it leaves the EU?

The UK will accept and verify any FLEGT licenses received while it remains part of the EU.

If the UK left the EU, but stayed within the EEA, it would also continue to respect FLEGT licenses, although the legal basis for this would differ. The FLEGT Regulation, which sets out the responsibilities of European Member States on receiving FLEGT licenses, is not reflected in the EEA Agreement, so new arrangements would be required. However, since the UK was one of the first countries to prepare its national arrangements for receiving FLEGT licensed timber, the required resources and systems are in place.

Under the EEA model, a national Timber Regulation would likely follow the Norwegian precedent since Article 3 of the EUTR cannot be used to establish a “green light” for FLEGT-licensed products in EEA countries without transposing the FLEGT regulation into national law. Under the Norwegian legislation, buying FLEGT-licensed timber is considered a credible option for risk mitigation, but the other steps of Due Diligence are also required.

Aside from the legal technicalities, the UK has been a leader in the negotiation of VPAs, investing significant financial and human resources in the processes. The UK also unilaterally recognizes FLEGT licenses in its national procurement policy (independent of the EU), which requires all central government departments, their executive agencies, and non-departmental public bodies to procure either legal and sustainable timber or FLEGT-licensed timber. There is therefore little reason to expect that this national commitment will change, particularly in light of the continued broad support for FLEGT from the UK Timber industry, civil society, and government.

6. Economists are forecasting a UK recession of uncertain magnitude. Would such a recession affect wood product imports?

Theoretically, both a reduction in the strength of the British Pound and a UK recession could reduce the demand for all goods, including wood products.

In the run-up to Britain’s vote on whether to leave the EU, economists were clear: Brexit will hurt UK growth. However, there are widely varying estimates on how hard the UK economy will be hit and how long it will last. The *Financial Times* is extensively covering estimates of UK GDP growth in case of a withdrawal from the EU, available [here](#).

There are no known econometric studies on potential Brexit impacts on demand for imports. It is safe to say that the impacts of a devalued pound are likely to be felt by exporters immediately. The timing of any impact due to a potential recession would be difficult to predict and would need to include many other factors. For example, if the UK leaves the EU single market, the UK could be expected to import less from EU furniture manufacturing centers in Poland and Romania -- leading the way for greater competitiveness from non-EU manufacturers.

7. How will Brexit impact wood production within the EU itself? Would there be any change in legality requirements for EU wood products – either those exported directly to the UK, or European wood processed and re-exported by another country (e.g., China or Vietnam?)

Brexit will have no impact on the capacity of forest owners/wood producers in the remaining EU27 to produce and export wood. If the Euro is weakened by the departure of the UK from the EU, wood sourced within the Eurozone may be cheaper for those outside the Eurozone.

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Theoretically, once it has left EU, the UK could enforce its national “Timber Regulation” against buyers of products made from any wood that was illegally harvested inside the EU, for example in Romania. Any dynamic like this would take at least 3 years to play out. The safest way to avoid this risk is to buy certified or otherwise third-party audited wood from within the EU.

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