UNECE forecast continuing stasis in EU sawn hardwood consumption

The UNECE Committee on Forests and the Forest Industry (COFFI) released their Annual Market Review 2017-2018, together with several market statements by national governments in the UNECE region (which includes the subregions of Europe, North America and the CIS), in advance of their 76th session to be held in Vancouver on 5-9 November (see http://www.unece.org/index.php?id=47708 for details).

COFFI report that total consumption of sawn hardwood in Europe fell by 3.8% in 2017, to 12.6 million m³, due primarily to a 6% fall in consumption in Turkey, the subregion's largest national market for sawn hardwood. This was driven by falling domestic production which accounts for the large majority of wood supply in Turkey.

COFFI forecast no significant change in the overall market for sawn hardwood in Europe during 2018, with stasis in consumption (12.6 million m3), production (14.0 million m3), imports (5.0 million m3) and exports (6.3 million m3).

According to COFFI data, European apparent consumption of sawn tropical hardwood was flat at around 1.12 million m3 per year between 2016 and 2018. Consumption of tropical sawn hardwood was stable in most European countries, although a continuing fall in France was offset by a rise in the Netherlands.

As Europe's tropical log imports have fallen to a negligible level, Europe's demand for tropical sawnwood is now fed by direct imports from the tropics.

The key trend in European sawn hardwood markets highlighted by COFFI is the continuing strong preference for European oak, for which prices continued to increase in 2017 and the first half of 2018. According to COFFI, this rising trend is likely to continue.

European oak log prices are escalating partly because of increased overseas demand, particularly in China and Vietnam, coupled with log export bans in Croatia and Ukraine.

Domestic sawn hardwood production has increased in Croatia, a key supplier of good quality oak to the rest of Europe. Croatian production nearly doubled in the five years to 2017, to 1.4 million m³, and now accounts for 10% of European production. However, this has been insufficient to offset the shortfall in total European oak supply.

Due to supply shortages, most European sawmills now require orders for oak to be placed well in advance and insist that their customers purchase lesser grades to secure the prime grades. Supplies of beech, on the other hand, are not so restricted and prices are more stable.

While overall sawn hardwood consumption in Europe has changed little in the last three years, COFFI highlight various trends in consumer sectors with significant potential to change the future direction of trade and utilisation of hardwood in Europe.

Hardwood opportunities in the construction sector

In the European construction sector, COFFI observe that the current rate of very slow growth is unlikely to pick up for some time. Despite a clear need for more housing to satisfy rising demand, the numbers of building permits and starts have trended downward in Europe in recent years, and the outlook for new residential starts is for a decline in the longer term.

On the other hand, residential remodelling is forecast to increase and to reinforce its position as the principal construction activity in Europe. In the euro-zone residential remodelling activity is forecast to increase from €407.4 billion in 2018 to €418.4 billion in 2020. This, at least, is good news for hardwoods which tend to be more widely used to upgrade existing houses than in the new-build sector.

In addition to lacklustre forecasts in residential construction, the type of structures built in this sector are changing, with a gradual shift away from separate houses in favour of flats and other higher density construction. This is a result the aging of the population, declining household size, substantial reductions in state subsidies for housing, and rapid increases in land prices and construction costs.

Again, these changes may present opportunities for increased wood use, including hardwoods, in Europe. The desire to reduce construction costs and time on site is driving a slow rise in demand for modular wood-based construction systems using a variety of engineered wood products.

COFFI particularly highlight the rapid growth in European production and use of cross-laminated timber (CLT) which is particularly well suited for efficient and rapid high-density construction. COFFI observe that the share of CLT in European wood construction is still small, but interest and investment in the product shows no signs of slowing.

Drawing on a review of the strategic plans of European producers, COFFI Predict that European CLT production will more than double from 0.7 million m3 in 2017 to 1.81 million m3 in 2020

Of course, most of production of CLT and other engineered wood products comprises softwood, a situation which is unlikely to change. Compared to softwoods, hardwoods are much less readily available in large consistent volumes and grades at competitive prices.

However, there is potential to develop specialist grades of CLT using hardwoods for applications where high strength, durability or aesthetic character are needed. For this reason, a major focus of American Hardwood Export Council (AHEC) promotion in Europe is to encourage use of hardwood for CLT manufacture.

Most recently AHEC sponsored “MultiPly”, a major demonstration project in collaboration with Waugh Thistleton Architects and Arup as part of London Design Festival, which “combines American tulipwood with innovative methods of modular construction to confront two of the current age’s biggest challenges – the pressing need for housing and the urgency to fight climate change.”

To date only a very small volume of hardwood CLT has been manufactured in the EU to supply high-end bespoke projects, notably a health centre completed in the UK in 2017 claiming to be the world’s first hardwood CLT building.

While at present only temperate hardwoods are being considered for use in CLT in the EU, some larger tropical suppliers have expressed interest in exploring the opportunities for tropical hardwood in this sector, given the high strength to weight ratio of many tropical species, and their durability (implying competitive advantages for tropical hardwoods in CLT elements exposed to the weather).

European joinery markets shaped by energy efficiency and environment

In relation to the joinery market in Europe, COFFI note that demand for windows and exterior doors is increasingly shaped by energy efficiency and environmental performance, including recycling options.

COFFI suggest that wood is considered an excellent source of material for window frames in Europe because of its aesthetics, stability over a high temperature range, excellent thermal and acoustic insulation qualities and green credentials.

On the other hand, wood frames now account for only about 20% of the European window market, and metal–wood-combination frames account for an additional 5%. The remaining three-quarters of the European window-frame market comprises PVC and metal.

The preferred materials differ significantly among European countries, due mainly to differences in tradition and climate. Southern European countries largely use metal frames for their windows, and Nordic countries have a clear preference for wood.

In Eastern European countries, where overall consumption volumes are still low compared to western Europe but growing more rapidly, PVC is strongly preferred for window frames and accounts for about 80% of the market, with metal accounting for nearly 10% of the rest.

Combinations of metal (typically aluminium) and wood are gaining popularity in all European markets due to their good price– performance ratio, low maintenance requirements, and their ability to carry the now standard double and triple glazing units.

The same tendency can be observed in the exterior-door segment, where combining metal and wood not only gives stability but also increases the perceived level of security. The interior- door segment in Europe continues to use mainly wood, although plastic doors are appearing on the market.

Shifts in European furniture sector problematic for tropical suppliers

The COFFI review also highlights several trends in the European furniture sector with significant potential to impact on European trade in both hardwoods and finished wood furniture products.

The long-term shift in global furniture production away from the UNECE region to Asia, particularly China, is noted in response to lower production costs and rising demand in emerging markets. However, COFFI suggest this shift is now slowing "due to increased automation, demand by customers for shorter delivery times, and increasing costs in previously low-cost regions."

COFFI also observe the large switch in European wood furniture production from Western Europe to Eastern Europe, particularly Poland and Lithuania, where manufacturers both from lower production costs and easy access to the large EU market.

This last trend is obviously a blow to non-EU suppliers of wood furniture, who may struggle to compete with the emergence of a relatively low cost and highly automated furniture manufacturing sector in Eastern Europe.

It is also problematic for external hardwood suppliers. The Eastern European furniture industry so far has been generally less inclined to utilise hardwoods imported from the tropics and other non-EU countries than the traditional industries of western European countries like Italy, Spain and France.

This is very clear from Polish wood furniture and timber production data reported by COFFI. Production of wood furniture in Poland, which increased 10% in 2017 to $7.7 billion, depends almost entirely on European panel products and softwood. Poland imported only 300,000 m3 of sawn hardwood in 2017, and nearly all consisted of oak and beech from neighbouring countries. Only 5% of sawn hardwood imported into Poland in 2017 were tropical species.

Another key trend, on-going for a long time but showing no signs of slowing, has been a shift away from traditional long-lasting hardwood furniture, which was viewed as a long- term investment, to low-cost “flat-pack” “semi-disposable” furniture. People are moving more often, and many younger consumers like the flexibility that “temporary” and affordable furniture provides.

Rising plywood production in Finland and Russia

On plywood, COFFI report that overall consumption in Europe was 8.7 million m^3 in 2017, up by 3.4% over 2016. Market expectations are generally positive, with plywood consumption in Europe expected to grow by 0.2% in 2018. Drawing on data from the European Panel Federation, COFFI note that the main plywood applications in Europe are construction (39%) and furniture (30%), followed by transport (13%), packaging (8%) and other uses (10%).

European plywood production increased by 5.1% in 2017, to 5.1 million m3. Finland – the most important producer in the subregion, accounting for more than 24% of total production – recorded a 9% increase in production volume in 2017. Europe’s UNECE members forecast another increase in plywood production in 2018, but at much slower pace of only 0.5%.

While COFFI report that plywood production in Russia declined 0.8% to 3.7 million m3 due to a shortage of raw materials, new investment looks set to increase Russia’s production capacity dramatically in the next two years. Drawing on a review of eight large plywood investment projects by the WhatWood consultancy agency in Russia, COFFI suggest that Russia’s plywood production capacity will increase by at least 700,000 m3 between 2017 and 2021.

CEI-Bois and ETTF team up to give European industry a stronger voice

The European Timber Trade Federation (ETTF) decided at their General Assembly in Madrid this summer to become a member of CEI-Bois. The decision gives the wider European timber sector a more united and stronger voice in dealings with decision makers in government and the market, according to a report in the latest ETTF newsletter.

"Our respective memberships are complementary,” said ETTF Secretary General André de Boer. “CEI-Bois is the lead body representing the woodworking and processing industries across Europe, while the ETTF’s national member federations bring to that a global trading pillar, representing the leading timber importers and distributors.

The ETTF remains an independent legal entity, continuing to pursue its own projects and strategies in the separate and specific interests of the ETTF membership. For the first three years, the ETTF will evaluate its membership of CEI-Bois on an annual basis to assess the wider benefits to its own members.

“But we can see value in CEI-Bois having its base in Brussels and thus strong connections with EU government,” said Mr de Boer. “In forming part of their new trade working group, we can also share our expertise in the international market and particularly on such key topics as the EU Timber Regulation and the EU FLEGT Action Plan.”

Mr Antonicoli, CEI-Bois General Secretary, welcomed the ETTF’s move. “Having our two forces under one roof will bring us greater influence so we can achieve more for all our members,” he said. “A tight cooperation with the ETTF will help develop and consolidate our new trade working group, which we set up several months ago and where it could play significant role.

“We are also a well recognised and respected voice and brand among the EU institutions,“ said Mr Antonicoli. “And we have committed to include ETTF priorities in our yearly advocacy plan and to adapt our messages to the EU to ensure we effectively represent and defend the interests of European timber traders.”

EC reports steady progress in EUTR implementation

On 5th October, the European Commission (EC) formally adopted the EU Timber Regulation (EUTR) Report 2017, the second biennial report on implementation since the regulation came into law in March 2013. The second report covers the period March 2015 to February 2017 and is based on the reports from the 28 EU Member States and Norway.

According to the EC, the report “reveals steady progress after four years of its application. Almost all countries comply with the formal requirements of the EUTR. Over the reporting period, the number of checks made and sanctions applied for violations of the EUTR has significantly increased”.

However, the EC also notes that “continuous efforts are needed to ensure a uniform and effective application of the EUTR across countries. Uneven implementation can have potential implications in terms of both the effectiveness of legislation and a level playing field for market operators. Further effort should be made to ensure that the scope and quality of the checks carried out reflect a more consistent approach across the EU”.

The EC intends to “continue to cooperate with the Member States on supplementing EUTR guidance to achieve a uniform application and facilitate its implementation by the operators” and will also “help approximate enforcement approaches between competent authorities and continue to explore additional tools to improve the EUTR implementation in cooperation with the Member States and relevant stakeholders”.

EC announce publication of “country overviews” to help EUTR implementation

UNEP-WCMC, as part of their EC-funded project to provide information services in support of EUTR implementation, have released the first five country overviews on “timber-exporting third countries”, namely Brazil, China, Myanmar, Russian Federation and Ukraine.

The announcement on the EC EUTR website (http://ec.europa.eu/environment/forests/timber_regulation.htm) states that the overviews aim “to help operators and Competent Authorities identify and assess the risk of sourcing illegally harvested timber for a sound implementation of the EU Timber Regulation”.

The country overviews all include the following disclaimer, that “their content does not necessarily reflect the views or policies of UN Environment, UNEP-WCMC, the European Commission, contributory organisations, editors or publishers, and they cannot be held responsible for any use which may be made of the information contained therein.”

This means they have no legal status, and in no way constitute an equivalent form of guidance to that contained in the text of the EUTR itself or in the European Commission Guidance Document for the EUTR (Commission Notice of 12.2.2016).

However, the country overviews are significant for being the only source of information on individual supply countries to aid implementation of the EUTR “prepared for the European Commission” and which are referenced on the EC’s own EUTR website.

This implies the reports are likely to be widely used and referenced, at least as background information, by EU Competent Authorities, Monitoring Organisations and operators to help implement and regulate EUTR due diligence systems.

UNEP-WCMC note that the documents "are updated periodically based on available information and are subject to external review" and invite input for consideration for inclusion in the next update to be sent to timber@unep-wcmc.org.

FLEGT IMM Germany Consultation, 16th November 2018

The EU FLEGT Independent Market Monitor (IMM), the ITTO project funded by the EU, is holding its third Trade Consultation of the year in Berlin on November 16, with the support of German timber trade federation GD Holz.

The IMM monitors EU trade flows from countries engaged in the Voluntary Partnership Agreement (VPA) process. The key focus is to track trade volumes and market impacts of FLEGT-licensing by VPA countries, applicable to all Indonesian exports to the EU since November 2016.

"The IMM's remit is also to gauge EU trade perceptions and ideas for the development of the VPA project and FLEGT licensing and to feed these back to the EU and VPA Partners," said IMM Lead Consultant Sarah Storck. "So the objective of the IMM Trade Consultations is both to share our latest trade monitoring results and provide importers and other timber sector stakeholders the opportunity to discuss the EU FLEGT programme."

The first IMM Consultation took place in London with support from the UK Timber Trade Federation, the second in Nantes at the Carrefour International du Bois exhibition in association with the International Tropical Timber Technical Association (ATIBT). Delegates represented import, distribution, end-user and specifier sectors.

In response to trade feedback from the first two events, the Berlin Consultation will place even greater emphasis on discussion workshops. These will focus on three themes:

- Trends in the European tropical timber sector – background, reasons and solutions
- Recognising priorities and purchase dynamics for tropical wood products. Assessing how supply chain relationships develop and the relevance and impact of FLEGT licences.
- FLEGT and "sustainability" – European timber procurement policies/sustainable timber definitions and their recognition of FLEGT.

The Consultation is free and takes place from 10am to 2.30pm in Berlin's Verbändehaus. It is the day after GD Holz's Branchentalk on digitialisation, so delegates can attend both.

For more information contact Sarah Storck at lead@flegtimm.eu

For more details and to register: http://www.flegtimm.eu/index.php/imm-events

Data to help drive EU tropical timber market share

Accurate, accessible market information and intelligence are vital for developing European demand for sustainably sourced tropical timber. That is the core theme of the European Sustainable Tropical Timber Coalition annual conference, taking place in Paris's Tropical Gardens on October 25.

An international line-up of speakers will address the topic of ‘Using data to drive market share’. These will include Sarah Storck and Rupert Oliver, respectively Lead Consultant and Trade Analyst for the FLEGT Independent Market Monitor, an ITTO project.

Other speakers include Benoit Jobbé-Duval of ATIBT, Arnaud Hétroit of France’s Le Commerce du Bois, Julia Kozlik of PEFC International, Anand Punja of FSC Europe, and David Hopkins of the UK Timber Trade Federation

The premise for the STTC Conference is that reliable data is key to ‘shaping marketing strategy, enhancing transparency and unlocking sales share in any business’. However, a question mark hangs over the current calibre of market intelligence on the European tropical timber sector.

Actions needed to address this will be discussed and an afternoon of workshop discussions will allow delegate feedback.