

## **EU review highlights fragility of okoumé plywood sector**

The EU renewed anti-dumping duties on imports of okoumé plywood manufactured in China on 7<sup>th</sup> April. These duties were originally introduced by the EU in 2004 and would have lapsed after only five years had not an interested party requested the European Commission (EC) to initiate an expiry review. In 2009, the European Panel Federation (EPF) requested a review which led the EU to extend the duties for another 5 years from January 2011. Near the end of that period, in October 2015, the EPF once again requested that the EC initiate an expiry review. This new investigation led to the announcement of another 5-year extension from April 2017.

The duties renewed on 7<sup>th</sup> April are unchanged from those originally imposed in November 2004, requiring payment of between 6.5% and 23.5% by four named Chinese manufacturers and 66.7% by all other Chinese manufacturers. The four manufacturers paying lower duties had co-operated during the original anti-dumping investigation and shown that the “injury-margin” for their products was less than calculated by the EU for other Chinese manufacturers.

The review investigation carried by the EC – which focuses on the years 2012 to 2015 – is interesting for the insight it provides into the current extent and status of the EU okoumé plywood manufacturing sector. It reveals an industry that remains extremely fragile, suffering from very low profit margins, weak demand, and negligible levels of investment.

The EC concluded that although the sector’s financial position has improved slightly over the last 5 years, removal of the anti-dumping duties on equivalent Chinese products would lead to a “recurrence of injury” and threaten its survival.

The product covered by the anti-dumping duties and investigated by the EC is that falling within TARIC code 4412 31 10 10 and defined as “plywood consisting solely of sheets of wood, each ply not exceeding 6 mm thickness, with at least one outer ply of okoumé not coated by a permanent film of other materials”. This definition captures both “full okoumé” plywood with okoumé throughout and combi plywood with at least one outer face of okoumé, the rest being made of other wood.

The product is used for a variety of end-uses in the EU, notably exterior joinery and carpentry applications for boarding, shutter boards, exterior basements and balustrades and riverside panelling, and more decorative purposes particularly in vehicles and yachts, and for furniture and doors.

The EC investigation involved a review of relevant trade and industry statistics and consultation with interested parties. Invitations to participate were issued to all known exporting producers in China. However only one company offered any information and this only to say that no okoumé plywood was manufactured during the review period. The EU also note that input was requested from the Chinese authorities but no information was received.

As a result, the analysis relied heavily on questionnaire responses from five sampled plywood producers in the EU and from one producer in Morocco. The latter was identified as a suitable “analogue” country (producers in Turkey, another “analogue” country, did not respond to the questionnaire).

## **EU okoumé plywood consumption falls 35%**

The data gathered shows that EU consumption of okoumé plywood ranged from 175,600 m3 to 189,000 m3 per year in the period 2012 to 2015, a substantial decline from around 290,000 m3 during the EU’s previous review in 2008-2009. The EC comments that the decrease was explained by

okoumé plywood being substituted by other tropical wood species and by the fallout from the economic crisis. The share of China in the market during this period when anti-dumping duties were in place was negligible

EU production of okoumé plywood was 144,000 m<sup>3</sup> in 2012 rising to 148,000 m<sup>3</sup> in 2015. Capacity utilisation was 80% throughout this period. This compares to annual production of around 265,000 m<sup>3</sup> in 2008 and 2009 reported in the previous review. Production capacity in the EU, which was 577,000 m<sup>3</sup> in the previous review period, fell even more dramatically due to the closures of several EU producers, including Plysol formerly the largest EU manufacturer, and reduced capacity by those producers still in the business.

EU producers share of the EU market increased from 68.2% in 2012 to 74.9% in 2015, almost all at the expense of producers in Gabon and Morocco. The EU okoumé plywood manufacturing industry employed 543 people in 2012, declining to 492 in 2015. Production per employee increased by 13% from 265 m<sup>3</sup> in 2012 to 300 m<sup>3</sup> in 2015.

Sales prices of okoumé plywood manufactured in the EU averaged 756 EUR/m<sup>3</sup> in 2012 rising to 780 EUR/m<sup>3</sup> in 2015. These prices are considerably lower than levels of around 900 EUR/m<sup>3</sup> recorded in the previous review during 2008-2009. The prices achieved recently are insufficient to cover the unit costs of production which averaged 783 EUR/m<sup>3</sup> in 2012, fell to 760 EUR/m<sup>3</sup> in 2013 and 2014, before rising to 778 EUR/m<sup>3</sup> in 2015.

The EC notes that during the whole 2012-2015 period, profitability of the EU okoumé plywood was extremely low. It was negative at the beginning of the period and turned only slightly positive in 2014 and 2015. The level of profitability in 2015 was markedly lower even than in 2009 at the height of the economic crises. Investment was also extremely low, below that required to compensate for depreciation of fixed assets in 2012 and 2013, and just rising above this level in 2014 and 2015.

While EU manufacturers were gaining share at the expense of manufacturers in Gabon and Morocco in the period 2012 to 2015, the latter were selling product at lower average prices. Average prices for EU imports of okoumé plywood from Gabon increased from 628 EUR/m<sup>3</sup> to 645 EUR/m<sup>3</sup> between 2012 and 2015, while prices from Morocco increased from 662 EUR/m<sup>3</sup> to 700 EUR/m<sup>3</sup>.

The EC compared sales prices of domestic, Gabon and Moroccan manufacturers in the EU during the review period with commercial prices offered by Chinese manufacturers to non-EU European countries (namely Bosnia and Herzegovina, Switzerland, Turkey, Gulf States and Norway). These prices ranged from 313 EUR/m<sup>3</sup> to 540 EUR/m<sup>3</sup> (CIF).

The EC also noted that the average CIF price of okoumé plywood supplied into the EU from China during a brief period in 2012 when imports from the country increased from negligible levels to over 1000 m<sup>3</sup> was 549 EUR/m<sup>3</sup>. The EC concluded that prices offered by Chinese manufacturers for okoumé plywood were substantially less than both EU manufacturers and manufacturers in analogue countries.

### **EU unable to assess China's okoumé plywood production**

The EC was unable to accurately assess the level of China's okoumé plywood production during the review period. A rough estimate using information provided by the European Panel Federation (based on the volume of okoumé logs imported into China in 2014), put annual production at somewhere between 290,000 m<sup>3</sup> and 2.9 million m<sup>3</sup> per year. The large range is because of lack of data on how much imported okoumé is destined for plywood production in China, or is used for full

okoumé plywood or combi plywood. Nevertheless, the EC suggested, based on this data, that okoumé production capacity in China is likely to be significantly greater than in the EU.

The EC also noted plywood in China is produced by the same companies and on the same equipment, whatever the wood species used and that okoumé plywood tends to be more profitable than other types of plywood. Therefore, according to the EC, in the absence of anti-dumping measures, “it is likely that Chinese producers will shift their production from other types of plywood towards the more lucrative okoumé plywood”.

The EC also noted that anti-dumping duties on imports of Chinese plywood exist in the Republic of Korea, Morocco and Turkey, while the U.S. issued a preliminary determination of the countervailing measures against Chinese plywood in January 2017. The EC suggested that “Chinese exporting producers thus will have limited access to these markets and will be limited in exporting their production or re-directing their exports to these markets. This leaves the EU market even more attractive for Chinese plywood imports”.

The EU review concluded: "the significant production capacity available in China, the possibility of Chinese producers to easily increase production volumes available for exports, the possible high dumped prices in other third markets as well as in the Union market and the attractiveness of the Union market, indicate that a repeal of the measures would likely result in Chinese exporting producers re-entering the Union market at dumped prices and in significant quantities. It is therefore considered that there is a likelihood of recurrence of dumping should the current anti-dumping measures be allowed to lapse."

### **UK TTF agrees to mandatory 3<sup>rd</sup> party plywood testing**

At a recent meeting, the National Panel Products Division of the UK Timber Trade Federation (TTF) unanimously agreed a requirement for third party species testing and third party product performance testing for all panels placed on the market from outside the EU.

This is driven by concern about technical performance, EU Timber Regulation (EUTR) conformance and sustainability. According to the TTF “if a product which says it is fit for exterior use fails to perform because the raw materials are actually different from that on the paperwork, then reputational damage for the timber industry and its products is a real risk”.

UK importers have also been under intense pressure to demonstrate conformance to EUTR after the NMO, the UK’s enforcement agency, published a report in February 2015 revealing failures by several UK importers of Chinese plywood to meet regulatory requirements. Specific concerns were raised over the lack of accurate information on species content in Chinese hardwood plywood.

According to a TTF statement “the TTF has decided enough is enough and that new measures are needed to ensure that products its members import tick all the right boxes. Such a requirement for TTF members can only help improve quality assurance for hardwood plywood imports and it also shows that the timber industry does what it says and is not afraid to hide from difficult issues”.

### **TTF reports over 90% certification of UK timber imports**

The latest summary report of certification content in U.K. timber product imports was published by the TTF in April 2017. The analysis, based on data derived from TTF member companies for the year 2015, shows certified, sustainable material at a record high of over 90% of imports by TTF members. TTF members account for roughly 85% of the total UK market for imported timber (including logs, sawn wood, decking, mouldings, veneer, plywood and other panels).

The report shows year-on-year growth in certified products to an unprecedented level of 90.2% of total volumes. The report notes that of the remaining, uncertified, 10% there are large volumes of hardwoods purchased from North America and Africa, both areas where traditional certification is less apparent. There are also large volumes of panel purchases coming from China.

Within this 10%, TTF members are conducting supply chain, species and country risk assessments as part of the due diligence process required both for the EUTR and the TTF Responsible Purchasing Policy (RPP). Therefore, risk within the supply chain for uncertified timber is adequately managed.

The report notes that there is a significant and increasing business-to-business demand for certified products in the market. Despite the progress by members, TTF note that "this demand can prove difficult to meet from traditional source countries and regions and at times can prove detrimental to timber being specified as a material".

With this in mind, the TTF indicates that their policy is not to exclude uncertified products and that it is "committed to helping demonstrate the sustainability criteria of well-managed, uncertified sources, for instance newly FLEGT licensed Indonesian products and North American timber etc".

The report provides insights into the relative share of different certification frameworks in the UK market. Softwoods as a product group are fairly evenly split between FSC and PEFC, however FSC dominates tropical hardwood timber purchases. Of the 50% of tropical hardwood purchases that were certified, nearly 97% of that was FSC - the remaining 3% comprising MTCS/PEFC certified timber from Malaysia.

The high levels of certified product traded by UK TTF members is partly a reflection of the products and supply countries involved - dominated by primary and secondary wood products and mainly derived from European countries where there is a high proportion of certified forests. TTF note that the level of members trade in, and certification proportion, in more complex products such as doors and engineered flooring is also rising, but is still a long way behind sawn wood products. Overall certification of panel products and further processed products remains low.

TTF members also do not include UK importers and retailers of wood furniture - a sector which evidence shows still comprises a large proportion of uncertified supply. This is due both to the lower level of corporate commitment to sustainable timber procurement amongst furniture buyers and to the greater complexity of products and supply chains.

A report entitled 'Are you sitting comfortably? Sustainable timber sourcing and the UK furniture industry', commissioned by WWF-UK and published in November last year, considered 74 of the most prominent UK furniture retailers and found that 68% have either no published timber procurement policy or any other credible sourcing statement.

### **EU and Lao PDR hold first VPA negotiations**

The European Union and Lao PDR held their first negotiations towards a Voluntary Partnership Agreement (VPA) to improve forest governance, address illegal logging and promote trade in legal timber products, when they met on 24-28 April in Vientiane. Work to develop the VPA had already begun but this was the first time negotiators have met face-to-face.

Although the VPA negotiation process began in 2012, it was not until June 2015 that the Prime Minister of Lao PDR authorised formal negotiations. Following the approval, Lao PDR quickly set up its negotiating structure – establishing a National Steering Committee and appointing a Chief Negotiator. In October 2015, Lao PDR communicated to the EU its readiness to negotiate.

Under a VPA, Lao PDR would develop a system to verify and certify the legality of timber products it exports to the EU, and make other commitments on transparency and independent monitoring.

The definition of legality, design of the timber legality assurance system and other VPA commitments will be determined through national deliberations among stakeholders from the government, private sector and civil society.

“Laos chose to enter the VPA process to improve law enforcement, capacity and the overall governance regime in the forest sector,” said Dr Phouangparisak Pravongviengkham, Vice-Minister of Agriculture and Forestry, who leads the Lao VPA negotiation team.

“The VPA will also help Laos to enhance its industry’s capacity for value-added wood processing and increase access to regional and EU timber markets, as well as to improve local livelihoods through better management of forests.”

The EU and Lao PDR acknowledge that the process of negotiating and implementing the VPA will be a long-term undertaking for both parties.

The main focus of the latest negotiations in April was on discussion around the future product scope of the Agreement and on defining legality for timber from various sources. Following the negotiations in Vientiane, work will continue on defining legality and on developing supply chain controls and procedures for verifying that timber is legal.

Lao PDR issued a moratorium on the export of logs and timber in May 2016 in a bid to reduce illegal wood shipments. Before the enforcement of the export ban, the main export markets for timber products from Lao PDR were Vietnam and China.

Direct exports of timber to the EU are negligible, mainly rough sawn wood and furniture with total value rising from €108,000 in 2012 to €429,000 in 2015 before the export moratorium. Nevertheless, the other main Lao export markets are significant re-exporters of products manufactured from timber from Lao PDR. It is therefore likely that some Lao timber used to reach the EU via these countries.