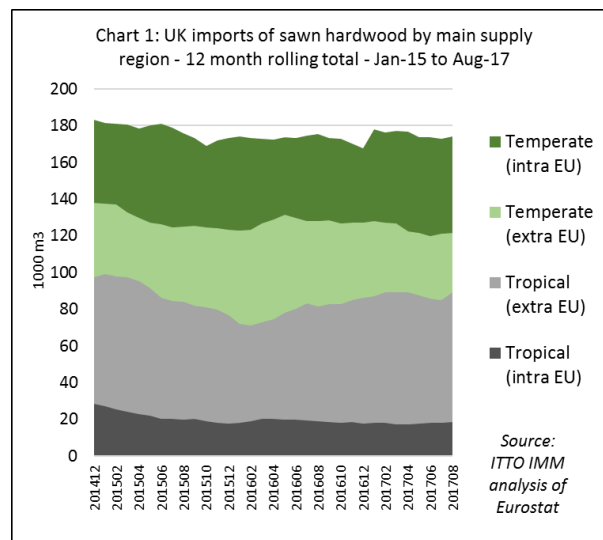


UK sawn hardwood market holds up well despite Brexit concerns

While imports of tropical sawn hardwood into the eurozone countries have failed to live up to expectations in 2017, having declined as economic growth has revived, imports into the UK have followed the opposite trajectory. UK imports of tropical sawn hardwood have held up well this year despite slowing economic growth. The UK imported 70,475 m³ of sawn tropical hardwood in the first 8 months of 2017, marginally more than 70,322 m³ imported in the same period in 2016.

Chart 1 puts the UK's relatively strong imports of tropical sawn hardwood in their wider market context. Total UK imports of sawn hardwood, both tropical and temperate, have been consistent at between 170,000 m³ and 180,000 m³ per year since the start of 2014. The moderate growth in UK tropical sawn hardwood imports this year has come partly at the expense of temperate hardwood imports which have declined in 2017, particularly from the USA, Estonia and Italy.



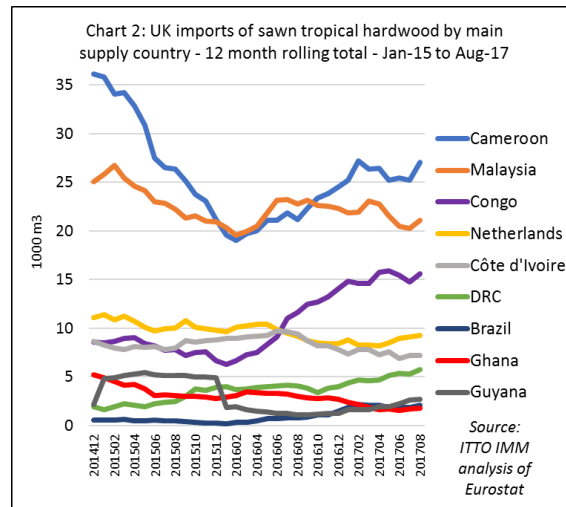
African sapele is by far the dominant tropical hardwood imported into the UK, being strongly preferred for a wide range of joinery applications. UK importers report that sapele prices, which were stable in the first three quarters of 2017, are now beginning to rise. They also report that supply of some other popular tropical hardwoods – such as iroko and meranti – has been limited this year. However, availability of idigbo and utile has been good, with stable prices.

This year, demand for sapele in the UK was boosted following the catastrophic fire at Grenfell Tower which led to at least 70 deaths in London in June this year. One outcome of the subsequent nationwide review of fire safety standards has been withdrawal of approval to use beech for manufacture of 60-minute fire doors and a partial switch to sapele in this application.

Chart 2 shows that UK imports of tropical sawn hardwood from Cameroon have recovered this year following a significant decline in 2015 and 2016. There has also been a notable rise in UK imports from the Congo Republic. Imports from Ghana and Ivory Coast have been sliding this year. Imports from Malaysia, mainly of meranti, recovered ground at the end of 2016, but have been declining in 2017. Imports from Brazil, which fell to negligible levels in 2014 and 2015, have been slowly recovering in the last two years.

The EU Timber Regulation has had a major impact on tropical timber procurement practices in recent years. It has focused supply on a much more limited range of companies in tropical countries

for which UK importers are confident of assurances that timber is legally harvested. In practice this has meant increased demand for FSC and PEFC certified products.



The fact that UK imports of tropical sawn hardwood have been rising from DRC this year, and are still high from Ivory Coast, both countries with no certified forest area, indicates that other forms of legality assurance are still being accepted.

However, the pressure on UK importers to purchase only certified material is mounting. Many of the UK's largest timber distributors are signatories to the WWF Forest Campaign which commits them to sourcing 100% certified material by no later than 2020.

Significant changes are already underway in UK imports of temperate hardwoods. The recent decline in UK imports from the US, of which around 55% comprises oak, was initially currency driven. The slide in UK trade in American hardwood began immediately after the Brexit vote in June 2016 when the pound plunged in value against the dollar.

Since then, UK importers have grown accustomed to the greater uniformity and more appropriate moisture content of European oak (which is slightly higher and better suits UK ambient temperatures) compared to US oak and have been reluctant to switch back even as prices for European oak have risen. This is particularly true of thicker sizes of oak, a market which is now heavily dominated by the European variety.

The decline in UK sawn hardwood imports from the US this year is also partly due to deteriorating supply of American ash, now seriously impacted by the emerald ash borer infestation. This is devastating ash stocks in the US and has also encouraged the EU to impose stringent phytosanitary controls on US ash imports. US suppliers are diverting most of the ash that is available to markets with less stringent phytosanitary rules, particularly China where there is strong demand for the stocks available.

On the other hand, UK imports of American tulipwood have been consistent, with strong demand for this species for lighter interior joinery and furniture applications.

Estonia is not traditionally known as a supplier of higher grade hardwood, and much UK import from the Baltic state comprises lower grade boreal species such as aspen and alder used for pallets and other industrial applications.

However, Estonia is also now heavily engaged in thermal modification of imported hardwoods, notably ash from other parts of Europe and the US, to supply a product which competes directly with tropical hardwood in external applications like decking, cladding and window frames. The recent decline in UK imports from Estonia, while tropical imports have been robust, suggests that tropical hardwood continues to resist this market pressure from a potential substitute, at least in certain applications in the UK.

Slower UK imports of hardwoods from Italy are primarily due to Croatia's ban on exports of oak logs and lumber over 25% moisture content. Italian companies were heavily engaged in the Croatian oak trade, purchasing logs and lumber for further processing in Italy for shipment to the rest of Europe.

However, in June 2017, the Croatian government implemented the two-year ban on unprocessed oak exports, ostensibly to stop spread of oak lace beetle – although some traders suspect a tactic to underpin greater investment in wood processing in Croatia. Italian mills are now setting up plants in Croatia to secure supplies, but lack of kilning capacity is still causing bottlenecks. European oak prices have risen accordingly, with another 10% increase anticipated for the new cutting season.

Due to the strong buying activity in the first half of the 2017, UK traders report that hardwood stock levels of unsold timber on the ground are now quite high. The September to November period is traditionally very busy for UK hardwood traders, as customers ramp up buying between summer vacations and the year-end, but business has slowed a bit this year.

There's no signs of crises in the UK market just yet, but many expect demand next year to fall short of the level in 2017. Economic prospects certainly seem to have cooled. The British Chambers of Commerce (BCC) says that the UK economy is now on a "low growth trajectory". In its latest economic review, the BCC revised its growth forecast for 2018 UK downward, from 1.3% to 1.2%, and for 2019 from 1.5% to 1.4%.

The BCC says that the post EU referendum slide in the value of the pound had "done more harm than good" as the rising cost of imported raw materials had driven inflation, which was now expected to hit 3% by the year end, suppressing consumer spending.

Uncertainty over Brexit and the UK's subsequent trade deal with the EU is cited as a key factor in the deceleration of the UK economy, with Commerzbank commenting that it was running at 0.5% slower growth than before the EU referendum.

UK construction had been on an upward curve, with housing starts in the year to June up 13% at 164,960. But the industry contracted in the second and third quarters of 2017 and forecasts for growth in 2018 have been downgraded to under 1%.

Various industry bodies are now urging the UK government to push for rapid conclusion of a transition deal with the EU on Brexit to help lift the economy.

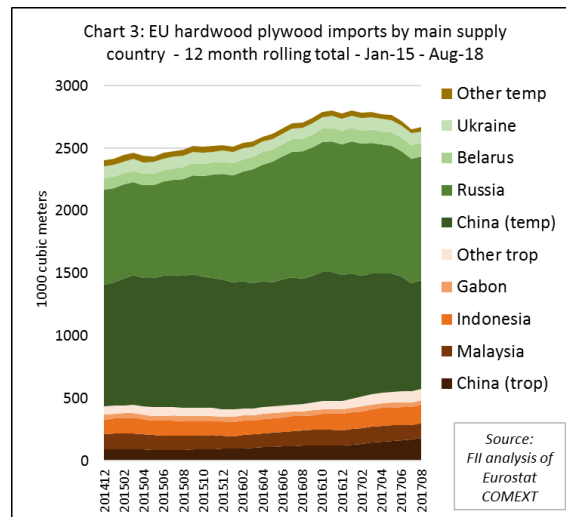
In the meantime, the International Monetary Fund has revised down long-term and short-term UK growth forecasts in response to 'negative effects' from the Brexit vote starting to show. It now predicts the economy will expand 1.7% this year and 1.5% next.

Falling EU imports of mixed hardwood plywood from China

After rising strongly in 2016, EU imports of hardwood plywood have been slowing this year. The decline in imports has been concentrated in mixed hardwood products from China. Imports of

tropical hardwood plywood, both directly from tropics and from China, have been rising this year (Chart 3).

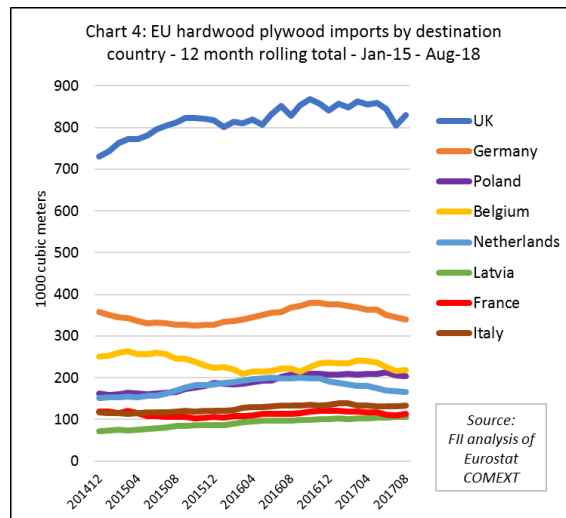
EU imports of hardwood plywood peaked at an annualised level of 2.80 million m³ in November 2016, but this figure had fallen to 2.65 million m³ by July 2017. During this period, imports of mixed hardwood plywood from China fell from an annualised level of 1.03 million m³ to 862,000 m³. This decline in imports was partly offset by a rise in annualised imports of tropical hardwood plywood from China from 124,000 m³ in November 2016 to 181,000 m³ in August 2017.



During the same period, direct imports of hardwood plywood from tropical countries also increased, from an annualised level of 356,000 m³ in November 2016 to 393,000 m³ in August 2017. Between November 2016 and August 2017, there were significant gains in annualised imports from Indonesia (129,000 m³ rising to 144,000 m³), and Brazil (19,970 m³ rising to 23,000 m³). Imports also increased from a range of smaller supplying countries including Vietnam, Thailand, and Morocco.

During the same period, annualised imports were flat from Malaysia at 123,000 m³ and declined from Gabon from 38,000 m³ to 35,000 m³.

In terms of destination countries, imports of hardwood plywood in the UK were broadly flat at an annualised level of 860,000 m³ in the 12 months prior to June 2017, but then slowed sharply to 810,000 m³ during summer this year. Imports in Germany, Belgium, and the Netherlands have fallen more gradually since the start of 2017, and have remained stable in Poland and France. (Chart 4).



Regulatory factors appear to have had a significant impact on the EU hardwood plywood trade this year. EUTR has encouraged greater concentration of trade into a few larger suppliers with resources required to meet the due diligence requirements. Indonesian plywood appears to have received a boost since issue of the first FLEGT licenses in November 2016 which allows import of Indonesian product without any further due diligence.

EUTR coupled with increased technical demands of the EU Construction Product Regulation has also increased the trade's awareness of the importance of accurate identification of species content for any product placed on the EU market. The apparent rise in imports of tropical hardwood plywood into the EU from China may be at least partly due to more accurate identification of the actual species content.

This trend may also be partly due to a greatly increased range of named species being specifically listed as "tropical non-coniferous" rather than "other non-coniferous" following an amendment to the Harmonised System (HS) of product codes used to compile trade data from January 2017.