

Brexit bites, but EU hardwood buoyed by new marketing moves.

The uncertainty surrounding Brexit may be casting a shadow over the UK market. However, the wider EU hardwood sector reports generally steady, in some cases strong trading in 2019 to date including in tropical timber, despite some slowdown in economic activity and increased downside concerns about the medium-term outlook.

Businesses report some issues with supply, but overall consumption is said to be holding up, while hardwood prices are steady to firm.

There have also been interesting developments in hardwood promotion. New moves in marketing and communication have come from the Sustainable Tropical Timber Coalition (STTC), the International Tropical Timber Technical Association (ATIBT), American Hardwood Export Council (AHEC), FSC and the UK Timber Trade Federation (TTF).

The EU FLEGT Independent Market Monitor (IMM) has also continued its series of EU trade consultations on FLEGT, with the latest taking place in Antwerp and the next scheduled for Barcelona.

Turning to the wider market, according to the summer 2019 economic overview from the European Directorate General for Economic and Financial Affairs (ECFin), growth in the euro area in first four months exceeded expectations. This was attributed to resilience in domestic demand, UK stockpiling ahead of the originally anticipated Brexit date at the end of March, a mild winter underpinning consumption and recovery in automotive sales.

At the same time, ECFin identified some negative market factors. EU export activity remained subdued, which it attributed to international trade tensions, notably between the US and China, undermining confidence in an already weakening global economy. Prospects for the rest of the year, it said, depended on the resilience of the service sector, given that manufacturing has entered a 'soft patch', continued growth in central and eastern Europe and the extent this can offset industrial slowdown in Germany and Italy, and the impact of still rising wages on inflation.

The labour market remains a 'bright spot', but said ECFin, it was threatened by the protracted weakness in manufacturing and external demand.

In the second quarter, it predicted the 'positive' impulse experienced in the first would unwind as the 'global manufacturing cycle has yet to bottom out', while the outlook for trade and investment continued to be 'clouded by protectionism and uncertainty'. Weakness in manufacturing and external demand could also dampen jobs growth.

Overall, ECFin forecast EU economic growth for 2019 at 1.4%, against 1.9% in 2018, with the predicted rebound later in the year now likely to be weaker. Continued slowdown in the Chinese economy remained a downside concern, and the prospect of a 'no-deal' Brexit was described as a 'major source of risk'. That said, however underpinned by some strong fundamentals, such as low interest rates, low unemployment and inflation forecasts revised down to 1.3% for each of the next two years, EU growth is predicted to firm once more in 2020 to 1.6%.

In the timber industry's core construction market, the picture has been mixed. According to latest Eurostat figures, building construction contracted by 0.2% in May over April 2019, while civil engineering output was down 0.5%. Sharpest decreases in construction output were reported in Romania, down 7.6%, Finland 3.1% and Sweden 2.9%. Best performance was in Slovenia, with output up 4.1%, France 1.9% and the Netherlands 1.4%.

However overall construction was still ahead year on year, with the May figure for the euro area 2% up on the same month in 2018 and 2.5% for the EU 28. Strongest improvements were reported from Hungary, with annual output 26.2% up, followed by Romania, up 23.8% and Slovenia 11.1%. The biggest output falls were in Finland, down 1.6% and Belgium 1.5%. According to trade media coverage, the EU timber seems so far to be broadly benefiting from the continuing robust domestic consumption reported by ECFin, and as yet largely unaffected by the more cautious economic forecasts.

One leading continental Europe-based international hardwood trader told the UK magazine Timber Trades Journal that it had experienced a robust first half, with business underpinned by construction sector consumption. It was also heading into the second six months 'in a good position' and, underlining its confidence in the market longer term, had significantly expanded warehousing. Quoted in the same publication, French hardwood suppliers said that they were investing in production and storage capacity to meet anticipated demand.

In the latest European Timber Trade Federation Newsletter, Germany's timber trade federation GD Holz said that the country's timber sector generally had a strong first four months of the year, despite the country's wider economic deceleration reported by ECFin, notably in manufacturing. German timber sales were up 6.4%, with planed goods and garden products performing especially well, ahead 13% and 18% respectively on 2018.

With German construction forecast to grow 8.5% this year, GD Holz expressed confidence in the timber sector's prospects for the second half. Interestingly, it also detected increasing market awareness of timber's climate change and wider environmental benefits, which it said had potential to boost demand further.

Belgian trade federation Fedustria reported a dip in business confidence in 2019 to the ETTF Newsletter, but this followed 3.6% growth in turnover to €3.135 billion in 2018 and two years of significant capital investment, which hit a record €156 million in 2017. The key Belgian furniture sector, meanwhile, reported an 18% rise in capital spending last year to €96 million.

The UK is the main exception in the 'broadly stable and satisfactory' European timber market, as one importer described it. It is more downbeat and reports its outlook worsening as the year has progressed. Importers say customers are ordering on an increasingly just-in-time basis, with forward and speculative buying 'virtually non-existent'. Companies attribute difficult trading conditions almost uniformly to UK-EU Brexit negotiations and the related domestic political upheaval and uncertainty.

As one leading importer told the UK TTJ: “UK market fundamentals are still reasonably strong; jobs growth is continuing, average earnings are forecast to rise 3.6% this year and inflation is steady at 2%,” he said. “But businesses and consumers just aren’t buying, and it has to be due to Brexit. The evidence is across the market place. UK retail sales saw their sharpest fall in May for a decade. The Construction Products Association has also downgraded its 2019 forecast for building output growth to just 0.4%. Especially concerning for hardwood sector are bleak prospects in retail construction, forecast to contract 10% this year and next.”

UK hardwood companies said it was also difficult to know how best to prepare for the UK leaving the EU, given continued lack of clarity on their future trading relationship. Some importers had increased stocks ahead of the original target date for Brexit of March 29 against potential customs and port bottlenecks. They were reported subsequently left with surplus stocks, which efforts to sell since are said to have contributed to price cutting. Now companies are more cautious about hedging tactics.

“The hardwood import trade is also generally less well equipped than say the softwood sector to build up its stock position,” said an importer. “You need the timber availability, somewhere to keep it and the funds to buy it. As generally small to medium sized businesses, and with our longer lead times, it’s less of an option for us on all three counts.”

UK companies are concerned too about the operation of the EUTR and FLEGT regulations post Brexit. Both are being adopted into UK law, but UK importers will have to undertake due diligence on all purchases from the EU and, it seems, validate FLEGT licences on EU imports. The anticipated increase in administrative cost and time is reported already to be persuading smaller businesses that import intermittently to buy instead via larger UK-based importers and agents.

Importers in the rest of the EU have also voiced concerns over their UK business after Brexit and reported that the related market uncertainty was already proving disruptive for them too.

“Our UK hardwood trade has become very competitive, with construction projects put on hold and some companies offering timber at low rates, particularly African,” said one company. “And we’re still unclear on some key issues, such as whether UK customers after Brexit will become ‘operators’ under the EUTR, even if the timber is EUTR compliant when arriving in mainland Europe.”

Highlighting EU-wide concerns, Fedustria reported that it took part in a Federation of Belgian Business mission to London to discuss Brexit trade impacts. It also ran a special seminar for members on prospective changes in customs processing for UK-Belgian trade and the possible impacts on VAT.

On a more positive note, the UK and Indonesia have underlined their continued mutual commitment to their trade in FLEGT licensed timber post Brexit as part of wider business and development cooperation. This included development of a UK-Indonesian [FLEGT] Partnership Agreement to succeed the EU FLEGT VPA in any new bilateral relationship.

EU imports of tropical sawn hardwood up 14%

Latest Eurostat figures for EU tropical timber imports analysed by the ITTO and IMM bear out businesses' reports of a firm start to trading in 2019.

Total EU tropical sawn wood imports for January to May were ahead 13.9% on the 2018 figure at 405,000 tonnes. The biggest volume rise from January to May came in Belgium, with a sharp jump in imports from Brazil taking its total to 134,000 tonnes. French imports rose 14.6% to 50,000 tonnes and Spanish 26.1% to 35,000 tonnes. Probably due to increased forward buying ahead of the originally anticipated Brexit date of March 29, UK imports moved ahead 18.1% to 25,000 tonnes.

According to the Eurostat figures, Portuguese tropical sawn imports for the January to May period were up 72.5% at 17,000 tonnes and Denmark's increased 16% to 11,000 tonnes, while Ireland's more than doubled to 6,500 tonnes.

Interestingly Greek tropical sawn imports increased 77% to 4200 tonnes. This was in line with reports from the country's timber trade federation, the HTCA, that its industry was starting to see the first glimmers of recovery from recession, buoyed by an upturn in tourism leading to more hotel building and refurbishment, and inward property investment encouraged by the government's so-called 'golden visa' programme.

Netherlands' imports were down 7% to 77,000 tonnes, while Italy's decreased 6.4% to 29,000 tonnes and Germany's 4.1% to 11,000 tonnes.

Leading tropical sawn timber exporters to the EU in the first five months were Brazil, which overtook Cameroon as the biggest supplier with respective totals of 132,000 and 115,000 tonnes marking increases of 43.1% and 18.2%, followed by Gabon, which saw its EU exports grow 10.9% to 49,000 tonnes, and Malaysia, which experienced a 29% fall to 36,000 tonnes.

Question marks have been raised over the rise in EU imports of Brazilian tropical sawn timber in the first five months of 2019, which included a 29% increase to the Netherlands to 41,760 tonnes, a 116% jump in sales to Belgium to 25,702 tonnes, plus a 46% increase in imports by France to 21,031 tonnes, a 9% rise to Spain to 19,741 tonnes and 103% rise to Portugal to 8,433 tonnes.

A major importer in Belgium, said that the rise in Belgian imports could be due to other European operators bringing Brazilian sawn hardwood into Antwerp for forward shipment to other EU countries, notably Germany and the UK. Exchange rate trends could be another driver, the Brazilian real having weakened 36% against the euro between February 2017 and the end of 2018 and stabilised at the lower level this year.

The downturn in Malaysian imports was attributed by one importer in part to lower availability of PEFC-certified timber resulting from a 'standards clampdown' by the certification organisation.

EU imports from the Congo rose 42% in the first five months, with a 95% increase in Belgium, to 11,428 tonnes, a 25% rise in the UK to 4,780 tonnes and 29% and 10% increases in France and the Netherlands to 3,120 and 1,491 tonnes respectively.

The big increases in imports from Cameroon came in Spain, ahead 94% at 11,573 tonnes, the Netherlands, up 137% at 9,671 tonnes, the UK up 20% at 7,581 tonnes, Ireland up 147% at 6,222 tonnes, and Portugal rising 98% to 3,934 tonnes. Belgian imports were up 1% at 48,198 tonnes, while Italian fell 8% to 12,092 tonnes and French 11% to 11,524 tonnes.

The rise in EU imports from Gabon in the first 5 months of 2019 was accounted for by a 25% increase in Belgian purchasing to 35,727 tonnes, while Italian imports fell 23% to 6,179 tonnes and French 10% to 3,887 tonnes.

EU imports from Ghana increased by 13.6% to 7,000 tonnes despite 4%, 8% and 21% falls in sales to Germany, Belgium and the UK respectively.

The more positive noises coming out of Ghana regarding implementation of its FLEGT VPA and the prospect of starting FLEGT licensing were greeted with some scepticism in the EU import sector. However, some traders said if it did become the second country to reach licensing stage it could increase the momentum of the wider FLEGT VPA initiative and potentially strengthen exports of Ghanaian teak furniture and components to the EU.

Efforts to strengthen hardwood marketing in the EU

Among tropical timber marketing moves in the EU, further details have been given of the collaboration between the STTC and the ATIBT's Fair & Precious (F&P) branding campaign to achieve their mutual aim of increasing tropical market share taken by certified timber.

The two organisations announced plans to work together earlier this year, and have now issued their first joint newsletter and are working on website links, potentially including a common landing page with the mission statement laying out their shared tropical timber objectives; "Together the STTC and F&P are dedicated to ensuring continued availability of this diverse, versatile material, the future of the tropical forest and the biodiversity and livelihoods it supports". The STTC also announced that its annual tropical timber market report will be co-branded with Fair & Precious.

Nienke Sleurink of STTC founder and funder, IDH – the Sustainable Trade Initiative said the roles of the organisations were complementary. "Combining their capabilities, the STTC's provision of technical information and data and F&P's communication skills and tools will create a strong resource for verified sustainable tropical timber in the marketplace."

ATIBT Managing Director Benoît Jobbé-Duval said F&P would take STTC tools and information to a wider audience and use its data in support of its campaign. They would also jointly step up social media use. Their collaboration was also expected to get a mention at the ATIBT International Forum in Shanghai from October 22-25. Titled Towards Global Green Supply Chains, this is being co-organised with the China Timber & Wood Products Distribution Association and ITTO under the auspices of its Legal and Sustainable Supply Chains Programme, aimed at incentivising 'green markets' for tropical forest products.

The STTC has also announced that is coordinating its annual conference this year with the International Hardwood Conference, holding it on November 20, the day before the IHC in the same venue in Berlin. Under the headline ‘Exploring Pathways to verified sustainable tropical timber’, its focus will be growing EU market share for verified sustainable material and ensuring European supplies are legal. It will also address how verified sustainable forest management in tropical countries can build on local and regional initiatives, including the EU FLEGT initiative and its Voluntary Partnership Agreements with suppliers and Verified Sourcing Area programmes.

There have also been moves to coordinate tropical timber procurement strategies with wider initiatives to sustainable ‘deforestation’ free EU supply chains for other tropical forest commodities, including soya, palm oil, cocoa, rubber and beef.

France’s trade association Le Commerce du Bois has announced its appointment to the committee of the French National Strategy to Combat Deforestation (SNDI). Its goal is to persuade stakeholders, including producer countries, timber and other commodity importers, investors and consumers to adapt forest management and consumption behaviour on ‘forest risk’ goods, with a target of deforestation-free supply chains by 2030.

FLEGT is the focus of the UK TTF’s new pan-European communication initiative funded by the Department for International Development under its Forest Governance, Markets and Climate programme. The TTF has already backed a construction project, incorporating FLEGT-licensed yellow balau from Indonesia as part of the London Festival of Architecture. Comprising a pavilion designed by young architects, the goal was to highlight the design and performance potential of building in wood, but also the value of sourcing timber from legally assured, sustainable sources. This paved the way for the TTF’s wider European promotional programme, which will also be product-centred.

“The TTF is keen to raise the profile of FLEGT and a key aspect of our communications project will be to develop design and build installations, working with EU partners and VPA supplier countries,” said David Hopkins. The project, he added, would also include the development of FLEGT communications toolkits and education workshops in VPA supplier countries.

Meanwhile the EU timber market is also seeing a step up in communication and promotion from the US hardwood sector. AHEC’s multi-faceted red oak European marketing programme it acknowledges is in part driven by tariffs on Chinese imports of US hardwoods resulting from trade tensions between the two countries and the subsequent need to develop other export outlets. But it is also motivated by the international industry’s need to make more sustainable use of the hardwood resource and the ‘timber the forest offers’ with red oak being the most prolific in of all US hardwoods. The campaign includes the Legacy Project, teaming designer makers with leading UK cultural influencers to develop red oak furniture to the latter’s specification. The end results will be exhibited in the Victoria & Albert Museum during the London Design Festival in September.

AHEC has also unveiled the new edition of the Seneca Creek Report, ‘Assessment of Lawful Harvesting and Sustainability of US Hardwood Exports’. Exhaustively peer reviewed, this

concludes that there is negligible risk of illegal timber entering US hardwood chains. It also focuses more on sustainability than the original 2008 edition, underlining that the lack of traction gained in the US by certification is due to technical issues, notably enormous fragmentation of forest ownership, rather than any sustainability deficit. The data, it maintains, underlines that the US hardwood sector is sustainable and the lack of inroads from certification is helping drive development of alternative tools to prove it.