

EU sawn hardwood facing obstacles and opportunity

The consensus amongst hardwood importers interviewed during December is that the current state of trade across the EU is satisfactory and there is cautious optimism it will remain that way into 2019. However various issues are causing concern.

One preoccupation is the impact of the UK's departure from the EU, scheduled for 29th March 2019. Not only is the UK one of the EU's top direct importers of both tropical and temperate hardwoods, it is a key buyer from international traders on the European continent. Importers are worried both by the potential effect of Brexit on consumer confidence and on the mechanics of doing business in the British market going forward.

"The overall lack of clarity on Brexit is itself also a headache," said a continental European hardwood importer/producer. "Business dislikes uncertainty."

European importers also report a range of supply and availability problems through the year, notably for tropical timber, and there is concern too about ongoing trade tensions between the US and China and potential market fallout of Chinese tariffs on American hardwood.

On the positive side, key drivers in the market are continued overall economic buoyancy, and notably the ongoing strength of construction and property sectors, which are, in turn, underpinning consumer confidence.

The EU Directorate General of Economic and Financial Affairs (EFA) has downgraded its prediction for EU economic growth for this year and next. In its Autumn 2018 European Economic Forecast, published in November, it says that GDP growth this year is now expected to be 2.1%, against 2.4% in 2017.

In 2019 EU GDP growth is expected to moderate further to 1.9%, before 'easing smoothly to 1.7%' in 2020. The more modest outlook is down to 'the presence of a number of downside risks with... fading world trade growth, rising uncertainty and higher oil prices having a dampening effect on growth generally'.

That said, however, the EFA Forecast also points out that the EU is still entering its sixth successive year of growth and adds that domestic growth drivers should be enough to keep economic activity growing and unemployment falling.

"The improving labour market, slightly stronger wage growth and expansionary fiscal measures in some Member States, should also help sustain consumption next year," it states. "In addition, investment conditions remain favourable."

The EFA's comments are borne out by the latest outlook for construction activity. According to Euroconstruct, construction growth peaked in 2017 at 4.1% in the 19

European countries it covers. But while activity has slowed this year, overall growth is still forecast at 2.8%, with further rises of 1.6% annually expected from 2019-2021.

Hardwood traders in several EU countries noted the continuing strength of demand from customers in construction and associated industries. The building sector in the Netherlands was said to be particularly buoyant, but elsewhere too construction product sales were reported to be on the rise.

“Construction is still some way below pre-crash levels of 2007, so there’s also scope for further growth,” said one hardwood importer. “There’s huge latent demand for housing in particular.”

Particularly strong hardwood consumption was reported in the flooring sector and general joinery, notably door, window, stairs and mouldings production. “And most joinery customers report full order books beyond Xmas into the New Year,” said an importer distributor.

EU hardwood imports up 4%

Anecdotal evidence of stable to growing hardwood demand is largely reflected in latest EU sawn hardwood import statistics. According to independent analysis of Eurostat COMEXT data undertaken for ITTO, total EU sawn hardwood imports were up 4% for the first nine months of 2018 at 1.62 million m³. Tropical timber was ahead 7% to 720,000 m³ and temperate hardwood increased 2% to 900,000m³.

By supplier country, strongest growth came from Indonesia, albeit from a relatively low base, with EU imports of Indonesian sawnwood up 75% to 17,600 m³ in the January to September period. All sawnwood exported by Indonesia to the EU has been FLEGT licensed since November 2016, and all must be S4S as rough sawn exports are banned.

In the first nine months of 2018, EU sawnwood imports also increased strongly from Gabon, up 22% to 88,200m³, Brazil up 19% to 91,300m³ and Malaysia, up 10% to 121,600 m³.

In temperate species, EU imports from the US, the largest external supplier, were static at 247,200 m³ in the first nine months of the year. Imports increased 39% to 139,200 m³ from Russia and 7% to 68,200m³ from Serbia. However, these gains were partially offset by a 10% fall in imports from Ukraine, to 215,000m³, and an 8% fall from Belarus to 47,000m³.

By import country, the UK’s total hardwood imports from January to September 2018 were down 4% at 329,300m³, with tropical 21% lower at 65,900 m³ and temperate ahead 2% at 263,400 m³. There was a particularly sharp fall in UK imports from Cameroon, Malaysia and Congo, down 17%, 25% and 27% respectively, while imports from Brazil increased 68%, albeit to just 2,400 m³.

The slight gain in UK imports of temperate hardwood in the first nine months of 2018 was mainly driven by supplies from other EU countries and much comprised low grade wood from the Baltic States, most likely for the pallets and packaging sector. Imports from the US, the UK's largest single supplier of sawn hardwood, were static at 74,100 m3.

Belgian total sawn hardwood imports rose 14% to 323,100 m3 in the eight months between January and August 2018, with tropical rising 6% to 200,000 m3, and temperate rising 28% to 123,100 m3.

After a sharp decline in 2018, Belgium's imports of tropical sawn hardwood rebounded from African countries in the first eight months of 2018, rising 5% to 93,700 m3 from Cameroon, 17% to 46,300 m3 from Gabon, and 39% to 12,700 m3 from Congo. However, there was a sharp 20% fall in imports from Brazil, to 11,300 m3, while imports from Malaysia were also down 6% to 9,000 m3.

Analysis of Eurostat trade data suggests that Netherlands' January to August sawn hardwood imports jumped 73% to 352,100 m3, with tropical up 70% to 180,200 m3 and temperate rising 77% to 172,000 m3. It may be that this is indicative of the real trend and certainly anecdotal comments by Dutch traders imply good trading conditions in the Netherlands this year.

There are also factors that may be driving significant shifts in hardwood stockholding and trading patterns in northern Europe at present, notably extreme volatility in recent shipments to Europe from Africa, the financial difficulties of some large European companies engaged in the hardwood trade, concerns about Brexit, and tightening enforcement of EUTR.

On the other hand, Netherlands trade data has been quite unreliable in recent years and the level of increase in trade reported this year seems suspiciously high. This data may be amended in the future.

For now, the statistics indicate that Netherlands tropical sawn wood imports in the first eight months of 2018 increased 34% to 62,700 m3 from Malaysia, 45% to 28,400 m3 from Brazil, and 141% to 13,800 m3 from Indonesia. Netherlands imports of sawnwood identified as tropical from other EU countries (mainly Belgium) also increased nearly three-fold to 54,000 m3 in the first eight months of 2018.

The rise in Netherlands imports of temperate sawn hardwood also came mainly from other EU countries, with imports rising 87% to 44,800 m3 from Germany, 60% to 28,400 m3 from France, and more than doubling to 17,200 m3 from Belgium.

Total German sawn hardwood imports were 222,000 m3 in the first eight months of 2018, exactly equivalent to the same period in 2017. Imports of tropical sawnwood increased 13% to 47,900m3 while imports of temperate sawnwood were 3% lower at 174,200m3.

The biggest increase in Germany's tropical sawn imports came from Cameroon, up 25% to 4,500m³, and in indirect tropical timber purchases from the Netherlands and Belgium, ahead 31% to 6,500m³ and 43% to 10,400m³ respectively.

Germany recorded big falls in imports of temperate sawn hardwood from Belarus and Ukraine, down 24% and 27% to 16,200m³ and 5,300m³ respectively in the first eight months of 2018.

Spain's overall sawn hardwood imports fell 12% to 92,700 m³ in the first eight months of 2018, with tropical 21% lower at 33,000 m³ and temperate 7% down at 59,700 m³. Steep falls were seen in imports from Cameroon, 39% lower at 29,600m³, and temperate hardwood from France, 24% down at 15,800 m³.

Spain's tropical imports from Brazil were up 25% and indirect trade via Portugal increased 86% to 2,800 m³. Spain's imports of sawn hardwood from the United States fell 3% to 21,800 m³ in the eight month period.

Italy's total imports of sawn hardwood fell 1% to 449,000 m³ in the first eight months of 2018. Imports of tropical sawnwood increased 25% to 82,000 m³ while imports of temperate sawnwood fell 5% to 367,000 m³.

Italy's imports of sawn hardwood from Gabon rose 84% to 19,700 m³ in the eight month period, while imports from Cameroon rebounded 30% to 40,200 m³ after a poor year in 2017. Italy's imports from Cote d'Ivoire fell 15% to 7,400 m³, continuing a long-term slide. Italy's imports from Malaysia also fell, by 23% to 3,200 m³.

Italy's temperate sawn hardwood imports increased from Croatia, by 2% to 119,100m³, and the US, by 5% to 38,000m³, in the January to August period. However, these gains were offset by declining imports from Hungary (-14% to 43,800 m³), Slovenia (-23% to 23,600 m³), and Austria (-37% to 15,000m³).

For January to September 2018, French sawn hardwood imports were down 1% to 192,600m³, with tropical rising 4% to 102,200m³ and temperate falling 6% to 90,400m³.

French imports of tropical sawnwood from Brazil increased 23% to 17,500m³ in the first nine months of 2018, while imports also increased 19% from Gabon, to 8,100m³, and indirect imports via Belgium were up 10% to 15,800m³. However, imports into France from Cameroon were 5% lower at 25,200m³.

Most temperate sawn hardwood imported into France derives from other EU countries, notably Germany and Romania. French imports from both countries fell sharply in the first 9 months of 2018, down 23% to 22,100 m³ from Germany and 43% to 5,300 m³ from Romania.

These declines were partially offset by a 72% increase in French imports from Bosnia, to 5,900 m³, a 77% rise from Poland, to 4,300 m³, and a 35% rise from Hungary, to 11,000 m³.

Key market factors

Looking at factors behind the sales trends, European importers earlier reported supply issues out of Asia due to an extended 2017/18 rainy season, with bangkirai decking, meranti and keruing all affected, although judging by the figures, importers have played catch up since.

Issues in Cameroon, however, are ongoing. The underinvested port of Douala remains a persistent bottleneck and conflict between the francophone Cameroon government and Anglophone rebels in the southwest of the country is also impacting supply.

Due to these persistent problems, Netherlands-based Wijma has made the sawmilling and forest operations of subsidiary Cafeco in Cameroon temporarily dormant, along with its FSC certification. In the interim, the company stressed it was still supplying certified tropical timber from other sources and was increasing output from its Bidou-based CFK mill in Cameroon, particularly to offset the loss of Cafeco's azobe/ekki production.

European importers also report tightening of sapele supply generally. One company attributed this to 'less coming from the forest in current harvest cycles', but another said the disposal by Rougier of African operations (with the exception of its Gabon business) was also implicated. Consequently, EU sapele prices have been edging upwards, with forward rates predicted to rise a further 7-8%.

Prices for the basket of African species preferred in the European market were reported as steady to firming for several months, and with a further 5% spot market increase due.

As for the recent announcement by president Ali Bongo Ondimba that all concession holders in Gabon must 'embrace an international [certification] standard' for responsible forest management by 2022, EU importers seem to approve.

"Any effort advancing sustainable forest management in tropical countries should be commended," said one company. "Thanks to initiatives such as the European Sustainable Tropical Timber Coalition (STTC), we are starting to see signs of increasing awareness in Europe that sustainably sourced tropical timber is available and that using it benefits the forest. We should support any move reinforcing that."

Speaking to the STTC Newsletter, FSC Congo Basin Director Mathieu Auger-Schwartzberg said that, while president Ondimba had not consulted FSC in making its decision, FSC would 'ensure Gabon's forest managers are given necessary support' to implement certification.

While only so far mentioning FSC certification, indications also emerged from a Forestry Sector Forum in Libreville in November that the Gabon government would accept alternatives, notably the PEFC/PAFC scheme.

“In his closing remarks, the [Gabonese Forest] Minister reiterated that the President had made a political decision and it was now up to experts [at the meeting] to devise a practical plan for implementing it,” Jaap van de Waarde of the WWF Netherlands, who attended the event, told the STTC Newsletter.

Scandinavian timber importers are greeting a review of the Nordic Ecolabelling scheme as another important move for the tropical timber market in Europe. Arguably the most widely recognised green labelling initiative in the Nordic region, controversially in 2016 it drew up a list 82 tropical timber species it would not cover. Among species barred are ipé, doussie, jatoba, movingui and okoumé.

This led to protests from timber industry organisations, but also FSC and WWF Denmark, which said it potentially disincentivised implementation of certified sustainable forest management, particularly as the Nordic Ecolabel was increasingly required for public sector procurement policy.

Now the Nordic Ecolabelling executive has announced it will review its tropical list, with public consultation on the topic in January.

However, European importers report continuing market resistance to wider efforts, supported by the STTC, ATIBT and other agencies, to boost European acceptance of a wider spread of tropical timber varieties.

“While traditional favourites, like sapele and meranti are readily available, it’s difficult to persuade customers to try lesser known species, although we are seeing some uptake of movingui,” said an importer.

Market uptake of FLEGT-licensed timber

An interview with three leading importers reported in the latest EU FLEGT Independent Market Monitor (IMM) Newsletter shows that market signals are still mixed on the question of recognition and uptake of FLEGT-licensed timber from Indonesia.

Representatives of the three companies, FEPCO of Belgium, James Latham of the UK, and Dekker Hout of the Netherlands were first questioned on the market potential of the licensing initiative two years ago and were quizzed again to see how their opinions had evolved since.

All three still commended the initiative as a mechanism to encourage responsible trade and improve the image of tropical wood, but, they said, FLEGT licensing was still not specified by customers and market preference was still for FSC or PEFC certification.

In their view, a FLEGT licence was not a ‘badge that can command a premium’ and ‘did not trump usual timber purchasing considerations of price, quality and availability’.

Provided standards were not compromised, two of the company spokes people said they would like to see certain countries in an EU FLEGT VPA fast-tracked through the process so that more and a wider selection of FLEGT-licensed products became available. This, they commented, could give FLEGT licensing more market traction.

They also urged more communication on FLEGT’s wider social, economic and environmental impacts in producer countries and recommended more be done to encourage inclusion of FLEGT licensing in EU government procurement criteria.

Commenting on the temperate hardwood market, importers and distributors said that the ‘heat’ has come out of the European oak business and price had stabilised. Several thought this was partly the result of Italian investment in further processing facilities in Croatia, which is maintaining a ban on transit and export of untreated oak, ostensibly as a phytosanitary measure.

Potential Chinese trade tariff and Brexit impacts

Projecting into 2019, importers were concerned at the potential for an increase in market impacts of Chinese tariffs on US timber. Currently at 5-10% these are scheduled to double in March 2019.

“So far, US shippers and Chinese buyers seem to have split the difference, but that will change when tariffs rise,” a UK importer told the country’s Timber Trades Journal. “With China accounting for over 50% of all US hardwood exports, that has to have repercussions.”

As 85% of Chinese US imports are red oak, one importer said they wouldn’t ‘simply be able to shop for oak in Europe on a like for like basis’. “Moreover, China is reported to have high inventories, so impacts will be delayed,” they said.

Another trader, however, felt the longer tariffs persisted, the more likely it was Europe would experience fallout. Possible consequences cited could be: destabilisation of US hardwood prices; increased Chinese consumption of European hardwoods, notably oak, plus tropical timber; and greater diversion of American hardwoods to other global markets, notably Vietnam and the EU.

As for Brexit, at least one leading Nordic softwood supplier plans to increase UK landed stocks in case of delays at customs. One UK hardwood importer did say they planned to use a wider spread of ports in case of administrative hold ups.

However, no UK importer said they were increasing stockholding, with reasons given including hardwoods’ higher unit prices and generally slower stock turn. “You’ve got to be able to get extra stock, pay for it and have somewhere to put it, and not many hardwood traders can tick all those boxes,” an agent told the TTJ.

While the UK government has said it will transfer the EU Timber Regulation and FLEGT regulation into British law post Brexit, another uncertainty is whether UK operators will have to undertake due diligence on imports from the EU and if there will be mutual recognition of FLEGT licences.

The UK FLEGT and EUTR competent authority says it expects these issues to be resolved before March 29, but at this time there is no firm news.

Longer term, however, UK importers and their suppliers expect Brexit disruption to be time limited. "It may result temporarily in more cautious consumers and stickier supply chains, but working with partners across Europe and worldwide, we'll find solutions," said a UK importer. "It's in everyone's interests, suppliers and buyers alike."

A continental EU supplier echoed this view. "The UK is a big market of 60 million consumers. They'll ultimately still want hardwood and we'll still want to supply it," they said.