European plywood market pressure persists

At the time of the last update on the European plywood market (ITTO TTMR Volume 23 Number 16, 16 -31 August 2019), the sector was experiencing a tightening market and competitive conditions. In the intervening four months, according to leading importers, not a lot has changed.

There have been indications that prices from some sources are starting to come off the floor. Overall, however, they remain depressed compared to 2018 and 'rock bottom offers' from Russia are felt by some to threaten any significant wider increase and to be actually squeezing product from other countries out of the European market.

The US-China trade dispute continues to destabilise the sector and UK companies say that continuing uncertainty surrounding Brexit, politics and the economy generally has seriously undermined market confidence.

A slowdown in European manufacturing, notably in Germany, is also impacting demand, and although overall construction consumption is reported to have held up reasonably well to date, it is forecast to slow and stagnate over the next two years.

In recent weeks, Brazilian elliottis and Malaysian plywood prices have both seen rises of $10-15/m3. However, these prices are still reported down 33-40% and 28% respectively on 18 months ago. Chinese prices are still down around 15% and Russian film-faced plywood and raw plywood prices are down 30% and 25% respectively during the same period.

"We are still far away from 2018 levels, but these increases [in Brazilian elliottis and Malaysian plywood prices] may be signs of a recovery and we'd hope to see them embed and continue as we move into 2020," said an importer/distributor. "Malaysian suppliers also report log shortages, so that may also underpin further increases."

Import volumes of Brazilian plywood are expected to get slightly better in January, mainly due to the new duty-free quota coming up in Europe. "But, like price, volumes are still way off 2018 figures," said an importer. "I also wonder what will happen later in 2020 after the first duty free volumes have been shipped."

Prices out of China are reported to be stable currently, although it's felt a range of factors may add some upward pressure here too.

"Chinese plywood has already become a bit more expensive again on FOB terms due to the exchange rate of the RMB versus the dollar," said a continental-based importer. "As usual, this is also driving up container rates. But we expect Chinese trade for January/February to be slower too due to weather conditions."

Another factor for China, said a UK importer, has been the continued impact of new environmental regulation on manufacturers.

"Efforts to clean up the industry in the Linyi/Pizhou area has resulted in a lot of plywood and peeling mills closing as they couldn't afford the new equipment required to reduce emissions. Others have suffered in excess of 70 days lost production as the government tries to improve air quality and the impact on peeling mills has put price pressure on poplar core veneer" said the UK importer.

"But while there may be less Chinese availability", the importer continued, "I believe [quality] is improved, with manufacturers better understanding the demands of the EU Timber Regulation (EUTR) and our UK Timber Trade Federation Responsible Purchasing Policy and also meeting EN quality standards."

Another European importer felt that diversion of Chinese production to Europe due to US tariffs had not been a significant issue due to different market requirements. “Factories geared up for the US don’t find it easy to meet European specification,” he said.

European importers also report no stand-out trends for FLEGT-licensed product from Indonesia. Indonesia’s film-faced plywood, said one company, is “still too expensive for Europe” although raw board ‘is trading more or less OK’.

The FLEGT licensing system itself is said by plywood importers to be to working well, although the consensus remains that, to gain market traction and wider awareness, more licensed product is needed from more sources.

“The sooner more countries engaged with the FLEGT Voluntary Partnership Agreement complete the process and start licensing, particularly Malaysia, the better, given that the responsibility for product legality under the EUTR on non-FLEGT licensed goods remains on the importer, who cannot know 100% what the product mix is even if we ask all the right questions and gather the paperwork,” said one UK company.

A fellow UK importer said that getting more VPA countries to FLEGT licensing stage could also open up new sources of supply. “We’ve had interesting offers from Gabon, for instance. The product looks good and could represent a real business opportunity for us and the supplier,” he said. “But currently it can’t meet our requirements on legality assurance.”

An added ongoing issue for some European importers is their inability to use the bonded warehousing system for FLEGT licensed goods. This system allows import consignments to be broken up and duty paid piecemeal on each order as it goes out to spread the cost.

“As the licence applies to the entire shipment, it cannot be divided, so duty has to be paid all at once,” said an importer. “That needs resolving as it effectively puts licensed goods at a competitive disadvantage and it has a particular impact on smaller companies needing to spread duty payment for cashflow purposes.”

A related issue for FLEGT-licensed goods customs handling was flagged up by another importer. “We had an instance of an agent selling some of a shipment to us and some to another importer where only one licence had been issued for the whole amount exported from Indonesia,” he said.

“We couldn’t use the FLEGT licence unless we also customs cleared the other consignee’s goods and recharged them the duty. So the agent had to present the licence in their own name and sell to both buyers as landed duty-paid stock. Not ideal all round.”

Another “real headache” for the European plywood import sector, in the words of one company, continues to be cut-price Russian material.

“Russian birch plywood prices have dropped again after some slight increases a few months ago and it looks like this situation will continue for some time as the Russians seem to be quite happy with it,” he said.

“Their logs are extremely cheap and, as is the case with gas, they don’t put any value on their natural resources”, continued the importer. “They need foreign income, and that’s all that seems to count. I’d advocate putting a fat import duty on Russian imports as they are destroying the business for others who are trying to do the right thing, such as Indonesian producers, and are actually being pushed out of the market at the moment.”

Adding to market competition is a new softwood plywood mill now on stream in Belarus run by the Krono group. “This will put a lot of pressure on European factories like Thebault and others,” said an importer.

Slowdown in European manufacturing and construction

On the state of demand, an ongoing slowdown in European manufacturing is reported to be particularly affecting plywood consumption in the automotive and packaging sectors.

According to financial commentators, Germany remains the big drag on the Eurozone economy, with its manufacturing exports reported hit particularly hard by global slowdown in investment resulting from the US-China trade dispute.

Improved survey data for German production in October and forecasts for November had led to predictions that the worst was over, but Commerzbank said a turnaround is 'not yet in sight', with manufacturing output forecast to show a 5% year on year fall end of November. German car production in October was also down 14.4% on the year and the sector is reported to be set to shed tens of thousands of jobs.

"The automotive slowdown worldwide is clearly a concern for the plywood trade and the contraction in European manufacturing is inevitably impacting the important packaging sector," said an importer.

The eurozone economy did expand faster than expected in the third quarter of 2019, up by 0.3%, giving annual expected growth of 1.1% according to Eurostat and the European Central Bank. However, this compares with 1.8% in 2018 and the forecast is just 1.2% in 2020, leading Morgan Stanley to comment that the zone was "nearly stagnating".

The Economic Sentiment Indicator – a composite of European surveys on business and consumer confidence – also fell to 100.8 for October, the lowest level for five years. Capital Economics consequently predicted that the European economy would 'continue to expand at a feeble pace'.

According to the latest Euroconstruct data, European construction output growth is projected at around 2.3% for 2019, down from 3.2% in 2018. However, Euroconstruct now forecast annual growth of only 1% between 2020 and 2022. All areas of building will slow, although repair, maintenance and improvement is expected to perform better than new build.

Best performing European building markets are expected to be Ireland, Hungary and Poland, while the sharpest slowdown is predicted for Finland and Sweden. Germany and France are expected to see construction market contraction of around 2% over the next three years.

One European plywood importer commented that their general construction sales were still going well currently, but others acknowledged the uncertain outlook in the sector.

As for the UK economy, it "flatlined" in the third quarter of 2019 and October to October growth was just 0.7%, the slowest pace since June 2012. "This confirmed a loss of momentum in the economy since the summer due to Brexit-related uncertainty and slower global growth," said advisory firm PwC.

UK construction is also contracting, with new orders falling further in November as the market-depressing effect of Brexit, combined with election uncertainty and bad weather led to more civil engineering and commercial projects being delayed.

The IHS Markit/CIPS UK purchasing managers' sub-index for construction new orders fell to 43.95 in November, from 44.61 the previous month. This was the eighth consecutive month of contraction and the longest phase of decline since 2013, with Brexit once more implicated in the downturn.

Brexit "awful for the plywood market"

“Brexit has been awful for the market, with uncertainty affecting demand, projects delayed and households deferring spending,” said a UK plywood importer. “Merchants are saying it’s quieter, which in turn affects us as importers.”

UK plywood companies say they are also keeping a ‘watching brief’ on the potential impact of Brexit on EUTR and EU FLEGT regulation administration. Both are being assimilated into UK law, to be known respectively as the UKTR and UK FLEGT when the country leaves the EU.

The Brexit date is now scheduled for 31st January and, following the UK parliamentary election on 12th December which delivered a large majority for the ruling conservative party, seems to certain to take place as planned under the revised withdrawal agreement negotiated between Boris Johnson’s government and the European Union in 2019.

Under the terms of this withdrawal agreement, the UK will enter a transition period after 31st January to provide time for the UK and the EU to negotiate on what their future relationship will look like. During the transition period the UK won’t be a member of the EU but will still have to abide by its rules.

The end date for the transition period is currently set for 31st December 2020 but could be extended for one or two years. During the election campaign, the conservative party stated that it would not seek an extension to the transition period.

However, the EU has suggested that the timeline for negotiations to be completed before the end of 2020 is unrealistic. The size of the government’s majority after the election also gives the UK prime minister leeway within his own party to reset the timetable to be more manageable. The terms of any extension would have to be agreed with the EU before 1st July 2020.

While Brexit now seems a certainty, the risk of a “no deal” Brexit has receded. The risk has not completely disappeared since there is no guarantee that negotiations towards a future arrangement with the EU will be successful. A “no deal” departure could still theoretically occur at the end of 2020, or 2022 at the very latest. After that, if no future relationship deal was agreed, then the UK’s trading relationship with the EU would be on WTO terms.

In the event of “no deal”, all plywood imported into the UK, from EU countries as well as other sources, would have to undergo UKTR due diligence. However, the agreement eventually reached with the EU might include mutual recognition arrangements so that imports from EU countries might not require due diligence.

From January to August, latest analysis of Eurostat Comext data shows UK imports from the rest of the EU at 90,400 tonnes, an increase of 8.3% (which some attribute to an element of stockpiling prior to the original Brexit deadline at the end of March). This compared with 454,400 tonnes from outside the EU, down 6.7% on the same period in 2018.

Plywood imports across the EU as a whole for the eight months were down 3% to 3.165 million tonnes, with intra-EU trade 4% lower at 1.3 million tonnes and extra-EU imports down 2%.

Among the biggest falls were seen in Germany, with total plywood imports down 12% to 602,000 tonnes, Italy, down 14% to 184,700 tonnes, Latvia down 15% to 57,000 tonnes and Poland down 5% to 154,300 tonnes.

Strongest increases in plywood imports in the January to August period included those of the Netherlands, up 6% to 325,000 tonnes, Belgium up 9% at 245,300 tonnes, France up 4% at 237,400 tonnes, Denmark up 2% to 99,600 tonnes, Sweden up 20% at 92,700 tonnes (with extra EU imports up 61% at 43,000 tonnes) and Spain up 11% at 79,100 tonnes.

China drives rise in EU imports of tropical hardwood plywood

For the nine months to the end of September 2019, total tropical plywood imports into the EU were ahead 4% by volume and 7% by value to 250,000 tonnes and €221 million respectively.

The biggest tropical plywood volume increase came from China, up 32% at 110,000 tonnes in the first nine months of 2019. Other increases were posted by Gabon (+12% at 11,100 tonnes), Brazil (+8% at 8,700 tonnes) and Paraguay (+30% at 4,200 tonnes).

However, imports of plywood from Indonesia were down 5.6% at 64,500 tonnes, imports from Malaysia were down 28.8% at 29,700 tonnes, and imports from Vietnam declined 20.3% to 8,100 tonnes.

The UK accounted for the vast bulk of the increase in EU imports, with its tropical plywood imports ahead 18.5% to 140,300 tonnes, with pre-Brexit stock piling considered once more to have played a part. Most of the gain in UK imports was not due to direct imports from the tropics, but to a rise in tropical hardwood faced plywood manufactured in China.

Imports of tropical plywood declined in all other leading EU markets in the first nine months of 2019 including Belgian (-21% at 26,300 tonnes), Netherlands (-11% at 24,200 tonnes), Germany (-7% to 18,600 tonnes), France (-3% to 14,700 tonnes) and Italy (-4% at 12,300 tonnes). However, Greek imports increased 4% to 23,000 tonnes).

Total EU imports of temperate hardwood plywood in the nine-month period were down 1% at 1.11 million tonnes. Of the lead suppliers, Russia recorded a 5.3% EU sales increase to 586,800 tonnes and Ukraine a rise of 8.3% to 62,300 tonnes.

However, these gains failed to offset declining imports of temperate hardwood plywood from China (-8% to 374,300 tonnes), Belarus (-15% to 77,000 tonnes), Uruguay (-15% to 5,900 tonnes) and Bosnia-Herzegovina (-15% to 4,300 tonnes).

EU softwood plywood imports from January to September were 8.8% lower at 655,900 tonnes. Brazilian product was down 3.1% at 451,700 tonnes, Chilean down 18.1% at 75,800 tonnes, Russian down 7.2% at 64,800 tonnes, Chinese down 19.9% at 36,900 tonnes and Canadian down 20% at 5,500 tonnes.

Looking forward, a UK importer pinned their hopes on “some post-election Brexit clarity and demand picking up as the government works to avoid recession”, although he still anticipated prices “continuing to bounce off the floor”.

A continental plywood importer was also cautious. “We don’t foresee any significant improvement for six months or so, unless the US settles all its trade disputes and the UK finally leaves the EU (or not). That could give some positive signals and incentives.”