

Brexit uncertainty dampens UK tropical timber demand

After a reasonable start to the year, UK tropical timber importers report a marked slowdown in business in recent months which they attribute to market nerves surrounding the country's still unresolved future relationship with the EU.

Despite a "do or die" pledge by the prime minister to ensure the UK left the EU by 31st October 2019, the end of the most recent extension period granted by the EU27 in March, this deadline has been missed as the UK parliament again failed to ratify the withdrawal agreement in time.

The EU27 has now agreed to a further Brexit extension until 31 January 2020, while the UK will hold parliamentary elections in December in the hope that there will be sufficient support in the country for a new government capable of breaking the deadlock.

But there's no certainty that this will be achieved through an election, or of the new government's likely policy in relation to Brexit. The main parties are entirely split on this issue, the Conservative party being in favor of pushing on with the withdrawal process, the Labour party expected to campaign on a platform supporting a new referendum, and the Liberal Democrats wanting to stop the withdrawal process in its tracks and return to the EU.

This highly uncertain political situation has contributed to a wider economic slowdown in the UK, characterized by declining business and consumer confidence and rising risk aversion.

UK economic volatility is reflected in the variation in forecasts for GDP growth. PricewaterhouseCooper predicts 1.4% for 2019, similar to growth in 2018, falling to 1.3% in 2020. However, the National Institute for Social and Economic Research expects growth to be 1.2% this year and 1% next, revising those figures down to 1% and 0% in the event of a no-deal Brexit.

According to IHS Markit and the Chartered Institute of Procurement and Supply (CIPS), all main UK economic sectors, services, manufacturing and construction, contracted in the third quarter of 2019, while unemployment rose, principally due to redundancies in retail and manufacturing.

The UK's trade gap did improve over the summer, but this was attributed to companies slowing down or ending their pre-Brexit stockpiling, which saw imports rise earlier in the year.

With a fall of 1.2% in September, the British Retail Sales Consortium reported that average monthly consumer sales growth over the year was just 0.2%, the worst since 1995, with Brexit related political and economic uncertainties again cited as a factor.

Construction and property repair, maintenance and improvement, the key sectors for the timber industry, including tropical, have also both seen overall performance declines this year.

According to the Construction Products Association's (CPA) latest autumn forecasts, overall construction output in 2019 will contract 0.1% compared to growth of 0.3% in 2018. Since the summer it has also revised down predictions for growth for 2020 and 2021, from 1% and 1.4% to 0.5% and 0.9% respectively.

The CPA also cites the IHS Markit/CIPS UK Construction Purchasing Managers Index (PMI) which fell in September to 43.2 (and any figure below 50 indicates a decline in activity). This was the fifth consecutive monthly fall and the second sharpest since 2009.

Commercial construction was the worst performing sector, according to the PMI – and the CPA predicts it will shrink through 2021. But investment in retail construction and shop fitting, an important market for tropical timber, has also shown decline. This is partly attributed to the wider fall in consumer sales, but also increased online shopping.

Public and private sector housing is predicted to contract 0.1% this year and grow 0.5% in 2020 and 0.9% in 2021. Infrastructure growth is expected to do better, albeit falling from 11.2% this year, to 3.7% in 2020, before recovering to 4.1% in 2021. The repair, maintenance and improvement market (RMI) for private sector housing is predicted to contract 2% in 2019, then remain flat in 2020 and 2021. Public sector RMI is also forecast to stagnate over the three years.

Interviews with UK timber importers indicate that the wider economic downturn is now feeding into a slowdown in tropical timber sales.

“The usual post-holiday period market pick-up just does not seem to have materialised,” said one UK importer/distributor. “People have become very aggressive for business and at the same time we’re seeing less forward ordering and increasing late payment from customers. We’ve had more bad debt in the last three months than in the last three years. I know fellow importers have cut back their buying as a result.”

He went on, “there’s perhaps a delayed reaction in terms of tropical wood coming into the market due to the long lead times – reducing your African supply especially is like slowing down an oil tanker, it takes time. However, we have heard of other importers taking the short cut and renegeing on tropical contracts.”

A continental based tropical supplier to the UK took a similar view. “General UK trade has become very competitive, with some UK businesses offering African timbers at very low prices that will be difficult to replace going forward,” they said.

“We’re seeing orders becoming more just-in-time, with customers buying little and often,” said an importer. “Others have just told us they’re putting projects – and orders – on hold.”

High levels of tropical timber stock currently on the ground in the UK are attributed to this wider slowing of the economy, but also importers, like their counterparts in other industries, stockpiling in advance of the original March Brexit date. This was to hedge against customs and port delays anticipated immediately afterwards

One company said this tactic was largely the preserve of larger tropical operators. “To increase your stock, you’ve got to be able to access the supply, have the money to pay for it and somewhere to put it,” they said. “In hardwood, that’s a limited number of businesses.”

But analysis of the latest Eurostat Comext data does show an overall increase in UK tropical timber and wood products imports, including furniture, in the first half of 2019. Importers believe pre-Brexit buying, notably in tropical plywood and furniture, is one reason for it.

Total UK tropical wood product imports in the first half of 2019 were up 13% to 312,000 tonnes. Biggest increases were seen in mouldings and decking, 56% ahead at 6,900 tonnes, flooring, up 42% to 1,500 tonnes, sawn timber, up 20.6% to 36,000 tonnes, wood furniture up 15.4% at 108,620 tonnes and plywood 13.8% at 104,000 tonnes.

Decreases came in tropical log imports, 64% down to 1,040 tonnes and sleepers, 18.4% lower at 1,150 tonnes.

In terms of supplier country, greatest growth came in tropical wood imports from China (mainly plywood), ahead 79.8% at 54,970 tonnes. Imports from the Republic of Congo were 25% up at 5,810 tonnes, Brazil 19.3% at 6,630 tonnes, India 16.5% at 7,870 tonnes and Cameroon 16.1% at 9,330 tonnes. Of the other top three suppliers, Vietnamese imports were 8.3% ahead at 52,530 tonnes, Malaysian 2.7% at 68,180 tonnes and Indonesian 0.9% at 59,000 tonnes.

Considering just tropical sawn wood, the largest UK suppliers in the first half of 2019 were Cameroon, with sales up 23.4% at 9,080 tonnes, Malaysia, 1.9% down at 5,250 tonnes, Republic of Congo, up 22.8% at 5,690 tonnes, and the Democratic Republic of Congo, up 61.4% at 3,230 tonnes. Imports from Brazil were up 117.1% to 2,350 tonnes. Indirect imports from the Netherlands also increased, up 58.1% at 3,200 tonnes.

In tropical plywood, biggest suppliers to the UK during the six month period were China, up 80.6% at 54,960 tonnes, Malaysia, down 32% to 16,810 tonnes and Indonesia, down 14.2% to 17,810 tonnes.

UK importers generally expect that tropical imports will plateau in the second half of 2019, or even contract due to weakening economic conditions, increased market caution and the high stock levels built up over the preceding six months.

Looking to the longer term one importer suggested that, due to the pent up demand for housing in the UK and RMI work, “once Brexit is resolved and the market settled, business could recover quite quickly”. The question, said another, is when that will be. “A pickup is not on the cards as far as I can see ahead,” he said.

UK to extend timber legality requirements after Brexit

UK tropical and other timber importers were urged to evaluate the impacts for their businesses of a no-deal Brexit and prepare accordingly at October's UK Construction Week (UKCW) exhibition.

At the UKCW, the biggest UK building industry show, the UK Timber Trade Federation (TTF) and the country's EU Timber Regulation and FLEGT Competent Authority, the Office for Product Safety and Standards (OPSS), teamed up to present on the implications of Brexit for importers' responsibilities under the EU Timber Regulation, or the UK Timber Regulation (UKTR) as it will be known after the country's EU departure.

Representing the TTF, head of sustainability Xiao Ma said importers should prepare for a no-deal Brexit and the UK trading under World Trade Organisation rules as there was currently no certainty that a deal would be struck at present, or what repercussions it might have for UK timber importing.

While the UK is assimilating the EUTR, as the UKTR, into post-Brexit UK law, Ms Ma said that, under its terms, all timber imports from the EU, whether they are transiting the latter or originate from EU countries, will have to undergo UKTR due diligence.

Currently, she said, just 12.62% of UK timber imports are sourced from outside the EU and subject to EUTR due diligence.

"That means that a lot more UK timber importers after Brexit will have to undertake due diligence, many of them for the first time," said Ms Ma.

Running through the due diligence procedure, she said, it requires full product information, including product type, timber species, quantity, supplier name, plus information on the country of origin and details of the supply chain. Supporting documentation is required and a summary of risks of illegality involved. If the risk is greater than negligible, importers must detail mitigating action.

"The key for UK companies is to liaise with EU suppliers as soon as possible," said Ms Ma. "EU companies need to know the information required of them, and UK importers if the supplier is willing to share it. Some EU suppliers may regard details of their supply chains, as commercially sensitive and confidential and be reluctant to divulge them."

Importers, she advised, should also 'prioritise engagement' with EUTR/UKTR issues, focusing first on more complex supply chains.

Bhaven Bhatt, enforcement team leader at the OPSS, stressed that the meaning of the term 'operator' for UK importers will also change on Brexit. Previously the 'operator' was the importer who 'first placed' timber on the EU market. Under the UKTR that will be 'first placed on the UK market'.

Similarly the definition of a 'trader' will change from a company that buys or sells a product already placed on the EU market to one who buys and sells goods already placed on the UK market.

Under those terms, operators will have to undertake due diligence on their suppliers, and traders to identify operators or traders who have supplied them, and, where applicable, the traders to whom they sell.

Likewise, EU companies which buy timber products from the UK will be classed as 'operators' and have to undertake due diligence on their suppliers under the EUTR.

In terms of its implementation of the UKTR, the OPSS says it will operate as it did with the EUTR on the basis of illegality risk assessment of product, source of supply and supply chain. The difference will be that this risk assessment will now be extended to EU countries and suppliers.

OPSS Environmental Enforcement & Compliance Team Manager Deanne Hughes said that initially post Brexit, some allowance would be made for companies undertaking due diligence for the first time to enable them to bed systems in. It will also provide guidance on UKTR observance.

"Of course we will enforce the regulation, but we will also focus in the early days on supporting companies' compliance with its requirements," she said. "However, we will expect others who import from outside the EU and are already experienced in due diligence, to immediately apply the same processes to the same standard to imports from the EU."

The OPSS said it is also focused on continuing improvement of its administration of the EUTR/UKTR.

"We are sharing information with other stakeholders, developing relationships with NGOs and other bodies and advancing scientific testing of timber," said Bhaven Bhatt. "We're currently working with London's Kew Gardens, the Department for Environment (DEFRA) and other stakeholders to create a collection of timber samples that include GPS tracking to increase capacity for origin testing."

The OPSS also reports its third successful prosecution of a company for breaching the EUTR. The business is a Birmingham-based furniture importer, although further details were not available at the time of publication.

Earlier this year, the UK also pledged continued commitment to developing its relationship with and imports from Indonesia under the Forest Law Enforcement, Governance and Trade initiative (post-Brexit, as part of a bilateral economic, environmental and development cooperation).

The official statement from talks was that the two would work together to 'maintain FLEGT timber trade once the UK leaves the EU'.

This agreement builds on a 'statutory instrument' introduced by the UK Government last year, making 'minor and technical amendments to the existing [EU FLEGT] legislation to ensure it is operable after exit from the EU'. These changes included amending references

to the EU, EU institutions and EU administrative processes to UK equivalents and updating legal references to refer to relevant UK legislation.

“The intention is to have a UK Timber Regulation (UKTR) and UK Forest Law Enforcement Governance and Trade regulation (UK FLEGT) that tackle illegal logging and ensure the demand for, and supply of, legally harvested timber for the UK market,” stated the government memorandum on the instrument. This also involves a UK/Indonesia FLEGT Partnership Agreement replicating the EU FLEGT VPA.

However, the OPSS points out that there will be a difference in UK administration of FLEGT post-Brexit. “While FLEGT-licensed goods imported direct from Indonesia will be able to be imported without further due diligence [under the UKTR], if they enter the UK via EU and EEA countries, the UK importer will be responsible for carrying out due diligence,” it stated.

Some feel the increased administrative burden resulting from UK companies having to put all timber imports from the EU through UKTR due diligence, including FLEGT-licensed goods transiting the EU, could lead to a narrowing of the importer pool.

“We saw this when the EUTR was introduced, with smaller operators in particular opting to become ‘traders’ to avoid doing due diligence and minimise their risk. Instead, they sourced from larger UK importers with more resources and know-how in this area,” said one company. “We may see another wave of this after Brexit.”

At the same time, others saw EU and UK Timber Regulations ultimately operating smoothly alongside one another and also the UK continuing to work with the EU on the development of EU/UK FLEGT initiatives.

“First most timber, including tropical, coming from the EU is likely to be considered low risk under a UK timber regulation because EU importers will have put it through their own due diligence,” said an importer-distributor.

“Also the UK was a major advocate of both EUTR and FLEGT and it won’t want do put at risk what’s been achieved with either in terms of combating illegal timber trade. There may be initial teething problems immediately after Brexit, but both sides will want to see continued close collaboration in this area. That should include, for instance, ongoing liaison and intelligence sharing between competent authorities in the UK and the EU. After all, we ultimately share the same ambition, to keep illegal timber out of our markets.”