

Low European demand for African hardwood balanced by limited supply

European demand for African hardwood remains quiet, with orders in northern European markets similar to last year and demand very weak in southern Europe. However, low demand is balanced by restricted supply.

Prices for sapele logs and sawn have been rising in recent months due to shortfalls in EU landed stocks and uncertainty surrounding deliveries from Africa. Most African sawmills are now fully sold out of sapele and are only willing to accept new orders for shipment in the third quarter of 2013. Prices for other key species such as iroko and utile have been stable.

According to the Germany-based journal EUWID, African hardwood supplies are being disrupted due to internal political problems in some African countries and increasingly irregular shipment from African ports. Particular problems are reported in supply from the Central African Republic due to the civil war in the country. Lack of wood volume has also discouraged shipping companies from calling at Douala port in Cameroon and to other commodities being prioritised for shipment for the limited number vessels that are calling.

Although the European market for tropical logs is now much reduced, European importers report difficulties in securing the limited volumes still required. European log buyers are struggling to compete on price with Asian buyers and log supply is also restricted by the Liberian log export ban introduced at the start of the year.

Rougier hit by shipment delays and weak French market

Supply problems also feature prominently in the financial statement of the French company Rougier for the first quarter of 2013 which explained that a 14.6% fall in International Division quarterly revenue relative to the same period in 2012 was *“due to certain exceptional external events.... In Cameroon, the introduction of new customs regulations and delays with issuing administrative authorizations led to delays with shipments during the quarter. In Congo, shipments were affected by changes to land logistics due to blockages when crossing the Central African Republic. In Gabon, business levels remained low as a result of industrial and timber difficulties linked to the transformation of the business model”*.

The Rougier quarterly financial statement also highlights the extent of the recent downturn in the French market for African hardwood. Rougier report revenues for the France Import-Distribution segment were down 20.9% in the first quarter of 2013 compared with the first quarter of 2012. According to Rougier *“sales for the past quarter reflect the low point reached by the market faced with a significant deterioration in the national economic environment and unfavourable weather conditions.”*

Italian market slow and uncertain

The market in Italy also remains slow with much uncertainty over future prospects. Many large Italian wood manufacturing companies are believed to be in serious financial difficulty following a big downturn in Italy's domestic market. Some importers are limiting sales to certain customers in order to reduce liability and protect against bad debt.

Problems of bad debt also extend to Italian government departments that, in some cases, have been delaying payment under procurement contracts for over 12 months. This has led to passage of a new law in Italy that will require payment on these contracts within 30 days. This measure should at least remove one existing impediment to recovery of the Italian wood market.

Some of the larger Italian importers with large distribution networks to other parts of the EU recently took steps to replenish depleted stocks of tropical sawn hardwood in anticipation of rising prices and declining supplies. However smaller Italian importers selling mainly into the domestic market are now much less willing to buy wood direct from tropical producers, due to the combined effects of limited bank credit, uncertain market prospects, and concern about the legal liabilities associated with the EU Timber Regulation.

No improvement in Spanish market for tropical sawn hardwood

In Spain, sawn hardwood imports last year suffered a 37% fall compared to the previous year and were less than a quarter of the volume that prevailed before the economic crises. This year Spanish importers are reporting no improvement in market conditions, with very little consumption and widespread lack of liquidity throughout the wood distribution chain. Spain still has a large surplus of partially built or unsold houses which is stifling any demand for new buildings. Those Spanish wood manufacturers offering specialised products, or that are more focused on exports, are doing better. Few Spanish importers are expecting any increase in demand during 2013, although there is some hope that the situation will improve in 2014.

Erratic buying in the UK

Market conditions are better, although hardly buoyant, in parts of northern Europe. The UK has been one of the more robust markets in Europe for tropical wood. UK imports of sawn tropical hardwood were 122,000 m³ in 2012, very close to the 120,000 m³ recorded in 2011. UK importers also report reasonable demand so far this year with most expecting sales for 2013 to be similar to last year.

However UK buying of tropical sawn hardwood has been erratic. Stocks of sapele, the mainstay of the UK trade, are low and few importers have been willing to build inventory with future market demand uncertain and credit still tight. However this means that any slight upturn in demand quickly leads to shortages and importers looking around to secure wood. Introduction of the EUTR has also meant that UK importers are now more restricted in the range of tropical sawn hardwood suppliers they are willing to deal with.

Lack of existing landed stock in the UK has led to distributors buying more sapele from continental Europe, including significant volumes from large Italian importers.

In contrast, there are reports of significant unsold landed stocks of framire/idgbo in the UK imported from Ivory Coast. Despite these stocks being imported in advance of EUTR enforcement in March 2013, distributors have been reluctant to purchase the wood due to concerns about lack of clear documentation to demonstrate legal provenance.

There is some concern about the potential for a slowdown in the UK joinery sector, by far the main market for sawn hardwood in the UK. The UK Construction Products Association is now predicting a 2% fall in construction output in 2013. A very sharp 7% fall in private commercial construction is expected to be offset by improving activity in private housing and the infrastructure sectors.

More enquiries for tropical sawn hardwood in Germany

Germany has also been a reasonably consistent market for sawn tropical hardwood in recent times. Although unseasonably cold weather meant sluggish demand in March and April, enquiries for tropical sawn hardwood have increased in Germany in recent weeks. So far these only occasionally result in significant sales and buying remains concentrated in small volumes at short notice.

Although austerity measures have curbed some public spending in Germany, the private sector is continuing to generate demand. Unemployment is low in Germany compared to other European countries helping to maintain consumer confidence and spending. Building activity, particularly in renovation and refurbishment sector, is adequate to provide steady demand for hardwood. German distributors are also servicing a growing demand for hardwoods from manufacturers in Central Europe.

EUTR creates uncertainty in UK plywood market

According to the latest plywood market report from the UK's TTJ, the country is still digesting substantially higher imports of Chinese plywood that preceded implementation of the EU Timber Regulation (EUTR) on 3 March. Plywood market specialists interviewed by TTJ report that stocks have built up in the UK as consumption has not kept pace with imports in the first two months of the year. TTJ quotes HM Revenue and Customs data which suggests that in value terms, UK imports of Chinese plywood surged to £26.76m in the January-February 2013 period, almost 44% more than the same period in 2012. According to UK Timber Trade Federation statistics, China accounted for 57% of UK hardwood plywood imports in January 2013 compared to 48% in January 2012.

TTJ also suggests that EUTR is causing problems in China itself, noting that many exporters who said they would be able to comply to EUTR have not been able to secure adequate documentation regarding legality of logs. Some Chinese plywood manufacturers exporting to Europe are now looking for alternatives to tropical species for the face and back veneers, the most popular currently being dyed poplar – although this is significantly more expensive.

According to TTJ UK demand for Malaysian plywood is slow. Malaysian mills are pushing for higher prices, but UK importers are in no rush to buy in current market conditions.

EUTR offers both risks and opportunities

A key issue for tropical wood suppliers to the EU is the effectiveness, efficiency and equity of enforcement of the EUTR. If managed well, the law should boost market prospects and prices for legally sourced tropical wood products. It could provide a firm foundation for proactive communication of good forest governance and responsible timber trade practices.

On the other hand, if managed badly, the law could encourage imposition of unnecessary and ineffective new controls and create added uncertainty at a time when consumption is already weak and declining. This could be to the detriment of tropical hardwoods compared to other wood products, and of all wood products compared to alternative materials.

Early reports indicate that the European Commission (EC) and EUTR competent authorities in Member States still have considerable work to do if the law is to contribute positively to forest governance in timber supplying countries. Government authorities in countries engaged in FLEGT Voluntary Partnership Agreements (VPA) with the EU also have a daunting task to establish operational legality licensing systems that will have a “green light” under EUTR and not require any further legality due diligence by EU importers.

In addition, the private sector has to act on the far-reaching responsibilities it has been given through EUTR to develop due diligence systems, both at corporate level, and through so-called “Monitoring Organisations” which will be formally recognised by the EC to act on behalf of groups of small timber traders in the EU.

Economic downturn makes EUTR more challenging

It’s hard to imagine a worse time than the present for introduction of EUTR. The economic downturn in Europe has reduced EU consumption of tropical hardwoods by about 50% in the last five years. This means that EU leverage, both politically in the FLEGT VPA process and commercially in day-to-day buying power, has been considerably weakened in tropical countries. EU importers are, with justification, concerned that while they become increasingly discriminatory in their procurement practices, tropical wood trade flows will simply be diverted to other markets.

At the same time, the economic downturn means that both government authorities and the private sector in EU countries lack the resources to implement the regulatory and due diligence procedures required by EUTR. Lack of credit and very uncertain consumption patterns has meant that European importers have already become very risk adverse and less inclined to stock tropical hardwoods. For many, EUTR will provide yet another reason to switch to less contentious products.

EUTR before VPA licensing creates dangers for tropical wood

With such challenges, it is not surprising that implementation of every aspect of EUTR is behind schedule. A key problem for tropical producers is that the EUTR has been introduced before any tropical country is able to offer FLEGT VPA licensed timber. Indonesia is probably the closest to doing so, having already pilot-tested delivery into Europe of “V-Legal” timber under the SVLK system. However, even in this case, first deliveries of fully FLEGT licensed timber are not expected at least until the end of 2013 and more likely in 2014. In the meantime, all timber supplied by the SVLK system is subject to due diligence by EU importers in the same way as other wood products.

The gap between introduction of EUTR and supply of FLEGT VPA licensed timber is a dangerous one for the tropical timber trade in Europe. If importers are discouraged from buying from VPA countries due to legal uncertainties in the intervening period and instead seek out substitutes, lack of

continuity in supply may make it more difficult to claw back market share once licenses become available.

At the same time, it is important that the FLEGT VPA process is not rushed. The licensing systems must be robust, credible and equitable with respect to different forestry operators. Failure to achieve this would undermine the reputation of EUTR and the VPA process amongst both consumers and producers. The parties to the VPAs have a very difficult challenge and heavy responsibility to operationalize and reach agreement on the licensing systems as soon as possible.

The complexities of this process also imply that the FLEGT VPA process is not likely to supersede existing private sector procedures any time soon. Certification systems like FSC and PEFC have been very active adapting their standards so that they align more closely to the EUTR and these are likely to remain a key component of EU importers due diligence systems. The role of voluntary private sector supplier-based legality verification and stepwise certification systems - such as those operated by Smartwood, Bureau Veritas, SGS, SCS, and TFT – is likely to increase rather than diminish over the next few years.

Patchy EUTR enforcement in Member States

Meanwhile, implementation of EUTR within the EU itself remains very patchy. The EC has yet to recognise any Monitoring Organisations which implies significant gaps in implementation by small traders across the EU. Some EU Member States – like the UK, Netherlands and Germany – have announced sanction regimes and initiated inspection regimes. But even in these Member States, EUTR competent authorities have limited experience of the timber trade and are just beginning to wrestle with the complexities and numerous “grey areas” associated with legality enforcement in the forest products sector.

Other Member States are even further behind. Some have not yet passed the laws necessary to implement EUTR within their national territories. At the inaugural meeting of the Global Timber Forum in Rome in May 2013, an Italian importer reported that “in Italy there is no legislation [to enforce EUTR], no approved due diligence systems, suppliers are not keen to move forward and do not want to provide information on supply chains, there is no money in the profession to invest in this project, there is no decent guidance, the first Italian [timber importers] federation meeting to discuss EUTR in June 2012 was attended by only 8 companies out of 120, the second meeting in February 2013 attracted only 20 members.”

EUTR and VPAs key role in future of tropical wood trade

So the challenges of the EUTR and FLEGT VPA processes are profound and made all the more challenging by the current market environment. However, it would be wrong to conclude from this that the EUTR and FLEGT VPA processes are any less relevant to the future of the European and wider international wood trade. Even after the downturn, the EU is the world’s second largest importer of timber products (after China), accounting for around 17% by US\$ value. The EU’s construction sector continues to purchase materials and services with a value of around €1 billion every year. The EU also buys less logs and more added-value forest products than most other large

consuming markets and therefore remains central to efforts by tropical countries to move up the value chain.

It's also important not to lose sight of the key feature of the EUTR, which is that it gives the main role and responsibility for due diligence to the private sector. Lack of guidance from the EC and other government authorities, while creating uncertainty in the short term, also represents a major opportunity for the private sector to build on existing programs like PEFC, FSC and numerous timber trade association and NGO procurement codes and policies to develop innovative solutions.

While the situation in Italy suggests there are significant gaps in the private sector response to EUTR, there are very positive signs elsewhere. For example, EUTR has been a major driving force behind formation of the European Timber Trade Federation (ETTF), an organisation bringing together national federations from around Europe in pursuit of common goals. The ETTF has developed a harmonised due diligence system in collaboration with the Danish environmental consultancy NEPCon. The aim is to provide a system that works across the EU for entire timber federations or individual companies. ETTF is now very actively promoting EUTR and its harmonised due diligence approach both within and outside Europe.

Launch of Global Timber Forum

The emergence of parallel regulatory programs like EUTR, the Lacey Act Amendment and the Australian Illegal Logging Bill, has emphasised the importance of the private sector timber trade working more closely together at an international level. Recognition of common interest of both producers and consumers in finding solutions to the challenges of this legislation was a major factor encouraging broad international participation in the first Global Timber Forum held in Rome on 22-23 May 2013. The meeting was convened with support from the FAO Forestry Department, the European Timber Trade Federation (ETTF) and The Forest Trust (TFT). It was attended by over 80 participants, mainly representatives of timber trade associations, including from North and South America, Africa, South East Asia, China, Europe and Australasia.

The meeting concluded with the agreement of all parties to formally establish an international networked organisation, making maximum use of web-based tools and holding a regular annual meeting. The network is established to facilitate information exchange in the first instance. However, in time it is expected to take a lead in development and implementation of action plans and programs on issues of common concern and to leverage the required project finance. More details: <http://www.fao.org/forestry/trade/82078/en/>.