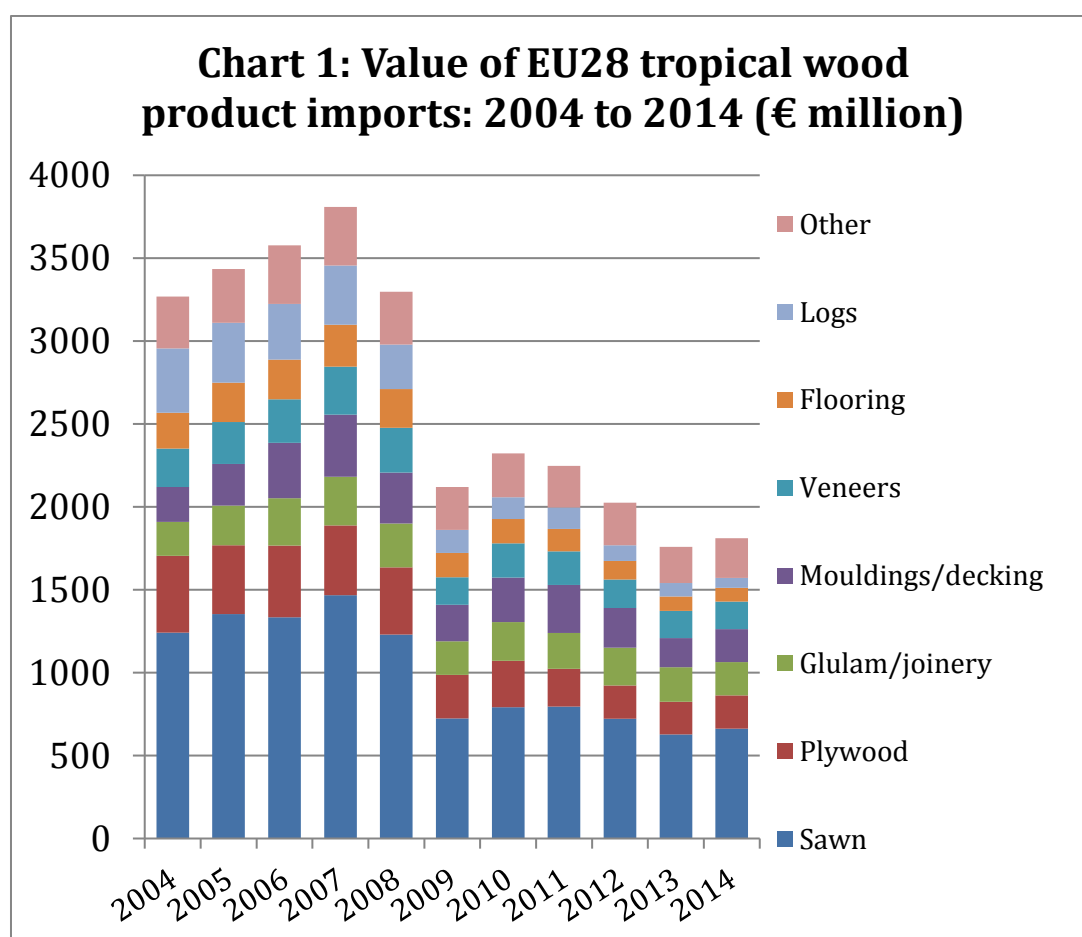


EU tropical wood imports rebound after record low

The EU imported tropical wood products worth €1.81bn in 2014, which represents a 3% increase over the ten-year low of €1.76bn registered in 2013. Between 2012 and 2013 imports had dropped sharply by 13.2 % and fell below the €2bn threshold for the first time. Even with the slight recovery, the EU's 2014 tropical wood imports did not even reach half of what they were less than ten years ago (Chart 1).

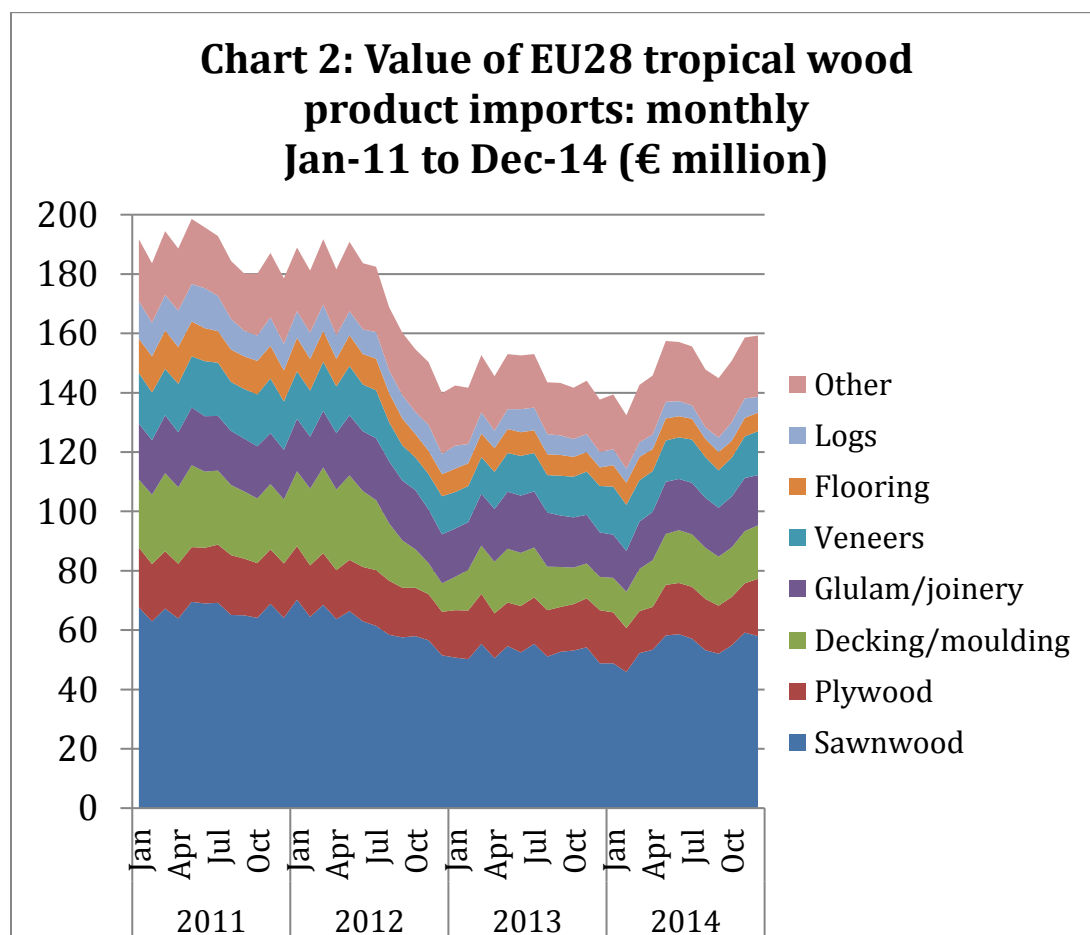


Source: FII Ltd analysis of Eurostat

The different product groups were showing mixed trends last year. Mouldings and decking (+12.9 % to €200 million) as well as “other” products (+10.1% to €240 million) grew by double-figure percentages and sawn wood also booked healthy growth of 5.5% to €663 million. Imports of plywood (+2.2% to €201 million) and veneers (+1.3 % to €166 million) climbed at a more moderate pace. At the same time, however, tropical log imports dropped again sharply, down 24.3% to €60 million. And deliveries of flooring (-5.8% to €83 million) and glulam/joinery (-3.8% to €200 million) were also lower than in 2013.

Closer analysis of monthly and quarterly data indicates that European tropical wood imports increased especially towards the end of last year. In fact, throughout the first quarter of 2014, imports were still lower than in the same period of the previous year. In the April to June period, imports then rose slightly over the same quarter in 2013. The

rate of growth remained modest during the third quarter as well. However, in the final quarter of the year the European countries imported tropical wood products worth €469 million, which is 10.6% more than in the last quarter of 2013 (Chart 2).



Source: FII Ltd analysis of Eurostat

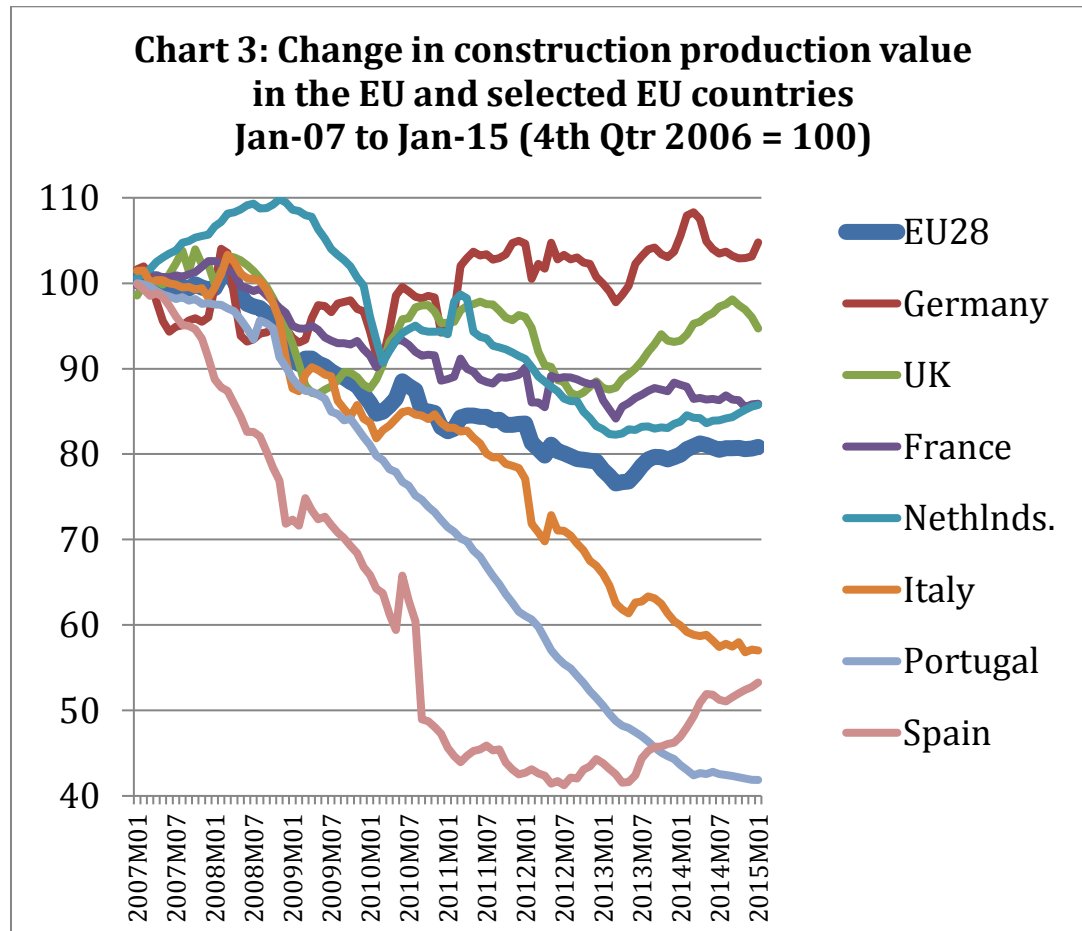
EU construction has firmed in 2014

The slight growth in European tropical wood imports last year can be attributed to the continuing – if frequently slow – recovery in several important sales markets. Most notably the UK has reported strong demand for timber in general and also for tropical wood products last year. The Netherlands and Spain are showing signs of recovery as well and Germany has remained stable at a satisfactory level. France, on the other hand, has seen an economic slow-down which led to a further contraction in consumption of tropical timber last year.

These trends are also reflected in EU construction activity. Chart 3 shows that the construction production value has continued to pick up in several key markets during 2014, even though the overall construction value throughout the EU still remains clearly below pre-crisis levels.

Construction in the UK picked up strongly from the start of 2013 and this trend continued throughout 2014. However growth slowed at least temporarily at the

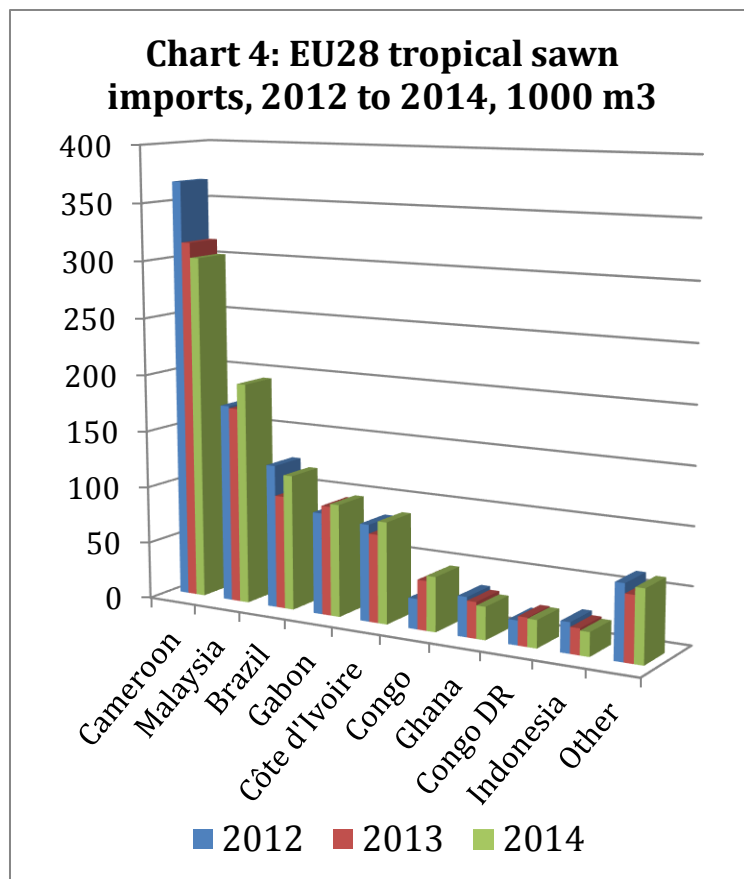
beginning of 2015. Construction value in France declined slightly during 2014. The same is true for Portugal and Italy. On the other hand, construction in the Netherlands continued its steady recovery last year. Spain has also shown a steady uphill trend since the start of 2013, although the recovery is from a very low level.



Source: FII Ltd analysis of Eurostat

EU sawn tropical hardwood imports still lower than in 2012

The recent 5% increase in European sawn tropical hardwood imports to 985,000 m³ was insufficient to offset the 8% drop in deliveries experienced in 2013. A closer look at the most important supplier countries reveals that Malaysia (+13%), Brazil (+19%) and Ivory Coast (+15%) boosted their deliveries to Europe significantly last year. This came after decline in imports from these three countries in 2013. Deliveries from the Congo Republic and Gabon also continued their positive trend last year. EU imports from Cameroon (-4%), Ghana (-9%) and Indonesia (-8%) continued their downhill slide in 2014. EU imports from the Democratic Republic of the Congo fell by 3% in 2014 following an increase in 2013.



Source: FII Ltd analysis of Eurostat

Chart 4 reveals that Cameroon remains by far the most important supplier of sawn tropical hardwood to the EU, despite the steep drop in 2013 and the renewed decline in deliveries in 2014. The EU countries imported 302,000 m3 of tropical sawn timber from Cameroon in 2014, after 315,000 m3 in 2013 and 367,000 m3 in 2012. The supply problems for sapele timber and associated long lead times, the main cause for declining deliveries in 2013, continued into 2014.

Moreover, shipments from Cameroon have been seriously affected by logistical problems in the country's main port of export in Douala. A strike at the port at the end of 2013, as well as problems related to the depth of the port's navigation channel, a broken loading crane and general logistical problems caused a backlog of goods at the port. According to information from importers, these problems continue to persist for break bulk shipments and container shipments are also occasionally subject to delay which makes transportation times hard to calculate.

The new deep-water port in Kribi/Cameroon could help ease this situation. The port is apparently operative now. However, a European company that operates sawmills in the region said in March 2015 that they had not yet received any offers from the major shipping lines for shipping from Kribi.

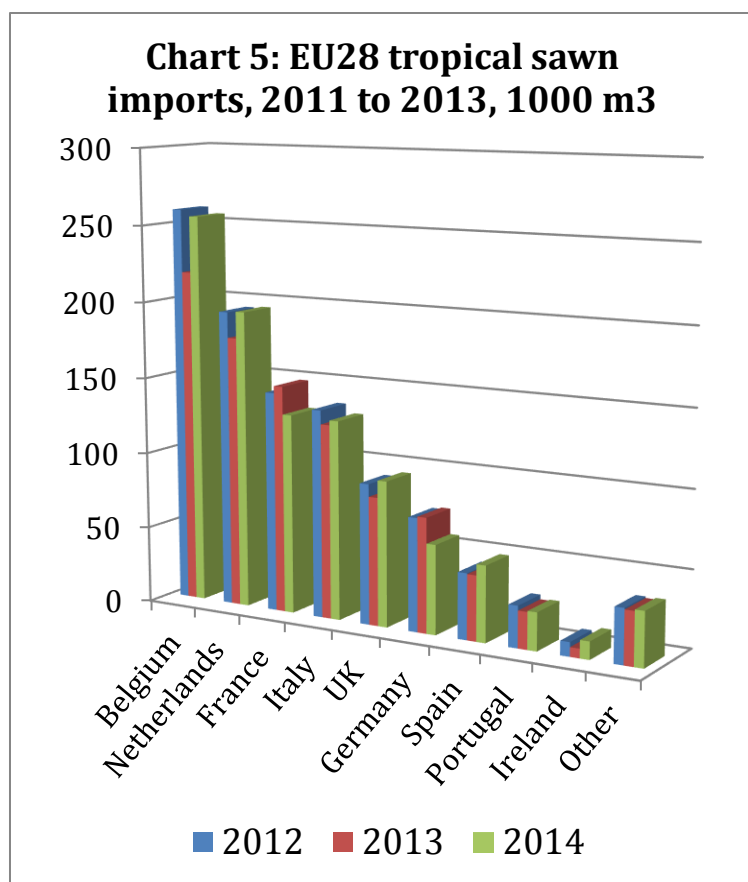
In 2014, Gabon was once again the second largest African supplier of tropical sawn wood into Europe. European demand for timber from Gabon had started to grow as early as the end of last year. And throughout 2014 the country's okoume exports

remained rather competitively priced compared to tulipwood from the USA, for example.

European imports from Ivory Coast also increased in 2014. This was due to strengthening demand for framire in the UK combined with importers' increasing confidence in legality assurance documentation.

In Malaysia, the second most important tropical sawn wood supplier overall, prices for meranti lumber have been comparatively low and stable throughout last year, which may have fuelled demand. Moreover, both the UK and the Netherlands, two of Malaysia's largest European sales markets stepped up their tropical timber imports last year (Chart 5). In total, the EU countries imported 194,000 m³ of sawn timber from Malaysia last year, 13% more than in 2013. The anticipated drop in deliveries due to the change in Malaysia's GSP status as of 1 January 2014 and related rise in import duties from 3.5% to 7% has therefore not materialised. Recognition of the Malaysian Timber Certification System (MTCS) in the Dutch government procurement policy in 2013 may have boosted sales in the Netherlands during 2014.

The 19% increase in EU tropical sawn wood imports from Brazil in 2014 has to be seen against the background of a 21% fall the previous year. At 118,000m³, last year's tropical timber deliveries from Brazil still fell well short of the 125,000m³ delivered back in 2012, before the EU Timber Regulation entered into force. The May 2014 Greenpeace report about alleged illegal logging titled The Amazon's Silent Crisis has prompted some European companies to take an even closer look at their supply chains in Brazil. Nonetheless, European tropical sawn wood imports from Brazil recovered last year.

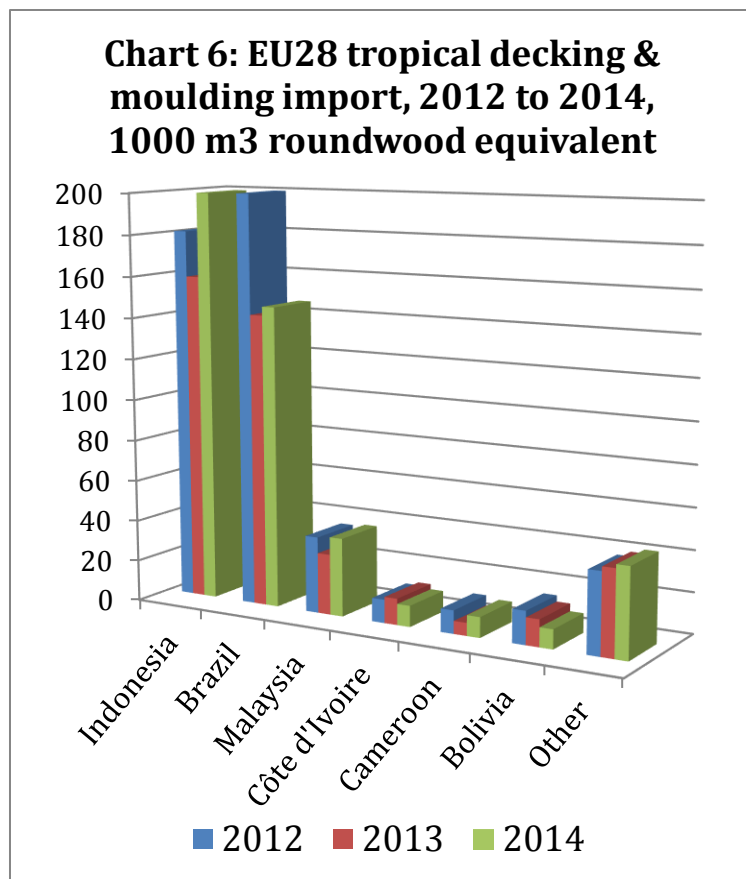


Source: FII Ltd analysis of Eurostat

Recovery in EU decking and mouldings imports

Imports of “continuously shaped” wood (HS code 4409) show a similar picture: after falling by 19% in 2013 they rose again by 13% to 457,000 m3 in 2014. Continuously shaped wood products listed under HS code 4409 include both decking products and interior decorative products like moulded skirting and beading.

Imports from the main supplier, Indonesia, in particular, recorded a healthy trend and rose by 26% in 2014. The same is true for imports from Malaysia, which recorded an increase of 29%. Brazilian deliveries, on the other hand, only rose by 3% after plummeting 30% the year before (Chart 6).



Source: FII Ltd analysis of Eurostat

The European market for decking, both in general and for tropical hardwood, recovered a little in 2014, after a sluggish performance in 2013. Indonesian bangkirai decking, in particular, regained market share last year, due primarily to its competitive pricing. Prices for bangkirai decking in Indonesia had dropped by around 20% between 2012 and 2014 and have not recovered since.

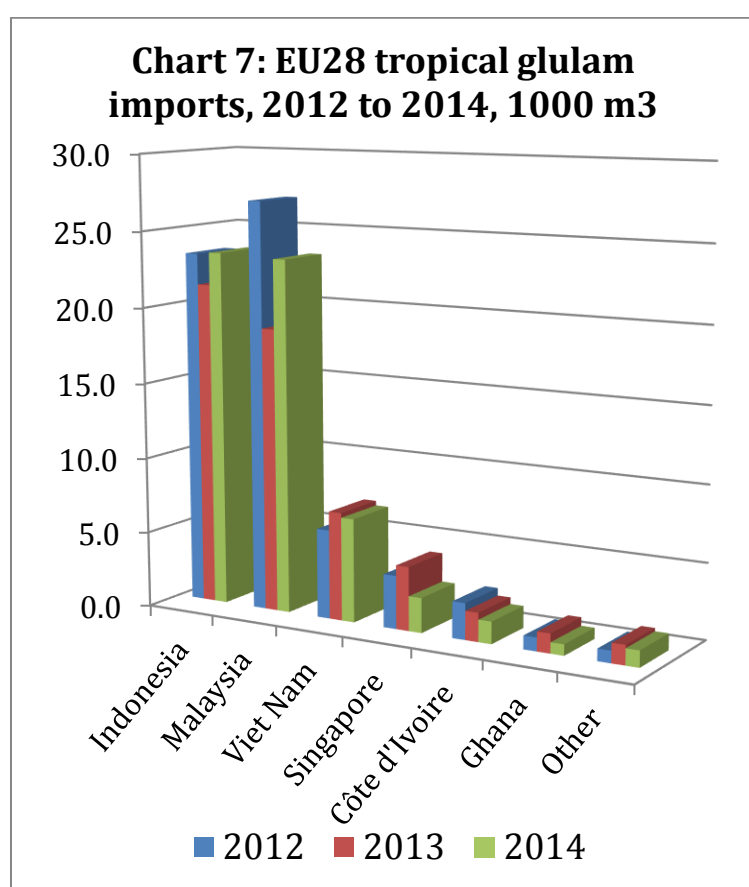
However, market insiders suggest that demand for other tropical decking products increased more slowly and that the overall market share of tropical timber in the decking sector continued to decline in 2014. Bangkirai products have tended to take market share from other tropical timber decking – especially from Brazilian products such as garapa, cumaru, or massaranduba – rather than from other competing materials. The strongest growth was again registered for Wood Plastic Composite decking last year.

Window scantlings imports have grown but at a lower value

Competition from other materials, mainly plastics but also temperate hardwoods, continues to put pressure on the EU's imports of tropical glulam, which consist primarily of scantlings for the window sector. Imports in this product group totalled 59,200 m3 last year, 6% more than in 2013 but still 12.5% less than in 2012.

Moreover, the value of EU glulam imports from tropical countries was down by 3.8% last year, in spite of the rise in volumes, meaning that the average price of the imported tropical window scantlings was lower than the year before. Importers frequently mentioned a trend towards standard-quality meranti scantlings rather than the higher-quality full log material last year, which may be an explanation for the lower import value.

The rise in volumes was exclusively due to higher deliveries from Indonesia (+10%) and Malaysia (+24%). In 2014, these two countries delivered 23,500 m³ and 23,300 m³ respectively to the EU and together accounted for roughly 79% of all EU imports of this commodity from the tropics. EU imports from all other significant tropical supply countries declined last year, including Vietnam (-4%), Singapore (-45%), Ivory Coast (-23%) and Ghana (-43%) (Chart 7).



Source: FII Ltd analysis of Eurostat

Flooring imports remain at a low level

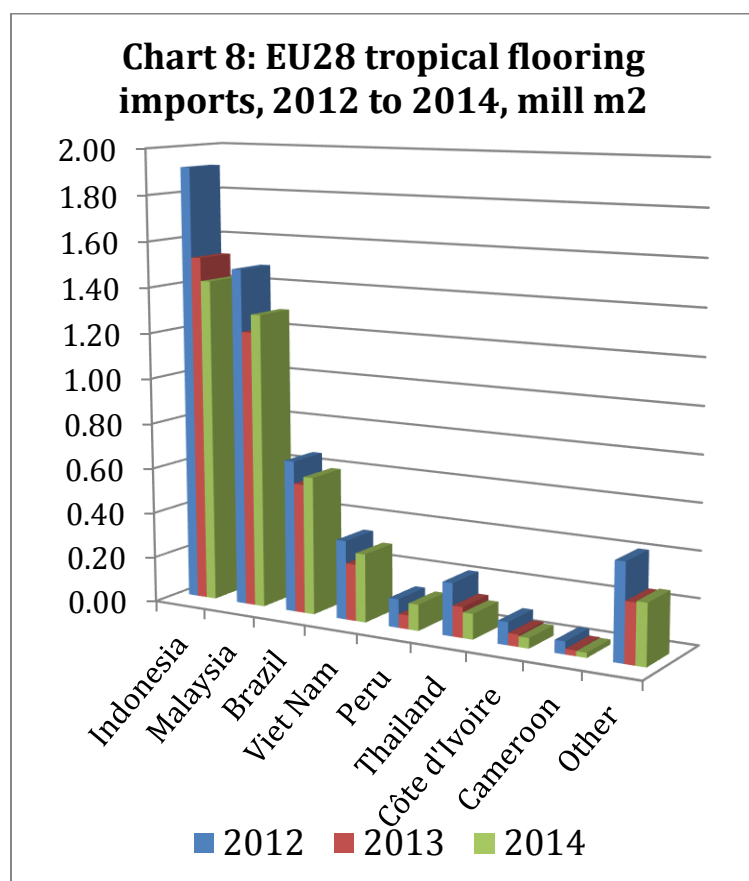
EU imports of tropical wood flooring only showed a minor increase by 2% to 4.17 million m² last year, against the very weak level reached in 2013. Compared to 2012,

import volume in 2014 was still down by 21.7%. Moreover, the 2014 import value of €83 million was 5.8% lower than in 2013 and 25.9% lower than in 2012.

Most European markets have seen a very strong trend towards oak flooring in the last few years, which resulted in lower demand for tropical timber. What is more, wood in general has continued to lose market share to substitute products such as Luxury Vinyl Tiles.

A closer look at the important supplier countries reveals that the shift in flooring import volumes from Indonesia towards Malaysia continued into 2014. Malaysian deliveries recovered with a 7% increase last year, while imports from Indonesia dropped by another 7%. In 2013 deliveries from both countries had declined, but Indonesia experienced a much sharper fall (Chart 8).

Indonesia and Malaysia together account for the bulk of the European tropical flooring imports. Of the other larger supplier countries, Brazil (+6%), Vietnam (+20%) and Peru (+88%) showed signs of improvement, while deliveries from Thailand (-17%), Ivory Coast (-14%), and Cameroon (-11%) continued to decline.



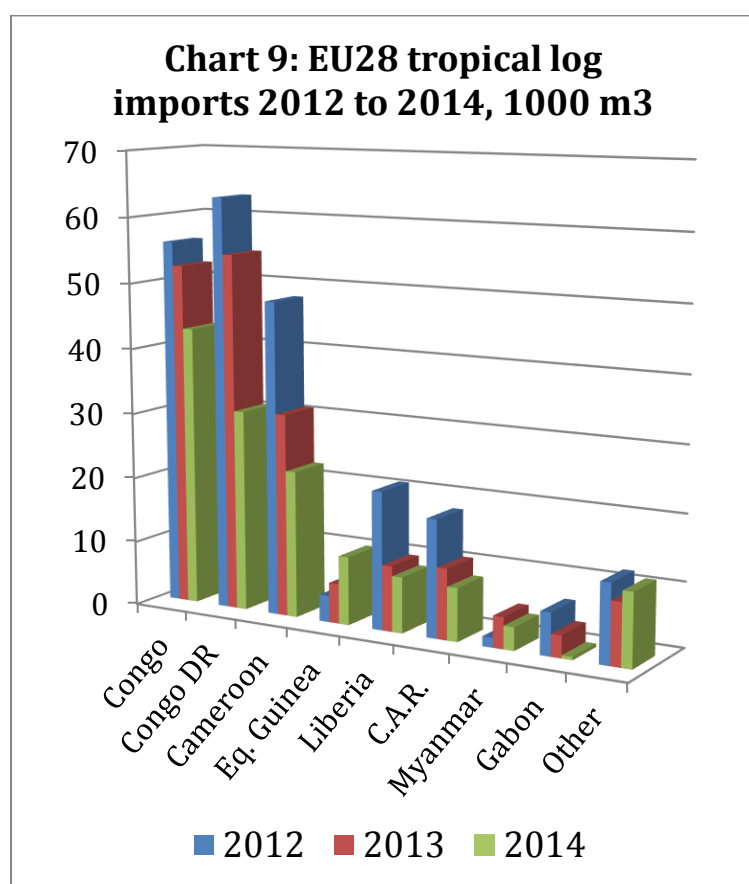
Source: FII Ltd analysis of Eurostat

Tropical log exports plummeted again

Last year, as in previous years, EU imports of tropical hardwood logs experienced the sharpest fall among all tropical timber products. EU imports of 139,000 m3 in 2014 were

down 24% compared to 2013. Log imports have declined steadily over the last ten years. In terms of value, the EU's 2014 tropical log imports were only worth 15% of those in 2004. Deliveries from all the main supplier countries, with the exception of Equatorial Guinea were down by double-figure percentages last year (Chart 9).

Besides logistical restrictions and log export bans instituted by various tropical countries including Gabon and Myanmar in the last few years, this renewed decline is probably also due to uncertainty over the reliability and acceptance by EUTR competent authorities of documentation for log exports from some regions. This seems particularly true for the Democratic Republic of the Congo, which saw its deliveries to Europe plunge by 43% in 2014. Environmental groups have shown a particular interest in the Congo region since introduction of the EUTR, resulting in the first major case in Germany when 57 wenge logs were seized by the country's competent authority at the end of 2013. The case is not yet closed but currently looks likely to end with the auctioning of the wood by the German state.



Source: FII Ltd analysis of Eurostat

European importers are cautiously optimistic for 2015

European demand for various tropical timber products and species in the first quarter of 2015 is described as satisfactory to good by several importers. The UK market remains good, even if demand in some instances is reported to be slightly less buoyant than the same time last year. Some importers report signs of recovery in France and Scandinavia.

Some Eastern European markets, especially Poland, are described as relatively active at the moment. The German market is described as stable.

As regards the different products and regions of origin, African timber, especially sapele, wawa, framire, and in some European markets also sipo are in relatively strong demand. However, importers also report continuing difficulties in sourcing enough timber in Africa. Framire is reported to be very hard to get hold of at the moment and importers suggest they could sell more if there were any extra supply.

Sourcing of other African wood species is made difficult by on-going logistical problems. European importers suggest that truck shortages are causing delays in overland transport in some parts of Africa. In addition to the above-mentioned delays in the port of Douala in Cameroon, some importers also mention delays in shipping from Pointe Noire in the Congo.

Competition for supply from Asian and American buyers is mentioned as another challenge by European importers. Some importers said the EUTR and related documentation was still making it hard to compete with their Asian counterparts, as African sawmills would frequently prefer selling to Asia, where less documentation was required and where customers are less picky when it comes to specifications. American buyers are also finding it relatively easy to outbid their competitors from the Eurozone at the moment due to the strong US dollar and the weakening euro value.

Demand for bangkirai and meranti from Indonesia and Malaysia was also relatively good in February and March of this year, as traders stocked up in anticipation of exchange-rate related price hikes. Importers with large inventories, who were able to offer material at mixed prices, profited from this in particular.

A similar trend was observed for tropical timber from South America. However, the costs of South American tropical wood products had not only increased due to unfavourable exchange rate trends but also due to price hikes instituted by various producers at the end of last year. As a result, importers report that they have been very cautious in placing new orders for shipping this spring.

The strong US dollar represents a factor of uncertainty for sales of tropical wood products traded in this currency in the Eurozone. Whether sales will continue at their current, satisfactory level will largely depend on future currency trends as well as on suppliers' willingness to adjust prices. The minor price concessions made by Indonesian and Malaysian suppliers at the beginning of this year were insufficient to offset the loss in value of the euro over the last twelve months and in particular since December 2014. Moreover, some importers expect those reductions to be temporary in nature and that producers will go back to their old prices in the next few weeks. On the other hand, some sources believe that Brazilian producers may lower their prices in the next few weeks, as the real has also weakened against the US dollar.