

TTJ highlights challenges of EUTR and weak economy

The TTJ has published a “Special Focus” on the UK and wider European market for tropical hardwoods. The Editorial highlights challenges for the tropical wood industry in the region, noting underlying weakness of the European economy and commenting that hardwood is “generally the last timber to benefit from an upturn”.

It notes also that “by general consensus, the tropical sector has also faced the biggest challenge coming to terms with the EU Timber Regulation (EUTR). The often complex supply chains and lower levels of forestry governance in tropical countries clearly make satisfying EUTR due diligence risk assessment tougher.”

TTJ explains that EUTR-related environmental campaigns and media attention in Europe have so far focused heavily on tropical wood, notably the recent BBC Panorama programme which targeted okoume log imports into France, and an on-going investigation of German imports of wenge logs from the Democratic Republic of Congo.

In addition to direct action by the likes of Greenpeace, TTJ reports that due diligence actions by timber importers is leading some to avoid tropical sources to minimise the risk of potential future action. The UK Timber Trade Federation (TTF) has stressed that the trade’s primary goal is to work with tropical suppliers to raise legality levels and avoid their exclusion from the EU. However, TTF surveys of members indicate that some tropical suppliers are already being “weeded out”.

Comments from some of the large European buyers and distributors interviewed for the TTJ suggest that this “weeding out” process is advancing rapidly. Representatives of large retailers and builders merchants, including John Lewis, IKEA, Marks and Spencers, and Travis Perkins, all emphasised their firm commitment to third party certification, preferably FSC, of tropical wood. Comments by Jez Cutler, Environment Manager of Travis Perkins, are typical: “our default position for tropical wood and wood products is FSC or PEFC certified. We understand these schemes are invested in them”.

Some European buyers “demand almost the impossible”

This “default position” is challenged in the same issue of TTJ by Sheam Satkuru-Granzella of the Malaysian Timber Council (MTC).

Satkuru-Granzella observes that to date the EU FLEGT VPA process has been explicitly targeted at tropical countries and suggests: “this has inadvertently created the perception that the EUTR is implicitly targeted principally towards tropical countries which are not yet ready to supply FLEGT-Licensed timber. That also helps create the impression that those countries run a higher risk of illegality, an unfounded notion that has caused some purchasers in the EU to demand almost the impossible from tropical timber supplying countries, in terms of depth and detail of chain of custody and other information.”

Satkuru-Granzella suggests that while those countries that have engaged in VPA negotiations are redoubling their efforts to shake off this market misconception and to meet the highest standards of legality assurance “some large competing suppliers to the EU, which have not joined the VPA process, go virtually unregulated”.

As far as Malaysia is concerned, “we will continue to raise awareness of the Malaysian Timber Legality Assurance System, or MYTLAS, which has been operational now for six months”, said Satkuru-Granzella.

EU importers see opportunities for tropical hardwood

However, not all European importers interviewed by TTJ focused only on forest certification and the perceived “risks” of dealing in tropical hardwood. The TTJ editorial concludes that “as our survey of leading timber providers and buyers shows, they still want to sell and use tropical hardwood”.

Several importers interviewed by TTJ expressed positive views about long-term opportunities for tropical wood in the European market. There was particular emphasis on opportunities for renewed marketing of lesser-known species of tropical wood and tropical plantation-grown timbers in the wake of EUTR.

As noted by TTJ, “the dynamics of the tropical timber sector are changing. As emerging markets develop an appetite for the material, availability of established species is tightening. In conjunction, demand is rising for timber that is legally and environmentally verified. As a result, suppliers say their customers will have to be persuaded to accept less familiar varieties – and many are already devoting increasing efforts to the persuasion process.”

TTJ provides details of the lesser known species and marketing strategies of a range of European companies now very actively engaged in efforts to boost demand for alternative tropical hardwoods. Products mentioned include: kapur decking; tiama as a utility redwood alternative to sapele; plantation-grown Asian acacia to provide a stable light-weight option for joinery applications; movingui as a substitute for iroko; basrolocus from Suriname and guariuba from Brazil, both for cladding; bilinga from the Congo Republic for decking; nemesu for cladding; and Brazilian angelim and cupiuba and West African opepe and tali, variously targeted at cladding, decking and marine applications.

TTJ also makes reference to the government-backed Initiative for Sustainable Trade (IDH) in the Netherlands, a consortium of FSC and 6 Dutch importers which has selected 10 to 15 lesser known tropical timber species from a long-list of 100 provided by partner companies. The IDH list includes South American, Asian, and African species which are now undergoing performance testing. The intention is that developing demand for these species will help improve returns on certified forest operations in the tropics.

The vast majority of these new products are being offered FSC or PEFC certified to overcome prejudices against tropical hardwoods. Importers and agents interviewed acknowledge that, despite certification, developing demand for these alternatives remains challenging. This is due to the conservatism of manufacturers and specifiers, many of which prefer to stick to old favourites like sapele, iroko and meranti, an attitude which sits uncomfortably with their demand for green certification.

Nevertheless, there is optimism that these various obstacles can be overcome. Many of those interviewed by TTJ stressed the need for marketing to place less emphasis on the species name and more on technical performance in specific applications. As one importer notes, it’s important to

encourage the building trade to “focus on performance and suitability, leaving timber suppliers to suggest the best species available to make the most of what the forest has to offer.”

Overall, the TTJ feature suggests that the days of large volumes of relatively low value tropical hardwood being sold as a commodity for use in utility joinery applications in Europe are well and truly over. But that’s not to say there isn’t a significant long-term role for tropical hardwoods in the European market. In the words of Chris Cox of UK hardwood importer Timbmet, the tropical timber market in Europe “will be a smaller market, but with more high value and with an increased focus on certified and engineered products to squeeze more value out of the legally available resource.”

Rougier revenues down in difficult economic environment

Rougier, one of the largest European-owned companies engaged in the tropical hardwood trade, generated €65.3 million in revenues during the first half of 2013, down 11.4% year-on-year. However, according to the company’s latest financial statement, trends improved in the second quarter of 2013 following a slowdown in the first quarter. Second quarter revenues were €34.6 million, down only 5.2% compared to the same period the previous year.

Rougier’s import and distribution operation in France recorded €16.8 million in half-year revenues, coming in 14.1% lower than the first half of 2012. This was due to difficult economic conditions and adverse weather conditions in France during the period. However, the second quarter of 2013 confirmed the start of a trend reversal in France, with sales rising 9.6% compared to the first quarter of 2013.

The Rougier Africa International branch recorded first-half revenues of €51.1 million, down 9.6% in relation to the first half of 2012. However, revenues in the second quarter of 2013 improved significantly compared to the previous quarter which, according to Rougier, “had been penalized by certain exceptional external factors”. First quarter revenues were undermined in Cameroon by new administrative procedures coming into force and in Gabon by lower levels of forest production. In both cases business picked up again significantly in the second quarter. However in Congo, changes to overland logistics due to the political situation in the Central African Republic have continued to limit shipments.

In the first half of 2013, Rougier’s log sales (21.5% of consolidated revenues at 30 June 2013) were down 31.8% compared to the same period in 2012. The turnaround in log exports from Cameroon and the upturn in local sales in Gabon in the second quarter of 2013 have yet to offset the downturn in sales in the first quarter.

Sawn timber sales (56.9% of consolidated revenues at 30 June 2013) in the first half of 2013 came in at a similar level to the same period in 2012. Despite the difficult general environment in Europe, and France in particular, business remained solid during the second quarter, with sequential sales growth of 3.4% versus the first quarter of 2013. Rougier note that “this good level of business has been driven by the diversification of the timber species offered and the expansion of the ranges of processed products”.

Plywood sales (21.6% of consolidated revenues at 30 June 2013) in the first half of 2013 were down 10.6% compared to the same period of 2012. Rougier state “this change reflects the low point

reached for business in a context marked by the slowdown in demand in Europe, competition from temperate woods and the temporary difficulties with sourcing quality logs for industrial facilities in Gabon". However, there were early sounds of a rebound in the second quarter, with sequential revenue growth of 4.6% compared with the first quarter of 2013".

Rougier suggest that their strategy to diversify into a wider range of world markets and to expand product ranges is beginning to pay off. It is enabling the Group to benefit from contrasting market trends in addition to offsetting the weak level of demand in the main European markets, particularly France. During the first half of the year, this strategy was reflected in the continued development of certified products in Northern Europe and America, as well as the upturn of certain markets in the Mediterranean Basin. However in Asia, the penetration of new markets and the increase in sales of primary-processed products have not yet offset the temporary reduction in log shipments to China.

While remaining cautious over the short term, in view of the persistent economic uncertainties that are continuing to affect current profitability, Rougier is moving forward with a strategy for responsible development, based on creating value through its forest concessions in Africa, industrializing its production and developing its ability to build a comprehensive range of certified products, particularly FSC.

Rougier is supporting this strategy with the continuing realignment of its activities in Gabon, the development of value-added products in Cameroon and Congo, as well as the launch of an African tropical timber sourcing and trading business.

Alongside this, Rougier is continuing to diversify its activities through its joint-venture subsidiary Lignafrica. The first harvests and log sales from Lignaforest's okoume forest plantations in Gabon should now be underway. A technical agreement has also been signed in Ivory Coast for the awarding of current or future planted areas.

Launch of Sustainable Tropical Timber Coalition

The EU Sustainable Tropical Timber Coalition (STTC) will launch on 6 November 2013 in Amsterdam. STTC is being convened by the Dutch Ministry of Economic Affairs and IDH, the Dutch sustainable trade initiative. Industry partners will include the European Timber Trade Federation and the Association Technique Internationale des Bois Tropicaux (ATIBT). FSC and PEFC are also partners. The Project Director is Hans Stout, former CEO of Precious Woods.

The EU STTC has a set a target for the sustainable management of up to 10 million hectares of tropical forest by 2015. The STTC will contribute to this aim by making the business case for certification more attractive for concession holders. According to STTC, the aim is "to accelerate demand for certified or licensed timber from sustainably managed tropical forests to the tipping point of 30% and to put a halt to declining use of tropical timber in front running countries in the EU, through creating momentum between legality and sustainability efforts".

According to STTC's advance publicity for the launch event: "despite large-scale efforts, such as 20 years of certification, 10 years of FLEGT and new legislations on illegal timber trade, deforestation is still happening at an alarming rate. Over the past 20 years only 6% of tropical forests are certified and 290 million hectares of forests have been destroyed and converted to non-forest uses. Of the

certified forests over 90% is in the northern hemisphere. Tropical timber is a high risk product and there is an urgent need for action. The EU market can influence forest management in the tropics if private, public and civil society players join forces”.

Private sector companies, local authorities and national governments are eligible to join STTC. Each participant defines an individual commitment and an action plan. Members of the STTC will benefit from co-funded technical support services, communication and PR, and a platform for aligning efforts.

The launch event will bring together the companies, trade organizations, NGO’s, and national and local government representatives from across Europe participating in the coalition. The event will feature speakers from the timber world and trade and general press are encouraged to attend.

For more information about STTC contact Marieke Abcouwer, IDH Program Manager Tropical Timber, at abcouwer@idhsustainabletrade.com. For more information about the launch event, email events@eusttc.com.

EU study confirms wood consumption has negligible impact on deforestation

The European Commission has just released a report entitled "Comprehensive analysis of the impact of EU consumption on deforestation". The implications of the report for EU policy in relation to tropical forests and the wider forest products sector could be profound.

Underlying the report seems to be a realisation that, despite years of political dialogue and funding of programs targeting deforestation, the problem remains profound. The report takes a good hard look at just how much, and in what ways, European consumption of resources is contributing to deforestation. By doing so, it aims to ensure development of policy and legislative measures that might actually make a difference.

The report is a serious piece of work, prepared with the support of the European Environment Council, the European Parliament, and the European Economic and Social Committee (although the EC is careful to point out that it is an independent study not necessarily representing their views).

The report is particularly significant because it considers, in exhaustive detail, the impact on deforestation of EU consumption of all products and services, not just those derived directly from forest management. It therefore captures, and puts into context, the large role of commercial cash crops in driving deforestation.

The report uses the concept of “embodied deforestation” to link deforestation to consumption. Essentially it quantifies the area of deforestation associated with the production of any good, commodity or service. The report combines a detailed review of data on the scale and location of deforestation with an analysis of the various drivers of deforestation around the world. It then determines the volume and direction of trade flows of all commodities linked to the deforestation process.

For all relevant traded commodities, the report considers both the direct (e.g. conversion of forest into agricultural land) and indirect impacts (e.g. pollution from mining activities leading to forest degradation and later forest conversion).

Working through the numbers, the report ends up attributing 200,000 hectares of total global deforestation of 232 million hectares between 1990 and 2008 to the EU's imports of wood products. This compares to 8.7 million hectares attributed to EU imports of agricultural cash crops and livestock products. The report also shows that worldwide only 33% of deforestation embodied in crops and only 8% of deforestation embodied in livestock products enters international markets.

The report confirms forcibly something that many people in the wood industry have long suspected, that policy measures in consuming countries targeting only the wood trade - whatever their merits in improving environmental and social performance in other areas - can play little or no role to prevent or slow deforestation. Measures targeting consumption of agricultural commodities, which have long been neglected, would be more effective. But even here the value of trade-based measures in isolation is constrained by the fact that a majority of product remains within the country of origin.

At the very least, the report might discourage European policy makers and environmentalists from presenting EUTR, forest certification and legality verification as a necessary and effective response to deforestation. Instead, they might be encouraged to present such mechanisms for what they are, as a demonstration of innovation and leadership by the wood industry with useful lessons that urgently need to be applied to other industrial sectors.

The report "The impact of EU consumption on deforestation" funded by the European Commission is at: <http://ec.europa.eu/environment/forests/pdf/1.%20Report%20analysis%20of%20impact.pdf>