

## **UNECE region experiences largest ever recorded fall in wood consumption**

In 2009, the UNECE region (which includes Europe, North America and the CIS) experienced an 11.6% fall in consumption of wood and paper products, the largest year-on-year drop since the oil crisis of the 1970s. This is a key conclusion of the Forest Products Annual Market Review 2009-2010 jointly published by the UNECE and FAO earlier this month (see <http://timber.unece.org/index.php?id=303>).

The main cause of the decline in consumption, after the 8.5% drop registered in 2008, was the continuing negative impact on the sector of the 2008-2009 global economic and financial crisis which has seen a severe downturn in Europe and a collapse in US housing starts. Housing starts in the Russian Federation also fell in 2009, the first such fall following a period of steady growth.

As a result, industrial roundwood harvests across the UNECE region fell in 2009 to only 880 million m<sup>3</sup>, their lowest level since UNECE/FAO began collecting market statistics in 1964 and the first time in more than 20 years that they have fallen significantly below 1 billion m<sup>3</sup>

### **European sawn hardwood consumption falls 9% in 2009**

In relation to the European hardwood market, the UNECE/FAO Review shows that consumption of sawn hardwood across Europe fell by over 9% in 2009. European hardwood consumption has been particularly affected by slow demand in the furniture and parquet industries and by large downturns in Italy, France and Germany.

European hardwood producers also suffered from severe weakness in major export markets last year. During 2009, the combination of the global economic downturn and the strength of the euro-dollar exchange contributed to a 26% fall in export sales of European hardwood sawn lumber. Particularly sharp falls in export sales were recorded by Germany and Belgium during 2009. Meanwhile, those countries like France, Croatia and the Ukraine that already suffered a major drop in exports the previous year, experienced further erosion of exports during 2009. Of all major producers, only Romania managed to maintain exports in 2009 at levels close to those of previous years. Significant depreciation of the Romanian currency in the wake of the financial crises helped boost Romanian exports last year.

European hardwood producers responded to low consumption by further reductions in production last year. Total European production of sawn hardwood fell by 5.7% to 12.9 million m<sup>3</sup> in 2009, a significant rise in Romanian production being insufficient to offset large declines in France and Germany.

### **Export-led recovery expected in 2010**

The UNECE/FAO Market Review suggests that although there have been patchy signs of recovery in European sawn hardwood demand during 2010, it is still too early to judge whether this is due to short-term restocking or reflects a sustained increase in consumption. The Review suggests that sawn hardwood production in Europe bottomed out before the end of 2009 and forecasts a rise of around 7% during 2010.

With domestic consumption weak, European hardwood sawmillers are increasingly looking to exploit recovering demand in East Asia and the Middle East, particularly against a background of continuing supply shortages elsewhere in the world. Sawn hardwood producers in the euro-zone are also seeing the benefits in export markets of a weaker euro-dollar exchange rate which has increased the competitiveness of their products. For example, according to EUWID, German exports of oak and beech sawn lumber increased by 18% and 12% in the first quarter of 2010 compared to the same quarter in 2009. Much of the increase in export demand came from China and other South East Asian markets

The Review notes that the economic downturn has impacted not just on the volume of the European hardwood trade, but also on the structure and direction of trade. For example, the recession has been accompanied by a very significant increase in just-in-time purchasing with very little speculative buying of product to hold in stock. The desire to reduce risks associated with stock-holding now overwhelms the increase in transport costs associated with smaller but more regular shipments. This factor combined with rising freight rates has placed a premium on locally produced hardwoods that are readily available in commercial volumes. Oak, in particular, has been consolidating its dominant market position in European finishing sectors during the recession while tropical hardwoods have been losing share due to limited availability and development of innovative new products for external applications

### **Sawn hardwood production declines in Russia despite log export taxes**

According to the UNECE/FAO Review, production of sawn hardwood in the Russian Federation declined from 2.04 million m<sup>3</sup> in 2008 to 1.91 million m<sup>3</sup> in 2009. Sawn hardwood exports from the Russian Federation remained stable at a low level of around 375,000 m<sup>3</sup>. The implication is that, once again, reduced global demand for sawn hardwood negatively affected the efforts of the Russian government to reduce dependence on log exports and expand the domestic wood processing industry. Several investment projects have been postponed as a result. The Russian government also decided to delay the planned rise in log export duties from €15/m<sup>3</sup> to €50/m<sup>3</sup>, originally scheduled to be implemented from 1 January 2010, by a further 12 months.

Demand for sawn hardwoods from overseas within Russia itself shows little consistency, with domestic resources, limited secondary processing capacity, and a lack of organisation in end-user sectors playing the key roles. As a result, imports of sawn hardwoods into Russia were very low once again last year, estimated by the UNECE/FAO Review at no more than 118,000 m<sup>3</sup>.

### **Progress in forest certification**

The UNECE/FAO Review also includes a comprehensive analysis of markets for certified wood products. It notes that by May 2010, the global area of PEFC and FSC certified forest reached 355 million hectares, 8% up on May 2009, with most of the recent growth in North America and Russia.

Chain of custody (CoC) certification also accelerated over the past year indicating strong trade interest in certification as a tool to demonstrate high environmental performance and to differentiate products in a depressed marketplace. Between

January 2009 and May 2010, the total number of PEFC and FSC CoC certificates issued worldwide increased by 88% to stand at 23,717. The USA, UK, Germany, France, Canada and Netherlands continue to be the leading countries in terms of numbers of CoC certificates issued. All these countries have experienced rapid growth in CoC certification over the last 18 months, with the pace of uptake in the USA has been particularly dramatic. The report also notes signs that CoC certification is beginning to take off in the Hong Kong PoC and China.

The report identifies the commitment of large publishers and the other customers of the paper and packaging sectors as the most significant factor driving uptake of forest and CoC certification. However, for the solid wood sector, public sector procurement policies, green building initiatives and legislation in the US and EU to prevent illegal logging are all becoming more significant demand drivers for certified forest products.

Of particular relevance to tropical wood, the report notes that the EU Forest Law Enforcement Governance and Trade Voluntary Partnership Agreements (FLEGT VPAs) being negotiated with tropical forest countries include provisions for comprehensive legality verification and chain of custody systems that should provide a foundation for independent forest certification. By May 2010, the EU had finalised VPAs with Ghana, the Congo Republic and Cameroon.

Furthermore, the COP 15 of the UN Climate Change Convention in Copenhagen in December 2009 made progress on Reduced Emissions from Deforestation and Degradation (REDD) which implies an important role for independent certification mechanisms that not only monitor forest carbon sequestration but also ensure that other environmental and social values are safeguarded through sustainable forest management.

The certification systems are clearly alive to this possibility. For example, in April 2010 FSC initiated the preparatory phase of a five-year project, 50% funded by the Global Environment facility through UNEP, designed to test FSC forest management certification for ecosystem services including carbon sequestration, biodiversity conservation, watershed protection and recreational uses.

Despite the progress and clear potential for future growth, the report also highlights continuing obstacles and emerging challenges for forest certification. The report notes that expansion of forest certification in tropical developing countries, a process driven mainly by demand for certified products in the EU and US, is still proceeding only slowly.

Certified forest area in tropical countries with the sole exception of Malaysia, is dominated by FSC. In April 2010, only around 13% (16.81 million hectares) of FSC certified forest was in tropical or sub-tropical regions. The greatest increases in FSC certified forest area in tropical countries in recent times have been in Gabon and the Congo Republic, although Brazil still remains host to the largest area. Between January 2009 and May 2010, the area of certified tropical forest actually declined in Bolivia and Cameroon.

To date there has been little progress to increase the area of PEFC certified forest land in the tropics. National systems in Malaysia, Gabon and Brazil all provide scope for certification of tropical forests and have already been endorsed by PEFC. However in May 2010, only 210,000 hectares of natural tropical forest was identified as PEFC certified in the PEFC international database, all in Malaysia.

Overcoming the remaining obstacles to more widespread uptake of certification is likely to necessitate increased levels of government and industry support and on the emergence of more consistent demand for certified products, all of which might be threatened in this post-recession period of austerity. The UNECE Review suggests that *"increased forest certification is hindered by the 2009 credit crunch and associated economic downturn as well as by current and future public sector support which could be constrained by governments' record budget deficits. In 2010 economic constraints are impacting the private sector where certificate holders are facing financial challenges which could cause existing certificates to be discontinued at the time of annual audits or at the five-year anniversary date"*.

On the other hand, other trends and policy measures suggest that market demand for certification will continue to rise. The recent agreement by the European Parliament and European Council to introduce legislation imposing mandatory "due diligence" requirements on all European wood importers has real potential to alter the whole dynamics of the European wood market. It is likely to create significant new European demand for independent certification of wood products from countries and regions where there is perceived to be a "high risk" of illegal logging.

### **European plywood consumption down a third in 2009**

The European Federation of the Plywood Industry (FEIC) reports that plywood production in the 21 countries with FEIC members reached only 2.986 million m<sup>3</sup> in 2009, down 25% from 3.979 million the previous year. FEIC expects production to increase by 10% this year to around 3.316 million m<sup>3</sup>. In 2009, plywood imports by FEIC member countries fell 27% to 2.763 million m<sup>3</sup>, while exports fell 20.9% to 2.547 million m<sup>3</sup>. Overall plywood consumption therefore fell 32.1% to only 3 million m<sup>3</sup> compared to 4.041 million m<sup>3</sup> the previous year.

### **UK think-tank reports strong international progress to tackle illegal logging**

Chatham House, the UK-based policy forum, has launched a new report which suggests that while illegal logging remains a major global problem, the impact of the political response has been considerable.

The report "Illegal Logging and Related Trade: Indicators of the Global Response" examines and analyses efforts in the past decade to control illegal logging in nations that consume, produce and process wood and wood products. The report assesses the response and progress in 12 countries – five producer countries (Brazil, Cameroon, Ghana, Indonesia and Malaysia), two processing countries (China and Vietnam) and five consumer countries (Japan, the USA, the UK, France and the Netherlands).

In addition to measuring the extent to which illegal logging and associated trade has changed over time, the study examines how attention to the problem has changed and

how governments and the private sector have responded. Various indicators and means of verification have been designed, tested and used by Chatham House to measure the response in five timber-producing countries, five consuming countries, and two countries whose timber trade is largely based on processing imported raw material for export.

The study finds that Illegal logging is estimated to have fallen during the last decade by 50 per cent in Cameroon, by between 50 and 75 per cent in the Brazilian Amazon, and by 75 per cent in Indonesia, while imports of illegally sourced wood to the seven consumer and processing countries studied are down 30 per cent from their peak.

The report is available at:

<http://illegal-logging.info/uploads/CHillegalloggingpaperwebready1.pdf>