

Economic conditions remain very challenging

Much of the economic news in Europe in recent weeks has focused on the challenges faced by Greece in its struggle to finance huge debts, a crisis threatening the credibility of the whole euro-zone financial system of which Greece forms a part.

During February, European leaders signed an agreement supporting Greece which they hoped would draw a line under this issue. But no sooner had the ink dried on the agreement when more bad news arrived in the form of figures indicating that GDP in the 16-country currency zone rose by just 0.1% in the three months to the end of December compared with the previous quarter.

The only reason for any improvement in GDP at the end of last year was largely down to France, where an increase in consumer spending lifted the economy by 0.6%. France bucked the downward trend partly because its state plays a dominant role in the economy. Government spending rose by 0.7% in the fourth quarter, after similar increases in the previous two quarters.

It's also because France's large and reasonably self-contained economy has been less exposed to the financial and property-market crises of its neighbours, notably Spain and the UK. Nevertheless, the budget deficit in France was still a hefty 8% of GDP in 2010, placing strict limits on the public sector's ability to support the economy in the absence of stronger private consumption.

Elsewhere in Europe, GDP during the last quarter of 2010 was either flat—as in Germany—or falling, as in the UK, Italy and Spain. A key problem throughout Europe is that consumers are not spending enough. In the euro-zone, this problem is compounded by the strong currency which makes it difficult for manufacturers to boost sales in other parts of the world.

Weak growth in exports is a particular problem in Germany where manufacturers tend to be more heavily dependent on export markets. Germany does at least have stronger domestic consumption than most other European countries. German consumers were thriftier during the boom years and are now less indebted. Nevertheless, it's possible that cold weather could mean that GDP in Germany actually falls in the first quarter of 2010.

Prospects for improved consumption are very weak in other European countries. Spain was once a rich source of internal euro-area demand but its consumers are now weighed down by debts accumulated during a long housing boom.

Recent data from the UK indicates that January's cold snap had a big, adverse impact on consumption, particularly in end markets for timber and wood products. Both supply and demand in the housing market came almost to a standstill, while retail sales of furniture and DIY materials took a hit as snowed-in consumers put off shopping for non-essentials.

But in the UK there are at least some signs of rising confidence in future market prospects. 29% of British furniture makers polled by the Confederation of British Industry in January expected the volume of new orders to increase over the coming

three months, although 6% expect output to fall. Twelve per cent of furniture makers are more confident about the business outlook than they were three months ago; in October 2009 the figure was -7%. Confidence among wood and wood product producers, apart from furniture manufacturers, was sharply higher than in the autumn, when 32% of firms said they were less optimistic than in the previous quarter; the corresponding figure on optimism now stands at +14%.

Lack of hardwood supply encouraged some speculative purchasing

The generally poor economic forecast is reflected in commentary from European hardwood lumber importers in recent days. While most reckon the worst of the downturn might be over, they are still forecasting tough trading conditions until at least the end of this year.

Short supplies, lengthening lead times and rising prices in all the major hardwood producing regions have encouraged some speculative purchasing of hardwood lumber by a few of the larger importers. Bigger importers with access to finance that have been able to build up stock now find themselves in a reasonably strong position, particularly as they can offer mixed loads for quick delivery to the smaller distributors.

On the other hand, some of the larger traders and importers are also suffering severely from their relatively high overheads and are looking for ways to cut these, for example by shaving staff in parts of their sales networks.

European CIF prices for many tropical hardwoods have been rising due both to tightening availability and to rising freight rates. These trends are set to continue. Most mills are still producing at well below capacity and lack raw material and other resources required to quickly increase supply.

The shipping lines also seem determined to keep pushing rates upwards. As a result some Asian shippers are now incorporating freight clauses into their contracts to avoid the need for new price negotiations. Some are even considering only quoting on an FOB basis.

Euro CIF prices for sapele, sipo and iroko lumber are now around 10% higher than at the end of 2009. US\$ CIF prices for the various meranti lumber types and for bangkirai decking profiles have also experienced around a 10% rise over the same period. Replacement prices for African whitewood species like ayous and wawa have been more stable.

Despite some increased forward buying, hardwood stocks across Europe remain generally very low. The long lead times between ordering and despatch has meant that gaps in stocks have been generally widening. Lead times for African hardwoods are now up to 6 months, with no guarantee that products will arrive or that prices will be adhered to. As a result the intense competition between importers that dampened prices in 2009 for onward sales of existing landed stock of some species, notably sapele, is now less aggressive.

Only the low level of manufacturing and consumption is preventing lack of supply becoming a more critical problem. The fear is that when manufacturing does at last begin to pick up, the inability of tropical producers to respond quickly and to deliver more wood to market may encourage manufacturers to switch to alternative more readily available products.

Gabon log export ban impacts European okoume plywood market

According to EUWID, the European market for okoume plywood has been slow during the last two months. Merchants are reported to be carrying heavy stocks and enquiry levels are low. The okoume plywood market, which is focused heavily on France with lesser volumes destined for the Netherlands and southern Europe, has been badly affected by weak construction activity over the winter months. Nevertheless there are expectations that improved spring weather will improve demand in April and May.

A critical factor affecting both supply and demand of okoume plywood in recent months has been the uncertainty surrounding Gabon's log export regulations. According to EUWID, a surge in buying by European merchants occurred at the end of 2009 due to expectations that the log export ban - scheduled originally for 1 January this year - would lead to supply disruption. French manufacturers received an upsurge in orders at that time. Meanwhile mills in Gabon also reported an increase in their European customer base.

However EUWID report that the upsurge in demand from European merchants has tailed away this year. The announcement that log exports would continue until 30 April 2010 under existing closed contracts (or through the SNBG state agency) was sufficient to reassure merchants that supplies would not suffer immediate disruption.

Now EUWID, drawing on Gabon newspaper articles, is suggesting that Gabon may now introduce a staggered reduction in log exports giving the domestic wood industry more time to build up sufficient processing capacity. Under the proposal, Gabon's forestry and timber industry would be required to process 60% of logs harvested in 2010, rising to 75% in 2011 and 80% in 2012. A maximum log export quota of 1.2 million m³ would also be set for this year, falling to 1 million m³ in 2011 and 800,000 m³ in 2010.

It remains to be seen how the European market will react to these changing circumstances. Okoume plywood imported both from Gabon and manufactured in France from imported logs, has been a standard reference product on the French market for many years. It remains popular at the high end of the French and Dutch markets, valued for its consistent quality and its adaptability to a wide range of end-uses. However it has also been losing market share, mainly because of the introduction of much cheaper alternative plywood (notably from China) and other panel products.

Because of declining consumption and a big reduction in European okoume manufacturing capacity in recent years, the significance of Gabon's log export ban is considerably less significant to the European market now than it would have been only a few years ago. The volume of okoume plywood manufactured in Europe is

estimated to have declined from around 300,000 m³ a decade ago to only 95,000 m³ in 2008.

Meanwhile, mills in Gabon have not yet made much headway to penetrate the European plywood market, volumes rising from only around 20,000m³ in 2003 to 45,000m³ in 2008 (with much of this volume destined for Italy rather than France). To date much more progress has been made by Gabon to develop European export markets for sawn lumber. European imports of sawn lumber from Gabon increased from only 20,000m³ in 2003 to 94,000 m³ in 2008.

Of course with the large French companies with plywood capacity in Gabon now pushing this product onto the European market, there is every prospect of Gabon now becoming a more significant plywood supplier to the European market. But there will be significant hurdles to overcome, of which developing sufficient capacity in Gabon will be only the first. Other hurdles will be the need to ensure that product manufactured in Gabon continues to meet tough quality and environmental standards, that products of consistent quality and price are available promptly, and that marketing efforts are stepped up to counter the mounting threat from alternative materials.

Tropical hardwood already faces significant challenges in the European market due to the continuing fashion away from tropical redwoods and the rising interest in environmental issues allied to misconceptions about the link between tropical hardwoods and deforestation.

John Guerin is European commercial director for Weyerhaeuser and manages strategy and commercial activities for Weyerhaeuser South America across the European continent. particularly as only 1% of tropical forests are certified by third parties as being sustainably managed.

However, in the face of this apparent adversity, the tropical plywood business provides a good example of how our industry has embraced change and has adapted to environmental and economic pressures. Whereas first West Africa and later the Far East were the 'bread basket' for tropical plywood throughout most of the 20th century, the declining availability of logs and, in some cases, environmental pressures have brought China and South America to the fore as sources of 'tropical' plywood alternatives over the past decade.

To date, it is fair to say that these new sources provided part of the longer-term solution in terms of an alternative supply base. However, they fall short on widespread technical and environment credibility and, more critically from a commercial perspective, ongoing supply availability. This is now changing in South America, where companies like Weyerhaeuser are leading by example and driving change that will provide products to meet 21st century requirements, with the establishment of effective timberlands strategies and some powerful product innovation.

Growing the future

Weyerhaeuser and a handful of other companies have successfully implemented strong timberlands strategies, facilitating the development of sustainable alternatives to traditional products and pioneering innovations that will set the industry up for continued success through 2016 and beyond.

For example, in Uruguay, we have established a sustainably managed timberlands base and, equally importantly, invested in long-term market research. This will help ensure that timberland resources are managed and developed to provide products global markets require. However, it also means thinking about market requirements 15-20 years ahead and adapting the management of the forests accordingly (not easy in a global economic crisis).

Thanks to this product innovation, plantation-grown, eucalyptus-based plywood from Uruguay and solid timber from Brazil are already being used as tropical alternatives. Proven to meet all the technical and quality requirements demanded by global markets, these products are readily adopted by sustainably-minded distributors and end users, and through continued use and widespread adoption, are expected to become mainstream alternatives by 2016.

Are plantations the answer?

Sustainably managed forests and, more specifically, plantation forests, such as those in Uruguay, can play a very important role in meeting today's sustainable supply challenge. From a quality perspective, wood properties can be managed to achieve uniformity in terms of species and size – helping to increase processing and manufacturing efficiency. Where sustainability is concerned, by producing wood more efficiently, plantation forests create the option for natural forests to be managed for other forest values.

In Uruguay for example, the soils and climate of the designated forestry zones are capable of supporting superior tree growth, up to 15 times faster than native tropical species. This rapid growth can produce more wood in a shorter period of time, which requires less land to produce a specified amount of wood.

Securing success

With strong operations already established, South America will be a major player in the coming decades, equipped to provide an array of credible and sustainable alternatives to traditional products in to the global market place.

What may come as a surprise to some is that South America's tropical alternatives are also set to be widely consumed in local markets, driven by very strong emerging economies. For example, in addition to a population fast approaching 200 million people, by 2016 Brazil will have played host to both the Olympic Games and the World Cup – requiring enormous infrastructure development. Coupled with South America's growing middle class and large housing deficit, all signs point to there being a sustained construction boom across the region, thus allowing South America to become a major consumer of its own products.

Ultimately, our industry is in charge of its commercial destiny. That's why, today, more than ever, innovation is the key to success. However, long-term success will depend on a major shift towards strategies that are sustainable and where intensively

managing the resource will help ensure the full mix of end uses are maximised. South America is fast becoming a best practice example of this, and is definitely one to watch during the coming years.

Italy-based Alpi Group has expanded its FSC chain of custody certification to include African ayous. The firm uses ayous and poplar, for which it already had FSC certification, to produce Alpilignum veneers, its best-known decorative wood brand. Last year Alpi received OLB certification to demonstrate that its African purchases were obtained legally. We have just commenced a collaboration with the French agency ONF for the purpose of initiating an innovative scientific project that will involve cultivating ayous on 1,000ha of land,” said Luciano Pradal, director of the group’s companies operating in Africa.

- As noted in our last email, the EU Council reached final agreement on its amendments to the draft ‘due diligence’ regulation on 29 January; the text is now available here. The Council and the European Parliament, which passed its own amendments to the original proposal last year, will now attempt to reach agreement on the final version of the regulation.

Council resolution: <http://www.illegal-logging.info/uploads/st05885re04.en10.pdf>
Parliament's proposed amendments: <http://www.illegal-logging.info/uploads/EPDDamendmentsA601152009EN1.pdf>

Website monitoring progress of the legislation:
<http://www.europarl.europa.eu/oeil/file.jsp?id=5704232¬iceType=null&language=en>

- FERN has published a Forest Watch Special Report, offering a brief overview of VPAs and an update on the status of negotiations with Ghana, Republic of Congo, Cameroon, Malaysia, Central African Republic, Liberia, Indonesia, Gabon and Vietnam. <http://www.illegal-logging.info/uploads/VPAupdate.pdf>

The Wageningen University and Research Centre (Wageningen UR) in the Netherlands has just published a paper assessing the progress made by forest management certification in the tropics. The study focuses FSC certification of natural tropical forest. In the tropics there are 10.9 million ha certified under the FSC scheme, of which 74% correspond to managed tropical natural forests. There are 119 FSC certified FMU, most of them being located in the Americas. About 28% of the certified area is in Bolivia, 16% in Brazil, and another 22% is distributed over 16 different countries. The increase in certified area is faster among FMU that are owned by individuals than among certified areas that are owned by communities or the state. The report notes that stronger incentives are needed to increase the total area of certified tropical forest, particularly for local communities or indigenous groups. The results indicate strongly that forest management certification improves the working standards of FMU in the tropics, with about 98% of problems raised in Corrective Action Requests by certification bodies solved within the first five years of certification. The full report is available at: <http://www.illegal-logging.info/uploads/March10Assessingtheprogressforestmgtintropics.pdf>