European market report – 11 March 2009

Still no change in depressed market conditions

There is little change in the European market for tropical sawn lumber. There is still very little forward demand for sapele, the main commodity species, as large importers in the UK and the Benelux countries continue to off-load stocks at below replacement value. Due to very slim margins, there is very limited incentive for importers to engage in trade in this species – as one major UK importer commented recently “I haven’t made any money on sapele in over a year”. He noted that the same could be said of sipo, although a few other lower volume species have been performing a little better, for example iroko and framire.

Confidence has been obliterated throughout a large swathe of the European hardwood importing trade. This combined with continuing lack of access to credit and insurance cover has meant that the focus is still on reducing stocks – despite the clear evidence that supply further down the pipeline has been greatly reduced.

There is however a feeling that prices are now very close to the floor, if not already there. A frequent comment by European agents is that with the so little buying for so long, forward prices could rise quite dramatically in the second half of the year if importers do at last turn their attention to replenishing their depleted stocks.

Ecobuild – tropical hardwood left on the bench while other timbers score

The Ecobuild event held in Earl’s Court, London, from 3-5 March reaffirmed that environmental issues are likely to play a key role in the UK construction sector despite the economic recession. This year’s show featured 800 suppliers from across Europe, a very impressive increase on last year’s 500 exhibitors given the current climate. Judging from the crowds, the show is likely to have achieved the organisers’ pre-show estimate of over 30,000 visitors, breaking last year’s record of 26,000.

High levels of interest in the show reflects both the strong focus on sustainability and green issues that now pervades the UK architectural and design professions together with a host of recent UK government initiatives aimed at boosting green performance in the construction sector. Behind many of these initiatives lies rising concern for energy efficiency as the UK – like all other EU countries - struggles to reduce carbon emissions in line with international Kyoto commitments. Conformance to the UK government’s Code for Sustainable Homes (CSH) became mandatory for all UK housing developments in May 2008. CSH sets minimum standards for energy efficiency and provides UK homebuyers with information about the environmental impact of their new home.

The timber industry was strongly represented, participation being boosted by the Timber Works pavilion, an area dedicated to first-time exhibitors and supported by various UK timber trade associations. The clear message coming across from the timber sector was that increased use of timber can make a major contribution to sustainable construction. A huge range of highly technically advanced wood products and wood-based construction techniques were on show, driving home the message that timber is the material best placed to meet the challenges of 21st century construction – that is combining rapid and cost effective building methods, lasting technical performance and beautiful structures with unbeatable environmental credentials.

One particular highlight was the Eco house, a family home built in wood to very high energy and environmental standards in the space of only one week in 2008 during a live edition of Grand Designs, a hugely popular UK prime time TV show. Other highlights were ZedFactory's timber frame Zero Carbon House; KLH's Carbon Neutral Construction method comprising a honey-comb of solid timber panels recently used for construction of a 9-storey apartment block in London in the space of only 29 weeks; and JELD-WEN's launch of DreamVu, the UK's first volume made timber window to achieve a U-value of 0.7-1.0W/m2K.

The strongest hardwood presence was the American Hardwood Export Council (AHEC) with a large stand featuring a new pavilion in tulipwood designed by a leading UK architect. The pavilion demonstrates the beauty and versatility of this abundant American species. AHEC has been working with Osmose, a UK based preservative treatment company to extend utility of the species to external applications.

Other materials closing the green gap on timber

While timber maintains a strong reputation as the green material of choice, the Ecobuild show also emphasised that other material sectors are intent on closing the gap and are now scoring green points.

The plastics industry highlighted the recent achievement of an A-rating for uPVC windows in the Building Research Establishment (BRE) Green Guide, now a key reference for green procurement in the UK construction sector as it is integrated into the CSH. The A-rating means that uPVC windows are now regarded by BRE as just as environmentally-friendly as wood windows. BRE justified the A-rating at an Ecobuild side-event, pointing to the efforts of the plastics industry to recycle a higher proportion of windows at the end of their life-cycle. However, participants at the event also noted that it is difficult to judge the objectivity of BRE's rating as their methodology lacks transparency and the baseline data is not publicly available.

BRE were also playing a leading role at Ecobuild to prop up the dubious environmental claims of the UK aggregates industry – which like the plastics industry has set its sights on undermining timber's lead on sustainability issues. The UK aggregates industry promoted itself at Ecobuild as "the Responsible Source", a claim largely dependent on their anticipated conformance to a new BRE "Responsible Sourcing Standard". The process to develop the BRE standard, which was chaired by Tarmac – a large UK aggregates supplier - was rushed through despite stiff opposition from the timber sector to fit with the procurement timeline for the London 2012 Olympics (which requires that all materials be "responsibly sourced"). The BRE standard is now being used by the aggregates sector as a tool to neutralise the wood industry's sustainable source message.

Tropical hardwoods must be FSC certified

Ecobuild's message to the tropical hardwood sector was "if you want to participate in this market, make sure you are FSC-certified – and even then watch your back". This is well illustrated by the Wood Window Alliance which led the UK wood window sector marketing drive at the show. The wood window sector should be strong marketing territory for tropical hardwood, these being the only wood products able to perform well in exterior applications without the need for fossil-fuel intensive chemical or heat treatments. But the message from the Wood Window Alliance was a negative one. Rather than seeking to defend the use of tropical wood, the Alliance's approach was to deny their continuing role in the UK industry.

The Alliance's "Specifiers Guide to Timber Windows" which featured at Ecobuild suggests that "tropical deforestation is a major contributor to CO2 emissions and global warming" without bothering to qualify this with any statement about the distinction between forest conversion and sustainable tropical forest management. This error is then compounded in the Guide with the inaccurate observation that "timber from tropical forests is rarely, if ever, used by UK wood window manufacturers" – a fact easy to disprove by a short conversation with any one of many wood window manufacturers at Ecobuild who confirmed their continuing use of sapele, meranti and a range of FSC certified tropical hardwoods.

Many window companies participating in the show – which included just about all the major UK manufacturers - did confirm that that they now require independent certification, preferably FSC, of all their wood supplies. They have been driven to this by the UK government's commitment to ensure that all their wood is "legal and sustainable" and by internal management issues which mean that if you supply certified wood to one major customer and certified raw material is sufficiently available, it is simpler to switch over to 100% certified production.

Many window manufacturers noted that while they still supply small volumes of sapele and meranti product, they have also made a concerted effort to transfer to non-tropical substitutes that are more readily available FSC certified. These substitutes included plantation grown eucalyptus from South America and South Africa, and a range of heat-treated softwood products from Scandinavia and New Zealand. While the latter are still available only in relatively small quantities, prices are competitive against tropical hardwoods, particularly as all are provided FSC certified as standard. Their performance is also extremely strong – one manufacturer noted that he is willing to offer a 50-year guarantee for his heat-treated softwood product, compared with a 40 year guarantee for his tropical hardwood products.

Heat-treated pine products were also providing tropical hardwoods a run for their money in other sectors. The number of companies offering these products as alternatives to tropical decking, flooring, cladding, and other components is mushrooming. All the major UK hardwood importers are now diversifying into these products. Examples of heat treated branded products include Accoya, Lignia, and Lunawood.

The flooring products on show highlighted the continuing strength of the fashion for oak – a fashion that the manufacturers are building on and extending by offering oak products in huge diversity of finishes and stains. They are responding to a fashion for darker colours not so much by procuring tropical hardwoods, but rather by steaming or staining oak to a colour that is almost black. This trend is so entrenched that one European flooring supplier at the show said his company is now sourcing product manufactured from German oak in Indonesia.

Mounting competition from non-wood substitutes

Furthermore competition from other non-wood sectors is mounting. The plastics industry seemed to have particularly set it sights on the tropical hardwood sector, developing look-alike products for exterior applications, such as garden furniture and hoarding. A company called Ecogenic was promoting a new product manufactured entirely from recycled plastic that would replace tropical hardwood plywood in nonstructural exterior applications (notably hoardings). Two plants each capable of churning out 400,000 panels of the new product each year will be set up in the UK during 2009.

Particularly worrying for the tropical sector, is that these competitors seemed to be playing to a receptive audience. There was a strong feeling amongst architects, designers and specifiers, that the key environmental issue at present is the "carbon footprint". This was linked to a preference for any product "locally produced" and not perceived to be transported over long distances. It also contributed to a strong aversion to tropical hardwoods amongst many people contacted at the show. There was a simplistic assumption that tropical hardwoods are closely associated with deforestation and therefore linked to increased emissions.

There seemed to be nobody at the show willing to explain the inherently strong environmental credentials of sustainably produced tropical hardwoods. Even those marketing FSC certified tropical hardwoods appeared determined to muddy the message. The headline marketing message of one flooring supplier specialising in FSC certified products was "Did you know that the UK is the second largest importer of illegally felled timber in the EU".

People like tropical hardwoods – they just don't know it

There were a few crumbs of comfort for the tropical wood sector at Eco-build if you were willing to look hard enough. Jeld Wen, the UK's largest joinery supplier by a significant margin, was displaying some high quality Malaysian-manufactured windows and doors. The Jeld Wen representatives, when asked, were very ready to comment on their Malaysian suppliers' reliability and quality. The only problem was that the doors, while backed by a meranti engineered wood product, were faced with American cherry, while the meranti window frames were painted clear white. It seems that, as things stand, many UK buyers are happy to exploit the superior technical attributes of tropical hardwoods, just as long as they remain hidden.

European Parliament pass their verdict on proposed illegal logging legislation

Moves to introduce new legislation into the EU that would require forest products operators to take steps to minimise the threat of illegal wood entering supply chains are at a critical phase. The European Parliament Committees responsible for the considering and amending the draft legislation before voting by a full plenary session of Parliament, due on 23 April, have just passed their verdict, proposing substantial amendments.

One view of the amendments proposed by the Parliamentary Committees was expressed by WWF and Greenpeace, who immediately welcomed the move, suggesting the amendments represent a significant strengthening of the original proposal. Greenpeace said that the proposed changes would "make the timber industry accountable and set up an effective system to control the legal origin of wood". Many of the amendments originated from Caroline Lucas, MEP and leader of the EU's Green Party, so it is perhaps not so surprising that green campaigning groups are so supportive.

But according to another view, the Parliamentary Committees were poorly advised, failed to grasp the underlying concept behind the original proposal, and as a result missed a real opportunity to implement more rational improvements. The amendments proposed by the Committees effectively turn a fairly moderate proposal to extend the practice of due diligence amongst operators that “first place” timber on the EU market into a system of rigorous state control over the entire European wood supply chain.

The Parliament’s amended text proposes that the central objective of the EC’s original proposed legislation be changed so that all forest products operators in the EU would be placed under an obligation to prove the legality of the wood they deal in. The intent of the original proposal – that extra requirements for traceability and certification would only be required where there is a high risk of illegal wood entering supply chains – would be lost. The Parliament’s amended text might be costly to implement and require an army of technically qualified chain of custody personnel that is currently absent. The suggested measures may also be regarded as poorly targeted - wasting time and resources on tracking wood from all areas when it might be better to focus on a limited number of high risk supply chains.

Whether or not the draft legislation is eventually adopted, and the form it finally takes, remains to be seen. The legislation is being considered under the EU’s convoluted “co-decision” procedures. These require that the legislation must be agreed both by the European Parliament (directly elected by the EU population) and the Council of Ministers (representing the EU Member State governments). It is usual practice under this procedure for the Parliament to propose a long “shopping list” of desired outcomes, which is then adapted into a more realistic compromise framework following input from the Council of Ministers – the members of which actually have to take responsibility for implementing the legislation.