

## **EU hardwood plywood market**

EU imports of Chinese plywood have risen dramatically over the last 2 years, driven by highly competitive pricing. However European importers report that supply problems have been mounting and prices rising from China in recent months.

Some causes of tightening supply and rising prices for Chinese plywood may be short term. For example the glues used for plywood manufacture react badly to the cold and damp conditions that prevail in China during the winter months, so there is less product of a quality suitable for export to the European market. In addition, the recent strengthening of the Chinese yuan against the dollar has been eroding China's price competitiveness on the European market.

But EU importers also suggest that there are structural changes underway implying a slowdown in the rate of growth of European imports of plywood from China. The Chinese government has progressively removed the export credits available to plywood manufacturers, removing one significant source of competitive advantage. At the same time labour, energy and raw material costs have been rising.

Furthermore, with numerous smaller plywood manufacturers, often with limited market knowledge, trying to sell product into the European market, there have been many questions raised over the quality of supply. There is a feeling amongst European importers that Chinese plywood supply is likely now to consolidate around a few of the larger exporting companies that are well informed of European market requirements and that can guarantee a high quality reliable service.

Malaysia is likely to be a major beneficiary of emerging supply problems from China. Malaysia's share of the European hardwood plywood market has been rising, boosted by supply problems in Indonesia. Malaysia has also benefited in the European market from its ability to supply significant volumes of FSC and MTCC certified plywood products. The large distributors and merchants, which account for around 20% of all plywood sales in the leading UK market, are now very committed to sourcing certified product. This reflects the UK government's timber procurement policy and the merchant's desire to gain access to high profile projects, notably the developments for the London Olympics.

Malaysian shippers are now supplying significant volumes of FSC certified plywood into the UK combining a New Zealand radiata pine core with a tropical hardwood face. Although this product is not as durable as tropical hardwood plywood throughout, it is being supplied as a "CE2+" product, meaning it is tested and fit for structural use. It therefore meets the requirements for a large proportion of UK applications. A large section of the UK hardwood plywood market now seems content to accept the lower performance associated with a softwood core.

Availability of MTCC certified plywood from Malaysia has also been improving in recent times and can be obtained by European importers on payment of a small premium of perhaps 2% on the uncertified price.

However, it would be premature to predict any significant reduction in the volume of Chinese plywood imported into the EU. The price advantages of Chinese plywood remain significant, while Chinese manufacturers are demonstrating a willingness and ability to adapt to European market demands. UK delivered prices for Chinese tropical hardwood plywood are still 15%-20% cheaper than comparable Malaysian product. And at least one area of uncertainty hanging over the European trade in

Chinese plywood market has been lifted in recent weeks. The European Commission has announced it does not intend to extend duties on imports of Chinese plywood. According to the EC Directorate General for Trade, the original request by the European Plywood Industry Federation (FEIC) for a widening of the duties to cover other tropical hardwood species in addition to okoume had been withdrawn allowing the EC's investigation to be terminated.

Chinese plywood manufacturers are also beginning to respond to Europe's emerging demand for environmentally certified product. A few operators are now offering small volumes of FSC certified plywood from China.

Indonesian plywood has suffered significantly in the EU market from its inability to compete on price with China or to offer significant volumes of "legally verified" product to the larger distributors at prices comparable to Malaysia. This fact has been compounded by tightening log supplies in Indonesia and the imposition of a 7% GSP duty on Indonesian plywood in the EU market. Malaysian shippers are only subject to a 3.5% duty.

Brazil remains an important player in the European hardwood plywood sector, offering comparable products to Malaysia at similar prices. However Brazil, like Indonesia, has suffered severely from Chinese competition. Furthermore, the Brazilian hardwood plywood sector has been beset in recent times by dramatic rises in production costs and a strengthening currency which has undermined export competitiveness.

Importers and plywood traders report that underlying consumption of tropical hardwood plywood in the European market has remained sluggish at the start of 2008, a reflection of slowing activity in the construction sector in several key markets, including the UK and Germany.

Meanwhile, after a period of tight supply in the first half of 2007, stocks of okoume plywood on the European continent gradually improved during the second half of last year. This reflected an improvement in the log supply situation at a time when European consumption was easing, particularly in the Netherlands and France. Traders report that the European market for okoume plywood is now reasonably well balanced and prices are stable. Nevertheless there are uncertainties, particularly over the long term availability of okoume logs to European manufacturers. While those manufacturers with their own forest concessions can be reasonably confident about future log supplies, those that have to compete for logs on the open market with Chinese buyers have been struggling.

Another factor that will impact on Europe's hardwood plywood market during 2008 is a rise in regional production capacity for birch plywood. Investments in this new capacity followed on from short-falls in European supply of birch plywood during 2006 and 2007. A lot of inward investment has focused on western Russia and has flowed both from domestic manufacturers and from European companies. For example, the Moscow-based Sveza group, one of the largest plywood producers in Russia, has announced its intent to increase production capacity during 2008. Despite these investments, there are already signs that supply of birch plywood to key buyers in the European shuttering, automotive and packaging industries will fall short of demand during 2008.

### **Weakness in German window sector**

According to the Germany-based trade journal EUWID, sales revenue in the German building industry is expected to grow by 3% during 2008. Much of this growth will come from the commercial sector, particularly factories and workshops. Public sector construction is also expected to grow strongly this year. However, judging from the numbers of building permits issued in 2007, residential construction is likely to remain static at a low level.

Slow activity in the residential sector is feeding through into the German window manufacturing sector, a key niche market for tropical hardwoods. According to EUWID, German window manufacturers have significantly reduced production over recent weeks, some working only a 3 or 4 day week. A 2007 market study by the German window industry association VFF indicates that sales of German manufacturers into the residential sector were down by over 10%. This was only partially off-set by some gains made in the commercial sector. Most German window manufacturers forecast at best a static, and probably a slight weakening, of the market during 2008.

### **European wood flooring market**

The European Federation of the Parquet Industry (FEP) reports that sales of wood flooring in the FEP countries increased by 4% during 2007, driven mainly by production increases in central and eastern Europe. Sales are estimated to have reached over 120 million m<sup>2</sup> last year. FEP is cautiously optimistic of continuing growth in 2008, although FEP also point to increasing competition in the market as construction sector activity is slowing across the continent. Wood flooring manufacturers will have to work hard to build sales by taking an increasing share of a tightening market. Manufacturers must also cope with increases in raw material costs at a time when it is difficult to squeeze higher prices out of the market.

Of the various wood flooring products, engineered wood flooring has been performing well, solidifying its position as market leader. Solid and mosaic flooring have been struggling but FEP point to “some small but positive indicators [that] give cause for hope in a better future”.

FEP is seeking to boost consumption of wood flooring through its “Living on Wood/Real Wood” project which now boasts a membership of 45 companies. The aim is to ensure that wood flooring becomes an essential component of interior design rather than just an auxiliary construction item.

Meanwhile, the European Commission agreed in December 2007 that the co-existence phase for CE-marking of wood flooring under the harmonised standard NS-EN 14342 “Wood flooring - Characteristics, evaluation of conformity and marking” would be extended for another year. Therefore the CE Mark for wood flooring will not become obligatory until 1 March 2009. CE marks may be applied to wood flooring sold in the EU during the co-existence phase, but it is not obligatory. The postponement is designed to give wood flooring manufacturers more time to satisfy the CE marking regulations. According to NS-EN 14342, in order to CE-mark wood flooring, a manufacture must have documented conformity to an internal production control system and must perform an initial type testing.