

Summer slowdown

Recent reports suggest little change in overall market sentiment in Europe. If anything demand for both tropical logs and lumber has slowed further with the onset of the summer vacation period, following on from the substantial fall in consumption across all major European markets beginning in the early part of 2008. Lack of credit insurance for many key customers of the importing sector remains a significant problem. Although many importers will still supply to customers lacking such insurance, the situation has considerably increased the financial risks associated with transactions and further deepened the trend towards smaller orders and just-in-time trading. Customer's unwillingness to commit to purchase of larger volumes creates day-to-day uncertainty. This further discourages moves by importers to enter the forward market despite emerging signs of shortfalls in landed stocks in certain specifications and long lead times between ordering and arrival in the EU. For example, lead times of 4 to 5 months are now common for new orders from African sawmills. In current conditions of very low consumption and supply, prices for both logs and lumber on offer to European buyers are generally holding steady at relatively low levels.

European veneer producers operating at only 50-70% capacity

The German trade journal EUWID reports that European demand for veneers has stagnated at a low level in recent months. Most Central European manufacturers report double digit percentage falls in turnover during the first half of 2008 compared to the same period the previous year. EUWID reckon that overall turnover in the sector this year may be up to 30% down on last year. Overall European veneer manufacturers are only operating at around 50-70% capacity and many operators are planning long shutdowns over the summer months. The downturn has affected all end-using sectors. The downturn in Spain's large door industry is mentioned as particularly dramatic. On the other hand, demand has held up better at the higher quality end of the market. In addition to the downturn in overall consumption, EUWID suggests real-wood veneer's market share is coming under increasing pressure from replacement products such as wood imitation plastics.

Plywood price rises expected

Although there is limited forward ordering of plywood of tropical hardwood plywood in Germany, France and the Benelux countries, orders in the UK remain very slow. In recent months, the market for tropical hardwood plywood in the EU has remained finely balanced between very low consumption and limited supply, keeping forward prices broadly level. However, key Asian suppliers are now looking to push up CIF prices on the back of much reduced production levels in East Asia, improved demand in a few markets, notably Japan and the Middle East, and rising freight rates. Freight rates for a 40 ft container between China and Europe increased from around \$700 in March to \$1100 in July and are expected to rise again to around \$1300 in early September. Overall, the rise in freight rates has already increased costs of importing by around \$20/m³.

Status of European market for okoume plywood

France lies at the heart of the European okoumé plywood business and currently hosts five major manufacturers of this product. Most have production plants in Gabon in addition to France. In 2007 they imported 165,000m³ of okoumé logs: with a 60% yield this represents about 110,000 m³ of okoumé plywood. In addition 148,000 m³ of manufactured okoumé plywood were imported. Together this represents some 258,000 m³ of okoumé plywood supply in France during 2007 of which about 55% is exported (104,000 m³). The Netherlands is a major export destination and accounts for about 55% of French exports (58,000 m³). Italy is the second biggest market but only accounts for 15% of exports.

Okoumé plywood is strongly valued in these European markets due to its versatility, high level of durability, visual aspects, good dimensional stability, resistant to wearing and excellent strength to weight ratio. In addition to general joinery applications, okoumé plywood is also used extensively for yacht building, train and van floors and inside panelling. Access to specific markets is now heavily dependent on conformance to the EN 636 standard and the French NF-EXTERIEUR CTB-X standard set by the FCBA which guarantees that a plywood product meets with required specifications set by the building industry for external applications. Okoumé plywood panels that are certified by NF-EXTERIEUR CTB-X have a ten year guarantee in terms of durability.

Despite its natural assets and wide market presence, okoumé plywood has been steadily losing share in the European market for the past 10-15 years against a variety of competing materials. These include Malaysian meranti plywood, temperate hardwood and softwood plywoods, and Chinese look-a-like but technically inferior products comprising a poplar substrate to which is added two very thin 3mm faces of okoumé veneer. Various alternative products are also now entering the market including Trespa (a composite material combining a woodfibre base and melamine resins used both for internal and external applications) and Rockpanel (manufactured from mineral wool fibres compressed under high pressure and used for external cladding).

Factors driving substitution include: the substantial price gap separating okoumé plywood from alternative products; the high euro exchange rate, particularly in relation to the Chinese yuan; architects' perception (particularly in the Netherlands) of high maintenance requirements for okoume in external cladding; and demand for FSC or PEFC certification in some sectors (which has tended to favour birch and softwood plywood alternatives).