

## **No upturn yet in European forward demand**

There has been little change in the European market for tropical hardwood logs and lumber in recent weeks. Reports from across the continent suggest very low levels of consumption and forward purchasing activity. While there have been moves by importers in some countries to fill gaps in stocks, orders tend to focus on speciality products and dimensions and volumes are generally low. Existing landed stocks of mainstream items such as sapele are still described as relatively high compared to the low volume of consumption. Meanwhile there is intense competition between importers for orders. End-users are working on very low inventories and tend only to place orders if they can be assured that products are already in stock.

However there is general awareness in the European import sector that supplies in the major tropical producing regions are now restricted due to very low levels of logging activity this year and following widespread mill closures. With respect to African sawn lumber, importers report that delivery times to Europe now extend up to 5 months. Forward prices for key species of tropical hardwood on offer to European buyers have remained relatively stable over recent months, but the expectation amongst European agents is that due to the extremely low levels of production, prices would rise very quickly in the event of any significant upsurge in demand.

## **Significant downturn in French hardwood imports**

Of all European countries, only France has so far published import trade data for the first quarter of 2009. A preliminary analysis of this data indicates a very significant downturn in the level of hardwood sawn lumber imports this year. The analysis suggests that overall French hardwood lumber imports reached only 121,000 m<sup>3</sup> in the first 3 months of 2009, a figure which compares to 159,000 m<sup>3</sup> in the first 3 months of 2008 and over 300,000 m<sup>3</sup> in the same period of 2007. At the same time, there have been large shifts in the source of tropical sawn lumber imported into France this year. While direct imports from Cameroon increased from around 17,000 m<sup>3</sup> in the first quarter of 2008 to 21,000 m<sup>3</sup> in the first quarter of this year, direct imports from Brazil declined from 49,000 m<sup>3</sup> to only 18,000 m<sup>3</sup> during the same period. Direct imports from Malaysia, Ghana and the Ivory Coast were also well down on last year's figures.

On the other hand there appears to have been a very strong increase in the level of indirect imports of tropical sawn wood into France from the Netherlands and Germany. French imports of tropical sawn lumber from the Netherlands reached 25,000 m<sup>3</sup> and from Germany reached 3,000 m<sup>3</sup> in the first quarter of 2009, up from negligible levels in the same period last year. Such a shift might be explained by the strong focus on just-in-time ordering which has encouraged a partial switch away from the forward market in favour of heavier reliance on large stockists in neighbouring European countries.

## **Mixed fortunes for large Belgian, Dutch and UK importers**

The very large European importers in the Benelux countries and the UK have been very heavily exposed to the downturn due to a business strategy that depends on large stock holdings to iron out problems for manufacturers and merchants associated with

long lead times in the hardwood import sector. The fact that these companies have been selling off existing stocks of standard items such as sapele at below replacement cost has been a major factor deterring any significant increase in forward demand during recent months.

But while these importers with large stock holdings are heavily exposed to financial risk during the recession, the recent very strong focus on just-in-time ordering amongst manufacturers and builders merchants has also given them an edge in the market place. Several of these companies interviewed in a recent feature on the Belgian and Dutch trade in the TTJ commented that their strategy of providing customers with a very wide range of species and specifications for immediate delivery has brought in many new customers.

These companies are now building on this success through continued strategic moves into a wider range of value-added, further processed and non-standard items with the objective of tailoring material more tightly to customers needs. For example, one large Dutch importer interviewed by the TTJ noted that they are developing as much business as possible in boules, and square-edged and non-standard-sizes, especially thicker material for flooring and other interior applications. These companies also comment that the higher-quality end of the market has been holding up reasonably well during the recession, boosted by reasonable activity in the renovation portion of the market even as the new-build sector has ground to halt.

The TTJ interviewees also note that the certified wood section of the market has been holding up well in the Netherlands and the UK as public sector projects have become relatively more important during the recession and with growing concern for sustainable construction. One large Belgian importer noted that “out of every 20 enquiries we get today, half are for FSC-certified. As a result, nearly all our tropical range is now FSC and we’re getting good volumes in certified species, such as sipo and sapele, in both dimension and random sizes”.