

## **Very challenging European market for tropical hardwood plywood**

The European market for tropical hardwood plywood faces numerous challenges. Sales prices of existing landed stocks are under pressure as consumption is slow in the winter season and, with the European economic situation so fragile, few importers are now expecting a significant rise in sales next year. However, rising production costs in the Far East mean that shippers either have to raise prices – currently very difficult in an unreceptive market - or to cut costs. Many are choosing the latter course and compromising on quality.

Chinese manufacturers have been the major beneficiaries of these trends. Their ability to offer low prices, combined with the willingness of many importers to buy on price and compromise on quality, has meant that China has continued to gain market share in Europe this year.

## **New European orders of Chinese plywood coming in only slowly**

Despite the anticipated curtailment in supply from mid-January during the Chinese New Year, new European orders of Chinese hardwood plywood are coming in only slowly. Consumption of existing European inventories of this commodity remains slow. With availability in China good and relatively short turnaround times for new orders, European importers seem little concerned about any potential shortfall in supply.

According to TTJ, the UK's timber industry magazine, the sale of assets of UK-based RKL Plywood which recently went into administration, has led to increased availability of Chinese plywood on the UK market. This has further dampened prices on the ground in Europe at a time when other issues of limited raw material supply and rising production costs argue in favour of increased prices.

With Chinese exporters also wanting to reduce inventories, some are offering lower prices in the hope of stimulating sales. However there has been no reduction in production costs in China with the result that where cheaper prices are on offer, compromises are being made on quality to maintain margins.

FOB prices of better quality Chinese plywood have remained more stable or even tended to rise to accommodate increased costs of labour and raw material in China. This rise is being offset in the European market by continuing decline in container freight rates from China. Rates for a 40ft container on the China-Europe route have fallen from around \$2000 in May this year to close to \$1000 today.

## **Major quality issues emerge in UK plywood market**

According to the TTJ, quality issues are now emerging as a very serious concern in the UK market. A quote from a UK plywood industry expert alleges that around 80% of all Chinese plywood currently in the UK is "MR with dyed red glue to look like WBP", with a large proportion being produced as "under-thickness" but marked as full thickness. Furthermore, says the TTJ, a significant percentage of Chinese plywood supplied to the UK is CE marked and yet a number of its suppliers "do not have their plywood performance-tested on a regular basis to confirm the structural performance". If

these allegations are true, the long-term repercussions for the reputation of hardwood plywood in the UK could be very severe.

### **Slow sales of Malaysian plywood in Europe**

Sales of Malaysian plywood in the European market have remained slow in recent weeks. In the UK, Malaysia has generally been losing share to cheap Chinese product during 2011. Prices for Malaysian BB/CC WBP plywood composed of tropical hardwood throughout are currently in the region of Indo96 +30%. Significantly cheaper prices are available, although as with Chinese plywood, compromises may have been made on quality. With price expectations now so low in Europe, more Malaysian manufacturers have followed the Chinese route of offering combi-plywood composed of a tropical hardwood face and a poplar core.

Prices for the best quality Indonesian BB/CC WPB plywood on offer in Europe have declined slightly from levels achieved a couple of months ago, but are still significantly higher than those for Malaysian plywood, exceeding Indo96 +40%.

Very little Brazilian hardwood plywood is now imported into Europe. Brazilian suppliers are generally unable to compete with Malaysian plywood at the higher end and against Chinese plywood at the low quality end of the market. Meanwhile European imports of plywood manufactured from eucalyptus plantations in South America, while still quite small, are rising following recent investments by Weyerhaeuser in Uruguay.

### **EU and Vietnam move towards agreement on illegal wood trade**

A report from Vietnamnet.vn suggests that Vietnam and the EU have entered the final negotiation stage towards a bilateral agreement to minimize the risk of illegal wood trade between the two trading partners. The so-called FLEGT Voluntary Partnership Agreement (VPA) may be implemented prior to March 3, 2013, the date when the EU Timber Regulation (EUTR) is due to take effect.

Under the EUTR, all European importers will be obliged to implement due diligence systems to minimize the risk of any wood being derived from an illegal source. They will also be liable to prosecution if found in possession of wood extracted or traded in contravention of the laws of any country. However according to EUTR, any timber or timber product licensed under the terms of a VPA – such as that likely to be agreed with Vietnam – will be automatically recognized as legal in the EU market. European importers will be under no obligation to seek further safeguards (such as certification) to demonstrate the legal origin of VPA Licensed timber.

Vietnam and the EU successfully completed the second negotiation round of the VPA agreement in early December. The agreement is particularly significant for the Vietnamese furniture manufacturing sector which is a major supplier to the EU. In 2010, EU imports of wood furniture from Vietnam had a total value €539 million. Vietnam is currently the second largest external supplier of wood furniture to the EU after China.

According to vietnamnet.vn, some Vietnamese furniture manufacturers remain unconvinced about the benefits of a FLEGT VPA, believing that the additional costs of VPA Licensing will undermine

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competitiveness. However, others are gradually coming round to the idea that the FLEGT VPA process may be less of a trade barrier and more of an opportunity to gain greater share of the European market.

Ha Cong Tuan, Deputy General Director of the Forestry General Directorate, Head of the Vietnamese Negotiation Team for VPA agreement, said that the main purpose of FLEGT is not to create new barriers for businesses but to protect those furniture enterprises which already have healthy links with the European market.

These comments are supported by Vietnamese business leaders quoted by vietnamnet.vn. Nguyen Van Thu, Director of Pisico wooden furniture corporation in Quy Nhon City, said that in order to prove the legitimacy of his company's timber in the EU and US markets, Pisico currently has to spend \$8000 initial fee for FSC certification, with an additional \$3000 a year to maintain it. In contrast, the state will be liable for the costs of FLEGT VPA Licensing and there will be less pressure on enterprises to pursue FSC certification. He also noted that since all companies supplying the EU market will be subject to FLEGT VPA Licensing, enterprises selling cheaper products based on contraband timber will be "weeded out".

The FLEGT VPA process might also prove to be a more cost-effective mechanism to demonstrate responsible forestry than forest certification. According to Nguyen Thanh Chung, Director of the Dac To Forestry Corporation, also quoted by vietnamnet.vn, high costs have meant that it has proved very difficult to obtain FSC forest certification in the country. However, says Chung, if Vietnam successfully negotiates a VPA, there would be less of a need to spend time and money to obtain forest certificates.

Vietnamnet.vn reports that during the last rounds of negotiation, the EU accepted that a state management agency in Vietnam should be responsible for granting FLEGT certificates. It is expected that enterprises that regularly export furniture to the EU would be granted certificates covering a maximum export quota valid for a certain period. Other enterprises exporting less regularly to the EU regularly, or that lack robust systems to demonstrate legal sourcing of timber materials, will only be issued certificates for individual export consignments.

The next negotiation round for the Vietnam-EU VPA is expected to take place in May 2012, while the VPA negotiation process is expected to finish before the end of 2012. This timing of a final agreement, only 3 months before implementation of the EUTR, has raised concerns amongst Vietnamese exporters who note that European retailers will already be adjusting purchasing practices to minimize any risk of prosecution for products in their stores after 3 March 2012. And even if the VPA is finalized in December 2012, it will take several months at least to implement the licensing procedures.