

Demand-side issues come to the fore

The latest hardwood market report from TTJ, the UK's timber industry magazine (www.ttionline.com) suggests that while 2007 was a year when timber supply issues came to the fore, demand-side factors might well dominate 2008. Economic uncertainty in Europe has generally led to a more cautious approach to purchasing. One UK-based agent specialising in African wood suggested that "this has been the worst start to the year for West African hardwood suppliers for a number of years...the US, European and Chinese markets have all gone cold". It was noted that some trading companies in Africa are now heavily discounting prices of sawn lumber because of high stocks, particularly in sapele. Due to the current strength of the euro, is also encouraging reductions in euro prices. The sapele inventory both in continental Europe and the UK is regarded as ample to service existing levels of demand. Framire supplies have become easier to source as significant volumes are now being shipped against old contracts. Iroko demand remains weak in major markets of Ireland, Spain and Italy, but a reduction in production levels has helped keep prices stable. Availability of good quality wawa remains restricted. Demand for this species is quiet in the UK but there are signs of greater interest in Italy. UK demand for Malaysian meranti tembaga remains weak, foiling efforts by Malaysian mills to boost CIF prices in response to rising freight rates.

TTJ also reports the comments of Simon Fineman, Chief Executive of Timbmet, one the UK's largest hardwood importers, speaking at a recent meeting of the London Hardwood Club. Fineman suggests that the future UK market for hardwoods would see less selling of packs of sawn hardwood and more emphasis on specialised products and components that were "fit for purpose with a proven ability to perform...the trend in the whole market place is to move to niche specialised products."

Signs of improvement in European construction sector output

According to estimates released by Eurostat, the Statistical Office of the European Communities, construction sector output in January 2008 was up by 1.6% in the euro area and by 0.7% in the EU27 compared to the same month in 2007. This was a significant improvement on the previous month – construction sector output in December 2007 was significantly down on the same month the previous year. Both building construction and civil engineering activity improved in January 2008 across the EU-27 and within the euro-zone. To some extent, increased activity in Eastern Europe compensated for continuing weakness in parts of Western Europe. Among European Member States for which data are available for January 2008, construction output rose in six and fell in four. The highest increases were recorded in Romania (+33.7%) and Slovakia (+14.9%), and the largest decreases in Spain (-8.0%) and the United Kingdom (-2.9%).

Sluggish engineered wood floor market

The Germany-based trade journal Euwid (www.euwid-wood-products.com) reports that European markets for engineered wood flooring, a product which has become increasingly important in Europe in recent years, are currently very mixed. Euwid note that weak markets and high stocks of standard products in light species such as beech and maple have led to heavy price discounting on these products. On the other hand, some European manufacturers are trying to force through higher prices for higher grade products, particularly longstrip and plank-strip flooring made of white oak and tropical hardwoods, in order to cover rising manufacturing and freight costs. But uncertainty about future demand even for the higher grade products has led other manufacturers to adopt a "wait and see" attitude. Although price rises are needed, they doubt the ability of the market to absorb them at this stage.

Government timber procurement policy creates challenges

In recent years, European governments have become heavily engaged the business of developing environmental timber procurement policies. They are being driven on by their mounting concern for illegal logging, which they perceive to be a major source of deforestation and therefore a contributory factor to carbon emissions and climate change.

Development of such policies is also being encouraged through European government's commitment to the EC's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. Under this Plan, the European Union is also working with a wide range of tropical timber supplying countries towards agreement of Voluntary Partnership Agreements (VPAs) to help tackle illegal logging. Under the terms of VPAs, all wood imported into the EU from partner countries would be subject to strict legality licensing requirements. Ghana, Indonesia, Malaysia, and Cameroon are all now engaged in formal negotiations. Other countries likely to begin formal negotiations in the near future are: Central African Republic, Congo Republic, Liberia, and Gabon.

While the underlying intent of these measures and policies is laudable, from a market perspective they are adding a new layer of uncertainty for those seeking to sell wood products into the European Union. The situation is not helped by the sheer complexity of European government timber procurement requirements which vary widely from country to country. The competitiveness of wood products suppliers in the EU market in the future will be at least partly dependent on how well they read the confusing signals now being sent out by European policy makers.

At least seven EU countries have developed environmental timber procurement policies: UK, France, Germany, Belgium, Netherlands, Denmark, and Austria. Moves to adopt such policies have been slower in southern European countries, but Spain, Portugal and Italy have all indicated an intent to work towards development of such policies in the future.

In those countries that have developed policies, it is usual for the requirement to be mandatory for central government agencies. The proportion of national timber procurement estimated to be directly affected by the policy varies by country but is usually in the range 5% to 15%. Local government agencies in most countries are encouraged to adopt the national level policy on a voluntary basis. The much larger private sector market is not directly affected by the policies. However the larger distributors that sell into both private and public sector construction projects often try to apply the same procurement principles to all their wood purchases.

The government policies differ widely in the extent to which they demand that wood must be "verified legal" or "verified sustainable". They also differ in the forms of evidence that they accept to demonstrate "legality" and "sustainability". They may be subject to change, adding to the confusion.

Policies established in Belgium and Germany already set a minimum requirement for timber to be "sustainable", both showing a strong preference for FSC and PEFC certification, although technically other forms of evidence may be accepted if deemed to be equivalent. Although tropical countries are being encouraged to develop legality licensing procedures, neither policy currently contains any provisions for recognition of FLEGT VPA licenses in public sector procurement.

The UK and Dutch policies establish verified legal as a minimum requirement and accept FLEGT VPA licenses as evidence. In both cases, timber which is “verified sustainable” is preferred when it is available. Both countries have established their own criteria for assessing appropriate forms of evidence. The UK has gone furthest in applying these criteria, already determining that certification to FSC, PEFC, SFI, or CSA standards is sufficient evidence of sustainability. MTCC certification is currently regarded by UK government as evidence of “legality” but not sustainability”. The UK is also the only country yet to have made a firm statement with respect to its intentions towards FLEGT VPA licenses. From April 2009, only verified sustainable or FLEGT VPA licensed timber will be accepted. However verified sustainable, where available, will be favoured over FLEGT VPA licensed timber. From April 2015, only verified sustainable will be accepted.

The Netherlands has stated it will only accept “sustainable” timber from 2010. No decision has yet been taken on whether FLEGT VPA licenses will be accepted after that date.

The French procurement policy currently states that timber must be from a “legal and sustainable source”, but unlike the UK and Netherlands, there is no clear hierarchy of evidence separating “legal” from “sustainable” timber. The French government recently stated that it intends to strengthen its policy and guidance, increasing the focus on FSC and PEFC certified wood products but also indicating that FLEGT VPA licenses will continue to be accepted in the future.

The situation is further complicated by the gap that exists between the stated intent of central government authorities and actual implementation on the ground. The UK provides the best illustration of this – mainly because the UK government has gone furthest in actually trying to monitor what is happening on the ground. A recent survey by the Central Point of Expertise on Timber (CPET), which supports UK government policy development and implementation, indicates that of 14 government agencies, only 2 are following government policy to the letter. Most of the rest are already specifying that wood must be certified sustainable and making no provision for legally verified wood. One particularly significant agency, the Olympic Delivery Authority (ODA) which recently launched a bidding process for supply of timber to the 2010 London Olympic developments, is amongst those stating it will only accept fully certified timber. It is expected that around 600,000m² of hardwood and softwood plywood and other panel products will be needed by the ODA’s contractors and their suppliers.

Achieving recognition of national level policies at local authority level is even more challenging. Policies at this level of government tend to be at least as strongly influenced by the campaigns of environmental groups and national media as they are by the policies of national governments. FSC tends to be strongly favoured and there is very little understanding at this level of government of the role of FLEGT VPA licenses or phased approaches to certification in the tropics.

All this activity is indicative of the importance now attached by European governments to clearing up supply chains and ensuring that wood used in government contracts does derive from well managed sources. But it also highlights the importance of European governments working towards harmonisation of procurement policies and of making clear and unambiguous statements with respect to the forms of evidence that will be accepted.

There are some positive moves in this direction. The European Commission is due to issue a Communication on Green Public Procurement in April/May 2008 which, while covering all products, is expected to provide some specific guidance on development of government timber procurement policies. In addition, the UK, Dutch and Danish governments are co-operating in an effort to find common ground for the further development of procurement policy. However an underlying problem, which is very difficult to address, is that European procurement officials tend always to be more responsive to the needs and demands of national interests (including ENGOs, domestic industry and trading companies) than they are to the needs of forestry operators overseas that are actually responsible for implementing sustainable forestry practices .

Some of the frustration of seeking to comply to European procurement requirements was reflected recently in an article for Malaysia's New Straits Times based on a conversation with Sarawak's Forestry Director, Datuk Len Tarif. In a reference to European government procurement policies, the article suggests that "because of the constant changes and stringent requirements, Sarawak timber companies are not rushing to meet EU requirements."

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For ITTO
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