

European market report

“Worst downturn since the second world war”

Ed Pepke of the UNECE Timber Committee, delivering the opening address at the American Hardwood Export Council (AHEC) biannual European Convention in Athens on 22 October, described the current downturn as “the worst since the second world war”. Pepke went on to suggest that the world only avoided “a second great depression” as a result of the unprecedented concerted global policy response - including swift measures to stabilise the banking sector in several countries and various government stimulus measures which have pumped huge sums of money into the global economy. Pepke noted that while most countries across the globe will record negative GDP growth this year, economists believe the numbers will turn positive next year. Nevertheless Pepke suggested that “this recovery will be very slow.”

Gloomy market conditions in Southern Europe

The ensuing market discussion at the AHEC Convention provided particular insights into conditions in southern Europe, reflecting strong participation at the Convention by traders from this region. Overall the conclusions were extremely gloomy. The local Greek market has been badly affected by the introduction of a higher VAT rate which has contributed to further stagnation of the housing market. The Italian housing sector has been negatively influenced by lack of mortgage credit. Meanwhile the Italian furniture sector has seen sales fall by nearly 50%. Large Italian importers suggested that sales are down by as much as 50% compared to 18 months before.

In many ways, market conditions are even worse in Spain where the huge boom in construction came to a sudden and dramatic halt last year. Spain has now built nearly seven times more housing than the current need, suggesting it will be many years before demand recovers. The Spanish hardwood trade has imported little in the last year and is unlikely to increase significantly purchases in the future despite stocks now being extremely low and continuing slow consumption in the renovation sector. Spain's door industry is on its knees and capacity may eventually be reduced by as much as 50%. Spain's door companies are belatedly trying to find new business in export markets. However most are suffering from their earlier failure to invest in export market development.

Market trends during the recession

Despite extremely low consumption, several traders highlighted that supply is now becoming an issue. One European hardwood importer suggested that “hardwood production is down more than actual demand in the market”. Another commentator highlighted another key trend towards increased mergers and acquisitions in the European importing sector as larger companies are increasingly swallowing bankrupt smaller companies.

There was also discussion at the Convention of the continuing trend in Europe towards increasing imports of finished wood products at the expense of domestic manufacturers. The European agent of a Vietnamese furniture manufacturing

company noted that “a lot of Vietnamese companies are now more interested in the European than the US market which was formerly their sole focus. These companies now want euros, not dollars.”

Hardwood industry failing to exploit designers’ preference for wood

Michael Buckley, an independent hardwood industry consultant based in Singapore, led a session at the AHEC Convention on hardwood fashion. Buckley commented that “if you are in the hardwood trade, then you are also in the fashion business”. He suggested that recent fashion trends provide a partial antidote to the gloomy deliberations during the economic session of the Convention. Buckley commented that over the last 20 years "I have seen many short-cycle fashion changes in wood. However, by far the most important trend during that period has been the acceptance of wood as a modern material by many, (dare I say most?), architects". However, Buckley also noted that "it is a great pity that the timber industry has not exploited this opportunity more fully and has not seized the chance to capitalise much more on the environmental advantages of wood".

In fact, Buckley suggested that the trend towards green building is not yet significantly benefiting wood products: "wood's competitors have not been slow to identify the gap and now we really do have good cause to complain about the lack of a level playing field. Green points are awarded for concrete, steel and even PVC, but not always for wood". Furthermore, the window of opportunity for wood may be a short one: "as we have seen with all fashions, the preference for wood may not last. Fashion is fickle and often changes very fast". The key for the wood industry is to ensure that the current "fashion" for wood becomes more deeply embedded as a long-term trend.

Buckley identified numerous challenges to be overcome if wood, and specifically hardwood, is to succeed in becoming firmly established as the sustainable material of choice. These include: the threat of substitution with cheap, often inferior, alternatives, both wood and non wood; lack of knowledge of hardwood properties by specifiers; and the misplaced assumption that plantation species are necessarily more environmentally friendly than natural forest species.

Already there are signs that hardwood is losing the battle and certain end-users are drifting away to other materials. Buckley compared the ten year old “Paragon” high-end mall in Singapore with the newly opened “ION Orchard”. In the latter, there is a marked reduction in wood-use for shop-fitting. Similarly, Buckley commented that "there are some signs that the internal furniture industry may be beginning to move imperceptibly away from wood and strong evidence that the external furniture industry has been doing so for some time. We are certainly seeing the introduction of new contrasting surfaces in wood furniture where previously there was only wood". These trends suggest there is an urgent need to further develop and expand marketing activities for hardwoods.

AHEC market tulipwood for external applications in Europe

AHEC is one of the few organisations currently running an international marketing campaign centred on hardwoods. David Venables, AHEC European Director

described AHEC's marketing activities in Europe which, while targeting everyone in the wood chain, place special emphasis on the design community. AHEC seeks out and promotes examples of innovative modern design – both in construction and furniture – where American hardwoods have been used to good effect. Where existing examples of the marketing messages AHEC wants to convey are not available, AHEC works with the technical and design community to create them.

In recent years there has been particularly strong focus on market development for tulipwood – an American poplar species – due to its ready availability in the US hardwood forest and its versatility. Work is on-going with UK-based Osmose to develop new treatments for tulipwood allowing its use in external applications, including outdoor furniture, cladding, and potentially even decking.

Green marketing: both threat and opportunity

The final session at the AHEC Convention on “Green Marketing Opportunities” highlighted the wide range and growing complexity of the green issue. Rupert Oliver of Forest Industries Intelligence Ltd, who chaired the session, suggested that the growing focus on energy efficiency and sustainability in the construction sector, should present tremendous opportunities for a natural, energy efficient and renewable product like hardwood. But there are also significant challenges.

There is a risk of additional controls being imposed on all wood suppliers, including legitimate operators, as a simplistic knee-jerk response to the problem of illegal logging and deforestation. Requirements for wood traceability and specific forms of forest certification, often built in to green building initiatives and public sector procurement policies, are placing obstacles in the way of hardwoods which often face particular challenges in achieving certification.

Meanwhile other materials supplying sectors are investing heavily in new products and marketing initiatives, so that materials like steel and cement are now laying claim to “sustainability” credentials. There is also a threat, particularly in the current economic climate, of protectionist trade measures favouring local over imported materials being disguised as an effort to reduce carbon emissions.

Risk assessment as a tool for green wood procurement

Presentations and discussion at the Convention highlighted the value of risk-based approaches to wood procurement. Such approaches are already integrated into the FSC Controlled Wood Standard and also form the basis of several European timber trade association environmental codes of conduct. They are also likely to form the basis of European legislation, which may well be introduced next year, that will require European importers to implement “due diligence” procedures to reduce the risk of trading in illegal wood. Such procedures have the advantage of avoiding the imposition of additional new and burdensome controls on suppliers that are already operating legally, while focusing limited resources on suppliers more at risk of sourcing illegal wood.

On the other hand, discussions at the AHEC Convention also suggested relatively low levels of familiarity amongst southern European importers of the European legislative

proposals or of formal systems of “due-diligence” and “risk assessment”. This needs to be addressed if the proposed EU legislation is to be effective.

Need for LCA approach in Green Building

The AHEC Convention also highlighted the importance of the hardwood sector engaging in work on environmental life cycle assessment (LCA) and in promoting an LCA-based approach to green building. Dr Richard Murphy, an expert in LCA from Imperial College London, noted that existing scientific data suggests that hardwoods often perform very well on a full cradle-to-grave environmental assessment, particularly when carbon sequestration during forest growth is taken into account. However he also suggested there is an urgent need for the hardwood sector to commission further research to fill gaps in the information – for example relating to the carbon sequestration effects of different forest management regimes, the lifespan of hardwood products in use, and the final disposal of hardwood products.

UK market unlikely to recover in the short-term

The TTJ's latest hardwood market report published mid-October suggests that it has not been all bad news for the UK hardwood trade so far this year. However the future remains very uncertain.

A hardwood agent interviewed by TTJ notes that “While the rest of the timber market has been talking downturn and recession, January to June really wasn’t that bad for us. In July, [we sold] two to three months’ worth in a single month”. This agent speculates that the July upturn “was the result of some companies, which had heavily destocked, getting to the end of their inventories and restocking for September”.

The agent suggests that since the unexpected July boom, business has tailed off. The agent speculates that the UK trade may have been sustained earlier this year by contracts signed before the downturn and is only now, belatedly, going into recession.

This gloomy prediction is supported to some extent by the latest market report from the UK Construction Products Association. According to the CPA’s forecast, UK construction output will not reach 2007’s peak levels again until 2021. The CPA expects output to fall 15% this year, with a further 2% dip in 2010, before modest growth returns in 2011. CPA suggests that existing levels of output this year have been heavily dependent on Government spending on construction projects which remains strong.

The UK’s furniture sector also remains weak. Growth in UK furniture retail sales stalled in August, with volumes down 5.7% on the month, and the yearly rate estimated by National Statistics at –1.1%. UK demand for imported furniture dropped by 19% between the first six months of 2009 and the same period last year. British furniture makers fared rather worse, recording a 22% drop in exports compared to the first half of 2008.