Tight tropical hardwood supply balanced by slow European consumption

Supply of African tropical sawn hardwood lumber is now very tight, with lead times for new orders in Europe often extending to over 4 months. This is partly due to long term reduction in capacity as many mills were closed during the financial crises in 2008/2009. However the situation has been made worse by shorter term factors including heavy rains during 2010, on-going efforts to toughen governance and reallocate concessions in some countries, increased diversion of product to the Asian market, and the political situation in the Ivory Coast. This last factor, which has led European shipping companies to avoid calling at Ivory Coast ports, has resulted in particularly short supplies of iroko and samba sawn lumber.

Due to low levels of purchases last year, existing landed stocks of tropical sawn hardwood in Europe are at historically low levels. However the tight supply situation continues to be balanced by relatively slow tropical hardwood consumption in Europe. There has been a minor increase in orders by European importers this year in order to fill gaps in stock. But overall stocks are reasonably well balanced with demand and importers are still able to satisfy customers' requirements for most standard products at short notice.

Market conditions for tropical sawn lumber vary widely across the continent. While confidence has been rising in Germany, uncertainty continues to be the prevailing sentiment across much of the rest of Europe. This is particularly true of Spain where recent reports suggest more bankruptcies in the hardwood importing sector and extremely low levels of production in the door and other wood-based manufacturing sectors. Hardwood demand in the UK is variously described as "difficult" and "patchy", while the Irish market remains in the doldrums. Italian importers are still cautious in the face of uncertain economic and political conditions and are tending to shift away from tropical hardwoods in favour of raw materials which may be more readily sourced at short notice.

Rougier financial statement indicates direction of European market

While a spirit of uncertainty still prevails across much of the European tropical hardwood trade, Rougier's latest financial statement for the full year 2010 suggests that the situation is gradually improving. The statement issued by one of Europe's largest tropical hardwood trading companies also provides insights into strategies being adopted to deal with increased restrictions on tropical log exports, increased competition for raw materials from East Asia, and rising requirements for legality verification and certification, particularly in Europe.

Rougier's corporate revenues reached €138.7 million during 2010, up 11.2% in relation to 2009. Revenues grew particularly strongly in the fourth quarter despite being held back temporarily by supply chain disruptions in October and poor climatic conditions at the end of the year. Sales of processed products grew very strongly during 2010 and now account for 73.2% of consolidated revenues compared to only 60.4% in 2009. This development is being driven by the ramping up of the sawmill units which were partially shut down in 2009, a shift to plywood sales following implementation of the Gabon log export ban, and by positive trends in sales prices. In 2010, log sales accounted for only 26.8% of revenues compared with 39.6% in 2009 reflecting the full impact of the ban on log exports from Gabon. Nevertheless, Rougier report that log sales from Cameroon and Congo, as well to industrial processing firms in Gabon, were holding up well at the end of 2010.

Rougier report improved business across the main mature markets as well as in certain emerging countries in the Mediterranean region. Rougier's sales into Europe recovered particularly strongly last year, up 22%, a trend which Rougier attributes largely to a corporate commitment to certification and legality verification. In contrast, sales into Asia contracted by 25% during 2010, primarily due to the ban on log exports from Gabon. However, by the fourth quarter of 2010 this trend was being partly offset by a positive turnaround in sales of processed products to Asia.

Anti-dumping duties extended on EU imports of okoumé plywood from China

The Council of the European Union has decided to retain anti-dumping duties on okoumé plywood imports from China. The decision, published in European Council Implementing Regulation No 82/2011 of 31 January 2011, means that the duties first imposed in 2004 will remain in place for another five years. The product concerned is that covered by CN code ex 4412 31 10 (previously 4412 13 10) and is defined as follows: plywood consisting solely of sheets of wood, each ply not exceeding 6 mm thickness, with at least one outer ply of okoumé not coated by a permanent film of other materials, originating in China. This product is used for a wide variety of end-uses in the EU, including exterior joinery (boarding, shutter boards, exterior basements and balustrades and riverside panelling) and more decorative purposes (including doors, furniture and panelling in vehicles and yachts).

Under the terms of EU regulations, anti-dumping duties expire after a period of 5 years unless a European party appeals and demonstrates that removal of the duties are likely to lead to a continuation or recurrence of dumping. In this instance, an appeal was placed by the European Federation of the Plywood Industry.

The announcement means that a duty of 66.7% will continue to be imposed on all EU imports of okoumé plywood from China with the exception of products from the following manufacturers for which a lower rate of duty (in brackets) will continue to apply: Nantong Zongyi Plywood Co. Ltd (9.6%); Zhejiang Deren Bamboo-Wood Technologies Co. Ltd (23.5%); Zhonglin Enterprise (Dangshan) Co. Ltd (6.5%); and Jiaxing Jinlin Lumber Co. Ltd (17%).

The EU's announcement followed an investigation of the current competitive status of the European okoume plywood sector and the costs of okoumé plywood production in an "analogue country" (in this case Turkey) in order to establish the "normal value" of production outside the EU. The investigation covered the period from 1 October 2008 to 30 September 2009 (referred as the 'review investigation period' or 'RIP').

The EU investigation found that China imported around 900,000m3 of okoumé logs during the RIP and suggested that around 85% or 765,000m3 was used for the production of plywood. As no Chinese firm was willing to co-operate with the EU investigation, it was not possible to accurately assess Chinese okoumé plywood production capacity. However, the EU concluded that "in any product mix scenario, the production capacity in China is largely above the volumes consumed in the EU market (291 000m3 in the RIP)".

Furthermore, the EU investigation suggested that "Chinese plywood made from different wood species is produced by the same companies, on the same equipment. Therefore, it can be expected that, in the absence of measures, Chinese producers which are currently focusing on the production of other, less lucrative types of plywood may increasingly shift their production toward okoumé plywood". The investigation also noted that "according to Chinese export statistics, Chinese exports of plywood accounted for more than 5 million m3 during the RIP, or around 17 times the EU market of okoumé plywood. Consequently, only a minor shift in product mix is needed to substantially increase the volumes of okoumé plywood available for export".

The EU investigation suggested that following introduction of the duties, actual imports of okoumé plywood into the EU dropped from over 80,000 m3 per annum to only around 13,000 m3 during the RIP. Prices for Chinese okoumé plywood increased from €485/m3 in 2006 to €642/m3 in the RIP. Meanwhile prices for okoumé plywood product manufactured in the EU recovered from around €786/m3 in 2006 to €930/m3 in 2008, although they fell away again to €887/m3 during the RIP. Over the same period, overall EU consumption of okoumé plywood decreased by 35% to stand at around 290,000 m3 during the RIP.

Falling overall consumption of okoumé plywood in the EU was partly explained by substitution by other tropical wood species, such as red canarium, bangkirai or meranti and partly by the economic crises in 2008 and during the RIP. Overall EU production of okoume plywood has also declined slightly since the anti-dumping measures were first imposed, from around 270,000 m3 in 2003 to around 235,000 m3 during the RIP. However EU manufacturers' market share has risen and stood at around 80% during the RIP.

At the time of the EU investigation, okoumé plywood was known to be manufactured by sixteen producers in Cyprus, France, Greece, Italy, Portugal and Spain. The investigation suggested that the anti-dumping duties effectively allowed this industry to survive over a very uncertain period. Profitability of sampled EU producers recovered from -8.9% in 2003 to between +4.3 % and +9.8% each year following passage of the regulation.

Further details are available at:

http://trade.ec.europa.eu/doclib/docs/2011/february/tradoc_147474.def.en.L28-2011.pdf

Margins squeezed in European okoume plywood manufacturing sector

Despite continuation of the anti-dumping duties, uncertainty continues to surround the long-term future of the EU (and for that matter the Chinese) okoumé manufacturing following the decision by Gabon to ban okoumé log exports. Recent reports from the German trade journal EUWID suggest that profitability in the European okoumé manufacturing sector is now under intense pressure as prices for okoumé rotary veneer from Gabon have been rising while sales prices for finished okoumé plywood in Europe have remained static for many months. Efforts to boost prices have failed to date due to sluggish demand and the actions of some suppliers selling inventory at below replacement cost in order to increase market share. Suppliers with access to their own concessions in Gabon, or that are certified, or that are able to offer more specialist products, are generally faring better in the market than those only able to offer standard products. Suppliers are now hoping that the market situation will improve from March onwards with rising European construction activity, particularly in France where there was an increase in the number of building permits issued last year.

Indonesia expected to sign a FLEGT VPA within 3 months

A report in the Jakarta Post suggests that Indonesia is hoping to sign a FLEGT Voluntary Partnership Agreement (VPA) with the EU within the next 3 months. Indonesia would then become the first Asian country to conclude such an agreement which would require that only legally verified timber and timber products from Indonesia be supplied to the EU market. The Jakata Post quotes Iman Santoso, Director General for Forest Business Management at Indonesia's Forestry Ministry:

“We're nearly there. This agreement is crucial for Indonesia as it enables Indonesian timber exporters to expand their market for timber and timber products in the EU….This is especially important because the EU has just enacted a timber regulation prohibiting the sale of illegally harvested timber on the EU market by March 2013”. The value of Indonesia's timber trade with the EU stands at an estimated US$1 billion per year.

Report of Chatham House Illegal Logging Update meeting

The full report of the Chatham House Illegal Logging Update meeting held at the end of January 2011 has been posted at http://illegal-logging.info/uploads/MeetingReportNo17.pdf. The report provides a detailed snapshot of the current status of EU policy and actions with respect to illegal logging, many of which have strong potential to impact on the trade in tropical hardwood products. In addition to news of the latest developments in the EU’s Illegal Timber Law (ITL – see ITTO TTM Report 16:3), highlights include:

- A commentary by Sheam Satkuru-Granzella of the Malaysian Timber Council on the challenges and opportunities presented by EU green public procurement policies (GPPP). This particularly emphasises the problems faced by companies exporting into the EU due to the varying GPPPs of different Member States. Satkuru-Granzella noted that GPPPs were recently identified in a report by IISD as a key driver in the progress towards forest certification but that they will only perform this role in tropical regions if they actually recognise systems of certification appropriate to tropical forest conditions. At present less than 1% of tropical forest is certified by FSC or PEFC, the only two systems currently recognised in EU GPPP. Meanwhile only the GPPP of UK, of all EU Member States, gives any credit for FLEGT VPA Licensed timber. Also, given that FLEGT VPA Licensed timber will not be labelled or marked in any way once it enters the EU market, it is not yet clear how such timber will derive positive market benefits in the EU. Nevertheless, Malaysia remains committed to signing a VPA, seeing the process as a means of addressing areas that are currently outside existing certification schemes.

- A report by Emily Fripp of Efeca Associates on a formal impact assessment of the UK GPPP. This indicated that "the policy has under-delivered in terms of direct government spend as there has been a lack of comprehensive implementation and inconsistency across government departments and contractors". On the other hand the policy "has over-delivered in terms of wider market impacts; all trade respondents reported that the policy had an impact on the way in which they do business, and there has been a significant increase in the supply of certified wood [to the overall UK timber market], from 47% in 2003 to 63% in 2009.
- A commentary by Shengfu Wu of the China National Forest Products Industry Association on the measures being taken by Chinese industry to comply with the terms of the EU Illegal Timber Law (ITL) and Lacey Act. In the light of these new requirements, China is discussing introducing a code of conduct, including the establishment of a due diligence system. The code will specify the obligations and responsibilities of signatories to the code, and provide guidance on how to comply with policies in order to minimise the risk of supporting illegal logging and associated trade activities. The code of conduct would be voluntary and will encompass traceability, legality, declaration and practice. Signatories would be required to prioritise the purchase of wood sourced from certified forests, ensure that locally produced goods have logging, transportation and processing licenses, and require the application of due diligence to imported logs. The aim would be to avoid the use of high risk products. Risk assessment may be undertaken by a third party and the aim would be to minimise all risks.
- An update from the European Forestry Institute on the current status of REDD+ negotiations in the wake of the Cancun UNFCCC conference in December 2010. It was noted that agreement was reached on the three main issues left open in Copenhagen: (1) the goal of REDD+ which was formulated as 'Parties should collectively slow, halt and reverse forest cover and carbon loss'; (2) the source of finance - parties agreed to 'explore financing options for the full implementation of the result-based actions', although the debate continues on the respective roles of an international fund versus market-based instruments; and (3) the debate over whether REDD+ should be managed at national level or project level was resolved by agreeing that implementation could be at a sub-national project level as an interim measure within a national framework. It was also reported that an international work programme on REDD+ will start in 2011 on: identifying activities to counter drivers of deforestation and forest degradation; modalities for emission reference levels and robust and transparent monitoring systems; and modalities for measuring, reporting and verifying emissions and removals resulting from the implementation of REDD+ activities.