25% of EU timber imports from certified forests but still gaps in demand

New research indicates that around 25% of solid timber products imported into the EU-25 is likely to derive from independently certified or legally verified forests. However the research also suggests that the very high level of fragmentation both in the EU timber trade and in timber's major consuming sectors – construction and furniture – present a major obstacle to chain of custody certification and the further development of markets for environmentally labeled wood products throughout the EU.

The research has been been undertaken by Forest Industries Intelligence Limited for the UK Timber Trade Federation (TTF) with funding from the UK Department for International Development (DFID) as part of a project to assess the EU market for certified and legally verified wood products. The latest report to be published in June 2009 covers 7 EU countries: Belgium, France, Germany, Italy, Netherlands, Spain, and the UK. Key conclusions from the latest report include:

- The report estimates that overall, 14.8 million m3 (25%) of the 60.4 million m3 of solid timber products imported into the EU-25 during 2007 may have derived from independently certified or legally verified forests. Much of the imported certified/verified volume derived either from Russia (5.8 million m3) or other European countries (4.1 million m3). The certified/verified volume was dominated by softwood sawn lumber (3.9 million m3) and softwood logs (2.6 million m3).

- The report estimates that of the 60.4 million m3 (Roundwood Equivalent Volume) of products derived from solid wood imported into the EU from outside the EU in 2007, 12.6 million m3 (21%) are at potentially high risk of being derived from a suspicious source. However this volume amounts to only around 5% of total EU wood consumption (due to the high volumes of wood sourced domestically within the EU).

- The very high level of fragmentation both in the EU timber trade and in timber's major consuming sectors – construction and furniture – continue to present a major obstacle to chain of custody certification and the further development of markets for environmentally labeled wood products throughout the EU. Other significant obstacles are generally low levels of awareness of forest certification and legality verification and very low willingness to pay amongst end-users.

- The economic downturn is generally widening the gap between environmentally proactive operators that are now more desperate than ever to exploit the opportunities emerging for timber from increasing interest in sustainable construction and those that have not focused on environmental issues and which continue to sell primarily on price.

- Those EU companies that have made far-reaching commitments to shift to certified wood products often see this as part of a wider process of restructuring overall procurement practices in favor of a limited number of key suppliers able to provide the full range of quality services of which forest certification is only one component.

- For much of the commodity softwood and composite panels sector, high availability of PEFC or FSC certified product supply in the EU is met with only limited market requests for labeled product. Hence the opportunities for achieving a premium in this sector are extremely limited.

- Only in the rather restricted conditions that prevail in parts of the hardwood sector and to some extent in the speciality softwood sector (such as western red cedar cladding from North America) does the issue of price premiums arise. Here specific requests for certified products, particularly FSC, might be met by limited supply.

- The highest premiums – in the range of 20% to 50% on the price of delivery to the importers yard - are being asked for FSC certified tropical hardwood lumber from Africa and Brazil.

- In the temperate hardwood sector, price premiums are being sought for FSC certified American hardwoods in the range of 5%-10%

- Price premiums for tropical sawn wood supplied under one or other private sector legality verification system (such as TLTV, OLB or VLO) are typically in the range of 3% to 15% with most at the lower end of this range.

- Generally there is high level of reluctance amongst end-users to pay premiums for certified or verified legal wood products, a situation which places significant limits on the ability of suppliers to charge more. The highest premiums for FSC tropical hardwood may only occasionally be passed on when supplying high profile public sector contracts. As a result, there are signs that some importers and manufacturers implementing green procurement policies have switched their emphasis away from FSC certified products in favor of cheaper legally verified products when sourcing from tropical supplying countries. This is true even of the Netherlands which has traditionally been the strongest adherent to FSC certification.

- To date public sector procurement policies have had only a limited impact on timber purchasing practices in EU member states. The policies directly affect only a small proportion of the overall timber trade and their effectiveness is undermined by inconsistent application between and within EU member states. So far only the UK and Netherlands government have followed up implementation of the policy with systems of monitoring.

- On the other hand, there are indications that with sufficient political will and resources the influence of government procurement policies can in time extend well beyond the direct impact on immediate suppliers. Such policies can increase the sensitivity of larger importers, merchants and manufacturers to negative publicity. They can therefore provide an important additional incentive for these companies to implement far-reaching corporate commitments to sourcing verified wood products. Internal management issues also mean that if certified wood is required by major customers in the public sector and certified raw material is sufficiently available, it is simpler to switch over to 100% certified production. Interviews indicate that these trends have intensified over the last 18 months in the UK and the Netherlands and, to a lesser extent, in Belgium and France.

- Levels of trade awareness of forestry issues and commitment to responsible procurement are particularly high in those countries that have a well developed and enforced trade association timber procurement code or policy.

> Where they exist, trade association codes and policies provide a valuable framework for communication of green issues and to encourage and guide positive action. The most developed policies in the UK, Netherlands and France encourage comprehensive measures to encourage both the removal of illegal wood from trade flows and promotion of certified products. On the other hand, a frequent complaint amongst more proactive participants in these initiatives is that in the absence of strong end-user demand for verified products, voluntary private sector efforts are constantly undermined by the activities of non-members offering unverified products more cheaply. Moves to develop comprehensive responsible timber procurement policies are generally more advanced in the timber importing sector than in downstream manufacturing sectors.

The full study is due to be launched at the Chatham House Illegal Logging Update meeting to be held 23-24 June in London. After that date it will be made available on the Timber Trade Federation website (www.ttf.co.uk). The report will also be made available, with earlier reports in the series, on the DFID-funded Chatham House website:
http://www.illegal-logging.info/item_single.php?item=document&item_id=177

Slight rise in plywood restocking

According to the latest report on the UK plywood market by the TTJ, a slight rise in restocking has brought a glimmer of hope. The report notes that there has been some improvement in forward orders because "*less plywood has been imported in recent months so, even though demand is still weak, stock levels are now hitting bare minimum*". On the other hand, the TTJ also quotes one importer that customers are "*slow at committing to wood*" and ordering on a hand-to-mouth-basis and "*on a moderate scale*". There are hopes that the slow and uncertain move to restock may at least hint at greater stability in a market that has bottomed. One trader told TTJ "*demand is still light but surprisingly better than we expected*". Another described the market as "*patchy, but busy some days*". There also seems to have been some increase in intra-UK trade, suggesting a rise in underlying consumption which has coincided with improved weather conditions for construction.

UK hardwood lumber trade still very slow

Although there are a few reports of slight uptick in demand in the UK during the spring months, levels of forward ordering for the most popular hardwood species remain extremely low. There are still reports of stock being dumped at below replacement cost. A whole host factors continue to act against any move to substantially increase forward ordering including the weakness of the pound, uncertainty over the level of landed stock, the likely level of consumption and price prospects for the remainder of the year, and the lack of credit availability and credit insurance. Forward ordering remains slow despite widespread realisation that for many species there is very little wood in the supply pipeline and prices could rise sharply even with a minor uptick in global consumption.

The UK situation seems now to be favouring large stockists in Netherlands and Belgium that are able to respond to UK customers demands for wood on a little-and-often basis. Benelux companies are also responding to UK and broader European market conditions by focusing on delivering exactly what customers are asking for. They are continuing to diversify their product base and to develop new further-processed and non-standard items. They are also increasing the volume of certified hardwood products on offer despite indications that some joinery companies have scaled back their plans to move to certified wood during the recession.

The continuing commitment to certification by the large importing groups in the UK and Netherlands reflects both increasing pressure from public sector buyers and trade associations to demonstrate progress on green procurement, together with a strategic concern to expand market share in a declining market. The sustainability message is increasingly critical to improving wood's overall market prospects in relation to other materials. TTJ quotes a representative of the Belgium Group Vandecasteele with respect to their UK sales: "*out of every 20 enquiries we get today, half are for FSC-certified, as a result nearly all of 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. We also see demand increasing in the future as more high-profile projects use certified timber*".

EU VPA process moves into overdrive

In April 2009, the Republic of Congo became the second country to reach a legally binding bilateral agreement with the EU to ensure the legality of all timber exported into the EU. Formal EU FLEGT Voluntary Partnership Agreement (VPA) negotiations were completed with Ghana in July 2008. Negotiations are still underway in Malaysia, Indonesia, and Cameroon.

In the Republic of Congo, progress to develop the Legality Licensing system is well advanced. A traceability system linked to a legality definition has already been developed and is being field tested. An independent observer is in place and discussions are underway with respect to independent auditing.

In Ghana, the licensing system is expected to be operational some time in 2010. A comprehensive overhaul of state forest laws and regulatory systems is currently underway. The aim is to introduce hi-tech systems to track 100% of wood traded in Ghana to specific forest of origin. A new independent Timber Validation Department is being established to oversee the system.

Cameroon is also expected to conclude a VPA agreement before the end of June 2009. As in Ghana, the existing regulatory system is being reformed to allow for independent legality licensing, a process likely to take 2 years. Since Cameroon acts as a major corridor for exports of wood products from neighbouring countries (notably the Congo Republic and Central African Republic), a significant challenge is to accommodate imported wood into the Cameroon licensing system.

Elsewhere in Africa, Liberia, the Central African Republic, Gabon, and Madagascar are now preparing to enter VPA negotiations. DRC and Sierra Leone have also expressed interest.

MTCS endorsement boosts prospects for PEFC-certified tropical hardwoods

The Malaysian Timber Certification System (MTCS) has been endorsed by the Programme for Endorsement of Forest Certification (PEFC). According to Dr Freezailah Che Yeom, chairman of the Malaysian Timber Certification Council, "this means that the MTCS certified product manufacturers and exporters will soon be able to combine PEFC-certified material from Malaysia with other PEFC-certified material under the PEFC logo". The decision follows the outcome of a General Assembly vote among PEFC members on a recommendation by PEFC directors based on an independent assessment of MTCS. PEFC Girector General Ben Gunneberg said that PEFC's approval of MTCS, together with the recent approval of the national certification of Gabon by PEFC would lead to growing volumes of PEFC-certified tropical timber coming into the EU market. With 90% of all certification still taking place in temperate forests, this was significant.

Italian Federation signs agreement with WWF to promote certified wood

Italy's timber trade associations have not yet developed any formal environmental timber procurement policy or codes of conduct for their members. However, a potentially significant development came in early March 2009 when the Federlegno – the Italian confederation for the wood, furniture, cork and furnishing industries – signed an agreement with WWF Italy for the "*promotion of a transparent sustainable market for wood products*". The pact was signed in the presence of Luca Zaia, the Minister of Agriculture, Nutrition and Forestry.

According to the agreement, Federlegno-Arredo and WWF Italy will act co-operatively to ensure "*Italy takes responsibility for good forestry management, promotion of certification and development of credible policies in support of producer countries*". Federlegno Arredo and WWF Italy are committed to establish a joint program "*to monitor timber flows and the domestic timber market, to understand this in terms of volumes and the geographical areas of origin, to promote best practice in management and procurement, and to promote joint projects in areas most affected by deforestation*".

In the first instance, the two institutions will jointly promote procurement practices in line with the WWF Global Forest and Trade Network (GFTN) guidelines and promote the use of certified wood products, particularly in construction. A key objective will be "*to promote wood as the only certified sustainable raw material that can naturally store carbon dioxide, even throughout the product life cycle, a characteristic that distinguishes the wood than any other material*". The implication of the focus on WWF GFTN guidelines is that FSC certification is likely to be seen as the ultimate objective of procurement policy.