Amended report

Calamitous decline in EU tropical hardwood imports

The latest European import data suggests that the dramatic fall in EU tropical hardwood imports which began at the start of 2008, continued into the second quarter of 2009. Between January and June this year, European imports of tropical hardwood logs, sawn lumber, veneer and plywood were down 41%, 45%, 39% and 46% respectively compared to the same period in 2008. European import volumes of these commodities in 2009 are a small fraction of those prevailing only two years earlier in 2007. While it is easy to explain falling import volumes as a cyclical response to the global economic downturn, such has been the depth of the decline that serious issues are raised about the extent to which it might drive long-term structural changes in the European wood industry that may be generally detrimental to future prospects for tropical hardwood.

Import downturn continues into the second quarter

Chart 1 indicates that total EU-25 imports from developing countries of hardwood logs, plywood, rough sawn lumber and veneers suffered further falls in the April-June period of this year. The fall in tropical hardwood log imports has been particularly dramatic. Total EU-25 imports of this commodity reached only 109,000 m3 during the three month period, a figure which compares to over 600,000 m3 during the second quarter of 2007.

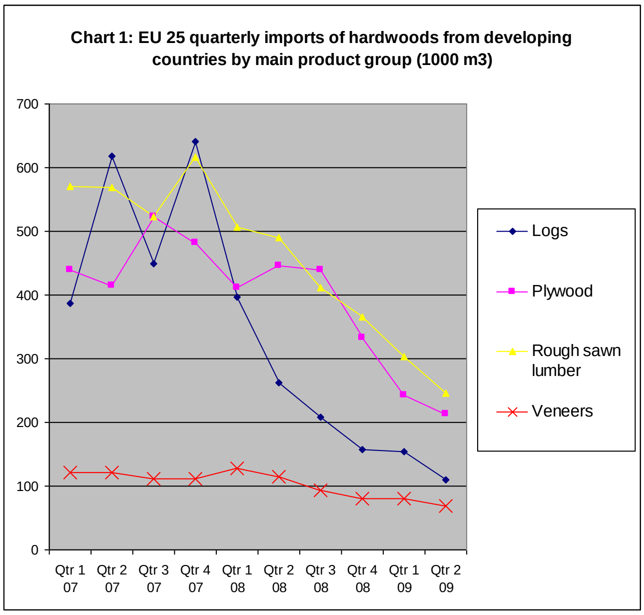


Chart 2 shows that the continuing decline in tropical hardwood imports during the second quarter of 2009 affected all the major EU markets. While the data hints that the market decline may be bottoming out in France, and the UK, imports into both the Netherlands and Spain experienced further significant downturns in the April-June period.

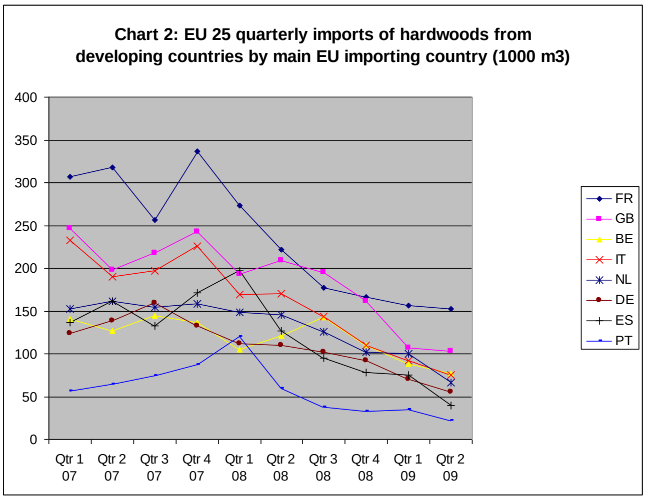
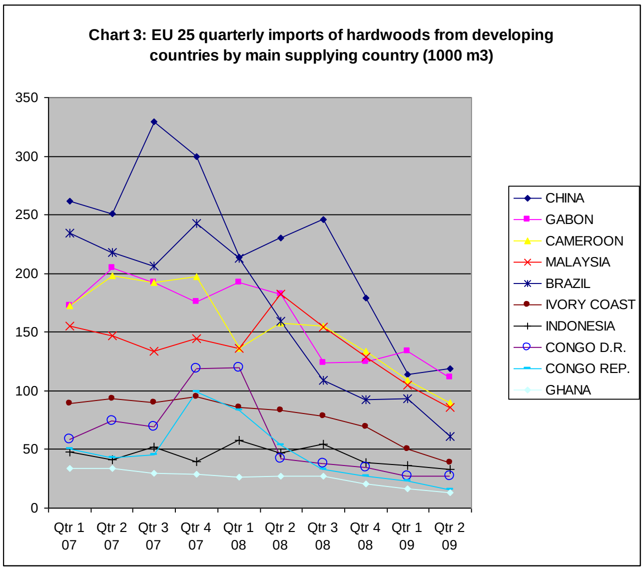


Chart 3 suggests that all the major tropical hardwood supplying countries to the EU with the exception of China experienced a decline in sales to the EU during the second quarter of 2009. Imports from China (mainly plywood) showed marginal gains during the second quarter compared to the first quarter, although the volumes involved remained well below those of the previous year.



Tables 1 through to 4 provide more detail of cumulative EU tropical hardwood imports by both major tropical supply and receiving EU country during the first half of 2009 compared to the same period in 2008. Highlights include:

- A 44% decline in imports of tropical hardwood logs into France, the main EU market for this commodity, with French imports from Gabon, the largest supplier falling a massive 43%.
- A 67% decrease in Spanish imports of tropical sawn lumber, with imports from all the major tropical supply countries down by well over 50%.
- Of all significant European importers of tropical hardwood, only Greece seems to have escaped the turmoil. Greek imports of tropical veneers were down only 3%. Greek imports of hardwood plywood from developing

countries actually increased during the period (although most of this came from China). Greek imports of tropical sawn lumber (not shown on the charts) also nearly reached 2008 levels (11,370 m3) at 11,180 m3.

- UK imports of hardwood plywood from developing countries during January to June 2009 were only half those of the same period the previous year.
- Of all significant tropical hardwood plywood suppliers to the EU, only Gabon managed to maintain levels close to those of 2008 this year. Given the huge fall in French log imports from Gabon, this is clearly indicative of a continuing shift in manufacturing location for okoume plywood from France to the African country.

Table 1: EU-25 imports of hardwood logs from tropical countries Jan-June 2009 (m3)

D_COUNTRY	BE	DE	ES	FR	IT	PT	OTHER	TOTAL
GABON	8227	5767	9373	76153	6936	5149	5413	117019
CONGO DR.	2972	302	621	19166	2415	10796	1037	37308
CAMEROON	6224	7563	3014	4388	8627	4324	1179	35318
CONGO REP.	285	521	2128	9398	2532	2020	388	17271
CAR	0	2094	1819	6387	2679	1868	48	14895
EQUAT. GUINEA	0	0	22	153	1266	0	0	1441
OTHER	75	1919	81	2849	3090	458	5095	13566
TOTAL	**17782**	**18165**	**17059**	**118494**	**27546**	**24614**	**13160**	**236820**

% change on the same period in 2008

D_COUNTRY	BE	DE	ES	FR	IT	PT	OTHER	TOTAL
GABON	24	-62	-38	-43	-58	-26	-22	-42
CONGO DR.	-71	-12	-34	-53	-15	-24	133	-47
CAMEROON	201	-35	-39	-11	-31	20	-3	-14
CONGO REP.	-50	-56	-54	-49	-72	-82	-76	-63
CAR	na	na	-25	-19	-37	98	na	-4
EQUAT. GUINEA	na	-100	-98	-92	-54	na	na	-87
OTHER	-95	-33	-60	76	76	-32	-49	-26
TOTAL	**-15**	**-50**	**-42**	**-44**	**-45**	**-35**	**-35**	**-41**

Table 2: EU-25 imports of hardwood sawn from tropical countries Jan-June 2009 (m3)

D_COUNTRY	BE	DE	ES	FR	GB	IT	NL	OTHER	TOTAL
CAMEROON	20903	5566	25546	23339	10094	32251	18272	14538	150509
BRAZIL	7868	4691	12771	24777	508	2138	30662	22760	106175
MALAYSIA	14170	14886	114	7425	9067	8371	44539	6486	105057
IVORY COAST	1969	2390	5311	3347	5748	20855	4583	7086	51290
GABON	1713	71	1045	4039	0	12287	8818	2170	30144
GHANA	2249	7548	250	4148	2758	2712	921	895	21480
CONGO DR.	5587	198	167	540	452	827	5710	2415	15897
CONGO REP.	62	1305	2235	2477	3237	1645	987	2233	14181
INDONESIA	741	4825	48	1225	1656	599	1128	2022	12244
OTHER	1797	4921	3347	4568	3220	3712	7078	5070	33712
TOTAL	**57059**	**46402**	**50834**	**75885**	**36739**	**85397**	**122698**	**65673**	**540688**

% change on the same period in 2008

D_COUNTRY	BE	DE	ES	FR	GB	IT	NL	OTHER	TOTAL
CAMEROON	-29	-34	-57	-25	-24	-35	-13	**-12**	**-34**
BRAZIL	-44	167	-72	-62	-46	-65	-56	**-52**	**-57**
MALAYSIA	-30	-15	Na	-36	-38	-21	-45	**19**	**-35**
IVORY COAST	-28	-26	-79	-47	-57	-41	-43	**-27**	**-51**
GABON	23	-77	-62	-61	-100	-55	7	**-31**	**-44**
GHANA	-42	-5	-63	-51	-19	-64	-84	**-59**	**-46**
CONGO DR.	-36	na	-73	5	-37	-59	-60	**-20**	**-47**
CONGO REP.	-98	-9	-73	-48	-45	-70	184	**-61**	**-59**
INDONESIA	-37	-31	-76	-42	-7	-25	-65	**-56**	**-41**
OTHER	-42	-8	-64	44	-15	-62	-39	**-52**	**-41**
TOTAL	**-35**	**-12**	**-67**	**-47**	**-37**	**-45**	**-45**	**-40**	**-45**

Table 3: EU-25 imports of hardwood veneer from tropical countries Jan-June 2009 (m3)

D_COUNTRY	BE	DE	ES	FR	GR	IT	OTHER	TOTAL
GABON	645	194	1153	56507	4582	9122	3933	76136
IVORY COAST	1426	8302	5558	1004	455	11709	582	29036
CAMEROON	214	271	230	216	42	10157	92	11222
CONGO REP.	624	0	1041	5458	137	645	47	7951
GHANA	209	476	1162	430	105	2919	374	5675
EQUAT. GUINEA	0	0	2960	597	0	799	202	4558
CHINA	88	477	796	14	409	778	1847	4410
OTHER	463	341	476	136	1024	457	1448	4345
TOTAL	**3669**	**10061**	**13377**	**64362**	**6754**	**36585**	**8525**	**143333**

% change on the same period in 2008

D_COUNTRY	BE	DE	ES	FR	GR	IT	OTHER	TOTAL
GABON	1916	307	3	-25	-1	-5	-34	**-21**
IVORY COAST	837	-38	-59	-24	-22	-52	-74	**-48**
CAMEROON	na	-33	-91	-8	-83	-46	-50	**-50**
CONGO REP.	na	na	575	-26	113	-78	na	**-25**
GHANA	-67	-71	-56	-47	-77	-29	-71	**-51**
EQUAT. GUINEA	na	na	-80	-80	na	-83	na	**-79**
CHINA	-71	-54	-72	-77	-57	-62	-51	**-60**
OTHER	-7	52	-58	-77	1748	-62	-40	**-29**
TOTAL	**128**	**-40**	**-65**	**-27**	**-3**	**-46**	**-46**	**-39**

Table4: EU-25 imports of hardwood plywood from developing countries Jan-Jun 2009 (m3)

D_COUNTRY	BE	DE	FR	GB	GR	IT	NL	OTHER	TOTAL
CHINA	43065	30009	27720	69901	11695	799	15022	23729	221940
MALAYSIA	10022	245	329	61021	0	1635	6807	3625	83684
INDONESIA	25179	13521	3105	4057	6	367	9755	150	56140
BRAZIL	3176	5161	5211	27487	0	634	1456	2807	45933
GABON	213	0	9656	0	47	6199	6036	94	22245
IVORY COAST	2288	226	3521	0	1193	354	0	149	7731
CAMEROON	0	0	0	0	403	1584	0	34	2022
GHANA	1087	0	63	0	542	0	0	0	1692
PARAGUAY	0	0	0	981	0	0	0	0	981
OTHER	81	105	6	258	156	45	275	81	1009
TOTAL	**85111**	**49267**	**49613**	**163706**	**14043**	**11617**	**39351**	**30669**	**443377**

% change on the same period in 2008

D_COUNTRY	BE	DE	FR	GB	GR	IT	NL	OTHER	TOTAL
CHINA	-33	-59	3	-43	6	-96	-44	-69	-47
MALAYSIA	31	-78	-54	-54	na	-49	16	-28	-46
INDONESIA	2	-31	-56	-67	-84	-85	-33	-94	-32
BRAZIL	-73	-72	-43	-49	-100	-91	-52	-77	-61
GABON	na	-100	64	na	-48	-37	-12	7	-3
IVORY COAST	-17	-60	3	na	68	47	na	-30	-2
CAMEROON	na	na	Na	na	37	14	na	na	20
GHANA	191	-100	97	-100	-39	na	na	-100	18
PARAGUAY	na	na	Na	-37	na	-100	na	-100	-44
OTHER	-90	-88	-89	-90	-1	179	-51	-84	-82
TOTAL	**-24**	**-57**	**-7**	**-49**	**6**	**-73**	**-32**	**-96**	**-46**

Evidence of structural changes

Some significant structural changes in the European wood importing industry, which began several years ago, seem now to be deepening in response to the recession. For example, dependence on just-in-time ordering of tropical hardwood goods from large corporations with concentration yards in the Benelux countries, has increased. As a result, these companies are becoming increasingly critical to the long term future of tropical wood in the EU. Uncertainty and lack of availability of credit is also encouraging a move away from any speculative purchases, and encouraging a shift to products and suppliers which are regarded as lower risk, usually to the detriment of tropical wood.

In this environment, there are some signs that the relative power of larger better capitalised importing companies and merchants is increasing at the expense of smaller companies. The larger companies are more likely to demand environmental certification and to impose other technical requirements on their suppliers. This in turn is also encouraging a general shift to low risk products from an environmental point of view. This is well illustrated by the recent announcement of Lathams Limited, a major UK panel products importer, that it is now sourcing "tropical hardwood replacement" plywood manufactured from plantation-grown eucalyptus in Uruguay. This is a worrying sign that some importers are using the fact of their actively avoiding tropical hardwood to improve image.

It is also worth highlighting that while imports of tropical hardwood have declined dramatically this year, sales and production of some important competing materials are actually rising – again because they are perceived to be lower risk, both in terms of environmental and technical performance and their ready availability at reasonably stable (although not necessarily particularly low) prices. For example, in their latest issue, the German trade journal EUWID reports that German wood plastic composite (WPC) manufacturers are continuing to invest in new capacity. WPCs are becoming an increasingly important competitor for tropical hardwoods, particularly in the decking sector but also for cladding, construction mouldings, and garden furniture. EUWID reckon that total European WPC capacity now extends to roughly 120,000 tonnes, while European imports of WPCs from North America (with capacity now closer to 1 million tonnes) are also increasing.

In a similar vein, the UK's TTJ recently reported that UK sales of thermally-treated and acetylised softwood products have been rising this year despite the recession. These products also target tropical hardwood market niches, such as window frames, decking, cladding, bridges, and other external applications.

The combination of these changes on the demand side, and the supply side problems emerging from widespread shutdowns and closures in tropical countries during the recession, suggests tropical wood suppliers may face a major challenge to rebound from the current downturn in the European market even as economic conditions begin to improve. Certainly, it will require much larger investments in marketing, particularly to the architectural and design profession, product development, and certification, than has previously been applied by the tropical hardwood industry. But financing such activities may be particularly difficult after such a prolonged slump.

If the tropical wood industry is to stop the rot, it has no option but to find more effective ways of working together to implement a coherent market access strategy. There may be some scope to use the EU's FLEGT VPA programme as a platform for such a strategy in Europe.

NB. All trade data is derived from Forest Industries Intelligence Industries analysis of Eurostat and Customs data supplied by BTS Ltd