European bounce weaker than other major economies

In its latest forecasts released on 21st April, the IMF predicts that global output on a purchasing power basis will see healthy growth of 4.2% this year, a full percentage point more than it foresaw only six months ago. Other forecasts are even more optimistic, predicting global growth of 4.5% in 2010 – close to the average pace of the boom years prior to the recession.

Unfortunately for Europe, the healthy pace of global growth belies significant and growing differences between regions. The largest emerging economies – China, India and Brazil – are accelerating fastest with growth forecast by the IMF to be close to, or to exceed, double-digit rates. The IMF reckons that the US will grow by as much as 3% this year. In contrast Europe, where the downturn was particularly pronounced during 2009, is now experiencing one of the weakest recoveries. The IMF expects output growth of only 1% in the euro-zone and 1.3% in the UK this year.

The Economist newspaper cites various reasons for the relative weakness of the European economic recovery this year. It notes that the European economy has high relative dependence on the weak financial sector. Relatively large public and consumer debt levels have limited the scope of European governments to apply vigorous monetary and fiscal stimulus packages. Individual countries in the euro-zone have also been constrained by their inability to introduce independent monetary policies.

The European economy is less flexible than some other major economies so that, in contrast to the US, productivity has actually slumped in Europe during the downturn. This combined to the strength of the euro has limited the potential for European companies to boost exports.

Although there are now some signs that economic recovery is underway in Europe, there remain significant downside risks. A major concern is that sovereign debt fears - which threatened to overwhelm Greece before other euro-zone countries recently stepped in with a massive support programme – may now spread to other European countries. Portugal and Italy look to be particularly at risk. Even if the worst fears of economists do not materialise, current high levels of indebtedness across Europe will inevitably force many European countries to tighten fiscal policy further.

The European economy received a boost this year as companies generally stopped the fierce destocking that exacerbated the recession during 2009. This is apparent in the wood sector from the bottoming out and upturn in wood imports beginning in the last quarter of 2009.

But if this recovery in Europe is to take root, it must be able to cope with a gradual withdrawal of emergency money support. It will need to develop a more sustained impetus from the private sector than a short-term turnaround in the inventory cycle.

That will require new sources of demand. With overall domestic consumption in major end-using sectors like construction and furniture stagnant, for the wood sector this means serious efforts to increase and regain market share from alternative materials. It will require increased private investment and other measures to improve productivity and reduce costs in a drive to boost export demand for Europe’s finished wood products.

European hardwood decking market picks up

After a slow start to the spring season due to poor weather and market uncertainty, the European market for decking hardwoods has now picked up. Early signs are that consumption in this sector may be a little better than last year.

Cautious buying by European importers during 2009 in the face of market uncertainty and limited credit means that on-ground stocks of tropical hardwood decking material are very low for the time of year. This factor combined with reports of tight supplies in all the major producing regions has led to mounting concerns of potential supply problems later in the season.

Lead times for European delivery of forward orders of tropical hardwood decking are now extending well into the third quarter of the year so that much new material is only scheduled to arrive after the end of the current summer season.

Forward prices for tropical hardwood decking products quoted in dollars are generally forecast to continue to rise throughout the year. Progressive strengthening of the dollar against European currencies this year is exaggerating this price increase for European importers.

Some importers suggest that they are having problems passing on these price increases to their European customers. The continuing gap between rising forward prices and many European consumers willingness to pay is likely to act as a drag on this section of the European market for tropical hardwoods during 2010.

European market for tropical redwoods still very challenging

The European market for primary tropical redwood species remains very difficult. Significant gaps are now opening up in existing European landed stocks of key African species such as sapele, iroko and sipo. But African mills are low on logs and operating only on short-shifts and are in no position to supply wood at short notice. African mills are generally not holding stock and are only sawing to order with the result that lead times are now stretching well into the third quarter of the year.

CIF prices quoted in euros to European buyers for African sapele, iroko and sipo are generally firming. However, as in other sections of the European tropical wood market, importers report that end-user consumption is still very patchy and there is little market acceptance of the need to pay higher prices.

A similar situation prevails in the market for Malaysian sawn lumber products. For example, the German trade journal EUWID reports that current CIF North Sea port prices for 3x6” meranti kiln dried sawn lumber are currently in the region of $950-1050/m3. Meanwhile, German importers corresponding onward sales prices are only in the region of €800/m3 ($1060/m3) free buyers’ yard, implying very tight margins within the European distribution chain.

The pace of freight rate increases, which impacted heavily on the European market for tropical hardwood in the first quarter of 2010, seems to have slowed in recent weeks. However, shipping lines are reported to be considering further freight rate increases in May.

Container freight increases encourage shift to brake-bulk plywood shipment

One impact of recent container freight rate increases has been to encourage a significant shift towards break-bulk imports of tropical hardwood plywood into the EU.

For example, the UK trade journal TTJ recently reported that Altripan UK has just received its largest ever shipment comprising 16,900m3 of Chinese plywood carried on the maiden voyage of break bulk vessel MV Panamana. Altripan said restarting large-scale break-bulk shipment was down to a combination of rising container freight rates, improved product condition of break-bulk transport and reducing the need for feeder shipments from parent company Altripan NV in Belgium.

The shipment contained a full range of products including hardwood throughout, combi-core and film-faced plywood. Another significant feature was that the shipment contained a large proportion of FSC certified Chinese plywood in line with Altripan's policy of promoting and marketing FSC, PEFC, and MTCS certified panels.

European tropical log market remains very slow

Economic uncertainty and continuing turmoil in Europe's hardwood veneer and plywood sectors have resulted in continuing low levels of tropical hardwood log imports. African log prices quoted in euros on offer to European importers are reasonably stable but leaning towards a firming tendency.

The recent announcement by the Gabonese government that the proposed log export ban due to be imposed from 30 April 2010 is to be replaced by the phased introduction of an export quota system has greatly reduced the urgency surrounding log purchases by European plywood manufacturers that gave a short-term boost to okoume log imports in recent months.

DLH Group in major restructuring

Danish-based DLH, one of Europe's largest tropical hardwood trading companies, has announced major restructuring following a sharp decline in revenue and large inventory write-downs during 2009.

The Group's "Back to Black" strategy to be implemented over the next 2 years will involve divestment of all forestry and production activities, including Congolaise Industrielle des Bois (CIB), Gabonaise Industrielle des Bois (GIB), and operations in the Netherlands, Malaysia and the US.

According to a DLH spokesman interviewed by the TTJ, the strategy aims to return DLH to its "core values" and give it a more stable future. The DLH spokesman said that “the forestry businesses had become a cash drain and we’re getting back to our strengths as an international trader. The new strategy will make the group market- rather than supply-driven”.

European retailers push for a tougher stance on illegal imports

A group of 4 leading European retailers launched the Timber Retail Coalition (TRC) on 6 April 2010 "to support measures to curb illegally harvested timber". Kingfisher, Marks & Spencer, IKEA and Carrefour Group are the founding members. According to a TRC statement, it is "committed to tackling global deforestation linked to climate change. By providing a single platform for engaging with politicians and policymakers at national and EU levels, the TRC will significantly enhance this effort".

The TRC supports the European Commission’s on-going efforts to create an EU-wide regulation requiring importers and domestic wood suppliers to implement due diligence systems designed to minimise the risk of their trading in illegal wood. The TRC sees these efforts as "a crucial step towards the widespread adoption of responsible timber sourcing practices". The TRC believes the regulation will "help to create a level playing field, which currently does not exist as the illegally logged timber products industry still has easy access to the EU marketplace".

According to a TRC spokesman interviewed by the TTJ, the coalition wants the EU regulation to go further than currently proposed by the European Commission and European Council. TRC support a specific prohibition on illegal imports with punishment for timber companies that knowingly place illegal timber on the market. But TRC also says that the burden of proof should lie with the entity that lays charges and that the principles of due diligence should not be superseded.

Next month, the European Parliament's Environment Committee is due to vote on a second more far-reaching draft of the proposed legislation tabled by Green MEP Caroline Lucas. A full plenary session of the European Parliament will then vote in June. After that further negotiations may have to be held to formulate a consensus text acceptable both to the European Parliament and to the European Council.