

Fine balance between limited supply and low consumption

The European market for tropical hardwood sawn lumber has changed little over recent weeks, now maintaining a fine and potentially unstable balance between generally low grounded stock levels, very low forward supplies and much reduced consumption. CIF prices are generally firming on the back of rising freight rates and shippers efforts to raise FOB prices.

The supply situation is relatively easy to read. Although shippers are able to meet current levels of limited demand without too much difficulty, their stock levels are low and there is little wood in the pipeline. Therefore the suggestion is that any increase in demand is likely to lead to shortages fairly quickly.

The demand situation is much more difficult to read. Given significant reductions in tropical wood imports revealed by EU trade data, there can be no doubt that underlying consumption has been well down this year. It is also clear that many hardwood trading companies in Europe, particularly smaller, more narrowly focused companies without resources and capacity to hold stock, have suffered considerably during 2009.

Nevertheless, several European hardwood traders contacted in late November report that, while a difficult year, 2009 was not as bad as they had originally anticipated. These traders are generally larger, better capitalised and more diversified companies. They suggest that while consumption of softwoods and panels in the new build sector has been very badly hit, hardwoods which are more widely used in the finishing and decorative sectors have at least seen some benefit from continuing activity in the renovation and refurbishment sectors.

As to prospects for next year, few traders are willing to make any far-reaching predictions. The recession may be technically over in many European countries, but continuing high levels of unemployment and of public and consumer debt imply only a slow return to growth.

There continue to be mixed reports of European continental stock levels of sapele sawn lumber. There are indications that these are now much lower than in the summer months. Certainly the kiln drying operators that were still working through large quantities of sapele sawn lumber this time last year are now very quiet. Nevertheless, traders report that the large continental stockists are still offering sapele sawn lumber from existing grounded stock at low prices. Competition for sales of sapele grounded stocks remains extremely fierce, with traders reporting that sales will be lost if prices are only very marginally above the competition.

So there are still very few people willing to speculate on the forward market, particularly as shipping times are now very extended. Forward orders placed for sapele at the end of November would not be shipped now until March/April. Freight rates are another area of uncertainty. After hitting a low in early 2009, they have been rising steeply from the second quarter of the year onwards.

The market for iroko remains patchy, some traders reporting “consistent demand”, other suggesting sales are sluggish. The market picture for framire is equally mixed.

One large European trader noted that “framire supply was insufficient to meet demand at the start of the year but by the summer months production was again in excess of consumption. Now it is again becoming difficult to secure adequate supplies and prices are firming”.

Meanwhile a trader in the UK reports that “at present meranti is very much taking a back seat - this market has become increasingly oriented towards sapele”. Although he also conceded that the situation in the UK is different from that on the European continent: “the UK has generally only ever bought the lightest and cheapest meranti species which means it is often compared unfavourably against sapele and dismissed unfairly”.

Furthermore, longer term prospects for meranti in the UK and wider European market are improving now that it is widely available as MTCS certified, and soon PEFC certified, and with faster delivery times for forward orders than equivalent African species. This trader noted that FOB prices for meranti, after falling significantly during the first part of 2009 have remained stable over recent months. However CIF prices have increased in response to rising freight rates.

Some traders optimistic about prospects for tropical wood in Europe

European traders interviewed over the last few days have questioned some of the more gloomy conclusions regarding future long-term prospects for tropical hardwoods in Europe reported in previous ITTO reports. For example, one trader made the following comment regarding the threat posed to tropical hardwoods from alternatives:

“Species like sapele and iroko all have a trigger point at which customers will start looking for alternatives. Prices for these species are not at that level yet. In practice there are not actually that many alternatives. I am not entirely convinced by modified softwoods – while quality and durability can be very good, availability is still quite restricted and prices are not very competitive. In a conservative market like the UK, many buyers prefer to use what they know. That means sapele which has become very well established in the market”.

Another trader noted that heat-treated and acetylated softwood alternatives to tropical hardwood are “still very much on the fringes” and that those companies now trading in these products “are having difficulty moving them in volume”. This trader also felt that “the timber trade generally has a significant problem of loss of market share to alternative materials. But I don’t necessarily think that tropical wood is in long-term decline against other timbers.”

This comment was mirrored by another tropical hardwood trader who was optimistic that the growing availability of legally verified and PEFC and FSC certified tropical hardwood should neutralise the negative environmental image and help turn the tide.

European customers preferring legally verified over FSC certified

Reports continue to suggest that relatively high prices have meant only limited demand for FSC certified tropical hardwoods in Europe. Those buyers seeking

environmental assurances have tended to prefer wood supplied under various legality assurance systems being offered at little or no premium over the unverified product. In the UK, there are some preliminary enquiries just coming through specifically for FSC certified tropical hardwood for 2012 Olympic construction projects. However it is too early to say whether procurement officials will be willing to pay the 20% or so premium generally required to secure FSC certified tropical product.

Some traders also expressed concern over the release of new FSC report indicating that PEFC certification does not meet the requirements of the FSC Controlled Wood (CW) standard. Non-certified material in FSC %-labelled and FSC Mixed products must comply with FSC CW and be independently verified before being mixed with certified material. FSC CW requires a minimum performance level on the ground to avoid illegal harvesting, violation of traditional and civil rights, threats to High Conservation Values, conversion from forests and other wooded ecosystems and the use of Genetically Modified Organisms

Many traders supplying FSC percentage labelled products had been relying on PEFC certified wood to demonstrate conformance to FSC CW. This was seen as a pragmatic response to the challenges and extra costs faced by traders due to the failure of FSC and PEFC to co-operate in any meaningful way. However trading companies using the FSC labels will now have no option but to introduce additional potentially costly CW risk assessment and verification procedures. The underlying message of the FSC report seems to be that the two certification systems remain as far apart as ever. Ultimately the only realistic option for traders may be to choose to work exclusively with one or other of the two systems.

FSC evidently wants to encourage more traders into their camp. But a strategy that implies extra costs at a time when there is no strong market incentive for FSC may have the opposite effect. In fact one plywood trader suggested that the negative implications of the FSC report are already being felt in Malaysia where the MTCS certification system was recently endorsed by the PEFC. Those Malaysian plywood mills that previously supplied FSC Mixed products and which had relied heavily on MTCS certified material for the non-FSC component are now showing signs of switching to supply of PEFC products. The latter is given equivalent recognition to FSC in many European government procurement policies so there may be little incentive for Malaysian suppliers to continue to engage with FSC.