

Europe market report – 6 June 2008

Sapele prices under pressure in the EU

Prices for existing landed stocks of sapele sawn lumber in the EU are now under significant pressure. Although underlying levels of consumption are still holding up reasonably well, despite the gloomy economic news, importers are nervous about future prospects. Many are also holding high stocks of sapele sawn lumber – partly a hangover from last year when a lot of product wasn't shipped on time due to transport difficulties. A significant volume arrived earlier this year which is now a depreciating asset sitting in importers yards.

Those importers that also deal in softwood products face serious financial difficulties as softwood demand has declined rapidly this year, softwood prices have plummeted and stocks have mushroomed. There are reports that some importers on the continent are now sitting on softwood stocks in excess of 100,000 m³.

Under such precarious economic conditions, European importers are now extremely reluctant to enter the forward market for hardwood sawn lumber and are happy to fill any gaps that may appear stocks through cross-trading with other importers.

With European forward markets so slow, there are reports that African sawmillers are starting to reduce FOB prices for sapele. Nevertheless, conditions of relatively tight supply in Africa and continuing good demand from Asian markets, imply that forward prices are unlikely to fall sharply. In any case, for European importers the decline in FOB prices is being partly off-set by increases in freight rates in response to high fuel costs. Meanwhile prices for other species of African sawn lumber have been holding up reasonably well with relatively slow consumption balanced by generally tight supply.

Prices for meranti sawn lumber have remained stable and are still competitive in the EU market due to the relatively weak dollar rate. With supply tight and consistent demand from alternative markets, Malaysian shippers have seen no reason to give ground on prices to the European market despite slow forward buying.

Prices for Brazilian sawn lumber in the EU market are also holding steady, although the reality is that volumes available to European buyers are currently very restricted. This is a consequence of Brazilian government efforts to tighten control over the hardwood industry – delaying approval of forest management plans - following reports of an increase in the rate of Amazonian deforestation in Brazil at the second half of last year.

Expectations are that forward demand for tropical hardwood sawn lumber in Europe will slow virtually to a halt over the summer vacation period starting from the beginning of July. Forward demand is also expected to remain sluggish at least until the fourth of the year, perhaps into 2009.

EU plywood market weakens

The UK plywood market is becoming increasingly difficult. Buying by the large UK merchant groups has fallen in response to a significant decline in house-starts and residential sales. Elsewhere in Europe, the German plywood market is now extremely slow, although there are reports that the French and Netherlands markets are holding up reasonably well.

Although Chinese plywood products have taken a larger share of the European market in recent times, the competitive edge of Chinese exporters has been blunted this year

by the removal government subsidies and as fuel and labour costs have risen dramatically in China.

Malaysian exporters are the main beneficiaries of China's reduced competitiveness, particularly owing to Malaysia's lower GSP rate. Malaysian exporters are also becoming the suppliers of choice for many of the EU's larger distributors due to their ability to supply significant quantities of MTCC and FSC certified plywood product. An increasing proportion of Malaysian plywood imported into the EU comprises a hardwood face over an FSC-certified radiata pine core. There are also reports of Malaysian plywood manufacturers promoting new plywood products to European buyers which combine a tropical hardwood face with a palm core. While there is always likely to be niche demand for 100% tropical hardwood plywood for the most demanding external applications, these new "green" products have obvious attraction in the EU market for less demanding applications such as temporary site hoardings.

The government crackdown on Amazonian forestry operations has meant that availability of Brazilian tropical hardwood plywood to European importers is currently very restricted. Deliveries of Brazilian elliotis pine plywood are reported to be inconsistent and often subject to delay. European demand for elliotis pine plywood is expected to fall for the rest of the year as the EU's duty-free softwood plywood quota has now been filled.

French plywood price fixing cartel exposed

According to a recent report in the TTJ, six French plywood manufacturers have been fined a total of €8 million for engaging in a price fixing cartel which lasted for 17 years. UPM escaped a fine after it blew the whistle on the cartel, described by the French competition authority Conseil de la Concurrence as "very serious" and damaging to the economy. Almost 70% of tropical hardwood plywood sales in France are thought to have affected by the price fixing. Companies fined are Jean Thebault, Plysol, Rougier Panneaux, Etablissements A Mathe, Etablissements Guy Joubert, and Etablissements Allin. The Conseil's investigation focused mainly on gaboon plywood, with the plywood companies found to have set up a common price scale which served as a basis for fixing the prices of their different products based on the price of a standard panel. The practice continued between 1987 and 2004.

New UK standard for responsible sourcing of construction products

The UK's Building research Establishment (BRE) is developing a new Standard for the Responsible Sourcing of Construction Products – known as BS 6001: 2008 – due to be launched in August 2008. The standard aims to level the playing field between construction products. By increasing scrutiny of the environmental impact of the supply chains of competing products, the standard has potential to boost market prospects for wood.

Impetus for development of the standard comes from expansion of the BRE's Environmental Assessment Method (BREEAM) for buildings. A representative of BRE speaking to the UK's TTJ notes that "the timber industry has almost a 20 year head-start when it comes to supply chain certification and we acknowledged this by providing credits under BREEAM for certified timber. Yet this gave one material an opportunity to promote its sustainability credentials which other materials couldn't achieve. To provide better comparability in sustainability terms across construction,

other sectors also need a mechanism for proving progress and rewarding good production or procurement practice. Hence our recent consultation on a proposed new standard to cover responsible sourcing in every area of construction products”. The standard encompasses the social, economic and environmental impacts of construction materials sourcing. It addresses aspects such as stakeholder engagement, labour practices and the environmental stewardship shown by the supply chains serving the different materials sectors upstream of the manufacturer. The standard is intended to form the core of a Responsibly Sourced Materials certification scheme. The framework will incorporate existing certification schemes and other industry initiatives to avoid adding additional administrative burdens of auditing and verification. It will provide a basis for addressing the Responsible Sourcing of Materials at both sector and company levels.

More details: <http://www.bre.co.uk/responsiblesourcing/page.jsp?id=1293>