

Low confidence in EU market

The on-going financial crises across Europe and the housing market bust in several key markets including Spain and the UK have dented confidence amongst European hardwood buyers. While hardwoods remain a fashionable product in the EU, valued for their quality, aesthetic appeal and natural warmth, overall levels of consumption are falling as the market has shrunk, and as more buyers look for ways to cut costs. Trade contacts indicate that demand did not pick up in September as is usual after the summer vacation period. Meanwhile on-ground sales prices for headline tropical species such as sapele and meranti are below replacement cost as importers' main concerns have been to off-load existing stocks and maintain cash flow rather than to consider the possibility of future short falls.

Signs are that the Spanish market is particularly weak at present. Stocks are relatively high and manufacturing activity is well down. The construction boom that fuelled strong growth in hardwood demand in previous years is now well and truly over. Unlike their Italian counter-parts, joinery manufacturers in the country did little to develop export markets during the boom period so the dramatic downturn in domestic demand has felt particularly painful. Efforts are now being made to diversify markets in other European countries and the Middle East but this is a struggle as manufacturers everywhere are looking for new buyers.

The UK has also suffered a dramatic downturn in the housing market as credit for home buyers has dried up. The slowdown in joinery activity has been less dramatic in the UK than in Spain, with some contacts suggesting that this sector continues to absorb reasonable volumes. However there is serious concern over apparent lack of new orders emerging in the joinery sector and prospects for consumption going forward into the New Year. Importers are generally keeping stocks low, only purchasing in small volumes as and when required, and keeping a very close eye on price and specification. The end of Ireland's construction boom is also being felt in slow demand for hardwoods.

Reports from Germany and the Benelux countries also suggest that the slowdown in consumption has left importers holding excess inventories in the main commodity grades of tropical hardwood with little need to place new orders.

Second quarter results of DLH, a leading Denmark-based hardwood trading company with sales operations in several European countries, provide one indication of the recent difficult trading conditions in Europe. Company turnover for the period was down 6.5% on the same period in 2007. This follows a 5.7% decline in the first quarter of the year. The fall in turnover was due to a combination of lower sales and price reductions, particularly for African timbers. In addition, business in Brazilian timbers was down due to the relative strength of the Real and resulting loss of competitiveness. DLH has cut production at its Brazilian facilities in response. Overall the company now expects turnover of DKK5.3 billion in 2008, down from 5.7 billion in 2007. Nevertheless DLH sales to some markets have increased this year, including to Eastern Europe and the Far and Middle East.

EC illegal logging legislation continues to be delayed

There continue to be delays to the release of the European Commission Communication containing proposals for EU-wide legislation designed to prevent imports of illegal wood products. The Communication was originally scheduled for April 2008 with a draft parliamentary bill to be prepared by May 2008. The

Communication is now scheduled to be considered by the European Commission on 15 October. But even if approved then, it is now doubtful that the proposed legislation can be brought into force by the European Parliament before the end of the legislative period in mid 2009.

According to the European Timber Trade Federation (FEBO), quoted in the German trade journal EUWID, the long delay is due to “internal voting difficulties in a number of the Commission’s departments”. However, contacts close to the EC suggest that the delay also reflects dissatisfaction within sections of the European trade and industry for the “due diligence” legislative proposal currently on the table. This proposal – as outlined by the European Commission at a Chatham House meeting in London in July – is that EU wood trading companies would be under a legal obligation to implement effective management systems to reduce the risk of trade in illegal wood. The aim would not be for the regulatory authorities to capture or monitor individual shipments to ensure they are legal. Instead companies would be allowed to use risk assessment as part of the due diligence process, so there would be no necessity for traceability and certification for imported wood supplies from countries considered low risk from the perspective of illegal wood supply. There would also be formal recognition for legality licenses issued under the terms of FLEGT Voluntary Partnership Agreements (VPAs) in the legislation. For product for which these are available, EU companies would need to take no further action to demonstrate due diligence.

However there seems to be a fear amongst sections of the EU trade and industry that such legislation would add unacceptable costs that can be ill afforded at a time of mounting economic problems. Certain industry elements are believed to have been pushing for the existing proposal to be dropped in favour of more emphasis on the existing VPA process. Others have been suggesting that more thought should be given to introduction of legislation closer to the U.S. Lacey Act which, they suggest, was dismissed out of hand too early in the process.