

Market for tropical hardwood lumber subdued but stable

The changing political situation in the Ivory Coast is a major point of discussion by European traders and policy makers and is affecting the availability of a few species. However it has not had a significant impact on the overall market for tropical wood in the EU. The further decline in availability from Ivory Coast – which in any case has been low now for many years - has been compensated by a slight easing in the supply situation elsewhere in Africa. At the same time, European demand for both tropical logs and lumber remains subdued, so the overall balance between supply and demand is being maintained and prices for most species and products – with a few exceptions – are stable.

The combination of political unrest and EU sanctions resulted in European imports of tropical wood from Ivory Coast effectively grinding to a halt in March and April. As numerous sawmills in the Ivory Coast closed during the period of unrest, it remains to be seen how quickly and in what volumes shipments from the country will resume with the recent end to the power struggle and the EU's decision on 12 April to lift sanctions. This last act allows European shipping lines to call once again at the ports of Abidjan and San Pedro.

Meanwhile, the problems in the Ivory Coast have meant that framire sawn lumber is no longer available and prices have been firming. Those European buyers that had become heavily dependent on it – mainly in the UK for utility joinery applications – are now being encouraged to switch to sapele which, while more expensive, generally provides higher quality. The European market for sapele has improved slightly on the back of this development and prices have firmed a little. The Ivory Coast situation has also boosted prospects for Ghanaian wawa which is substituting for Ivory Coast samba. However, lack of availability of ceiba veneers from Ivory Coast has remained a problem for European blockboard manufacturers.

Meanwhile the European trade has already become accustomed to tight supplies of iroko sawn lumber – the other major export from Ivory Coast – and the limited volumes of iroko required are now being sourced from other countries including Cameroon and Ghana. Prices for iroko have remained stable recently.

The impact of the log export ban in Gabon – now a year old – is also being felt in the sawn lumber market. Availability of some specialist niche species used in high class interior furniture and joinery – such as zebrano and padauk – is now restricted. This is because a significant proportion of supplies were previously derived from Gabonese logs custom-cut in the EU.

Although there has been some upturn in European demand for tropical wood this year, most buyers are maintaining their cautious attitude, maintaining tight control over stock levels and not engaging in speculative purchasing. Joinery and furniture manufacturers remain very price sensitive and strongly focused on ensuring suppliers deliver precisely to specification.

Shipping times for hardwood products from West and Central Africa, which extended up to 4 months for some products at the beginning of the year, have now shortened slightly to 2-3 months. At the same time, some larger European importers have been taking advantage of the decline in African hardwood processing capacity over the last two years by investing in capacity for contract

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kiln drying in Europe. This allows them to service importers that are now more likely to buy green or shipping dry instead of KD from Africa. These developments have meant that availability of most standard items in Europe is keeping pace with current levels of demand.

The supply situation for some popular specifications of Far Eastern hardwood lumber presents a contrast. Log prices in Indonesia and Malaysia have been rising dramatically in recent times due to high demand from the plywood industry and the strength and persistence of the rainy season. The weakness of the dollar against domestic currencies is another reason for shippers in the Far East to increase their dollar-denominated prices for hardwood lumber products on offer to European buyers. Supplies and US\$ CIF Europe prices for bangkirai decking profiles, meranti lumber and window scantlings have all been rising in recent weeks. The supply problems are so intense in Indonesia, that shippers are no longer taking new orders for bangkirai decking from European buyers and delivery times even on existing orders now extend to very late in the European summer season.

EU extends embargo on trade with Myanmar

On 12 April the European Union agreed to extend its embargo on trade with Myanmar for a further twelve months. The embargo includes all trade in timber including the teak for which the country is best known.

Press reports indicate there was not unanimous agreement within the EU over the continuation of trade sanctions against Myanmar. Some Member States with stronger economic links to Myanmar argued that the sanctions regime should be modified. This was partly in response to the suggestion by Khin Maung Swe, leader of National Democratic Force (one of the opposition pro-democracy parties), who argued that the sanctions mainly act against the interests of small and medium sized enterprises in the country. Germany, Italy, Spain and Austria reportedly pushed for modification of sanctions whereas the United Kingdom, Czech Republic and others urged that they should remain in place.

While the sanctions were renewed for another year at the beginning of April, an indication that the EU's position may be easing was news that a delegation of approximately twenty-four European companies visited Myanmar towards the end of April in what was designated as an 'economic fact-finding trip'.

The sanctions regime has led to a considerable reduction in availability of Myanmar teak in the European market, but traders report that supply has not dried up as lumber continues to arrive via various indirect routes.

Impact of Japan's earthquake on European plywood trade

The effects of the Japanese earthquake and tsunami are being strongly felt in Europe's plywood trade and may even have long-term repercussions for supply to the continent. The destruction of a significant proportion of Japan's domestic plywood capacity and diversion of plywood from other parts of Asia for rebuilding work has led to significant short-falls in supply available to European buyers and a rapid increase in prices.

The effects of the earthquake on the plywood trade in Europe have been particularly pronounced because the event occurred at a time when tropical log supplies in south-east Asia were already low and many traders were working from depleted inventories. Even before the earthquake, there were signs of rising demand in Europe as importers were taking steps to rebuild stocks of South East Asian plywood which were at historically very low levels. Prices for Chinese plywood were also on the rise in response to rising costs of fuel, labour and transport during recent months.

The long-term impact of this turmoil on the European market remains uncertain, but the immediate effect has been to encourage a further switch in European buying towards cheaper Chinese products and away from Malaysian and Indonesian products. The decision to reduce the volume of European trade in South East Asian products has been mutual, with Malaysian and Indonesian shippers actively switching out of the European market in favour of the more lucrative Japanese market. Availability of thin and film faced South East Asian plywood grades which are more in demand in Japan is particularly restricted. Standard BB/CC grades have been less affected, although even here prices have been rising and delivery times becoming more extended.

Birch plywood, particularly from Finland, has been another beneficiary of recent events, with film faced grades experiencing rising demand as a substitute for Indonesian products. There is also speculation amongst some traders that low availability of South East Asian plywood may be compensated by an increase in European imports of Brazilian tropical hardwood plywood. However other traders are sceptical pointing to the strength of the Brazilian currency and the recent growth in Brazil's domestic market which has greatly reduced availability of Brazilian product to overseas buyers.

Meanwhile European orders of Chinese plywood received a considerable boost and in recent weeks large volumes have arrived in Europe, particularly the UK. In fact so much Chinese plywood has arrived that there are concerns that supply may overshoot demand. While the supply equation has changed and importers have rushed to buy on a rising market, the underlying problem of sluggish consumption persists in the European market. The cycle of boom and bust, which so often characterises the European hardwood plywood market, looks set to turn once again.