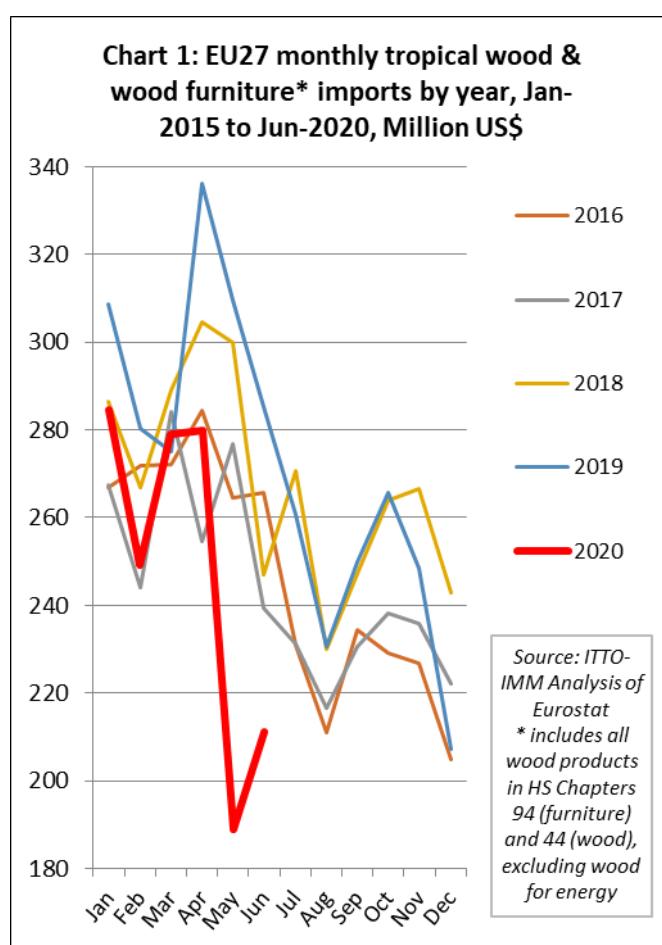


COVID-19 downturn in EU27 tropical imports may be less severe than first forecast

The downturn in EU imports of wood and wood furniture products during the initial period of the COVID-19 pandemic may be less severe than first forecast. As expected, EU27 (i.e. excluding the UK) tropical wood and wood furniture product imports fell sharply in May in response to supply side problems and the lockdown measures in most of the main EU markets, losing around one third of value against the five-year average for the month.

However, imports were already recovering in June, a month which in a more typical year is when imports tend to slow before the summer holiday period (Chart 1). Imports during June were only around 20% below the 5-year average for that month. In total, EU27 imports of all tropical wood and wood furniture products in the first half of 2020 were US\$1.49 billion, 17% less than the same period in 2019.

There is a reasonable chance that, if the recovery continues over the summer months, overall imports of tropical wood and wood furniture in 2020 will not be too far below 2019 or the five-year average. This does assume, however, that there is no significant uptick in COVID-19 cases in the EU with the onset of winter leading to widespread resumption of lockdown measures. As things stand, there is a still concern in the EU about the possibility of a second wave.



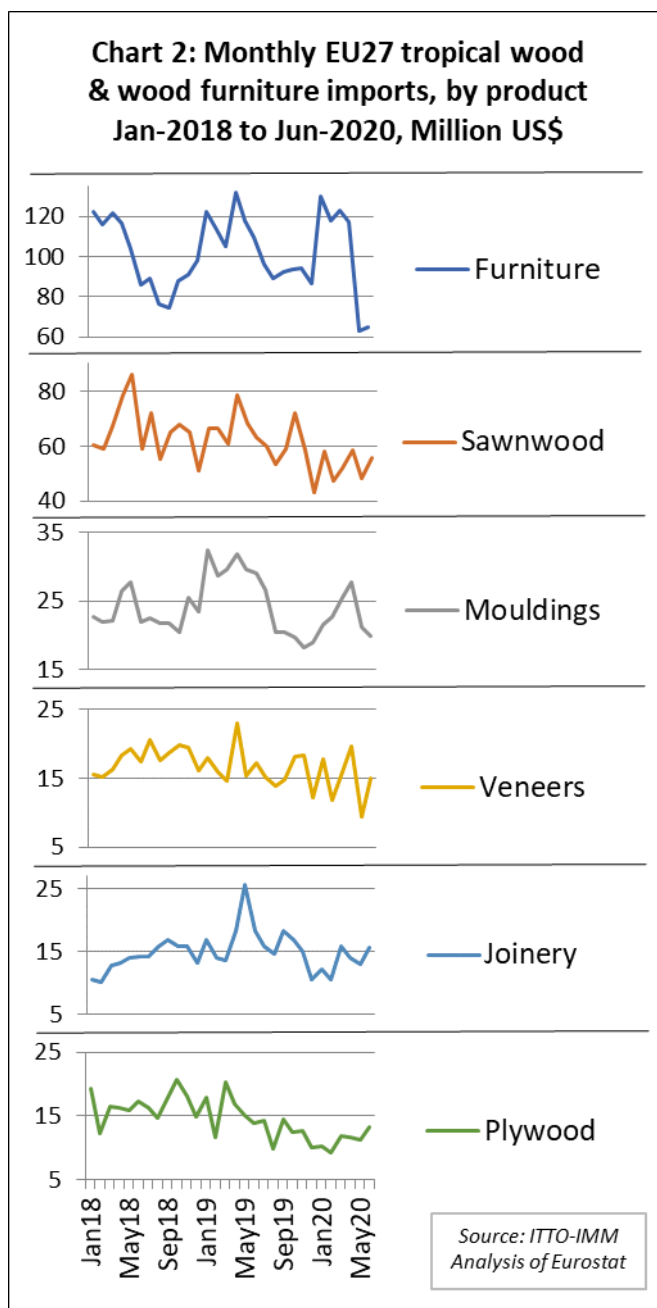
More positively, anecdotal reports suggest that the DIY sector in the EU remained quite buoyant in some countries throughout the lockdown months with many people taking the opportunity to carry out home improvement work. In those EU countries with less stringent lockdowns, such as the Netherlands and Sweden, commercial construction and some manufacturing activity also continued, at a slower pace but without interruption.

Another reason for optimism is the agreement reached between the leaders of the 27 EU Member States at a summit on 21st July 2020 on a comprehensive fiscal stimulus package worth €1.85 trillion over the next seven years.

The package consists of a €1.1 trillion budget, 30% of which will be spent on tackling climate change, and a further €750 billion in grants and loans, all of which must be tied to meeting the bloc’s carbon emission-cutting targets. This has potential to create new market opportunities for timber products in the EU.

EU27 tropical wood furniture imports down 12% in the first half of 2020

The path of decline and recovery in EU27 tropical wood and wood furniture imports varied widely between product groups (Chart 2). EU27 imports of tropical wood furniture started the year strongly but fell sharply in April and May with only a slight recovery in June. Total EU27 wood furniture imports from the tropics in the second quarter of 2020 were 19% less than the average for the same period in the previous 5 years. At US\$616 million, EU27 imports of tropical wood furniture in the first six months of 2020 were 12% less than the same period last year.



E27 imports of tropical sawnwood 21% down in second quarter of 2020

EU27 imports of tropical sawnwood were already weak in the first quarter of 2020 and remained at a historically low level in the second quarter. Total EU27 sawnwood imports from the tropics in the second quarter of 2020 were 21%

less than the average for the same period in the previous 5 years. At US\$320 million, EU27 imports of tropical sawnwood in the first six months of 2020 were also 21% down on the same period last year. In quantity terms, the EU27 imported 382,000 m³ of tropical sawnwood in the first six months of 2020, 21% less than the same period last year.

EU27 imports of tropical hardwood decking/mouldings started the year particularly slowly and were just building momentum when the lockdown measures were first implemented in March. This led to imports falling sharply in May and June. EU27 imports of decking/moulding during the second quarter of 2020 were 8% below the average for the same period in the previous 5 years. At US\$139 million, EU27 imports of tropical hardwood decking/mouldings in the first half of 2020 were 23% less than the same period last year. In quantity terms, the EU27 imported 88,500 tonnes of tropical decking/mouldings in the first six months of 2020, 17% less than the same period last year.

EU27 imports of hardwood veneer from the tropics fell very sharply in May, to only around 50% of the long-term average for that month but recovered ground quickly in June. Overall EU27 imports of tropical hardwood veneer in the second quarter of 2020 were 21% below the average for the same period in the previous 5 years. EU27 imports of tropical hardwood veneers were US\$89 million in the first half of 2020, 14% less than the same period last year. In quantity terms, the EU27 imported 140,000 m³ of tropical veneer in the first six months of 2020, 10% less than the same period last year.

EU27 imports of joinery products from the tropics (much of which comprises laminated window frames and kitchen tops, together with finished doors) held up well during the COVID lockdown period, with no significant decline in May and June. Overall EU27 imports of tropical joinery products in the second quarter of 2020 were only 6% below the average for the same period in the previous 5 years. The EU27 imported tropical joinery products with a total value of US\$81.2 million in the first six months of 2020, 24% less than the same period last year.

EU27 imports of tropical plywood, already declining before the lockdown period, fell sharply in the second quarter of 2020, 22% below the average for the same period in the previous 5 years. EU27 imports of tropical plywood were US\$67.4 million in the first half of 2020, 29% less than the same period in 2019. In quantity terms, imports of tropical plywood were 112,000 m³ in the first six months of 2020, 28% less than the same period last year.

EU27 imports from Indonesia better than expected in May and June

The fortunes of individual tropical supply countries also varied widely in the EU27 market during the lockdown period (Chart 3).

EU27 imports of wood and wood furniture from Indonesia, which are dominated by garden furniture, decking and plywood, tend to be strongest in the spring season. The sharp decline in imports from Indonesia in April this year, at a time when trade is usually rising, did not bode well. However, trade held up better than expected in May and June, perhaps bolstered by the continuing strength of demand for exterior furniture products and decking. Overall, EU27 imports of wood and wood furniture from Indonesia in the second quarter of 2020 were 12% below the average for the same period in the previous 5 years. EU27 imports of these products from Indonesia were US\$340 million in the first half of 2020, 16% less than the same period in 2019.

In contrast to Indonesia, EU27 imports from Vietnam are dominated by interior furniture and tend to be strongest at the turn of the year, in time for the January sales, and to be very slow during the summer and early autumn. While EU27 imports from Vietnam did fall very sharply in May and June, the decline was not significantly out of alignment with the seasonal fall that usually happens at this time of year. Overall EU27 imports of wood and wood furniture from Vietnam in the second quarter of 2020 were only 8% down on the average for the same period in the previous 5 years. EU27 imports of these products from Vietnam were US\$337 million in the first half of 2020, 5% less than the same period in 2019. The full effects of COVID-19 on EU imports from Vietnam will only become truly apparent later this year when furniture products for next season begin (or fail) to arrive.

EU27 imports of wood and wood furniture products from Malaysia, which were sliding before onset of the pandemic, suffered a very sharp decline in May, but then rebounded quite strongly in June. Overall, EU27 imports

from Malaysia were down 40% in the second quarter of this year compared to the average for the same period in the previous 5 years. EU27 imports of wood and wood furniture from Malaysia were US\$133 million in the first half of 2020, 24% less than the same period in 2019. The decline was apparent in all four of the main product groups supplied by Malaysia into the EU; interior furniture, sawnwood, mouldings/decking, and joinery.

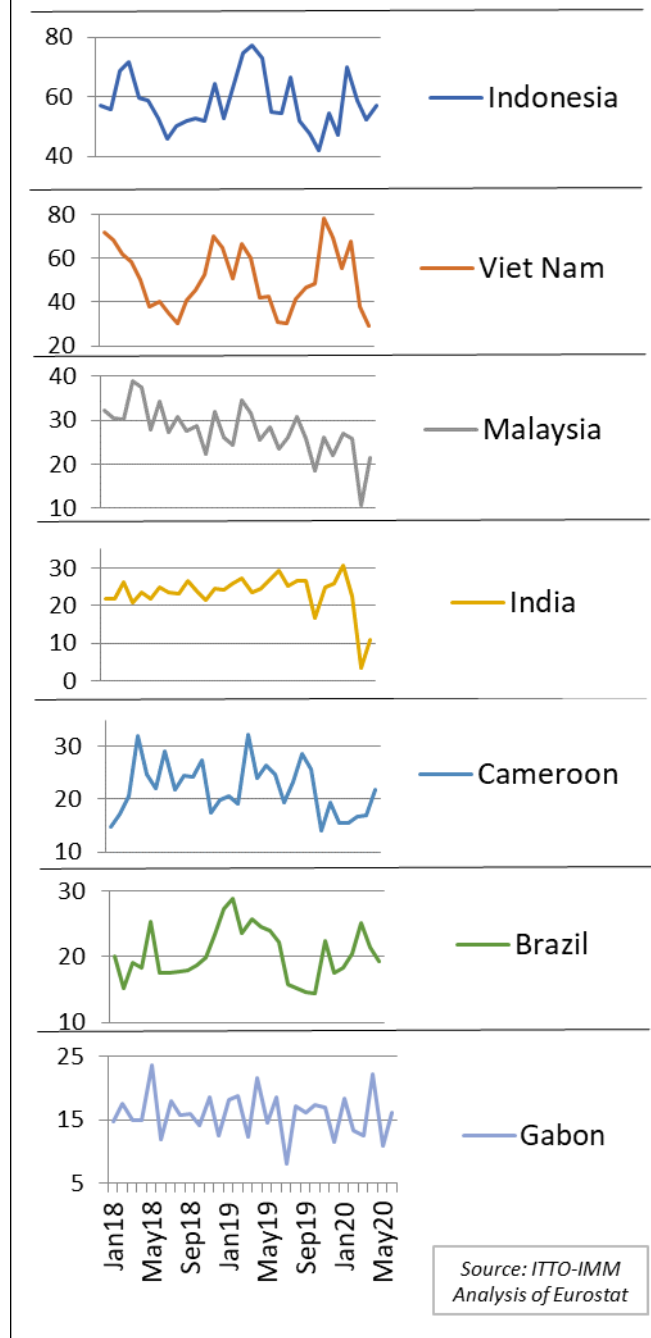
EU27 imports from India suffer severe decline this year

EU27 imports of Indian wood and wood furniture products, dominated by interior furniture, suffered a very severe decline in May, falling to negligible levels during the month and rebounded only quite weakly in June. Overall, EU27 imports from India were down 38% in the second quarter of this year compared to the average for the same period in the previous 5 years. EU27 imports of wood and wood furniture from India were US\$118 million in the first half of 2020, 21% less than the same period in 2019. This was the first reversal for several years of a long-term rising trend in imports from India.

EU27 imports from Cameroon highly volatile and unpredictable

EU27 imports from Cameroon are dominated by sawnwood and tend to be volatile even in a “normal” year. This year the trade trend has been even more unusual and less predictable. EU27 imports from Cameroon were very low at the end of 2019 and the opening weeks of this year and even picked up slightly during the COVID lockdown period. EU27 imports from Cameroon in the second quarter of 2020 were down 25% against the average for the same period in the previous 5 years. However, they were 10% more than the extremely weak level of trade in the first quarter of this year. Overall, EU27 imports of wood and wood furniture from Cameroon were US\$105 million in the first half of 2020, 26% less than the same period in 2019.

Chart 3: Monthly EU27 wood & wood furniture imports by source, Jan-2018 to Jun-2020, Million US\$



Brazil now the EU’s largest tropical sawnwood/decking supplier

EU27 imports of tropical hardwoods from Brazil, mainly sawnwood and decking, held up quite well during the lockdown period. Imports from Brazil were higher in the second quarter this year compared to the average for the same period in the previous five years. However, this follows a period of continuous growth between 2015 and 2019 and imports from Brazil during the second quarter of this year were 21% less than the same period in 2019. Overall, EU27 imports of wood and wood furniture from Brazil were US\$122 million in the first half of 2020, 21% less than the same period in 2019.

For the first time for many years, if sawnwood and decking/mouldings are considered together, Brazil this year has emerged as the largest tropical supplier of this product group to the EU, overtaking both Cameroon and Malaysia which formerly dominated this trade.

EU27 imports from Gabon stable despite pandemic

The lockdown appears to have had very little impact on EU27 imports from Gabon. Overall EU27 imports of wood and wood furniture from the country, which consist mainly of sawnwood and veneer, in the second quarter of 2020 were down only 5% against the average for the same period in the previous 5 years. Although imports of sawnwood from Gabon weakened slightly in the second quarter this year, this was offset by a rise in veneer imports. Overall, Overall, EU27 imports of wood products from Gabon were US\$93 million in the first half of 2020, 10% less than the same period in 2019.

EU27 imports from most other tropical wood and wood furniture supplying countries also fell sharply in the first half of 2020 including Congo (-23% to US\$35 million), Cote d'Ivoire (-29% to US\$24 million), Ghana (-19% to US\$13 million), Peru (-29% to US\$10 million), DRC (-54% to US\$4.7 million) and Bolivia (-36% to US\$5.9 million). Indirect EU27 imports of tropical hardwood products (mainly plywood) also fell from China (-24% to US\$15 million) and the UK (-28% to US\$8.8 million).

However, one tropical country increased trade with the EU27 during the first half of the year: imports from Ecuador increased 28% to US\$32 million, presumably benefitting from expansion of the renewable energy sector (balsa wood is widely used for wind turbines).

Netherlands less affected than other EU markets

Chart 4 highlights that the impact of COVID-19 on imports of tropical wood and wood furniture on individual EU27 countries has varied widely, dependent on underlying economic and trade trends before the onset of the pandemic, the differing level of each country's exposure to the pandemic, and variation in the timing and scope of the policy response.

Due to the integrated nature of the EU market, for those countries like Belgium and the Netherlands which distribute a significant proportion of products to other EU countries, the trends are not necessarily driven by the domestic market situation.

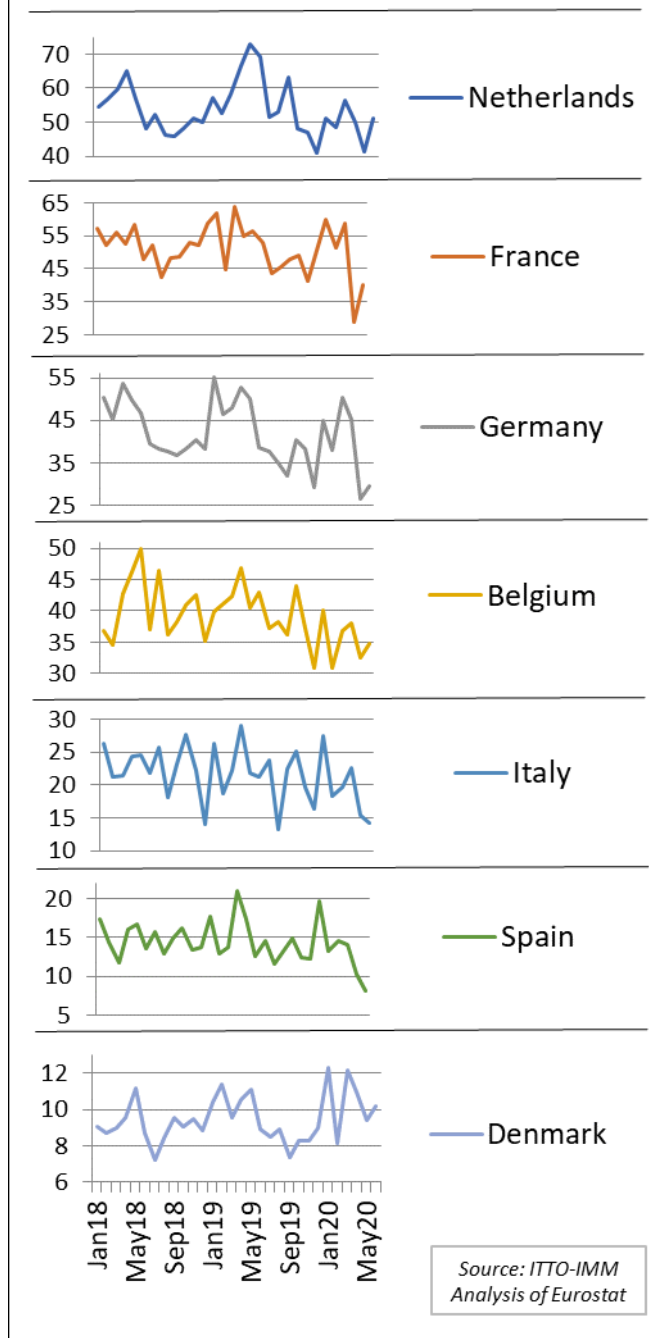
The Netherlands is currently the largest destination for tropical wood and wood furniture imports. Imports into the country were less affected than most other major destinations during the lockdown period. The Dutch government won plaudits earlier in the pandemic for a so-called "intelligent lockdown" strategy that relied on people abiding by social-distancing measures while keeping large parts of the economy open.

Netherlands imports of tropical wood and wood furniture were down 11% in the second quarter of this year compared to the average for the same period in the previous 5 years. In total, Netherlands imports of tropical wood and wood furniture were US\$299 million in the first half of 2020, 21% less than the same period in 2019. This is a large decline, but it follows a particularly buoyant year for tropical wood imports in the Netherlands in 2019.

Particularly sharp fall in French imports in May

France imports of tropical wood and wood furniture started the year quite strongly before falling very sharply in May. In June there were signs of a robust rebound. France's lockdown was imposed on 17 March, but restrictions began to ease from 11 May. Overall, France imports of tropical wood and wood furniture were down 19% in the second quarter of this year compared to the average for the same period in the previous 5 years. In total, France imports of tropical wood and wood furniture were US\$290 million in the first half of 2020, 15% less than the same period in 2019.

Chart 4: Monthly tropical wood & wood furniture imports by EU country, Jan-2018 to Jun-2020, \$Mill



German imports of tropical wood down 27% in second quarter

Signs of weakness in the German economy contributed to slowing German imports of tropical wood and wood furniture in 2019. A partial recovery in trade in the opening weeks of 2020 was halted with the onset of the pandemic. German imports of tropical wood and wood furniture fell very sharply in May and were yet to show any real recovery in June. In total, German imports of these products were down 27% in the second quarter of this year compared to the average for the same period in the previous 5 years. For the first half of 2020, German imports of tropical wood and wood furniture were US\$234 million, 20% less than the same period in 2019. This is despite Germany managing to keep the number of corona cases relatively low compared to many European neighbours and the easing of lockdown measures since April.

Belgium was hit particularly hard early in the pandemic, encouraging the government to introduce tougher restrictions than many of its neighbours. Nevertheless, trade has continued to flow and, in terms of tropical wood and wood furniture imports, Belgium has seen less of a downturn than most of its neighbours. Belgium imports of tropical wood and wood furniture products were down 18% in the second quarter of this year compared to the average for the same period in the previous 5 years. In total, Belgium imports of tropical wood and wood furniture were US\$213 million in the first half of 2020, 16% less than the same period in 2019

Italian and Spanish imports continue to slide in June

Like Belgium, Italy was hit early and hard by the pandemic leading to imposition of a tough national lockdown starting on 7 March. The three-month lockdown took a heavy toll on the economy. The Italian government forecasts that GDP will contract 8% in 2020, while analysts see a 10% decline. Italy's imports of tropical wood and wood furniture fell sharply in May and continued to slide in June. Imports were down 27% in the second quarter of this year compared to the average for the same period in the previous 5 years. In total, Italy's imports of tropical wood and wood furniture were US\$117 million in the first half of 2020, 16% less than the same period in 2019.

Spain is another European country hit particularly hard by the pandemic. Spain started easing the lockdown, one of the strictest in Europe, in phases from 4 May. Spain's imports of tropical wood and wood furniture fell steeply in May and this trend continued in June. Overall, Spain's imports of tropical wood and wood furniture were down 30% in the second quarter of this year compared to the average for the same period in the previous 5 years. In total, Spain's imports of tropical wood and wood furniture were US\$80 million in the first half of 2020, 16% less than the same period in 2019.

Wind farm industry boosts demand for balsa in Denmark

Denmark is unusual for experiencing a rise in tropical wood and wood furniture imports this year, despite the pandemic. In total, Denmark's imports of tropical wood and wood furniture were US\$63 million in the first half of 2020, 2% more than the same period in 2019. Imports remained strong even as much of the rest of Europe went into lockdown. Danish imports of tropical wood and wood furniture products were up 12% in the second quarter of this year compared to the average for the same period in the previous 5 years.

Denmark's imports from Vietnam, the largest supplier, increased 10% in the first 6 months of this year, while imports from Ecuador were up 50%. Ecuador overtook Brazil and Indonesia to become Denmark's second largest tropical wood supplier in the first half of 2020. Denmark is a primary location for manufacture of wind turbines in the EU creating demand for Ecuadorian balsa wood.

Denmark was one of the first countries in Europe to emerge from lockdown. According to a recent international survey by the Pew research Centre, 95% of people in Denmark believe their government did a good job in handling the crisis. That is the highest rating for any country in the analysis, which encompassed 14 advanced economies.