

UK market for African hardwood “recovering well” after lockdown

The UK market for sawn hardwood has been recovering well following easing of COVID-19 lockdown measures from June onwards. However, there are significant problems on the supply side with COVID-19 contributing to reduced harvesting and mill operations and a significant reduction in freight capacity.

This adds to the pre-existing challenges imposed by too much focus on a limited range of commercially valuable hardwood species in the UK, a feature of the market which sits uncomfortably with the UK’s strong preference for FSC certified material.

These were key messages from the discussion of the current state of the UK and wider international trade in sawn hardwood at the latest quarterly meeting of the London Hardwood Club (LHC) held online on 9 September.

The virtual meeting was chaired by Rupert Walker of Timberlink International who welcomed over 40 LHC members from across the UK as well as members and invited speakers from the USA, Italy, Belgium and other European countries. Speakers included Ken Walsh of Danzer UK, Hank Marcel of Robinson Lumber, Ben Jenn of NHG, and Rupert Green of Greentimber.

The report on the situation in the African hardwood trade noted that log stocks and sawn timber supplies in the region are comparatively low, partly because of the effects of COVID-19 forcing producers to operate with social distancing measures, and partly because of the long-term focus on a limited range of commercial species, particularly sapele.

Supplies are expected to remain low, both in the short term, now that mills have closed for annual maintenance over the next two months, and longer term with increasing numbers of mills reporting only limited availability of sapele. This is true both of Congo and Cameroon. It was suggested that “for the last decade 10 years, production has been around 70% sapele while other species have been under used. From a sustainability perspective it is necessary to look at other species”.

It was suggested that, despite the pandemic, there is “sufficient demand for all sawmills to receive full order files”. There is a general trend towards specialisation by African suppliers, with those operators with 100% FSC certified concessions focusing increasingly on premium markets, particularly in Europe, and those with kilns focusing on supply only of kiln dried material to ensure full utilisation of their own capacity and maximum added value at a time when supplies are restricted..

It was suggested that the pandemic has not affected logistics in the African supply regions too much, and in fact congestion for shipment out of Douala is now less of a problem as volumes moving to Asia have fallen. However red tape is still a major problem. The costs of shipping via Douala, already very high compared to other ports elsewhere in the world, are rising.

The new port at Kribi in Cameroon is helping to ease the congestion at Douala. Although Kribi port was built a few years ago, only recently has it been properly linked into the wider road network in Cameroon. Most shipments out of Kribi are destined for Asia with very little to Europe but the port has helped improve the logistics situation at Douala.

Sapele prices on offer to European importers are expected to at least remain stable for the rest of this year with some potential to increase. Although sipo prices have weakened a little in recent months, there may be some increase later in the year. Iroko prices have fallen a little this year but there is no expectation of any further movement in the coming months.

Specifically in the UK, it was noted that trade in the favoured African species (dominated by sapele in the UK) was affected by the COVID-19 in the second quarter but has recovered well and is now at normal levels. The UK is “well stocked but not overstocked” in African hardwoods. However, sapele is currently being traded at unsustainable price levels, below replacement cost.

It was emphasised that the UK is now strongly focused on FSC certified material from Africa. However, prospects for increased supply of FSC certified wood from Africa are limited, it being noted that there is “no sign of an increase [in FSC certified forest area] in Africa – no one is moving in that direction at all. The fact remains it is extremely costly”.

The best way to increase supply of FSC certified wood from Africa lies in broadening the range of utilised species. However, it was also noted that to date generally the UK has been less inclined to use non-traditional species compared to continental European countries.

Several “lesser known species” from Africa that may be of future interest to UK buyers were mentioned during discussion including: tali “a dense species, suitable for external applications”; bosse “well used in France for general joinery”; and kosipo “often thought of as heavy and difficult to machine – but wood of better quality is now available”.

Supplies of Brazilian hardwood tightening but prices remain competitive in Europe

Turning to South America, the LHC was informed that supplies of tropical sawnwood and hardwood decking in Brazil are also tighter than usual at this time of year during the dry season.

Typically, the rainy season in the Brazilian Amazon finishes in June and July but it has lingered on for longer than usual with rain continuing in some areas, impeding logging. COVID-19 is also spreading in rural areas in Brazil acting as a further brake on harvesting and milling operations. Unlike in previous years, Brazilian hardwood mills are now less likely to make unsolicited offers to overseas customers.

Continued weakness of the Brazilian real against other currencies has meant that prices are still competitive on international markets. However, the weak real together with COVID-19 related impacts on trade has also meant that Brazil is importing less. This has greatly reduced availability of containers and pushed up freight rates for shipments out of Brazil.

Firm demand for wood for exterior applications in both the US and Europe during the lockdown period is helping to put a floor under Brazilian hardwood prices. Demand for the cheaper hardwood species is also currently quite strong in Brazil’s domestic market.

US importers were heavily stocked in Brazilian sawnwood going into the COVID-19 period and they have been discounting prices for onward sales in the US. At present US importers are not buying in new stocks of Brazilian hardwood in large volumes because of uncertainty surrounding the future development of demand.

Most imports of hardwood from Brazil comprise wood for exterior applications, although some wood for interior joinery is purchased in continental Europe, notably France. There has been shift in continental Europe away from ipe in favour of cumaru. In the UK, cumaru is also now favoured for outdoor construction, and less often ipe, massaranduba and garapa.

Enquiries for FSC certified hardwood from Brazil are rising in Europe. Demand in the UK for hardwood from Brazil is now almost exclusively FSC. This trend is encouraged not only by EUTR due

diligence requirements but also by the fact that price premiums for FSC certified Brazilian tropical hardwood are less than in previous years.

The granting of concession contracts for reduced impact logging of larger areas of publicly owned forest by Federal and State authorities, a policy progressively extended in Brazil since 2008, also offers potential to increase supply of FSC certified tropical wood. Some of the tropical forest concession areas are large and capable of producing a large volume of timber on a sustainable basis.

However, according to comments made at the LHC meeting, there are also significant economic constraints to FSC certification in tropical forest concessions in Brazil. The forests are extremely diverse offering only a limited volume of the most commercially valuable species and a large volume of secondary species. The premiums achievable on the sale of FSC certified volumes of the commercially valuable species are insufficient to offset the certification costs in the absence of any premium for certification of the much larger volume of secondary species.

For other South American countries, the LHC meeting heard that their overall competitiveness in relation to Brazil is impaired due to the weakness of the Brazilian currency. In Guyana, despite COVID-19 related restrictions, harvesting and production levels are near normal for this time of year. However, in the context of Guyana, “normal” still implies slow and quite restricted.

In Peru, the harvest season was truncated due to COVID-19, although some suppliers have managed to maintain production at levels not far short of previous years. FSC certified material is also often easier to source from Peru than Brazil, although Peruvian suppliers are currently struggling to compete on price.

On Malaysian hardwoods, the LHC heard that UK and EU imports of Malaysian meranti are well down on previous years in 2020. In part this is supply related, with shippers telling UK importers that there has been a particularly wet rainy season and many reports of mill closures in the face of the pandemic.

There has also been a dramatic increase in freight rates to European ports from South East Asia, a trend expected to continue for the rest of the year. Carriers are operating the route on severely reduced capacity in response to the COVID-19 pandemic, with numerous blank sailings, and are expected to only slowly increase capacity as demand and trade volumes rise.

COVID-19 delays long-anticipated European oak supply crunch

In relation to European hardwoods, LHC members were reminded that at the start of the year, before the effects of the COVID-19 pandemic were felt, demand for European oak had picked up strongly.

While the signs were encouraging on the demand side, there were concerns about mounting supply problems for prime grade European oak, particularly in wider and longer specifications. This is a problem that has been building for some time as supply of the best quality European oak logs has been falling for the last 10 to 15 years.

As the seriousness of the pandemic became clear in the second quarter of the year, there was severe supply disruption of the prime grades of European sawn oak favoured in the UK as it became increasingly difficult to shift material out of Croatia and Italy.

The profitability of European oak suppliers was also hit hard by a sharp decrease in demand for the lower grades in China and Vietnam in the first half of the year. As a result, prices for lower grades of European oak have been falling while mills have compensated by pushing up prices for prime grades.

However, the sharp slowdown in demand during the COVID-19 lockdown period has also delayed the supply crunch for European oak. Despite hugely challenging conditions, European oak traders managed to overcome the immediate logistical problems, co-operating to amend delivery schedules and to balance available supply reasonably well with wildly fluctuating demand.

There is now no immediate expectation of significant supply problems for European oak this year, although buyers will be keeping a wary eye on harvesting levels during the next winter logging season which may yet be disrupted.

Demand for European oak in the UK is now picking up in the third quarter as joinery businesses are returning to normal levels. There is particularly good UK demand for thinner stock of European oak which may be a response to shortages in supply of equivalent American white oak specifications.

There was speculation at the LHC meeting that European oak suppliers may start insisting that UK buyers take a proportion of lower grade oak to secure supplies of prime grade, as has been the case in previous years when demand for lower grade oak was weak. However, as things stand with demand still quite weak, the feeling overall was that producers do not yet have enough leverage to require this of their customers.

On European beech, LHC members noted that, even more so than for oak, there is a continuing problem of very weak demand for lower grade material. However, there are some more positive signals of returning demand for beech in Egypt and elsewhere in the Middle East.

American red oak makes inroads into European market

The LHC discussion on American hardwoods highlighted the very challenging market conditions that have emerged in the last 18 months. The American hardwood industry was hit first by the introduction of swinging duties on imports into China during the US-China trade dispute, which led to a sharp decrease in US hardwood exports in 2019. This has been followed by another sharp downturn in export sales during the pandemic.

In the US domestic market, house starts have remained quite strong this year, propping up demand for hardwood in the cabinets, flooring and mouldings sectors. However, industrial markets for American hardwoods – such as for gas/oil field board roads, railroad ties and pallets - which have become increasingly important for US hardwood mills in recent years, fell sharply in March and April.

The US hardwood industry reacted quickly to falling demand this year by slowing production. However, the impact has varied widely between species. Red oak kiln dried sawn lumber is still available at prices around 20% less than those prevailing in 2018 before the effects of the US-China trade dispute became apparent. In contrast, availability of white oak kiln dried lumber is very limited and prices are nearly 60% greater than in 2018.

This situation has contributed to red oak making more inroads into the European and UK market this year, although it is still only a relatively small share compared to white oak.

LHC members were advised that supply of American white oak will likely remain very tight for the remainder of this year. This is particularly true of thicker sizes which require longer in the kilns encouraging producers to focus more on thinner stock where turnover is quicker.

Prices are quite firm for higher grades of sawn walnut and tulipwood, the other key American hardwood commodities sold into Europe. However, prices are softening for lower grades. Supply is a problem, with some specifications of both species becoming harder to fulfil since the start of the pandemic.

Freight rates on transatlantic routes are known for their robustness, a contrast to the volatility often seen on the transpacific and Asia-Europe routes, but they are now coming under intense pressure as trade volume has fallen. Transatlantic freight rates are falling and are now about 10% down on 12 months ago, but there are also a lot of blank sailings in response to the low demand and it can be difficult to get bookings out of some US ports.