European Markets and Certification

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Welcome to Blacksburg!
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I. Introduction
World shaped by political boundaries

Source: Worldmapper, 2009
World shaped by population

Source: Worldmapper, 2009
As shaped by forest products production

Sources: Worldmapper & FAOStat, 2009
Shaped by wood and paper consumption

Sources: Worldmapper & FAOStat, 2009
As shaped by forest products exports

Sources: Worldmapper & FAOStat, 2009
As shaped by forest products imports

Sources: Worldmapper & FAOStat, 2009
As shaped by forest products imports

- The forest products markets are undergoing fundamental changes
- Formerly net exporters became net importers (USA)
- Exporting countries building domestic consumption
- But as evidenced by these maps, the world is far from equality
- Unequal distribution of resources (forest and financial) and populations ensures inequality...and trade

Sources: Worldmapper & FAOSTat, 2009
II. Structural change in the forest sector
Structural change in forest sector – 4 underlying reasons

1. Downturn in demand forcing rationalization of production capacity
2. Globalization of forest products markets, e.g. China’s rise as a major provider of forest products in the global markets
3. Climate change policies: escalation of wood energy production, consumption and trade
4. International control of origins of wood to ensure sustainable and legal production.
III. Economic situation affecting hardwood markets

1st reason for structural change: Downturn in demand forcing rationalization of production capacity
• 2008-2009 global crisis
  – Begin in United States
  – Tremendous impact on housing construction, wood and paper demand
  – Spread to Europe, Asia
• 2010 end of recessions
• 2011 markets rebound, but don’t recover
• Recovering from the most severe financial shock since the Great Depression
• Deepest economic downturn since World War II
• Debt crisis continues in the Euro-zone
• Sluggish recovery despite massive intervention
• High unemployment restrains recovery
Housing starts: Europe & N. America

Note: 2011 forecast.
Sources: US Census Bureau, Canada Mortgage and Housing Corporation, Eurocostruct and author’s interpretation, 2011.
Housing starts: United States

- Peak 2.2 million new houses per year in 2005
- But 2010: 580,000 new houses; 2011 600,000 forecast
- Huge inventory unsold new and used homes +
- “Shadow homes” (owned by banks, not on market)
- House prices down at 2003 levels
- Problems grew
  - Sub-prime mortgages with little down payment
  - Mortgage value greater than house value
  - Economic downturn → foreclosures
- Source of problem / source of recovery

*Note:* 2011 forecast.

*Sources:* US Census Bureau, Canada Mortgage and Housing Corporation, Eurocostruct and author’s interpretation, 2011.
IV. Market developments and forecasts
2nd reason for structural change: Globalization of forest products markets

- International trade doubled in last 10 years
- China’s domestic consumption doubled over last 10 years for sawnwood, panels, paper and paperboard
- Developing countries’ consumption increasing with improved standards of living, in part due to international trade
Global trade of all forest products

Doubled in 6 years

Source: UN Comtrade, 2011.
Global value-added imports

- Doubled in 10 years

Source: UN Comtrade, 2011.
Value-added forest products exports

Source: FAO Statistics.

Doubled in 10 years.

Source: UN Comtrade, 2010.
Chinese forest products exports

Note: 2010 value-added estimated.  
Source: UN Comtrade, 2011.
Chinese consumption of wood & paper products

+10%/year forecast to 2015, without roundwood

75-80% production is consumed domestically. Link with GDP

Hardwood sawlog & veneer log production in Europe

Source: Forest Intelligence Ltd, 2011.
Sawn hardwood production in Europe

Source: Forest Intelligence Ltd, 2011.
### Sawn hardwood balance in EU-27

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>% change 2009-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>9.9</td>
<td>8.6</td>
<td>9.5</td>
<td>10.7</td>
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<tr>
<td>Exports</td>
<td>4.7</td>
<td>5.8</td>
<td>4.5</td>
<td>18.3</td>
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<tr>
<td>Imports</td>
<td>6.6</td>
<td>4.7</td>
<td>5.3</td>
<td>12.0</td>
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<tr>
<td>Consumption</td>
<td>11.8</td>
<td>9.4</td>
<td>10.2</td>
<td>8.3</td>
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</tbody>
</table>

Sawn hardwood supply in Europe

Shift in supply
• Tropical falls to 12%
• Supply shift to China
• Just-in-time, smaller stock
• Strong oak fashion
• New exterior uses
• Environmental consciousness (B2B) for certified

Source: Forest Intelligence Ltd, 2011.
Tropical hardwood log imports by Europe

Source: Forest Intelligence Ltd, 2011.
Sawn hardwood imports by Europe

Source: Forest Intelligence Ltd, 2011.
Hardwood veneer imports by Europe

Source: Forest Intelligence Ltd, 2011.
### Sawn hardwood forecasts, 2011 and 2012

Top European producers

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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<tbody>
<tr>
<td>Turkey</td>
<td>2,259</td>
<td>2,300</td>
<td>1.8</td>
<td>2,225</td>
<td>-3.3</td>
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<td>Romania</td>
<td>1,610</td>
<td>1,650</td>
<td>2.5</td>
<td>1,700</td>
<td>3.0</td>
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<td>France</td>
<td>1,500</td>
<td>1,600</td>
<td>6.7</td>
<td>1,650</td>
<td>3.1</td>
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<td>Germany</td>
<td>914</td>
<td>1,000</td>
<td>9.4</td>
<td>1,070</td>
<td>7.0</td>
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<td>Slovakia</td>
<td>797</td>
<td>850</td>
<td>6.6</td>
<td>870</td>
<td>2.4</td>
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<tr>
<td>Croatia</td>
<td>584</td>
<td>562</td>
<td>-3.8</td>
<td>550</td>
<td>-2.1</td>
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<tr>
<td>Poland</td>
<td>455</td>
<td>470</td>
<td>3.3</td>
<td>480</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Production forecast generally to increase in 2012

*Sources:* European Organization of the Sawmill Industry & UNECE/FAO, 2011.
Sawn hardwood forecasts, 2011 and 2012
Top European exporters

1000 m³

<table>
<thead>
<tr>
<th></th>
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<tr>
<td>Romania</td>
<td>652</td>
<td>700</td>
<td>7.4</td>
<td>750</td>
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<td>Germany</td>
<td>553</td>
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<td>710</td>
<td>9.2</td>
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<td>France</td>
<td>390</td>
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<td>-20.5</td>
<td>350</td>
<td>12.9</td>
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<td>Croatia</td>
<td>527</td>
<td>490</td>
<td>-7.0</td>
<td>440</td>
<td>-10.2</td>
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<tr>
<td>Slovakia</td>
<td>359</td>
<td>380</td>
<td>5.8</td>
<td>400</td>
<td>5.3</td>
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<tr>
<td>Lithuania</td>
<td>194</td>
<td>205</td>
<td>5.7</td>
<td>210</td>
<td>2.4</td>
</tr>
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</table>

Exports forecast generally to increase in 2011 and 2012

Sources: European Organization of the Sawmill Industry & UNECE/FAO, 2011.
Sawn hardwood forecasts, 2011 and 2012
Top European importers

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>% 2010-2011</th>
<th>2012</th>
<th>% 2011-2012</th>
</tr>
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<tbody>
<tr>
<td>UK</td>
<td>469</td>
<td>430</td>
<td>-8.3</td>
<td>430</td>
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<td>Germany</td>
<td>444</td>
<td>550</td>
<td>23.9</td>
<td>580</td>
<td>5.5</td>
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<tr>
<td>France</td>
<td>160</td>
<td>150</td>
<td>-6.3</td>
<td>150</td>
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<tr>
<td>Belgium</td>
<td>420</td>
<td>440</td>
<td>4.8</td>
<td>440</td>
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<tr>
<td>Czech Rep.</td>
<td>335</td>
<td>320</td>
<td>-4.5</td>
<td>340</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Small changes in European imports mean reliance on export markets in 2011 and 2012

Sources: European Organization of the Sawmill Industry & UNECE/FAO, 2011.
Sawn hardwood forecasts, 2011 and 2012
Top European consumers

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>% 2010-2011</th>
<th>2012</th>
<th>% 2011-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>2,333</td>
<td>2,377</td>
<td>1.9</td>
<td>2,297</td>
<td>-3.4</td>
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<tr>
<td>France</td>
<td>1,270</td>
<td>1,440</td>
<td>13.4</td>
<td>1,450</td>
<td>0.7</td>
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<td>Germany</td>
<td>805</td>
<td>900</td>
<td>11.8</td>
<td>940</td>
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<tr>
<td>Romania</td>
<td>991</td>
<td>985</td>
<td>-0.6</td>
<td>990</td>
<td>0.5</td>
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<tr>
<td>Poland</td>
<td>581</td>
<td>600</td>
<td>3.2</td>
<td>615</td>
<td>2.5</td>
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<tr>
<td>UK</td>
<td>486</td>
<td>450</td>
<td>-7.4</td>
<td>450</td>
<td>0.0</td>
</tr>
</tbody>
</table>

1000 m³

Generally increasing European consumption in 2011 and 2012

Sources: European Organization of the Sawmill Industry & UNECE/FAO, 2011.
European hardwood market trends (1 of 2)

• Deep downturn in 2008-9, with upturn forecast for 2011
• Tropical imports replaced by temperate imports from US and eastern Europe and CIS
  – US hardwood lumber exports to EU up 10% in second quarter 2011 compared to 2nd quarter 2010
  – Caveat: past years below trend
  – Volatile exchange rates, with weaker dollar helping US exports
• Surface treatments improving external usage options
European hardwood market trends (2 of 2)

- Some traditionally strong markets impacted by economic problems: Spain, Italy
- Strengthening hardwood consumption in Germany, e.g. flooring
- Caution! Europe is not homogenous. Some eastern European countries consuming more hardwoods
- Furniture production competing with low-priced imports
- White oak and ash are in fashion
- Stronger growth in renovation than building means more hardwood use
3rd reason for structural change: Climate change

• Main effect: Escalation of wood energy
  – Policies ➔ demand, short- and long-term
  – Production
  – Trade
Wood energy

The only market sector that grew during the 2008-2009 economic crisis

Photo: Metsaliitto.
Wood energy drivers (1 of 2)

• European Union renewable energy targets: 20% renewables by 2020
• National policies to meet EU targets
  – Subsidies
  – Feed-in tariffs
• Rising fossil fuel costs (rising pellet prices)
• Energy security – independence from imports
Wood energy drivers (2 of 2)

- Environmental concerns with fossil fuels
- Countries phasing out nuclear energy
- Forest sector development by governments and industry
- Industry-driven diversification (bio-refineries)
European wood pellet production capacity

Major European pellet importing countries and their suppliers, 2009

0 100 200 300 400 500 600 700 800 900

Netherlands Denmark Sweden Belgium Italy
1,000 m.t.

Modern wood energy

• Affects hardwood and softwoods
• Production is efficient, economical and environmentally sound
• Beneficial for *some parts* of the forest sector
• Presents competition for low-grade, small-diameter timber with other parts of the sector
• Generated global trade of low unit-value wood.
V. Controlling sources of wood and paper products, including certification

4th reason for structural change
• EU Action Plan on Forest Law Enforcement, Governance and Trade (FLEGT)
  – Reduction of illegal logging and trade
  – Improving governance in forest sector
  – Voluntary partnership agreements with tropical timber exporters
• US Lacey Act Amendment
EU FLEGT & EU REDD Facilities

Hosted by European Forest Institute

EU FLEGT Facility
• Started in 2007, now 20+ staff members
• Includes FLEGT Asia programme,
• Funding: 80% from EuropeAid, 20% from EU member states: Finland, France, Germany, Netherlands and UK

EU Reducing Emissions from Deforestation and forest Degradation (REDD) Facility
EU FLEGT Facility

- EU FLEGT Facility supports the EU, Member States and partner countries in implementing the EU FLEGT Action Plan.

- The EU FLEGT Action Plan provides a number of measures to exclude illegal timber from markets, to improve the supply of legal timber and to increase the demand for responsible wood products.

- The Facility provides country support, analytical studies and communication and facilitation services.
EU REDD Facility

- REDD: key international programme under development to combat climate change in the forest sector

- The EU REDD Facility helps developing countries build capacity and improve forest governance

- More information about the Facilities at website
EU Timber Regulation

• Obliges wood importers and traders to know
  – source of all wood and paper products
  – that it is legally compliant

• All operators must exercise "due diligence" in their buying policies

• How will buyers of uncertified US hardwoods prove their legality?
Certification in general

• Certification slowing?!
  – Area increase by 7% in 2010 (mainly Russia & N.A.)
    • Northern hemisphere: Europe’s & America’s forests certified
    • Further potential in Russia, Asia, tropical zone
    • Dual certification confuses increases
  – 90% in northern hemisphere
  – Chain of custody still increasing (= market demand)
Certification in general

• Drivers
  – Communication, advertising/promotion
  – Controlling sources, due diligence
  – Public procurement policies
  – Green building codes
  – Corporate responsibility
Certified forest area

Percent of forests certified

- **Asia**
- **Latin America**
- **Africa**
- **Oceania**
- **CIS**
- **N. America**
- **Europe**

*Source: UNECE/FAO, 2011.*
Percent of forests certified

Industrial roundwood from certified forests

25% of global roundwood supply

Certification in Europe

• **Growth**
  – Area increase by 9% in 2010
  – Chain of custody slowing too

• **Drivers**
  – Controlling sources, due diligence
  – Public procurement policies
  – Green building codes

• **Consumer demand/awareness**
Global chain-of-custody

- Fast growth despite economic crisis
- Total 28,500
- Communication, marketing tool
- Due diligence
- Corporate responsibility
- 1. US, 2. UK, 3. Germany, 4. France
- Volumes insignificant compared to world trade

Source: FSC and PEFC, 2011.
Key certification issues

- Price premiums
- Market access
- Assurance of source
- Systems modifying to ensure legality
- Dual certification as no mutual recognition
VI. Summary
Summary (1 of 3)

• Structural change in forest sector – requires innovation in products, processing and marketing

• Global trade
  – Doubled in years preceding 2008-2009 economic crisis
  – Now rebounding with increasing demand

• Recovery dependent on US housing market, remains weak

• China suffered less than other countries, in part from increasing domestic consumption
Summary (2 of 3)

- Positive hardwood market movements in 2010 through 2012
  - Production recovering in Europe, not US
  - Active trading in EU and outside EU
  - Consumption increasing

- Forest sector negatively effected by illegal logging and trade

- FLEGT, EU Timber Regulation, US Lacey Act Amendment to ensure legality, sustainability
Summary (3 of 3)

• Other market demand drivers
  – Certified wood and paper products
  – Public procurement policies
  – Green building
  – Wood energy
  – Japanese recovery
Thank you!

Discussion?

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