European Markets and Certification

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ISCHP^{3}2011

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IMPLEMENTING THE EU FOREST LAW ENFORCEMENT, GOVERNANCE AND TRADE (FLEGT) ACTION PLAN

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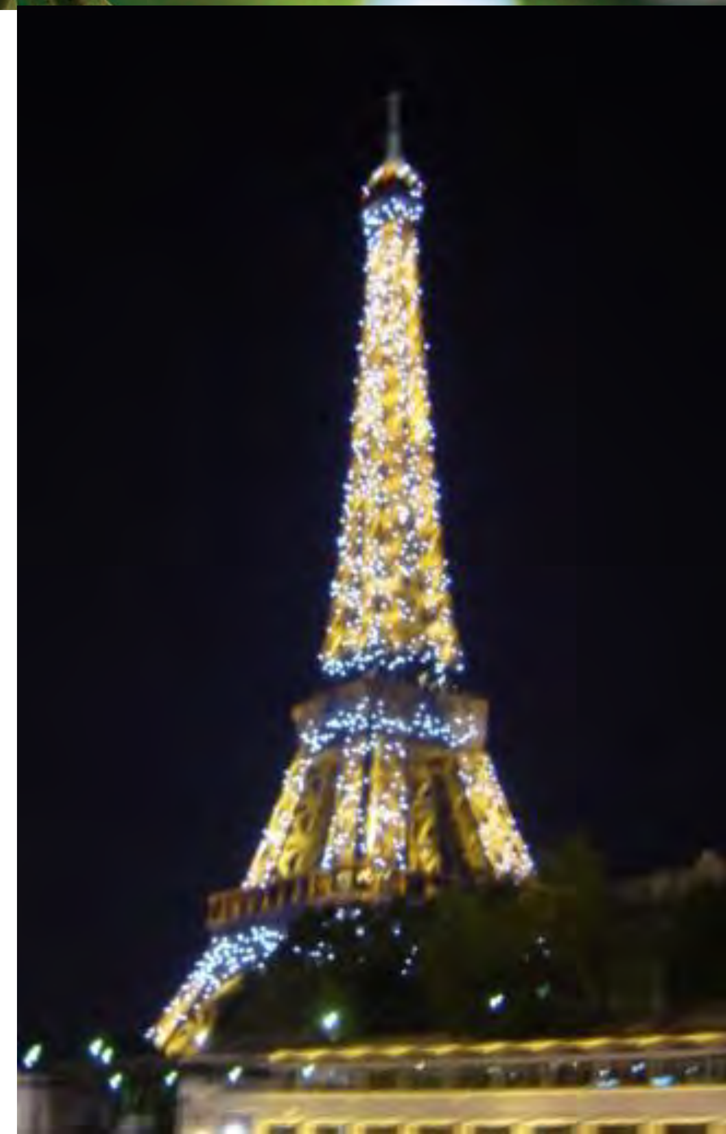

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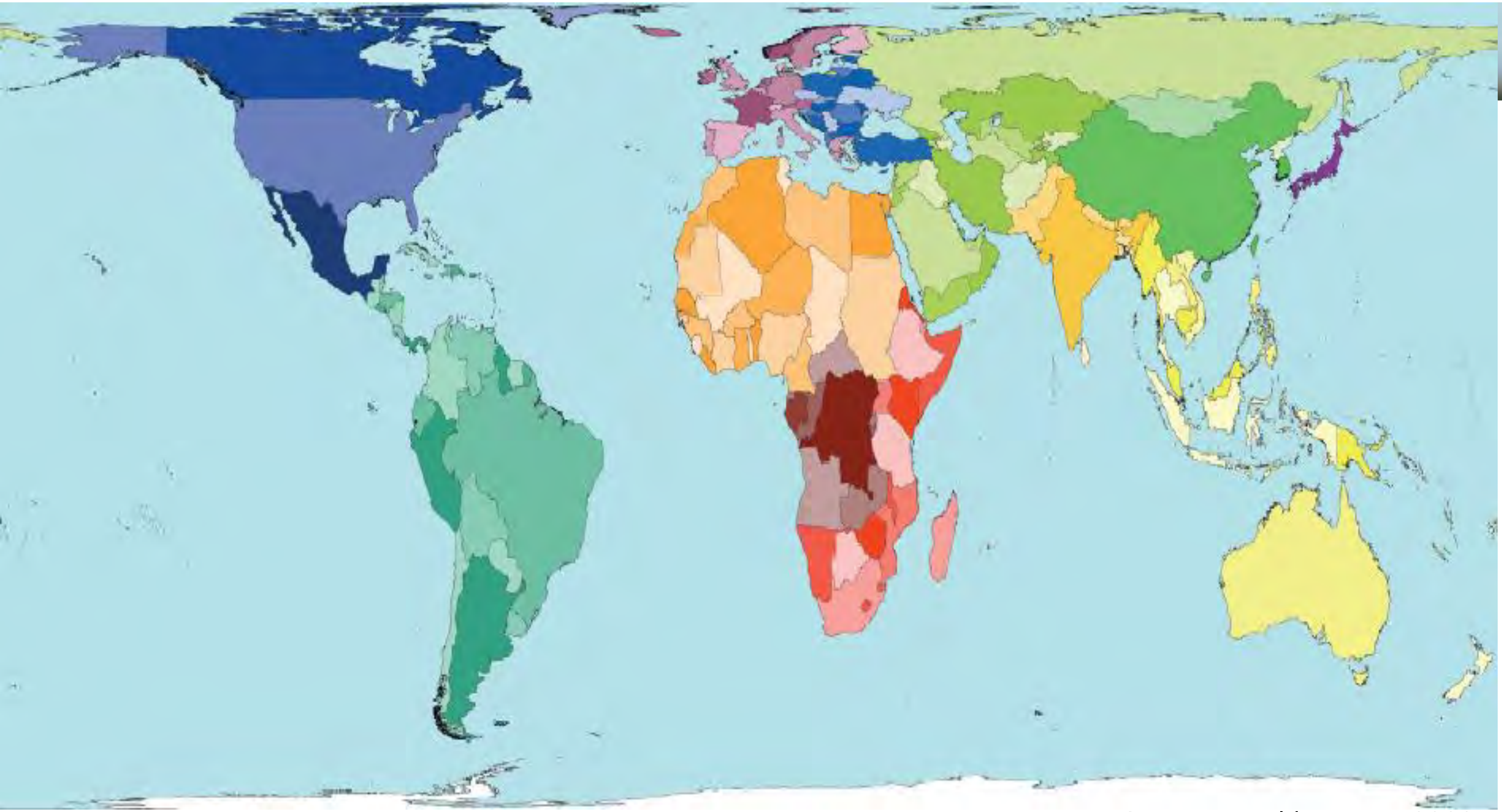
I. Introduction

INTERNATIONAL YEAR OF FORESTS • 2011

World shaped by political boundaries



Source: Worldmapper, 2009

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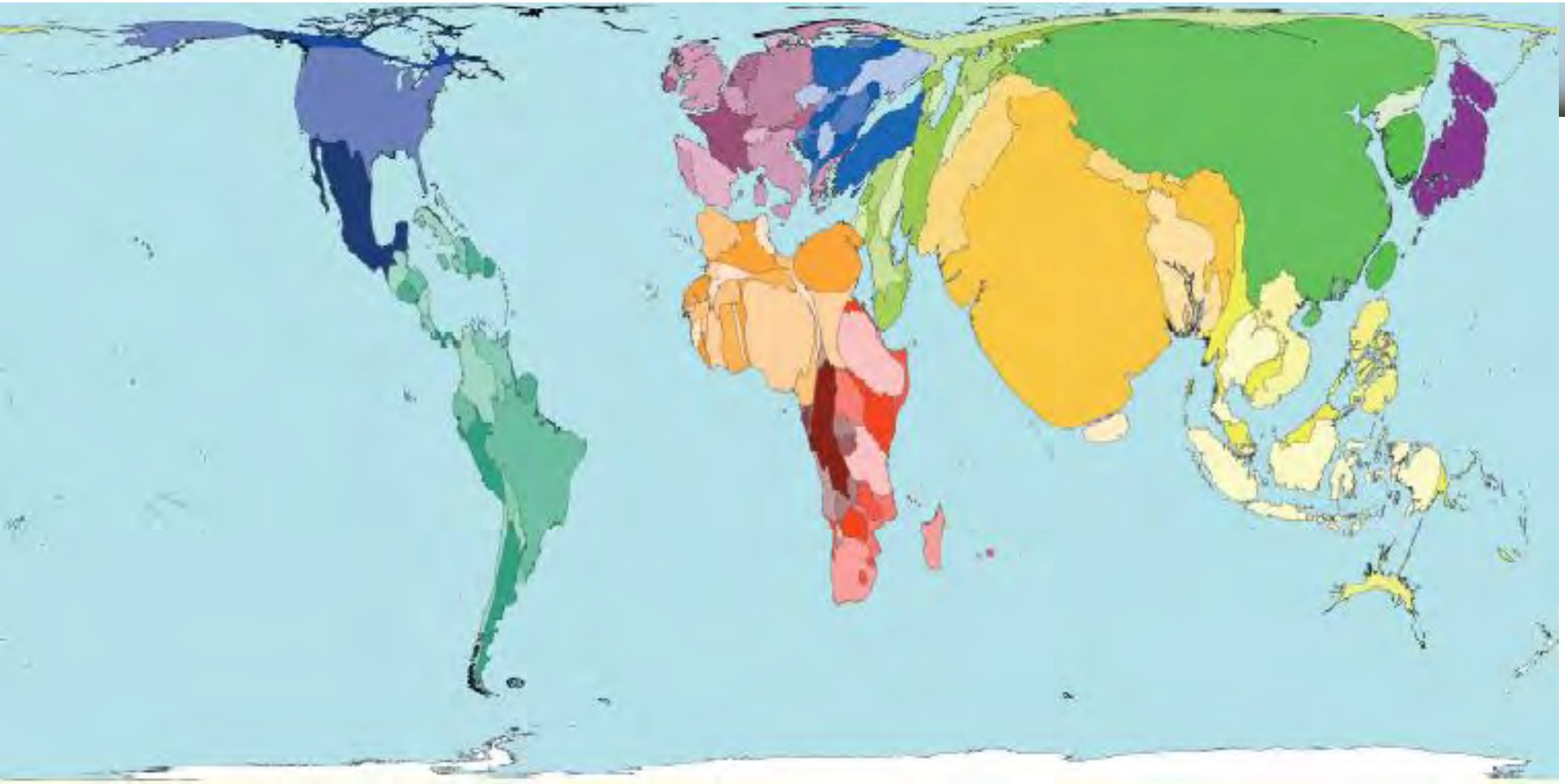
World shaped by population



Source: Worldmapper, 2009

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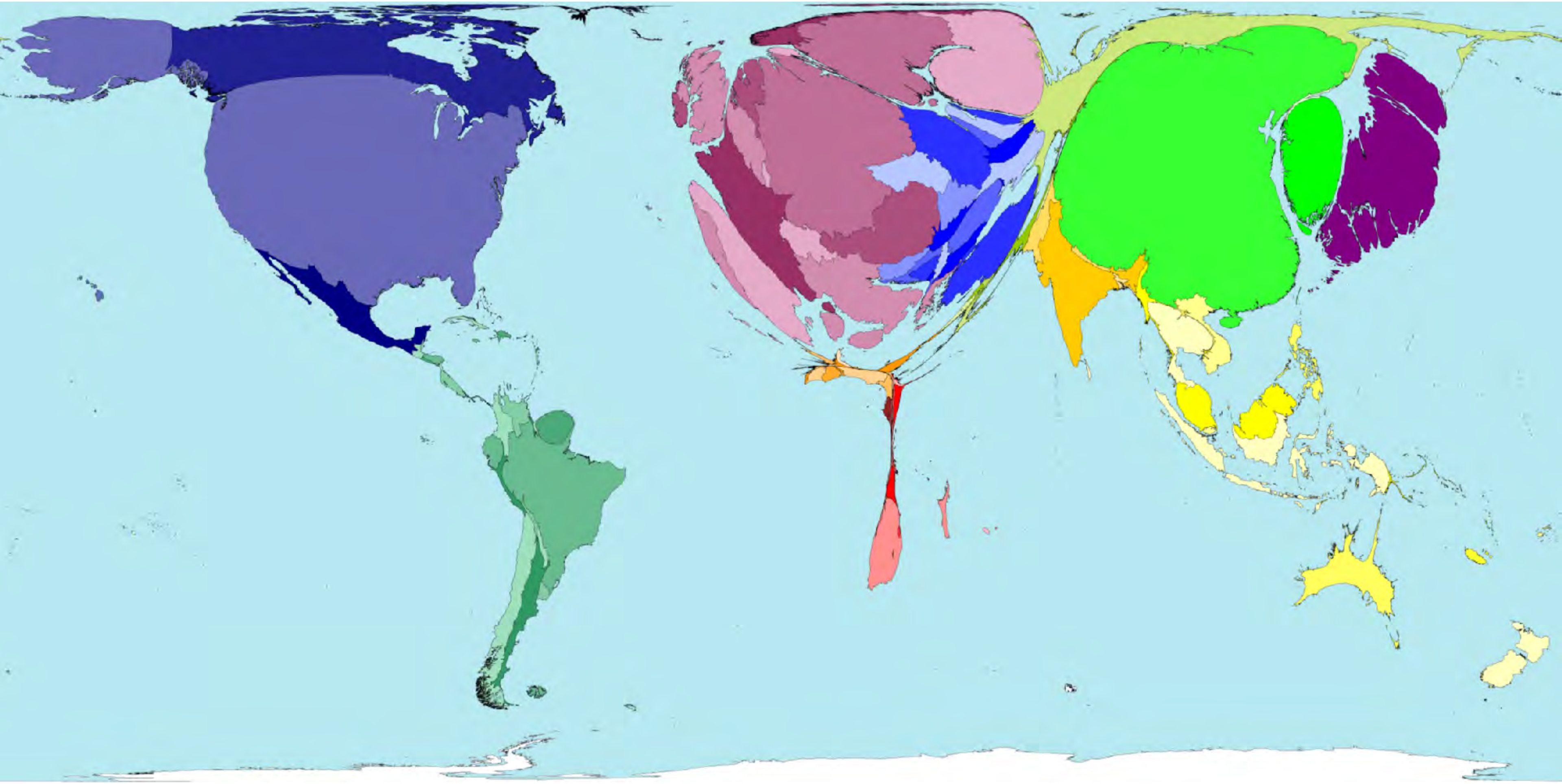
As shaped by forest products production



Sources: Worldmapper & FAOStat, 2009

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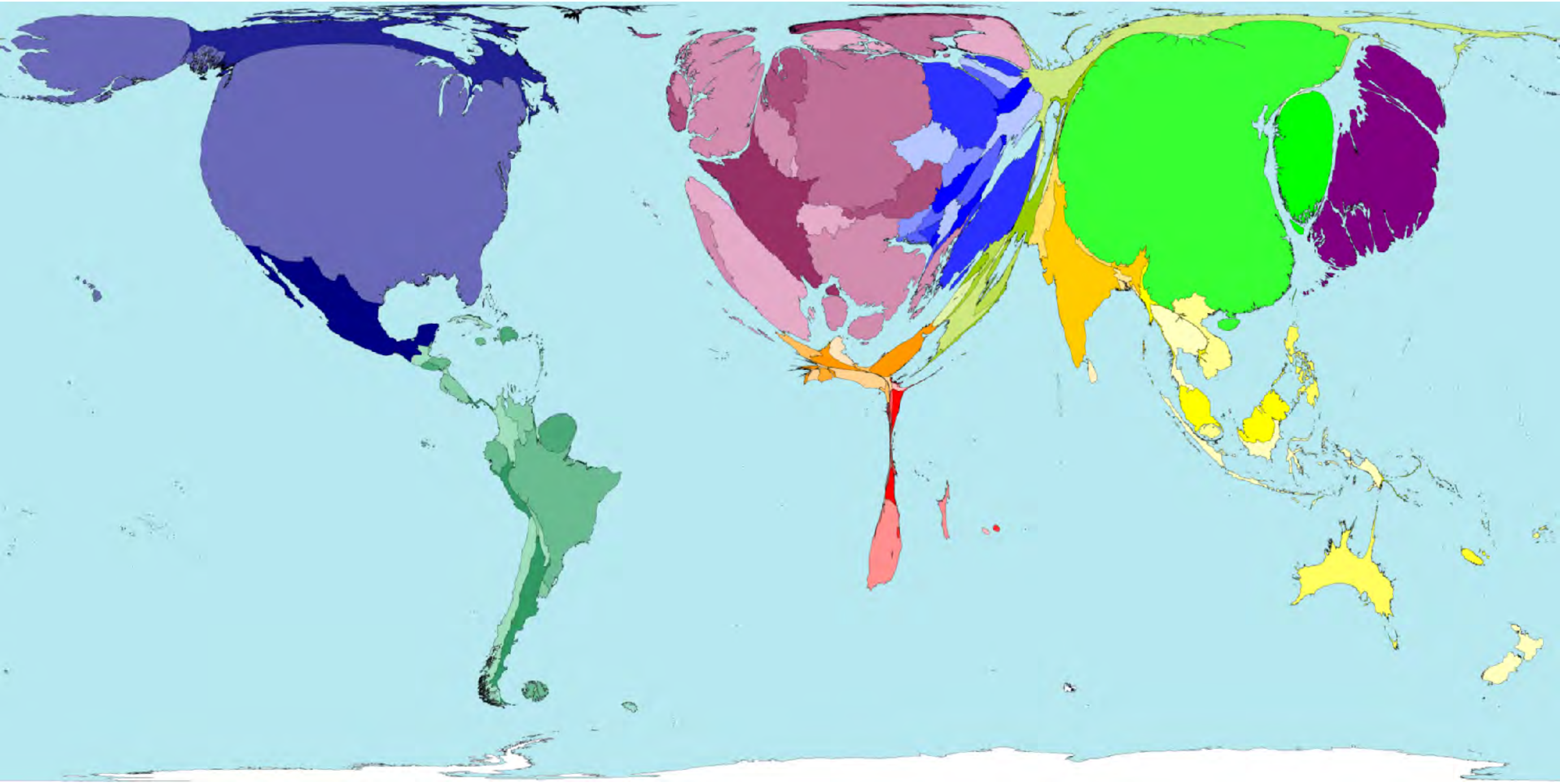
Shaped by wood and paper consumption



Sources: Worldmapper & FAOStat, 2009

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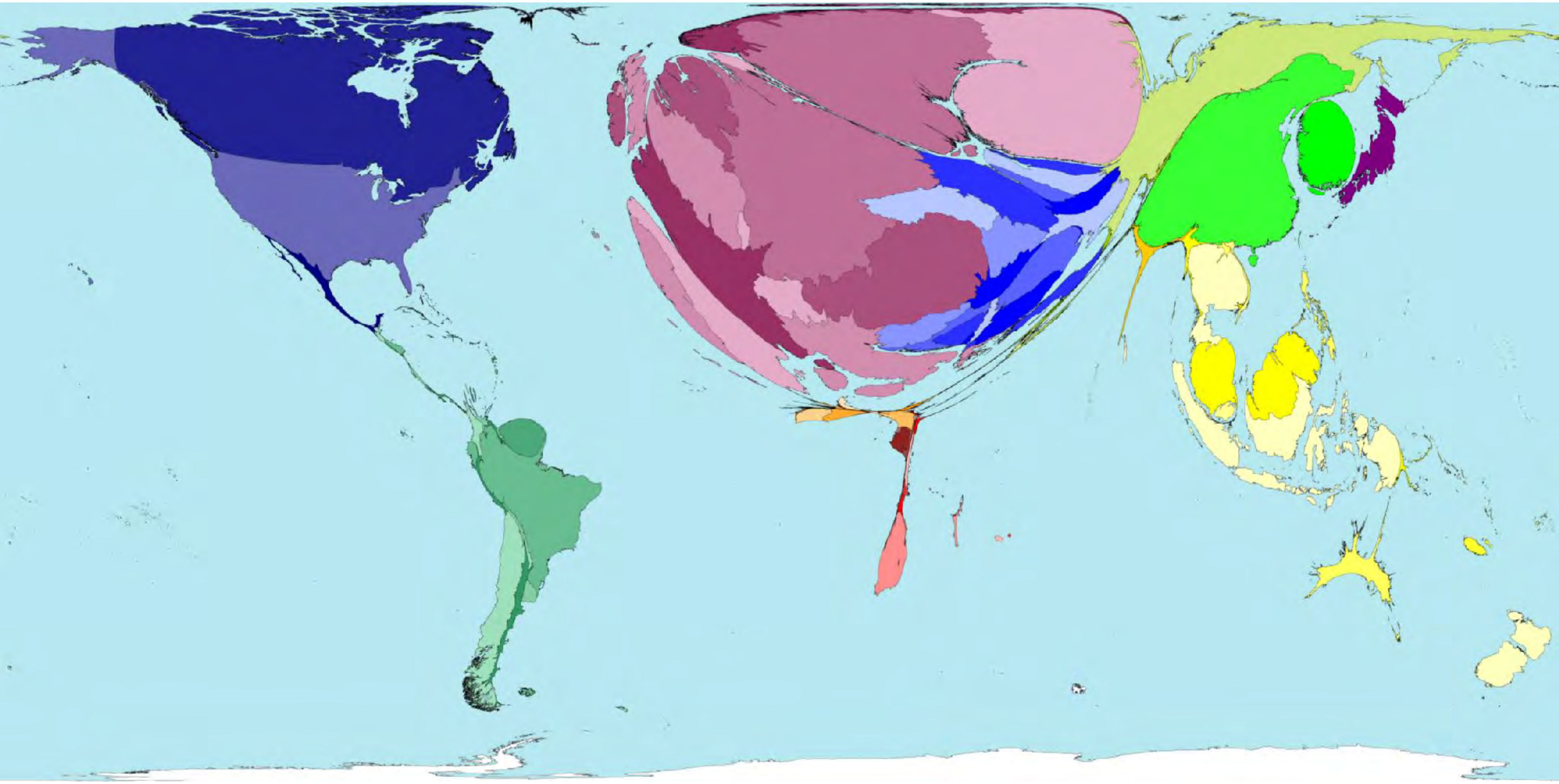
As shaped by forest products exports



Sources: Worldmapper & FAOStat, 2009

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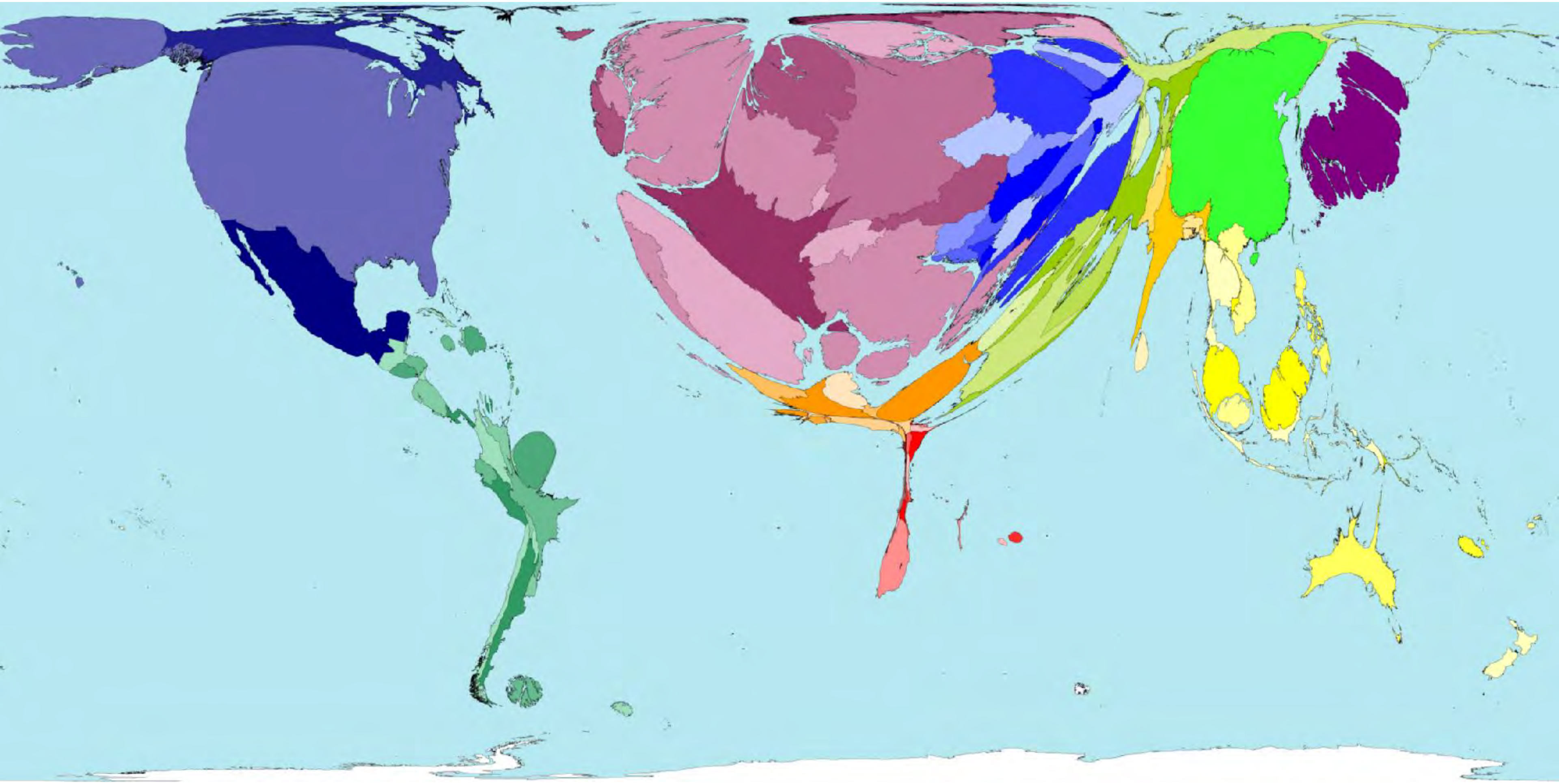
As shaped by forest products imports



Sources: Worldmapper & FAOStat, 2009

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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

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II. Structural change in the forest sector

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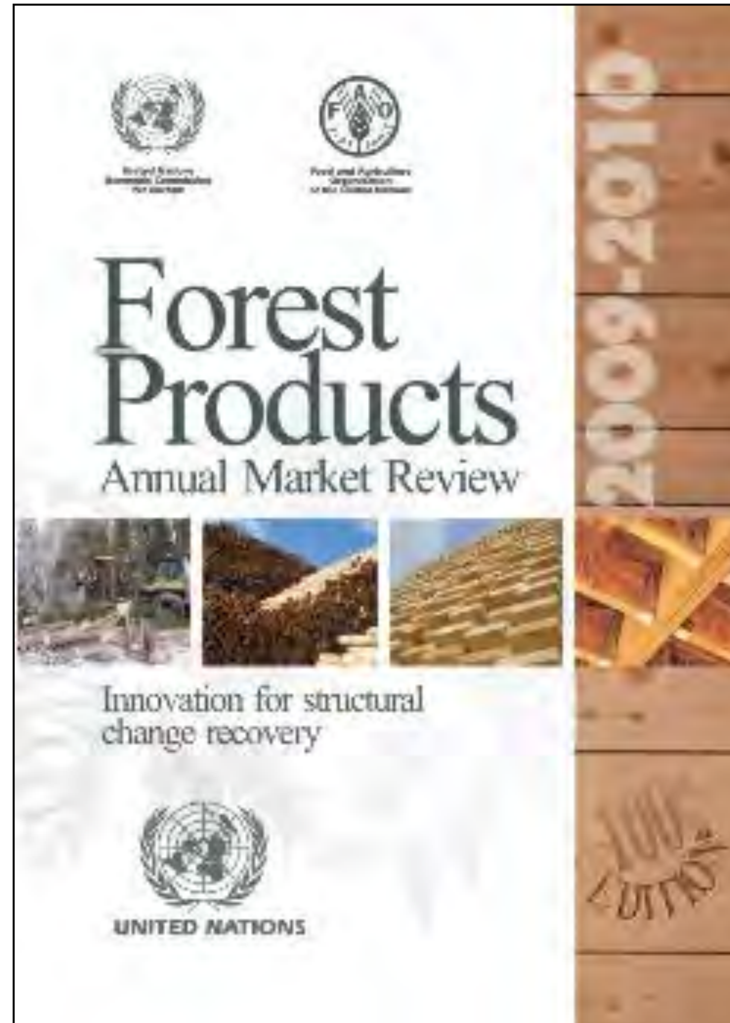
"Innovation for structural change recovery"

Main finding



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

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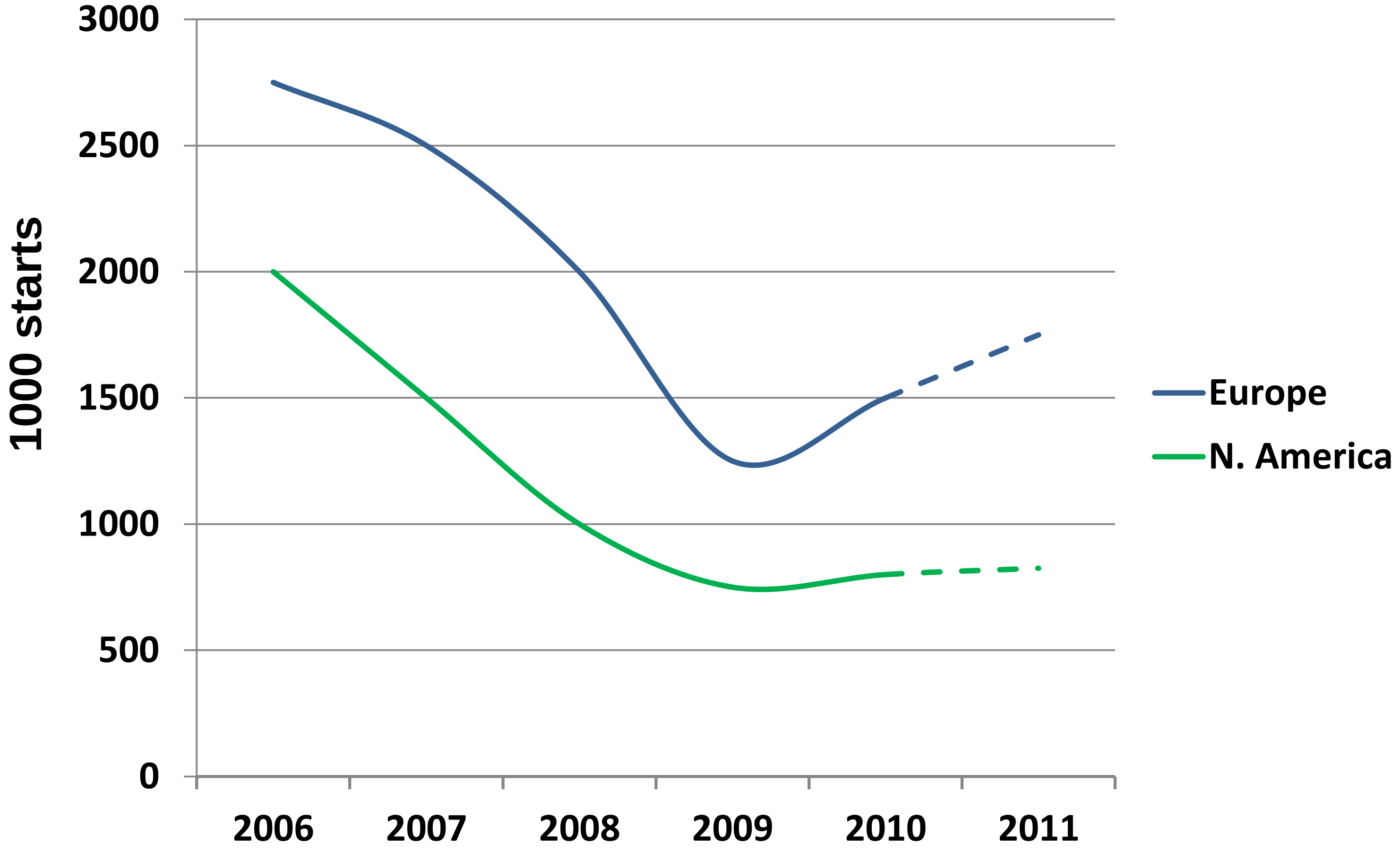
- 2008-2009 global crisis
  - Begin in United States
  - Tremendous impact on housing construction, wood and paper demand
  - Spread to Europe, Asia
- 2010 end of recessions
- 2011 markets rebound, but don't recover

- 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

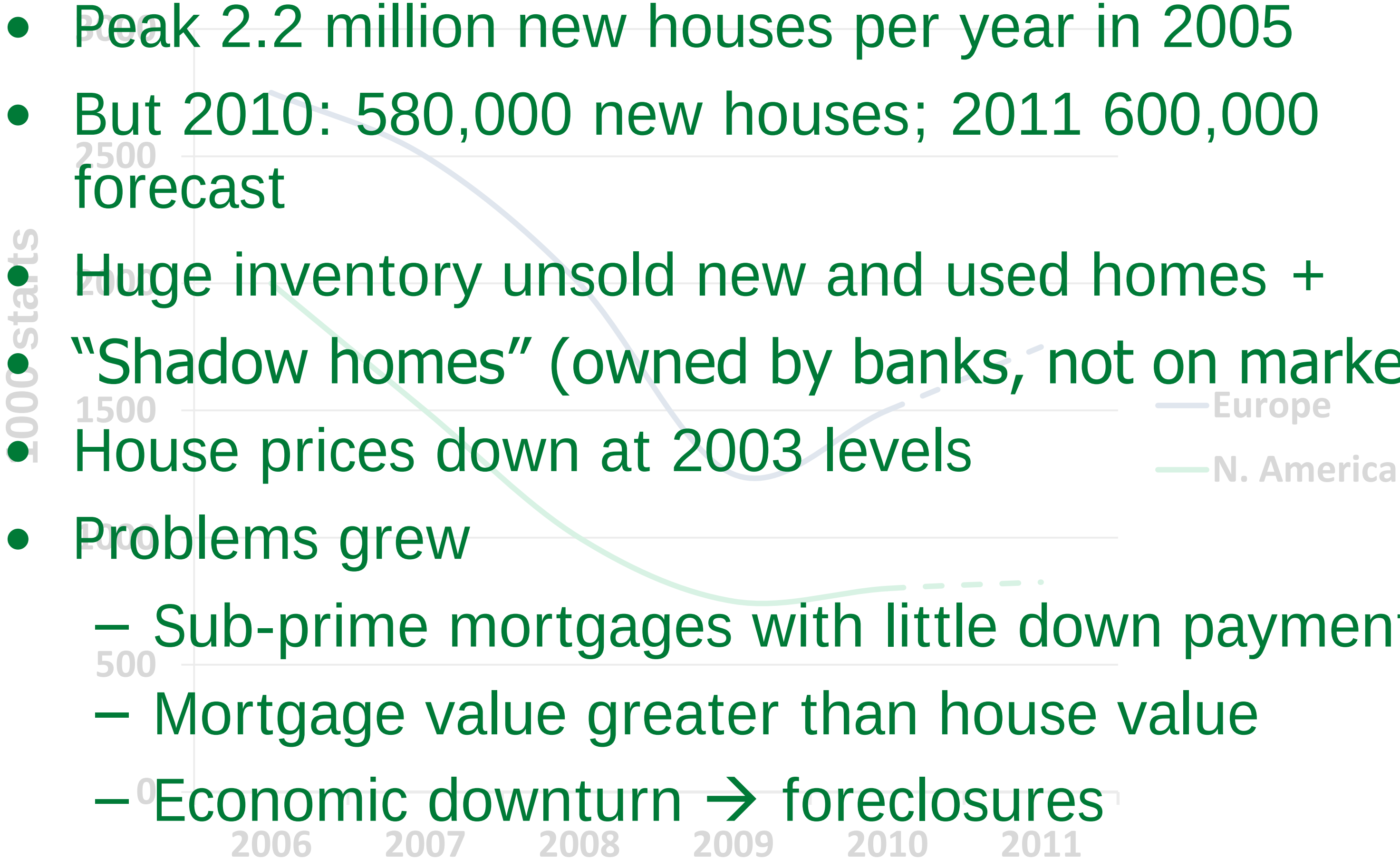
Housing starts: Europe & N. America



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



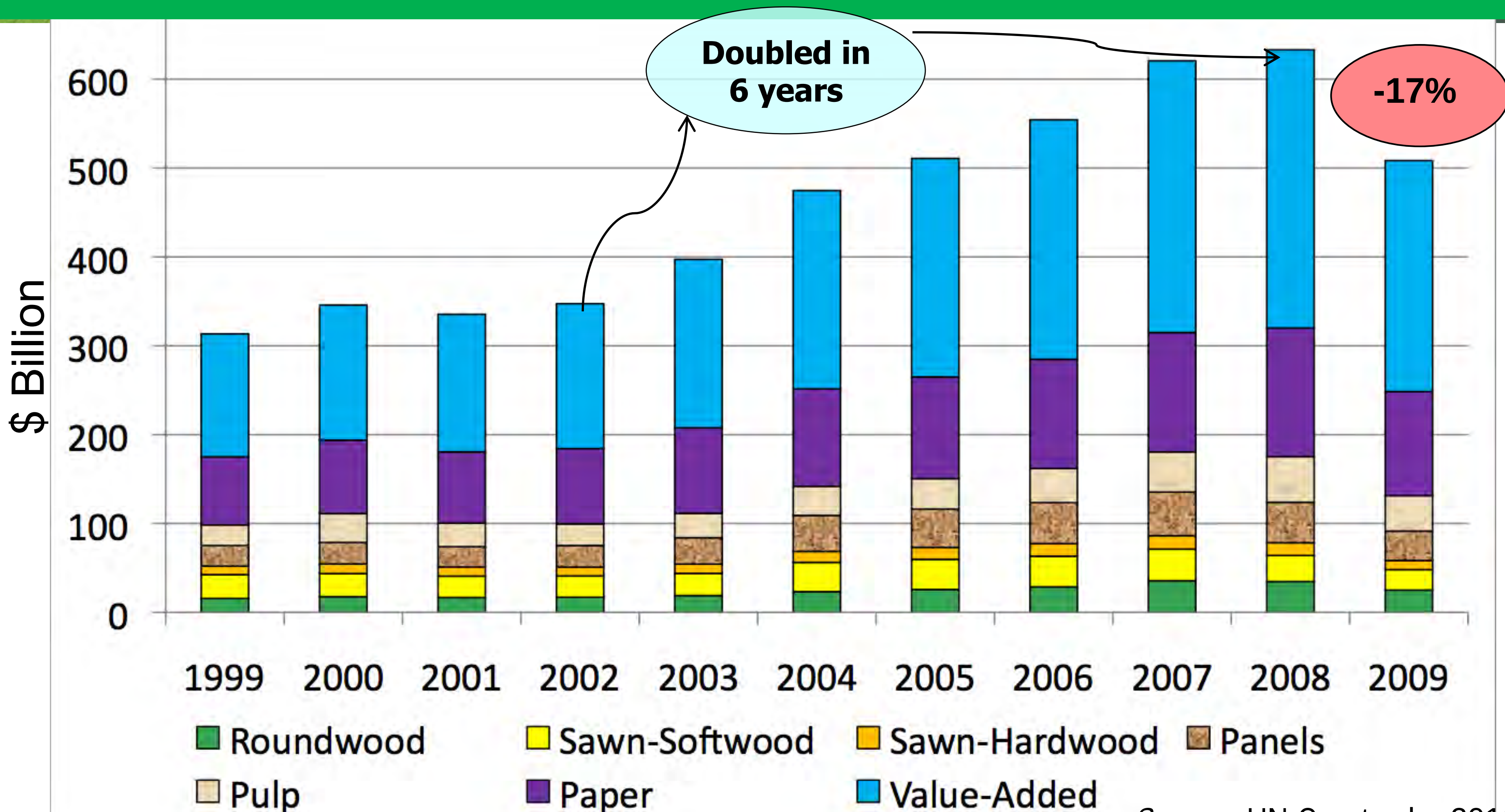
Note: 2011 forecast.
Sources: US Census Bureau, Canada Mortgage and Housing Corporation, Eurocostruct and author’s interpretation, 2011.

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



Source: UN Comtrade, 2011.

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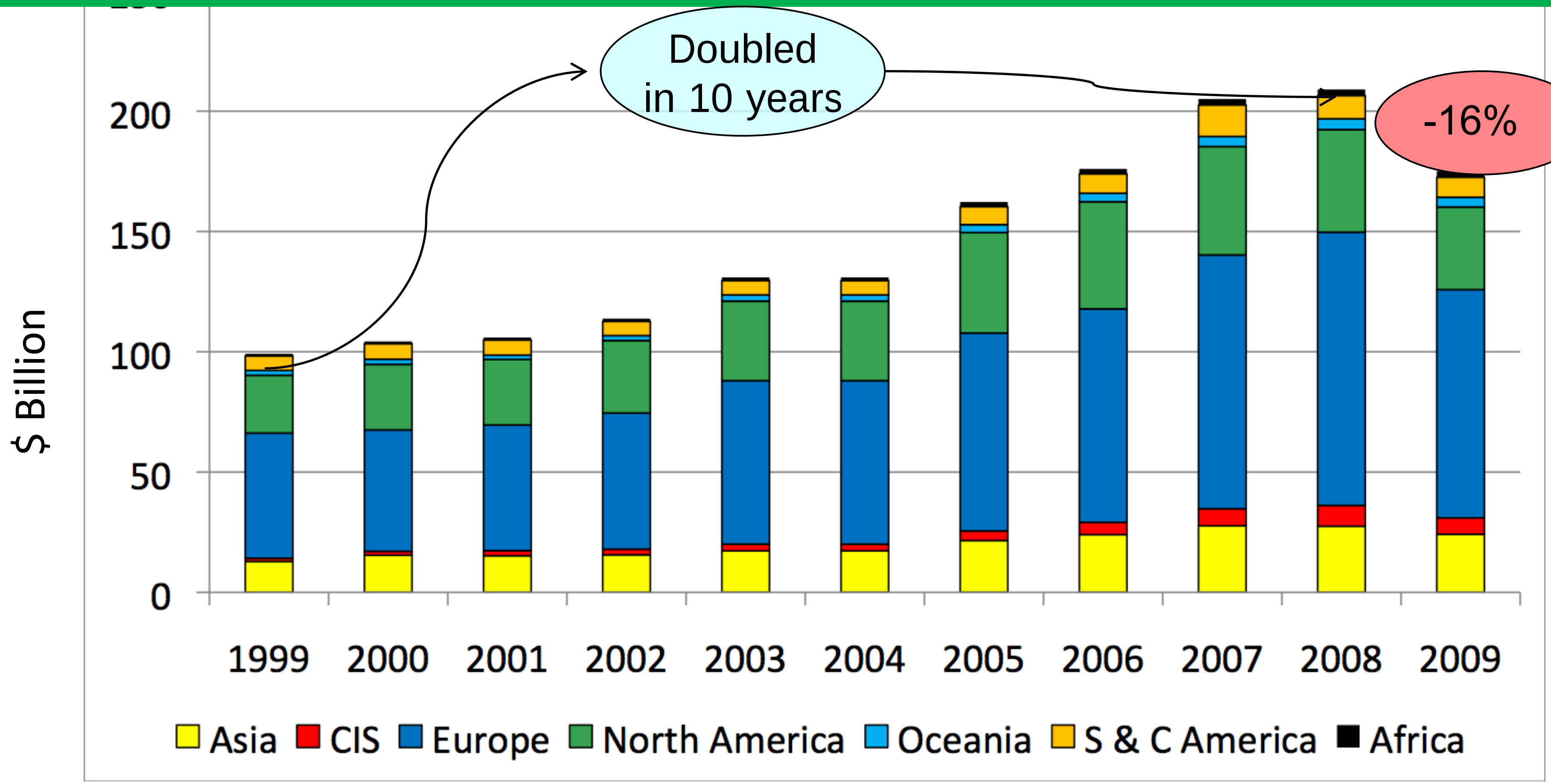
Global value-added imports



Source: UN Comtrade, 2011.

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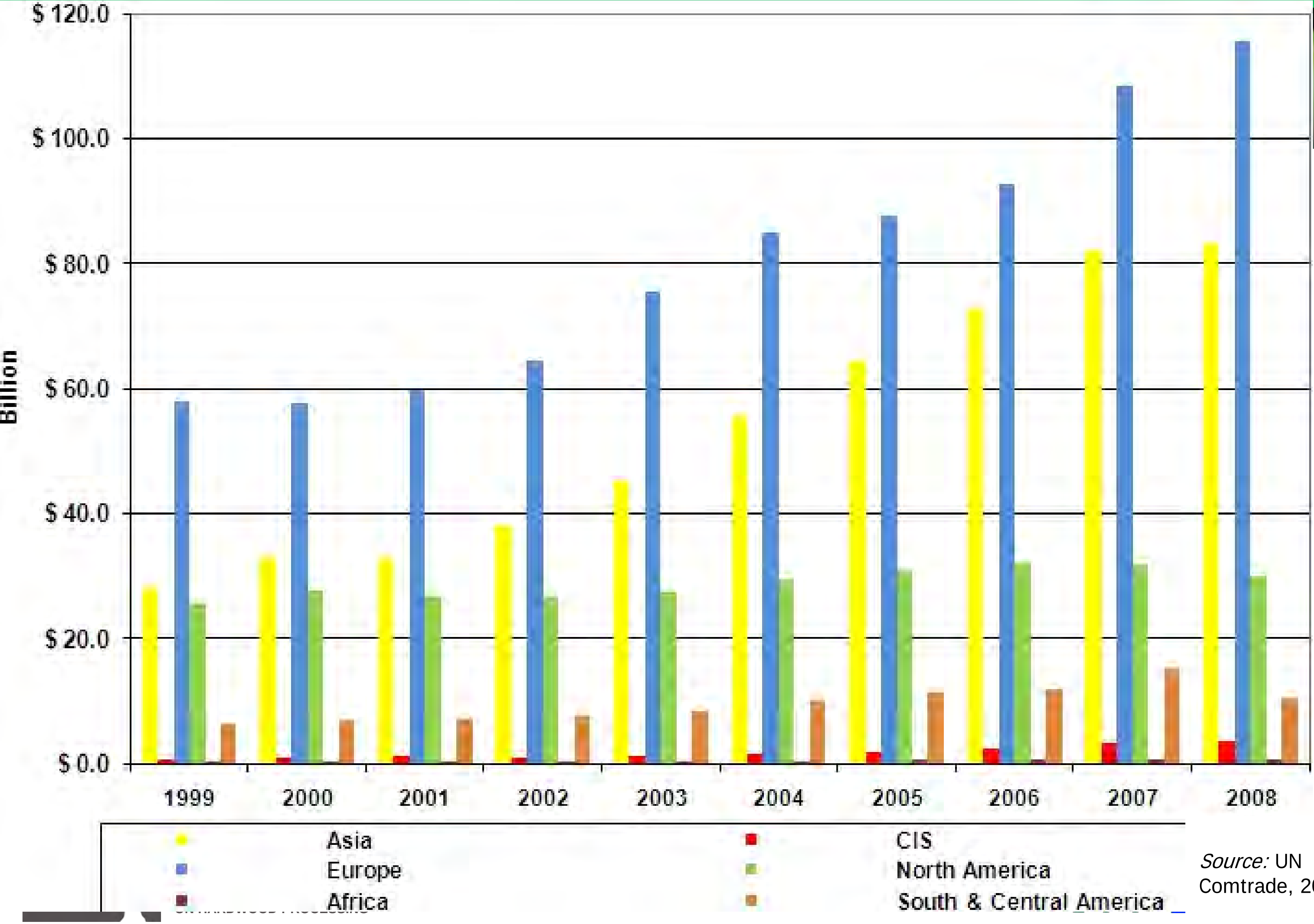
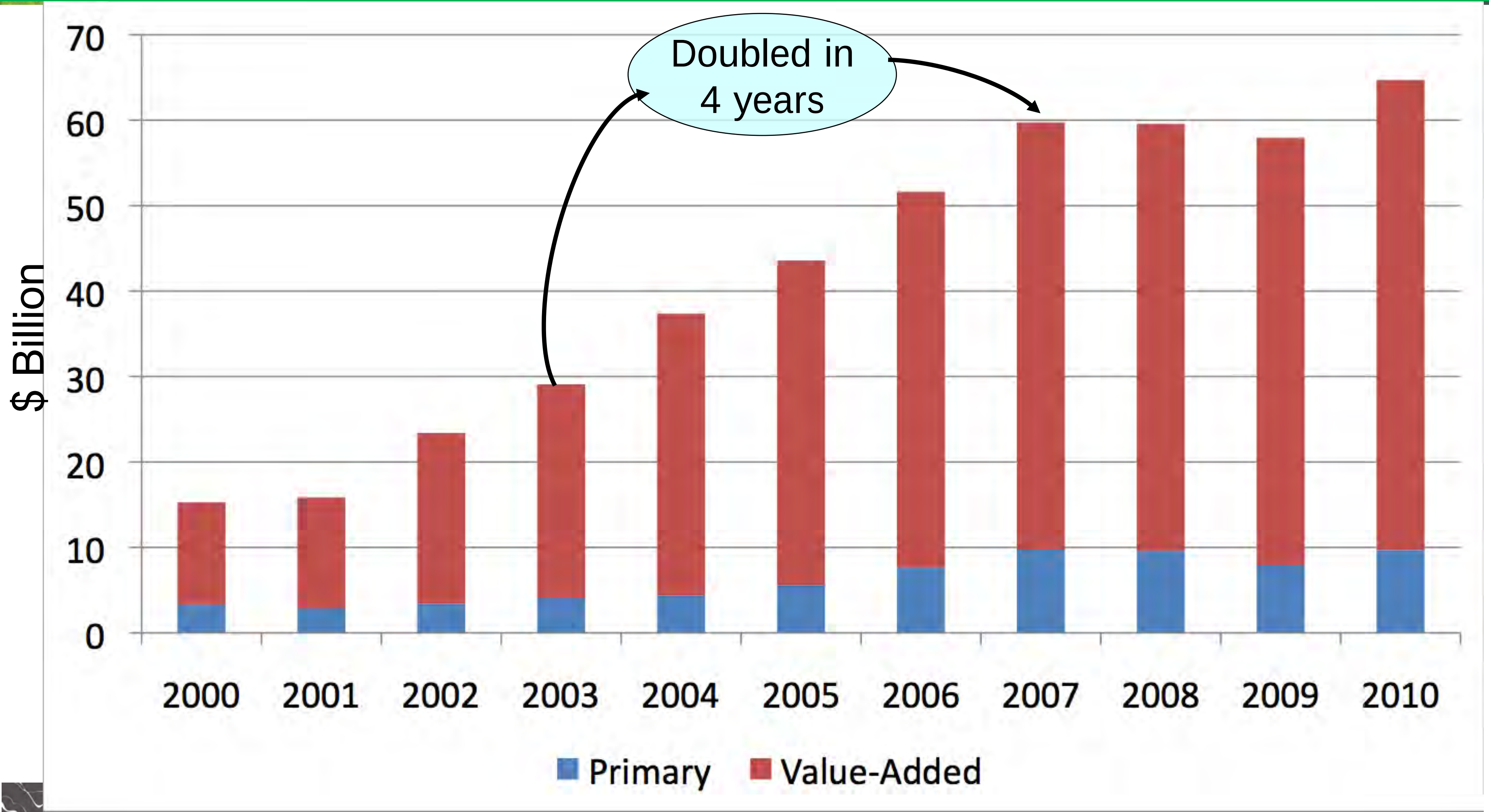
Value-added forest products exports



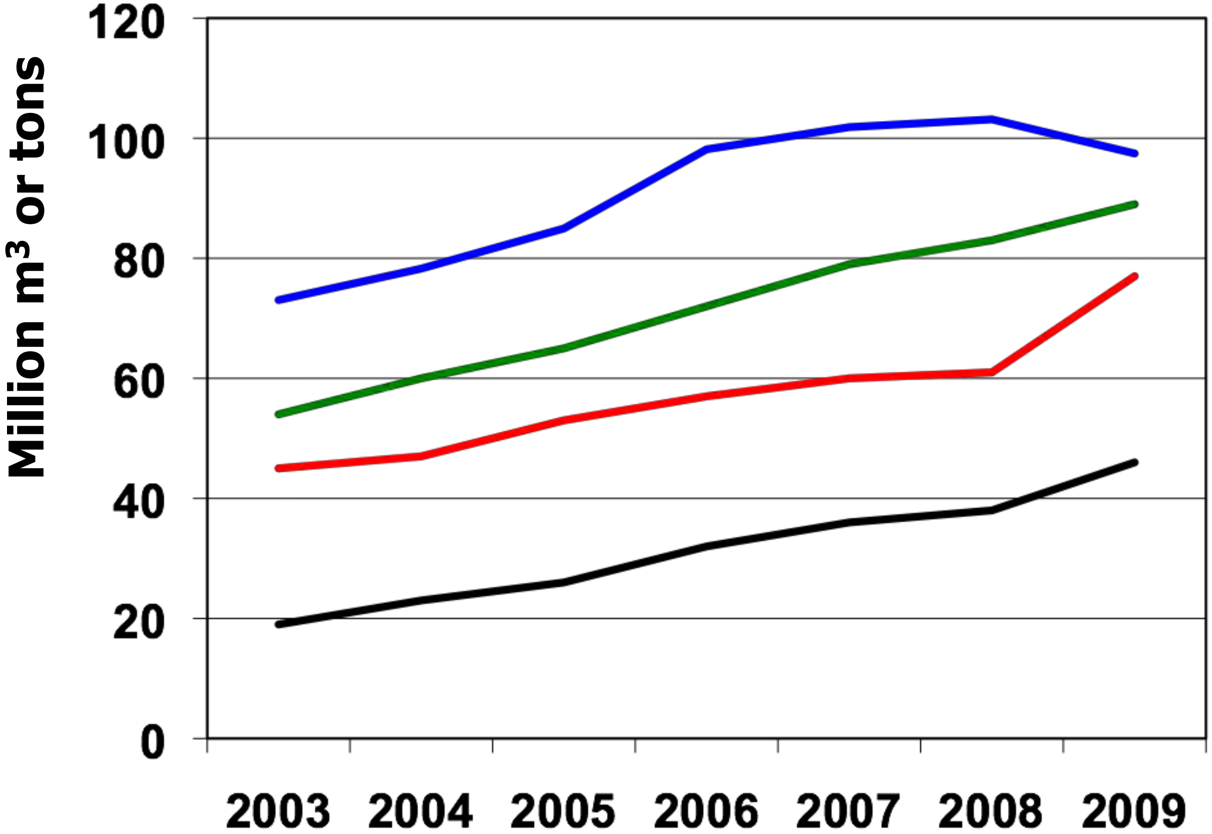
Source: UN Comtrade, 2010.

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

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Note: Forecast by Wood Markets International, 2010.
Sources: FAOStat, UNECE/FAO estimates, 2010.

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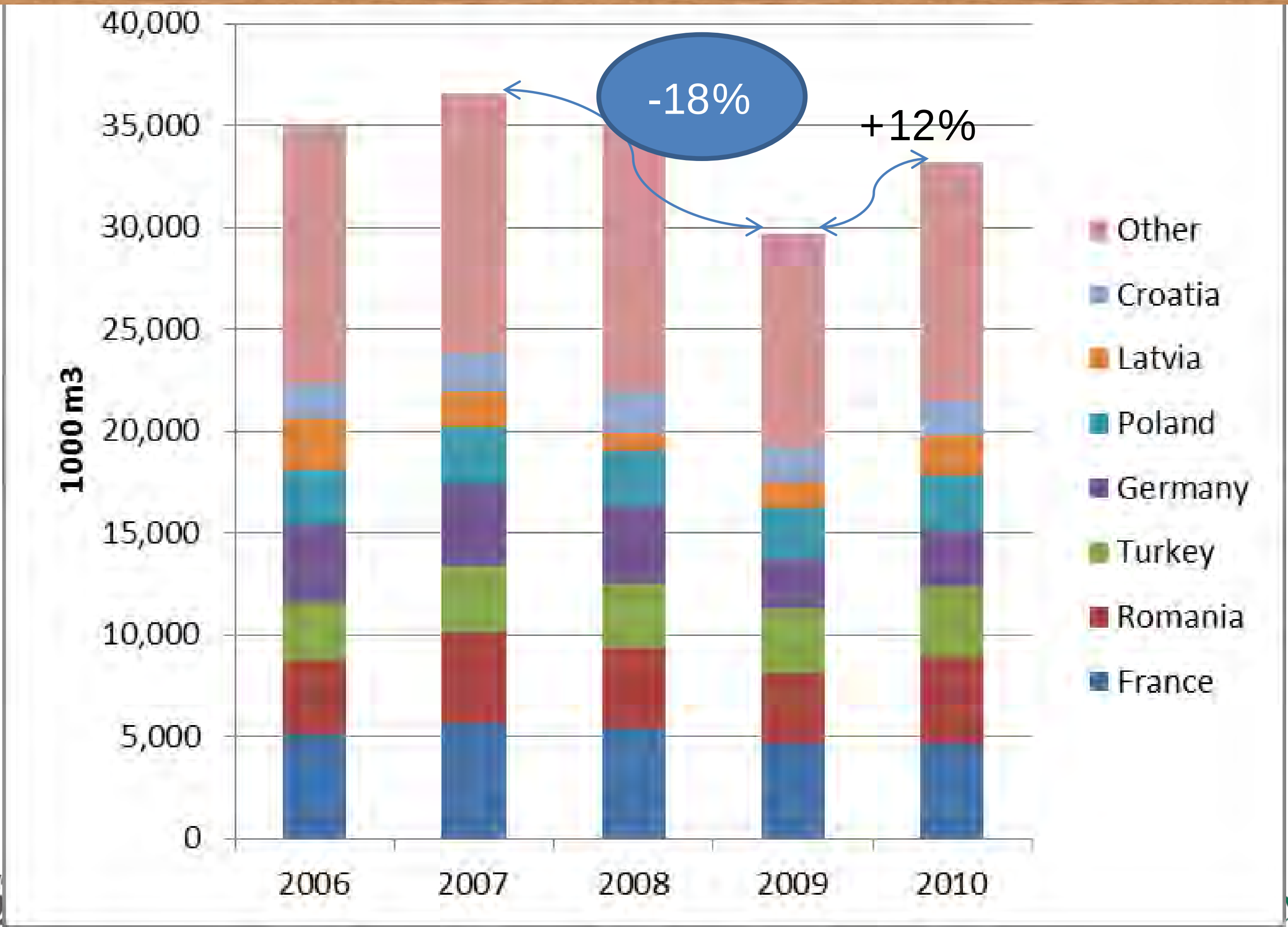
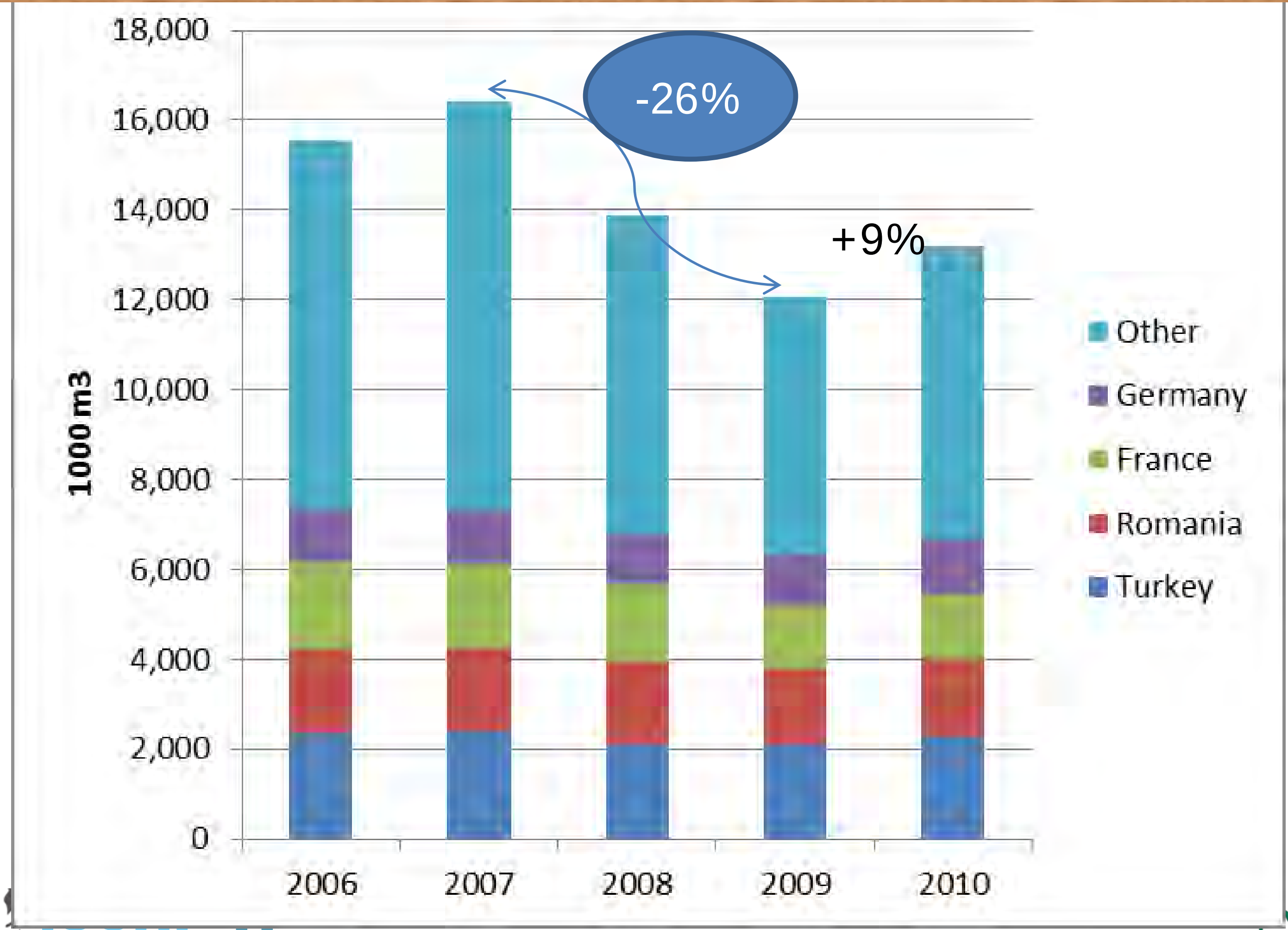
Hardwood sawlog & veneer log production in Europe



Source: Forest Intelligence Ltd, 2011.

Sawn hardwood production in Europe



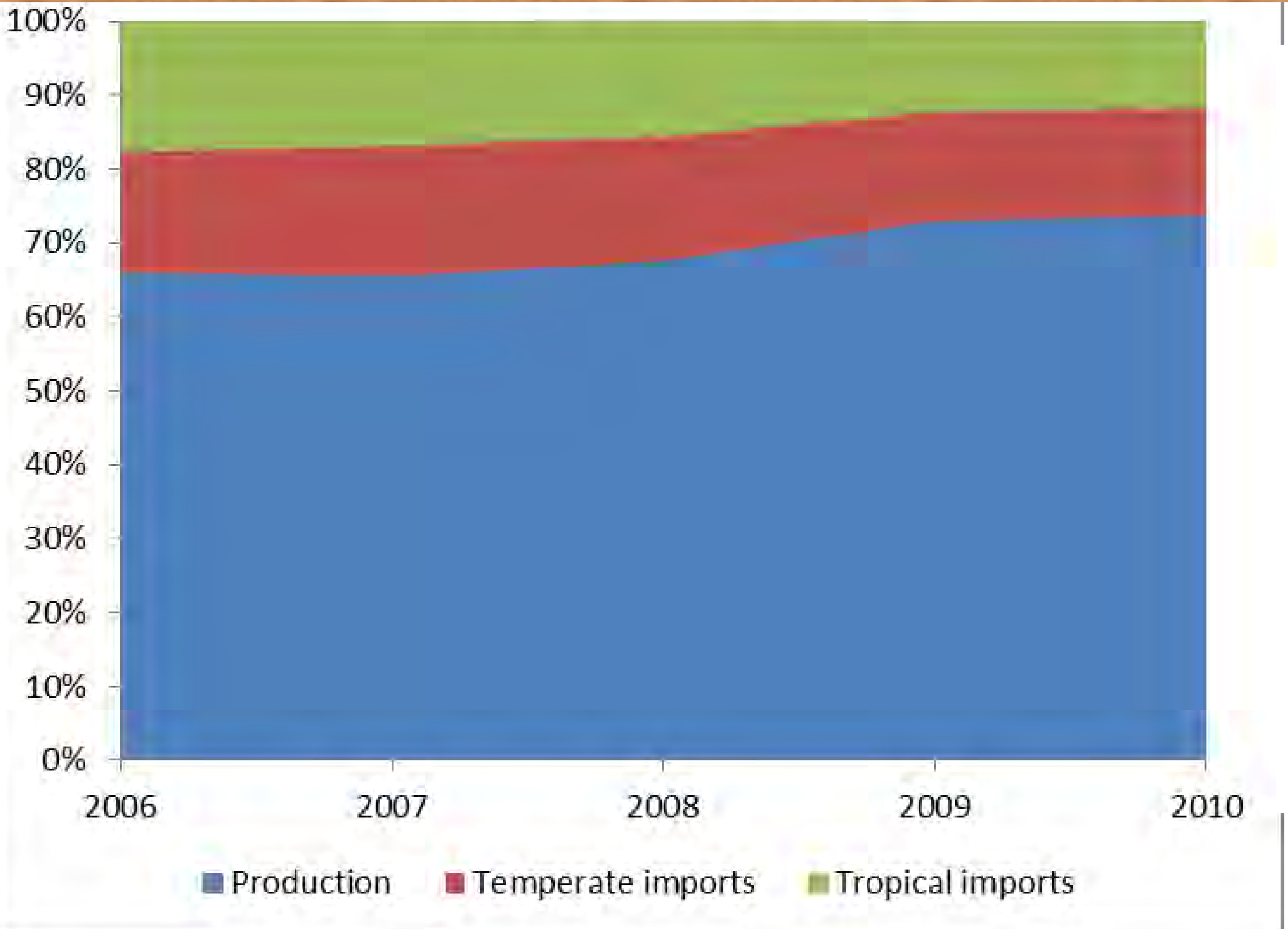
Source: Forest Intelligence Ltd, 2011.

Sawn hardwood balance in EU-27

	2008	2009	2010	% change 2009-2010
Production	9.9	8.6	9.5	10.7
Exports	4.7	5.8	4.5	18.3
Imports	6.6	4.7	5.3	12.0
Consumption	11.8	9.4	10.2	8.3

Source: UNECE/FAO, 2011.

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

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Source: Forest Intelligence Ltd, 2011.

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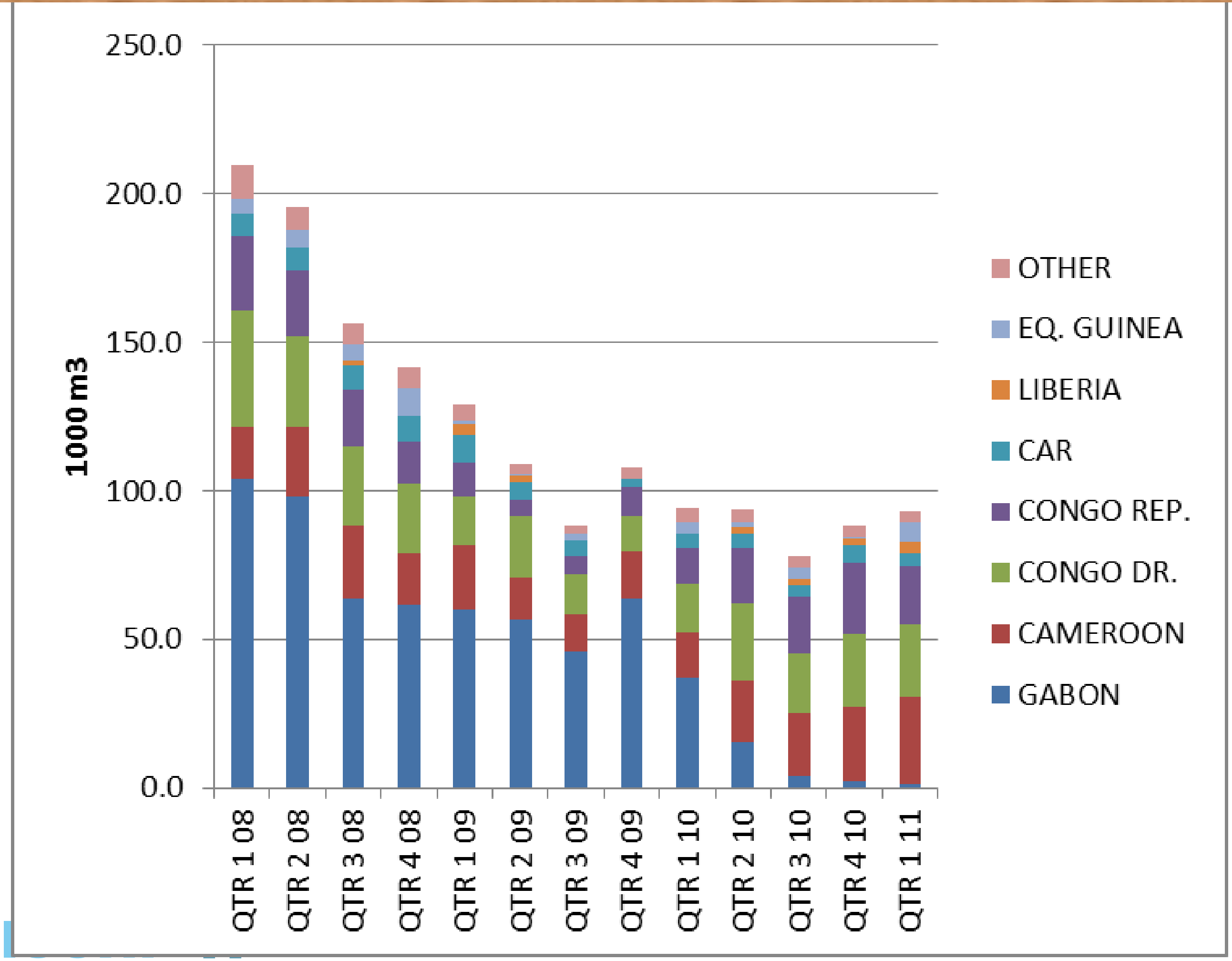
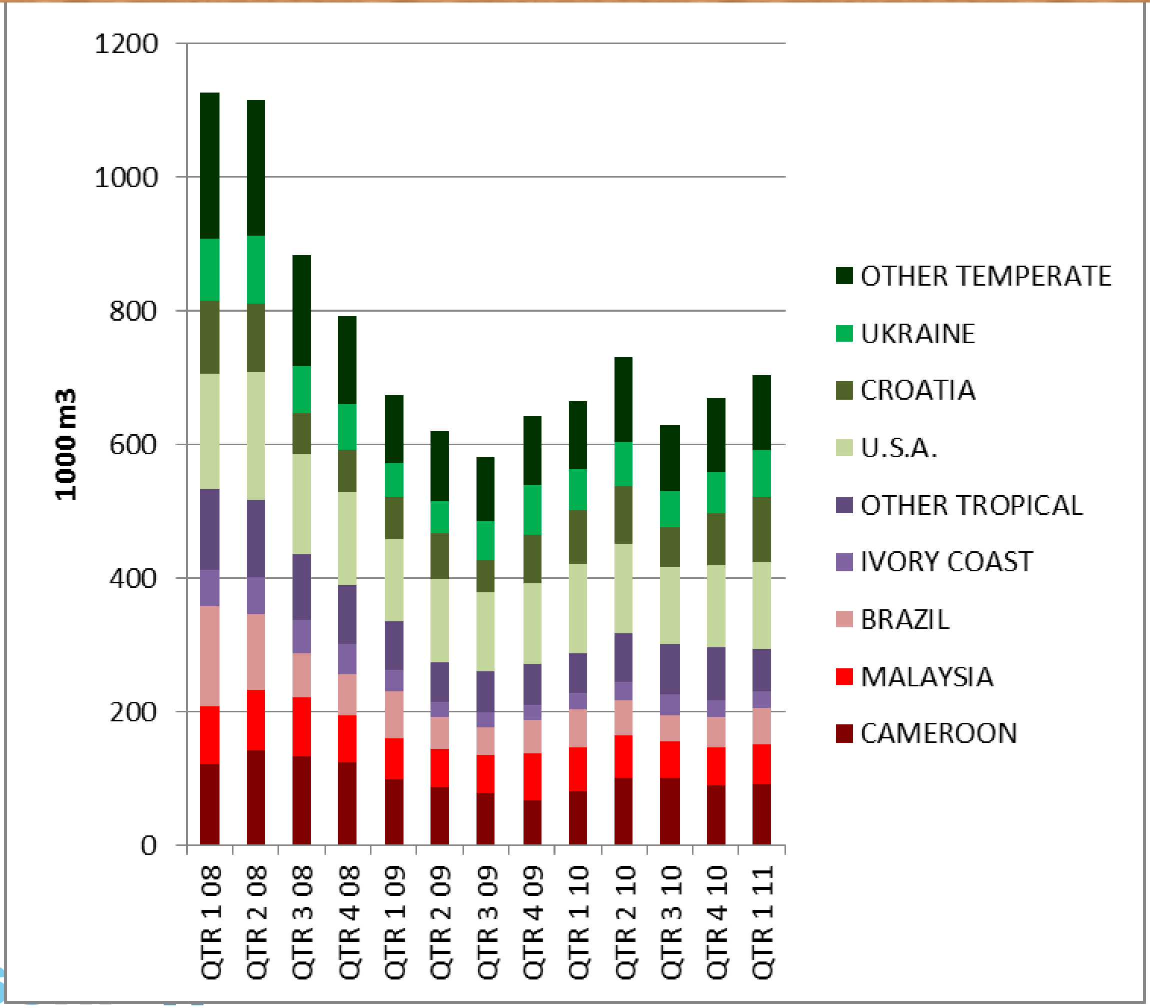
Tropical hardwood log imports by Europe



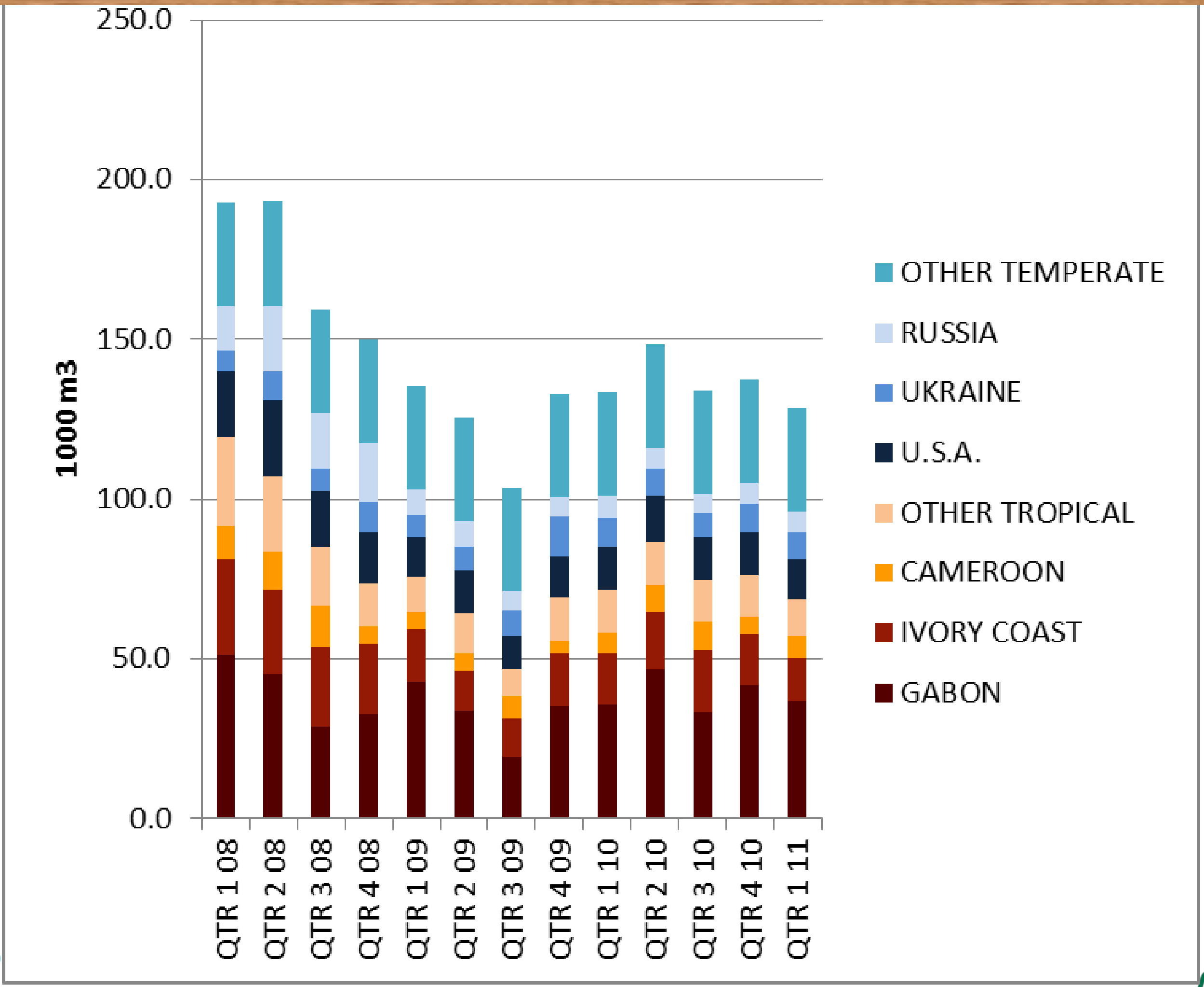
Source: Forest Intelligence Ltd, 2011.

Sawn hardwood imports by Europe



Source: Forest Intelligence Ltd, 2011.

Hardwood veneer imports by Europe



Source: Forest Intelligence Ltd, 2011.

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Sawn hardwood forecasts, 2011 and 2012
Top European producers

1000 m3

	2010	2011	% 2010-2011	2012	%2011-2012
Turkey	2,259	2,300	1.8	2,225	-3.3
Romania	1,610	1,650	2.5	1,700	3.0
France	1,500	1,600	6.7	1,650	3.1
Germany	914	1,000	9.4	1,070	7.0
Slovakia	797	850	6.6	870	2.4
Croatia	584	562	-3.8	550	-2.1
Poland	455	470	3.3	480	2.1

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

	2010	2011	% 2010-2011	2012	%2011-2012
Romania	652	700	7.4	750	7.1
Germany	553	650	17.5	710	9.2
France	390	310	-20.5	350	12.9
Croatia	527	490	-7.0	440	-10.2
Slovakia	359	380	5.8	400	5.3
Lithuania	194	205	5.7	210	2.4

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

1000 m3

	2010	2011	% 2010-2011	2012	%2011-2012
UK	469	430	-8.3	430	0.0
Germany	444	550	23.9	580	5.5
France	160	150	-6.3	150	0.0
Belgium	420	440	4.8	440	0.0
Czech Rep.	335	320	-4.5	340	6.3

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

1000 m3

	2010	2011	% 2010-2011	2012	%2011-2012
Turkey	2,333	2,377	1.9	2,297	-3.4
France	1,270	1,440	13.4	1,450	0.7
Germany	805	900	11.8	940	4.4
Romania	991	985	-0.6	990	0.5
Poland	581	600	3.2	615	2.5
UK	486	450	-7.4	450	0.0

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

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)

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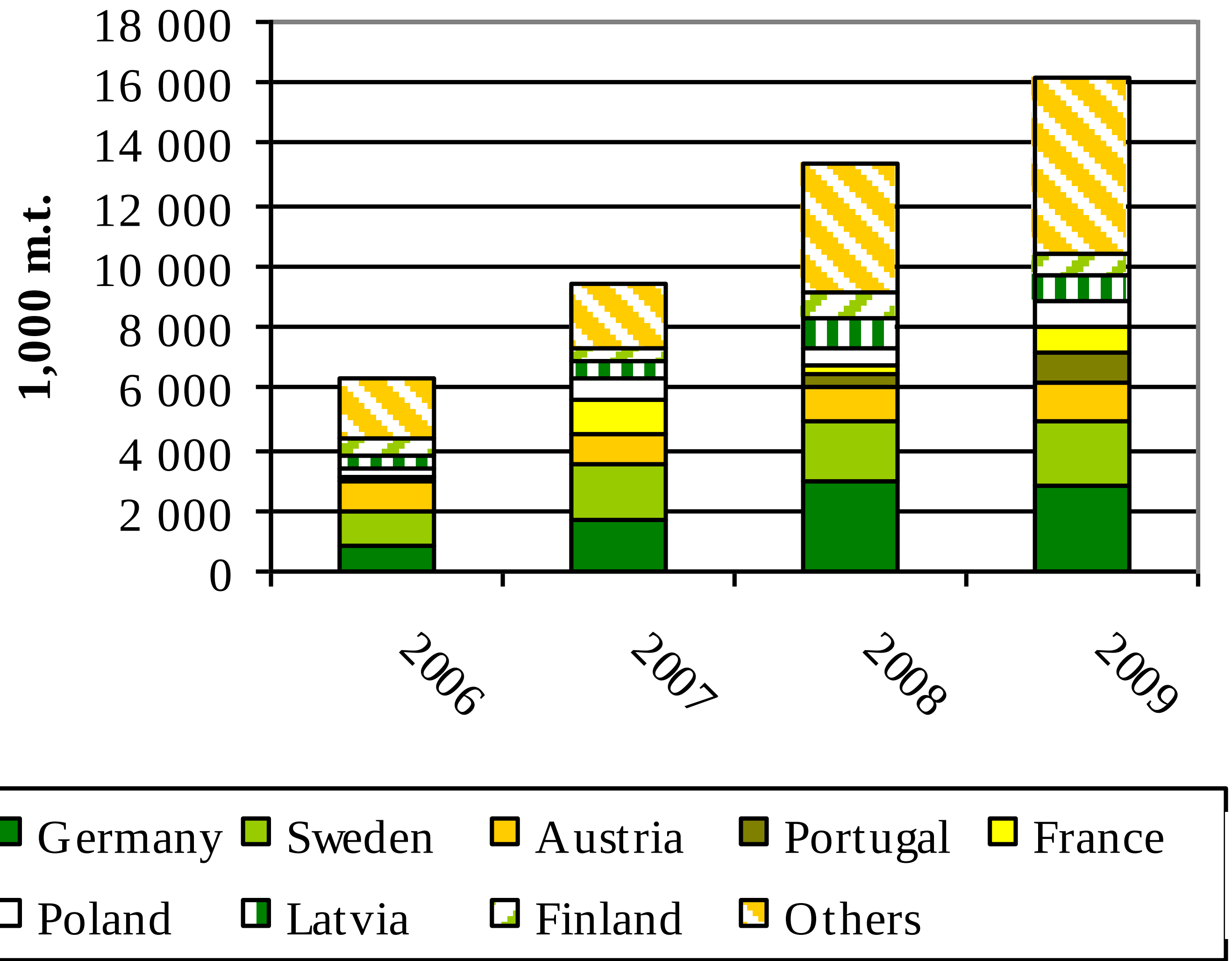
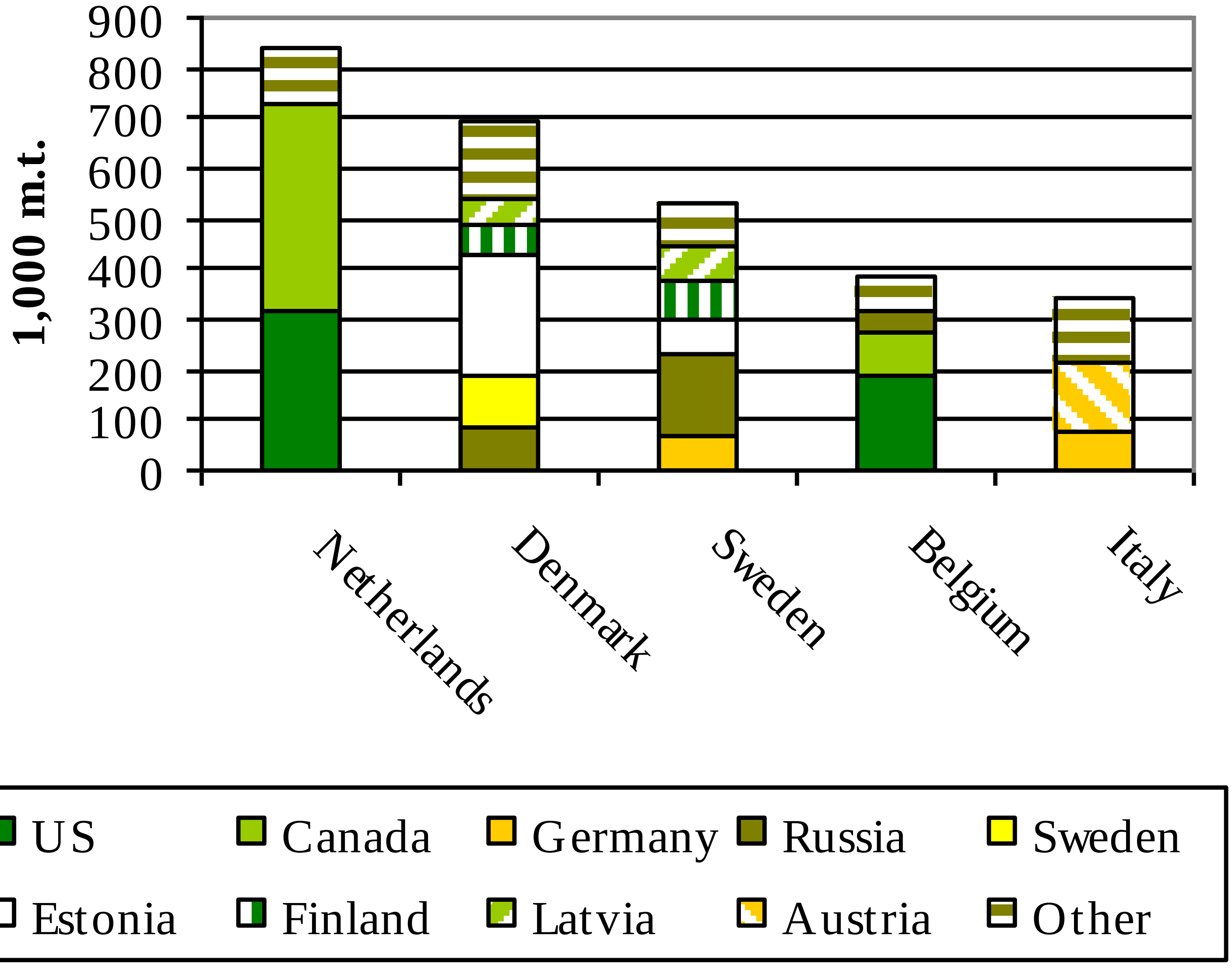
European wood pellet production capacity



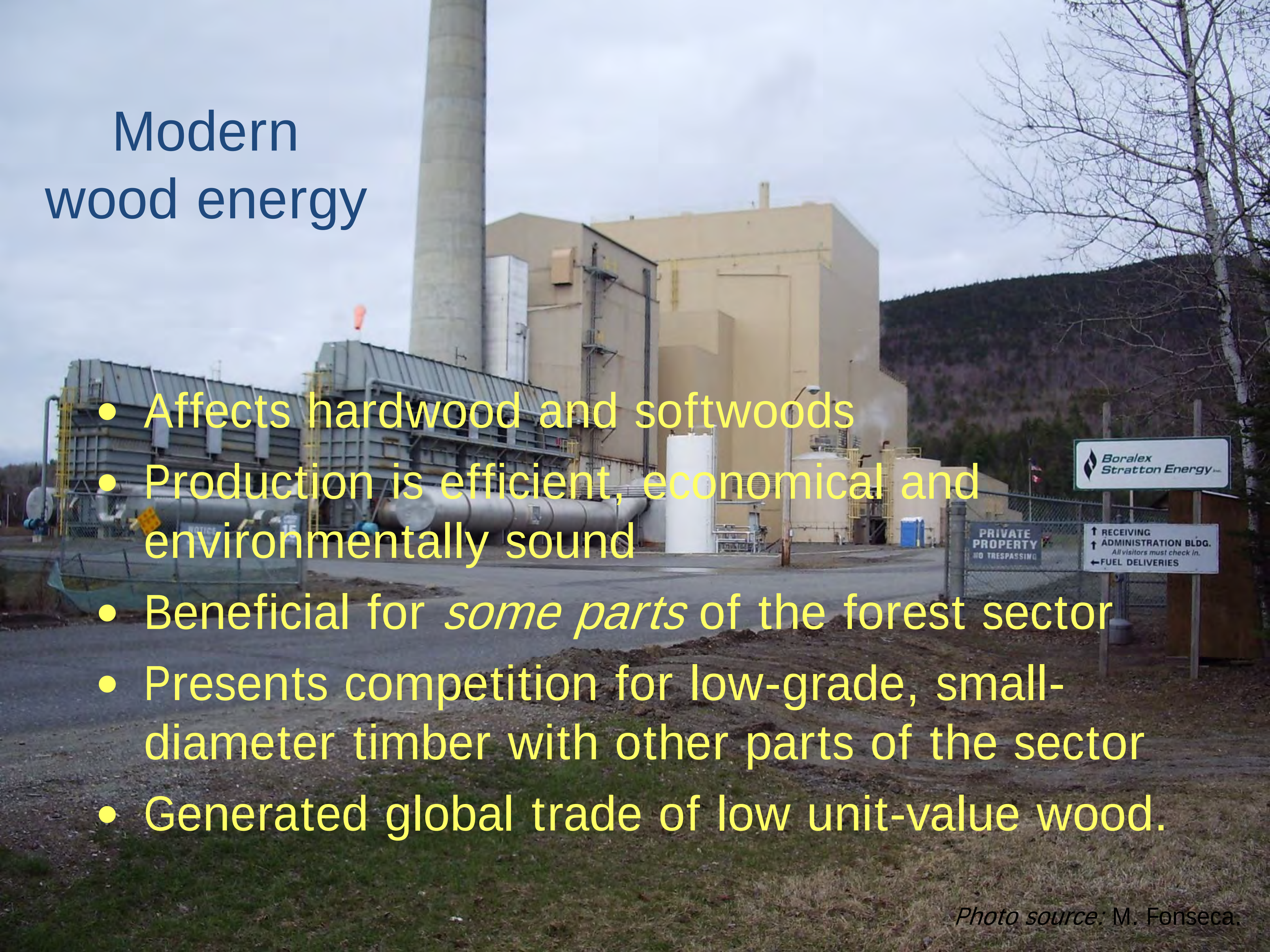
Source: Ljungblom, 2010.

Major European pellet importing countries and their suppliers, 2009



Source: Eurostat, 2010.

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.

Photo source: M. Fonseca.

V. Controlling sources of wood and paper products, including certification

4th reason for structural change

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- 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 responsibilty

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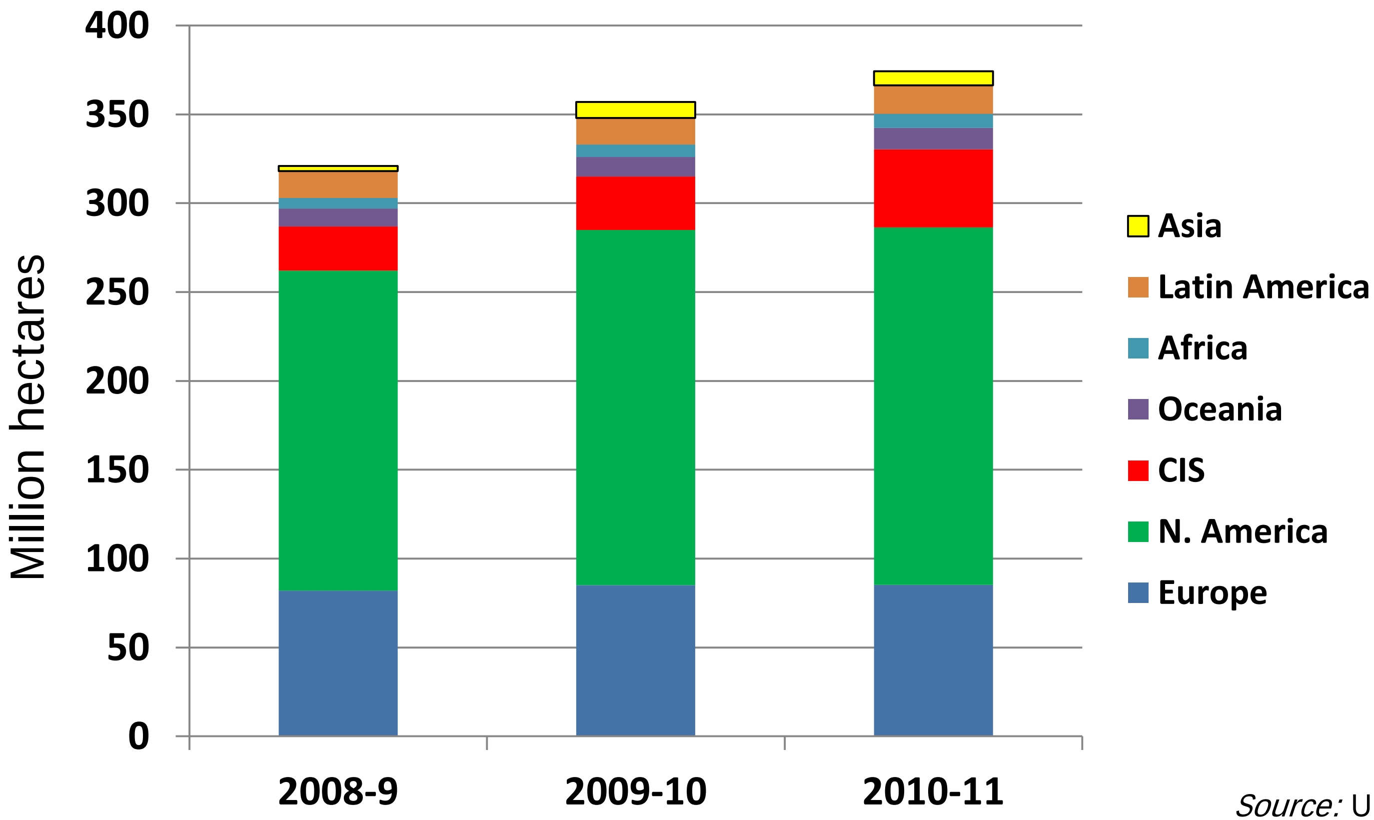
Certified forest area



Source: UNECE/FAO, 2011.

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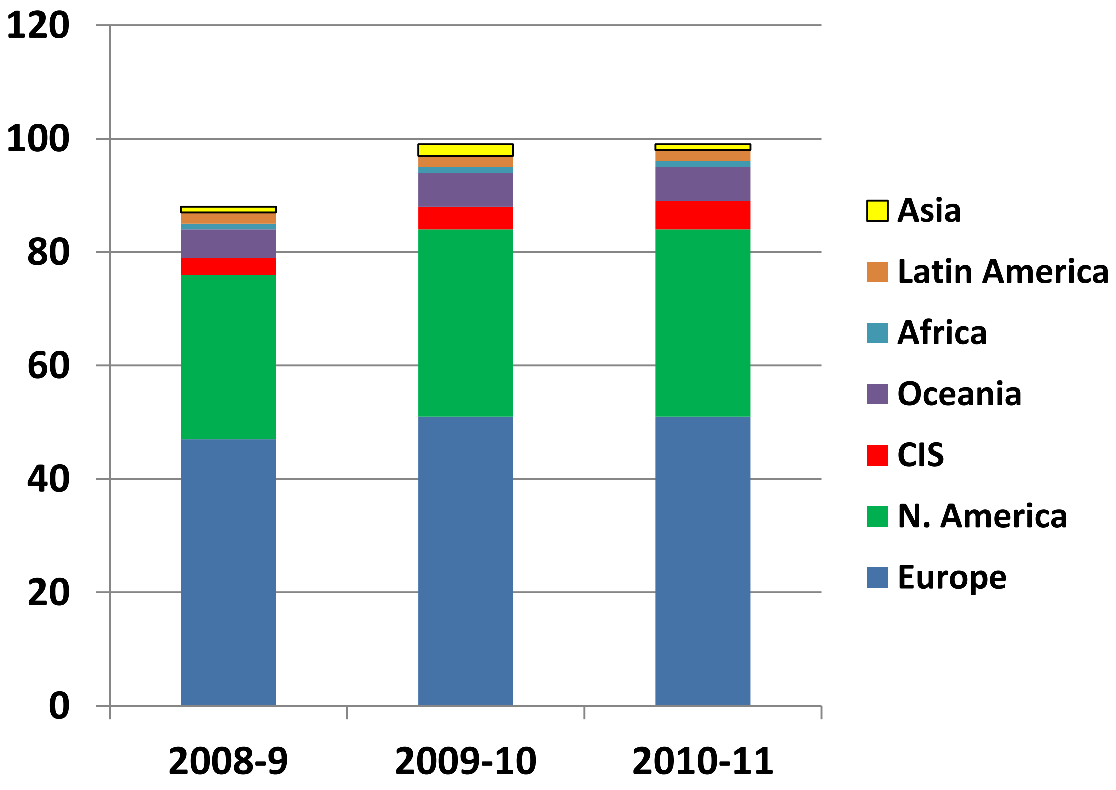
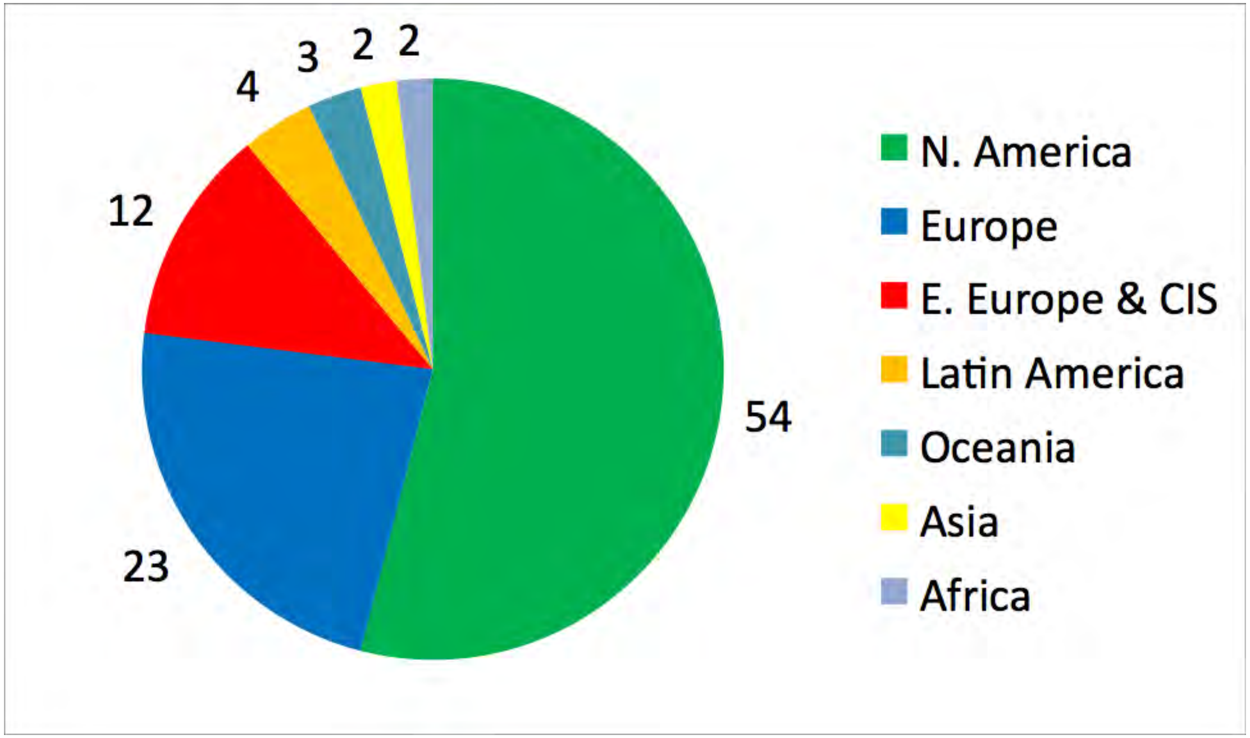
Percent of forests certified



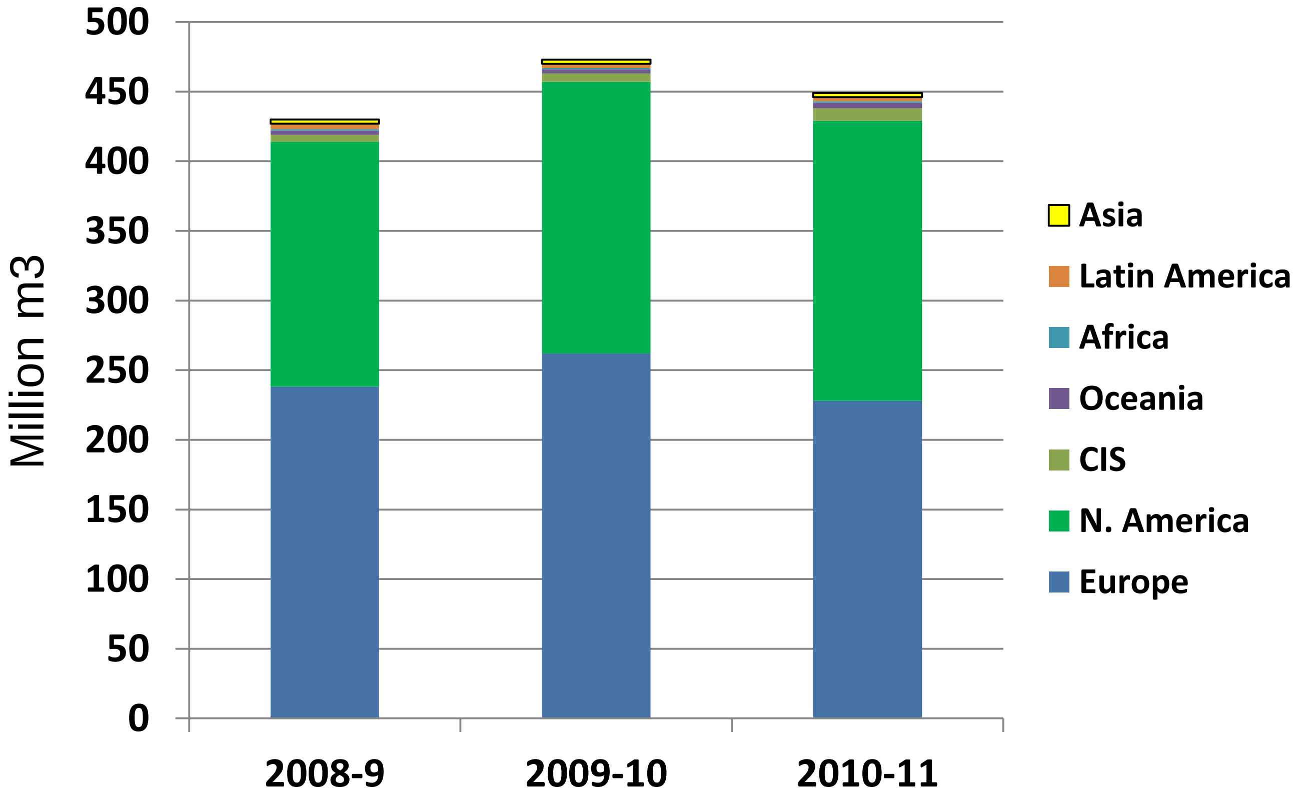
Source: UNECE/FAO, 2011.

Percent of forests certified



Source: UNECE/FAO, 2011.

Industrial roundwood from certified forests



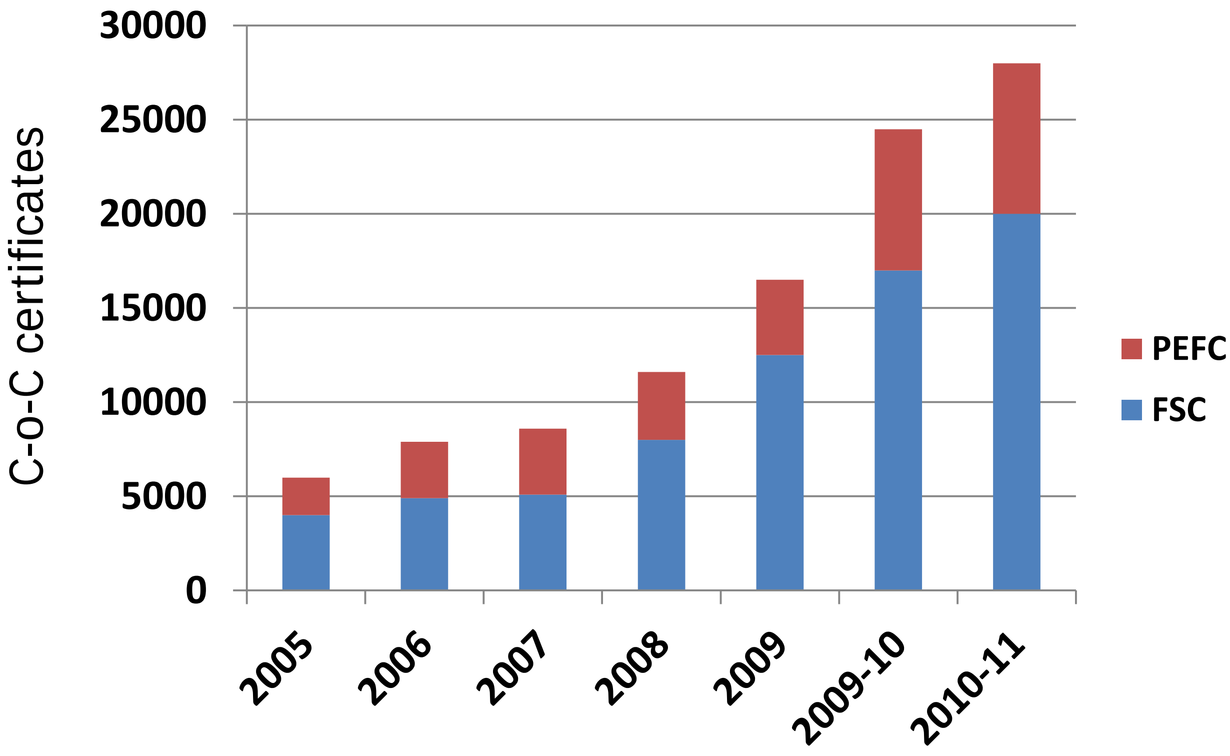
25% of global roundwood supply

Source: UNECE/FAO, 2011.

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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