

Volatile markets wreak havoc on timber trade in first three quarters of 2008

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During the second half of 2008, as global markets dipped further into uncertainty, the tropical timber trade was impacted by wary traders and buyers. Early in the first half of 2008, exporters showed some gains. However, as the first half of the year ended, it was clear that the instability and subsequent downturn of global markets were having a negative effect on timber buying patterns.

Weakening consumer demand hits exporting countries

Japan's demand for most timber products was slow during the first three quarters of 2008. Japan's plywood imports and housing starts rebounded in July and August 2008, after reaching their nadir in 2007 (largely due to impacts from a Revised Building Standards Act), but have since leveled off.

The European hardwood import trade focused on stock reduction and delivery of outstanding contracts, with the current level of stocks expected to meet subdued demand until the end of the year.

Japanese traders also expected that the prospects for plywood trade would remain poor for the rest of the fourth quarter. Japan's demand for South Sea logs has been weak and overall imports of logs and lumber during the first half of 2008 dropped sharply. Japan imported nearly 30% less forest products by value in the first half of 2008 (about 306 billion yen, or around \$3 billion) as during the same period in 2007 (Table 1).

Falling hard in Japan

Table 1. Imports of major forest products, first half 2008

ITEM	VOLUME (MILLION M ³)*	VALUE (JPY BILLION)
Log	3.00	65.79
softwood	2.69	56.67
hardwood	0.32	9.12
Lumber	3.02	113.86
softwood	2.86	100.34
hardwood	0.16	13.52
Secondary processed lumber	0.11	13.45
softwood	0.05	4.23
hardwood	0.06	9.21
Plywood	1.95	85.6
softwood	0.23	1.22
hardwood	1.48	73.49
blockboard	0.24	10.91
Veneer	27.85	4.42
fiberboard	144.66	9.26
hardboard	15.18	0.92
MDF	129.48	8.34
Laminated lumber	0.24	13.85

Source: Japan Lumber Reports (*note: veneer in million m²; fibreboard in million kg)

China continued strong buying trends for West African logs during 2008, helping to sustain trade and prices in the region, despite the volatility in the global marketplace. In the first three quarters of 2008, China's imports and exports grew, but growth was significantly lower than in 2007. China's major wood products imports totaled \$21.4 billion in the first three quarters of 2008 and exports were valued at \$26.7 billion, dropping 7.5 and 26.5 percentage points from 2007 levels, respectively. China's trade surplus for wood products reached nearly \$5.3 billion, 21 percentage points less than during the same period in 2007.

EU importers were reducing stocks as of mid-2008 and demand has been at a bare minimum for West African products. The European hardwood import trade focused on stock reduction and delivery of outstanding contracts, with the current level of stocks expected to meet subdued demand until the end of the year. Sawn hardwood imports were up in the UK until October 2008, when the instability of banks began to affect the industry. European plywood importers were also very reluctant to purchase new volumes and existing stocks were seen as a liability. Overall, EU tropical hardwood imports slowed during 2008, as shown in Tables 2 and 3.

Positive but slowing trends in producer countries

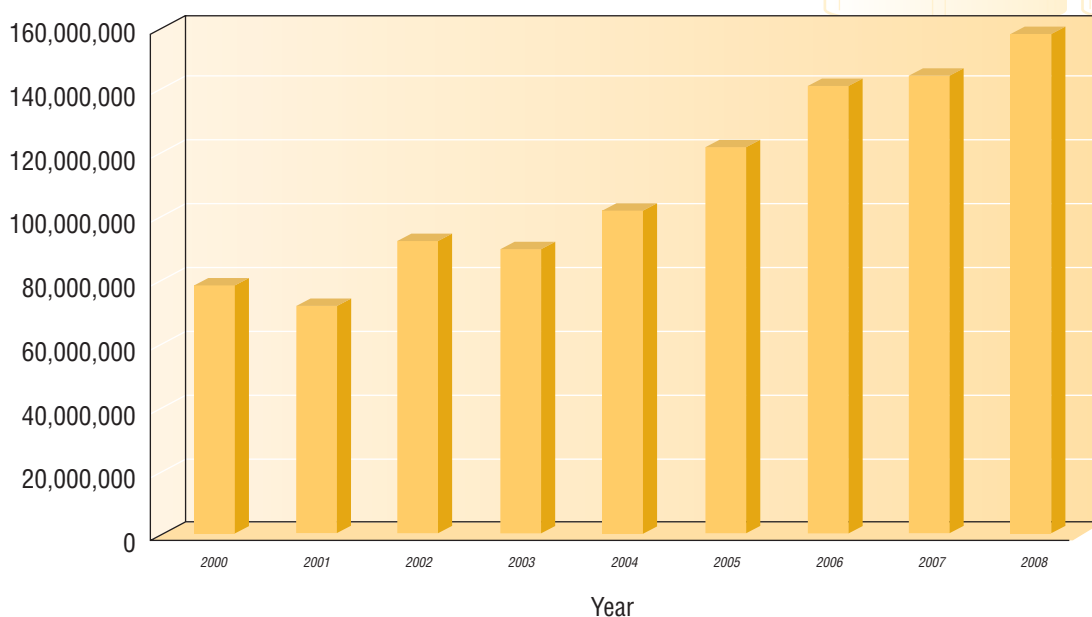
In the first half of 2008, supply was lower in many West African countries due to the rainy season, particularly in Gabon and Cameroon. Ghana, however, reported a 25% increase in the volume of contracts processed and approved during the second quarter of 2008 over first quarter levels. Despite this gain, furniture parts sales contracts processed and approved during the second quarter dropped by 78.2% when compared to the first quarter. Ghana's earned €96.5 million in the first half of 2008 from forest products exports, up 8% by volume and 3.8% by value from the same period of 2007. Kiln dried lumber (21.4%), air dried lumber (11.7%) and plywood (25.7%) together accounted for 58.8% of the total volume exported during the first half of the year.

The Brazilian timber industry was on alert in 2008 as the fluctuation of the US dollar and instability of global markets caused uncertainty for exporters. Brazilian producers were raising prices of timber products, although buyers continued to demand lower prices in light of fluctuating exchange rates and speculative demand. Nevertheless, the Brazilian Association of Furniture Companies (ABIMOVEL) was expecting a 10% increase in domestic market sales for 2008, even though sales to the domestic market had begun to slow in the second quarter and exports to the US had plummeted by nearly 30%. Brazil's exports in August 2008 alone dropped 25.8% from August 2007 levels.

Peru's results from the first eight months of 2008 showed positive trends, with wood product exports growing 12% (\$158 million in 2008, up from \$141 million in 2007, Figure 1).

Peru grows

Figure 1. Peru's wood products exports, January to August (USD, FOB)



Source: ADEX

EU slump

Table 2. Percent change in EU log import volumes, first half 2008 vs first half 2007.

	FR	IT	PT	DE	BE	GR	OTHER	TOTAL
GABON	15.0	-1.8	-38.9	-36.5	49.4	15.2	na	3.6
CONGO DR	-11.4	-68.9	-34.1	42.6	27.5	na	-72.3	-20.4
CONGO REP	19.7	19.1	116.4	-71.9	32.8	-100.0	55.7	23.5
CAMEROON	-69.7	-45.2	-57.4	-46.4	84.1	na	-52.6	-50.8
CENT. AFR. REP.	42.9	-44.4	-64.7	-100.0	na	na	-100.0	-33.8
EQUAT. GUINEA	-81.9	-45.9	-100.0	-42.9	na	-100.0	na	-63.6
OTHER	183.2	-70.6	78.2	-19.0	99.4	-52.5	-10.5	-21.0
TOTAL	-0.7	-33.6	-25.8	-44.6	41.4	-15.1	-20.3	-15.3

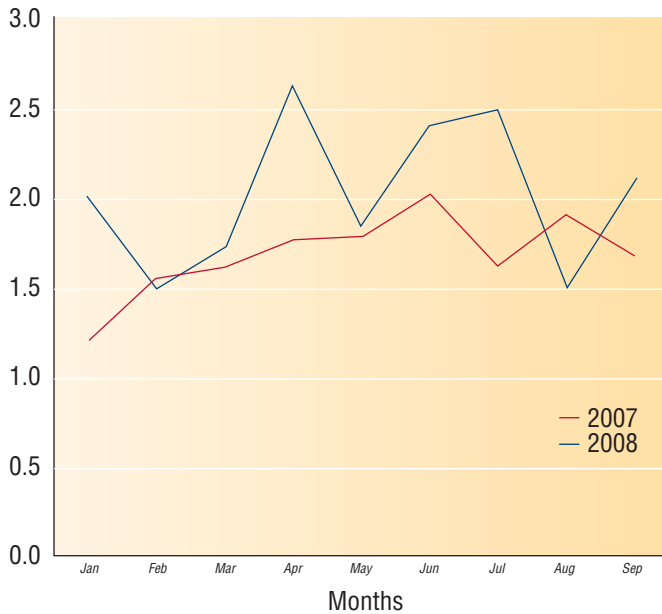
Table 3. Percent change in EU sawn import volumes, first half 2008 vs first half 2007.

	NL	FR	IT	BE	PT	GB	OTHER	TOTAL
BRAZIL	-24.8	-17.4	-23.9	-27.1	2.2	-90.8	-8.3	-20.9
CAMEROON	-23.0	-8.2	8.1	-18.3	-1.5	-39.2	-33.5	-15.4
MALAYSIA	7.4	-14.2	-2.2	-42.5	na	-20.0	-6.3	-9.6
IVORY COAST	-8.8	-31.2	-10.8	-40.2	-7.2	17.8	-19.9	-12.3
GABON	87.2	54.3	-7.9	-55.8	-36.9	723.5	-28.8	6.2
GHANA	-40.3	27.1	-2.8	26.7	118.9	-48.5	-18.1	-14.3
CONGO DR	41.3	-13.4	72.6	11.7	-38.5	1112.7	-40.3	18.0
CONGO REPUBLIC	79.5	75.6	36.9	-13.0	44.3	334.2	20.0	54.2
INDONESIA	-28.9	-14.6	-20.1	-32.2	na	60.7	-7.4	-7.0
OTHER	30.8	-12.0	-3.9	-48.4	120.4	-54.8	-22.5	-12.6
TOTAL	-8.0	-9.4	-2.1	-27.1	0.4	-26.3	-17.4	-12.0

Source: Forest Industries Intelligence Analysis of Eurostat (BE - Belgium; DE - Germany; FR - France; GB - UK; GR - Greece; IT - Italy; NL - Netherlands; PT - Portugal; data for Spain, Denmark and Estonia unavailable and excluded from totals).

Guyana gains

Figure 2. Guyana's sawnwood exports by value (million US\$)



Source: Guyana Forestry Commission

The growth was mostly due to exports to non-US and non-European destinations, which sustained demand for Peru's wood products. However, exports in August 2008 were \$3.12 million less than in August 2007. The volume of exports to the US and Mexican markets in August 2008 fell, while exports to the Chinese market rose.

Despite some positive results for the first half 2008, major producers in West Africa, Malaysia, Indonesia and Brazil had lowered trade expectations for the fourth quarter of 2008 and into 2009.

Guyana's plywood exports also rose in the third quarter, mostly due to the diversity of its export destinations, particularly in the Caribbean region. Plywood accounted for as much as 41% of all Guyana's wood products exports during the quarter. At the end of September 2008, plywood exports by volume were 9% greater than the second quarter and 14% over the first quarter total. Log exports also rose in the period ending September 2008. This was mainly attributed to the increasing demand for Guyana's logs from buyers in India, which absorbed 54% of Guyana's total export volume of logs for the first three quarters. Sawnwood export values also showed positive trends over the same period (Figure).

Despite some positive results for the first half 2008, major producers in West Africa, Malaysia, Indonesia and Brazil had lowered trade expectations for the fourth quarter of 2008 and into 2009. Latin American and South-east Asian producers were looking to market their products to non-traditional export destinations such as the Middle East to offset a drop in demand from traditional markets such as the US, EU and Japan.

Legality and financing developments

As timber markets struggled to sustain active trading in the second and third quarters of 2008, Ghana and Malaysia made headway in finalizing their negotiations under the European Community's Voluntary Partnership Agreements (VPA). Ghana was the first country to finalize and sign a VPA with the EC, with Malaysia expected to finalize its VPA in early 2009. The EU also released proposed illegal logging legislation, which includes language suggesting that individual operators engaged in the trade and production of wood products in the EU would be required to implement a 'due diligence' management system to reduce the risk of any illegal wood entering their supply chains. Indonesia also announced it would begin to inspect timber companies for illegally felled timber using independent auditors under a new Wood Legality Verification System (SLVK).

New initiatives to increase financing for sustaining tropical forests were being developed or were introduced in 2008. Peru entered into a \$25 million debt-for-nature agreement with the USA, to fund forest conservation and management activities. Brazil also introduced a new investment mechanism, the so-called forest 'condominium', which would establish Brazil's largest, fully irrigated forest plantation containing native species. Mexico's private sector was also planning to use stock exchange certificates to complete financing of a teak plantation in the south-east of the country.

Norway was active during 2008 in promoting funding for REDD (reducing emissions from deforestation and degradation) initiatives within the UN and on a bilateral basis. Brazil was the recipient of major funding from Norway and sought to leverage the funds received to raise nearly \$21 billion for the Amazon Fund, which is focused on REDD activities, by the year 2021. Several other initiatives focusing on the role of tropical forests in mitigating and adapting to climate change were announced during 2008, including through ITTO (see Editorial), to begin concrete actions on REDD and related activities in the run up to the December 2009 UN Framework Convention on Climate Change negotiations in Copenhagen.