

## ***The EU's revised GSP scheme will have mixed impacts on tropical hardwood plywood markets, but other forces are also at work***

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Amendments to the European Union (EU) Generalised System of Preferences (GSP) scheme will affect the EU's market for veneer and plywood. As of 1 January 2014, 87 of the countries under the previous scheme no longer benefit from GSP status. The GSP reduces the duties payable on imports from developing countries as a means of giving them advantageous access to EU markets.

The EU adopted a reformed GSP law on 31 October 2012 but it came into force only on 1 January 2014 to give the trade time to adapt to the new scheme. The reformed GSP is intended to focus support on countries most in need.

When discussing the changes to the GSP, the EU identified a range of imported products that had become so competitive that they no longer needed support to be exported successfully to the EU. These products will not receive GSP support between 1 January 2014 and 31 December 2016, when the list will be reviewed. Malaysia, Gabon and the Russian Federation have lost their GSP status as of 1 January 2014; EU import duties for both plywood and veneer products from these countries have therefore increased to 3.5–7%.

Cameroon, Côte d'Ivoire and Ghana have also lost their GSP status, but these countries have other trade arrangements in place with the EU. Brazil lost its GSP status, but this will not change anything for that country's wood products (i.e. those listed in Chapter 44 of the Harmonized Commodity Description and Coding System) because they were already specifically excluded from the GSP, having achieved a sustained significant volume of trade to the EU.

Countries retaining their GSP status under the reformed GSP scheme include the Democratic Republic of the Congo, Liberia and Myanmar. China also retains its GSP status but, as with Brazil, this specifically excludes wood products listed in Chapter 44, so effectively there is no change.

### **EU GSP+ to improve business environment**

The driving philosophy behind the changes to the EU GSP was the realization that, given the rise of emerging economies, the traditional grouping of "developing countries" was outdated and that tailor-made trade and development policies were needed that go beyond tariff reductions to tackle the major problem of improving the "business environment".

Many people see the EU GSP scheme as a powerful tool for economic development by providing the world's poorest countries with preferential access to the EU's market of 500 million consumers. The new scheme will have fewer beneficiaries (90 countries) to obtain more impact in those countries most in need. At the same time, "GSP+" will provide more support to countries that are serious about implementing international human rights, labour rights, environment and good governance conventions.

To help smooth the transition for exporting companies, the European Commission has prepared a practical GSP guide explaining the trade regime that now applies to particular products shipped to the EU from a given country. The guide (available at [www.trade.ec.europa.eu/doclib/docs/2013/december/tradoc\\_152012.pdf](http://www.trade.ec.europa.eu/doclib/docs/2013/december/tradoc_152012.pdf)) also provides information on the trade regime that applies to goods arriving in the EU as of 1 January 2014.

#### **The EU GSP changes in a nutshell**

- Of the current 177 beneficiary countries, 90 will continue to benefit from the EU GSP.
- 67 countries will benefit from other arrangements that provide privileged access to the EU but will no longer be part of the GSP.
- 20 countries will stop benefiting from preferential access to the EU. These countries are now high and upper-middle income countries and their exports will attract the same tariffs applicable to all other developed countries.

For more information see [www.trade.ec.europa.eu/doclib/press/index.cfm?id=773](http://www.trade.ec.europa.eu/doclib/press/index.cfm?id=773).

### **EU tropical plywood imports down**

The EU imported 214 100 m<sup>3</sup> of tropical hardwood plywood in the first nine months of 2013, 4.2% lower than in the same period in 2012. Tropical plywood imports from China increased by 10%, to 79 000 m<sup>3</sup>, and those from Indonesia were stable, at 54 000 m<sup>3</sup>. Volumes fell, however, from Malaysia (by 8.4%, to 29 700 m<sup>3</sup>) and Gabon (by 9.2%, to 28 900 m<sup>3</sup>). Imports of tropical hardwood plywood rose in Belgium, the UK and France but declined in Germany, Italy and the Netherlands.

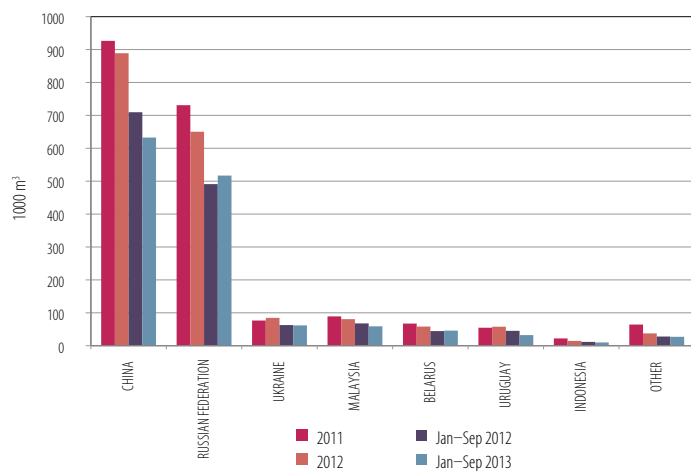
The EU imported 1.39 million m<sup>3</sup> of plywood faced with other (non-tropical) hardwoods in the period January–September 2013, which was 5.1% lower than in the same period in 2012. Figure 1 shows that the EU's imports from China declined substantially, but those from the Russian Federation increased slightly.

### **Patchy demand for Chinese plywood**

The volume of plywood imported into the EU from China in the nine-month period January–September 2013 was 632 600 m<sup>3</sup>, 10.8% lower than in the same period in 2012. European demand for hardwood plywood manufactured in China was patchy in the second half of 2013.

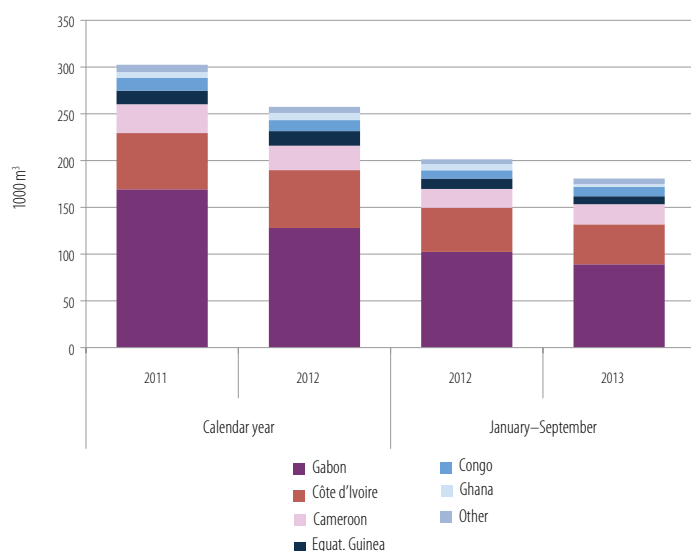
Various issues contributed to uncertainty in the hardwood plywood market during the period. Freight rates were volatile. In August, China imposed a 6% VAT requirement on both the costs incurred between the mill and the ship and on prepaid freight. Wet weather in some parts of China in autumn led to delays in eucalyptus and poplar logging. This, in turn, added to the cost of transportation for those mills forced to source logs from greater distances. The market also continued to be affected by concern for legality verification following enforcement of the EU Timber Regulation. European importers concentrated their purchases on larger Chinese mills, which were better able to provide legality documentation.

**Figure 1: EU27 imports of other hardwood plywood, by main producer country**



Source: FII Ltd analysis of Eurostat data

**Figure 2: EU27 imports of tropical hardwood veneer, by main producer country**



Source: FII Ltd analysis of Eurostat data

## Upturn in EU demand for Malaysian plywood

While imports of Malaysian plywood into the EU declined in January–September 2013, reports suggest that there was a slight upturn in demand in the last quarter of the year. This was particularly true of Belgium, Germany and the UK, while demand in France and the Netherlands remained low.

The short-term increase in demand in parts of Europe helped lengthen delivery times for Malaysian plywood. As they did for Chinese plywood, volatile container rates led to significant variations in CIF prices for Malaysian plywood delivered to Europe, although FOB prices remained quite stable.

Prices for Malaysian plywood are typically up to one-third higher than prices for Chinese substitutes. However, there is rising interest in Malaysian plywood among importers, who are seeking products guaranteed to meet European technical performance standards.

Enforcement of the EU Construction Products Regulation from 1 July 2013 means that CE-Marking demonstrating conformance to the EN13986 standard is now mandatory for all plywood used in structural applications in the EU. Importers were also keen to beat the rise in import duties on Malaysian plywood following the change in GSP status as of 1 January 2014.

## EU market for okoume plywood still very slow

Expectations that orders for okoume plywood manufactured in Gabon might pick up in the second half of 2013 in advance of the rise in import duties from 1 January 2014 were not realised. Demand for okoume plywood in Europe remained very weak, with slow buying in both the French and Dutch construction sectors. There was also little or no recovery in demand for okoume plywood in the Italian boat-manufacturing sector in 2013.

Margins in the European okoume plywood manufacturing sector are extremely thin. In the face of slow demand, French manufacturers have been unable to raise selling prices. Despite low demand, delivery times for okoume plywood into the EU market increased due to log supply and transport problems in Gabon over the summer months and a significant reduction in production, both in Europe and Gabon. This was particularly true of products certified by the Forest Stewardship Council (FSC), for which there has been slightly firmer demand since the coming into force of the EU Timber Regulation in March 2013.

## Tropical hardwood veneer imports down

The EU imported 180 800 m³ of hardwood veneer in January–September 2013, down by 10.2% compared with the same period in 2012. Imports from Gabon fell by 13%, to 89 100 m³, and imports from Côte d'Ivoire were down 9.5%, to 42 700 m³. These losses were only partly offset by a rise in imports from Cameroon, which were up by 7.3%, to 21 500 m³, in the period (Figure 2).

Imports of tropical hardwood veneer into France declined by 14.9%, to 75 100 m³, in January–September 2013, and imports into Spain fell by 12.1%, to 24 100 m³. However, after a very weak 2012, there was a 17.7% rise in imports into Italy in January–September 2013, to 41 100 m³.

The decline in EU imports of tropical hardwood veneer in January–September 2013 was due partly to weak demand in end-use sectors for decorative sliced products. Sales to the European door and furniture manufacturers were weak all year. There has also been only slow demand from projects featuring large interiors, such as hotel, shop and bank refurbishments.

While sales of sliced veneers to board manufacturers and higher-value speciality sectors such as automobile and yacht manufacturing are relatively stable, these have been insufficient to offset declines in the larger industrial sectors. In fact, an increase in sales for veneered board manufacturers may have been partly at the expense of direct sales of veneers to joiners. Prices for sliced veneer are under intense pressure in the European market.

The market situation is little better for rotary tropical hardwood veneers used for plywood and flooring manufacturing in Europe. Market conditions in the European engineered wood-flooring sector remain weak, and there is a continuing trend to substitute alternative materials for tropical woods.

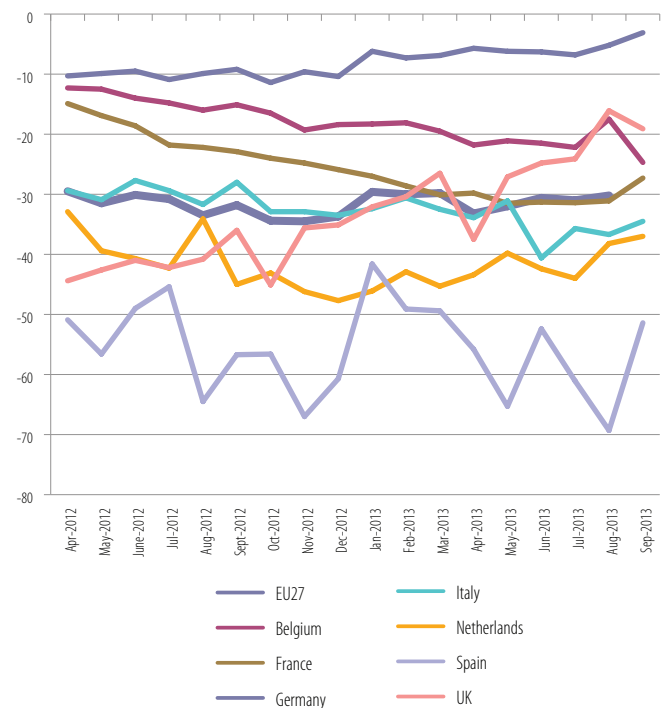
The EU imported 127 900 m<sup>3</sup> of temperate hardwood veneers in January–September 2013, 5.9% down on the same period in 2012. Due to recent inward investment, the Ukraine is becoming a more important external supplier of hardwood veneer to the EU. According to data from the United Nations Economic Commission for Europe's Committee on Forests and Forest Industry, veneer production in the Ukraine has been rising in recent years and the country is exporting a wide range of sliced, rotary and reconstituted (fine-line) veneers into the EU. In January–September 2013, imports from the Ukraine were 31 100 m<sup>3</sup>, 4.7% up on the same period in 2012.

Meanwhile, EU imports of temperate hardwood veneer from the United States fell by 4.3%, to 29 200 m<sup>3</sup>, and those from the Russian Federation fell by 9.2%, to 20 400 m<sup>3</sup>. Temperate hardwood veneer imports rose in Austria, Germany and Poland but fell in Italy and Spain.

## New report indicates long-term decline in European construction

Demand for plywood and veneer is closely linked to activity in the construction and house-building sectors, and a recent report suggests only poor prospects for long-term growth in these sectors in Western Europe. *Global construction 2025* by research firms Global Construction Perspectives and Oxford Economics predicts that the region's construction market will be 5% smaller in 2025 than in 2007 because of the combined impact of declining real wages and increasing unemployment, which are having a negative impact on house-building; moreover, high levels of public debt will restrict the availability of funds for public investment in infrastructure. The report forecasts that construction output growth will struggle to reach 2% in any year between now and 2025. Figure 3 shows the low level of confidence of the construction sector in almost all EU countries.

Figure 3: Eurostat construction confidence index



Source: Eurostat

The news is better for the UK, however, because of a pressing need there for new homes and renewed infrastructure and also the apparent willingness of Chinese and Middle Eastern sovereign wealth funds to invest in UK infrastructure and real estate. *Global construction 2025* forecasts that UK construction output will grow by an average of 2.1% per year to 2025 and concludes that, by 2025, the size of the UK market will rival that of Germany's, with outputs of US\$315 billion and US\$342 billion, respectively.

There are also good prospects in Eastern Europe, where the population is expected to decline by an average of 0.2% per year to 2025. *Global construction 2025* predicts that strong economic growth will lead to increased construction demand in the subregion and that construction output will grow by 4.6% per year (on average) to 2025, marginally higher than the global average. There will be marked differences among Eastern European countries, however. The best performers, the Russian Federation and Turkey, are predicted to obtain average annual growth exceeding 5%. The Russian Federation is expected to move from being the ninth-largest construction market in the world in 2012 to the sixth-largest by 2025. Growth in Turkey is forecast to be higher than in the Russian Federation, driven by rapid urbanization and the need to replace and upgrade the country's housing stock.