UK TIMBER MARKET STATEMENT - SEPTEMBER 2004

1. General Economic Trends affecting the Forest and Forest Industries Sector

Economic growth has been robust in the UK over the past year. In the second quarter of 2004, GDP was estimated to be 3.7% higher than a year earlier. This was the highest annual rate of increase in the UK for almost four years. Unemployment, on the ILO measure, was at 4.8% at August 2004. Consumer Price Index (CPI) inflation was at 1.4% for the year to July 2004, below the government's inflation target of 2%. UK interest rates have risen gradually over the past year to reach 4.75% by August 2004. Interest rates are expected to increase further by the end of the year, in response to signs of upward pressure on inflation.

Manufacturing output was up by 1.6% in the second quarter, compared with the same quarter a year previously. Output in the construction sector increased by 9.1% in the year to the first quarter of 2004. This was the largest increase for 5 years. Housing completions in 2003 were at their highest for three years. The number of completions is expected to increase by around 9% in 2004. House prices have continued to increase rapidly, but recent survey evidence suggests that activity in the housing market is slowing.

2. Policy developments potentially affecting trade in wood products

There is little concern about illegal production and trade from UK forests because of the regulatory environment for forestry. The chains of custody for certified products are a further control. However, the UK Government has been very sensitive to the environmental and social problems associated with some sources of imported timber and wood products. The UK Government Procurement policy for wood products has proved increasingly successful in its application by government departments and has also influenced environmental policy and procedures in the importing trade. Illegal felling is a major issue for some countries and sustainable management and forest certification are not always the first priority for improvement. So the Government (with the strong support of the UK trade and civil society) is:

- publishing wood product procurement guidance and is developing an advisory service initially for public procurement officers and potential suppliers;
- supporting the FLEG processes in East Asia and Africa and a recent Russian Federation initiative to initiate a Europe-North Asia FLEG;
- working with the Republic of Indonesia to implement a Memorandum of Understanding aimed at improving regulation in Indonesian forests and eliminating trade with the UK based on illegal logging;
- working actively with the EU to promote the EU FLEGT Action Plan.

The Government has considered the recommendations of three key reports on the UK construction sector. These inter-relate and will be used to form the basis of future policy. The reports are Kate Barker's report "Review of Housing Supply", Sir John Egan's report "Skills for Sustainable Communities" and the Sustainable Buildings Task Group report "Better Buildings – Better Lives". The timber industry in the UK now has a unique opportunity to pro-actively work to maximise the many opportunities for timber arising from the programmes and priorities identified in these reports. However it also has to address key areas of challenge. One lies in the nature of the land and required development that will come forward during a period of intensive house-building in the south of England (much of which will have to be on flood plains and restored land). Secondly, the industry needs to establish its environmental impact credentials at product level in the minds of architects and customers. Thirdly, it needs to develop the industrial infrastructure to support the timber options and to further strengthen the off-site phase of timber-frame building as a “Modern Method of Construction”. Social housing is of particular importance in the development envisaged by the Government and this offers particularly good prospects for timber frame because social housing is a sector whose specifiers are already well focussed on the construction benefits of the timber frame system and have strong environmental policies.

Timber frame is a strategic priority for the timber sector from which many other types of wood product will benefit indirectly. Research and development, timber promotion campaigns and training are all priority issues that are being tackled by a united group of the forestry, timber, timber product and research organisations in the UK. They have jointly offered support to the Government as it takes forward the next stage of its Sustainable Building strategy. This will be to develop a Code of Practice for Sustainable Building to guide public agencies in the approval, specification and regulation of both new building and building repair and maintenance.

The environmental and social benefits of forestry are being found to be so large, particularly in the more highly populated parts of the country, that the economic benefits of growing timber in such areas have become marginalised. We need to find new equitable mechanisms to reward owners for the additional costs of management to provide these non-timber services. In many cases this would also enable woodland owners to maintain timber production resources at a realistic level.

3. Developments in Forest Product Markets

A. Wood Raw Materials

The good weather of 2003 and early 2004 was quickly forgotten. UK producers have faced the worst summer weather for decades. Despite this, the continued export market for pulpwood and the emergence of a UK softwood sawlog export market to Ireland has been a great boost to confidence among private growers. The volume sold in late 2003 and in 2004 has increased significantly thus breaking the flat trend in production from the private sector over the last few years. However the increased demand has not been associated with a significant change in round timber prices because of the continued generally low price level of internationally traded timber.

Hardwoods are mostly privately owned and with the exception of better quality stands import competition has caused a further reduction in hardwood felling from the already low level compared with potential. In the south of England reliable and competent harvesting contractors are becoming a scarce resource. In the whole of the UK the increasing costs of liability insurance has been a considerable extra burden on contractors and some, especially the smallest companies, have left the industry. Some are undoubtedly working in the black economy (without insurance) but must be finding it increasingly difficult to find employment on forestry estates due to the level of uptake of forest certification, machine operator certification and chainsaw operator certification.

The lack of price movement means that the problem of how to utilise small roundwood (softwood and hardwood) and lower quality logs in an economically viable way remains largely unresolved and a significant challenge. The emergence of woodfuel markets (reported below), while locally useful, has not yet had a significant impact on harvested volume.

In some remote rural areas where the economic significance of forestry production is greatest, some very constructive and novel approaches to haulage and road engineering are now being taken forward by the industry, working in partnership with local planning and highway authorities. Political interest in these joint initiatives to address the poor quality of rural roads has been increasing and there are signs that some additional support to local authorities for forestry-related road improvement may be forthcoming, at least in Scotland.

B. Wood Energy

In the UK the recognition of forest production and wood chips from timber processing as potential sources of renewable energy has continued to increase over the last 12 months. Starting from an exceptionally low base there are now examples in many parts of the country of community and public building heating schemes using wood as a fuel. These are often carried out with the assistance of capital grant to support the initial investment in boilers suitable for renewables. However co-ordination of forest based supply of wood from the highly fragmented woodland ownership base, particularly in hardwood growing areas, remains a major difficulty. This will be a particularly significant issue if growers are to successfully exploit current interest in larger schemes for power generation including fossil fuel co-firing. The first woodfuel-only power station in the UK is now likely to go ahead in Scotland generating 40 MW electricity from 500 000 tonnes p.a. of locally produced sawmill chips.

A woodfuel resource study has been published as an interactive web-based support tool. It estimates the annual sustainable production that can be made available taking account of technical and environmental constraints and includes for the first time an estimate of poor quality stem wood which is not currently marketed: www.woodfuelresource.org.uk. It goes some way to demonstrating that the availability of virgin material exceeds by a large margin the quantity already sold to the panelboard industries in the UK.

C. Certified forest products

In the market for round and primary processed timber the requirement for certified material continues to develop and in some instances softwood sawmills and merchants are reported to be offering a modest premium. It is becoming more difficult for growers to sell uncertified softwood because certified mills are having some difficulty in meeting the chain of custody requirements for percentage based claims. However this is not universal and the situation for UK producers may be eased depending on the conclusion on new FSC chain of custody rules for the inclusion of “controlled wood” in percentage based labels. Some certified sawmills (and many growers) have been very disappointed in the failure of the market to provide the expected demand for certified wood products. Many in the wood-using trades continue to urge mutual recognition between certification labels in order to reduce the current levels of confusion that they see as discouraging to the consideration of wood-based design options.

In the annual sawmill survey companies were asked whether they held a chain of custody certificate, the percentage of input volume from certified sources and the percentage of output volume sold as certified. These questions were first asked for the 2002 survey and repeated for the 2003 survey. Excluding nil responses, there were 124 sawmills providing data for 2003. Thirty four sawmills (27%) reported that they held a chain of custody certificate, although this proportion varied from just 14% of mills producing less than 5 thousand cubic metres sawnwood in 2003 to almost 60% of those producing at least 25 thousand cubic metres sawnwood.

Table 14: Chain of custody certificates [1] – 2003

	Sawmill size category *			
	<5	**5 - <25**	**25+**	**Total**
Total	**79**	**23**	**22**	**124**
Mills holding certificate	11	10	13	34
Mills without certificate	62	11	4	77
Certification status not reported	6	2	5	13

[1] Sawmills responding in 2003, excluding nil responses. These 124 mills accounted for around 80% of the estimated total sawnwood production in 2003.

The following table shows the percentage of certified input and output volumes for 2002 and 2003, based on responses received. Certified timber accounted for almost two thirds of sawmill consumption and around 50% of sawnwood production in 2003. These proportions varied by size of mill, with larger mills generally reporting higher levels of certified timber than smaller mills.

Table 15: Consumption and production certified 2002 - 2003

		Sawmill size category *			
		<5	**5 - <25**	**25+**	**Total**
% consumption certified	2002	12%	38%	79%	64%
	2003	21%	52%	74%	66%
% production certified [1]	2002	5%	18%	83%	61%
	2003	5%	30%	60%	49%

[1] A number of mills reported 100% certified production in 2002 and 70% certified production in 2003. It is believed that this may have occurred as a result of some confusion over what figure to report rather than any real change in certified volumes output by these mills.

* **Note:** A sawmill's size category is based on 000 m^3 total sawnwood production i.e. hardwood + softwood.

It seems clear that while progress is being made certification requires considerably more promotion. This can only be effective once supplies (imported and UK grown) can easily be located in the quantities, labels and timescales required by the buyers.

The Wood Awards is the UK's most prestigious competition for the use of wood in construction at all scales of project. In 2004 the competition organisers were particularly clear that sound sourcing policies should be addressed by the applicant architects and the judges have reported that, probably for the first time, most had a good understanding of what this meant and were able to demonstrate that care had been taken in the project submitted.

D. Value-added forest products and engineered wood products

Producers of preservative treated timber have implemented the change from CCA to alternatives. Whilst they have been doing well, furniture makers and joinery product makers are probably becoming less optimistic than they were before interest rates started to rise. The wood flooring market remains a growth sector largely due to the power of the very many house improvement programmes and articles in the UK media.

The market for engineered wood products in the UK has been increasing generally and is the focus of much of the forest product research effort. Timber frame manufacturers are increasingly moving towards higher levels of prefabrication, and this uses the more expensive engineered components more efficiently. The proportion of timber frame building in new housing starts is steadily increasing and is likely to benefit further from the policy initiatives for modern methods of construction and sustainable building reported above.

E. Sawn Softwood

Demand from the construction sector for softwood sawn timber is good in 2004 and should continue in 2005 provided the housing market is not too depressed by the current increase in interest rates. Garden furniture and timber decking have continued to benefit from the fashion for timber products led by lifestyle TV programmes and magazines. Despite product demand there have also been cost pressures in harvesting and production and as a result there has not been a significant price movement for growers.

UK sawmill closures are, at present, thought to be more than compensated in total volume terms by the ability of others to increase throughput. However the closures have caused some significant regional marketing problems and extra haulage cost. This is unlikely to have escaped the notice of local authorities and regional development agencies who are beginning to be more thoughtful about the social and fuel emissions elements of their environmental policies.

The pallet sector has seen strong demand for pallets that meet the new ISPM regulations. There have been no reports that investment in treatment plant capacity has been insufficient.

Table 13: Summary sawmill statistics 1999 – 2003

	Year	Softwood		Hardwood	
		Log consumption (000 m^3 ub)	Sawnwood production (000 m^3 sawn)	Log consumption (000 m^3 ub)	Sawnwood production (000 m^3 sawn)
Great Britain	1999	3,956	2,200	193	113
	2000	3,936	2,160	170	101
	2001	4,050	2,236	165	92
	2002	4,120	2,280	140	80
	2003	4,240	2,328	119	69

F. Sawn Hardwood (temperate and tropical)

There has been a further decline in the market conditions in 2003. Price and availability dictate that many former customers for UK logs and sawn timber have turned to imports. However, there is still a demand for good quality UK-grown hardwood. UK-grown production is being displaced by European and North American imports. Although there have been further reductions in the number of UK hardwood sawmills there has been some development of highly focussed (but sometimes mixed hardwood and softwood) mills to promote and supply specific types of local market.

The scale of temperate and tropical imports is largely unchanged but, as reported above, sustainable sourcing is a major issue for the main trade association and many companies have taken action to address the issue of responsible sourcing. This is not seen by the UK importers as being just an issue for their tropical sources.

G. Wood-based panels (particleboard including fibreboard including MDF, OSB, plywood)

The last two years have seen major investment in production technology at some of the key sites with new products and increased production efficiency supported by the development of various forms of product assurance particularly in relation to the current European regulatory requirements for construction products. The outlook remains extremely competitive for all products. Some rationalisation occurred within the UK industry during 2003 with the closure of a particleboard mill and the sale of its equipment.

UK Government policy on sustainable development is steadily increasing the volume of packaging and other wood diverted from landfill or burnt as waste. The availability of recycled wood fibre as a feedstock for the panel products sector continues to assist its competitiveness but the industry feels threatened by the potential of emerging woodfuel markets to compete for its raw material, sawmills co-product (chips) and recycled wood. The input of recycled fibre has been increasing while input from sawmill chips and roundwood have remained fairly static.

Table 19: Inputs for woodbased panel products

000 green tonnes

	1999	2000	2001	2002	2003
British roundwood[1]					
Total	**1,665**	**1,735**	**1,715**	**1,499**	**1,490**
Imported roundwood					
Total	**0**	**0**	**5**	**0**	**0**
Sawmill products[2]					
Total	**1,532**	**1,871**	**1,675**	**1,669**	**1,686**
Imported wood products and products from imported wood[3]					
Total	**150**	**143**	**152**	**134**	**225**
Recycled wood fibre[4]	**400**	**488**	**675**	**932**	**993**
Total	**3,747**	**4,237**	**4,222**	**4,234**	**4,394**

1 British roundwood includes all material from forest operations.
2 Sawmill products includes peeled and unpeeled chips, sawdust, slabwood, shavings, postplant chips and peelings.
3 Includes chips and shavings.
4 Recycled wood fibre is wood fibre recovered from both pre- and post-consumer wood waste for use in wood based panel production.

The woodfuel resource study (described at 'B' above) goes some way to demonstrating that the availability of virgin material exceeds by a large margin the quantity already sold to the panelboard industries in the UK. However the amount of this which is economically available has not been determined.

H. Pulp and paper

The increase to 100% recycled fibre by one of UK's four pulp and paper mills has resulted in a steadily increasing export of pulpwood. There remains extreme pressure on prices and market availability to growers. The possibility of increased paper making capacity affecting pulpwood supply to any of the remaining mills that take roundwood remains elusive, as does the prospect of an inward investment that might compete as a new bulk market for small roundwood and lower quality logs.

UK Forestry Commission
24 September 2004

Table A

General Economic Trends Affecting the Forest and Forest Industries Sector

Selected economic indicators, UK (% unless otherwise indicated)

	2001	2002	2003	2004 (FORECAST)*
GDP growth (GDP at constant (2000) market prices)	2.3	1.8	2.2	3.3
Interest rate (base rate at year end)	4.00	4.00	3.75	5
Consumer Price Index	1.2	1.3	1.4	1.6
Unemployment (ILO)	4.9	5.2	5.2	
Private sector housing starts (000s)	162.8	138.5	147.1	

*Average of independent forecasts. Source: HM Treasury, Forecasts for the UK Economy: A Comparison of Independent Forecasters, August 2004

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