UNECE TIMBER COMMITTEE - SEPTEMBER 2005

UK TIMBER MARKET STATEMENT

1. General economic trends affecting the forest and forest industries sector

Economic growth in the UK has slowed over the past year. In the second quarter of 2005, GDP grew by 0.4%, bringing the annual rate of increase to 1.7%. This was the lowest annual increase since 1992. Industrial production was down 1.7% in the second quarter, compared with a year previously. Interest rates were reduced to 4.5% in August 2005, having been at 4.75% since July 2004. CPI inflation increased to 2.3% in July, slightly above the inflation target, and the highest rate since 1997. Unemployment, on the ILO measure, was at 4.9% for the three months to May. According to lenders indices (Nationwide and Halifax), the monthly rate of increase in house prices slowed considerably over the year to July. However, the number of mortgage loan approvals, after falling in 2004, had recovered to around their long-term average by June 2005. General economic trends affecting the forest and forest industries sector are summarised in the Annex to this paper.

2. Policy developments potentially affecting trade in wood products

The UK Government Procurement policy for wood products has proved increasingly successful in its application by government departments and this influenced environmental policy and procedures in the wider public sector, UK companies in the timber trade, construction and retail. In order to support decision making by departmental procurement officials, five major forest certification schemes supporting import of timber and wood products against standard criteria have been evaluated. This resulted in an announcement in August 2005 that procurement officers could accept FSC, CSA, PEFC and SFI certified timber and wood products as sustainably sourced. The MTTC scheme label is accepted as evidence of legal sourcing. Government Procurement officers are advised that all other alternative supply offers require independent third party verification that they have been legally sourced. Where sustainability claims are made as the discretionary part of a supply offer these too need third party independent verification. Any recycled timber or wood product is accepted as sustainable. None of these restrictions apply as UK import controls.

In order to support this public procurement policy the opening of a new specialist advisory and training service (the Central Point of Expertise on Timber – or CPET) was also announced. While CPET is primarily focused on the Government's timber procurement policy it will also offer advice on implementing other public bodies' policies aimed at purchasing legal and sustainable timber.

The UK Government continues to work actively with the EU to promote the EU FLEGT Action Plan. It supports the FLEG processes in East Asia and Africa and the recent Russian Federation initiative to initiate a Europe-North Asia FLEG. In the Republic of Indonesia the UK is working to implement a Memorandum of Understanding aimed at improving regulation in Indonesian forests and eliminating trade with the UK based on illegal logging. The importing timber trade is making its own contribution to these efforts by implementing responsible sourcing practices at company level and working directly with individual companies such as sawmills.

As reported last year a major programme of home building over the next 20 years. Sustainable construction has a key role to play in this programme which is part of the broader aim to develop new sustainable communities. Social housing is of particular importance in the programme and this offers good prospects for timber frame. Social housing specifiers are already well focussed on the construction benefits of the system and have strong environmental policies. One of the main development areas the 2012 Olympics main sites the east of London are close to the major areas of construction designated under this policy. Taken together this is a major strategic opportunity for the timber sector and for wood products generally.

In the non-manufactured wood sector, considerable vigilance is required from plant health inspectors due to new threats to forests arising from the globalisation of wood trade, possibly in combination with changing climate. This includes wood being used as packaging for other goods, which is now increasingly being regulated as countries implement a recent International Phytosanitary Standard - ISPM 15). However, despite changes in some controls affecting timber movement within UK no new prohibitions have been required on imports of timber over the last 18 months. Recent changes in EU import requirements have removed some prohibitions and added alternative treatment options for some categories of wood.

The environmental and social benefits of forestry are being found to be so large, particularly for recreation in the more highly populated parts of the country, that the economic benefits from timber production in such areas have become marginalised. New equitable mechanisms are needed to reward owners for the additional costs of management to provide these other services. In some cases this would also enable woodland owners to maintain timber production resources at a realistic level. One such benefit could lie in the contribution that woodland and timber products make to mitigating climate change and to reducing dependency on fossil fuels. At present there is a small but steady increase in installed wood energy and heat projects but these markets have not yet triggered a major shift in the wood product mix in most areas. Afforestation for the purpose of carbon offset for climate change has not yet been carried out on a significant scale in the UK.

3. Developments in Forest Product Markets

3.1 Wood Raw Materials

Deliveries to softwood mills increased by 3.4% in 2004. Sawmill intake increased by 2.2% and chipwood to woodpanel mills by 2.6%. However input to the UK integrated pulp and paper mills fell by 31.4% due to the conversion of one mill to entirely recycled fibre based paper. An increase in round fencing, a significant increase in the export market for pulpwood and the emergence of a UK softwood sawlog export market to Ireland has been a boost to confidence among private growers.

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.

The problem of how to utilise small roundwood (softwood and hardwood) and lower quality logs in an economically viable way remains a problem to be resolved and a significant challenge. With some local exceptions the emergence of woodfuel markets (reported below), while locally useful has not yet had a significant impact on harvested volume of measurable timber despite sometimes involving substantial tonnage of forest residues (tops and branches). The increase in the latter seems likely to continue, with the limits set by site conditions and the economic haulage distance.

Political interest in joint initiatives to address the poor quality of rural roads has been increasing with some additional for forestry-related road improvement forthcoming in Scotland. Despite this some potentially productive areas will remain too costly to harvest. Some others are likely to be below the economic threshold for management as timber producing woodlands in the future.

Against this background many people have welcomed the proposal for a major new integrated facility in the north of Scotland. The company is now taking forward the initial design concept for the complex and the project and is undergoing Environmental Impact assessment. The proposal is for a complex capable of consuming approximately 3,000,000 cu m of roundwood per annum and a further 1,000,000 cu m of sawmill chips per annum. The mill would produce 600,000 tonnes per annum of bleached market pulp, and 470,000 tonnes per annum of paper. The associated sawmill would produce some 250,000 cu m per annum of sawn wood products. The development would also include a biomass power plant to provide the energy needs of the plant.

Other people have major concerns about the potential impact of such a development on the existing industries, some of which would have capacity for greater throughput under improved market conditions. However in some parts of the UK policy changes at country level are steering both public and privately owned woodlands away from the clear-felling silviculture (on which the softwood availability forecasts have been based) towards conversion to more uneven-aged stands. It is expected that the new forecasts currently being developed in each country will show a significant reduction in volume compared with earlier estimates. The impacts will be felt over several decades and will be associated with a change in size assortments. This is currently of considerable concern to the sawmilling industry which is already adjusting to changes in sawlog quality arising from planting in the 1960s and 1970s.

3.2 Wood Energy

In the UK the recognition of forest production and wood residues from timber processing as potential sources of renewable energy has continued to increase over the last 12 months. Starting from an exceptionally low base in the UK 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 renewable fuels. 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. Despite this the capacity of the sum of all proposals in the feasibility study stages of planning is huge, demonstrating the level of interest in developing this, the smallest component of UK renewable electricity generation.

3.3 Certified forest products

In the market for round and primary processed timber, the requirement for certified material continues to develop softwood certified sawmills and merchants are reported to be offering a slightly higher price. It is becoming more difficult for growers to sell uncertified softwood to major markets. Many in the wood-using trades continue to urge mutual recognition between certification labels in order to reduce the current levels of confusion in the market. There is evidence from the construction industry that the issues of supply and competing labels are discouraging to their consideration of wood-based design options.

In the annual UK sawmill survey, sawmills were asked a few questions on certification. Excluding nil responses, there were 132 sawmills providing data for 2004. In that year 49 mills (37%) reported that they held a chain of custody certificate. This percentage varied from 20% of mills producing less than 5 thousand cu m of sawnwood in 2004, to 95% of those producing at least 25 thousand cu m of sawnwood.

Chain of custody certificates, 2004

	Number of sawmills			
Mill size	<5	5 - <25	25+	Total
Mills holding certificate	17	12	20	49
Mills without certificate	61	15	0	76
Certification status not reported	6	0	1	7
Total	84	27	21	132

Categories are based on total sawnwood production

The following table shows the percentage of certified input and output volumes for 2002-2004, based on responses received. Certified timber accounted for over three quarters of sawlog consumption and around two thirds of sawnwood production in 2004. These proportions varied by size of mill, with larger mills generally reporting higher levels of certified timber than smaller mills.

Percentage consumption and production certified, 2002-2004

Mill size		Production			Total
		<5	5 - <25	25+	
Consumption certified	2002	11%	38%	79%	65%
	2003	21%	52%	75%	67%
	2004	18%	43%	94%	80%
Production certified	2002	5%	20%	81%	62%
	2003	4%	29%	60%	50%
	2004	12%	27%	76%	64%

Categories are based on total sawnwood production

About 40% of all woodland in GB is certified as being sustainably managed. The Forestry Commission Public Opinion of Forestry Survey 2005 included questions about awareness of certification symbols on wood products. Respondents were first asked if they had been shopping for wood products in the last few years. Less than half (44%) said that this was the case (compared with 47% in 2003). These respondents were asked if they recognised either the FSC or the PEFC symbols. 38% of adults who had been shopping for wood products in the last few years said that they recognised the FSC symbol, and 8% said that they recognised the PEFC symbol. 56% did not recollect having seen either symbol. Between 2003 and 2005, recognition of the FSC logo increased from 31% to 38% while recognition of the PEFC remained at 8%. This question was not asked in surveys before 2003.

4. Value-added forest products and engineered wood products

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, although 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. In some sectors such as manufactured furniture, the value-added trades of wood manufacture are under extreme pressure from imports from low cost economies such as in the Far East and Eastern Europe.

The market for engineered wood products in the UK has been increasing generally. 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 UK policy initiatives for modern methods of construction and sustainable building.

The continuing success of timber frame and I-joists appears to have prompted an advertising response from other sectors, often designed to promote their own material only by reinforcing adverse perceptions about the performance of wood. The timber sector's generic promotion campaign in the UK - w*ood. for good.* - is slowly gathering support from a wider circle of companies whose businesses depend on wood. The total promotional fund remains inadequate compared with the size of the job that needs to be done to successfully promote wood in the face of these challenges.

5. Sawn Softwood

Demand for construction, fencing, decking and pallets has been good in 2004 and 2005. The situation is currently sufficiently stable to allow reasonable optimism for 2006, given the apparent resilience of the housing market despite some of the economic indicators. Garden furniture, flooring and timber decking have continued to benefit from the fashion for timber products led by lifestyle TV programmes and magazines and this change in the market seems to be well established. There has been a welcome sign that the long decline in prices has stabilised. There have been modest increases in product price despite some adverse movement in currency exchange rates, which would normally be expected to depress the price for UK producers. The price improvement has also fed through to growers.

The number of sawmills in the UK continues to reduce, with the actual number only increasing in mills producing more than 50 000 cu m per annum. Despite this, consumption by softwood sawmills increased 2.2% in 2004.

The pallet sector has seen strong demand for pallets and packaging that meet the new ISPM regulations and the conversion of UK producers to heat treatment is complete.

6. Sawn Hardwood (temperate and tropical)

There has been a further decline in the market conditions in 2004. Price and availability dictate that many former customers for UK logs and sawn timber have turned to imports. Both the number of UK hardwood mills and their consumption of hardwood timber both continued to decline steeply. However, there is still a demand for good quality UK-grown hardwood. UK-grown production is being displaced by European and North American imports. Some movement away from the dominant fashion for pale colour in hardwoods is being reported.

The scale of temperate and tropical imports is largely unchanged but, as reported above, both legal and sustainable sourcing is a priority issue for the main trade association. Many importing companies have taken action to address the issue of responsible sourcing. The UK Government policy for procurement by Departmental buyers may have been a major influence but projects of all sizes by large companies, public housing associations and architects are increasingly featuring sustainability policies in which timber supply is a key component.

7. Wood-based panels

UK Government policy on sustainable development is steadily increasing the volume of packaging and other wood diverted from landfill or burnt as waste. A total of 1.5 million green tonnes of UK roundwood was consumed by the wood-based panel products sector in 2004, a 2% increase from the previous year. The industry is still much concerned about the potential threat to its raw material supply posed by the use of wood for renewable energy generation but some confidence seems to have returned as some re-developed and expansion plans proposals have come forward. The total input of recycled fibre increased in 2004, and input from sawmills also increased.

Inputs for woodbased panel products (000 green tonnes)

	2000	2001	2002	2003	2004
UK roundwood	1735	1715	1499	1490	1527
Sawmill products	1871	1675	1669	1686	1778
Imports	14	38	13	22	9
Recycled wood fibre	488	675	932	993	1078
Total	4108	4103	4113	4191	4392

UK roundwood includes all material from forest operations.
Sawmill products include peeled and unpeeled chips, sawdust, slabwood, shavings, postplant chips and peelings.
Imports include roundwood, wood products and products from imported wood.
Recycled wood fibre is wood fibre recovered from both pre- and post-consumer wood waste for use in woodbased panel production.

A total of 3.5 million cu m of woodbased panel products were produced in 2004. The majority of this total (75%) was particleboard and oriented strand board (OSB). The outlook is for similar levels in 2005 and 2006.

8. Pulp and paper

The increase to 100% recycled in one of UK's pulp and paper mills has resulted in a steadily increasing export of pulpwood. The remaining three mills consumed 483 thousand green tonnes of UK grown soft roundwood and 214 thousand green tonnes of UK grown hard roundwood in 2004. This represented a 31% fall in the consumption of softwood but no change in hardwood consumption from the previous year. The outlook is for similar levels in 2005 and 2006.

A new investment proposal that could dramatically change this outlook in later years is described in section 3.1.

UK Forestry Commission
01 September 2005

Annex

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