Timber Trade Federation

The Voice of the Timber Industry

Verified Legal Timber Please!

EU Consumer Markets

Who am I?

- Andy Roby
  - Tropical forester (Bangor, Oxford), Henley MBA, 20 years working in international development (Africa, Latin America, Asia, UK)
  - Current work: Corporate Social Responsibility (CSR), illegal logging and stakeholder relations.

Presentation

1. EU and African Timber
2. Comparing EU markets
3. Why – underlying drivers
4. Impact on prices
5. EU Industry and FLEGT
6. Lessons

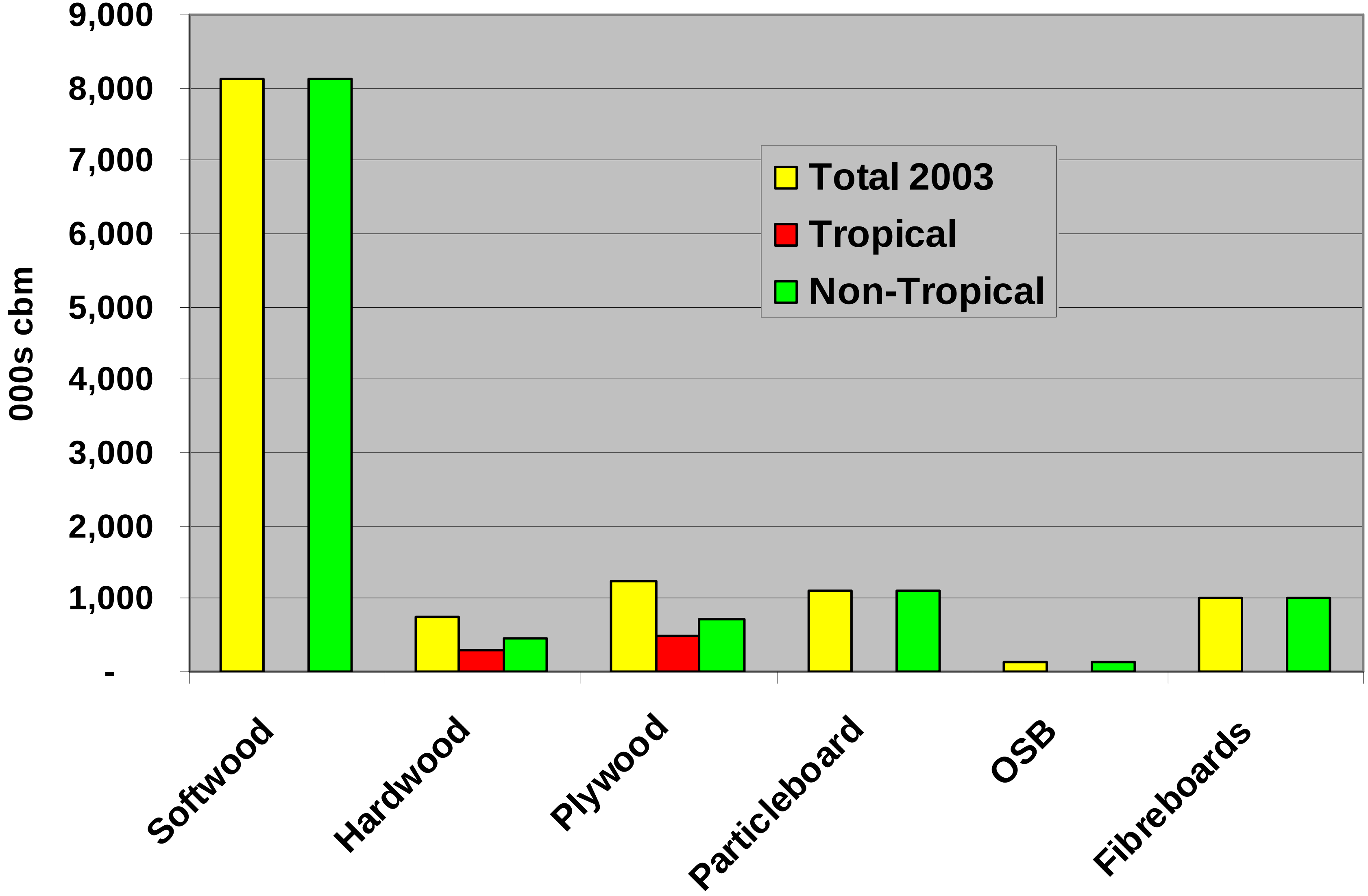
EU Timber Trade Overview

- Tropical = 7% of EU imports
- Of tropical 59% was from Africa
- African log imports are <u>down</u>
- African rough sawn lumber <u>down</u>
- African machined hardwoods (planed or sanded) <u>up</u>
- African = <u>small share</u> of the EU market for value-added wood products

Some explanations

- African govt. policies to add value
- EU manufacturing less competitive
- Tighter control of harvesting
- Declining resources
- Political instability
- China wants African raw material

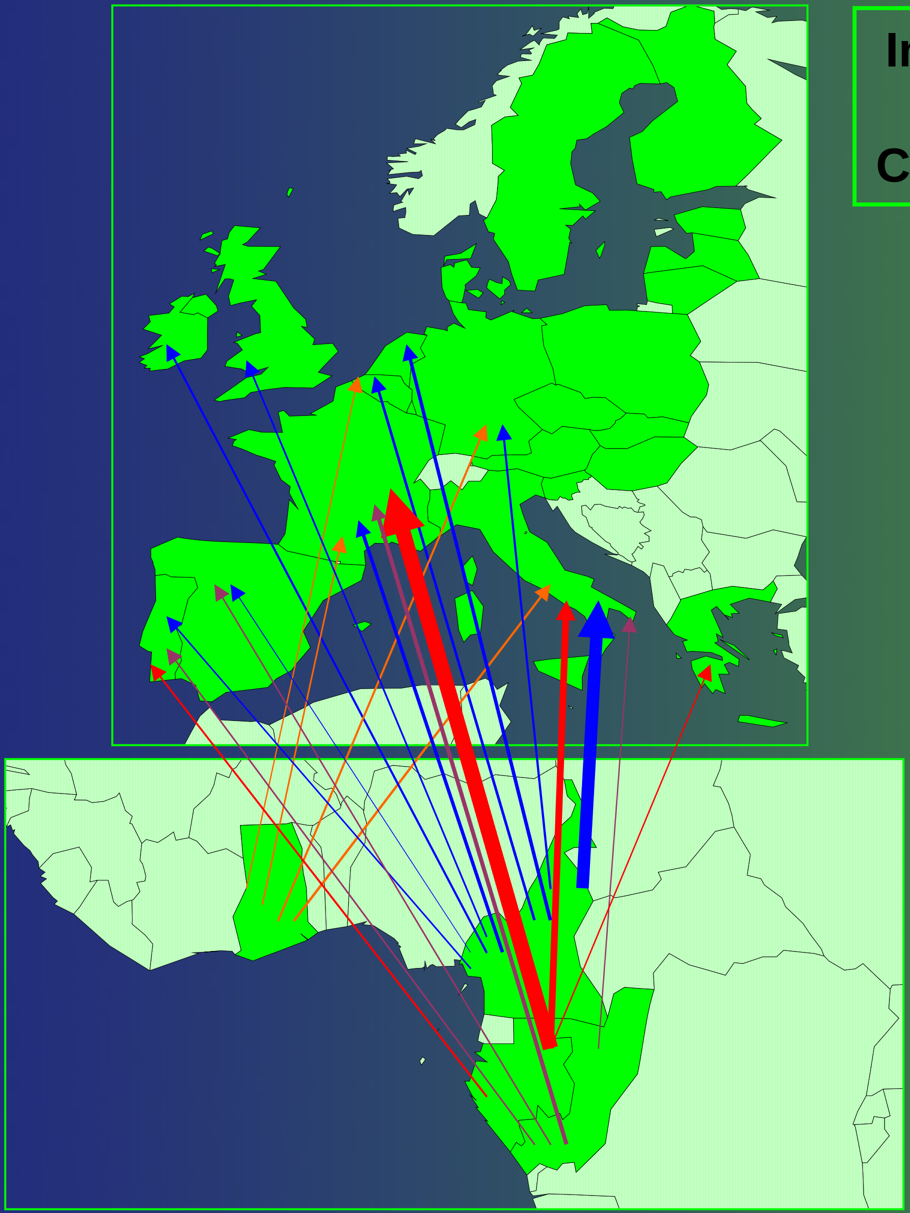
UK Consumption by Volume of Imported Tropical/Non-Tropical Timber & Panels 2003



An African Perspective

- In 2003 exports to the EU were
  - 43% of total volume
  - >50% of total value
- China is leading non-EU market for African hardwoods but not from Ghana – China wants logs!
- US is leading non-EU market for Ghanaian timber

Imports by EU countries during 2004 - timber supplied from Cameroon, Congo (Brazzaville), Gabon and Ghana



Arrow width directly proportional to RWE volume

(minimum shown: 50,000 m3 RWE)

500,000 m3 RWE

100,000 m3 RWE

Key to imports from supplier countries

- Cameroon
- Congo
- Gabon
- Ghana

Source: based on Eurostat

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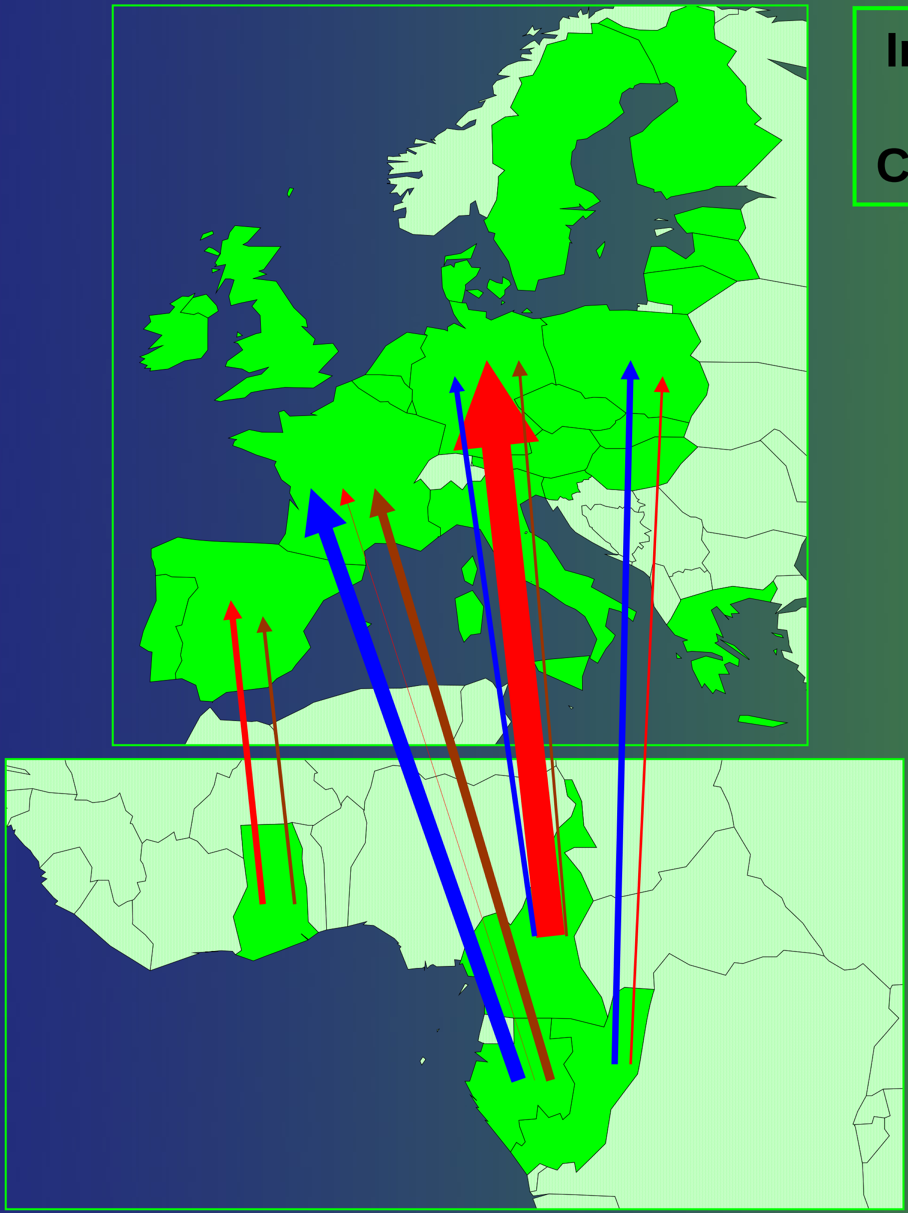

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Key to product groups

Logs

Sawn wood

Veneer & Plywood

Source: based on Eurostat

The Bad News

- *Decline in processing capacity in Western Europe*
- *Increasing demand for wood components and finished wood products from Eastern Europe*
- *Eastern Europe manufacturers source locally and import little tropical hardwood*
- *Stronger Euro makes CFA Zone less competitive*
- *Just-in-time trading and procurement of dimension stock*

The Good News

- Growth in hardwood consumption in joinery and building sectors
- Popularity of wooden flooring, kitchens, doors and decking
- New furniture designs starting to use tropical hardwood for its variety
- Industry marketing initiatives

2. Comparing EU markets

- Role of agent – more importing, more value added
- Shortening supply chain
- Consolidation within trade
- More powerful retailers – B&Q, Carrefour, TP
- EU largely self-sufficient in timber
- UK, NL and Belgium need to import
- Tropical timber a valued luxury
- Shortage of legal and sustainable timber

3. EU Market Drivers

a. Customers:
- Government
- Big corporates

b. Trade commitment to trade in legal timber

c. Responsible Business drivers
- reputation
- employee/board conscience and
- NGO pressure

d. European Union Action Plan on Illegal Logging

e. Competing with non-timber building materials

the only building material that grows on trees.

Most building materials, once taken from the earth, can never be replaced.

Wood is different. It grows on trees. And in Europe we are growing many more trees than we use.* This is very good news, because, of all building materials, wood makes the lowest impact on the environment, consuming less energy to fell, transport and process**. The Building Research Establishment's *Green Guide to Housing* demonstrates that timber walls, floors and windows have lower environmental impact, contribute less to climate change and cause less air and water pollution.

Isn't it a good thing we'll never run out of trees? Find out more about the good wood can do by calling 0800 279 0016, or visiting www.woodforgood.com

wood. for good.

'wood. for good' is a promotional campaign sponsored by the Nordic Timber Council, the Forestry Commission, the UK Sawn Wood Promoters, the Timber Trade Federation, the Forestry & Timber Association, and the Northern Ireland Forest Service. All sponsors are committed to sustainable forest management and encourage independent certification.

* Europe enjoys an annual surplus of growth over harvest of 252million cubic metres (source: UN-ECE FAO TBFRA 2000). That's almost 30 times the annual UK consumption of wood. ** The energy required to produce one tonne of building material: Timber 2,000 kW/HRS; Aluminium 25,000 kW/HRS; PVC 45,000 kW/HRS (source: Centre for Alternative Technology)

wood. for good.

Pay our factory a visit.

good clean air

home sweet home

natural

What sort of factory would you let your children play in?

A steelworks? A quarry? An oilfield? A chemical plant? Our factories are forests. While producing timber, they also provide picnic spots, lakes and nature trails[1]. Thousands of species of birds, animals and plants call them home. Their air is clean and good to breathe. They pump oxygen into the atmosphere and soak up the carbon dioxide that causes climate change. Every time you use wood you are helping to make sure that the forests will keep growing[2]. So your children and your children's children will be able to enjoy visiting for years to come. For more information call 0800 279 0016 or visit www.woodforgood.com

[1]The public has free access to 94% of forest land in Europe (MCPFE/UNECE FAO State of Europe's Forests 2003). Visit www.forestry.gov.uk/visitorcentres for forest leisure activities. [2]The market for forest products helps finance sustainable forest management. Use wood from well-managed forests. Over 90% of all wood consumed in Europe is sourced from European forests, which are in surplus production (IIED, Using Wood to Mitigate Climate Change, 2004). For additional reassurance look for credible third party certification schemes like PEFC or FSC.

wood. for good. is a promotional campaign sponsored by the Nordic Timber Council, the Forestry Commission, the UK Sawn Wood Promoters, the Timber Trade Federation and the Northern Ireland Forest Service. All members are committed to sustainable forest management. In each of the members' countries credible third party certification schemes are now operating and increased areas of forest are being certified.

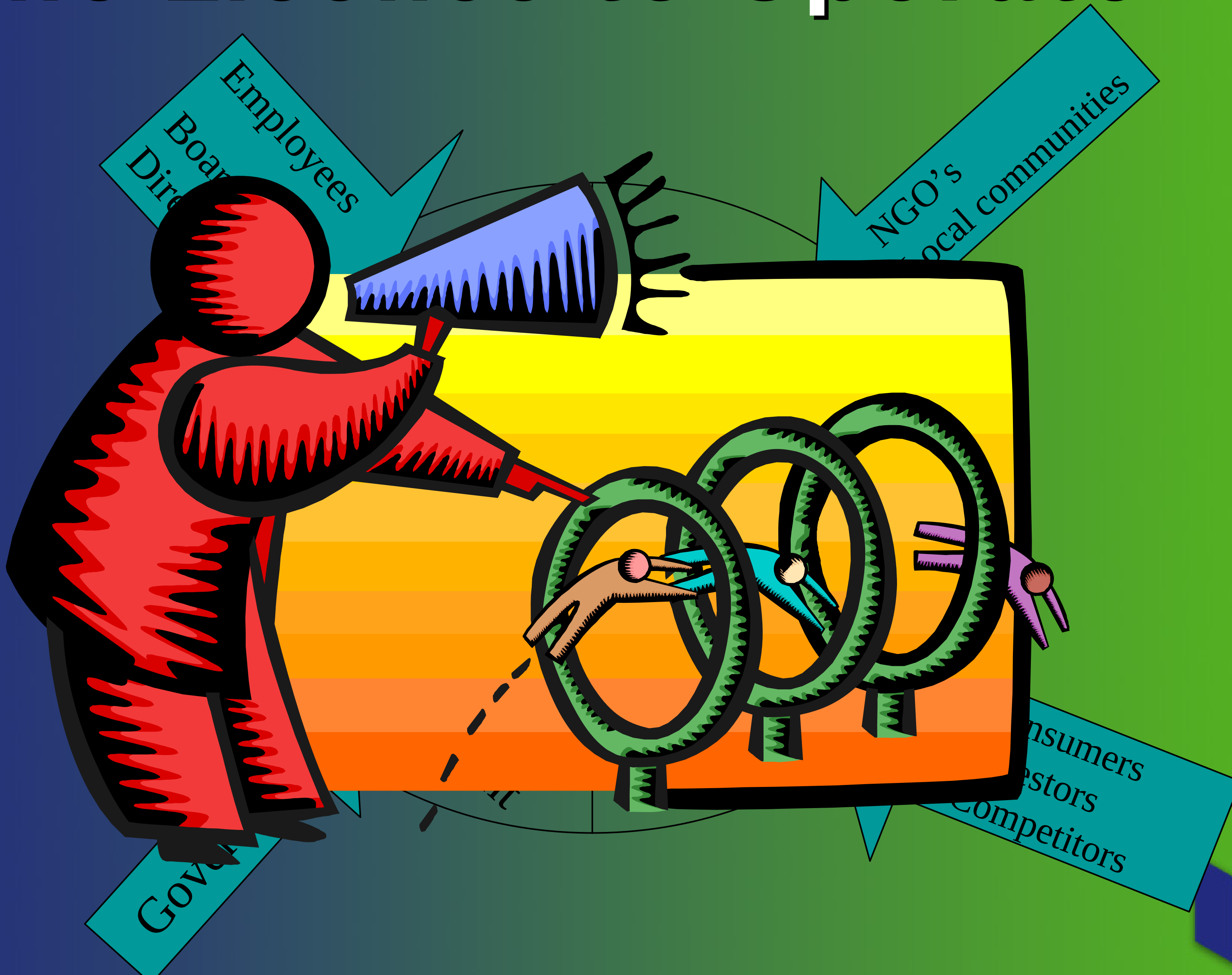
What our competitors say:

“Save a tree use PVC”

“As a tree, timber does symbolise environmental goodness. However, the processes necessary to make it a viable building material removes much of it's assumed green credentials.”

www.concretecentre.com

The Licence to Operate



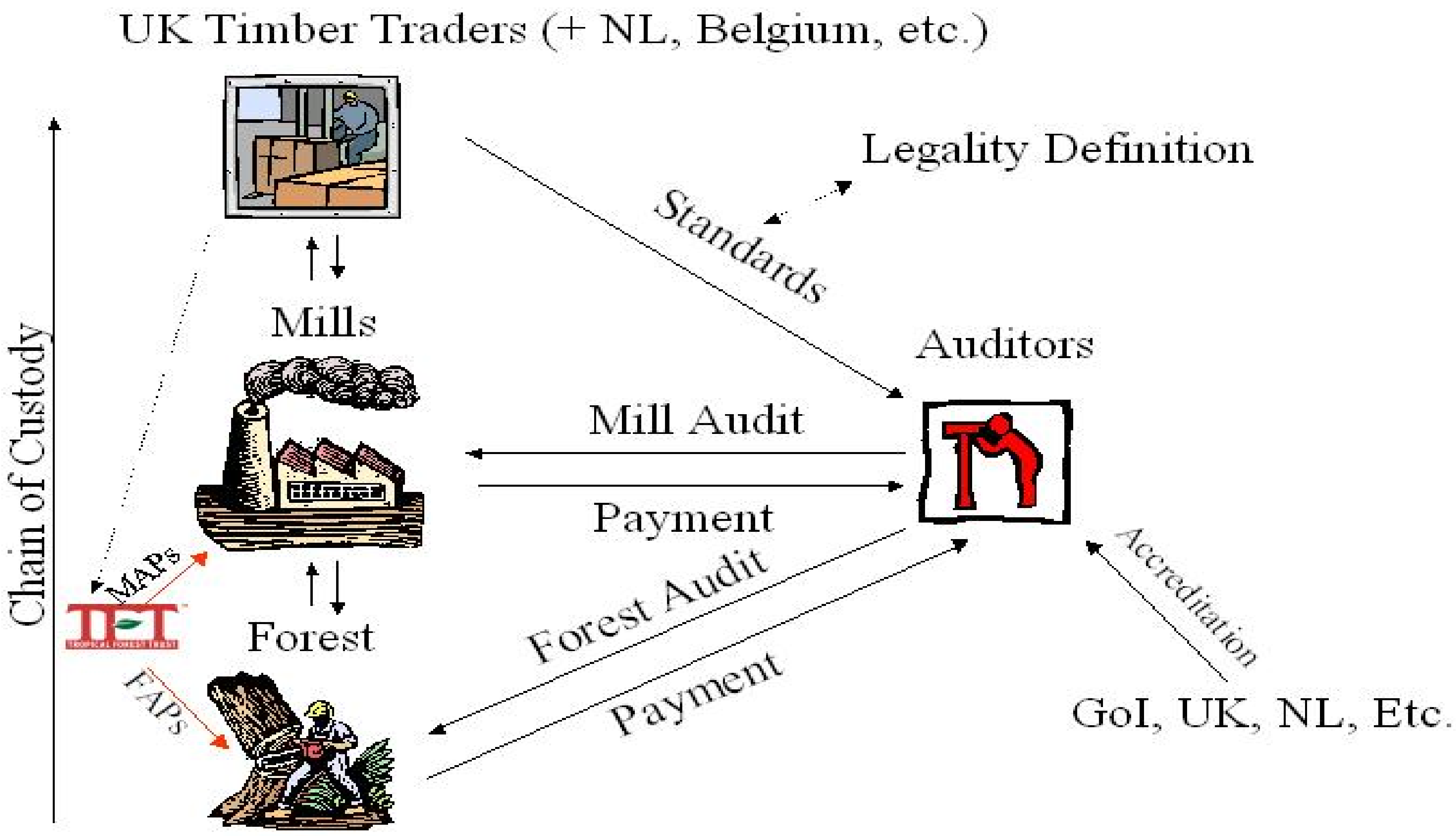
4. Impact on prices

- Rupert Oliver, Hardwoodmarkets.com
- Study of prices in the UK - Is there a premium for verified legal or certified timber?
- 15 agents, importers and merchants, for timber delivered to the UK, said:
  - **<u>No</u>** for softwoods
  - **<u>Yes</u>** for hardwoods – 2-30%
- A New Trend
  - "considerable interest throughout the UK in sourcing and marketing verified legal and sustainable timber"
  - …..A significant number of larger companies stated that they were now implementing systematic procedures aimed at ensuring that 100% of their supplies are derived from demonstrably legal sources"
- How long will the premium last……

5. EU Industry and FLEGT

- Industry supports the Action Plan
  - It is integrated and comprehensive
  - Signs of change in our suppliers
- Industry supports the licensing scheme
  - Voluntary Partnership Agreements must be robust and credible
  - Licensing must involve independent verification and field inspections
- Broader legislation????
  - Create a level playing field
- Tracking and auditing must be practical and cost-effective

How Auditing Might Work



6. What we have learnt

- B2B works
- Big companies and trade organisations can and should lead
- Purchasing decisions are powerful drivers
  - Private sector (CSR)
  - Governments as consumers
  - Need an objective country risk register
- But suppliers need help too
  - Need to tools and common approaches
  - Need simple auditing frameworks
- Partnership is crucial for action at all levels
  - E.g. G8 Civil Society statement, FLEGT declarations

Conclusions for Ghana

- Independently proven legality and sustainability is necessary for access to important markets
- What do they want?
  - Chain of Custody from stump to shop
  - Third party verification of
    - Legality of ownership
    - Legality of harvesting
    - Chain of Custody
  - Certification
    - sustainability of forest management
- They expect the trade to get this timber
- Is this, potentially, Ghana's competitive advantage in the EU market?
- Does Ghana's timber industry want to go for it?

How to move forward

- Secure long term concession management rights and responsibilities
- Clamp down on the rogue operators of all shapes and sizes
- Use transparency to level the playing field
- Get a credible national standard for certification using an international standard that the market recognises
- Get sustainable as a way of leveraging new investment in the industry
- Work together as an industry for positive change


"The best way to predict the future is to create it" – Dr Peter F. Drucker
Thank You

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www.ttf.co.uk