Changing in International Markets for Timber – What African Producers Can Do?

Market Report Draft – Italy

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Market Overview

Italy is an important market for tropical hardwoods. In 2003, approximately 630,000 m^3 of tropical hardwood sawnwood was imported and about 200,000m^3 of tropical hardwood roundwood.

The wood based industry, producing furniture, doors, windows, flooring etc, have always exported a large proportion of their production, with a positive trade balance until 2001. However a negative trend in the wood products trade has recently developed. There has been a decline in exports to the Nafta area (decrease of 16%), the Far East by 13%, central and south America by 35% and Mercosur area by 28% and to other European countries. Spain and the UK are the only countries where there have been small increases in the trade, 7.5% and 0.8% respectively. Overall there has been a total reduction of exports by 12.5% since 2002.

The export market for Italian suppliers has been negatively influenced by the new European currency, depressed markets in Germany (a traditionally significant export market especially for furniture) and the increasing role of China (in supplying semi finished wood products as furniture parts often at lower prices). As primarily a result of China's increasing role in the market, furniture exports from Italy have fallen by 8.8% in value from 2002 to 2003, while simultaneously imports have increased by 8.6% in volume and 3.2% in value.

The only sectors with a positive trend are the building joinery (up 5% between 2002 and 2003), doors (up 4.2%) and windows (up 7.7 %).

With regards to tropical hardwoods, imports have reduced by 5% in volume and 14% in value. This is due to a decline in imports of 25% from Cameroon (in volume and value) and log export bans in Cameroon, Ghana, Ivory Coast and Nigeria, coupled with the falling export market for Italian wood products.

Trade Between Italy and Africa

Italy and West Africa have had a trade relationship since the turn of the century. Ghana and Nigeria were the first exporters to Italy, trading through large English brokers. This was followed by the Ivory Coast, Cameroon, Gabon and Congo, through French brokers and in some cases directly with the producers.

Gradually with large investments in new sawmills, financed by European, including Italian investors, imports of processed products in addition to logs has increased. Italian investors have been predominant in Ivory Coast, Ghana and Cameroon.

Trade with Ghana, Cameroon, Gabon and Congo Brazzaville

Species imported from Ghana are mainly, wawa, ofram, niangon, afzelia, and ekki, in sawnwood and also in finished products such as flooring and scantlings. The imports are effected mainly through English brokers and also Italian agents that are credited at the GTMB. The presence of Italian companies in Ghana is lower than in other countries but there are cases of joint venture and partnerships.

With regards to Cameroon the species imported are mainly Ayous, Frakè, Iroko and Pachyloba and are exported to Italy by companies that are, principally, from France. However in recent years many Italian companies have established operations in Cameroon, not only to produce raw material but also to supply finished products to the Italian market. Due to the log export ban, there is a shortage of logs and thus importers are now looking to countries such as Gabon.

Gabon has become an important supplier of okoumé and ozigò, not only for the Italian market but also for other markets. Exports (prices and volumes) are directly managed by SNBG (Societe National Bois du Gabon). Italy also imports other species such as gombé, ovangkol, bahia and iroko. The imports are sold mainly by French companies but, in the last years, the Italian presence has grown and now many Italian companies are exporting not only to Italy but also to other countries. Exports include logs, sawnwood and also semifinished and finished products as peeled veneer and scantlings.

Italy imports large volumes, shipped from Point Noire, of the same species as from Gabon. However trade with Congo Brazzaville has remained difficult due to political problems and difficulties of exporting.

The Italian Trade Structure

The Italian wood industry is fragmented, consisting of many small and medium sized companies (4-5 employees) as builders and joineries, millwork, wood furniture, naval furnishing etc. Each of these market sectors requires a range of wood products, in terms of species, dimensions, quality etc.

The major actors in the tropical timber trade are the big importers (many with several yards) who sell on to the numerous fragmented industries all over the country, each of which has its own needs and demands. The importers import directly from Africa, where joint ventures with suppliers or export agents exist. This fragmented structure, where the needs of individual end users are recognised by the large importers, is different to the rest of Europe where the trade distribution and production systems are more standardised.

The relative difficulty of obtaining raw material direct from suppliers, also acts as an incentive for end users to buy from importers. Importers often have large volumes of raw material stored in their yards and can therefore ensure a regular supply.

Thus, with a high degree of fragmentation, numerous specialised demands by end users, strong competition between the importers, it is difficult for business to business or direct relationships between suppliers and end users to develop.

The big importers also play a key financial role, as they buy from West Africa with a payment term that is usually Cash Against Documents selling then to the mentioned end users or distributors with a medium payment term of 110-120 days (invoice date).

Market Trends

Although Italian traders have been present in Africa for many years, the last forty years has seen significant changes. Volumes today, are very small considering the huge volumes that were historically traded. Availability of raw material and the strong competition of others countries has resulted in many Italian importers with the need to find partnerships, joint ventures or other ways in order to be sure to have material for production (for example of plywood and veneers).

From 2002 to 2003, volumes imported from the Western African countries have fallen, especially in roundwood (a drop of 25% from Cameroon) but also in sawnwood (down by 21% from Ivory Coast). However, there has been a simultaneous increase in the supply of the tropical sawnwood from other countries as Brasil and Birmania, even if volumes are low. These countries are increasing their market share in the Italian market. However, Africa maintains the advantage of having lower transport costs and with the increasing role of China and India, the available supply of wood products to Italy has reduced and the prices have increased.

In addition to competition from other producing countries and regions, there is also a lack of certified timber from Africa. Following campaigns from NGOs such as WWF and Greenpeace demand for certified timber has increased. Although certified timber is currently only required for Government contracts, with other consumers not demanding it, especially if certification implies a higher price.

Illegal logging in several African countries is also becoming a market issue in Italy. The Italian Timber Trade Federation is trying to find a solution through the cooperation with the relevant authorities, in order to avoid the import of illegal timber and related products.

The uncertainties in supply, political situation, potential for illegal and unsustainable wood products, are all acting against the trade in tropical wood products.

Market Initiatives

The Italian Timber Trade Federation plays an important role in a highly fragmented trade. The Trade Federation is an important point of reference for the industry, providing support and advice on a range of issues including official interventions, CITES, internal and European laws affecting wood business and so on. The Italian Timber Trade Federation is only one branch of FEDERLEGNO and all main sectors as panels, flooring, furniture, building joinery etc. have their own federation.

The Italian trade has seen a number of market initiatives develop. These include:

- Creation of a sector working group by the Ministry of Economy and a working group to develop an operative manual for CITES, in cooperation with the Italian Customs and other Ministries.
- An agreement of cooperation with GREENPEACE signed in 2002 and renewed in 2003 and 2004. For 2005 the Italian Timber Trade Federation will establish a code of conduct for the sector.
- Adoption of an ethical code for the purchase of wood obtained from forest managed in a sustainable way in observance to the national and international laws.
- Forest Law Enforcement Governance and Trade (FLEGT), promotion of agreements between European countries and third countries in order to have a system of licenses to export in order to avoid illegal logging. Supported by a presentation of a declaration about FLEGT to the European Commission in December 2004.
- Establishment of a WWF Buyer Group in October 2001.
- A drive to push Italian investments in Angola and Congo under the direction of the Italian Prime Minister for Africa and with the cooperation of the Ministry of Economy for Congo.
- Cooperation with the Italian Railways for their project to renew the Italian wood rail transport by the creation of 130 railway station, of which 29 will be of good dimensions, for the arrival of wood products.
- Participation at the works of the most important European Associations as: UCBD, UCIP, FEBO, ATIBT, UCBR, AHEC.
- Cooperation with the Italian authorities for the renew of the laws affecting wood based industries.
- A workshop “Wood Industry and Trade for Building joinery and his future”.
- Promotion in the main Italian magazines of the federation and its activities.
- The Association born in Italy and now well developed also in other countries called Real Wood promoting the real wood finished products as furniture, windows, doors etc