

# Market Report

*Global uncertainty, peaks and troughs – and an urgent need for the Commission to start doing what it was meant to do in the first place.*

In a 'normal' year the UK forest products industry eases into the Christmas period with a slackening of demand before gearing up for the spring upturn.

Last year was anything but normal, and it's no surprise, therefore, to find that expectations for the spring pickup are dampened, although the picture is mixed.

For the first eight months of 2007 UK mills saw rising demand and prices across all product sectors, not only from traditional customers but also new buyers seeking UK wood at a time of tightening supplies of imported material.

In August markets started to falter, and by September there was no doubt that the summit had been passed. The downturn was sudden and rapid – and with no respite in the final quarter, the end of the year did not live up to the promise of the earlier months.

That is the general overview, but within that there are variations. Although some of the volume softwood producers had flat year-ends, smaller to medium-sized mills serving niche markets experienced less of a feast and famine and report a steadier year's trading. Naturally, those who were affected tend to talk louder than those who were not, so while the overall summary of trading is of a swift change in circumstances, that is not true for all suppliers.

Although mills did cut back on production at the back end of 2007, coming into the New Year there is still a lot of stock on the ground.

The hope is that normal spring trading will be seen, although there is no sign of that yet. The early Easter dates do not seem to have prompted an early upturn – and a side issue is that, in several areas, schools are not taking the full spring break over Easter, but are reopening after the long weekend before closing again for a fortnight in April. Across the UK that means the holiday period will last for around a month.

Of course, the weather is an important factor and the strong winds of recent months should mean there is pent-up demand for fencing. Whether customers will want to start outside work given the continued wet and cold is another matter. And to think that last year the shortage of fencing made national television news.

Given the fall in house prices, it could be that if people decide not to move, they might invest in improvements including fencing and garden products. However, underlying everything is the credit crisis and the impact this will have on consumers' decisions to 'spend' or 'save'.

UK sawmills still have good opportunities, with the ability to offer fast local service, giving them an edge over imports in the current period of uncertainty, when customers are tending to buy short to top up stock gaps.

Production cutbacks at the end of last year were reflected in a fall-off in demand for logs. Private growers responded to the consequent slipping of prices by holding back from



the market, with the result that prices stabilised at perhaps 5-10% down on the peak of last year.

Considering that there were fears of a plunge in prices against the backdrop of economic problems and in the light of large stocks of sawn goods, the fact that prices fell a relatively small amount, and that supply and demand are currently reasonably well balanced, is not a bad result.

Some private growers may feel demand has simply gone off the boil temporarily, and that holding back and creating shortages will cause prices to rise again. However, the danger of this approach is that it adversely affects the confidence of industrial users thinking of investments, who need the assurance of consistent and reliable supply. The Forestry Commission provides this to a large extent, but the private sector is becoming increasingly important and is thought now to account for more than half of the total volume of log supply.

Palletwood is moving well, probably due to tighter supply from the Baltic States, while fencing material is varied with some producers

reporting good levels of business and others not.

Growers report that demand from panel producers is quite strong following the hiatus last year, when the increase in sawmill production resulted in correspondingly higher volumes of sawdust and chip and lessened demand for small roundwood. The reduction in sawn production at the end of the year has changed the balance again.

Exports and biofuel markets were excellent for growers last year, and while the same heights are not expected for the next 12 months, volumes should still be good. Exports will be affected by availability of more windblow in Europe and Scandinavia.

Many biofuel plants are in planning, adding to the concerns of the panel sector about displacement of raw materials as a result of the Government 'tinkering' with Renewables Obligation Certificates. The industry is therefore continuing to be active with political lobbying.

The availability of logs is, and will increasingly be, discussed, as the industry moves up the slope towards the 2020 peak in produc-



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tion and the subsequent dip that is already having an impact on investment plans. Attempts are being made to try and smooth the peak but it will not be easy. Anything planted today will take 30-40 years to mature.

The Forestry Commission still has critics that accuse it of turning its back on commercial use and being driven by public and political priorities rather than advising Government and ensuring that the public understands the role of, and need for, commercial forestry.

Established in 1919 to coordinate reforestation in response to the disruption to imported timber supplies caused by the First World War and depletion of domestic stocks for the war effort, the Commission was charged with implementing the key policy of rebuilding and maintaining a strategic timber reserve.

In recent years some have suggested that, given the reason for its creation, there is no longer a need for the Forestry Commission. However, in the current climate, and remembering the global shortage of supplies last year, that opinion has changed and the Commission's role in maintaining a strategic reserve is seen to be a valuable and needed

service.

Education is the key. The public must be helped to understand the concept of timber as a 'crop' – providing valuable and renewable raw material. The environmental benefit needs to be highlighted, with fast growing conifers absorbing carbon dioxide from the atmosphere during their growing cycle until they reach maturity, and locking the carbon in when the timber is used for construction or wood products.

Yes, wood also has a valuable role to play in fuelling energy plants, but it should be burnt only when it has no other application. For biofuel, the Government should therefore prioritise the recovery and use of genuinely 'waste' wood and not take virgin material that could be used by sawmills and panel producers.

This debate is underway and in the early stages, but needs airing more widely by the industry so that the feedback reaches official circles as well as the general public. The overall message is that more woodland should be planted, more wood processed for commercial applications, and more wood and wood products used in the built environment.

In line with this it is encouraging to see increasing cooperation between the forest products industry associations in the two key areas of education & training and political lobbying.

In the first case, activity needs to cover primary, secondary and tertiary education as well as CPD (Continuing Professional Development). An additional spur is that the Government expects industry to show progress in this area by 2010, after which it may intervene with tools such as payroll levies. Nobody wants Government interference if it can be avoided, and while it is still early days, the industry associations are starting the process of planning.

Political lobbying means different things to different people, but there is general agreement that all opinion formers need to be more informed about the UK forest products industry. Lobbying is expensive and a lot of money could be spent with little impact, so the goal is to develop better understanding of the key issues and how they can be addressed, perhaps with tightly targeted campaigns. Of course, money will still be needed and, since it will always be a challenge to encourage

the industry to contribute, there also needs to be a realistic assessment of how much will be available for lobbying campaigns.

The forest contracting resource remains fragile and there is urgent need to attract new people. One aspect that could be looked at is the required Certificate of Competence – if an international version could be agreed it would make it much easier to employ contractors from overseas.

Rising fuel costs are still a major problem, both for harvesting machinery and for road haulage, and coping with that is made harder with the fallback in timber prices from the peaks of last year.

With the UK economy still uncertain and the world worrying about the possibility of US recession and the impact of that on global economies, prospects for 2008 are difficult to gauge. As the UK forest products industry settles down a bit after the hectic trading last year, and with the early Easter sitting awkwardly in the period of expected spring recovery, the overall impression is that the industry is hopeful, rather than optimistic, for the year ahead.

*Martin Pearce*

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