

# UNECE TIMBER COMMITTEE – SEPTEMBER 2010

## UK Timber Market Statement

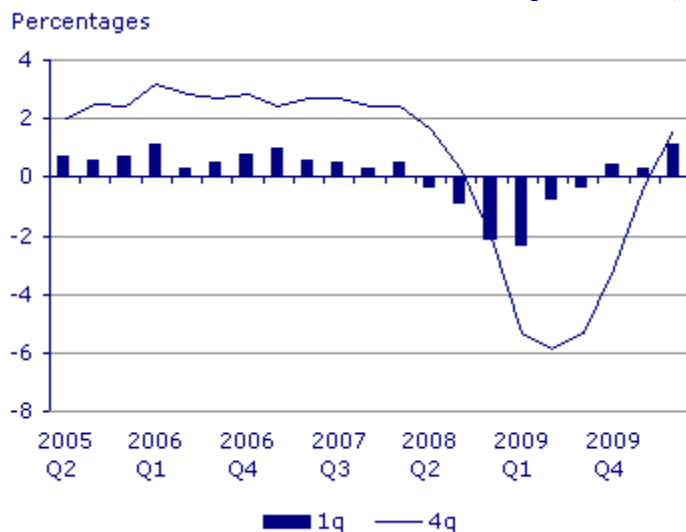
### 1. General Economic Trends affecting the Forest and Forest Industries Sector

#### GDP Growth

Gross Domestic Product (GDP) is now estimated to have contracted by a total of 6.4% over the course of the 2008-09 recession, more than an initial estimate of 6.2%, as a result of revisions to growth estimates by the Office for National Statistics (ONS). The majority of revisions were to 2008 data and, consequently, the ONS now estimates that output fell by 0.1% in 2008, as opposed to rising by 0.5% as previously thought.

Second quarter figures for 2010 from the ONS show GDP to have increased by 1.2% over quarter 2, compared with a 0.3% increase in 2010Q1.

**Chart 1: Gross Domestic Product by Quarter, 2005-2009**



Source: Office for National Statistics

The largest contributor to the recent expansion was construction, with the sector posting growth of 8.5% on the quarter in 2010Q2. According to the ONS, strong growth in construction in quarter 2 was partly explained by its weak performance in the first quarter, when output fell by 1.6%.

Services also made a positive contribution to overall growth, particularly 'business services and finance' (especially in market research, opinion polling and labour recruitment agencies), which reported growth of 1.5% compared with a 1% expansion in the first quarter. Output in 'Government and other services' and 'distribution, hotels and

restaurants' both rose by 0.7% over the same period. Within 'distribution, hotels and restaurants' (which contracted by 0.7% on the quarter in 2010Q1), the boost to growth was driven partly by the retail sector. Retail sales data released by the ONS showed that sales volumes rose by 1.7% on a three month-on-three month basis in June, which was the largest increase on this basis since May 2007.

Production output also posted positive growth in the second quarter, of 1%, unchanged from quarter one. Manufacturing made the strongest contribution, expanding by 1.6% on the quarter. Data from CBI suggested that the surge in manufacturing was fuelled by an increase in new orders and stock rebuilding by firms.

The Bank of England, in its Quarterly Inflation Report for August, has maintained a cautious outlook, warning of a *'choppy'* recovery in the years ahead. The Bank expects the economy to continue to grow but the pace of growth is predicted to slow in the remainder of 2010, driven by a downturn in business and consumer confidence. Looking ahead to 2011 and 2012, the recovery is expected to be further affected by the persistence of tight credit conditions and a possible slowdown in global demand. The Bank points out that the *'somewhat faster pace of fiscal consolidation'* could further weaken growth unless accompanied by an offsetting rise in private sector expenditure. Overall, the Inflation Report forecasts weaker GDP growth than predicted in May this year.

In its latest World Economic Outlook, the International Monetary Fund (IMF) suggested that considerable downside risks to the global recovery remain, specifically relating to turbulence in the international financial markets. According to the Fund, risks include, 'an escalation of financial stress and contagion, prompted by increasing concern over sovereign risk' and 'renewed weakness in the US property market'. Reflecting this, the IMF predicts growth of 1.2% for the UK economy this year, a downward revision of 0.1 percentage point from its previous estimate. In 2011, UK growth should pick up to reach 2.1%, lower than the 2.5% initially projected.

More generally, the Fund is predicting global growth of 4.5% and 4.25% in 2010 and 2011 respectively.

### **Inflation**

Consumer Prices Index (CPI) annual inflation – the government's target measure – fell by 0.1 percentage points to 3.1% in July 2010, down from 3.2% in June and 3.4% in May, according to the ONS. Despite the further fall, inflation remains above the upper threshold of the Government's 2% target for the sixth month out of seven in 2010.

The largest downward inflationary effect came from transport, where prices of second-hand cars fell between June and July this year but rose over the same period a year ago. The price increase of 3% last year was a record for the June to July period. There was also downward pressure on prices from fuel and lubricants, largely reflecting a fall in the price of petrol this year of 0.7p per litre compared with a 1.1p per litre increase last year. A further small downward effect came from rail transport with a partially offsetting upward effect from sea and inland waterway transport

Clothing and footwear also contributed to the fall in inflation in July, as prices fell by 4.9% between June and July this year, but by only 3.2% over the same period in 2009.

Additional downward pressure on prices came from miscellaneous goods and services where prices fell this year but rose at this time a year ago. The largest downward effects came from financial services, but there was also slight downward pressure from appliances and products for personal care.

Recreation and culture made a small downward contribution to the overall price movement.

The most significant upward pressure affecting the CPI annual rate in July was from food and non-alcoholic beverages, and particularly from vegetables, where prices rose this year between June and July after falling over the same period a year ago.

The Retail Prices Index (RPI) – a wider measure of prices that include housing costs - decreased by 0.2 percentage points from 5% in June to 4.8% in July this year compared to the 0.1 percentage point decline in the CPI.

The larger decline in the RPI was largely due to insurance, which has a higher weight in the RPI; consequently, the downward pressure from insurance had a stronger impact on the RPI than on the CPI. Furthermore, different methods used to measure the prices of new cars in the RPI and CPI resulted in a larger downward movement in the RPI from the purchase of vehicles.

According to the Bank of England, CPI inflation will remain above target *'until the end of 2011'*, primarily due to the planned increase in the VAT rate to 20% in 2011. Beyond that, CPI inflation will fall back below 2% reflecting spare capacity in the economy and a gradual decline in the influence of temporary inflationary pressures, such as the restoration of the 17.5% VAT rate; past rises in the price of oil and the past depreciation of sterling, which pushed up the price of imports, contributing to inflation.

Reflecting concerns about a potential slowdown in growth in the second half of the year, the Monetary Policy Committee (MPC) voted, at their September meeting, to leave the base rate unchanged at 0.5%, despite inflation remaining above target. The MPC also voted to maintain its Quantitative Easing (QE) programme at £200bn. Through QE, the Bank purchases financial assets, such as government and corporate bonds, thereby increasing the volume of money in circulation. The aim is to increase the supply of credit, which should, in turn, help to stimulate the economy.

In conclusion, whilst the ONS' growth estimate for 2010Q2 surprised on the upside, a number of private-sector analysts have warned against reading too much into the 1.2% figure, as did the Governor of the Bank of England. Most analysts now project growth in the second half of the year to be weaker than expected a few months ago. As to whether the UK risks entering a double-dip recession, this remains highly uncertain.

## **2. Policy Developments potentially affecting Trade in Wood Products**

### **Due Diligence**

The European Parliament published its legislative resolution on the EU Due Diligence Regulation in July 2010 which details the obligations of operators who place timber and timber products on the market.

Aimed at combating the destructive effects of illegal logging, the essential requirement for operators is to provide basic information on suppliers, enabling the traceability of timber and timber products.

Due diligence conducted by operators includes three elements that are necessary to effective risk management:

- access to information,
- risk assessment and
- mitigation of the risk identified.

The due diligence adopted by operators should provide access to information when requested about the sources and suppliers of the timber, including information on the country of harvest and concession, species and quantity. On the basis of this information, operators would need to carry out a risk assessment and where risk is identified, actions identified to mitigate such risk.

It is expected that these requirements will be ratified by the European Council and then be published in the Official Journal of the European Communities.

In the UK, there are already effective sectorial due diligence systems in operation and the EU due diligence legislation recognises that any voluntary chain of custody mechanism and existing national systems which fulfils the requirements may be used as a basis for exercising due diligence.

The two main sources of timber supply in the UK are from its own forests and from importation from the many countries of the world that export to the UK.

The Forestry Commission is the UK Government department for forestry and the Timber Trade Federation represents the interests of importers and merchants. Both organisations have systems which either through regulation, standards or industry best practice help UK forest owners and importers address issues of due diligence in the supply of timber products.

For supply from UK forests, the UK Forestry Standard and the issuing of Felling Licences are the methods by which the Forestry Commission ensures compliance to national standards of good forest management.

The Forestry Commission would be pleased to discuss in detail the UK's assessment and approach for private woodland owners with representatives from other countries – contact Jonathan Taylor of International Forest Policy, the Forestry Commission in Edinburgh, e-mail [jonathan.taylor@forestry.gsi.gov.uk](mailto:jonathan.taylor@forestry.gsi.gov.uk).

In the importation of timber and wood-based products, the Timber Trade Federation operates a mandatory due diligence process for members through its Responsible Purchasing Policy (RPP). The RPP is a tool that assists TTF members to implement the Environmental Code of Practice in the TTF Code of Conduct. This states that 'Members are committed to sourcing their timber and timber products from legal and well-managed forests' and complements the UK/EU global policy objective of addressing illegal logging.

The RPP records timber purchased from recognised third-party environmental certification systems for wood products such as FSC and PEFC and verified legal schemes such as OLB and SGS TLTV. However, where such schemes are not present, members are required to investigate the timber sources further and assign a risk assessment score against that product. The TTF provides tools and guidance to assist members in this activity. Consequently, underpinning the RPP is the requirement for all members to exercise 'due diligence' in their purchasing processes.

The TTF would be pleased to discuss in detail the RPP with representatives from other countries – contact Rachel Butler, Head of Sustainability, Timber Trade Federation, The Building Centre, 26 Store Street, London WC1E 7BT - e-mail [rbutler@tff.co.uk](mailto:rbutler@tff.co.uk).

The status of the EU legislation in mid-2010 is that the European Commission is currently devising secondary legislation in order to implement the regulation.

### **Government Spending Review**

A newly elected Government in the UK in 2010 has a remit to bring public spending under tighter control and effect cost savings.

The measures to be proposed in the Government's Spending Review, due to be announced in October 2010, will affect virtually every public body and associated organisation in the UK and this will impact on forestry.

The potential effect that this review will have on forestry is unknown, although it is likely that operating and cost structures will be examined.

### **Plant Health Issues**

Policy decisions on the material that will become increasingly available towards the end of 2010 because of the disease affecting larch in south west England and Wales will need to take into account the effect that possibly large quantities available for processing will have on prices and future supply.

Phytophthora ramorum (*P. ramorum*) is a fungus-like pathogen that kills many of the trees that it infects. It was found on Japanese larch trees in South West England in 2009 and further outbreaks have been identified in South Wales.

There is widespread infection in all ages of Japanese larch and it is likely that the infection has spread more widely in those areas where it has been identified.

The discovery of the disease on larch in South West England in 2009 was the first time in the world that a commercially grown conifer species had been found with *P. ramorum* infection. Acting on scientific advice, notices to fell infected trees on both public and private forest land have been served by the Forestry Commission to try to contain the outbreak.

A similar programme of actions has commenced in infected stands of larch in Wales. In both countries, biosecurity measures are in place to minimise the spread of infection in soil or on larch needles, people, vehicles, equipment and timber.

Extensive felling of the affected larch trees is now underway and the Forestry Commission is working with timber processors and others to ensure biosecurity measures are put in place to allow logs from the infected trees to be taken to mills for conversion into timber. As the disease does not sporulate on bark or timber, no restrictions on movement of logs within GB have been imposed.

### **3. Market Drivers**

#### **Construction, Manufacturing and Distributive Trades**

During 2009, the main markets for timber and wood-based products continued to exhibit weakness.

Without exception, construction, the pallets and packaging industries, furniture, fencing and outdoor-use markets all experienced lower levels of demand from their customers.

The housing market within the construction market suffered with further falls in the number of dwellings built and the packaging industry is heavily reliant on manufacturing and distribution, which was only beginning to recover in 2010 from the deepest recession in the UK for many generations. In overall terms, the fencing and outdoor products markets also saw reduced demand, although the fencing market was partially buoyed by domestic repair and maintenance work and better than expected demand from the agriculture and landscaping markets, while the decking market witnessed an increase in business from the commercial and leisure sector.

#### **Construction**

Construction is driven by consumer spending on home improvements, housing starts, public sector procurement and, to a lesser degree, industrial and commercial building and refurbishment programmes.

In overall terms, construction output in 2009 fell by over 11%, but within this overall decline, a mixed sectorial picture emerged. Public housing output was higher (although the number of social housing starts declined), but private housing output fell by more than twice the overall average, down by 24% over 2008. Output of public industrial construction (e.g. warehouses, schools, healthcare, agriculture) rose by 34% as many pre-recessionary projects were completed, but private industrial construction was lower by 31%. Private commercial construction (e.g. shops, entertainment, healthcare) was lower by 23%.

The private repair, maintenance and improvement (RMI) markets also experienced a downturn in demand with output lower by 12% and the publicly funded RMI sector too was lower, by 4%.

The estimated volume of softwood consumed by construction markets in 2009 was 4.9 million m<sup>3</sup> down from 5.2 million m<sup>3</sup> in 2008, a decline of 6%. The great majority of timber sold into construction is for RMI applications and this relatively better performance compared to the new housing sector, limited the fall in softwood volume consumed over the previous year.

**Table 1: Main Indicators - Construction**

	2009/2008	2010/2009 to Jun	2010 Note
UK Housing Starts	-20.6%	59.0%	England 6 months 2010. 1st 6 months 2009 recorded record lows.
RMI Housing Output	-16.8%	0.2%	UK 6 months 2010 vs 6 months 2009
New Housing Output	-38.4%	8.4%	UK 6 months 2010 vs 6 months 2009
Property Transactions	-8.1%	20.8%	UK 6 months 2010 vs 6 months 2009
Mortgage Approvals	13.5%	12.8%	UK 6 months 2010 vs 6 months 2009

The year 2010 has provided better performance for construction generally. Mortgage approvals and property transactions are higher in the first 6 months of 2010 and the level of construction activity is higher, with new housing and housing RMI output showing improvement over the same period in 2009.

A dramatic improvement has been seen in the number of housing starts in England in the first 6 months of 2010 with an increase of 59%, however, this is based on growth over the first 6 months of 2009 which recorded the lowest level of housing starts for 65 years. In the first 6 months of 2009, around 43,000 homes were started, compared to an average of around 89,000 in the first 6 months of the period 2003 to 2007.

### Manufacturing and Distributive Trades

The improvement seen in construction markets during 2010 to date has been accompanied by increased output in UK manufacturing and also in wholesale and retail distribution.

**Table 2: Main Indicators – Manufacturing & Distribution**

	2009/2008	2010/2009 to Jun	2010 Note
Manufacturing Output	-10.5%	3.8%	UK 6 months 2010 vs 6 months 2009
Wholesale Output	-9.3%	3.4%	at Jun 2010 / Jun 2009
Retail Output	2.2%	4.1%	at Jun 2010 / Jun 2009

However, the severity of the recession and its aftermath can be seen by the falls in manufacturing output during 2009, down by 10.5% over 2008 on an annual basis, but recovery appears to have begun in the first 6 months of 2010.

The chart below illustrates the depth of the decline in manufacturing output in the UK and the extent of the recovery to date.

**Chart 2: Index of UK Manufacturing, 2000-2010**



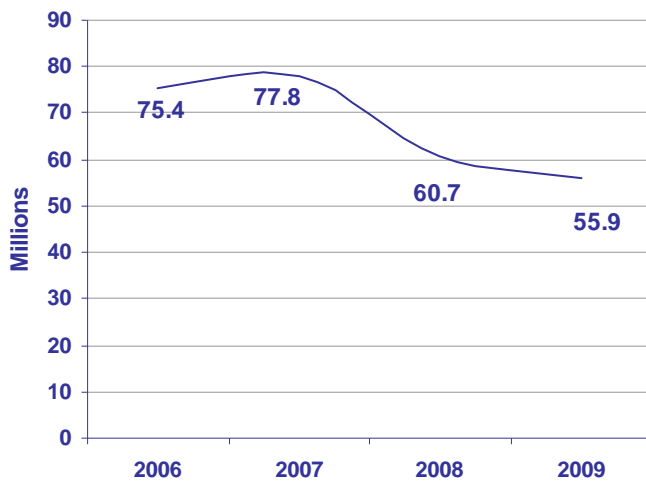
Source: Office for National Statistics (ONS)

The packaging and pallets market in the UK is heavily dependent upon the manufacturing, wholesale distribution and retail distribution industries and the downturn over the last two years has resulted in lower levels of output of packaging materials.

The number of pallets produced in the UK in 2009, according to the official statistics supplied by ProdCom through the Office for National Statistics, fell to just under 56 million.

From the recent peak in 2007, output on this basis was around 28% lower in 2009.

**Chart 3: UK Pallet Production 2006-2009**



Source: ProdCom

In the **pallets and packaging** markets, manufacturing output and consumer spending are important drivers of demand. As shown in chart 3, according to data from ProdCom, published by the Office for National Statistics, the number of pallets produced in the UK in



2009 fell to around 56 million from 61 million in 2008. These volumes of pallet production do not truly reflect manufacturing and recycling activity in this market however. During the recession and in the recovery period since, proportionately more recycling and re-use of packaging materials and pallets in particular has been carried out, as pallet buyers have looked to reduce costs. Recent research has revealed that the volume of pallets manufactured and recycled (repaired or re-manufactured and placed back on the market) in 2009 was nearer to 90 million than the total declared by ProdCom. A significantly higher volume of recycled pallets than newly manufactured pallets has necessitated the revision of the quantity of timber products used in pallet making and recycling. Less timber is used in recycling than in the manufacture of new pallets. The trend of lower levels of manufacturing and the shift towards greater recycling has been instrumental in lowering the level of softwood used in the pallets and (the broader) packaging market. The revised totals for 2008 are 1.52 million m<sup>3</sup> and for 2009, 1.38 million m<sup>3</sup>, a fall of 9%.

The demand for pallets and other packaging materials in 2010, as in other markets, has improved and pallet makers are reporting an increase in output in 2010 to date.

The **fencing and outdoor use markets**, such as decking, landscaping, garden products and motorway fencing have fared slightly better than many other markets during 2009 and it is estimated that 1 million m<sup>3</sup> of softwood was consumed by this collection of markets in 2009, which was around 8% lower than in 2008.

The second half of 2009 saw a substantial improvement over the very weak first 6 months for fencing manufacturers. This better demand has continued into 2010, but in common with many industries dependent upon retail demand, tax increases and cuts in Government expenditure are likely to scale back growth prospects.

Fencing for road maintenance, agricultural uses and publicly funded landscaping projects are expected to experience a downturn in demand as infrastructure projects especially become a prime target for cuts in expenditure.

The private domestic sector may perform better than the industrial and public sectors (including the social housing sector) as home improvements and essential maintenance consumes a higher share of disposable income.

The decking market continues to outperform virtually every other related sector. In 2009, according to the Timber Decking and Cladding Association, industry turnover was at similar levels as in 2008 and further improvement is expected in 2010. The decking market has been buoyed by sales into the leisure industry, especially to restaurants, cafes, bars and hotels to take advantage of the need to provide smoking areas following recent legislation.

Domestic decking may benefit from a similar stimulus as proposed for fencing products, although growth, if achieved is expected to only be moderate.

Decking generally has been more resilient to the recession than other sectors and the trend towards deck refurbishment and extension may continue and grow proportionately, compared to new decking installations.

## Energy Markets

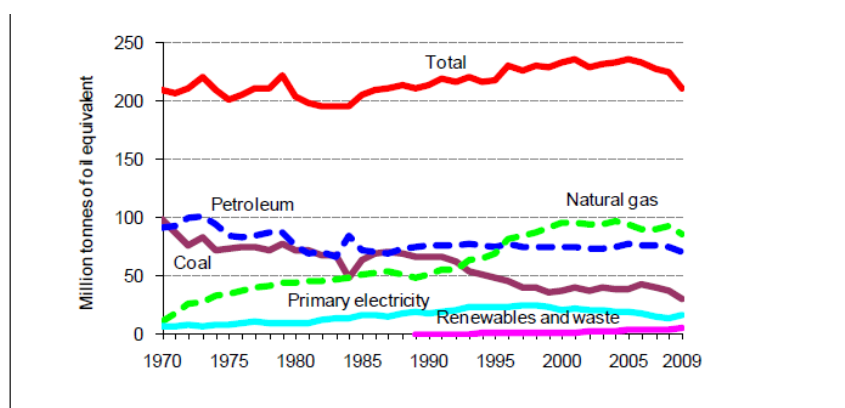
As reported in the UK Market statement for 2008, driven by the desire to reduce carbon emissions in electricity and energy generation, the development of renewables for energy markets, including timber products on a domestic and industrial scale was gathering momentum and acceleration occurred in 2009.

A wide variety of materials and processes are classified in the category of renewables (e.g. hydro, wind, animal bio-mass) including wood and wood waste.

Consumption of energy from renewables and waste continued to increase. Accounting for 0.3 per cent of all fuels consumed in 1990, consumption rose to 2.9 per cent in 2009.

This relatively small penetration into energy supply is shown in chart 4 below.

**Chart 4: Inland consumption of primary fuels and equivalents for energy use 1970 to 2009**



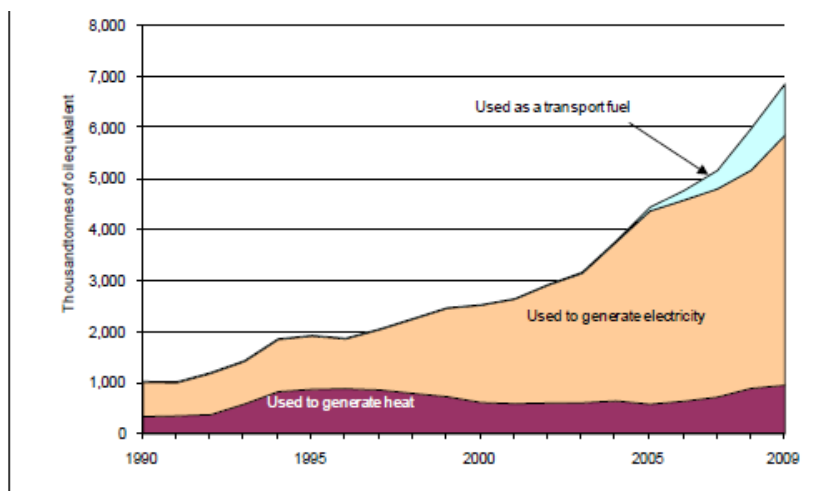
Source: Department for Energy and Climate Change (DECC)

Since 2000, the main contributors to the growth in electricity generated from renewables have been wind (+29 per cent a year on average), small scale hydro schemes (+12 per cent a year), landfill gas (+10 per cent a year), municipal solid waste (+7 per cent a year) and sewage sludge digestion (+6 per cent a year). Co-firing of biomass with fossil fuels was zero until 2002, but more than doubled each year between 2002 and 2005 before levelling off in 2006 and subsequently declined by an average of 12 per cent per year between 2006 and 2009. Between 2000 and 2008 the rate of growth in electricity generated from renewables averaged 11 per cent a year. This compares to a 17% rise in 2009 compared to 2008.

This growth in the use of renewables to generate electricity has outstripped the use of renewables used for heat generation, usually in combined heat and power plants.

This development over the last 20 years is shown in chart 5 below.

**Chart 5: Renewable sources used to generate electricity, heat and for transport, 1990 to 2009**



Source: Department for Energy and Climate Change (DECC)

The use of renewables to generate heat reached a peak in 1996 having more than doubled over the previous 6 years. Over the next five years the use of renewables for heat generation declined by a third, mainly because the use of industrial wood declined by over one-half, due to the introduction of more stringent emission controls. More recently there has been an increase in renewable heat, due to policy incentives, and since 2000 it increased at an average annual rate of 5 per cent.

The great majority of wood for energy markets is used to generate heat and in 2009, according to estimates by the Department for Energy and Climate Change (DECC), a total of around 540 thousand tonnes oil equivalent of wood was consumed, split between domestic combustion of 375 thousand tonnes oil equivalent and 165 thousand tonnes oil equivalent for industrial combustion. This combined total represents 60% of the total usage of bio-mass for heat generation in the UK in 2009.

Consumption of wood for energy use grew strongly in 2009 with estimates indicating that supply of forest-based products doubled, to around 2 million oven dry tonnes (odt).

The types of product within this category are industrial roundwood, wood chips, pellets, other sawmill products and recycled wood, mainly sold to industrial markets for the generation of heat and energy, while the majority of sales to the domestic market took the form of firewood.

At the beginning of the second decade of this century, the advance of other forms of renewable energy may impact the forestry industry in the UK. The policy to make greater use of trees to sequester and store carbon, as demonstrated by the remit of the “Wood Carbon Taskforce” (see page 18), may be affected by the removal of trees at new wind farm sites.

## 4. Developments in Forest Product Markets Sectors

### a) Wood Raw Materials (Softwood)

Removals of timber from UK forests are undertaken by the public sector, under the auspices of the Forestry Commission (in England, Wales and Scotland) and the Forest Service (in Northern Ireland) and by the private sector, as represented by the many private woodland owners and managers.

A generally rising trend of private sector softwood removals during the first decade of the 21<sup>st</sup> Century has, during the recession that commenced in 2008, been reversed and in 2008 and 2009, private sector removals have fallen whilst public sector removals have risen.

A fall in the total estimate of private sector removals in 2008 over 2007 of 8.1% was followed by a further fall in 2009 of 16.5%

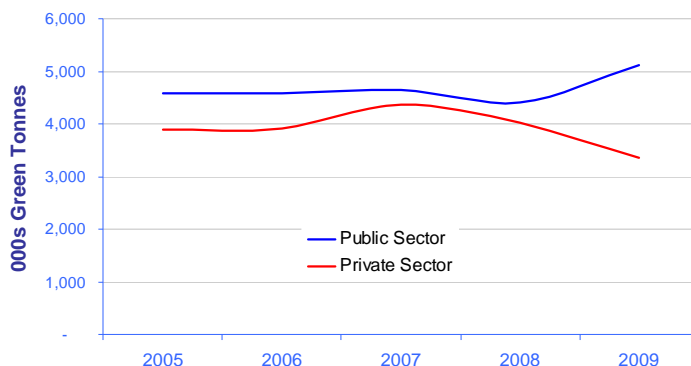
In 2008, at the deepest point of the recession, removals from publicly owned forest fell by 5.1%, but in 2009, as private sector removals continued to fall, public sector removals increased by 16.1%

The combined total of private and public sector softwood removals in 2009 was 8.48 million green tonnes, 0.6% higher than the total removed from UK forests in 2008.

One the main drivers behind these changes was the generally falling price of standing timber during 2008 and 2009 which discouraged many private owners from bringing product to market.

This switch in the source of supply from UK forests is shown in chart 6 below.

**Chart 6: Softwood Removals from UK Forests by the Private and Public Sectors, 2006-2009**



Source: Forestry Commission

A good proportion of the higher volumes extracted from forests were consumed by deliveries to UK sawmills, up by 4.0% to 5.2 million green tonnes and to woodfuel markets, a more than doubling of volume delivered of around 0.65 million green tonnes.

Some of the expert opinion for 2010 indicates that removals from UK forests will rise again, by around 10%, which if accurate, would yield a volume of around 9.3 million green tonnes of softwood, a volume 3% higher than the record year in 2007 when just over 9 million green tonnes were removed.

b) Wood Energy

The volume of UK grown softwood delivered to woodfuel markets in 2009 increased rapidly in 2009, with more than double the volume that was delivered in 2008. It was estimated that 650,000 green tonnes of softwood for woodfuel was delivered and including the 400,000 tonnes of hardwood for woodfuel, over a million tonnes of wood from UK forests were consumed directly for fuel.

These estimates include woodfuel from short rotation coppice, forest residues, arboricultural arisings and also includes wood for making charcoal.

To be added to these totals are sawmill products supplied for heat generation, such as wood chips and sawdust, in addition to recycled wood and an increasing volumes of wood pellets.

It is estimated that around 200,000 oven dry tonnes of imported woodfuels were consumed in 2009.

As mentioned earlier in this Statement, all of these products supplied for energy generation amounted to around 2 million oven dry tonnes in 2009.

c) Certified Forest Products

During 2009 and into 2010, there has been an increase in requests for PEFC accreditation from a number of timber and panel products customers. This has led to dual certification for Forestry Commission woodlands and, through forest management companies, some private woodlands also.

This development in certification has joined the growing proportion of sawmills holding chain of custody certificates which, in 2009 stood at 50% of the total responding to the question in industry surveys, up from 47% in 2008. The trend in the number of sawmills operating without certificates continues to decline. In 2006, 80 sawmills operated without chain of custody certificates; this fell to 73 in 2007 and fell again in 2008 to 59 and as seen in table 3 below, the number in 2009 was 54.

**Table 3: Chain of Custody Certificates, 2009**

	With certificates	Without certificates	Not reported	Total
<b>Sawmills</b>				
< 5,000m <sup>3</sup> sawnwood	10	48	71	129
> 5,000m <sup>3</sup> and < 25,000m <sup>3</sup> sawnwood	17	6	15	38
> 25,000m <sup>3</sup> sawnwood	26	0	3	29
<b>All sawmills</b>	<b>53</b>	<b>54</b>	<b>89</b>	<b>196</b>
<b>Round Fencing Manufacturers</b>	<b>15</b>	<b>19</b>	<b>33</b>	<b>67</b>

The larger sawmills account for the greater part of the volume of sawnwood produced in the UK (sawmills producing >10,000m<sup>3</sup> provide 92% of UK produced softwood) and virtually all possess chain of custody certificates. Many of the smaller sawmills (sawmills producing <10,000m<sup>3</sup> accounted for 73% of mills in the UK responding to the question by number in 2009) do not have certificates, however, the trend identified above confirms the increasing number of smaller sawmills embracing certification.

The positive development in the **numbers** and proportion of chain of custody certificates held in 2009 was matched by the **volume** and the proportion of roundwood and sawnwood certified in 2009.

As shown in table 4, there is a generally increasing trend in the proportion of certified volume consumed and produced by sawmills. It should be noted that the rise in the proportion of sawmill production that was certified in 2009 occurred on a rising level of sawnwood production. The tendency for the larger sawmill to carry a chain of custody certificate is confirmed by the 76% of all production that is certified as shown in table 4, compared to the 50% of mills responding to the question that hold certificates.

**Table 4: Percentage of Volume Certified, 2003-2009**

Year	Private Sector Removals (softwood)	Total removals (softwood)	Saw Consumption (softwood and hardwood)	mills Production (softwood and hardwood)	Round Fencing Manufacturers Consumption (softwood)
2003	54	81	67	50	36
2004	73	89	80	63	58
2005	69	86	76	71	53
2006	67	85	81	64	46
2007	74	87	78	65	54
2008	65	83	81	75	66
2009	68	87	82	76	55

Differences in the percentage of volume certified between years need to be viewed with caution as changes in demand for sawn goods from different markets - particularly from the larger mills - can alter the proportion of production that is certified from year to year.

d) Consumption of Timber and Panel Products in the UK

The year 2009 saw a further decline in the level of imports and a small fall also in the combined volumes of sawn goods and panel products produced in the UK.

Although exports were lower, UK consumption of timber and panel products fell once again in 2009. The total volume of these products consumed in the UK fell to just under 13 million m<sup>3</sup>, a fall of 10.3%.

e) Value-added Forest Products and Engineered Wood Products

The severe downturn in construction continued to erode the proportion of further processed (value-added) imports.

The decline in volume of further processed goods, such as planed, square-edged and finger-jointed softwood was greater than for sawn softwood, consequently, the share of

further processed goods, as a proportion of all sawn goods imported fell once more in 2009.

Data on the volume of further processed goods from UK producers is not available, however, the trends noted in the import sector are believed to be reflected in the domestic production sector also.

Further processed goods, as a proportion of all imported softwood reached a high-point in 2007 (at time of high levels of construction activity) of 30%, but this has since fallen back to 25% in 2009.

All planed and sawn softwood imports were around 11.5% lower in 2009 than in 2008, however, planed imports declined by 23% as sawn imports experienced an 8% fall

Consistent with lower volumes of softwood imported, manufactured, or engineered wood products are also thought to have declined by volume in 2009.

Sales data are not available for these products, but the downturn in construction, especially new work, the largest market for these goods continued to decline in 2009, indicating that sales of engineered wood products are also likely to have declined in 2009.

The development of modified wood products is also likely to have been retarded during the recession, however the number of different types of these products continues to expand.

#### f) Sawn Softwood

Softwood consumption in the UK in 2009 was lower by 6.8%, a relatively better than average performance compared to the 10.3% decline in consumption for all products, however, much of this was due to the slightly higher output of softwood goods from UK producers.

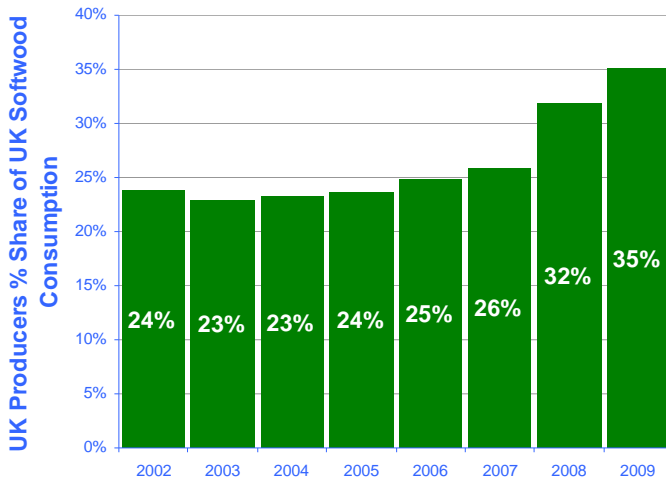
UK production of sawn softwood was 1.9% higher in 2009 as sawn softwood imports fell by 11.4%.

A generally weaker £ against the € and other currencies in 2009 contributed to rising import prices of softwood which in turn helped the competitiveness of UK produced softwood. Import substitution was a feature of the market in 2009 and it is believed that major gains in volume for UK producers - at the expense of imported goods - were made in the packaging and pallets and fencing and outdoor markets

Consequently, the market share of UK softwood producers rose in 2009 to stand at 35.3%.

The development of domestically produced softwood from 2002 is shown in chart 7 below.

**Chart 7: UK Producers Share of Softwood Consumption**



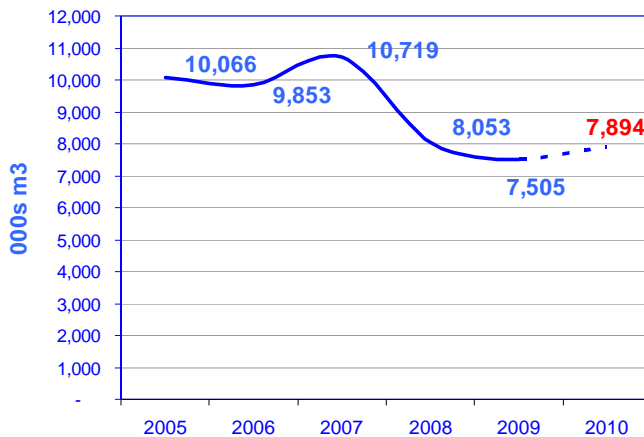
Source: Forestry Commission; Timber Trade Federation; *timbertrends*

The National Softwood Division of the Timber Trade Federation produce an estimate each year for the second half and a forecast for the following year. For 2010, the NSD predict that softwood import volume will be 4.95 million m<sup>3</sup>. This is an increase over 2009 of 1.8%.

A forecast for UK production for 2010, based on the advice of the Forestry Commission’s Expert Group on Timber and Trade Statistics, indicates that output will have increased in 2010 by approximately 10%, to a level close to 3.1 million m<sup>3</sup>.

For 2010, based on existing sentiment in the market for UK produced softwood and exports, plus the most recent NSD forecast, a projection of consumption for softwood in the UK to the end of 2010 can be made. This is given in the chart below.

**Chart 8: UK Sawn Softwood Consumption 2005-2009 & Forecast**



Source: Forestry Commission; Timber Trade Federation; *timbertrends*



Consumption is predicted to rise from the low-point of 2009 to a level of just under 7.9 million m<sup>3</sup> in 2010, an increase of 5.2%. Such an outcome would confirm a recovery in demand, albeit a relatively moderate recovery.

g) Sawn Hardwood

For the first time in over a decade, UK production of sawn hardwoods increased in 2009, to a level of 48,000m<sup>3</sup>. As with softwood consumption, the reason behind this increase is the substitution of imported hardwood in some user markets.

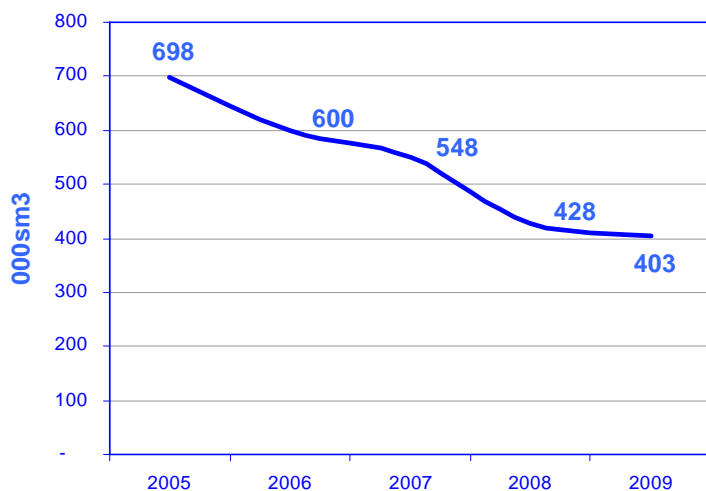
Hardwood imports have also been declining in recent years, falling from over 700,000m<sup>3</sup> in 2003 to just over 380,000m<sup>3</sup> in 2009.

Export volumes are relatively small, but did exhibit a sharp rise in 2009 to a level of 25,500m<sup>3</sup>.

The apparent consumption of hardwoods in the UK in 2009 fell by 5.6% to a level a little over 400,000m<sup>3</sup>.

The development of hardwood consumption since 2005 is shown in the chart below.

**Chart 9: UK Sawn Hardwood Consumption, 2005-2009**



Source: Forestry Commission; Timber Trade Federation; *timbertrends*

Forecasts for UK hardwood production for 2010 are based on the advice of the Forestry Commission's Expert Group on Timber and Trade Statistics.

h) Wood-based Panels

2009 was marked by reduced output reflecting the actions initiated in the fourth quarter of 2008 as a response to much lower levels of demand. UK panel production fell by 3.5% in 2009 compared to 2008.

The first half of 2010 has seen a steady improvement in demand although still much reduced compared to the highs of 2007.

Reduced shift patterns were operated by manufacturers during 2009 and due to the economic conditions the Particleboard plant operated by Spanboard in Northern Ireland closed. Since the beginning of 2010 there has been a steady increase in production across the sector.

Sales across all board types have improved during 2010 with Oriented Strand Board showing greatest improvement with manufacturing lead times extending to several weeks.

During 2009 and the first half of 2010, currency rates have acted as a restraint to imports which has benefited UK producers.

Whilst welcomed, market improvement is being viewed cautiously reflecting the mixed messages being drawn from key market indicators and there remain concerns that due to future national austerity measures that consumer confidence will reduce and there remains a risk that the UK could slip back into recession.

Rising energy costs and the increasing threat posed to wood supply from the subsidised biomass energy sector remain the biggest threats to future profitability.

**i) Pulp and Paper**

Consumption of wood pulp in the UK in 2009 was 1.17 million tonnes, a decrease of around 25% on the 2008 total.

This fall in consumption was driven by imports which were lower by nearly 29% to a level of just below 1 million tonnes.

UK pulp production fell slightly in 2009, by 6,000 tonnes to a level of 271,000 tonnes.

UK consumption of paper and paperboard fell by nearly a million tonnes in 2009 to a level of 10.4 million, a fall of 8%.

Production and exports were lower by 14% and 13% respectively and imports reduced by 5%. Production levels fell to 4.3 million tonnes, exports fell to 0.9 million tonnes and imports just exceeded 7 million tonnes in 2009.

**j) Carbon Markets in the Forest Sector**

It is believed that the Forestry Commission Woodland Carbon Code for carbon projects will generate new sources of funds for forestry in the future. Such guidance is expected to help provide the level of confidence required to convince potential investors that woodlands not only present a viable commercial opportunity, but also the ability to effectively sequester and store carbon.

The establishment of the Wood Carbon Taskforce in England should also stimulate new investment in forestry. This is part of the Forestry Commission's work to increase tree planting and woodland management in England. England is one of the least wooded

countries in Europe and over the past ten years woodland planting rates in England declined from about 5,000ha per year to about 2,000ha per year.

The work of the taskforce is to assist the forestry sector to grow and help cut carbon emissions, support new green jobs and provide many other benefits such as flood management, help wildlife cope with climate change and enable people to get involved in their local landscape. This activity will also help produce more timber and woodfuel.

The Woodland Carbon Task Force includes representation from business, civil society, and landowners and its remit, for currently a two year period, is to provide:

Assurance of carbon benefits:

- standards, such as the Woodland Carbon Code and carbon reporting frameworks that reflect the contribution of woodland creation to meeting carbon targets.

Finances for woodland creation:

- business models for private investments that complement public funding.

Policy that supports woodland creation:

- a policy position statement and spatial framework that supports woodland creation of the right tree in the right place.

Making woodfuel happen:

- critical elements of the Woodfuel Implementation Plan to promote supply and demand of woodfuel from lower quality material.

Unlocking land-use change:

- ensuring that all this results in land use change for woodland creation.

The work is focused on England but is considered to be relevant for all Great Britain. Further information can be found on the Forestry Commission website: <http://www.forestry.gov.uk/carboncode>

## 5. Tables

**UK Economic Indicators (% unless otherwise indicated)**

	2005	2006	2007	2008	2009	2010 (est)
<b>GDP growth<sup>1</sup> (at constant 2003 market prices)</b>	1.8	2.9	3.0	0.7	- 4.9	1.2 <sup>1</sup>
<b>Interest Rate (Base Rate at year end)</b>	4.5	5.0	5.0	2.0	0.5	0.5 <sup>2</sup>
<b>Consumer Price Index</b>	1.9	3.0	2.1	3.1	2.4	2.7 <sup>2</sup>
<b>Unemployment (ILO)</b>	4.8	5.5	5.2	6.3	7.8	8.1 <sup>3</sup>
<b>UK Housebuilding Starts (000s)</b>	227.2	230.5	216.8	140.5	106.8	133.0 <sup>4</sup>

<sup>1</sup>GDP growth is measured on a chained volume basis current year compared to previous year

<sup>2</sup>HM Treasury, Forecasts for the UK Economy: A Comparison of Independent Forecasts, July 2010

<sup>3</sup>Office for Budget responsibility

<sup>4</sup>*timbertrends*