



Adapting to global markets

Gerry Lawson MICFor and Gabriel Hemery MICFor look at globalisation's challenges for European and UK forestry.

Forest areas and productivities in Western Europe have expanded by 11 per cent and 30 per cent since 1950, but around 30 per cent less of the annual forest increment is exploited.

The UK imports 72 per cent of its timber needs, and cheap supplies from Eastern Europe reduced standing sale prices in 2005 to 25 per cent of their 1995 levels in real terms. Yet, in the past two years, prices have been recovering, and the annual return of UK forestry now averages around 3 per cent, with forestry contributing to 2.5 per cent of the UK GDP, according to a Centre for Economics and Business Research report.

Whether the extent and utilisation of UK and European timber resources will increase in coming years depends on a number of global and local factors.

Increasing utilisation in China

China has rapidly become the world's largest exporter of forest products (by value) and is the largest importer of both softwood and hardwood logs. Its imports are rising at 4 million m³ per year, with around 70 per cent coming from Russia (although much of this trade is unrecorded). Investments in Chinese mills and transportation have led to a huge expansion in value-added

processing, especially furniture, millwork and mouldings.

Over the last decade, China's furniture exports have grown at a rate of 34 per cent per year. Domestic consumption is also escalating, and is now equal to 75 per cent of production. European companies are faced with a rapidly changing marketplace: some are successful in profiting from investments in China and trading with China, while others that were not able to adapt have reduced revenues.

The complex Russian situation

Annual removals in Russia are 132 million m³ but the "allowable" annual cut is estimated as 564 million m³. Russia already provides 80 per cent of net imports of wood raw materials into Western Europe, and could swamp European production. Three factors mitigate against this however: a) inaccessibility – which reduces feasible cut to around 250 million m³,



b) increasing exports to China and c) the recent imposition of log export taxes – rising to 80 per cent (or a minimum of 50€/m³) by the end of 2008.

Roundwood from the tropics

Industrial roundwood production from plantations in the tropics (Africa, Asia-Pacific, Latin America and Caribbean) is already around 50 per cent of total production from these regions (322 million m³), and is having an increasing effect on world prices.

Expansion of wood energy

The EU has ambitious targets for woodfuel consumption in member states, but these appear unobtainable without significant impact on the environment and on existing wood-using industries. This can only drive up prices, and more so if methanol production from wood becomes profitable. The UK also faces a woody-biomass shortage, and five large biofuel power plants are planned or under-construction with a combined feedstock requirement of 1.5 million tonnes a year.

Carbon sequestration

Credits for carbon-sequestration are likely to emerge, indeed the European Parliament has mandated the Commission to devise mechanisms to include forestry in the EU Emissions Trading Scheme from 2008 onwards.

Zero carbon homes

Targets for low-energy housing, such as the Government aim for all new residential building to be “zero carbon” by the year 2016, should give a massive boost to wooden and wood-frame housing. This highlights a significant research need not just in low-energy construction but also into techniques of lifecycle energy analysis, carbon accounting and embodied energy analysis.

Yield opportunities

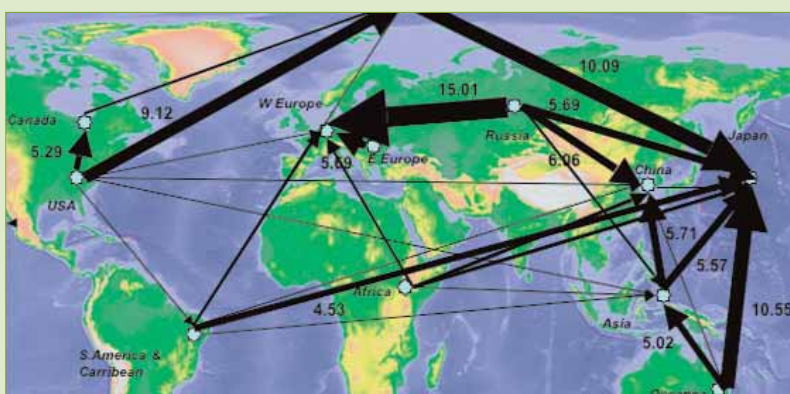
Climate change, farm forestry and CAP reform, all offer major opportunities for increased yields on better land and for revision of the species, provenances and systems used for timber and fuelwood production.

Thus, there are major environmental, energetic and financial reasons for expansion of the UK woodland resource – but a 40-year lag for this to be done. The report argues that increased planting subsidies may not be needed if farmland planted with trees is not excluded from Single Farm Payment (by long-term use of “stacking”, as in Ireland), and if support is given to wood-using industries, timber marketing data services, forest-environment payments and emissions trading schemes.

Domestic forestry policy therefore needs to respond to the great changes taking place in world timber markets, carbon trading, energy accounting, CAP reform, downstream employment and public perceptions of forests, and environmental benefits such as flood mitigation and biodiversity enhancement. Forestry delivers public good value of £1 per ha every day. Despite this non-market benefit, and the long-term opportunities, the financial profit to be made from forestry is currently insufficient, and the risk too great, to encourage owners to expand the national resource of woodlands. Public-sector incentives are required.

The full report **World timber trade and implementing sustainable forest management in the UK: Report to the Woodland Policy Group** can be found at: www.lupg.org.uk

The Centre for Economics and Business Research report for ConFor and the Forestry Commission, **The economic contribution of the forest industries to the UK economy**, can be found at: www.cebr.com



Main net flows of wood raw materials in 2000, in million m³ (FAO, “Trade and Sustainable Forest management - Impacts and Interactions”, 2006, Rome). Flows into Western Europe from the Russian Federation were 15.01 million m³, from Africa 2.03 million m³, from USA 0.30 million m³, Latin America & Caribbean 2.08 million m³ and Eastern Europe 5.69 million m³. Imports into China have grown rapidly since 2000, and in 2004 equalled those into Japan at 27 million m³, of which 18.9 million m³ came from the Russian Federation (UNECE/FAO Forest Products Trade Flow 2006).