

Measuring Timber Certification

INDUSTRY SECTOR: TIMBER IMPORTING & TRADING

NOVEMBER, 2006

A RISING AVAILABILITY OF CERTIFIED IMPORTS

Importation into the United Kingdom of timber and sheet materials has come under increasing scrutiny in recent years.

The need to ensure that these products originate from countries able to demonstrate responsible and ethical forestry and timber processing practises has become of paramount importance for suppliers and specifiers in the UK, and other countries alike.

It is also important to provide a balance in order to recognise that, *not all uncertified material derives from unsustainable sources.*

The majority of uncertified material that does enter the UK emanates from sustainable and well-managed sources where sound and long established forest management practises not only help local economies, but also ensure that forests, and increasingly plantations, are constantly renewed.



Nevertheless, despite this important qualification, certification under the schemes operated by PEFC, FSC, SFI, CSA and MTCC¹ is able to provide the increasingly required confidence that material has originated from sources where forestry practises are legal and sustainable.

In total, *in 2005*, the volume of timber and sheet materials imported amounted to just over 11.7 million cubic metres, of which approximately 11.5 million are featured in the quantification for this report.

From the results of the survey conducted to provide a measure of imported certified material available for sale in the UK, it is estimated that: *6.4 million cubic metres, or 55.8% of import volume is certified under the schemes named here.*

This report is concerned solely with the importing sector of the UK timber industry.

The importing sector is defined by the volume of timber and sheet materials that originate from non-UK countries and as usually purchased by: timber importers, timber merchants, builders merchants, other distributors and terminal operators (*integrated forest products companies with stock holdings and direct sales operations to merchants, importers and manufacturers in the UK*).

The measurement of volume and consequently the volumes of certified timber and sheet materials, is made at the point of entry to the UK, before onward sale to the supply chain.

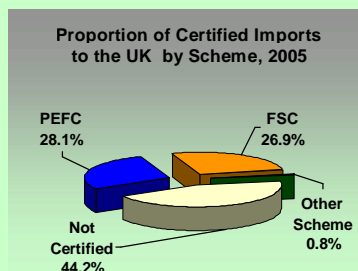
Purpose of this initial study to 'measure certified timber'

- To estimate the quantity of imported certified timber available for sale in the UK from recognised certification schemes.
- To determine, by certification scheme, the share of the volume of imported certified timber available for sale in the UK within the estimated total.

¹PEFC = Programme for the Endorsement of Forest Certification; FSC = Forest Stewardship Council; SFI = Sustainable Forestry Initiative; CSA = Canadian Standards Association; MTCC = Malaysian Timber Certification Council.

CERTIFIED VOLUME & SHARE BY SCHEME

Analysis from the research conducted among a selection of importing and trading companies has estimated that 55.8%, or more than 6.4 million cubic metres of imported timber and sheet materials were certified in 2005. By certification scheme, the share of imported material for FSC certified products was 27% in 2005; PEFC share was 28% and other schemes accounted for under 1%.



Further content of this report includes:

1. Availability of certified products (sawn softwood, sawn hardwood, plywood, OSB, particleboard and MDF) individually by certification scheme;
2. Characteristics and relative strength of each certification scheme by product;
3. Prospective growth of main certification scheme by product, 2006;
4. The specifically requested demand for certified products.;
5. Conclusions drawn and pointers to the future.

Availability of Certified Products

Sawn Softwood & Hardwood

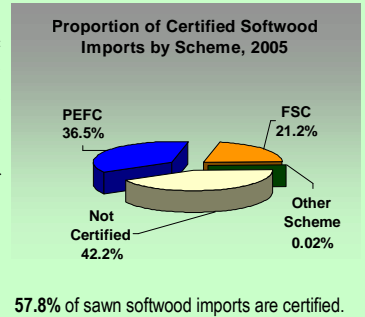
In 2005, a total of fifty four different countries exported softwood to the United Kingdom (UK). These countries accounted for around 7.6 million cubic metres of sawn softwood import volume in 2005 and through the research and analysis conducted for this report, it is estimated that nearly 58% of these imports were certified under one of the main recognised certification schemes as described on page 1.

A little over a third of imports (36.5%) was certified under the Programme for the Endorsement of Forest Certification (PEFC) scheme. The volume certified under the Forest Stewardship Council (FSC) scheme accounted for 21.2% of softwood import volume in 2005 and the combined total of sawn softwood volume certified under any of the other three main schemes was less than 1%. This left just over 42% of sawn softwood import volume without certification status in 2005, the bulk of which is spread across a large number of different exporting countries, including those where certification practises are well advanced. It would appear, therefore, that there is scope for the further growth of imported softwood certification.

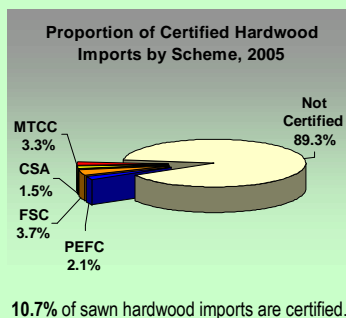
The greater proportion of PEFC certified material entering the UK is by virtue of the preponderance of imports from Scandinavian countries where PEFC has a greater share of certified forest cover than other schemes.

There are significant differences in the make-up of trading companies that comprise the 58% of imported certified material. From the sample of companies used for the research (which accounted for 44% of

all imports) there is a discernible difference in the proportion of certified softwood available from smaller firms (SMEs - small to medium sized enterprises). The proportion of certified material available from SMEs in 2005 was 45% of their total purchases, which is in contrast to the 76% of certified material available from larger suppliers, including the UK terminal operators.



57.8% of sawn softwood imports are certified.

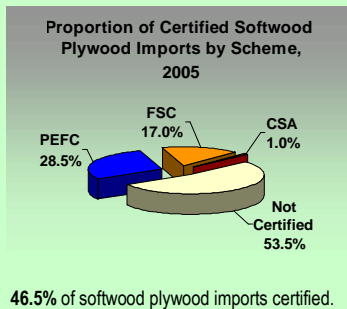


10.7% of sawn hardwood imports are certified.

A total 78 countries exported a large variety of hardwoods to the UK in 2005. Only 10.7% were certified, with FSC and the MTCC having similar shares. Although less significant, imports of hardwood are also certified under PEFC and the CSA, reflecting the greater diversity in the global supply of sawn hardwoods.

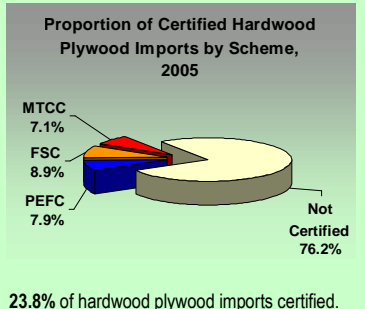
Plywood - Softwood & Hardwood

Almost double the proportion of imported softwood plywood is certified compared to hardwood plywood. The relatively high volume imported from Finland helps contribute to the higher incidence of PEFC certification over other schemes. There is less of a distinction between smaller and larger firms in the supply of plywood, but it is noteworthy that Scandinavian owned terminal operators offer a higher proportion of certified softwood plywood than the



46.5% of softwood plywood imports certified.

'traditional' and other importers. Europe, with its well-developed forestry industry and high incidence of certification, supplies nearly 40% of softwood plywood to the UK, but only 25% of hardwood plywood. This is one of the main reasons for the lower proportion of certified hardwood plywood goods entering the UK. With nearly a quarter of hardwood plywood imports certified, FSC, PEFC and MTCC hold roughly equal shares.

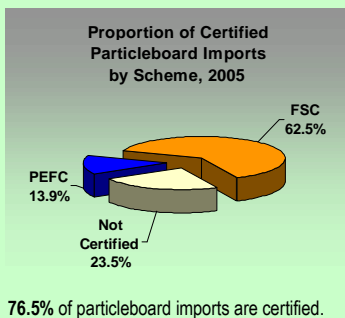


23.8% of hardwood plywood imports certified.

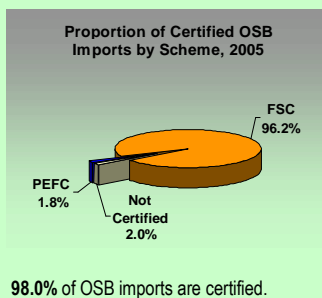
Particleboard, OSB & MDF

The great majority of particleboard, OSB and MDF imported to the UK is sourced from Europe. This, and the specific demands of larger customers for certified goods, especially in construction and furniture markets, has contributed to the high levels of certification of these goods compared to other imported timber products. FSC certification was once the only means of supplying certified goods, however more PEFC material is becoming available. FSC is the main certification scheme for OSB and MDF and for over 60% of imported

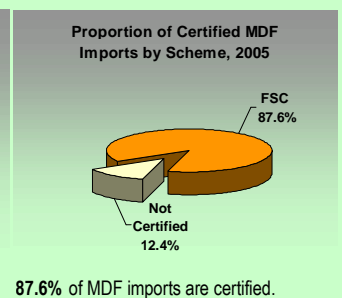
particleboard. Collectively, for all imported sheet materials featured in this report, the available certified volume is estimated to be around 2 million m³, which is 60.5% of the total 3.3 million m³ imported.



76.5% of particleboard imports are certified.



98.0% of OSB imports are certified.

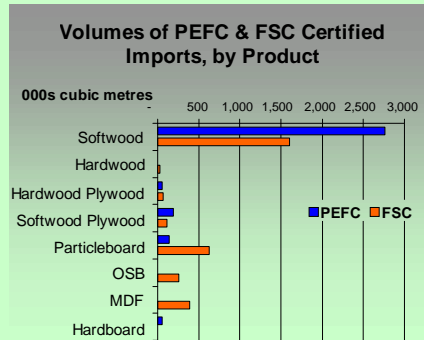


87.6% of MDF imports are certified.

Certification Schemes - Characteristics

Strength & Weaknesses

Comparing the two main certification schemes in the UK, PEFC had a marginally greater share of available volume at 28.1% of all imports, but FSC had the greater spread by product in 2005. The strength of PEFC lies with its dominant position in the supply of sawn softwood, but also has a leading position in the supply of softwood plywood. In most other product groups, FSC was the leading certification scheme by volume in 2005. The relatively small number of companies in the research sample has led to a slight understatement of the size of the other three schemes in operation in the UK. While the MTCC certification has been highlighted as



Certified import volumes, by product by main scheme.

significant in both the sawn hardwood and the hardwood plywood markets, there are probably slightly greater volumes of the SFI and CSA certified goods available than the research has identified. This would, however, make little difference to the overall volumes of certified material available in the UK in 2005 as determined through this report.

The product groups offering the greatest scope for the future development of certification for each of the main schemes, are sawn softwood, plywood and especially in the supply of sawn hardwood.

Certification Schemes - Projected Development

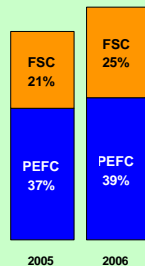
Growth by Product by Main Scheme, 2006

The research conducted for this report, during the autumn of 2006, attempted to determine the future direction of certification in the import sector. An overwhelming majority (88%) of respondents reported that the incidence of certification is likely to have increased in 2006. It should be noted however that total import volumes are likely to be lower in 2006 than in 2005, consequently, the available volume of certified material is also expected to be lower. The real measure of the development of certification is therefore not by absolute volume, but by the proportion of volume imported. The expected increase in the proportion of certified material in 2006 is not consistent across product groups however, nor by main scheme. Whilst figures for 2006 will not be available until later in 2007, the respondents to the certification research estimate that the proportion of certified softwood will have risen to 64% in 2006 from 58% in 2005. Both main schemes are expected to have improved their respective percentage coverage, but significantly, it is predicted that the strongest growth in 2006 will have been realised by FSC.

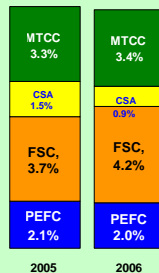
Proportionately less certified sawn hardwood (from a low level of 10.7%) is predicted to be available in 2006. Hardwoods comprise only 6% by volume of all products featured in this report with further falls in imports expected in 2006. The large fall in imports expected from the Baltic States will reduce temperate hardwood volumes in 2006, resulting in lower proportions of PEFC, but CSA certified goods also. As a consequence, FSC and MTCC schemes are likely to be seen to have improved their relative shares in 2006.

The proportion of certified softwood plywood for 2006 is likely to be similar to 2005, but the expected differences should reveal increased penetration by PEFC, but FSC and CSA are likely to have lost ground.

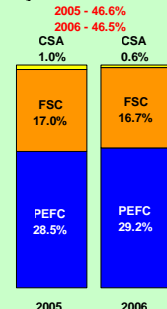
Change in Softwood Certification
2005 - 58%
2006 - 64%



Change in Hardwood Certification
2005 - 10.7%
2006 - 10.5%

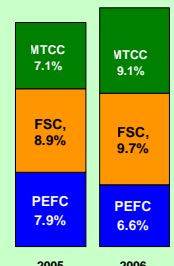


Change in Softwood Plywood Certification
2005 - 46.6%
2006 - 46.5%

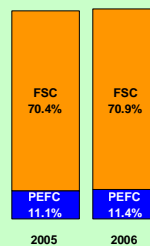


Certification of hardwood plywood is expected to have increased moderately in 2006, rising to just over a quarter of all imported volume. Reflecting the source of supply for this material, the proportions of MTCC and FSC certified goods will have driven this development as the PEFC percentage of certified goods is expected to have fallen back slightly in 2006.

Change in Hardwood Plywood Certification
2005 - 23.8%
2006 - 25.4%



Change in Other Sheet Material Certification
2005 - 81.5%
2006 - 82.3%

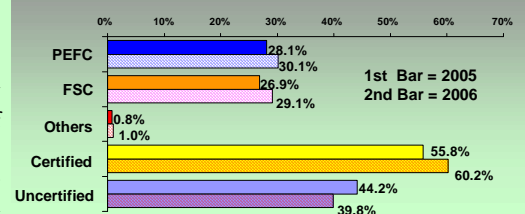


The proportion of other certified products - OSB, particleboard and MDF - was predicted to show an improvement in 2006. The probable percentage of certified material will have increased to over 82%. Both main schemes were expected to make marginal increases in their certification coverage, with FSC remaining dominant with a share of over 70% of the available certified material.

Growth by Scheme 2006

Combining the predicted change in certified volumes for all products featured here, it is likely that the proportion of available certified timber and sheet materials in 2006 will have climbed to just over 60% of the total of imported goods. As the percentage of uncertified material falls, (44.2% to 39.8%), each of the main schemes should benefit. Broadly, by the end of 2006, it is likely that FSC and PEFC will each be able to claim that they have supplied around 30% of the certified imported material available in the UK.

Change in Total Imported Certification, 2006/2005

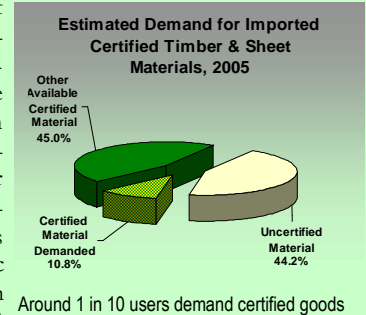


Market Demand for Certified Products

Customer Insistence

Care needs to be exercised in the interpretation of 'market demand'. Not all companies researched were able to quantify the certified volume that was specifically requested and different meanings of 'demand' exist; from selling goods where there is customer indifference to certification, to a strong insistence that goods must be certified. The estimated demand from the market provided here is also not a static view as some companies, especially the larger, indicate that demand - as defined by specific requests for certified material - is increasing rapidly. The figures presented here should therefore be regarded as the position at the end of 2005 and used purely as a benchmark in the continuing process of certification development in the UK. Goods 'sold as' certified are not necessarily an indication of the real level of demand and this research has attempted to uncover this specific customer requirement (insistence) on the supply of certified products.

Insistence on the supply of certified goods is more prevalent among the larger industrial user (e.g. timber frame manufacturers). Certification has yet to feature as an essential requirement among smaller companies where there appears to be a lower awareness and significantly, fewer public procurement processes in place. In 2005, it is estimated that of all imported goods, just over 10% were subject to specific customer request with the great majority of these goods supplied by the larger timber and panel supplier.

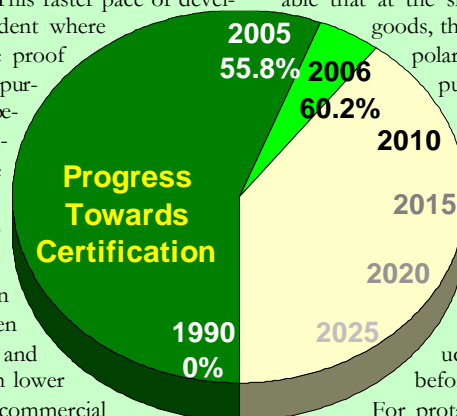


Conclusions

There is a detectable 'two-speed' development of imported certified timber and sheet materials. The research conducted for this report has determined that the most rapid adoption and participation in certification is taking place with larger timber and sheet material suppliers selling to the larger (industrial) user. This faster pace of development of the certification process is evident where there is a growing requirement to provide proof that products and raw materials have been purchased from certifiable sources. This is especially important in areas of public accountability and for those companies where there is an established corporate responsibility or environmental policy in place: features which are found more often in larger firms.

Until 2005, a slower rate of involvement in the purchasing of certified materials had been present with many of the smaller timber and sheet material suppliers; there being a much lower recognition among smaller suppliers of the commercial and societal pressures that certified materials are designed to address.

However, this research has also detected a rapid acceleration among some of these smaller suppliers in the purchasing of certified goods. But the view - among some smaller suppliers - that certification is an unnecessary cost and burden to business still prevails and it is probable that at the smaller supplier end of the market for imported goods, there will be a further 'two-speed' process or even a polarisation, where some companies quickly switch purchases to certified materials while others do not.



In 2005, the proportion of imported certified material was around 56% and is likely to have risen to 60% in 2006. Whether this rate of development continues will be determined in large part by the decision of many of the (still large number of) smaller firms to embrace or reject the process of certification. Only an estimated 1 in 10 of users currently demand certified products, suggesting that further proof may be necessary before many smaller companies embrace certification.

For protagonists of the process of certification, the next stage of development promises to be a period of great challenge.



timbertrends
Independent Industry Analyst

Avenida del Pino 270
Pinar de Campoverde
Pilar de la Horadada
03191, Alicante
Spain

Phone: + 34 966 762 988
Fax: + 34 966 762 988
Email: info@timbertrends.net

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