# Changing International Markets for Timber – What African Producers Can do?

## Market Report Draft – Germany

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### Market Overview

Demand for wood in Germany is closely tied to events in the German construction and furniture sector. Although both sectors have suffered badly during the recent economic downturn in the country, Germany continues to be a very large buyer of hardwood products. In 2004 Germany imported hardwood primary wood products with total value of 858 million euro, of which 192 million euro comprised tropical hardwoods. Of the tropical hardwoods, 76.3 million euros derived from African countries. In terms of value, African countries supply Germany with around 90% of tropical hardwood log imports, 33% of tropical hardwood sawn imports, and 76% of tropical hardwood veneer imports. Only a very small proportion of Germany's plywood imports derive from tropical countries.

In short, Germany mainly sources African hardwood logs from Cameroon (44%) and Gabon (29%) sawn lumber from Ghana (53%) and Cameroon (33%); and veneer from Ivory Coast (77%) and Ghana (18%).

Germany's import of tropical timber has fallen dramatically over the last 30 years. Germany used to be one of the largest importers of tropical timber in Europe, in value terms. Today, Germany's import, expressed in cbm R.E., of timber, combining logs, sawn timber, machined, laminated, veneer and plywood, consists of: Softwood – 83%; Temperate hardwood – 11% and Tropical Hardwood – 6%. Germany now consumes 12 cbm rwe tropical timber per year, per million inhabitants. This compares with 32 cbm rwe per million inhabitants in France.

### Trade with Africa

Germany enjoys a long and close relationship with Ghana. One of the main producers in Ghana, GAP, is a German company, and Germany remains the No. 1 import destination of Ghanaian timber. The main species imported are Wawa, niangon, sapeli, sipo, and koto.

The larger importer distributors and the larger manufacturers import direct from the producers in Ghana. Agents continue to play a role, notably in the wawa trade between smaller Ghanaian producers and German manufacturers.

The German Feldmeyer/Tropical Timber Group is one of the leading producers of timber in Congo Brazzaville, distributing timber in Germany through their own organization. This company expects to obtain FSC Certification in 2005. The main species imported from Congo Brazzaville are Sapeli, Sipo, Wenge, Aniegré, and iroko. The trade is conducted mainly direct between producer/exporters and importer/distributors.

The trade relationships with Cameroon are also old and well established. The main species exported are Sapeli, sipo, Aniegré, iroko, ayous, doussié. The trade is conducted mainly directly between the producer/exporters and the importer/distributors.

Germany imports mainly logs from Gabon, principally okoumé and other veneer logs. The trade is for the most part direct between exporters and user factories.

### Structure of Trade and Trends

Traditionally Germany has been the world's dominant veneer producer. This influence has been waning in recent years as veneer manufacturers have been shifting into Eastern Europe to benefit from cost advantages and in response to the shifting location of major customers in the furniture sector. Nevertheless, German veneer producers continue to import large quantities of high value African hardwood veneer logs.

Much African hardwood imported into Germany is ultimately destined for the furniture sector. This sector is currently consolidating in response to the economic downturn in Germany and rising levels of competition from Eastern Europe and East Asia. The number of furniture manufacturing companies in Germany fell by 3.2 percent to 1,339 companies between 2001 and 2002. A significant number of German furniture companies have relocated production facilities to Eastern Europe, notably Poland because of significant cost advantages. However more recently there have been signs of improvement. Furniture industry sales were marginally up in 2004, boosted by improved export performance. The German furniture industry continues to absorb volumes of higher value African hardwood species including wenge, sipo, and sapele.

Germany's flooring and window sectors are other key markets for African wood products. Despite very sluggish construction activity, in 2003 Germany remained the largest EU market for hardwood parquet flooring absorbing 23 million $m^2$. The country is also Europe's second largest producer of this product (after Sweden) with output of close to 13 million $m^2$ in 2003. While German flooring consumption is focused on lighter species, notably oak and beech, small volumes of darker tropical woods are also used. Some flooring experts claim that demand for dark colour flooring in combination with light colour species is increasing.

German demand for wooden window frames has been falling in response to the slowdown in construction activity and increased replacement by plastic frames. Production of window units has been steadily falling from 25.5 million window units in 1995 to 12.9 million units in 2004 and a forecast of 12.4 million units for 2005. The share of wood in the window production keeps falling, in

2004 21.4%, in 2005 only 20.8% is expected, while PVC is growing to more than 55%.

The predominant wood species for wooden windows is dark red meranti – often used in laminate form - followed by European pine. However sapele occupies a small share of the market.

In addition to supplying the domestic construction, joinery and furniture manufacturing sectors, German importers are significant for the role they play in supplying African wood products into Eastern Europe, notably Poland.

*Consumer taste*

In recent years, there has been a general change in consumer taste from dark Mahogany type timbers to lighter wood, mainly oak and other temperate hardwoods, in addition to softwoods. This has therefore resulted in a fall in the consumption of tropical timber.

With regards to the very modest volume of tropical timber still being imported, German consumers tend to be species loyal and there is very little inter-species substitution. In comparison there is a continuing trend to substitute tropical hardwood by temperate hardwood and softwood.

The only increase in consumption of tropical hardwoods in Germany is in decking products, with practically all hardwood originating in Indonesia and very little from Africa.

**Market and Environmental Initiatives**

Germany has been a centre of environmental campaigning in relation to forests since the 1980s. The green movement in Germany has a very high political profile with the green party currently sharing power as the junior coalition partner with the ruling Social Democratic party (SPD).

Demand for certified wood products has also been heavily influenced by Germany's domestic forest owners, which form a key political lobby group and which have been at the forefront of development of the Program for Endorsement of Forest Certification (PEFC).

During the 1980s forest related campaigns focused on tropical hardwoods, with an emphasis on banning trade in these species. Pressure tactics were used to cause many large retailers in Germany, such as OBI, to stop selling tropical woods and wood products. Several state and municipal procurement policies also were changed at this time to ban the purchase of tropical woods.

With the emergence of the FSC, focus shifted from an emphasis on tropical hardwood bans to the promotion of sustainable practices. A WWF German buyers group (*Gruppe 98)* was set up in 1997 as a means of focusing and identifying market support for the FSC. This group has remained focused on the large retailing sector, with OBI probably the most prominent member from the perspective of the wood industry. In 2002, the terms of membership of the group were amended from a communication forum to a group where member companies now have to make specific commitments to ensure that timber from illegal or controversial sources is excluded.

Meanwhile, in response to growing demand for certified wood products, German forest owners associations became inaugural members of PEFC in 1999. In the five years since its inception, PEFC has succeeded in establishing a broad base of support in Germany among state, community, and private forest landowners, and has made increasing efforts to gain support from further down the supply chain. A high proportion of the domestic timber industry is now PEFC chain of custody certified and offering PEFC certified product.

There has been strong political support for FSC certification from Germany's Federal Ministry of Environment. In October 2002, Germany's SPD and the Green party completed a coalition pact to guide the course of government for the next four years. Under the section on nature and biodiversity, the agreement states that federally owned forests will be managed sustainably and will be certified to FSC standards. Furthermore, the Federal Government will only purchase FSC-certified tropical timber. By the end of 2006, all tropical timber purchased by the Government must be FSC certified. Following a legal challenge, the Government has dropped the exclusive commitment to FSC and broadened it to include other certification schemes, such as PEFC.

At the beginning of 2005, negotiations towards a Federal government timber procurement policy acceptable to all parties were still on-going. A recent report suggest that the new policy may favour independently certified products and include a set of criteria for assessment of forest certification schemes as is the case for the UK Public Procurement Policy.

Many local government authorities have acted on their own initiative to implement timber procurement policies. Around 400 local authorities in Germany – including several representing large German cities such as Cologne, Bonn, Berlin, Hamburg, Bremen, and Munich – are members of the "Climate Alliance". While the main aim of this alliance is to minimize greenhouse emissions, its manifesto includes a policy commitment to purchase only FSC certified wood products from the tropics.

There have been other developments in recent months. The German Federal Ministry of Environment has just issued a draft "Law on Pristine Forests" which aims to protect natural forests, not only in Germany but also overseas. If the law comes into force, it will place legal obligations on German timber importers to verify that timber imported into the country does not derive from "Pristine Forests". This law is politically contentious in Germany, with the leading trade and industry associations suggesting that it is impractical and that the definition of "Pristine Forest" is unreliable. While passage of the law is still in doubt, the existence of draft legislation is a clear indication of the pressure on the trade to provide reliable assurances that timber derives from legal and sustainable sources.

Until recently, the main role of the leading timber industry association in Germany, BD Holz, in the environmental debate was to provide information. The organsation had no mandate from its membership to develop environmental codes of conduct. However, in another sign of the pressure now on the industry to demonstrate positive action in this area, BD Holz published a first draft code of conduct on environmental timber procurement in March 2005.