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SYPAL Commission FNB de la palette bois

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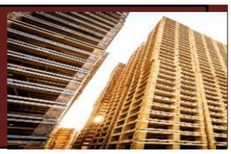

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Prices of sawn timber for pallets on the rise: Pallet sales prices adjusted

The price of sawn timber for pallet production has been increasing since the start of the year in France and in other European countries. A combination of various major factors accounts for this increase. Wood makes up 70 to 75% of the production cost of a pallet, so it is inevitable that pallet sales prices be adjusted, in keeping with economic factors. The wooden pallet cannot escape the changing economic environment and cannot retain price rigidity alone, which in the long run will endanger a whole economic area in the wood sector.

Strong demand for wood and sawn timber

The economic recovery has gained pace in France and in Western Europe, and global trade is picking up, which generally is leading to an increase of the demand for sawn timber and also impacts the wood market and the upstream forestry sector. The purchase price in the forest depends on the destination and the usage of the log grades. The economic environment and its likely short-term trends are important factors in the formation of prices and demand. The prices of coniferous timber are directly correlated with the construction industry, which showed clear signs of recovery in 2016 which should be felt in the wood sector during 2017.

✓ A growing construction sector

Construction is the main market for wood (70% of timber, with two large consumers: family homes and renovation); construction starts are clearly rising compared to 2015/2016, indicating a strong and sustainable dynamic sector, as the French economy's growth is recovering.

France, currently ranking third of the European construction markets with a volume of 204.33 billion euros in 2016, will probably be one of the main drivers of growth over the next three years. Total construction production in France is estimated to have increased from 2.4% in 2016 and is projected to reach 3.6% in 2017[1].

✓ The pallet market is making headway

The pallet market in France, like in the other main European countries, is trending upwards; a sign of an economic recovery and good performance on some user markets. Proof of this: manufacturing output consolidated in the first quarter of 2017 with an increase of 1% in the fourth quarter of 2016[2].

[1] *Summary of European sawmilling industries in 2016 and forecast for 2017 and 2018*

[2] *Quarterly bulletin on the industrial climate – June 2017 – Ministry for the Economy and Finance*

By way of illustration: for the EPAL pallet, a valuable indicator of market performance, the number of EPAL pallets produced in the first and second quarters of 2017 increased by +10% compared to the previous year period. In total, 42.5 million EPAL Euro pallets were manufactured around the world in the first six months of 2017.

In addition, repairs recorded increases of +11.5% with 13.7 million EPAL pallets repaired in the first half of 2017[3].

✓ **Windfall effects continue**

France was affected by the storms of 1999 and 2009 which left a lasting mark on forests, mainly because of windfall and the difficulty of quickly rebuilding wood reserves in forests affected, particularly the Landes Forest (in the Southwest of France) with maritime pine. In January 2009, due to Storm Klaus, 43 million cubic metres of wood was uprooted or broken, that is 5.4 years of harvest in Aquitaine, or a third of the standing reserves.

The High Council for Food, Agriculture and Rural Areas or CGAAER[4], part of the Ministry for Agriculture, confirmed that pressures were building at the heart of the forest and wood sector in Aquitaine where the price of wood in forests has increased by more than 35% in two years. The CGAAER estimate that the potential annual demand for maritime pine wood could exceed the supply of 1 to 1.5 million cubic metres over the next ten years. The shortage is expected to be overcome with the start of production of reforestation planted after Storm Martin on 26 December 1999.

✓ **External trade of timber and sawmilling**

For several years, the demand for raw timber from China, and to a lesser extent for sawn timber, has been increasingly influencing the French wood market. As a reminder, China has been the largest global importer of coniferous logs for 15 years. This is due to the relative scarcity of local forestry resources which do not cover the demand for timber for the woodworking industry.

In the first half of 2017, import volumes of American softwood timber (coniferous) grew tenfold, as a result of penalties imposed on Canadian imports of softwood timber, according to Canadian Press's report. The impact of sanctions has made European products more competitive, because the USA is not in a position to produce enough to meet demand and thus depend on imports (stability of the US dollar compared to the euro).

Early indicators

Indices drawn up from representative statistical data from the industrial sector, allow a detailed and realistic economic vision of the market for pallet timber as such, three major indicators provide this insight.

- ***France***

According to CEEB[5] (Centre for the Forestry Economy Studies), the French pallet timber index (all species) increased by 2.4% over the last nine months, i.e. from 117.8 in September 2016 to 120.6 in June 2017. In addition the pallet timber of poplar wood increased by 4.6% in the same period.

The price of pallet timber has been progressively matching the price for logs since the start of the year. The indicator for the average sales price of standing wood in private forests (all species) is at its highest level since 2004 (with the exception of 2007).

- ***Germany***

The HPE index of the Federal Association for Wooden Packaging, Pallets and Export Packing (HPE e.V.) shows that in a period of nine consecutive months (September 2016 to June 2017) there was an increase of 3.8%,

[3] ***EPAL press release – 24 July 2017***

[4] ***The forest and wood sector in Aquitaine six years after Storm Klaus: situation and prospects – March 2016***

[5] ***CEEB: national price and indices – sawmilling and firewood – second quarter of 2017***

i.e. from 151.5 to 157.2 (base March 2005 = 100); it should be noted that 60% of this increase was in the second quarter of 2017 only (2.3% increase over three months). Such levels of increase were last seen in 2010.

In order to take account of these raw material price increases, at the beginning of July, some German pallet producers announced to the market that prices would increase by 20 to 30 euro cents per pallet for short-term contracts, particularly for EPAL pallets and CP pallets. In the upstream forestry sector, this corresponds to an increase in price equivalent to around EUR 7 to 10 per cubic metre for sawn timber since the beginning of 2017.

- ***The FEFPEB***

The European indicator for sawn timber for pallet production, FEFPEB, indicates strong growth in the pallet timber index for the United Kingdom, with an increase of 7% between September 2016 and March 2017. In a press release from April, TIMCOM (Timber Packaging and Pallet Confederation) stated that pallet timber had increased for five consecutive months and that was reflected in the pallet sales price on the UK market, which was rising.

Sawn timber, the heavyweight of manufacturing costs

Sawn timber takes top place in the manufacturing costs hierarchy for pallets, whatever the type; it accounts for approximately 70 to 75% of the total cost, way ahead of staffing costs, energy or blocks. Thus an increase in raw material prices of 5% should lead to an impact on the sales price of the product of about 3.5 to 4%.

It must be emphasised that pallet timber plays an important role on the sawn timber market in France. According to the I+C[6] study, in 2015 the pallet industry used 1,540,000m^3 of sawn timber, or 20.5% of national production.

An increase in the sales price of pallets

All the factors above show that raw materials are getting more expensive, and especially wood, due to growing global demand.

The President of the Pallet Commission of the FNB, Jean-Philippe GAUSSORGUES, points out that pallet producers have made significant productivity gains in the past few years and have absorbed some increases (not only for wood raw material) in order to keep sales prices at a low level. According to him, from now on sales prices must be adjusted to levels that are consistent with those of the raw materials.

The consequences of this price increase will also affect the repair market; the sales price of repaired pallets adjusting always to increases as well as to decreases in the price of new pallets. In conclusion, M Gaussorgues notes that this press release was drafted in complete transparency to address the legitimate information needs of buyers/users of pallets.

About the Pallet Commission

In 2014 SYPAL (association for the pallet industry and services) became the Commission for trade and services of the wooden pallet as part of the FNB (French National Wood Federation), grouping together the main players in the production of pallets and large wooden crates in France, as well as specialist sawmills, repairers, rental professionals and workflow management systems, and associated members directly involved in manufacturing pallets.

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[6] ***I+C structural study: pallets, box pallets, industrial packaging, light packaging.***