

UNECE TIMBER COMMITTEE – DECEMBER 2013

UK Timber Market Statement

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

GDP Growth

Gross Domestic Product (GDP) is estimated to have risen in 2013 Q1 and Q2 according to data released by the Office for National Statistics (ONS), with indications that an economic recovery may be underway. However, GDP still lies below its peak prior to the 2008/9 recession. ONS data suggest that the recovery from the 2008/9 recession has been markedly weaker than previous recessions and output is unlikely to surpass its pre-recession level until 2015.

Recent growth figures from the ONS show GDP to have risen by 0.3% in 2013 Q1 and by 0.7% in 2013 Q2. ONS data for 2013 Q2 showed that for the first time since the 2008/9 recession all three major sectors (production, construction and services) of the economy were in growth at the same time although an imbalance in strength between services and production/construction remains. The recent GDP figures mean the economy has now recouped half of the output lost in the 2008/9 recession. The International Monetary Fund (IMF) currently estimates GDP growth for the UK of 0.9% in 2013 and 1.5% in 2014.

The quarterly development of GDP over the last six years is shown in chart 1.

Chart 1: Gross Domestic Product Growth by Quarter, 2007-2013



Source: Office for National Statistics

The Bank of England's (BoE) quarterly report in mid-2013 has suggested that the mood of the economy is slowly shifting. Business surveys and reports from bank agents point to a stronger near term outlook than earlier this year. However, concerns do remain over exceptionally weak levels of productivity which have fallen back to 2005 levels. The BoE indicate that this may be a direct consequence of weak demand that will unwind as the economy recovers but could also be a result of other restraining factors such as the need for resources to be reallocated across the economy. The responsiveness of effective

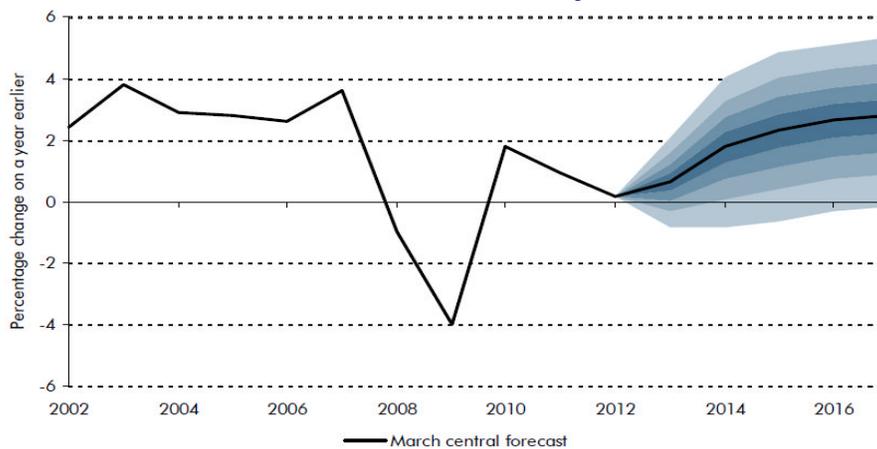
supply capacity to a pick up in demand is a key uncertainty in this current period of apparent recovery.

Growth in the Eurozone, the UK's most important trading partner, was positive in Q2 2013, ending 18 months of recession with Germany, France and Portugal reporting significant growth of 0.7%, 0.5% and 1.1% respectively. Whilst UK export markets remain relatively weak, sustained growth in the Eurozone could present significant boosts to the UK economy through increased trade opportunities.

The Office for Budget Responsibility (OBR) published growth forecasts in March this year, predicting growth of 0.6% in 2013 and 1.8% in 2014, although it is important to note that there have been improvements in the economic outlook since March and these forecasts may be subject to revision. The OBR highlighted weak export markets and weak household consumption due to sluggish disposable income growth as constraining factors for the economic outlook. Growth is not expected to return to above trend rates until 2015 by which time credit conditions are predicted to normalise and real wages and productivity levels will also begin to recover.

Growth projections are demonstrated by the wide band of future possibilities in the chart below.

Chart 2: Gross Domestic Product Growth by Year, 2002-2016



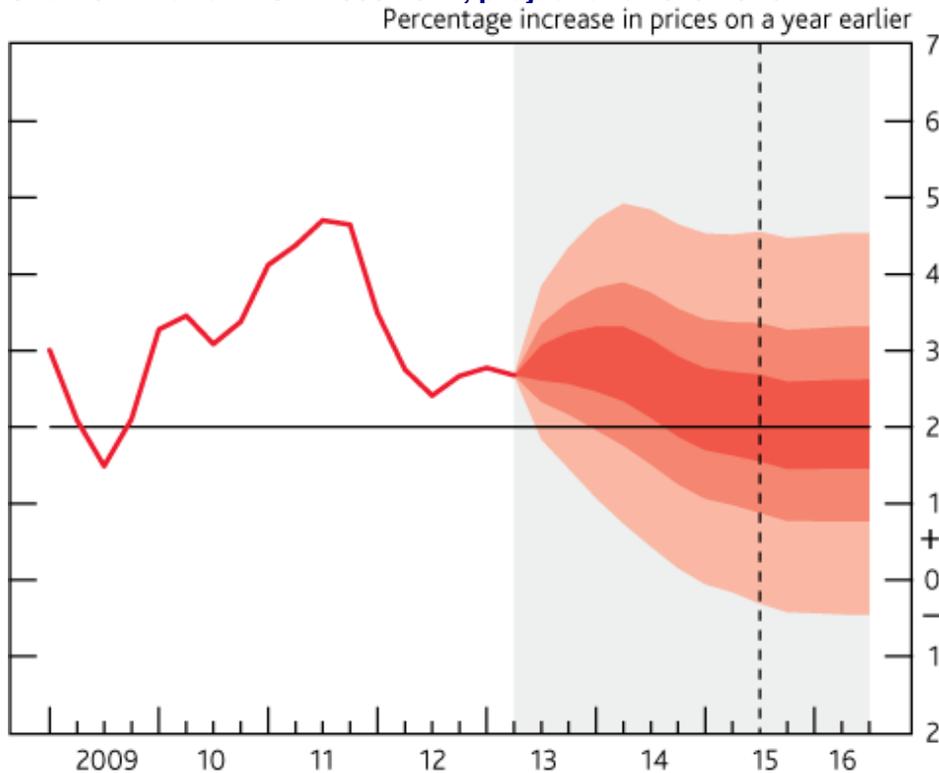
Source: ONS, OBR

Inflation

The Consumer Price Index (CPI) of annual inflation, which measures a 'typical' basket of household goods, stood at 2.8% in July 2013, down from 2.9% in June 2013, and looks set to remain around that level in the short term. CPI has been above the 2% target for inflation for nearly four years although has fallen from a peak of 5.6% in September 2011. According to the BoEs quarterly inflation report, inflation is estimated to fall to, and be perhaps a little below, the Government target within the next 2 years as shown by the darkest shading in chart 3 below. The outlook for inflation remains highly uncertain and the BoE has highlighted four key factors that will determine the path of inflation, as well as growth. These are:

- i. international initiatives sustaining a gradual global recovery,
- ii. recovery of household and business spending as the impacts of the financial crisis gradually fade
- iii. the stronger outlook for demand being matched by an increase in effective supply, and
- iv. a revival in productivity growth.

Chart 3: Inflation - CPI 2008-2012, projections 2013-2016



Source: Office for National Statistics

The RPIJ - a wider measure of inflation that includes housing costs and an improved variant of the Retail Prices Index (RPI) - stood at 3.1% in July 2013, down from 3.3% in June. The ONS started producing the RPIJ in February 2013. The improved method uses a geometric, rather than arithmetic, mean, in order to meet international standards, known as the Jevons index.

The Monetary Policy Committee (MPC) of the BoE voted 8-1 in favour of issuing forward guidance at its August 2013 meeting. The forward guidance stipulated that the MPC will maintain the base rate at 0.5% whilst unemployment, as estimated by the Labour Force Survey (LFS), remains above 7%, but would remain open to further asset purchases, known as Quantitative Easing (QE), if warranted. The BoE has direct control over short term interest rates only, however forward guidance allows the BoE to influence long term interest rates by increasing certainty and confidence; for example by encouraging mortgage lenders to offer longer term mortgage deals at lower interest rates. The UK is not the first country to issue forward guidance. The new BoE governor, Mark Carney, issued forward guidance at Canada's central bank in 2009 and it has been used by both the US Federal Reserve and the European Central Bank.

Following the guidance the MPC subsequently voted unanimously in favour of maintaining interest rates at 0.5%. The base rate has remained unchanged since it was reduced to 0.5% in March 2009. The MPC also voted unanimously to maintain its Quantitative Easing (QE) programme at £375bn. 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. The most recent change to the size of the QE programme was an increase of £50bn to £375bn in July 2012.

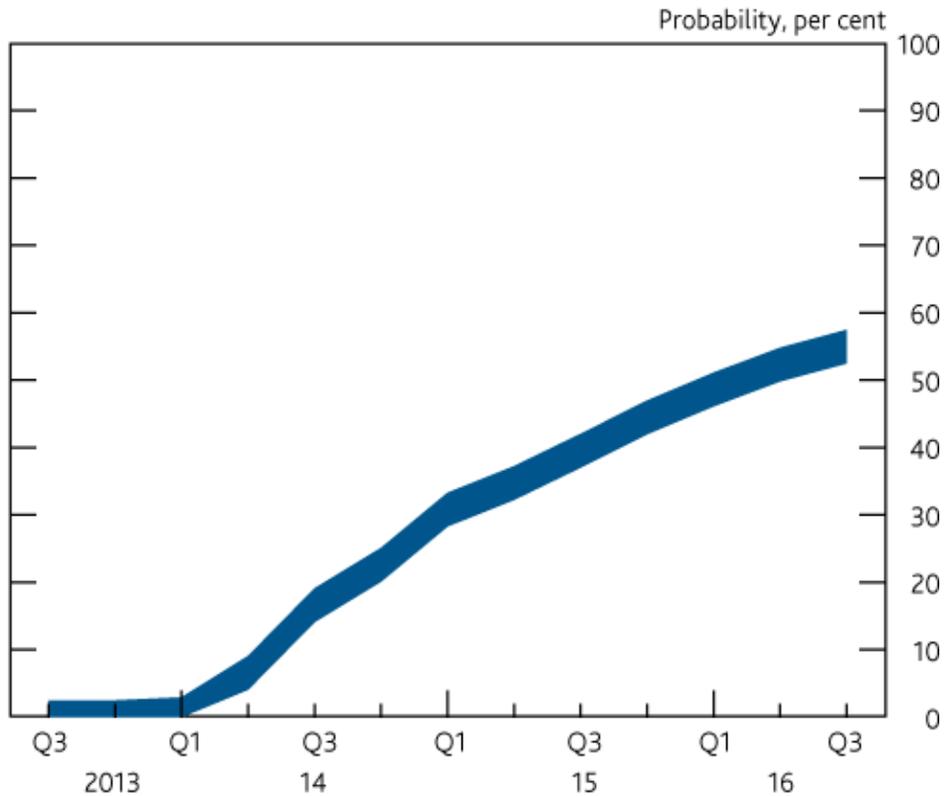
Employment

Given the forward guidance issued by the MPC, further reductions in unemployment will be of increased significance to the UK. The pace at which unemployment will fall over the current forecast period, until 2016, is highly uncertain as it depends on a combination of demand, labour force participation and productivity. The unemployment rate, as measured by the ONS, stood at 7.8% (2.51m people) in the three months to June 2013 and reducing this to 7% would require the creation of 750,000 additional jobs. There remains much uncertainty over when the 7% target is likely to be reached.

The employment *rate* stood at 71.5% in the three months to June, 0.1 percentage points higher than the three months to March and 0.4 percentage points higher than the same time last year. The employment *level* stood at 29.78m in the three months to June. Employment was more resilient after the 2008/9 recession than in previous recessions and there has been debate around why this unemployment did not increase further.

The chart below shows the cumulative probability that this unemployment will have fallen below the 7% threshold to 2016. The chart includes a 5% width to highlight the uncertainty in any quarter.

Chart 4: Cumulative probability that unemployment has fallen below 7%



In summary, there are signs that a recovery may be taking hold with continued improvements in employment figures, positive signs for inflation and two successive quarters of growth. The MPC has issued forward guidance relating to interest rates to maintain a highly stimulative stance on monetary policy. Although any recovery is likely to remain weak as the effects of the financial crisis take time to wear off the MPC hold the view that a sustained recovery now appears likely. There are a number of key factors which will play an important role in any recovery, the largest of which appears to be improvements in productivity levels which have currently fallen back to 2005 levels.

2. Policy Developments potentially affecting Trade in Wood Products

Update on the EU Timber Regulation and FLEGT

The EU Timber Regulation (EUTR) came into effect in March 2013. The Regulation requires those who first place timber on the market in the EU to have a due diligence system in place to minimise the risk of the timber being illegal. It also requires those who trade in timber to keep records and makes it an offence to sell timber that is illegal.

Both the EU Timber Regulation and the EU FLEGT Regulation support the UK government's continued commitment to promote sustainable forest management, support responsible timber procurement and tackle illegal logging. The "Competent Authority",

responsible for ensuring the EUTR is implemented in the UK is the National Measurements Office (NMO).

The two main sources of timber supply in the UK are from its own forests (15 – 20% of supply by volume) and from importation from the many countries of the world that export to the UK. The majority of imported wood products are sourced from the EU where legislation recognises that existing national systems, which fulfil the requirements, may be used as a basis for exercising due diligence. The Forestry Commission, the Northern Ireland Forest Service and Natural Resources Wales are the government bodies for forestry and the Timber Trade Federation represents the interests of importers and merchants. These 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, sustainable management to the UK Forestry Standard can be verified through approved forest plans or Felling Licences. To help woodland owners and managers address the requirements of the EUTR, an addendum to the felling licence has been developed which identifies the risk factors associated with domestic production. Independent certification, which is in place for about 85% of UK timber production, can be used to provide further assurances of responsible management.

For imported timber and wood-based products, the Timber Trade Federation (TTF) introduced a mandatory due diligence process known as the Responsible Purchasing Policy or RPP for members as part of its Environmental Code of Practice. The RPP provides a framework and set of management tools to help TTF members objectively and formally analyse the risk of products being from an illegal source of supply. Due diligence is conducted at product level, and products from risk managed sources are effectively screened out at an early stage and classified as negligible to low risk. This allows members to focus their resources on undertaking due diligence on products where risk is not formally managed, and to assign a risk assessment score (low to high risk) against that product.

The TTF system allows members to develop an overall risk profile of all products in their supply chain, allowing them to prioritise actions and resources on those products and suppliers where risk is highest, with the aim to improve their risk profile over time.

EU FLEGT Regulation and Imports

European COMMISSION REGULATION (EC) No 1024/2008 of 17 October 2008 “laying down detailed measures for the implementation of Council Regulation (EC) No 2173/2005 on the establishment of a FLEGT licensing scheme for imports of timber into the European Community” is now in force. Voluntary Partner Agreement (VPA) countries will be listed in the Annex of the regulation. The EU Timber Regulation also recognises that FLEGT-licensed timber will meet the requirements. This provides a strong incentive for timber exporting countries to agree Voluntary Partner Agreements (VPAs) with the EU.

Criteria for Sustainable Biomass

From April 2015, electricity generators using biomass will be required to demonstrate their fuel is sustainable if they are to benefit from financial support. This will apply to generators of 1 Megawatt (MW) capacity or more using solid biomass or biogas feedstock in order to claim support under the Renewables Obligation. This would cover around 98% of all biomass power generation in the UK.

The other 2% (those with a capacity between 50kW and 1MW) will be required to report against the criteria, but not to comply with it. Micro-generation, (under 50kW) are not included in the scope.

The sustainable forest management criteria will be based on the Government's UK Timber Procurement Policies and the UK Forestry Standard.

Plant Health Issues

Tree health is a top priority for Defra and the Forestry Commission (FC). The discovery of ash dieback (*Chalara fraxinea*) in established woodland in East Anglia was of great significance for plant health in 2012. Defra and the FC have increased their activities to deal with what we now know to be widespread infection of ash in the east and south east of Britain. Resources had to be diverted from normal surveillance activity in order to determine the extent of the disease in Britain and the extent of the efforts involved included one long weekend where the FC had 500 of its field staff out to survey every 10 km square across Britain.

While the *Phytophthora ramorum* infection of Japanese larch (*Larix kaempferi*) trees has to take second place to Chalara in media reporting, it remains the major plant health issue currently affecting the timber market in the UK. Although ash timber is recognised as one of the most valuable native hardwoods, unlike infected larch, the Government does not require felling of infected stands. It is anticipated that this will allow time for commercially valuable ash, both high quality timber and woodfuel, to be brought to market at a rate that does not adversely affect prices or the supply chains' ability to absorb it.

In response to concern raised by field observations in spring, the aerial surveys of larch were extended by flying 24,000 miles and surveying 79,000 hectares of larch stands. The wet summer in 2012 was conducive to the spread of *P. ramorum* and there has been a marked increase in the rate of spread in south Wales and south west Scotland. The disease has also spread in the south west of England, although not to the same extent as in Wales or Scotland as it is thought that progression is more rapid in large contiguous blocks of woodland.

As of September 2013, it is estimated that there were about 14,000 hectares of larch in infected or suspected infected stands which have been felled or have the disease in Britain. A further 1,000 ha is estimated to be infected in Northern Ireland. The rapid increase in the area of new sites of infection has meant that Scotland and Wales are prioritising statutory action on the leading edge of infection. In both countries the FC is working closely with the forest industry and tree health experts to assess the logistical, marketing and environmental implications of harvesting infected larch stands.

Biosecurity measures are still required to minimise the spread of infection in soil or on larch needles, people, vehicles, equipment and timber. There is a continuing need for measures to remain in place to allow logs from the infected trees to be taken to mills for conversion into timber. The FC is working with industry to explore opportunities to reduce the burden of some of these movement controls and to look at the efficacy of composting to achieve heat treatment of bark from infected larch stands.

In the 2012/13 growing season, further inspections of forestry nurseries were undertaken jointly with Forest Research, in order to ascertain whether any increase had taken place with the outbreak of Dothistroma Needle Blight of Pine. Four businesses with 16 stocks of Pine were infected. This was an improvement on the previous year where 7 nurseries (33 stocks) were found to have the disease. The number of outbreaks in 2013/14 is also expected to improve as a consequence of new integrated pest management regimes at nurseries.

The UK Government has announced new measures to protect trees and forests to help ensure their health and manage the risk posed to them from disease. These include the implementation of the recommendations of an independent Tree and Plant Health Biosecurity Expert Taskforce established to review the strategic approach to tree and plant health, and implementation of a Chalara management plan to slow the spread of the disease.

National Forest Inventory

The National Forest Inventory (NFI) is an on-going programme of work aimed at quantifying the size, distribution, composition and condition of forests and woodlands in Great Britain (GB).

The NFI has generated transparent estimates of the current conifer resource in Great Britain expressed in terms of timber, biomass and carbon. These estimates are broken down in a range of different ways including by species, geography, and timber assortment.

The purpose of the NFI is to provide the evidence base to develop and monitor the policies that guide sustainable forestry management in Great Britain.

The impact of different management scenarios on this growing stock and on timber production over the next 25 years has been quantified. This is a change to the historical approach which focussed on trying to predict the pattern of future timber removals without reference to growing stock changes and placed a heavy reliance on expert judgement.

A number of additional outputs and analyses will be delivered and published through the NFI programme over the period 2012 – 15, but some of the key findings are:

- The current GB conifer growing stock to 7cm top diameter (td) is 336 million cubic metres overbark standing (m3 obs). This is 20% more than previous estimates derived from National Inventory of Woodland and Trees (NIWT) data e.g. Global Forest Resources Assessment (FRA) 2010.
- Current annual increment of conifers across GB is 16.3 million m3 obs.

- Total (cumulative) coniferous timber production over the next 25 years is likely to be in the order of 350 million m³ obs. This is significantly more than previously forecast and, in part, reflects the new conifer growing stock estimate.
- A range of scenarios has been run to illustrate the impact of different management assumptions on both the timing and nature (timber assortments) of production.
- At GB and individual country levels, the current conifer growing stock may undergo a substantive (>10%) reduction by 2036; more work is needed to substantiate this.

Importantly, the 2012 NFI outputs mark the start (not the conclusion) of the new approach to informing the many wide-ranging components of forest policy. The main findings of the provisional statistics for Great Britain reveal that the area of woodland in Great Britain at 31 March 2010 was estimated to be 2,982 thousand hectares.

This was 13.0% of the total land area in Great Britain.

The estimate of 2,982 thousand hectares of woodland in Great Britain at 31 March 2010 was around 225 thousand hectares more than the previously published estimate for 2010.

Users of inventory data include the forestry and timber industries, organisations concerned with nature conservation, ecology and biodiversity, those working to protect our forests and woodlands from pests and diseases, government and non-government agencies formulating forestry policies, public and private investors in the countryside, and anyone interested in finding out more about Britain's forests and woodlands.

Forestry Policy in the United Kingdom

Forestry policy in the United Kingdom (UK) is devolved to the country administrations, and each country has a Minister with forestry in their portfolio.

The Forestry Commission is a non-Ministerial government department which provides cross border services to the devolved forestry administrations. These include research, plant health, and standards which support the development and implementation of forestry policy. It has a Memorandum of Understanding to provide these services to Wales and also co-operates closely with the Forest Service in Northern Ireland.

On 31 January 2013, the UK Government published its Forestry and Woodlands Policy Statement for England, incorporating the response to the Independent Panel on Forestry's final report. The UK Government is now taking forward delivery of the objectives of Forestry Commission England to protect, improve and expand England's forests and woodlands.

Across the UK changes in the wood supply/demand balance and an increase in the frequency and severity of pest and disease outbreaks have made it increasingly important that the uncertainty associated with forest resource estimates is quantified, and that resource estimates are current. Good progress on this has been made via the National Forest Inventory with outputs being utilised across the forest sector and by the Biosecurity Taskforce for risk assessment, preparedness and contingency planning.

3. Market Drivers

Construction, Manufacturing and Distributive Trades

Growth of the UK economy in 2012 remained weak. Output of the total of all UK production industries fell in 2012 by 2.4%. A component part of this total included “Wood and paper products and printing”, which was 6.3% lower in 2012.

UK manufacturing output was 1.5% lower and construction output in 2012 was lower than in 2011 by nearly 8%.

Housing starts in the UK in 2012 were 9.5% lower than in 2011 and the volume of repair, maintenance and improvement work in the housing sector (housing RMI) fell by over 3%. However, according to the Office for National Statistics, the value of output by manufacturers of wooden packaging and pallets rose by 13% in 2012. This is misleading as the data published by ONS for this market is currently under review.

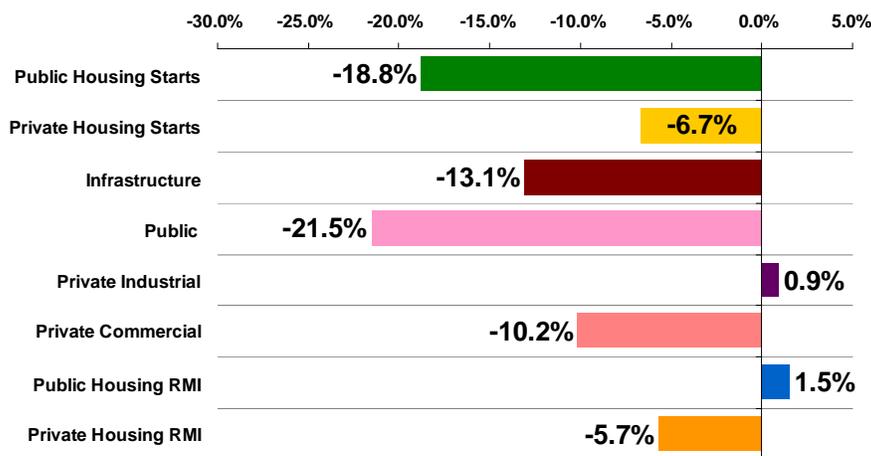
In summary, the most important markets for timber products in 2012 remained weak.

Construction

Recovery of construction output has been elusive. An 8% increase in construction output in 2010 suggested a recovery was taking place, especially when compared to a 3.5% fall in 2008 followed by a further, severe, fall of nearly 14% in output in 2009. However, construction output began to slow in 2011 and, year-on-year, 2011 ended just 2% higher than in 2010 with some sectors experiencing sharper lower output.

This weakness continued into 2012 and any hopes of a sustained recovery in construction were dashed with output of new work in the housing sectors, infrastructure, public works and private commercial work all substantially lower than in 2011. The extent of these reverses is shown in chart 5.

Chart 5: Construction Industry Sector Output, 2012/2011



Source: DCLG & Office for National Statistics (ONS)

NB: Housing starts, provided by the Department of Communities and Local Government (DCLG), are measured in numbers – all other sectors are measured at constant prices (2010).

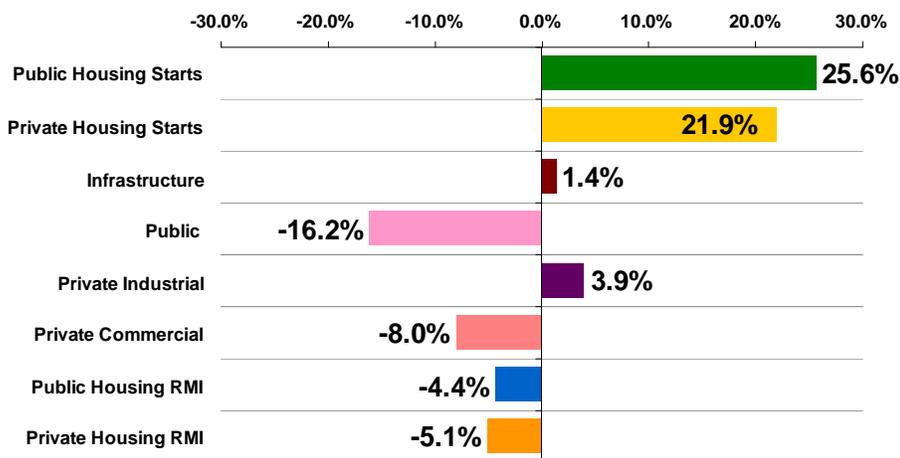
Only two sectors exhibited any growth in 2012 and this was meagre.

The output gap between the previous best year for construction output, 2007, and 2011 had closed to around 6% in 2011, but the worsening conditions in 2012 pushed the difference in output compared to 2007 back to 14%. The recovery in 2010 and part of 2011 had not been sustainable, Confidence among builders, developers and users was low; the economy appeared to be in danger of falling back into recession and the credit famine that had resulted from the banking crisis in 2008 continued.

Encouraging signs have appeared in 2013 however. In the first six months of 2013, although all construction output was 3.5% lower than for the same period in 2012, the trend among the various sectors indicated that output was rising.

This was being led by the housing sector and as shown in chart 6 below, housing starts in England (which accounts for around 80% of all starts in the UK) were higher by a substantial margin. The public housing sector, which has been subject to severe cutbacks in Government spending has ‘bounced-back’ and was growing faster than private sector starts in 2013.

Chart 6: Construction Industry Sector Output, 1st Half 2013/ 1st Half 2012



Source: DCLG & Office for National Statistics (ONS)

NB: Housing starts, provided by the Department of Communities and Local Government (DCLG), are measured in numbers – all other sectors are measured at constant prices (2010).

With the exception of repair, maintenance and improvement (RMI) activity in the public sector, all other sectors were showing improvements over 2012 with the declines in output or, in the case of new private industrial work, the increase in output, better than in 2012.

The important question of whether this improvement in 2013 can be maintained and if this improvement heralds the start of a sustainable recovery in construction will not be answered conclusively for a year or more, but with greater amounts of lending for home purchase becoming available and further lending for small and medium size enterprises also easing, the financial obstacle to recovery would appear to have been removed.

The Construction Products Association forecasts point to further growth in construction to 2015 which, if correct, and combined with the data presented here, suggests that a sustainable recovery may well be underway.

Manufacturing and Distributive Trades

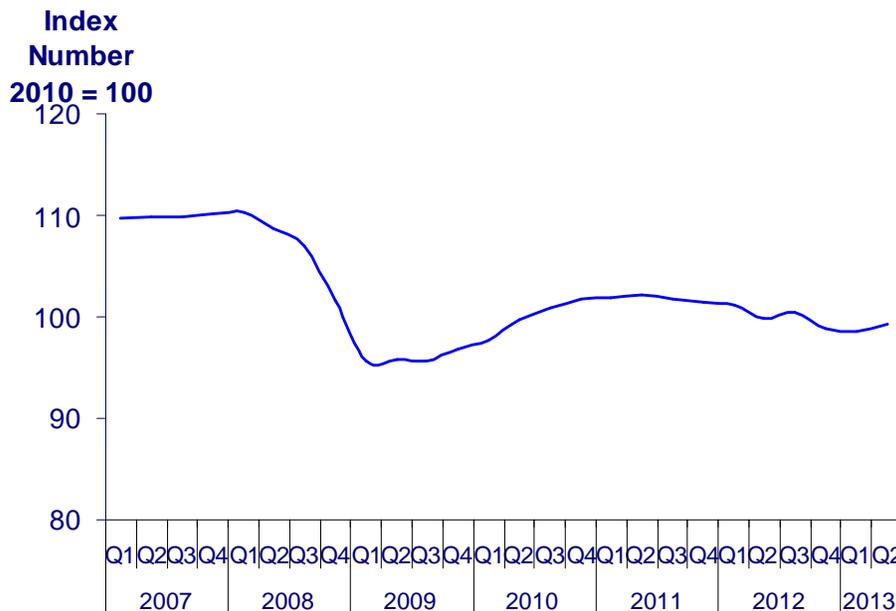
The development of manufacturing output over the last three years has followed a similar path to that of construction. Recovery in 2010 and 2011 was not sustainable and after seven quarters of growth which began in Q1 2010, six quarters of decline followed, starting in Q4 2011.

Like construction, a return to growth in overall terms has yet to be witnessed.

However, and also like construction, a few specific sectors have exhibited good to strong growth in Q2 2013. While manufacturing activity in the great majority of sectors was lower in Q2 2013, pharmaceuticals, motor vehicles and wood products were higher.

Although there has been seven quarters of decline, the rate of reduction of all manufacturing output - at 0.6% in Q2 2013 - was at its lowest for the last six of those seven quarters. This development is shown in chart 7.

Chart 7: Index of UK Manufacturing, Q1 2007 - Q2 2013



Source: Office for National Statistics (ONS)

The wooden pallets and packaging industry serves the construction industry, manufacturing and distributive trades and provides a guide to the general health of these markets.

With lower levels of construction and manufacturing activity in 2012, it would be consistent for there to have been little or no growth, especially in the pallets sector of the pallets and packaging industry.

However, the number of pallets produced in the UK in 2012, according to the official statistics supplied by ProdCom through the Office for National Statistics (ONS), increased from a total of 45.2 million in 2011 to 54.7 million in 2012. These numbers, providing a 21% increase in volume in 2012, are almost certainly incorrect.

Upon challenging these data, ONS has agreed to review the way data are gathered for the measurement of pallet manufacturing in its ProdCom output, in order to establish a more accurate measure for this industry.

It is probable that included in the manufacturing data gathered by ONS are volumes for repairs, in addition to new manufactures.

According to information gathered from leading pallet makers in the UK, the quantity of new pallets made in the UK in 2012 was, at best, the same as in 2011.

Chart 8: UK Pallet Production 2007-2012



Source: ProdCom

The growth in the fencing and outdoor use markets reported for 2011 has continued in 2012 with demand for fencing in the domestic sector remaining good and with decking, landscaping, garden products and motorway fencing products also in demand, this market has outperformed the other main timber using markets over the last two to three years.

Energy Markets

Key Facts:

- Total energy consumption in the UK rose by 2% in 2012
- Within the 2% increase, renewable energy grew by 9%
- Growth of renewables for electricity generation grew by 14%
- Growth of renewables for heat generation grew by 7%
- Within the 7% growth of renewables for heat, the growth of domestic wood in 2012 was 7% and the growth of industrial wood was 8%

In 2012, the net increase in energy consumption of 2% was driven by a 27% increase in the use of coal, a 19% increase in wind and hydro energy consumption and a 9% rise in renewables.

Natural gas and petroleum remained the largest types of energy used (35% and 32% of consumption respectively), but each suffered a decline in use in 2012. Natural gas consumption was lower by 5% and petroleum by 2%. Nuclear energy also experienced a fall in consumption of around 3%.

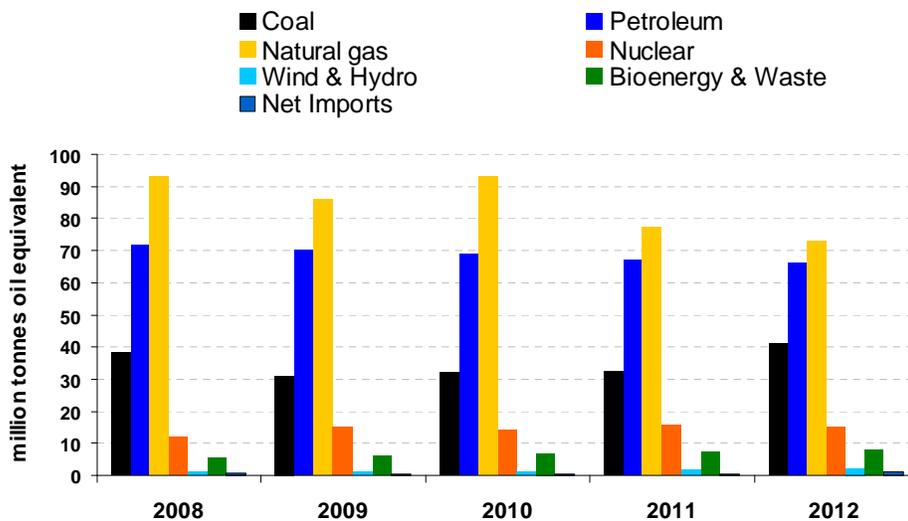
The use of renewables (including waste) continued its annual increase in use in 2012 and over the last five years has risen by a factor of 1.5.

Consumption of renewables amounted to 10 thousand tonnes (oil equivalent), representing 4.8% of all energy consumption in 2012.

The consumption of each primary fuel between 2008 and 2012 is shown in chart 9 below.

In this report, renewables include bio-energy and waste and wind and hydro.

Chart 9: Inland consumption of primary fuels and equivalents for energy use 2008-2012



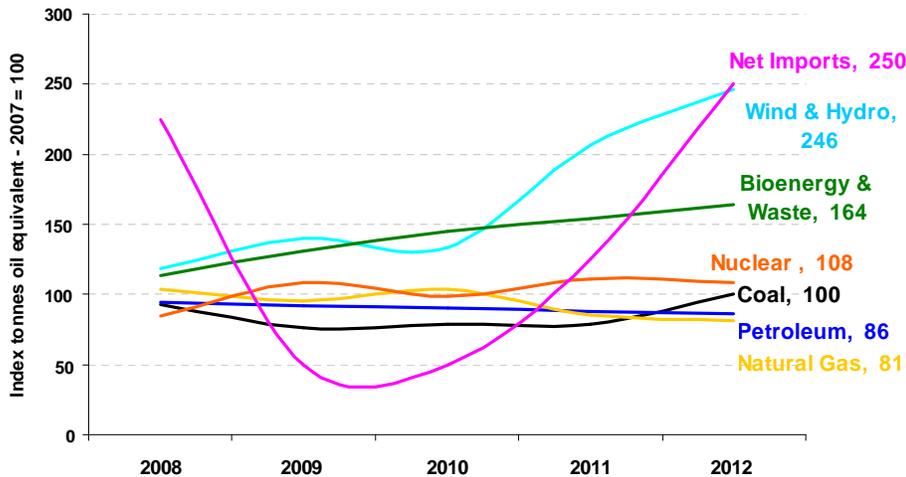
Source: Department of Energy and Climate Change (DECC)

The reductions in consumption of the two largest forms of energy supply – natural gas and petroleum - over the period from 2008 to 2012 can be viewed in the chart above.

Consumption of renewables remains small in comparison to other forms of energy provision, but has continued to grow over a five year period from 2007 when energy consumption in real terms has fallen.

Chart 10 demonstrates this faster rate of growth of renewables from 2008.

Chart 10: Indexed Growth Rates of inland consumption of primary fuels and equivalents for energy use 2008-2012



Source: Department of Energy and Climate Change (DECC)

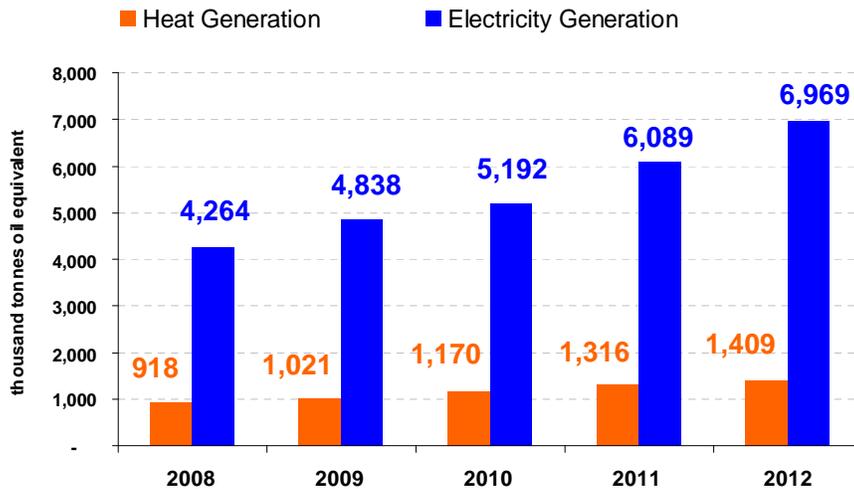
Although accounting for only a small proportion of total energy consumption (less than one half of one percent) net imports for electricity usage has grown exponentially since 2009 and in 2012 became the fastest growing form of energy consumed. This was mainly due to new supply lines from the Netherlands joining with existing supply from France.

As shown above, consumption of coal increased by 27% in 2012 and this was mainly price-driven. Coal prices became more attractive to electricity generators as prices of other fuels rose and the displacement of over 5,000 tonnes oil equivalent of natural gas and petroleum was more than compensated for by an increase of nearly 9,000 tonnes oil equivalent of coal.

The mix between renewables used for electricity generation and heat has changed gradually over the last five years with the percentage accounted for by heat rising from 15% in 2007 to 18% in 2012.

The quantities of renewables used, in thousands of tonnes of oil equivalent, for electricity and heat generation from 2008 is shown in chart 11.

Chart 11: Renewables Used for Electricity and Heat Generation, 2008-2012

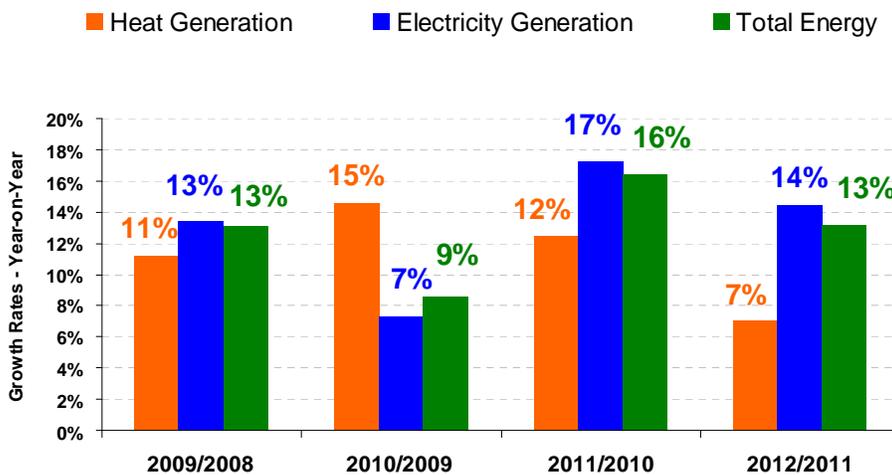


Source: Department of Energy and Climate Change (DECC)

The growth rate of renewables has slowed slightly in 2012, but remains strong. A 7% growth in renewables for heat in 2012 over 2011 followed the 12% growth in 2011 over 2010. Over the same periods, renewables used for electricity grew by 14% in 2012 compared to a 17% growth in 2011.

The comparative growth rates of renewables for electricity and heat generation are shown in chart 12.

Chart 12: Growth Rate of Renewables Used for Electricity and Heat Generation, 2008-2012



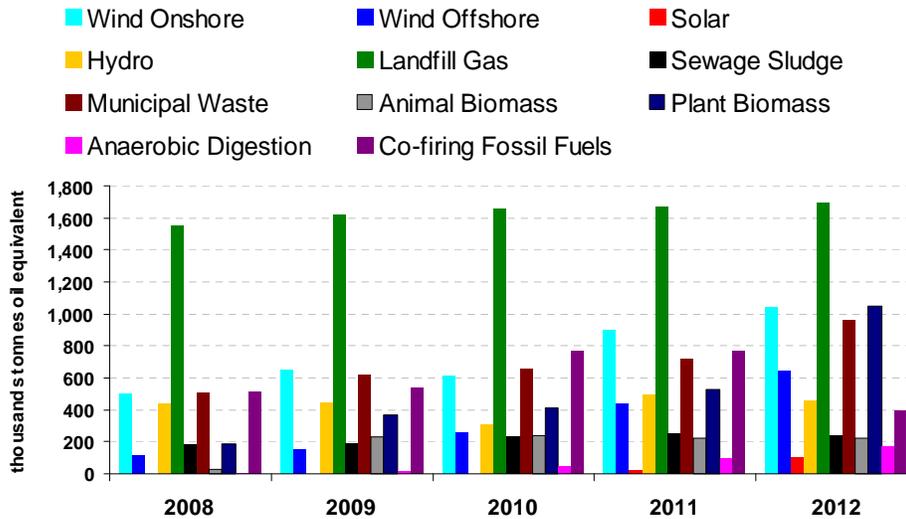
Source: Department of Energy and Climate Change (DECC)

Landfill gas and municipal waste remain the most widely used renewable in the generation of electricity, accounting for 48% of all renewables in 2012. The use of co-firing of biomass with fossil fuels for electricity generation fell significantly in 2012, by nearly 50%, with its share of electricity generation falling from 13% to 6% of the total of all renewables

consumed for this purpose. Once again, lower coal prices relative to other forms of energy also had an impact on the development of cofiring.

The range of leading renewable alternatives for electricity generation is shown in chart 13.

Chart 13: Renewable sources used to generate electricity, 2008-2012



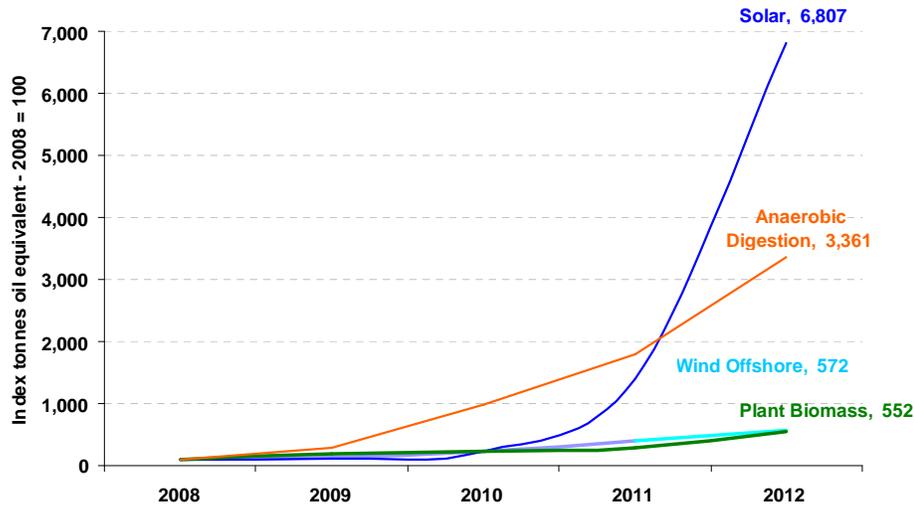
Source: Department of Energy and Climate Change (DECC)

The growth of plant biomass has grown rapidly over the last five years and this continued in 2012, almost doubling for the year. This had the effect of increasing the share of renewables used for electricity generation from 9% in 2011 to 15% in 2012.

Of the total of nearly 7 million tonnes oil equivalent of renewables used for electricity generation in 2012, 63% was accounted for by the three largest forms: natural gas, wind and plant biomass.

The growth rates of renewables for electricity generation have been indexed for the ease of comparison and are shown in two charts below. The highest growth renewables are shown in chart 14 and remainder of the group of renewables is shown in chart 15.

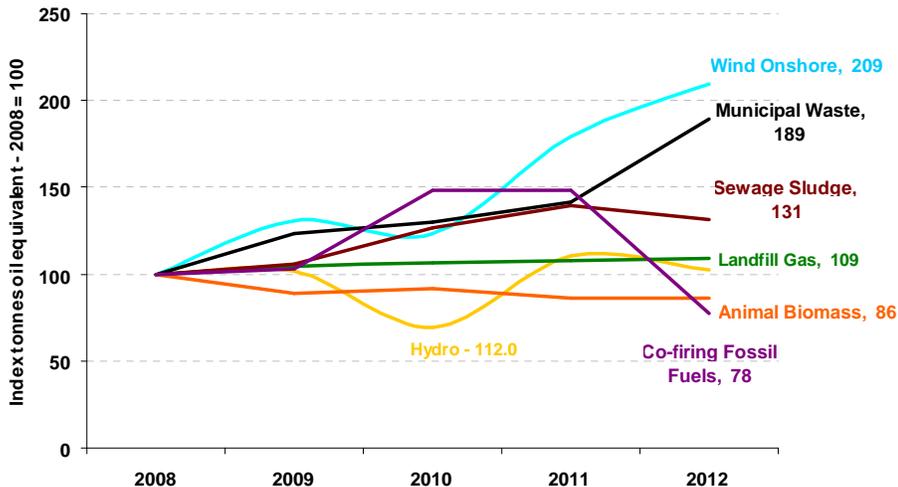
Chart 14: Indexed (Highest) Growth Rates of Renewable Sources used to Generate Electricity, 2008-2012



Source: Department of Energy and Climate Change (DECC)

Solar energy and anaerobic digestion as forms of renewable energy contribute a very small proportion of the total energy mix, but have grown rapidly over the last five years. Combined, these two forms of energy accounted for just 0.2% of the total of all renewables in 2008, but grew to provide almost 4% of the total by 2012.

Chart 15: Indexed (Other) Growth Rates of Renewable Sources used to Generate Electricity, 2008-2012

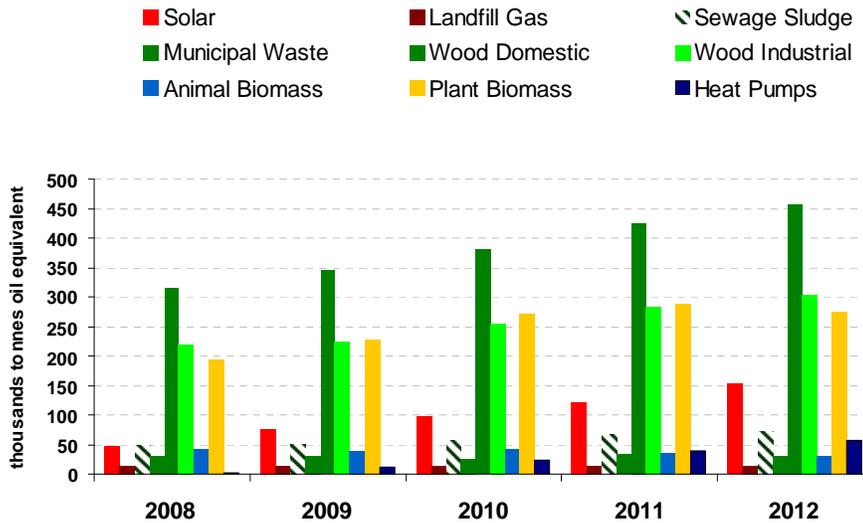


Source: Department of Energy and Climate Change (DECC)

The decline in the co-firing with fossil fuels to generate electricity in 2012 contrasts with a stable or growing use in many of the other forms of renewable shown in chart 15.

The main product types and the scale of use in heat generation are shown in chart 16 below.

Chart 16: Renewable sources used to generate heat, 2008-2012



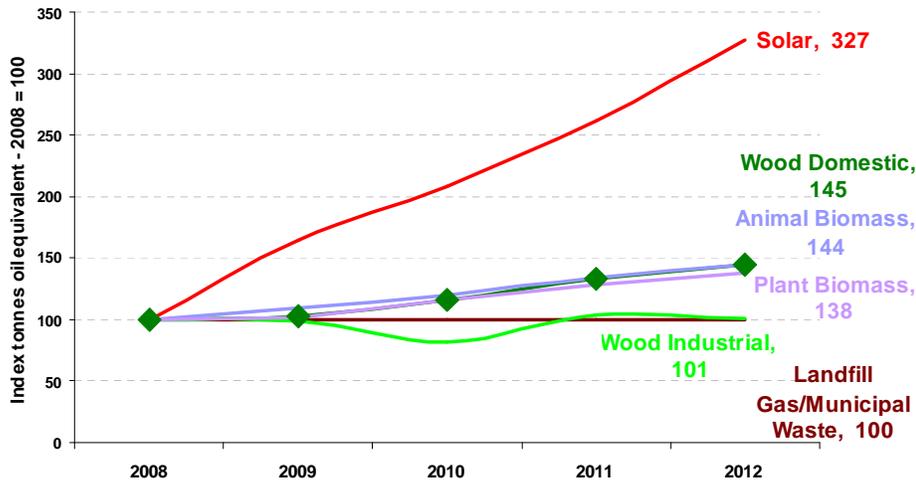
Source: Department of Energy and Climate Change (DECC)

All heat generated from renewables grew by 7% in 2012. The quantity of firewood burnt for domestic heating grew by 7% and wood used for industrial heating grew by 8%. The fastest growing forms of renewable energy used for heating were heat pumps, 43% higher and solar, with 25% more solar energy used in 2012. A decline in the use of animal biomass, lower by 12%, plant biomass, lower by 5% and municipal waste, down 2% also took place in 2012.

Wood accounted for 55% of all forms of renewable energy used for heat in 2012 and consisted of cut logs, brash, wood chips, off-cuts, recycled wood waste, charcoal and imported wood. Pellets for heat generation (and other uses, such as animal bedding and cat litter) are a relatively new form of renewable and according to Forestry Commission estimates, around 278,000 metric tonnes of pellets were produced in the UK and around 1.5 million metric tonnes were imported in 2012.

The growth of each of the main renewables is shown in the chart below.

Chart 17: Indexed Growth Rates of Renewable Sources used to Generate Heat, 2008-2012



Source: Department of Energy and Climate Change (DECC)

Solar heating has grown rapidly. Accounting for 5% of all renewable forms of heating in 2008, growth has been strong, as shown in chart 17 and by the end of 2012 accounted for 11% of the total of all renewable forms of heating. The reduction in the rate of feed-in tariffs for electricity supply in 2011 and 2012, has not adversely affected solar heating development during this time.

Solar and other forms of renewable energy for heating are expected to continue to grow as a result of stimulus from financial incentives.

Central to Government's renewables policy is the Renewable Heat Incentive (RHI) tariff scheme.

Designed to encourage the use of renewable heat technologies through the provision of financial incentives, the UK Government expects the RHI to make a significant contribution towards having 12 per cent of heating coming from renewable sources by 2020.

There are two phases to the introduction of the RHI:

Phase 1 saw the introduction of the RHI for non-domestic installations in the industrial, business and public sectors.

Phase 2 is the domestic element of the RHI and is expected to be introduced in the spring of 2014 and will cover single domestic dwellings and will be open to owner-occupiers, private landlords, Registered Providers of Social Housing, third party owners of heating systems and self-builders.

It will not be open to new build properties other than self-build

Financial support will be paid at a set rate per unit of renewable heat produced (kilowatt hour or kWh), for seven years, to the owner of the heating system and will support air

source heat pumps (ASHP), biomass systems, ground source heat pumps (GSHP) and solar thermal technologies.

The use of renewables is being further encouraged by the extension to the Renewable Heat Premium Payment scheme. The scheme is being extended until the end of March 2014, to coincide with the introduction of the RHI scheme for householders. The extension continues to offer one-off grants to householders across England, Scotland and Wales to help with the cost of installing renewable heating technologies and will also include a competition for registered social landlords to bid for funds to install renewable heat technologies.

The driver of these developments is the Government's policy to decarbonise heat supply in the UK. Renewable heat is expected to make an important contribution to meeting the EU renewable energy target in 2020. By 2050 the UK needs to have decarbonised heat in buildings almost completely and reduced industry emissions by up to 70% through a combination of efficiency improvements, demand reduction, and fuel and technology switching options.

However, concern remains among non-energy wood users in the UK that the renewables policy could adversely affect raw material supply and distort supply and demand in existing markets.

Whilst part of this concern has been ameliorated through the Government's Electricity Market Reform Delivery Plan, which recommends the ending of subsidies for existing power stations converted to burn biomass by 2027, the continued and enhanced incentives for biomass combined heating and power plants is, in the opinion of many non-energy wood processors, creating undesirable supply and cost pressures.

Policy and Initiatives – Carbon Reduction

Private sector investment in woodland creation is continuing to increase via the Woodland Carbon Code. The Woodland Carbon Code, launched in July 2011, sets out requirements of voluntary woodland creation projects in the UK wishing to make claims about the carbon they sequester. Documentation was revised in July 2013 following the second year of operation; and included a scheme for groups of projects to be certified together, allowing more cost-effective certification for smaller projects.

This year saw the launch of the Woodland Carbon Code on the [Markit Environmental Registry](#), providing a facility to list carbon units, track ownership and 'use' (or retirement) of each tonne of carbon, bringing transparency and accountability to the woodland carbon market in the UK. Units created by Woodland Carbon Code projects are known as Woodland Carbon Units. During 2013, the UK government introduced mandatory greenhouse gas (GHG) emissions reporting for all quoted companies - those listed on a stock exchange. It is possible this will be extended to all large companies in 2016. The Government also revised their [Environmental Reporting Guidelines – Including Mandatory Greenhouse Gas Reporting Guidance](#). As well as clarifying how to report gross emissions, it also states how companies can compensate for their gross emissions to come to a net figure. Using verified Woodland Carbon Units from Woodland Carbon Code projects is one of three methods.

Carbon Markets in the Forest Sector

The Woodland Carbon Code has continued to generate much interest among landowners and investors alike over its second year of operation. As of 30 September 2013, 142 projects have registered with the Code; together they will create over 14,000 hectares of new woodland and are predicted to sequester over 5.1 million tonnes of carbon dioxide equivalent over their lifetime (up to 100 years). Of these projects, 49 are now validated (checked by an independent certification body) and are creating over 2,100 hectares of new woodland which will sequester almost 1 million tonnes of carbon dioxide equivalent over their lifetime. The first verified Woodland Carbon Units from the projects are anticipated in 2016. A proportion of the revenue of each project comes from private sector investment, mainly from companies considering their Corporate and Social Responsibility.

Further information can be found at: <http://www.forestry.gov.uk/carboncode>

4. Developments in Forest Product Markets Sectors

a) Wood Raw Materials (Softwood)

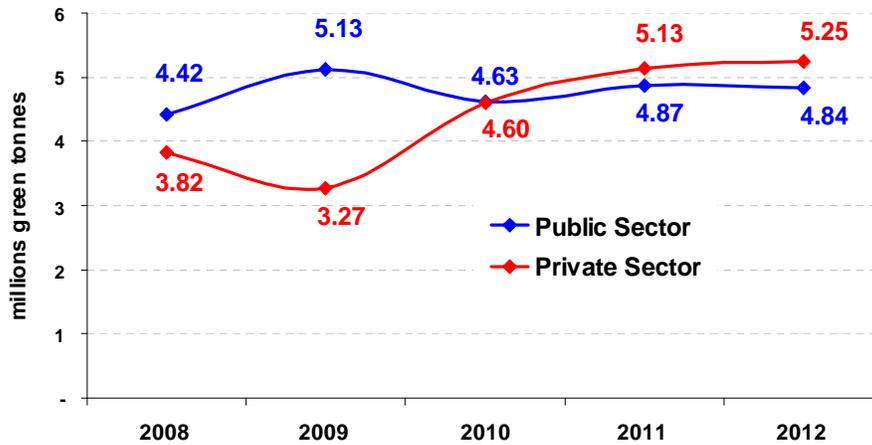
In 2012, removals of timber from UK forests were undertaken by the public sector, under the auspices of the Forestry Commission (in England, Wales and Scotland) and the Forest Service (in Northern Ireland) and by the private sector, as represented by the many private woodland owners and managers.

In 2012, removals of softwood from UK forests exceeded 10 million green tonnes for the first time, a growth of nearly 1% over 2011. Private sector removals rose to 5.3 million green tonnes, a rise of just over 2%. Softwood removals from Forestry Commission (FC) and Forest Service of Northern Ireland (FS) woodland decreased by a little under 1% in 2012 to 4.84 million green tonnes.

In the ten years from 2003, the share of softwood removals from the private sector has grown from 38% of the total to 51% in 2012.

These changes in the source of supply from UK forests over the last five years are shown in chart 18 below.

Chart 18: Softwood Removals from UK Forests by the Private and Public Sectors, 2008-2012

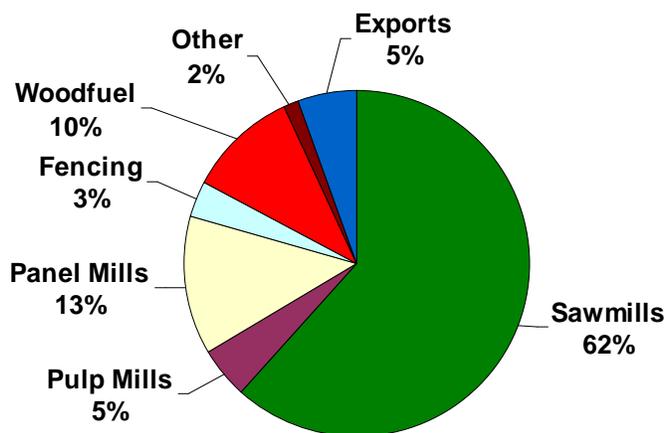


Source: Forestry Commission

Increased deliveries of coniferous roundwood removed from UK forests were made to sawmills (+4%), pulp mills (+2%) and for woodfuel (+11%). In 2012, deliveries to panel mills and fencing contractors reduced, by 10% and 7% respectively and exports were nearly 9% lower.

The relative size of the various markets for UK produced coniferous roundwood is shown in chart 19.

Chart 19: Deliveries of Coniferous Roundwood from UK Forests to User Industries, 2012



Source: Forestry Commission

b) Wood Energy

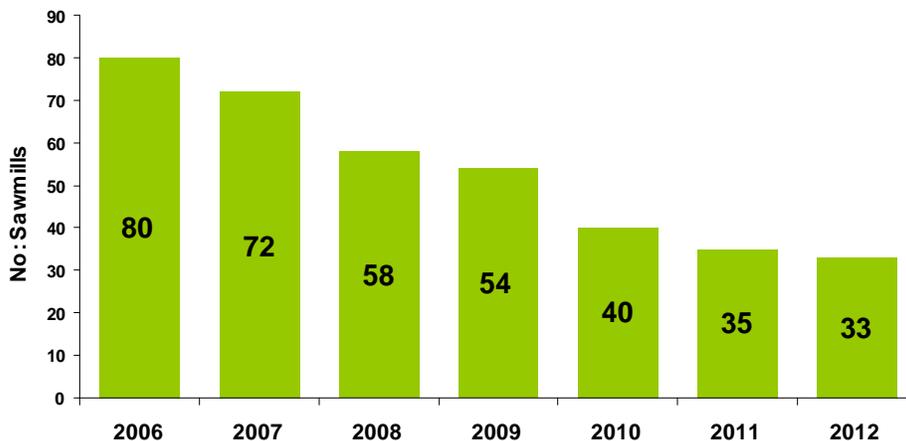
Wood used for energy generation includes sawmill products, such as wood chips and sawdust, recycled wood and wood pellets. UK production of wood pellets continued to grow in 2012, by 12%, to reach a total of 0.278 million tonnes and the supply of pellet imports also rose in 2012 by 46%, to a total of 1.49 million tonnes.

c) Certified Forest Products

Removals from all publicly owned forests are certified and over the last few years, an increasing proportion of the output from privately owned woodland has become certified.

The certified development of sawmill production has also been positive over the last ten years. A measure of this development is the number of sawmills in the UK without chain of custody certificates. This development is shown in chart 20.

Chart 20: Number of Sawmills Operating in the UK without Chain of Custody Certificates, 2006-2012



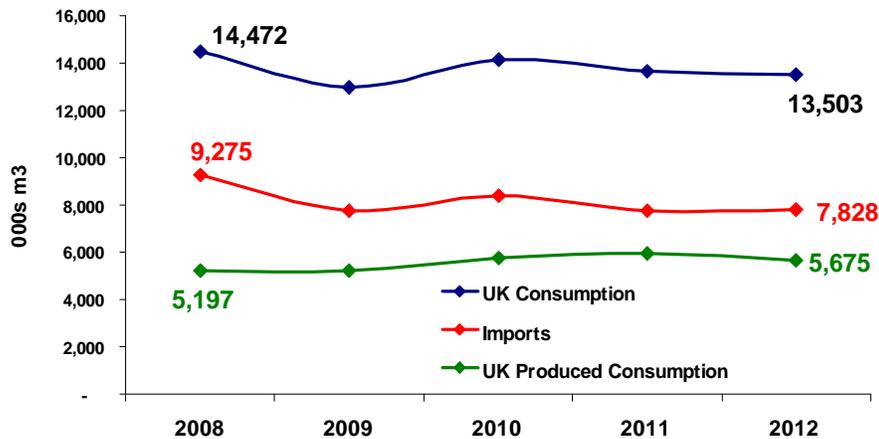
Source: Forestry Commission

d) Consumption of Timber and Panel Products in the UK

Recovery in the demand for timber and panel products continued to prove elusive in 2012 with a further fall in consumption of 1.6%, following a 3.2% reduction in 2011.

The development of UK consumption of the main timber and panel products since 2008 is shown in chart 21.

Chart 21: Consumption of UK Timber and Panel Products, by Source, 2008-2012



Source: Forestry Commission; Timber Trade Federation, Wood Panel Industries Federation; *timbertrends*

UK consumption of timber and panels at 13.5 million m³ in 2012 remains below the 14.5 million m³ recorded in 2008 and well below the pre-recessionary level of 18 million m³ in 2007. Imports have been the main casualty within this decline, falling from over 9.2 million m³ in 2008 (over 12 million m³ in 2007) to 7.8 million m³ in 2012. In comparison, UK produced consumption has recovered from the recessionary years of 2008 and 2009, reaching 5.7 million m³ in 2012, 9.2% higher than in 2008.

This performance may have been better had UK produced consumption not fallen in 2012, by nearly 5%. This was entirely due to the reduction in particleboard capacity with the closure of the Sonae plant in Knowsley.

Imports grew by nearly 1% in 2012, driven higher by increased volumes of imported softwood.

e) Value-added Forest Products and Engineered Wood Products

Volumes of all imported softwood were higher by 5% in 2012. Within this total, further processed (value-added) softwood imports, such as planed, square-edged and finger-jointed grew by 9% in 2012 and rough sawn varieties increased by 3%.

The volume of imported planed goods rose to 1.77 million m³ in 2012 from 1.63 million m³ in 2011. Rough sawn volumes rose from 2.90 million m³ in 2011 to 2.99 million m³ in 2012.

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, rose to 37% in 2012, up from 36% in 2011 and 29% in 2010.

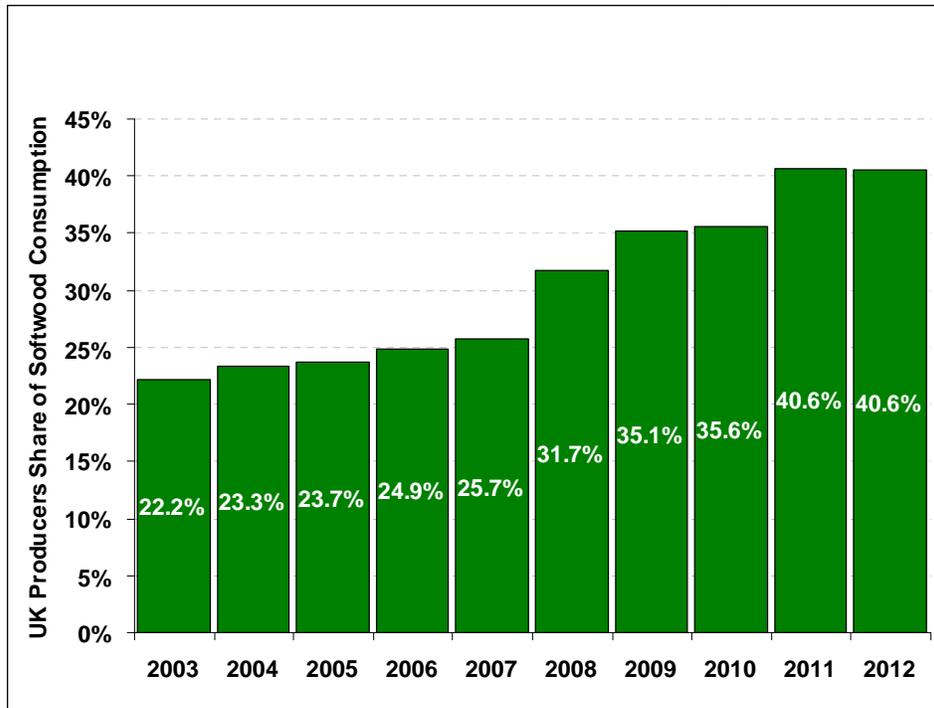
Volumes of manufactured timber products (engineered wood products) have almost certainly increased once more in 2012, although there is little published data available to confirm this. Anecdotal evidence suggests that modified wood products, such as Accoya and cross-laminated timbers and I-joists are growing rapidly in popularity, particularly in construction.

f) Sawn Softwood

Higher volumes of imported softwood in 2012 resulted in the consumption of softwood as a percentage of all timber and panels consumption rising from 56% of the total in 2011 to 59% in 2012.

UK producers continued to enjoy a price advantage over imported softwood and the investments made by the UK based sawmilling industry in recent years has enabled an increased penetration of some construction sectors in addition to a consolidation of the leading position held by UK producers in the pallets and packaging and fencing and outdoor markets. The market share of domestically produced softwood from 2003 is shown in chart 22 below.

Chart 22: UK Producers Share of Softwood Consumption, 2003-2012



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

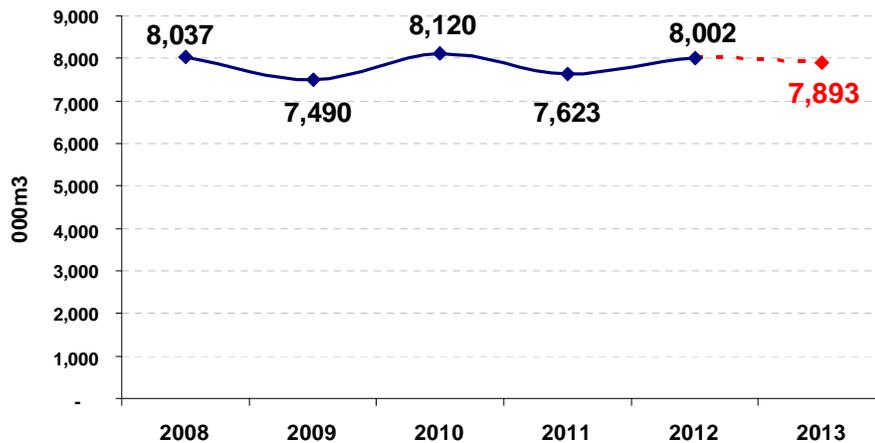
The National Softwood Division (NSD) of the Timber Trade Federation produce an estimate of softwood imports mid-way through each year for the second half and a forecast for the following year. For 2013, the provisional forecast of the NSD predicts that softwood import volume will fall from 4.76 million m³ in 2012 to 4.58 million m³, a decline of around 4%.

A forecast for UK production for 2013, based on the advice of the Forestry Commission's Expert Group on Timber and Trade Statistics and the NSD Committee of Timber Trade Federation, indicates that output from UK sawmills will rise by around 2.5% to a reach a level of 3.44 million m³.

From these forecasts for 2013 the consumption of softwood in the UK for 2013 is projected to fall by a little over 1% to 7.89 million m³.

The change in UK sawn softwood consumption is shown in the chart below.

Chart 23: UK Sawn Softwood Consumption 2008-2012 & Forecast 2013



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

g) Sawn Hardwood

Sawn hardwood consumption in the UK in 2012 increased by around 4% to 0.45 million m³.

The great majority of sawn hardwood consumed in the UK is imported, accounting for over 90% of all hardwood consumed in 2012, with a very wide variety of products demanded for many different uses.

UK production of sawn hardwood decreased in 2012 to 0.048 million m³, a 7% decline over 2011 as hardwood imports increased by 3% to around 0.42 million m³.

Tropical hardwood imports rose by 8% in 2012 and temperate species also increased by volume, by around 1%.

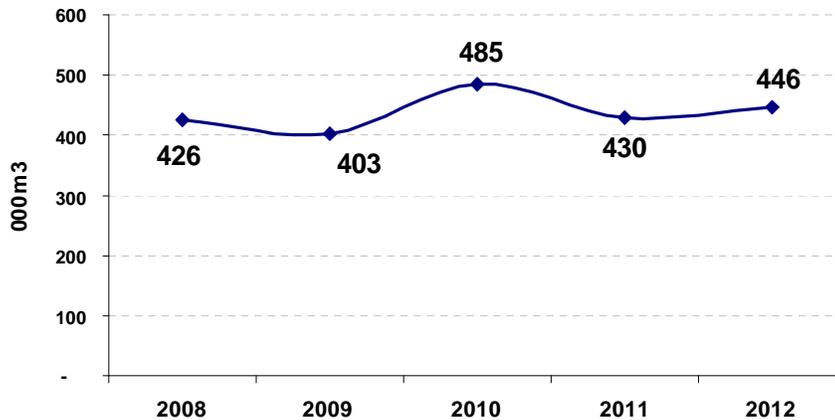
Virtually all temperate hardwood imports were sourced from Europe or North America while Africa was the main supplying region for tropical hardwoods, accounting for 44% of all tropical goods imported to the UK. Europe was the second largest region for tropical imports to the UK (although much of this volume was re-exported from the Low Countries), accounting for 26% of the total while tropical hardwood imported from Asia comprised 22% of the tropical total.

Export volumes in 2012 amounted to only 0.025 million m³, a decrease of just over 20% on the 2011 volume.

The apparent consumption of hardwoods in the UK in 2012 was 0.45 million m³.

The development of hardwood consumption since 2008 is shown in the chart below.

Chart 24: UK Sawn Hardwood Consumption, 2008-2012



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

h) Wood-based Panels

Particleboard, OSB and MDF are produced in the UK and imported, but all plywood and fibreboard is imported.

UK produced consumption of panel products fell by 15% in 2012. As previously mentioned, the loss of production from the Sonae particleboard plant had a dampening effect on supply with UK-based particleboard production lower by 16% in 2012.

Exports of Particleboard and OSB (combined) and MDF from the UK were substantially higher once again with volume increases of 14% recorded for particleboard and OSB and 17% for MDF.

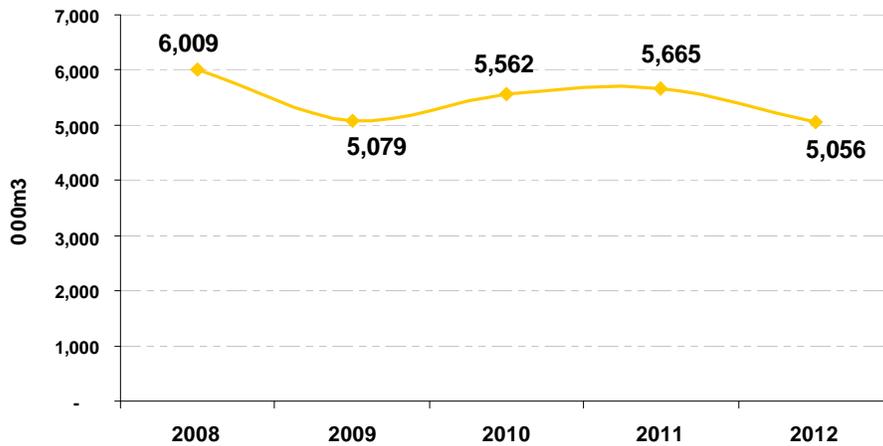
Plywood imports, at 1.29 million m³ in 2012 were 3% lower than in 2011 and the small volume of plywood re-exports (0.054 million m³) was also lower.

The total volume of imported panel products fell from 2.83 million m³ in 2011 to 2.65 million m³ in 2012. Consumption of UK produced panel products, after taking into account exports, was 15% lower at 2.41 million m³.

Volumes of exports and re-exports of panel products were 0.60 million m³ in 2012, up from 0.55 million m³ in 2011.

Consumption of UK produced panel products at 2.41 million m³ in 2012 accounted for 42% of all UK produced timber and panels consumption in 2012, down from 48% in 2011.

Chart 25: UK Panel Products Consumption, 2008-2012



Source: Forestry Commission; Timber Trade Federation; Wood Panel Industries Federation; *timbertrends*

i) Pulp and Paper

Consumption of wood pulp in the UK in 2012 was 1.14 million tonnes. This total was nearly 1% higher than in 2011 and was driven by a 2% increase in imports.

UK pulp production decreased slightly in 2012.

UK consumption of paper and paperboard fell once again in 2012, down by nearly 3%.

Apparent consumption of paper and paperboard in 2012 was 9.96 million tonnes, compared to the 2011 total of 10.24 million tonnes.

UK production of paper and paperboard in 2012 rose by nearly 2% to 4.42 million tonnes from 4.34 million tonnes in 2011.

UK imports of paper and paperboard fell by 4.5% in 2012, down to 6.59 million tonnes compared to 6.90 million tonnes in 2011.

Please note there are minor differences to pulp and paper statistics in other publications and the figures shown above. The figures above are the latest revisions to earlier data for 2012 and 2011 and post-date some current publications in circulation.

j) Innovative Wood Products / Housing and Construction

Development of Timber in Construction

Historically, masonry construction has been the favoured method of home building in England, Wales and Northern Ireland, but timber frame is the dominant method of construction in Scotland.

However, in the twelve years from the start of this century, changes have taken place in the UK housing market and timber frame construction has grown to claim a near 25% share of the market in 2012. Where nearly one in every four homes built is now of timber frame construction, in the year 2000, timber frame had only around a 12% share of the UK home building market.

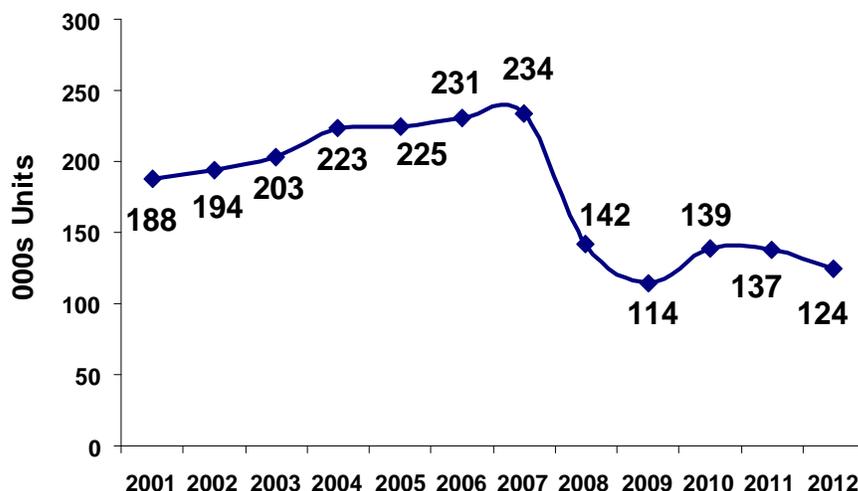
Underpinning this growth has been the ability of timber frame to meet and exceed the most challenging technical and commercial requirements.

As building regulations become more demanding and the financial benefits of building in timber frame become more widely recognised, the prospects for the further development of timber in construction in the UK are healthy.

Housing Demand

In terms of numbers of housing starts, 2012 was the second worst in over ninety years across the UK as a whole. There exists strong demand for new housing, but a scarcity of funding, which provides little incentive to build – this has been the main cause for the lack of any real growth for over the past five years. The total of nearly 124,500 new homes was around 10% lower than 2011, which in turn was lower than in 2010. While timber frame was not immune to a fall in all new home building in 2012, the timber industry showed its resilience with a much smaller reduction of 5%.

Chart 26: UK Housing Starts, 2001-2012



Source: Office for National Statistics

Developments in 2012/2013

During 2012, the UK Government introduced a number of measures to generate more funding for home purchase, with the aim of kick-starting the construction industry. One of these initiatives was 'New Buy', a mortgage indemnity insurance scheme backed by the Government and house builders, designed to help home buyers with little capital. In September 2012, Government provided further stimulus through increased capital investment for house builders and introduced the 'Affordable Home Guarantee Scheme', aimed at delivering more new homes for the private rented sector and around 15,000 additional new affordable homes. In the 2013 Budget, a further £225 million was added to help double the building of new affordable homes.

Despite UK Government backed programmes being a welcome support for the housing market, it was clear that the largest obstacle to sustainable recovery remained the difficulty in obtaining finance for new home purchase. To stimulate greater levels of lending, also in the 2013 Budget, the UK Government announced its 'Help to Buy' scheme, which is designed to provide mortgage guarantees for lenders offering mortgages with a deposit of between 5% and 20% - to a property value of £600,000.

It appears that the combination of these measures is beginning to take effect, and the number of approved loans for home purchase has risen in 2013. Whether these and other encouraging signs are sustainable has yet to be confirmed, but the timing of this recovery provides the Structural Timber Association (STA) the opportunity to support the greater use of timber in a construction market under recovery.

Structural Timber Association and Timber Frame Businesses

Timber frame manufacturers have, over the last decade, expanded the use of timber in housing and in many other forms of construction. This has been achieved through the delivery of buildings of high quality with innovative solutions over a wide range of building types. The many different types of timber products that are increasingly used in construction has been instrumental in defining the wide ranging vision that the new STA has set out.

During the last five years of recession, many businesses have evolved in terms of supply. Once defined by the supply of timber kits, the timber industry is now driven by a wider range of integrated construction options. Increasingly, members of the STA are meeting their clients' needs through the use of hybrid systems, which include Cross Laminated Timber (CLT), Structural Insulated Panel Systems (SIPS) and Glulam as well as the more traditional timber frame. This has broadened the appeal of using timber in a structure. As these buildings can be built higher, to increasing environmental standards, and in more applications, structural timber as a material can be used more widely including within commercial buildings.

In recent years, timber has been embraced more by the public sector and self builders, with timber accounting for over 75% of the self build market. As both public sector and self build homes are built with a view not only to the initial outlay of the building, but also with a view to its on-going environmental impact and operational costs, this trend is forecast to continue. Those with a long term interest in the building are, on the whole, the ones who turn to timber.

Timber building in the public sector is forecast to outstrip the growth of other methods by 2015.

The Future for Timber

The UK Government's long awaited changes to Part L of the Building Regulations were announced in 2013, with improved efficiency targets for new build domestic and non-domestic buildings, as well as the fabric from which they are constructed. These changes are designed to ensure the planning process does everything possible to cut carbon emissions, tackle climate change and ensure that the Government remains on track to deliver on its commitment for zero carbon homes by 2016.

As the most energy efficient and environmentally sustainable building material, structural timber is the obvious choice to meet these targets. The STA encourages all of its members to pursue a Fabric First approach, whereby the energy performance of the building is achieved primarily through the external envelope. A large detached house built in structural timber can deliver up to a 33% reduction in energy consumption over its lifetime, with a 20% reduction for apartments.

The STA recognises there is a need for the industry to embrace this efficient and naturally renewable form of building. The organisation is already working on initiatives to ensure this happens and has called on the UK house building industry to increase timber construction to 30% of all new homes in the next five years.

As many builders are looking to capitalise on the market increase, timber offers a readily available alternative to other build methods. Thanks to the speed of construction and reliability of timber frame, private developers have historically looked to the timber industry to shorten time to market and provide more stable and predictable building programs. With the slow market conditions experienced over the past few years, fast build programs haven't been at the top of everyone's agenda. However, developers now need to react to changes in market conditions and bring new sites to market quickly. The STA is working directly with house builders to demonstrate the many benefits of building with timber.

Conclusion

With heightened awareness of the environmental and efficiency benefits of timber, the forecast for the increased use of timber in construction is good. Recovery in construction sectors is underway and timber frame is projected to increase to capitalise on these opportunities in the coming years.

Key Predictions

Housing starts in the UK to rise in 2013 by 11%.

Growth in private sector housing starts predicted to grow throughout the period to 2015, but public housing is forecast to grow only from 2014, and modestly.

Timber frame is set to maintain or grow its market share over the forecast period to 2015.

5. Tables

UK Economic Indicators (% unless otherwise indicated)

	2008	2009	2010	2011	2012	2013
GDP growth¹ (at constant 2010 prices)	-0.8	- 5.2	1.7	1.1	0.4	1.4 ²
Interest Rate (Base Rate at year end)	2.0	0.5	0.5	0.5	0.5	0.5 ²
Consumer Price Index	3.6	2.2	3.3	4.5	2.8	2.5 ²
Unemployment (ILO)	5.8	7.8	8.0	8.2	8.1	7.7 ³
UK Housebuilding Starts (000s)	141.9	114.2	138.9	137.5	124.5	138.4 ³

¹GDP growth is measured on a chained volume basis current year compared to previous year

²HM Treasury, Forecasts for the UK Economy: A Comparison of Independent Forecasts, September 2013

³*timbertrends*