

# Veon *Vision*



## Brexit & Ireland's Forestry Sector

Brexit is probably the biggest political and economic event of recent times facing Ireland's economy and forestry sector. It has the potential to be even bigger than the recent economic crisis in that contagion across the EU is possible. Already we are seeing several other countries experience increased popularity in anti-EU political groupings. Greece continues to experience significant economic difficulties generating well publicised anti-EU sentiment and France has just witnessed the strongly anti-EU Le Pen as their second placed contender in their presidential run-off elections.

Through all the public dialogue on Brexit one obvious fact is often overlooked; in April 2019 the UK will still be right there to Ireland's east! True, the UK may enter a recession fuelled by their exit from the EU, but they will still be one of the world's leading economies with one of the largest individual populations in Europe. The British market cannot change overnight to become self-sufficient and thereby overcome the need to import crucial raw materials.

The hard-Brexit scenario that currently appears inevitable will raise barriers around the UK and the British population will be the biggest losers in this as trade-tariffs raise the price of their shopping baskets. Nonetheless, they will still need their basic raw materials and timber is one such raw material for which the UK is significantly dependent on imports.

## Irish Exports to the UK

The UK is Ireland's largest export market for sawn timber products (see page 3). Equally, Britain is hugely important for our wood panel producers so Ireland's timber sector must pay attention to the challenges of Brexit. However, in 2015 the UK imported a total 6.3 million m<sup>3</sup> of sawn softwood while Ireland's total exports of sawn softwood (UK and others) was 701,000 m<sup>3</sup> – the UK's reliance on imported timber is clear.

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## Brexit – Fuelling Uncertainty

Article 50 has been filed. Brexit is going to happen, but first there is a UK general election and an EU negotiation to follow. All we have in the meantime is uncertainty which is not what any business wants.

The UK remains one of Ireland's largest trading partners. On June 23<sup>rd</sup>, 2016 it voted to be the first member nation to leave the EU and the ensuing uncertainty has been a cause of significant concern.

Perhaps the most visible outcome of this uncertainty has been in Euro / Sterling exchange rates which have been on

somewhat of a rollercoaster. Sterling went from €1=£0.759 in May 2016 to €1=£0.9035 by November 2016. Since then it has settled in the mid-£0.80 range; interestingly, this is in line with the ten year average. (exchange rates sourced from xe.com)

After an extended period of low and even negative inflation in the UK, there has been an upward movement in the CPI since 2015. Interestingly, the CPI moved from 0.8% in June 2016 to its current level of 2.3% (Mar 2017) - see chart opposite. While Brexit-related exchange movements are not the sole driver, it is clearly a contributory factor.

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### Timber Flows

Timber flows in both directions across the Irish Sea. Indeed, the timber market in Ireland operates on an all-island basis with roundwood and processed timber flowing smoothly in both directions between Northern Ireland and the Republic

It is critical to the health of the forestry sector that, so long as the Irish processing market remains undersupplied with domestic timber, that there is no interruption to the importation of sawlog.

While it is not clear exactly the scale of sawlog imports from the UK, empirical evidence is that as much as 250,000 m<sup>3</sup> is imported each year for the sawmills. Taking that there was 1.87 million m<sup>3</sup> of sawlog processed by the sawmills in 2015, it is obvious that imports are a crucial part of the supply chain of Ireland's sawmills.

The UK is the key export market for Irish processed timber.

## Domestic Timber Supply

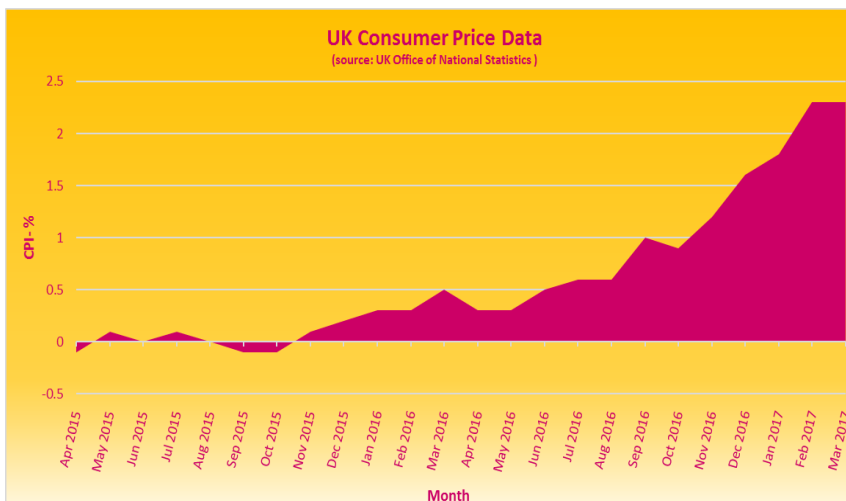
Timber supply in Ireland is set to increase significantly over the coming decade. The total harvest of commercial roundwood in Ireland in 2015 was 3.02 million m<sup>3</sup>. This is forecast to increase to over 6 million m<sup>3</sup> by the mid-2020s and increase further still to 7.8 million m<sup>3</sup> by the mid-2030s.

Of this approximately 10% of the 2025 figure and 5% by 2035 is sourced from Northern Ireland and so its availability could be restricted in the Irish market depending on the nature of the border controls put in place post-Brexit.

This upturn of material will be welcome for the sawmills, removing the need to import materials to the current extent and contribute to the increased demand being forecast. Nonetheless, with the UK as the primary export market it will be crucial for Ireland's processors that the timber can flow in both directions unhindered.

Of potentially greater importance, processors need exchange rate stability and the uncertainty of Brexit continues to threaten this.

Annual Forecast of Net Realisable Volume (000 m <sup>3</sup> overbark)			
Year	Thinnings	Clearfell	Total
2016	968	2986	3955
2017	980	2981	3961
2018	968	3046	4015
2019	1185	3125	4310
2020	1149	3305	4453
2021	1232	3392	4624
2022	1228	3707	4936
2023	1345	4123	5468
2024	1253	4583	5836
2025	1261	4865	6126
2026	1218	5152	6369
2027	1211	5202	6412
2028	1151	4890	6041
2029	1113	5014	6126
2030	1115	5256	6371
2031	1017	5388	6405
2032	943	5699	6642
2033	920	5843	6763
2034	898	6116	7013
2035	886	6987	7873



*The UK will leave the EU on or before the 29 March 2019 unless an extension to the negotiating period is mutually agreed by both the EU and the UK.*

## Brexit Critical Path



## No Agreement – What Then?

Should the negotiations fail to reach an agreement then the UK will continue to exit the EU on 29 March 2019. This is often referred to as a “disorderly exit” and will result in the UK falling back to pre-existing World Trade Organisation tariffs. Sawn softwood will have 0% tariffs though wood panels would see a 7% tariff under current rules.

This will create both trade and border related difficulties for Ireland and must be avoided for all concerned.



## Timber Exports

According to IFFPA, the total value of forest product exports in 2015 was €355 million. This resulted from 3.3 million m<sup>3</sup> of timber harvested in Ireland combined with the imports already identified.

The total export figure can be further broken down as Sawn Softwood being €121 million and Panel Board exports amounting to €190 million.

In 2015, IFFPA reports that Ireland was the second largest exporter of OSB and particleboard to the UK behind Germany while it was the largest exporter of MDF to the UK. Importantly, our major competitors in these product categories are other EU nations.

In relation to sawn softwood, Ireland exported €67.13 million to the UK in 2015. This ranked Ireland at number 4 in the exporters list, with Sweden, Finland and Latvia ahead in the list. Again, it is important that these are all EU nations that will face an identical trading arrangement with the UK post-Brexit. Additionally, the UK sourced just 37% of their sawn softwood needs from the domestic market.

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*A New Era in Irish Forestry*

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YouTube: See us on YouTube –  
search Veon Forestry.



## Post-Brexit

There is a narrative in the public discussion on Brexit that would have you believe that the UK is going to economically disappear post-Brexit. This is clearly ridiculous and the narrative should change to remove any chance of such a perception. On 30 March 2019 the British public will still need the same produce in their shops that they do today and while price inflation will reduce spending power, the UK has for generations proven itself to be a hugely resilient nation.

New trade barriers may emerge – particularly if the UK continues with a hard Brexit that sees them leave the Customs Union as well as the EU. Whatever trade barriers emerge they will be the same for Ireland as they will be for other EU nations looking to trade with the UK. This point is critically important for the forestry sector to understand as Ireland's major competitors for our most significant timber products are other EU nations.

Ireland must look to be as informed and ready for such trade barriers as is possible. The Irish government identifies two deals being negotiated over the coming 18 months. One is the exit deal itself (the UK's financial commitments, citizens' rights and border matters) with the other being the nature of the future relationship.

It is critical for us in Ireland, with respect to our particular economic and political relationship with the UK, that we ensure that we are fully informed and influencing of what is taking place in the negotiations. Through this, Ireland can be more informed and structurally ready for Brexit and thereby retain or even increase its market share of relevant timber products in the UK.

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