Market update – winter 2020

December

2020 has been a turbulent year all round with Covid impacting on every part of UK industry. The timber pallet and packaging industry has demonstrated its importance to the economy and its resilience in responding effectively to the challenges associated with the pandemic. This quarter's report will look at three key areas impacting timber and pallet buyers – market trends, Brexit and packaging waste.

Market Trends

UK or Baltic pallet timber remains the first choice for the pallet and packaging industry. We reported in our Autumn Market Update that, as we emerged from the first Covid lockdown, a range of factors at both the UK and global level were putting extraordinary pressure on both the availability and price of timber. These factors have continued unabated, and we are now experiencing an accelerated increase in timber prices which for some particular sizes, has now reached record levels.

UK pallet demand intensified throughout Q4 through a combination of continued post-Covid recovery as well as additional preparedness for the end of the UK's post-Brexit transition period. However, we are also impacted by what is happening in other sectors, and the pallet industry often has to compete with the fencing sector for core and sideboard production and with the wider UK construction sector which continues to be very buoyant. From a global perspective, demand for timber is also intensifying as other countries and markets fully emerge from Covid, so we are not feeling any respite at this particular time.

Furthermore, log supply to the mills continues to be constrained with the combined effects of the well-documented backlog in Irish tree felling licences and a general struggle with Baltic log supply.

Typically, in any 'normal' year, the seasonal cycle would see increased timber availability in Q4 / Q1 with prices settling as construction demand falls away, but this is not a typical year, with mills quoting long lead times on new orders. It seems certain that timber prices will remain strong and we have been advised of unprecedented rises into Q1. Speculating on the picture beyond that isn't easy. Historically there has generally been a price differential between UK and Baltic mills, but given the global demand driving prices, this impact is now marginal.

European, monthly and quarterly timber price movements are well documented in several respected, independent indices; the FEFPEB Pallet Timber Price Index covering UK, Germany, Netherlands, Italy and Sweden, the German HPE, French CEEB and UK Poyry indices (all available either online).

BREXIT – ISPM15 Heat Treatment Status

To date, there has been no eleventh hour 'U-turn' regarding the issue that *"From the 1st January 2021, it will be a legal requirement for all wood packaging material moving in both directions between the UK and the EU, to be compliant with a treatment and mark, as specified in the International Standard for Phytosanitary measures No 15 (ISPM15)."*

The industry is in regular contact with relevant DEFRA personnel and is advised that they see no change forthcoming. There has been some talk of the UK adopting a risk-based approach, in the first six months, to inspecting inbound timber packaging flows, given that wooden pallets moving into the UK from the EU represent a low risk. Having consulted with DEFRA, we can advise that this is most definitely not the case and more importantly, for our customers exporting into the EU, we have not had it confirmed that the EU countries border inspection personnel will be reciprocating such a pragmatic approach.

It's also important to consider all parts of the supply chain. EU suppliers into UK businesses that don't ship supplies on ISPM15 pallets will face penalties. Full details can be found here:

www.legislation.gov.uk/uksi/2020/1089/introduction/made

We strongly advise export pallet users to plan to use ISPM15 compliant pallets from the 1st January 2021. In readiness to support our customers to fulfil their new export requirements we have focussed on three significant developments.

Firstly, our Scott Pallets – Bathgate site has been approved to carry out repairs to EPAL licenced Euro pallets using pre-heat-treated components. The site is the first in the UK to have its application approved. This will allow us to turn around ISPM15 compliant EPAL euro pallet repairs in a reduced timescale.

Secondly, following the launch of the UK Wood Packaging Materials Marking Programme – Addendum – Temporary Easement ISPM15 Repairs, Scott Pallets has registered 27 of its ISPM15 accredited sites to the scheme. This will allow us to turn around ISPM15 repaired pallets quicker, helping to ensure there are ISPM15 pallets available for our customers to ship their goods from the 1st January 2021.

Thirdly, we have significantly increased our total available ISPM15 kiln capacity nationally. As the largest accredited provider, we now operate 23 number of kilns in ten separate locations nationwide. For reference the difference in heat-treated and kiln-dried pallets is explained:

www.scottgroupltd.com/news/customer-guide-differences-between-ispm15-compliant-heat-treated-kiln-dried-pallets/

The rules for shipping goods between the Republic of Ireland, Northern Ireland and the UK mainland remain as previously advised. It's worth reemphasising them as they are more complicated due to the Northern Ireland protocol.

- WPM going from UK mainland, through NI and into ROI - **need to be HT**
- WPM going from UK mainland direct to ROI - **need to be HT**
- WPM going from UK mainland to an EU destination – **need to be HT**
- WPM going from UK Mainland to NI - **need to be HT (but not vice-versa)**
- WPM coming from an EU destination to mainland UK – **need to be HT**
- WPM coming from ROI through NI and into UK mainland – **need to be HT (assuming that they are only transiting NI)**
- WPM coming from ROI direct to UK mainland – **need to be HT**
- WPM going between NI & ROI - **are exempt and <u>do not</u> need to be HT**

Packaging Waste Target Update

Defra has recently published interim packaging recycling targets for business for 2021 and 2022. The figures are based on responses received from the 2019 consultation on packaging reform and with consideration of the current market and wood targets, they have been reduced from 48% to 35%.

	2021 business target	2022 business target
Paper	79.0%	83.0%
Glass	81.0%	82.0%
Of which by remelt	72%	72%
Al	66.0%	69.0%
Steel	86.0%	87.0%
Plastic	59.0%	61.0%
Wood	35.0%	35.0%
Overall recycling	76.00%	77.00%

This news is very welcome, as the high PRN prices experienced previously added a significant cost burden to the manufacturers and users of wooden pallets and packaging.

Interestingly, every other packaging material, including plastics, glass, and metal, have seen an increase in targets from next year. This is a positive sign that the government now recognises a clear difference between these and the unique environmental credentials of wooden materials, which are critical components of a truly circular, sustainable packaging economy that encourages more reuse before recycling.

We anticipate a growing number of businesses will look to engage in the development of a tailored, sustainable pallet solution which minimises timber packaging waste and encourages pallet reuse and recovery. Our experienced nationwide team of timber and pallet procurement specialists, design and technical consultants, and customer account managers are available to support your business to navigate the challenges and opportunities ahead.

Serving local industry nationwide

Norman Scott

Owner and Group Operations Director