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## American hardwood trade optimistic despite difficult trading conditions

**D**elegates from 18 countries attended AHEC's 8th European Convention held in Brussels on 2nd and 3rd November. 180 participants heard papers focusing on US hardwood markets. These included papers by John Wadsworth, of UK based consultancy Intermark, on trends in US hardwood exports; Ed Pepke of the UN/ECE Timber Committee Secretariat on the conclusions of the Committee's recent market discussions in Rome; and from Rick Barrett, Editor of the *Hardwood Review Export* on the US domestic market. The presentations highlighted recent improvements in hardwood consumption in Europe, and the significance of the EU for American hardwood exports. Intense market discussions indicated that, despite tough trading conditions for US hardwoods in Europe due to the weak Euro, there are reasons to be optimistic about the future of European sales. The size of the US hardwood resource, continuity of supply, strong marketing efforts, internationally recognised grading standards, diverse range of species, and continuing fashion for temperate hardwoods are factors which combine to counter the effects of turbulent exchange rates. This article reports on some of the themes raised at the Convention.

### US Hardwood supply

A mixed picture emerged during the Convention of US hardwood supply prospects. Wadsworth was upbeat, noting that the US hardwood resource is the largest - tropical or temperate - in the world and supports the largest production. Pepke's figures from the UN/ECE Timber Committee indicated that North American hardwood lumber production reached a record level in 1999 of 33.86 million m<sup>3</sup> and is forecast to rise to 34.11 and 34.71 million m<sup>3</sup> in 2000 and

2001 respectively.

However Barrett's analysis of the US supply situation implied that problems may now be emerging on the supply side.

According to Barrett, the economic position of the US sawmilling sector has deteriorated over recent years despite strong underlying demand for hardwoods. There is overcapacity - something that has always plagued US hardwood producers - which has led to intense competition. Meanwhile costs in the milling sector have risen significantly. Log prices have been driven upwards by firm demand. Higher stumpage prices have meant the industry has been forced to operate with leaner log inventories. As a result, when bad weather limits logging, stocks tend to run low more quickly and lumber prices have become more volatile. Due to rising competition, suppliers have been forced to satisfy the increasing demands of customers for just-in-time delivery, mixed load shipments, colour selection, and improved packaging. All this adds to the financial burden of the sawmills. Changing timberland ownership is also impacting on log availability. The US economic expansion continues to swallow lands previously used for timber production. An increasing area of forest has been bought up by retirees or for second homes, and removed from production.

Given the sanctity placed on private property rights in the US, and the fact that in the eastern US over 70% of the forests are owned by individuals, federal legislation banning harvesting is unlikely. However Barrett suggested that if Gore is elected President, the industry may have to comply with new bureaucratic measures making harvesting prohibitively costly.

**Continued page 6**

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## Editorial

# Too much hot air

The forest sector as a whole received a severe blow during November with the failure of the Climate Change discussions at the Hague. The Summit was meant to lead to international agreement on mechanisms to achieve targets established in the so-called Kyoto Protocol. The Protocol, agreed in Japan in December 1997 by 38 industrialised nations, requires signatory nations to reduce greenhouse gas emissions, mostly carbon dioxide from the burning of fossil fuels, to 5% below 1990 levels by 2012.

But discussions ran into the sand because of differing attitudes to the potential role of carbon emissions trading, and of forests as carbon sinks. At the Hague, the United States argued for unrestricted trading of carbon credits with countries that have more than met their pollution targets. This they believe would be the cheapest and most efficient method of reducing emissions. They also argued that substantial credits should be given for their existing forests and agricultural land as carbon sinks. By contrast, the European Union argued for limits on trading, suggesting that priority should be actual emissions reductions at home.

While there are technical challenges associated with the development of a carbon credit system for forests, there is no doubt that such a system is a worthwhile goal in the battle to reduce global warming. The UN's scientific think tank, the Intergovernmental Panel on climate change, estimates that existing global reforestation plans could cover 350 million hectares, an area slightly greater than the EC. If this target is achieved, it would lead to the sequestration of up to 35 billion tonnes of carbon in 50 years, equivalent to soaking up around 6% of projected carbon dioxide emissions between now and 2050.

Furthermore, the provision of carbon credits for new forests would be a strong incentive for rich industrial countries to transfer financial resources to countries with a particular comparative advantage in carbon sequestration – including many tropical developing countries. Tree growth rates, and therefore carbon sequestration rates, are generally higher in the tropics. In optimal conditions tropical plantations can absorb up to 100 tonnes or more of carbon per hectare in 50 years.

So carbon credits could add substantially to the economic returns derived from tropical tree plantations. And plantations grown for hardwood have particular advantages when it comes to carbon sequestration. Hardwood timbers are often valued for their long term natural durability and will tend to have a long life in use. Carbon removed from the atmosphere in a forest managed for hardwood, rather than pulp for example, is much more likely to be locked away in solid form for many years as a door, window frame or furniture component.

At the Hague Summit, the EU delegates argued that the over-use of carbon credits to achieve emissions reductions targets would distract industrial countries from achieving carbon dioxide emissions at home. But the beauty of carbon credits for timber production is that increased consumption of the final product will also contribute to reduced carbon dioxide emissions. Timber is a far better insulator than any of its construction competitors, and less energy is required to convert timber into a usable building material than steel, concrete or aluminium. Timber in construction not only provides a vital carbon store, but also reduces the need to burn fossil fuels in the first place.

The EU's self righteous stance at the Hague Summit, which was effectively to deny the true potential of emissions trading and carbon sinks, served to discredit some potentially powerful tools for tackling global warming. Yet America's stance was not beyond reproach either. US negotiators knew that the American Congress was not about to accept any international agreement seen to be a burden on the economy. So they went too far in advocating that US' existing forests and agricultural land should count towards emission reduction targets.

The world's forests have been used as a pawn in a political game – and have come out the loser.

Rupert Oliver

# African Hardwoods

## Prices firm and stable

As the rainy season in Africa nears its end, new supplies of the leading African redwood, **sapele**, are restricted. Some suppliers are already reporting that forward orders for sapele are booked through until April, implying that availability will be thin for some months. Supplies of other leading African woods are less restricted, however global demand for many species remains high. In all the major markets, there continues to be considerable interest in African species, which are mostly invoiced in euro-linked currencies, due the weakness of the euro. Prices for most species remain stable at relatively high levels.

The future direction of prices for **sapele** now seems to hinge on developments in the dollar/euro exchange rate; the real availability of supplies during the next logging season; and the extent to which manufacturers are tempted to switch back to meranti now that prices for Asian wood are falling. At the end of November, many European buyers were still sitting on the fence, waiting to see how the uncertain sapele supply situation would develop, and how far prices for meranti would fall, before making the switch.

Forward availability of **iroko** sawn lumber in random sizes is reasonable. In the leading UK market for iroko, there is some evidence of substitution by **framire (idigbo)**

from the Ivory Coast as manufacturers look for a cheaper alternative. Prices for **iroko** remain stable, while prices for **framire** have strengthened marginally since last month. **Utile** continues to be difficult to source, a situation that is unlikely to change. **Opepe** dimension stock is removed from our price series this month as nearly all opepe is now supplied as decking.

## Major changes in Africa

News from supplying countries confirms that a major geographical shift in the sources of logs and rough sawn lumber for export from Africa is currently underway. There is no doubt that the volumes of primary wood exports from both Ghana and the Ivory Coast are in long term decline.

**Ghana** is forcing through a radical transformation of the wood industry in line with their commitment to a sustainable annual cut of 1 million m<sup>3</sup> from Ghana's remaining area of production forest which amounts to no more than about 760,000 hectares. At present installed milling capacity in the country is estimated at 3.7 million Cu.m per year. Stumpage rates have been radically increased, so much so that it seems inevitable that the majority of the nation's mills, which currently number over 100, will be forced to close. Only around 20 of the most profitable mills are expected to survive the "rationalisation" process, and very few will be supplying rough sawn lumber. Some Ghanaian shippers are already telling prospective buyers that they will no longer take orders for rough sawn lumber, even kiln dried, as all wood will be machined prior to export. In the **Ivory Coast** forest resources have dwindled to such an extent that processors are relying more and more on raw materials imported from neighbouring countries.

Inevitably, production restrictions in two of Africa's leading exporting nations, have increased wood demand from other countries. **Cameroon** has become the dominant supplier of most primary species, but felling restrictions there have also increased significantly over the last 12 months, and many mills are having difficulty obtaining adequate log supplies. In the future, an increasing proportion of African primary wood products will be derived from the countries of the Congo basin, including the **Central African Republic, Congo (Brazzaville), Gabon** and the **Congo Democratic Republic (former Zaire)**. The last country alone contains over half of Africa's remaining tropical moist forest, an area of over 100 million hectares, much of which is isolated.

## African logs indicative prices

	Sept	Oct	Nov
Exchange rates			
Fr.F/£	10.99	11.32	10.95
<b>CAR &amp; Congo (Brazzaville)</b>			
Fr. Francs/m <sup>3</sup> ; FOB Douala			
Grade: B+ & better (good UK sawing quality)			
All diameters in cm			
<b>N'gollon</b>			
70+ (20% 60-69)	1600	1600	1600
<b>Bosse 60+</b>	1650	1650	1650
<b>Ayous 70+</b>	1200	1200	1200
<b>Sapele</b>			
80+ (20% 70-79)	1950	1950	1950
<b>Sipo</b>			
80+ (20% 70-79)	2500	2500	2500
<b>Gabon</b>			
Fr. Francs/m <sup>3</sup> ; FOB Douala			
Grade: B+ & better (good UK sawing quality)			
All diameters in cm			
<b>Acajou</b>			
70+ (20% 60-69)	1300	1300	1300
<b>Sipo</b>			
70-79 (10% 60-69)	2100	2100	2100
80-99cm	2450	2450	2450
<b>Liberia</b>			
US\$/m <sup>3</sup> , FOB Liberia			
Grade: B+ & better (good UK sawing quality)			
All diameters 60 cm+			
<b>A. mahogany</b>	190	190	200
<b>Walnut</b>	190	190	200
<b>Iroko</b>	280	280	280

Political events in the former Zaire will be critical to the long term future of Africa's wood supply. The recent peace talks may have improved the outlook, but in the short term, there is still great uncertainty whether any wood will emerge onto international markets from the former Zaire next season.

## Shift to value added

African nations are also shifting progressively towards value added products. Governments in nearly all the leading supplying African countries have made some form of commitment to increased domestic wood manufacturing. However a recent report indicates that this process still has a long way to go. According to the 'Review of the status of further processing of tropical timber in producing countries', which was financed by ITTO and conducted by the International Trade Centre, ITTO producer countries exported US\$3.47 billion worth of further processed timber products - furniture and parts, builders' joinery and profiled wood - in 1998. Of this, the Asia-Pacific region accounted for 83% and Latin America and the Caribbean for most of the balance (16%). Africa's share amounted to only 1% of the total. ITTO now plans to play a leading role in narrowing the gap. As a first step, ITTO is financing an international conference to promote further processing in Africa, to be held in Gabon next year.

## African Sawn Indicative Prices

	Sept	Oct	Nov
Exchange rates			
Fr.F/£	10.99	11.32	10.95
<b>Cameroon, CAR, Congo (Braz.)</b>			
Fr. Francs/m <sup>3</sup> , FOB			
Grade and size: FAS, air dried, width 6"+, length 6'+			
<b>Sapele</b>	3550	3550	3600
<b>Sipo</b>	4500	4500	4500
<b>Bibolo</b>	2750	2750	2750
<b>N'Gollon</b>	3500	3500	3500
<b>Afromosia</b>	5600	5600	5600
<b>Iroko</b>	3700	3700	3700
<b>Cote d'Ivoire</b>			
Fr. Francs/m <sup>3</sup> ; FOB Abidjan			
Grade: FAS, air dried			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
<b>Iroko</b>	3650	3650	3650
<b>Mahogany</b>	2750	2750	2750
<b>Framire</b>	2050	2050	2100
<b>Samba No.1 C&amp;S</b>	1525	1525	1525
Dimension stock			
<b>Azobe</b>	2500/ 2900	2500/ 2900	2500/ 3000
<b>Opepe</b>	2100/ 2800	2100/ 2800	na na
<b>Dabema</b>	1950/ 2550	1950/ 2550	1950/ 2550
<b>Gabon</b>			
Fr. Francs/m <sup>3</sup> , FOB			
Grade and size: FAS, width 6"+, length 6'+			
<b>Okoume AD</b>	2250	2250	2250
<b>Okoume KD</b>	2500	2500	2500

# Plywood

## Sluggish demand and low pricing

Prices for Indonesian plywood have been static at around Indo96 less 24/25% for several months, and lower prices may be available for larger orders. Some analysts suggest Indonesian prices may soon start to rise, given production is set to decline as the region enters the monsoon, and the lengthy holiday season during Ramadan and Chinese New Year is imminent.

However the demand side of the equation is still very patchy. Although demand has been fair in the United States and Japan over recent weeks, buying in both Europe and China is very subdued.

Predictions that gaps may start appear in UK stocks during the autumn have remained largely unfulfilled as underlying demand has fallen away. This may partly reflect very wet weather which has slowed construction activity. UK stocks are still reasonable given current levels of demand. Importers are reluctant to commit forward without genuine signs of a price increase. German demand has been hit by continuing weakness in the construction sector and buying is restricted to occasional parcels at very low prices. Some Indonesian suppliers are now neglecting the Indo96 list, and sales are instead being settled by bid.

While prices for hardwood plywood supplied to Europe have remained static, freight costs have been on the rise and margins have deteriorated. Weak demand has forced shippers to shoulder a large part of the burden to absorb extra costs. Suppliers are having to ensure full use of cargo space before shipment - with the result that many sailings are delayed.

While Brazilian hardwood plywood mills are able to undercut Indonesian producers in Europe and offer more reliable shipment, prices are unattractive and shippers are concentrating sales efforts on the US and the Caribbean. However UK importers are looking for more Brazilian combi plywood, comprising an elliotis core and virola face, as prices are significantly lower than for hardwood plywood.

Elsewhere, demand for imported plywood in China remains slow due to the current tariff structure which favours domestic production from imported logs. There is some expectation that China's accession to the WTO next year will lead to a phased reduction in import tariffs on plywood, perhaps initially to 8% from current levels of 15%. However Chinese demand is unlikely to pick up before then.

# Asian Hardwoods

## Malaysian sawn timber

### Prices continue to slide

Forward prices for dark red meranti sawn lumber supplied to the European market continued to fall during the first half of November. Falling prices reflect high stocks and continuing weak demand in Europe. The weakness of the euro has been another incentive for Malaysian shippers to soften prices in the face of stiff competition in Europe. Meanwhile European importers are selling stock, large quantities of which were bought at higher prices during the first half of 2000, to manufacturers at below cost in an effort to off-load inventory. As a result demand for forward shipment of dark red meranti to mainland Europe is still very limited. However some agents report some increased interest over recent weeks in the forward market from UK importers who have been less affected than euro-zone importers by weak currencies.

Some analysts are suggesting that forward prices for meranti sawn lumber may now have touched bottom. The large shipments into Kuala Lumpur of cheap meranti from Sumatra came to a halt several months ago and the monsoon is already underway in Western Malaysia. Reports are beginning to emerge that stocks in Malaysia are running thin and that some mills are shutting down operations earlier than usual in the run-up to the holiday period beginning late December. If so, the supply demand equation may become better balanced and prices may begin to rise early in the new year. However much hinges on the direction of the dollar-euro exchange rate and on price developments for competing African hardwoods, notably sapele.

Prices for other Southeast Asian sawn lumber supplied to the European market, including keruing and yellow balau (used extensively for decking) have also fallen over recent weeks due to high stocks in Europe and the weakening euro.

Reports from major Asian markets for Malaysian sawn lumber are generally not favourable. The Japan Lumber Journal reports that the Japanese market has been hit by the slowdown in wooden housing starts. Malaysian sawn lumber is also losing market share to PVC in Japan. However keruing sawn lumber is benefitting in Japan from new requirements for wood durability in external applications recently introduced under the Housing Quality Assurance Law. In Korea, imports of sawn lumber - primarily meranti for door frames - were

## Asian Sawn Lumber Indicative Prices

	Sept	Oct	Nov
Exchange rates:			
M\$/£	5.62	5.49	5.41
US\$/£	1.48	1.44	1.42
M\$/US\$	3.80	3.80	3.80

### Malaysia

All prices US\$/ton, C&F UK port

#### West Malaysian Dark Red Meranti

Grade: Select & better GMS; Kiln dried

Size: Width 6"+ avg 7"/8"; Length: 8'+ avg 12'/14'

1"	770	770	740
2"	775	775	750
2.5"	780	780	760
3"	800	790	785

#### Keruing

Grade: Standard & Better GMS

Size: Random or fixed 16'+

1"-3"	555	555	540
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#### Kapur

Grade: Standard & Better GMS

Size: Width 6"+, avg 7"-8"; Length 16'+

1"-3" plnd	565	565	555
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#### Myanmar Teak

US\$/50 cu ft, FOB Rangoon/Bangkok/Singapore

Grade: Air dried boards

Size: Width 6"+ avg 8", Length 6'+ avg 8'

1"	2650/ 3500	2650/ 3500	2650/ 3500
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*Note private-sector prices for Myanmar teak boards vary considerably from one mill to the next. Prices from the cheapest private mills in Myanmar currently start at the lower end of the range. The most expensive mills, many based in Singapore and Bangkok, are selling boards from best quality teak logs at the top end of the range.*

sharply down during the first 3 quarters of this year due to poor demand in the housing sector. Total imports of sawnwood to September amounted to 560,069 m<sup>3</sup>, only 59% of imports to September last year.

## Teak

### Divided market

Nowadays the teak market can be effectively split into two sections. First, there is the traditional market for large sized logs from Myanmar, which continue to be sold through the Myanmar Timber Enterprise during regular monthly auctions. Second, there is an evolving international market for smaller dimension plantation material from a number of locations, for example West Africa and the Pacific.

Logs from auction sales in Myanmar are absorbed partly by sawmillers in Myanmar, Bangkok, and Singapore for conversion into large boards for specialist purposes; and partly by veneer and plywood manufacturers notably in Italy and India. Recent auctions in Myanmar have been well supported and prices stable, although volumes available for sale have been erratic.

# Asian Hardwoods

## Teak cont.

The export trade to Europe in large boards from Myanmar teak now carries on only at very low levels as most large European garden furniture manufacturers, previously the largest buyers, have relocated production to the Far East. However small volumes continue to be purchased for specialist use such as boat building.

This month teak boards from one of the better quality private Myanmar mills were selling to Europe (FOB Rangoon, air dried, width 6"+ and length 6'+, no guaranteed average) for US\$2900/50cu. ft. (US\$2048/m<sup>3</sup>). Prices are currently stable. Bottlenecks in supply earlier this year, due to increased scrutiny of loads by the Myanmar authorities in a crack down on unofficial exports, have now cleared up. However inspections are now more rigidly adhered to than in the past.

Much of the wood from teak plantations is destined for use in the furniture sector, notably in Italy, the US and India. Some countries, such as Nigeria, export most of their production as small diameter logs or squares. Other countries, including Ghana and Ivory Coast, add value through the production of dimension stock prior to export. Import data from Italy suggests that teak log imports, mainly from Ivory Coast and Burma, are higher this year than last. There are also reports of firm US demand for West African teak dimension stock.

## Southsea logs

### Quiet demand

Weak demand in the major markets for Southeast Asia's logs has been putting downward pressure on prices throughout the region. In mid November, *ITTO's Market News Service* reported that demand for southsea logs was relatively quiet in Korea, Japan, China and the Philippines. Overall availability of southsea logs on international markets has been relatively restricted this year. Sarawak, the leading log exporting region, has cracked down on illegal log exports, while Sabah shippers have been giving priority to local markets. By the end of November, the onset of the monsoon has led to slowing log production in Sarawak. In Papua New Guinea and the Solomon Islands, overall production is still

described as good, with only occasional reports of poor weather. The political situation in the Solomon Islands is now calmer and the big producers are operating again at full capacity.

Japan's imports of tropical logs have continued to fall this year. Total imports of tropical hardwood logs in the first half of this year declined about 10% from the same period last year because plywood mills have tended to shift some production to softwood logs from New Zealand and Russia. Around 90% of tropical hardwood logs are consumed by plywood mills. Volumes from Sarawak remained largely unchanged, but supplies from the second largest supplier, Papua New Guinea, fell by 23%. Logs from West Africa were up by 72% to 143,320 cubic metres but their market share is still small at about 8%.

While Japan has declined in importance, China has significantly increased log import volumes over recent years and is now the leading market for southsea logs. Demand has been boosted as the Chinese authorities have cut domestic log production, while at the same time maintaining plywood import tariffs at 15% and removing log import tariffs. Recent reports from China indicate continuing strong demand. For example, the state news agency, Xinhua, reports that timber imports through the port of Shanghai reached 300,000 m<sup>3</sup> in the third quarter of this year, surging 50% over the previous quarter. Log imports made up nearly 70% of the volume (208,000 m<sup>3</sup>). Total imports through the port in the first 9 months of 2000 have reached 615,000 m<sup>3</sup> - compared with 750,000 m<sup>3</sup> and 946,000 m<sup>3</sup> for the whole of 1998 and 1999 respectively. The third quarter surge is attributed to a "decorating craze" as Shanghai residents are buying new apartments at the rate of 700 each day. By contrast, the Korean market for hardwood logs, primarily for plywood manufacture from PNG, Sarawak and the Solomon Islands, continues to be relatively weak. Total imports of hardwood logs in the third quarter reached 213,000 m<sup>3</sup>, only 80% of second quarter imports. However stocks at the end of the quarter were still sufficient for 10 weeks at current rates of use.

## Japan

### Growth forecasts up

Japan has raised official growth forecasts for fiscal 2000 to 1.5% from the 1% forecast last December. The move is prompted by an increase in consumer spending and investment in new equipment by the private sector. Also in October, the Japanese government adopted another stimulus package worth nearly 11 trillion yen in its latest bid to stimulate the nation's stagnant economy. The package features direct fiscal outlays of 3.9 trillion yen, and calls for further spending financed by a bond issue, left-over funds from previous budgets, and an expected increase in tax revenue. The plan envisages total spending of 4.7 trillion yen by both the central and local governments on public works projects and other social infrastructure. However, the construction sector continues depressed for now. Housing starts in September fell 3% year on year to 105,613 units, the fifth straight month of decline.

Japanese Tropical Log Imports				
000s m <sup>3</sup>				
	1997 Year	1998 Year	1999 Year	2000 Jan -Jun
Sabah	57	130	201	96
Sarawak	2824	1976	2013	988
Total Malaysia	2881	2106	2214	1084
Indonesia	0	31	59	87
Solomon Is	374	172	153	49
PNG	1965	877	966	431
<b>All Southseas</b>	<b>5233</b>	<b>3192</b>	<b>3404</b>	<b>1583</b>
Africa	666	153	202	144
<b>Total</b>	<b>5899</b>	<b>3345</b>	<b>3606</b>	<b>1727</b>

Source: Japan Lumber Journal

## China

### More good news

Most of the economic news emerging from China has been good over recent weeks. The Chinese government has announced that the economy grew faster than the forecast 8.2% during the first nine months of 2000. Concerns over weak domestic consumption have been partly offset by retail sales figures for October which were higher than expected due to relatively strong spending during China's National Day holiday. The October rise marked the fourth straight month of retail sales growth and was one of the highest this year. It has been encouraged by a series of interest rate cuts and other stimulus measures. Analysts are now predicting continuing strong demand for wood products during the fourth quarter due to anticipated increases in residential building in both urban and rural areas and increased demand for joinery products for new houses.

China wood imports							
		Logs		Sawntimber		Plywood	
		Volume (1000 m <sup>3</sup> )	Value (1000 US\$)	Volume (1000 m <sup>3</sup> )	Value (1000 US\$)	Volume (1000 m <sup>3</sup> )	Value (1000 US\$)
1997	Year	4471	677788	1325	276822	1489	605498
1998	Year	4823	599091	1690	348120	1691	543617
1999	Year	10136	1248631	2178	512997	1042	415859
2000	Jan-Jun	6348	850230	1660	440288	505	220376

# Special report - AHEC Convention

## Continued from page 1

Barrett suggested these trends imply that buyers will have fewer options when sourcing American hardwoods in the future. Overall log quality is tending to fall, which means the availability of higher grades and thicker lumber will tend to be more constrained. Buyers will increasingly have to forge stronger ties with suppliers to ensure their needs are covered and to overcome the general trend towards increased price volatility.

### Domestic demand

US hardwood lumber consumption has risen progressively over the last decade in response to unprecedented economic growth. According to Pepke, the UN Timber Committee forecast that the upward trend in US consumption of hardwood lumber would continue, rising in 2000 and 2001 by 0.7% and 1.6% respectively to record levels of 31.7 and 32.2 million m<sup>3</sup>. However, Barrett suggested that the US economy may well be slowing faster than the numbers indicate. US layoffs and restructurings are increasing and the stock market does not know which way to turn from one day to the next. Inflation is higher than expected. Rising energy costs are an increasing problem. Housing starts have slowed during 2000 and although rising again in September, most analysts see this as temporary. Inventories at furniture plants and retailers are now growing as fewer people are buying. According to Barrett, these trends should soon feed through into declining US hardwood sales.

### Rising import penetration

Barrett identified another notable trend: the rising degree of US import penetration by overseas furniture manufacturers. In the US over 20% of the furniture sold this year will be imported. Ironically, much of this volume will be made from lumber sawn in the US and shipped overseas. This trend looks set to continue given the outdated nature of the US furniture sector, and the huge savings on labour costs, which average around US\$60 per month in China

compared to US\$2000-3000 in the US. In future the US furniture industry may have to focus less on manufacturing and more on assembly, marketing and design.

### US Export Trends

Wadsworth noted that the volume of US hardwood primary products (logs, lumber, veneer plywood) exports has grown three fold since 1987. Veneer has experienced the largest rate of growth due to increased use of particleboard or MDF which require decorative surfaces. However lumber remains the main product accounting for 65% of total export value. Since 1983, US exports of hardwood lumber have increased at a rate of 6.4% per annum by volume and 10.1% per annum by value.

Wadsworth showed that since 1987, there has been significant shift in the major destinations for US hardwood lumber exports. In that year North East Asia (Japan, Korea, and Taiwan) and Europe were the two most important destinations. However, by 1999 Canada had emerged as by far the largest export destination, while Europe remained second. North East Asia has declined in importance, while South East Asia (which includes China) has seen the most rapid growth.

### Europe still crucial

Wadsworth emphasised the reasons for Europe remaining a major focus for US exporters despite existing trade problems. Europe is significant not only for the sheer size of market demand, but also because it achieves higher values. Denmark, Sweden, UK, and Germany afford the highest average unit values for US exporters in the world. Although China and Mexico are high volume markets, they still offer the lowest unit value for exporters.

Wadsworth highlighted the increasing importance of the Middle East as an export market. For example Saudi Arabia is the now the fourth largest importer of American red oak and UAE the sixth largest importer of American ash.

### Changing export structure

Wadsworth noted the increasing diversity of species exported by the US over the last 15 years. As recently as 1987, 47% of US exports were of red oak and 17.9% were of white oak. No other species accounted for more than 5%. However, by 1999 white oak enjoyed 21.5% of the export volume, while ash, maple, cherry, tulipwood and red alder each accounted for over 5%. All of this is at the expense of red oak, whose share has halved to just 22%. This trend is

not explicable on the basis of price - red oak's price position has hardly changed compared to the other US species. The change partly reflects the fashion in furniture for hard maple and cherry, but is also a tribute to the efforts of AHEC to market and provide technical information on the full range of US hardwoods.

Barrett commented on the changing grade requirements amongst consumers of US hardwoods. Historically overseas markets, especially in Europe, have been big consumers of clear upper grade hardwoods. However, more and more lower grade lumber is now being bought overseas.

### Prices and exchange rates.

The impact of changing exchange rates on US hardwood exports was a focus of discussion. Wadsworth showed that the euro's weakness over the last 12 months has led to US hardwood prices for European importers being up to 25% above US f.a.s. levels. This has inevitably hit US imports from euro-zone countries. He noted that the UK pound has fared better over the last two years, and recent volumes to the UK have therefore held up. By contrast, China's currency is pegged to the dollar and so Chinese importers have enjoyed stable import prices. However Wadsworth noted that there are anomalies, illustrating that exchange rates are not always dominant. For example, Mexican imports of US hardwoods have strengthened even as the Mexican peso has weakened.

### Competing sources of supply

Market discussions during the Convention included numerous references to the potential impact of competing supply sources on US hardwood export markets. Barrett made the point that globalisation within the hardwood sector over recent years has ensured that markets generally have become more competitive.

Over recent months, the weak euro has encouraged European importers to look for cheaper supplies from Eastern Europe. However the consensus view at the Convention seemed to be that European hardwoods are still not significant competitors to US hardwoods. Unlike US white oak, Eastern European oak is generally available only in shorter lengths and very little is square edged. Grading standards for US and American species are not comparable. In certain species, for example European maple, colour and working qualities are very different from their US counterparts so cannot be directly substituted. Recent inward investment into Eastern Europe

Regional consumption of US hardwoods - 000m <sup>3</sup>			
	1987	1993	1999
North East Asia	529.5	523.7	330.8
Western Europe	507.9	725.6	801.0
Canada	452.3	702.6	950.5
Latin America	100.9	124.5	237.0
South East Asia	16.6	93.5	316.6
Others	44.2	76.8	106.6
Total	1650.7	2246.9	2742.5

Source: Intermark

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may lead to some increased competition in the future, but there is unlikely to be widespread substitution.

More significant may be the trend towards relocation of Western European furniture plants, notably from Germany and Belgium, to low cost Eastern European countries such as Poland, Hungary, the Czech Republic and Romania. This trend is already advancing rapidly and may serve to reduce overall demand in Western Europe. A number of speakers also referred to the potential for increasing competition from tropical hardwoods as these countries benefit from US exporters exchange rate problems and from rising inward investment. Wadsworth noted that tropical hardwoods are showing signs of a come back in various regions of the world.

## US Hardwood Market

The following summary of prevailing market conditions for US hardwoods is compiled from information provided at the AHEC Convention:

■ **Supply:** In the short term, US inventories of lumber are currently rising, but at a relatively slow rate. In recent weeks, log supplies have been steadily improving as weather conditions have improved after an extraordinarily wet spring and summer in the Northeast. However, there are some specific items in oversupply, notably kiln dried White Oak. A significant drop in prices due to declining US demand and rising inventories is not forecast. Prices may trend downwards but few analysts predict a market collapse.

■ **Export trends** - Through August 2000 hardwood exports from the US are up 8.6% in volume, 9.3% in dollars. The most notable increases: 96.9% increase in volume to China, 59.9% to Malaysia and 52.7% to Saudi Arabia. Decreases of note include 30% to France, 15% to Germany, 16% to Taiwan, and 17% to Japan. Growth of China's imports is being driven by the development of furniture and component manufacturing, much for re-export to North America and Europe. The Chinese now supply nearly 40% of the wood furniture sold in the United States.

■ **UN forecast:** in October the UN/ECE Timber Committee forecast that US sawn hardwood exports would increase by 3.3% in 2000 and by 3.9% in 2001 to a record level of nearly 3 million m<sup>3</sup>. However Pepke made the point that the UN forecasts of American hardwood exports to Europe may be over optimistic given current evidence

of slowing demand.

■ **European markets** - purchasing has slowed considerably due to the weakening of the euro. Buying now tends to be short term, restricted to small lots on a just-in-time basis. Stocks are low and there is lot of cross trading between importers to fill gaps as they arise. Nevertheless underlying demand remains good, and opportunities for increased substitution by European hardwoods remain limited. Therefore the current slowdown may be only temporary, and buying is likely to improve again in the first quarter of 2000.

■ **Other markets** - Asian markets should remain steady, although some slowing in demand is anticipated in early January due to the Chinese New Year. Competition will continue to be very intense in Asia and North American shippers are expected to come under intense pressure as importers look for low prices. US exports to the Middle East may increase in the next few months as construction continues strong and high oil prices have encouraged spending. Strong growth in the Mexican market is expected to continue.

## Species highlights

■ **Ash** - the UK is the US leading export market outside of North America, followed by Japan and China. Over recent years imports into Japan, Taiwan, and Germany have slipped. At present the Japanese market remains weak while the UK market is steady. Low production levels should keep overall supply and demand in balance. There are signs of increasing shipments to the Middle East over the past month. Pricing is forecast to remain stable.

■ **Birch** - some lower grade Birch is now being exported, but primarily to Far Eastern manufacturers. Birch exports to European manufacturers remain minimal.

■ **Cherry** - over recent years Canada has grown strongly as an export destination for cherry, up from 19,000 m<sup>3</sup> in 1993 to 72,000 m<sup>3</sup> in 1999. Otherwise European countries dominate the cherry market, with Italy and the UK in the leading positions. Over the long term, China, Taiwan, Mexico, and Thailand have all been increasing their purchases of American cherry but at much lower average prices than elsewhere. Considering short term market conditions, demand and prices for upper grade Cherry continues to be very strong. With the U.S. furniture manufacturing sector now slowing, Cherry purchases and prices may have peaked. Prices for lower grades are already moderating in the US.

## US sawn lumber indicative prices

North Appalachian US\$ MBF CIF- W. Europe  
Grade: KD square edged  
Net measure after kilning  
NOTE US prices are highly variable depending on quality and point of origin. These prices are shown only to highlight trends over time.

	Sept	Oct	Nov
\$/£	1.48	1.44	1.42
\$/Euro		0.84	0.85
<b>Red oak</b>			
1"	1985	2000	1925
1.25"	2150	2190	2025
1.5"	2250	2290	2250
2"	2630	2600	2600
<b>White oak</b>			
1"	1600	1600	1575
1.25"	1800	1765	1725
1.5"	2300	2250	2200
2"	2900	2820	2725
<b>Ash</b>			
1"	1400	1390	1375
2"	1800	1775	1700
<b>Tulipwood</b>			
1"	1240	1210	1200
1.25"	1270	1230	1215
1.5"	1290	1240	1225
2"	1310	1265	1245
<b>Cherry</b>			
1"	3725	3700	3550
1.25"	3800	3750	3700
1.5"	3950	3900	3850
2"	4350	4300	4050
<b>Hard Maple</b>			
1"	2900	2900	2750
1.25"	3000	3000	2850
1.5"	3150	3200	3025
2"	3350	3300	3200

■ **Hard Maple** - between 1993 and 1999, Canada's imports of US hard maple rose from 80,500 m<sup>3</sup> to 149,000 m<sup>3</sup>. Over recent years Mexico has emerged as the US second largest export market for hard maple, accounting for around 13,000 m<sup>3</sup>. China is also increasingly important, importing 10,570 m<sup>3</sup> in 1999. The UK is the largest European buyer followed by Germany accounting for 8000 m<sup>3</sup> and 7750 m<sup>3</sup> respectively in 1999. At present, US demand for hard maple is very strong, a situation which may continue over the next few months as buyers are attempting to build inventory levels. However weakening in the US kitchen cabinet and flooring sectors due to slower housing markets, may lead to falling sales of lower grades over coming months.

■ **Red Oak** - Canada is now by far the leading importer, followed by Mexico, Greater China and Taiwan. Since 1993, there has been a general decline in the traditional more developed US export markets such as Netherlands and Germany in favour of new markets in the developing world. At present US domestic sales of all grades remain good. FAS sales in the US may soon start to slow as moulding markets moderate, which will lead to additional availability of Southern stock. Red oak sales into Europe have slowed

**Continued page 8**

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markedly in the second half of 2000 due to the weak euro.

■ **White Oak** - European countries and Canada are the major buyers, with Spain the leading world market by a large margin. Since 1993, Taiwan has fallen away as an export market, while Mexico and recently Greater China have grown in significance. Unlike red oak, white oak is primarily an export species. At present sales of white oak are slow across all grades. Most mills are attempting to reduce the volume of white oak sawn as no significant improvement in the European market is expected in the near future. However southern U.S. producers continue to report reasonable orders and shipments to Spain.

■ **Tulipwood** has gained in popularity since 1993, with leading buying countries being Italy, Mexico, Japan and China. Other destinations continue to offer good potential to expand demand. At present, underlying demand in Italy remains active, although many sellers are staying away because they were unwilling to meet the price discounts required. Tulipwood inventories in the Far East are reasonably large, but sales are still generally good.

■ **Walnut** sales are benefitting from relatively steady pricing and a growing fashion for "lighter dark" hardwoods in some European countries. Over the last 3 months, exports of walnut logs and lumber have been reasonably strong, although demand in Europe has felt the effects of the currency imbalance.

US hardwood lumber exports by country (000s m3)			
	1999	2000	99/00 % chge
	Jan-Aug	Jan-Aug	
Canada	634.7	708.4	12
Mexico	152.4	157.3	3
Italy	122.0	141.2	16
Spain	99.6	116.7	17
Hong Kong	96.1	111.9	16
China	46.5	91.5	97
UK	81.7	89.9	10
Japan	105.7	87.0	-18
Taiwan	76.1	63.7	-16
Germany	43.5	36.8	-15
Bel-Lux	29.8	33.1	11
France	46.4	32.5	-30
South Korea	25.1	31.7	26
Thailand	20.7	24.4	18
Netherlands	20.0	24.2	21
Portugal	14.5	18.5	27
Saudi Arabia	11.5	17.5	53
Malaysia	10.8	17.3	60
Ireland	14.5	16.0	11
Indonesia	16.0	15.5	-3
South Africa	13.9	15.4	11
Denmark	12.8	15.3	19
Sweden	9.4	9.6	2
Greece	5.6	7.6	36
<b>Total</b>	<b>1850.8</b>	<b>2010.3</b>	<b>9</b>

Source: *Hardwood Review Export/FAS*

## Country Reports

The AHEC Convention included a series of break-out sessions covering specific European markets.

### Belgium/France

Underlying economic trends in both France and Belgium are positive - the construction sector is booming and more wood is being used in renovation projects. However demand for solid hardwood in the furniture sector is being undermined by growing customer preference for lower value products. There has also been a significant shift of furniture manufacturing plants from Belgium to Eastern Europe. France is not traditionally a market that readily accepts substitute species. Manufacturers tend to stick to white oak as it is closer to the European variety. American red oak and tulipwood are not favoured in France. However Belgian manufacturers have proved to be more willing to experiment. For the first time, importers in both countries are coming under pressure to supply FSC wood to retailing companies.

### Netherlands

The Dutch furniture sector is very small and has never been a major market. However Dutch importers have traditionally sold significant volumes of hardwood to Belgian and German furniture manufacturers, and are now losing customers as these companies relocate to low cost locations in Eastern Europe. The dollar's strength has been a dominant factor in the Netherlands and has led to slowing purchases of US hardwoods. Although US cherry and maple cannot be readily replaced, buyers are now seriously looking for substitutes. Demand for flooring, particularly rustic flooring, is good. Buyers are looking increasingly for darker colours, so oak may lose market share to tropical woods, notably from Brazil and Africa.

### Spain

The Spanish market is dominated by American white oak, and is likely to remain so - although there has been growing interest in cherry and hard maple. The weakness of the euro has slowed sales in Spain since the summer. Importers have adopted a wait-and-see attitude and are maintaining low stocks. As elsewhere in Europe, the traditional separation between buyers and agents in Spain is breaking down. More and more importers are buying direct.

So far the trend towards imports of dimension stock and other value added products

has not progressed so far in Spain as elsewhere in Europe, partly owing to Spain's long tradition of domestic wood processing and relatively low labour rates. However manufacturers demands for these products are rising. There may be particular opportunities to supply oak strips for the Spanish moulding industry.

Spanish importers were optimistic about the direction of the Spanish economy which has been bouyant for some time, stimulated by relatively low interest rates.

### Portugal

The market for American hardwoods is dominated by white oak. There is increasing interest in red alder as a substitute for cherry. The impact of the weak euro has been even greater in Portugal than in Spain. Sales of American hardwood in Portugal more-or-less ground to a halt after the summer and stocks are now being maintained only at low levels. This may partly reflect Portuguese importers' greater willingness to substitute species. Importers are actively seeking alternatives, particularly from Eastern Europe.

### Italy

Underlying demand for hardwoods remains good, with particularly strong growth of the flooring sector. However, after a good first half of 2000, Italy's imports of US hardwoods have slowed dramatically since August due to the weakness of the euro. Importers are actively seeking alternatives, notably from Hungary, Romania and the former Yugoslavia. There has also been increased interest in African species.

### Greece

Markets for US hardwoods have been undermined by the weak euro. US shippers failure to use the metric system. is a longer term constraint to trade. The market is progressively shifting to higher grades, with an increasing proportion of demand now for FAS material. This trend is mirrored by an increasing preference for hardwoods from northern rather than southern United States. Demand for American hardwoods from the flooring industry has been reasonably bouyant in Greece, although there has been a shift towards alternative Ukrainian oak. Darker coloured flooring is currently favoured, but there is a slow trend towards lighter colours.

### Germany, Austria & Scandinavia

The general economic situation for all the countries of the region is reasonably good, although the weak euro is leading to con-



cerns over inflation. Imports of US lumber are slowing due to the weak euro. By contrast, German imports of US veneer logs have increased rapidly (by 120% in the first 6 months of 2000) as veneer processing costs are now more favourable in Germany than in the US. There is a lot of cross trading of lumber between importers as stocks are being kept at low levels and buying is often just-in-time. There has also been a partial switch from American to European sawn oak. Purchases of European sawn beech, notably from the Balkans, are also increasing. However supply and quality problems associated with European hardwoods limit opportunities for extensive substitution. By the end of this year, US hardwood stocks throughout much of the region will be depleted, so importers may be forced to buy in larger quantities. German stocks of thicker sizes of hard maple are already depleted, and stocks of thinner sizes are at low levels. Stocks of red alder are quite low, and cautious buying is expected to resume in the New Year. Cherry stocks in Germany are reasonable. Demand for ash is rising in Scandinavia. Demand for parquet flooring throughout the region is good.

### **United Kingdom**

Economic conditions are reasonable in the UK and extremely buoyant in the Irish Republic. The UK economy is growing steadily and, with an election due next year, the government has promised extra spending on infra-structure. The Irish Republic's economy is probably the fastest growing in Europe, with some estimates placing growth as high as 8% this year. In stark contrast, growth in Northern Ireland has remained stagnant. The cessation of violence has not delivered growth as many had hoped. While the UK lies outside the euro-zone and has therefore not been so affected by the euro's weakness, wildly fluctuating sterling-dollar exchange rates over the last 12 months have created a high degree of uncertainty. Importers have not had a clear idea how much each new parcel of wood is going to cost. This has resulted in a great reluctance to buy forward and increased reliance on just in time trading - a trend which is set to continue. Stock holdings are generally low compared with previous years. The trend towards lighter coloured hardwoods may now have reached its peak in the UK, and there is now increased interest in "darker light" hardwoods such as walnut. Irish interest in walnut is also increasing.

## **Objective 2000 reaffirmed amid controversy over illegal logging and forest certification**

The recent meeting of the International Tropical Timber Organisation (ITTO) in Japan was an acrimonious affair, with sharp divisions emerging between producer and consumer nations over illegal logging and forest certification. Nevertheless some important Decisions were endorsed, most notably relating to Objective 2000. This is according to a report by Graham Bruford, the UK trade and UCBD delegate to ITTO. Problems at the meeting began when both the Executive Director and the Indonesian Forestry Minister referred to illegal logging in the tropics openly in their speeches and made strong appeals for the ITTO to take effective action. The Indonesian Government stated that illegal logging amounts to at least 60% of the timber felled in the country and is seriously undermining the country's efforts to achieve sustainable forest management. Nevertheless, the Brazilian government, supported by the Malaysians, opposed the initiative making statements to the effect that too much blame for illegal activity is being attributed to producers and not enough attention focused on the activities of the consumer countries, who they accuse of driving demand for illegally sourced material. Despite the disagreement, ITTO eventually decided to send a technical mission to Indonesia to develop an action plan to combat illegal logging and restructure the forest industry.

### **Dispute over certification**

Certification provided another point of contention. Some producer countries were advocating that ITTO should take on a leading role in the development of forest certification in the tropics - effectively becoming a body to oversee, recognise and effectively rubber stamp tropical certification programs. However consumer countries were firmly opposed to this concept on the grounds that certification is a market based instrument which would benefit little from direct government intervention. The consumer countries argued that ITTO's role should be limited to information exchange on certification and the provision of technical and financial assistance to producer countries who wish to develop certification schemes. Further discussion of both illegal logging and certification was deferred until the next ITTO meeting in May.

More positive was ITTO's Decision at the meeting to renew the Year 2000 Objective to ensure that all timber exports from tropical countries come from sustainably managed forests. It was widely acknowledged that progress toward achieving the Objective had not been sufficient, and producer countries were encouraged to develop appropriate action plans to address the constraints now impeding progress. Countries will also be encouraged to set up "ITTO Objective 2000 boards" to build broad-based support for and high level commitment to achieving Objective 2000. A separate project which aims to harmonise the ITTO and African Timber Organisation (ATO) Criteria & Indicators for sustainable forest management was also approved, which should help African countries in their pursuit of the Objective.

### **New publicity programme**

Agreement was also reached on a Communications & Outreach Programme to better publicise the activities of the ITTO and its member countries, and in particular the progress made towards implementing Objective 2000. The ITTO website ([www.itto.or.jp](http://www.itto.or.jp)) is to be improved and a promotional brochure produced.

The ITTO meeting was attended by delegates from 44 member countries and 23 observers from United Nations organizations, environmental non-governmental organizations, and trade and industry representatives. Trade concerns at ITTO are now being more effectively addressed through the newly formed Trade Advisory Group (TAG), which was established at the last ITTO meeting in Lima and which comprises timber industry members from both producer and consumer countries. The Group met several times in the margins of the main meeting and made two statements to delegates making specific reference to the issues of illegal logging, certification, ITTO Objective 2000 and the Communications Programme. The Trade Group now holds an Annual Market Meeting in the margins of ITTO meeting held each May. The next meeting will cover "Regulations for a Sustainable Timber Trade - Relevant Issues."

The next full ITTO meeting will be in Yaounde, Cameroon, between 28 May and 2 June 2001.

# European hardwoods

*Market conditions for European beech have become increasingly difficult, characterised by excess stocks, weakening demand in China, and continuing subdued demand in Germany.*

European sawmills are carrying excess beech stocks fueled by the wood felled during the storms in December 1999. Estimates suggest that some mills are carrying up to twice their normal stock holding of beech, both logs and sawn lumber.

The current weakness of demand from China has been a major cause for concern for the European hardwood sector. In part the problems have been created by European producers with no experience of the Chinese market seeking to offload excess stock and make a quick return last season. Too often European exporters failed to ensure that shipments to China were line with their contractual obligations. Many also failed to insist on payment guarantees prior to delivering the goods. The result has been a lot of complaints and renegeing on payment on the part of Chinese importers.

There are reports that 1000 containers of unsold beech logs and sawn, much of it below the qualities now required by Chinese manufacturers, have built up at Chinese ports. Meanwhile Chinese importers, when they are buying at all, are focusing on purchases of green new season logs only of the highest quality. CIF prices to China for beech edged and sawn lumber have fallen to US\$650/m<sup>3</sup>, about 20% down on the same time last year. The decline in dollar prices is only partly offset by the weakness of the euro. Margins to the Chinese market have also been hit by rising freight rates during 2000. Beech shipments to China are not expected to improve at least until after Chinese New Year.

Prices for high quality sawn lumber of beech in Europe have remained more stable due to strong demand from European

manufacturers - many of which are now looking for alternatives to US hardwoods due to the weakness of the euro. There are reports that Spain has relatively high stocks of sawn beech, which meant German shippers efforts to raise prices to that market have so far been unsuccessful. Nevertheless, after delays due to transport problems in early Autumn, shipments to Spain are now steady and underlying demand continues to be good. The German market is more subdued due to slow construction activity which has hit the inside finishing sector, while demand from stair builders is being undermined by product substitution, notably for glulam.

European beech log markets are very subdued. French public harvests are restricted this year to storm felled logs still attached at the roots and preserved alive. Buyers have been very cautious owing to concerns over the quality of the logs on offer. Undamaged new season logs are available from German forests - but sales volumes are well down on previous years.

## Oak markets more favourable

Conditions on the European oak market are more favourable than for beech. Demand for good quality logs has been stimulated by continuing firm demand from French producers of barrel staves. There is good demand for oak sawn lumber from European flooring and other manufacturers. Demand has been stimulated by stable or improving economic conditions in many parts of Europe. In some countries, notably Spain and Germany, there has also been partial shift away from American oak to European oak as a response to the weakness of the euro-dollar exchange rate. Even the German furniture sector is beginning to show more interest in European oak, after a lengthy absence from the market, although purchasing is sporadic and buyers are always looking for low prices.

On log markets, large volumes of wind blown logs attached at the roots and preserved alive are being sold at auctions across France during the closing weeks of 2000. Due to oak being a more durable species, the quality problems associated with these logs are less than for beech. Demand is also more lively and prices are comparable to prices in the spring, perhaps with a slight rising tendency. Due to the French public administrations's policy to harvest only storm-damaged logs, availability of green logs in France is likely to be restricted. This will tend to increase buyers interest in the German oak log market.

# EU imports

*Newly released data for overall EU hardwood imports (see table page 11) indicates that 1999 saw a reversal of a general trend towards rising imports of tropical logs and sawn lumber from both Africa and Asia.* However imports from Latin America continued to rise last year. The data also suggests that increasing imports of sawn lumber from Eastern Europe may already be impacting on demand for US hardwoods in some European countries. Our analysis of EU wide imports during the first 6 months of this year (page 9), suggests that overall levels of EU imports for all primary hardwood products were running at high levels during that period. A more detailed analysis of recent trends in EU hardwood imports follows.

## Tropical Logs

Western Europe imports tropical logs almost exclusively from African nations. France is by far the largest buyer, sourcing notably from Gabon to supply the country's domestic plywood industry, followed by Portugal, Italy and Spain. Europe's tropical log imports recovered from a low in 1996 to a high in 1998, before declining again in 1999. The decline reflects the serious financial difficulties of the Gabon log export industry during 1999 and the Cameroon log export ban implemented in June 1999. Data on the value of EU imports during the first half of 2000 (page 13) suggests that European tropical log imports have recovered again this year as the problems in Gabon have eased, and as importers have switched from Cameroon to Liberia, Equatorial Guinea and the Central African Republic.

## Tropical Sawn Lumber

Africa is the EU's main source of tropical sawn lumber. Overall, between 1996 and 1998 EU tropical sawn lumber imports from all regions increased strongly. A number of factors played a part, notably the Asian crises of 1997/1998 which led to a significant drop in prices for many tropical hardwoods and efforts by producers to offset market losses in Asia by increasing sales in Europe. In 1999 EU wide imports from Africa and Asia declined again, but imports from Latin America remained stable. However European countries vary considerably in their sourcing practices. Over the last 4 years, Spain has consistently been the largest purchaser of African sawn, with volumes increasing substantially between 1996 and 1998 as the Spanish economy thrived in response to low inter-

### European sawnwood indicative prices

	Sept	Oct	Nov
Exchange rates			
DM/£	3.28	3.37	3.26
DM/US\$	2.22	2.34	2.29
Northern Germany, DM/m <sup>3</sup> , C&F, UK Port			
<b>German beech</b>			
Grade: kiln dried, steamed and square edged.			
1"	1750	1700	1700
2"	1800	1750	1750
<b>German oak</b>			
Grade: kiln dried, waney edged prime grade*.			
1"	1505	1505	1505
2"	1945	1945	1945
*waney edged prices provided as there is very little square edged available - French prices are similar to German prices			







## EU imports cont.

### Veneers

Europe's major veneer importing countries mirror closely the distribution of Europe's furniture manufacturing sector being led by Italy, Germany and Spain. European imports of veneers have showed a rising trend since 1996. A number of factors have played a role including the recovery of the European furniture sector, notably in Italy; the emergence of Spain as a bigger player in the furniture sector; the trend away from solid wood in furniture and increased use panels with a veneer covering; and rising labour costs in Europe which mean it is now cheaper to import veneers than to manufacture them domestically. The latter factor explains the EU's increased veneer imports from Eastern Europe and Africa. By contrast, imports from the US - where labour costs are equivalent to Europe and where domestic demand has been strong - have been more stable.

Data on the value of EU imports (see page 9) indicates that Europe's imports of veneer continued at relatively high levels during the first half of 2000. However anecdotal evidence also suggests that there has been a trend in some European countries, notably Germany, away from imports of North American veneers in favour of veneer logs. The weakness of the euro against the dollar has meant it is now more cost effective to process logs for veneers in Europe than in North America.

### Plywood

With no domestic plywood manufacturing industry of its own, the UK is by far Europe's largest importer of plywood. Germany is the other large European importing country. There has been a high degree of volatility in international plywood markets over the last 4 years, which is reflected in radical shifts in supply sources. Particularly notable has been the rapid growth in imports of Asian plywood since 1996 - resulting primarily from Indonesian producers diverting excess stocks at low prices onto European markets as Asian demand collapsed; the rising imports of plywood from Latin America - primarily low priced Brazilian softwood plywood; and the substantial fall in imports from North America. Strong domestic demand in the US has ensured that prices for US pine plywood have remained uncompetitive in Europe. Data on the value of EU imports for the first half of 2000 (page 9) suggest that Brazilian pine plywood imports are rising further this year, while imports of Indonesian plywood remain more stable at relatively high levels.

## Forest certification

### Rate of FSC expansion slows

Recently released data on the current area of FSC certified forest land, now standing at just over 19 million hectares worldwide, suggests that the rate of growth may be slowing. During 1998 and 1999, FSC certified forest area increased by over 6 million hectares per annum. This year the increase is likely to be little more than 3 million hectares. Although western Europe is still host to the largest area of FSC certified forest, the rate of growth in the region has slowed noticeably this year. This reflects the European forest owners increased focus on the alternative Pan European Forest Certification (PEFC) scheme which has, over the same period, certified over 27 million has. The scope for further large scale FSC certification in Western Europe seems limited, now that the industrial and state forests of both

Sweden and the UK - two countries that have been particularly supportive of FSC - are nearly 100% certified. However there may be scope for further growth of FSC certification in the large tracts of state owned forest in Eastern Europe and the tropics, although the challenges of certification in these areas is considerable. Tropical countries where FSC is making headway include Brazil, where the state Governor of Acre has announced that the forest of Antimari covering 66,000 hectares will work towards FSC forest certification; Bolivia, which already has 719,000 hectares of FSC certified forest and is the only tropical country to have published an FSC endorsed certification standard; Malaysia, which has a national certification scheme now negotiating with FSC towards eventual mutual recognition; and Indonesia, where the LEI forest certification scheme is operating under an official "Memo of Understanding" with FSC.

Exchange rates for one pound sterling and one US dollar

		29-Sept		20-Oct		17-Nov	
		ESTG	US\$	ESTG	US\$	ESTG	US\$
Argentina	Peso	1.4776	0.9994	1.4443	0.9994	1.4222	0.9940
Australia	Aus.\$	2.7301	1.8466	2.7363	1.8934	2.7433	1.9277
Bangladesh	Taka	79.8391	54.0000	78.1827	54.1000	76.9898	54.1000
Belgium	Belgian Fr.	67.5875	45.7136	69.6045	48.1642	67.3286	47.3112
Belize	B\$	2.9274	1.9800	2.8470	1.9700	2.8035	1.9700
Bolivia	Boliviano	9.1519	6.1900	9.0611	6.2700	8.9798	6.3100
Botswana	Pula	7.7755	5.2590	7.8520	5.4333	7.7217	5.4259
Brazil	Real	2.7278	1.8450	2.7219	1.8835	2.8014	1.9685
Fr. Africa*	CFA Fr.	1099.03	743.34	1131.82	783.19	1094.82	769.32
Canada	Canadian \$	2.2246	1.5046	2.1887	1.5145	2.2202	1.5601
Chile	Peso	833.209	563.550	826.265	571.750	818.069	574.850
China	Yuan	12.2417	8.2798	11.9627	8.2778	11.7789	8.2769
Czech Republic	Koruna	59.5813	40.2985	59.9550	41.4870	57.9743	40.7380
Denmark	Danish Krone	12.4996	8.4542	12.8383	8.8837	12.4468	8.7463
Estonia	Kroon	26.2018	17.7219	27.0066	18.6836	26.1116	18.3484
Europe	Euro	1.6755	1.1332	1.7255	1.1940	1.6691	1.1728
Finland	Markka	9.9618	6.7378	10.2591	7.0990	9.9237	6.9733
France	Franc	10.9903	7.4334	11.3182	7.8319	10.9482	7.6932
Germany	D-mark	3.2769	2.2164	3.3747	2.3352	3.2644	2.2938
Ghana	Cedi	10164.80	6875.00	10332.80	7150.00	10374.40	7290.00
Guyana	Guyanese \$	267.609	181.000	260.850	180.500	256.870	180.500
Hong Kong	HK\$	11.5277	7.7969	11.2684	7.7974	11.0994	7.7995
India	Rupee	68.0628	46.0350	66.9899	46.3550	66.5634	46.7735
Indonesia	Rupiah	12973.9	8775.0	12923.0	8942.5	13491.0	9480.0
Irish Republic	Punt	1.3195	0.8925	1.3589	0.9403	1.3145	0.9237
Italy	Lira	3244.12	2194.20	3340.94	2311.83	3231.70	2270.89
Japan	Yen	159.7670	108.0600	157.3840	108.9050	154.9330	108.870
Kenya	K. Shilling	116.8760	79.0500	114.5640	79.2750	111.6420	78.4500
Korea South	Won	1648.75	1115.15	1633.74	1130.50	1626.60	1143.00
Liberia	Liberian \$	1.4785	1.0000	1.4452	1.0000	1.4231	1.0000
Malaysia	Ringgit	5.6183	3.8000	5.4916	3.8000	5.4078	3.8000
Myanmar	Kyat	9.7346	6.5841	9.5027	6.5756	9.3892	6.5977
Netherlands	Guilder	3.6922	2.4973	3.8024	2.6312	3.6781	2.5846
New Zealand	NZ\$	3.6372	2.4600	3.6061	2.4953	3.5636	2.5041
Nigeria	Naira	160.713	108.700	155.932	107.900	159.814	112.300
Papua NG	Kina	4.0399	2.7324	4.2822	2.9632	4.3858	3.0819
Philippines	Peso	68.3068	46.2000	70.5966	48.8500	70.9416	49.8500
Poland	Zloty	6.7017	4.5328	6.7778	4.6900	6.5072	4.5725
Portugal	Escudo	335.898	227.188	345.922	239.367	334.611	235.128
Romania	Leu	35739.0	24172.5	35630.2	24655.0	35768.2	25134.0
Russia	Rouble	41.0757	27.7820	40.4035	27.9580	39.5892	27.8190
Singapore	Singapore \$	2.5730	1.7403	2.5363	1.7550	2.4952	1.7533
Solomon Islands	Slmn. Is. \$	7.6211	5.1546	7.4531	5.1573	7.3432	5.1600
South Africa	Rand	10.6763	7.2210	11.0193	7.6250	10.9529	7.6965
Spain	Peseta	278.771	188.550	287.091	198.658	277.704	195.140
Sweden	Krona	14.2424	9.6330	14.6534	10.1397	14.4488	10.1530
Taiwan	\$	46.3215	31.3300	46.4565	32.1465	45.8829	32.2415
Tanzania	Shilling	1182.80	800.00	1150.34	796.00	1139.90	801.00
Thailand	Baht	62.3854	42.1950	63.1314	43.6850	62.8299	44.1500
Uganda	New Shilling	2705.66	1830.00	2651.85	1835.00	2632.74	1850.00
U.S.A	US \$	1.4785	1.0000	1.4452	1.0000	1.4231	1.0000
Venezuela	Bolivar	1021.420	690.850	1000.410	692.250	988.699	694.750
Vietnam	Dong	21015.4	14214.0	20719.1	14337.0	20580.9	14462.0
Zimbabwe	\$	78.3754	53.0100	79.5556	55.0500	78.4271	55.1100

\*Cameroon, CAR, Congo, Gabon & Cote d'Ivoire

# Association Profile - ITTO - International

**Members - 56 governments, including the European Community, which represent 90% of world trade in tropical timber and 75% of the world's tropical forests.**

The creation of the International Tropical Timber Organisation was one of several key international responses to concern about tropical forests. It was originally conceived as a commodity organisation to promote trade in tropical timber. But by the time it was established in 1986 it had become more an agency for sustainable development through trade, conservation, and best practice forest management.

ITTO operates under the terms of the International Tropical Timber Agreement negotiated under the auspices of the UN. It's governing body, the International Tropical Timber Council, meets every 6 months. Tropical timber producing countries and consuming countries are

equal partners in decision making. The active participation of environmental and trade non governmental organisations in meetings and project work is encouraged. In 1991, ITTO members committed to the Year 2000 Objective, which stated that members should strive to achieve an international trade of tropical timber from sustainably managed forests by 2000. This commitment provided a rallying point for activities by ITTO and its members. ITTO has funded more than 500 projects valued at US\$200 million. Although funded by ITTO, projects are implemented by producer countries. These projects currently employ about 500 forestry professionals, mostly from developing producer member countries. ITTO has helped train over 5000 professionals in forest related activities and a similar number of people from forest dependent communities in the concepts and practice of sustainable development.

ITTO's pioneering *Criteria for the Measurement of Sustainable Tropical Forest Management* provided impetus for other global initiatives to define sustainable forest management in different types of forest. ITTO has also developed a set of guidelines for improving different aspects of tropical forest management.

A report issued in November 2000 found that member countries have made significant progress towards the Year 2000 Objective - although much more needs to be done.

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## Hardwood Events

Date	Event	Venue	Target audience	Contact
<b>2001</b>				
6-10 Mar	Malaysian International Furniture Fair	Putra, World Trade Centre Kuala Lumpur	Furniture manufacturers Suppliers	Web: www.miff.com.my, Tel: 603 982 2888 Fax: 603 986 1551, info@miff.com.my
14-16 Mar	IWPA 45th Annual Convention	Condado Plaza San Juan, Puerto Rica	Timber trade and industry	IWPA - Tel (703) 820-6696 Fax (703) 820- 8550
18-25 April	16th Commonwealth Forestry Conference	Fremantle, Australia	Forestry	Libby Jones, UK Forestry Commission, Tel 44-(0)-131-314 6137; Fax 334 0442;
18-22 May	Interzum	Cologne Fair	Furniture industry	Koln Messe, www.koelnmesse.de Tel: +49 221 8210 Fax: +49 221 2574
21-25 May	Ligna	Hanover Fair	Wood industry	Hanover Messe, www.Fair.de email ligna@Fair.de
28 May- 2 Jun	30th Session of the International Tropical Timber Council	Yaounde, Cameroon.	Government and tropical timber trade	ITTO, Tel: (81-45) 223-1110 Fax: (81-45) 223-1111
7-8 Jun	American Hardwood Export Council Southeast Asia Convention	White Swan Hotel Guangzhou, China	Trade, manufacturers architects, designers	AHEC Washington DC Tel: (202) 463 2720 Fax: (202) 463 2787, www.ahec.org
25-26 Oct	American Hardwood Export Council European Convention	Dublin	Timber trade	AHEC London, Tel (+44) 0207 626 4111 Fax, (+44) 0207626 4222

## Letters

### High quality key to the future of hardwoods

Dear Sir,

I read with interest your report (Nov) of Professor Bruenig's September presentation to the London Hardwood Club.

The AHEC in Europe has long promoted lower grades and lesser-used species of American hardwood in an effort to balance the market with the resource. This was partly in response to the calls of ENGO's not to "cream off" the forest. It also makes sound economic sense to forest owners and wood users.

Dr Bruenig's call for greater promotion and use of high value solid wood is of course

right on the basis of the huge need to better manage and harvest much of the world's hardwoods - especially in the temperate forests of North America and Europe, in order to give them greater value and thus protection. His call coincides with better consumer appreciation of real wood, a willingness to pay for quality wood in currently buoyant economies and fashion for high quality solid wood products. This can be seen worldwide in hotels, banking halls, shopping malls and airports.

In Japan the hot issue of one's personal environment and health is giving rise to a desire for improvements to the "sick house" syndrome that is driving solid wood consumption. There, as in so many

countries, wood flooring is seen as preferable - to outlast other products, to clean, to look at and to make contact with. Human contact with wood is the key in this respect. No lecture on man's relationship with wood is needed here - but the wood industry would do well to re-evaluate that emotion in its efforts to increase wood consumption, especially the world's under-utilised and therefore under-valued hardwoods.

Yours faithfully,

M.I.Buckley,  
 Past President, London Hardwood Club  
 Former European Director, AHEC.

### **Restricted supplies of sapele**

As the rainy season in Africa nears its end, new supplies of the leading African redwood, sapele, are restricted. Some suppliers are already reporting that forward orders for sapele are booked through until April, implying that availability will be thin for some months. Supplies of other leading African woods are less restricted, however global demand for many species remains high. In all the major markets, there continues to be considerable interest in African species, which are mostly invoiced in euro-linked currencies, due the weakness of the euro. Prices for most species remain stable at relatively high levels. **Page 3**

### **Malaysian sawn lumber prices continue to slide**

Forward prices for dark red meranti sawn lumber supplied to the European market continued to fall during the first half of November. Falling prices reflect high stocks and continuing weak demand in Europe. The weakness of the euro has been another incentive for Malaysian shippers to soften prices in the face of stiff competition in Europe. Meanwhile European importers are selling stock, large quantities of which were bought at higher prices during the first half of 2000, to manufacturers at below cost in an effort to off-load inventory. **Page 4**

### **US hardwood exports**

Discussions at the American Hardwood Export Council (AHEC) European Convention highlighted continuing improvements in hardwood consumption in Europe, and the significance of the EU for American hardwood exports. Despite tough trading conditions for US hardwoods due to the weak Euro, many traders are optimistic about the future of European sales. The size of the US hardwood resource, continuity of supply, strong marketing efforts, internationally recognised grading standards, diverse range of species, and continuing fashion for temperate hardwoods are factors which have combined to counter the effects of turbulent exchange rates. **Pages 1/6**

### **Plywood - still in the doldrums**

Prices for Indonesian plywood have been static at around Indo96 less 24/25% for several months, and lower prices may be available for larger orders. Some analysts suggest Indonesian prices may soon start to rise, given production is set to decline as the region enters the monsoon, and the lengthy holiday season during Ramadan and Chinese New Year is imminent. However the demand side of the equation is still very patchy. Although demand has been fair in the United States and Japan over recent weeks, buying in both Europe and China is very subdued. **Page 4**

### **Optimistic outlook for Southsea log prices weaken**

Weak demand in major markets for Southeast Asia's logs has been putting downward pressure on prices throughout the region. During November, demand for southsea logs was relatively quiet in Korea, Japan, China and the Philippines. As Japan's imports have continued to fall this year, China has taken over as the dominant export market for southsea logs. By the end of November, the onset of the monsoon has led to slowing log production in Sarawak. In PNG and the Solomon Islands, production is still described as good, with only occasional reports of poor weather. The political situation in the Solomon Islands is calmer now and production is at full capacity. **Page 5**

### **Trends in EU hardwood imports**

Short term trend data for EU hardwood imports suggests EU wide imports of all primary hardwood products have been more buoyant during 2000 than in 1999. Newly released long-term data for overall EU hardwood imports indicates that 1999 saw a reversal of a general trend towards rising imports of tropical logs and sawn lumber from both Africa and Asia. The long term data also suggests that rising imports from Eastern Europe are already impacting on US hardwood demand in some European countries, notably Italy. **Pages 10/11/14**

### **ITTO reaffirms Objective 2000**

Despite acrimonious debate over illegal logging and forest certification, ITTO members reaffirmed their commitment to Objective 2000 at a meeting in Japan during November. They also agreed that a technical mission should be sent to Indonesia to develop an action plan to combat illegal logging and restructure the forest industry **Page 9**

### **Weak European beech markets**

Market conditions for European beech have become increasingly difficult, characterised by excess stocks, weakening demand in China, and continuing subdued demand in Germany. High beech stocks have been fueled by the wood felled during the storms in December 1999. Estimates suggest that some European mills are carrying up to twice their normal stock holding of beech, both logs and sawn lumber. Demand in China has also been hit by excess stocks imported earlier in the year. **Page 10**

### **European oak market favourable**

Demand for good quality European oak logs has been stimulated by continuing firm demand from French producers of barrel staves. There is good demand for oak sawn lumber from European flooring and other manufacturers. **Page 10**

### **Rate of FSC expansion slows**

Recently released data on the current area of FSC certified forest land, now standing at just over 19 million hectares worldwide, suggests that the rate of growth may be slowing. During 1998 and 1999, FSC certified forest area increased by over 6 million hectares per annum. This year the increase is likely to be around 3 million hectares. The slowdown largely reflects European forest owners increased focus on the alternative Pan European Forest Certification (PEFC) scheme which has certified over 27 million hectares since the start of the year. **Page 14**