



**Volume 21
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Aid, trade and forestry in the Congo

The political and economic situation in the major timber supplying countries of the Congo Basin – while still fragile – has improved significantly over the last 5 years. While fighting continues to flare up in eastern parts of the country, Congo-Kinshasa is no longer gripped by the furious conflict that killed 3 million people between 1998 and 2003. The civil war in Angola is now over. In Congo-Brazzaville, a peace accord was finally agreed between government and rebel troops in March 2003, after 6 years of conflict. In the Central African Republic, political conditions seem to have gradually stabilised since the coup in March 2003. There has been at least some improvement in crushingly poor economic conditions, particularly in those countries with significant oil reserves – including Gabon, Cameroon, Equatorial Guinea and Angola – which are benefiting from the recent rise in oil prices.

These signs of improved stability have emerged at a time when rich countries have been re-assessing their whole approach to aid, trade and development, particularly in Sub-Saharan Africa. At a United Nations summit in 2000, governments around the world endorsed a set of Millennium Development Goals (MDGs). These are extremely ambitious: halve the proportion of people living in extreme poverty (ie, on less than a dollar a day) between 1990 and 2015; achieve universal primary education by 2015; reduce the under-five mortality rate by two-thirds; and more. Altogether the MDGs encompass 18 targets arranged under eight broad headings. One target focuses specifically on forestry: to reverse the loss of forests.

Interest in aid increased dramatically in December 2004 in the wake of the tsunami that swept across the Indian ocean killing in excess of 150,000 people. The relatively generous donations from governments and the general public around the world stimulated

an international debate on the contribution that aid may make to tackle the world's most intractable problems: poverty, disease, war, poor governance and vulnerability to natural disasters.

Right on cue, the United Nations published a report examining this very question in December 2004. A team of "more than 250 experts", chaired by Columbia University Professor Geoffrey Sachs, published "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals". The report's major aim is to dispel the prevailing pessimism on aid—a deeply entrenched attitude, based on years of disappointment—and to mobilise hundreds of billions of dollars in new help for the developing world.

Africa lags behind

Sub-Saharan Africa generally, and the Congo Basin in particular, has been a major focus of the debate on development aid. Professor Sachs' team highlights that sub-Saharan Africa has met or is on track to meet not a single MDG. But Sachs boldly claims that even sub-Saharan Africa can achieve the MDGs by 2015—but only with a huge new commitment of aid, designed and delivered in new ways. To realise the goals, Sachs calculates, rich countries must dedicate about 0.5% of their combined GDP to aid (0.44% in 2006, rising to 0.54% in 2015). This is about twice what they currently offer, but less than the 0.7% of GDP they long ago promised to set aside for development. In the current political environment, in which the tsunami has demonstrated to national governments that "compassion fatigue" is not endemic, it is likely that Sachs will be successful in encouraging much greater international engagement in regions like the Congo.

A clear indication of the raised political pro-

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Editorial

A key theme this month is the relationship between aid, trade and environment. Our lead article explores these issues in relation to the Congo Basin, highlighting that this region is likely to see a big increase in aid transfers during the next few years as the international community again tries to come to grips with global problems of poverty, war, and disease.

Donor agencies are now grappling with the complex issues surrounding the provision of aid in countries characterised by poor governance and which hold globally significant forest assets. Thankfully the signs are that the World Bank and other agencies are promoting a policy balancing commercial sustainable timber extraction – which contributes to economic development and social welfare – with broader conservation goals. In exchange for their engagement and assistance, international donor agencies are rightly insisting on concerted efforts to improve forest governance in the region. This is a long hard road, but the recent emergence of a wide range of initiatives in the Congo Basin bringing together government, trade and NGOs, at least holds out the promise of real progress on the ground.

This month we also cover the related issue of illegal logging (page 11). A new report commissioned by the American Forest Paper & Paper Association suggests that 17% of globally traded hardwoods are of “suspicious origin”. The report suggests that illegal logging contributes significantly to unfair price competition in the wood sector. Therefore the global political priority at-

tached to the issue is entirely justified. However, the AF&PA report also points to the complexity of the illegal logging issue, suggesting that different conditions in different countries argue for a very flexible response. There is no magic bullet. This raises questions over the appropriateness of the EU proposed response – which emphasises trade measures and a “legality licensing” scheme. Other new research suggests that legality licensing is unlikely to be either efficient or effective. In order to overcome the huge range of opportunities that will exist to bypass the proposed licensing scheme, it’s advocates are evolving blue-prints for ever more elaborate and exotic bureaucratic frameworks, covering a wider and wider spectrum of the wood trade. This kind of global central planning is hugely over-ambitious and will inevitably place an excessive burden on the puny resources of international agencies. It is more likely to breed corruption than to prevent it.

A more constructive approach may be to focus on the wide range of existing, perhaps more boring and certainly less ambitious initiatives, that have already been evolved. The emphasis needs to be placed on evolving appropriate regulatory machinery in countries of origin – just the sort of drawn out and difficult work that has been ongoing through organisations like ITTO, UNFF and the World Bank now for some time. More of the same is required, but better resourced and with a higher political priority.

Asia

Asian logs

Continuing price rises

US\$ FOB prices for most species of South East Asian logs continued to rise at the end of 2004 in response to tight supplies and continuing good demand in China and India. A report in the Japan Lumber Journal in mid January comments that availability of Southsea logs from Sarawak, Sabah and Indonesia remains “chronically lacking”. US\$ CIF prices in the region are also rising due to increased freight rates.

South East Asian log supplies are unlikely to increase significantly in the near future, particularly as the northeast monsoon season – which creates wet weather in many timber supplying areas - is not due to end until March/April. Chinese New Year is also looming on 9 February which is likely to further slow forest sector activity. Longer term, it remains to be seen what impact the recent proposals by the Indonesian Forest Minister to increase legal log harvests will have on log supply in the South East Asian region (see page 4).

Log exporters bullish

For the time being, log exporters are generally bullish and anticipate continuing upward pressure on FOB prices during the first quarter of 2005.

Recent quarterly trends in the Chinese hardwood import market are illustrated in the charts (page 3). These indicate a gradual decline in the volume of hardwood log imports, while the US\$ value of imports have been rising. This is indicative of the progressive rise in FOB prices and of mounting price resistance in the Chinese market.

China imports less from Africa

Chinese import volumes of African logs, for which prices are tied to the strengthening euro, have fallen particularly dramatically. However, import volumes of South East Asian hardwood logs also seemed to be slowing in the second half of 2004. The charts suggest that China’s temperate hardwood log imports – which increasingly derive from the United States – have remained more stable. The decline in China’s tropical log imports also seems to have been partially offset by a rise in hardwood sawn lumber imports during the second and third quarters of 2004, particularly from South East Asia and North America.

ITTO data indicates a continuing rise in Chinese yuan CIF prices for lauan and merbau logs during December and early January, while prices for keruing logs remained stable at relatively high levels.

A recent survey of timber imports into

Asia

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Shanghai Port by ITTO is also suggestive of significant shifts in the Chinese wood market in recent times. ITTO report that the volume of timber imported in containers is rising at the expense of brake bulk. Wood tends to be imported in smaller batches and comprises a wider range of species.

India grows in significance

Meanwhile, India continues to grow in significance as a market for tropical hardwood logs. Traditionally the focus has been on teak logs, but importers are now looking for a wider range of tropical hardwoods from South East Asia. Keruing, meranti/lauan and selangan batu are now popular species. Much of the volume is destined for India's large domestic plywood industry and for a wide range of joinery applications. The Indian wood processing industry – which is dominated by numerous small operators employing cheap labour – is adapted to adding value to relatively low grade material. The market is highly price sensitive. Lack of storage space in a tropical climate, combined with relative familiarity with tropical hardwoods, has meant the market is strongly oriented towards tropical species. High import tariff rates on processed wood products designed to protect local industries have meant that logs are preferred. However tariffs are being progressively reformed in the face of mounting log supply

problems to allow greater access of hardwood sawn lumber. The Indian lumber market is oriented towards waney edged lumber (boules).

The Japanese market for tropical hardwood logs continues to decline. Japan's imports of Southsea logs reached 1.32 million m3 between January and October 2004, down 5.8% compared with the same period in 2003. Japanese plywood mills – the major log buyers - have continued to switch to softwood logs, mainly from Russia. Rising US\$ FOB prices for Southsea logs have been partially off-set in the Japanese market by the strengthening yen. However, Japanese analysts are predicting that rising freight rates and short log supplies will lead to continuing rises in Japanese CIF prices for Southsea logs. A new forecast by the "Japan Foreign Timber Supply and Demand Liaison Conference suggests that Japan's imports of tropical hardwood logs will fall slightly from 1.65 million m3 in 2004 to 1.64 million m3 in 2005.

Malaysian sawn lumber Continuing price rises

Log supply shortages in the Far East are inevitably impacting on the sawn lumber market. Availability of certain key species - including nemesu, bukit, keruing, bangkarai and merbau - is restricted and US\$ prices are generally firm. Availability of MTCC cer-

Meranti Sawn Lumber Prices

West Malaysia, MTCC-certified, DRM-tembaga
All prices US\$/ton, C&F UK port, including
5% agents commission
Grade: Select & better GMS; Kiln dried
Size: Width 6'+ avg 7'/8"; Length: 8'+ avg 12'/14"

	Nov	Dec	Jan
1"	890	890	910
2"	915	915	935
2.5"	960	960	960
3"	975	975	975

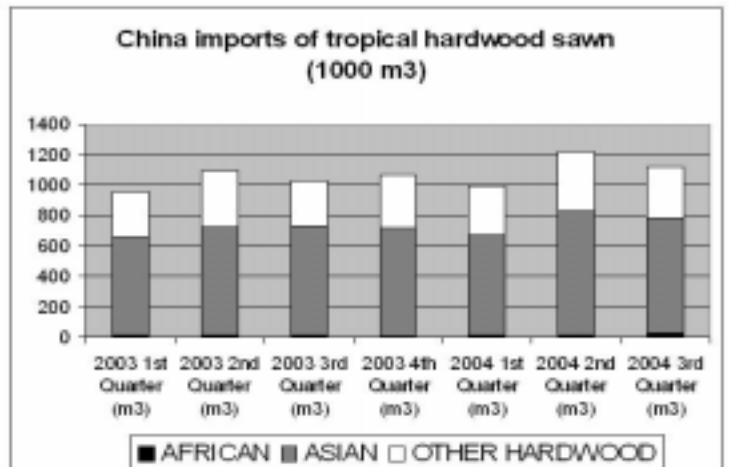
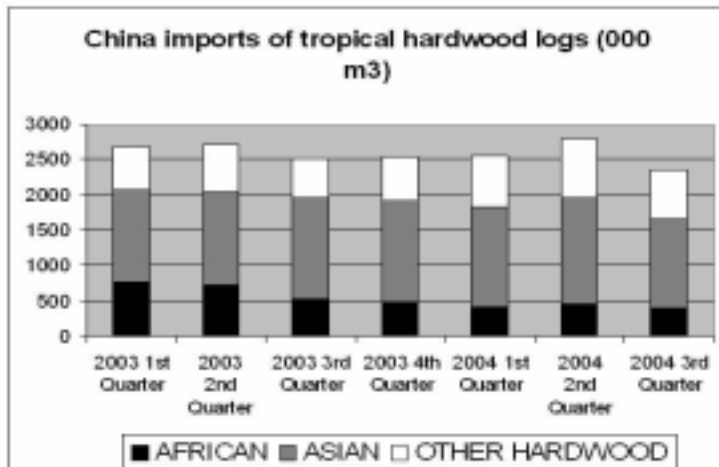
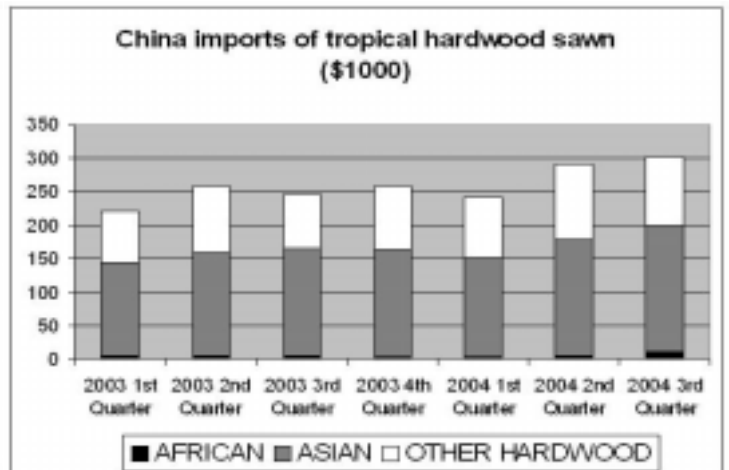
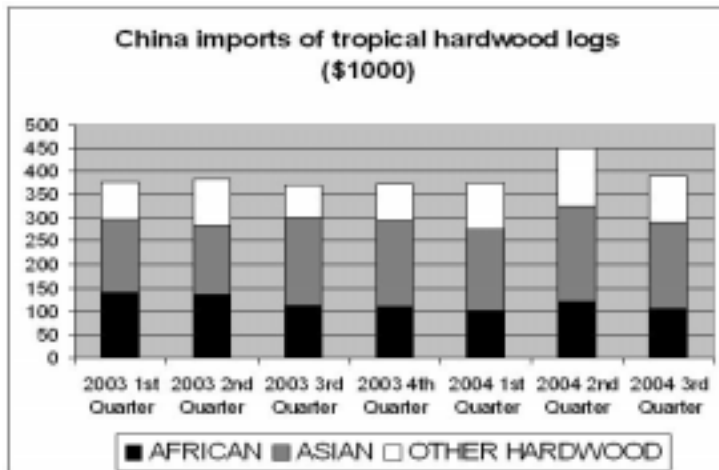
Prices quoted are now MTCC certified product. West Malaysian shippers are increasingly offering the certified product to the UK as standard. Non certified product prices are around 3% lower.

tified meranti-tembaga is also now very restricted, although uncertified meranti-tembaga can still be secured for late March shipment. Supplies are particularly tight from West Malaysia and Sabah, which is encouraging more European importers to look to Sarawak for supplies.

The tight supply situation is expected to continue for some time with the slowdown in production over the Chinese New Year now imminent. The northeast monsoon means that significant new log volumes are unlikely to be available to Malaysian saw mills until April, while new season kiln dried stocks will not be available until early May. Shippers will be drawing on the limited stocks left over from last season during the next few months.

Shipping into Europe from the Far East is

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Asia

now difficult. Opportunities for brake bulk shipment out of Malaysia are limited. Reliance on containers is increasing costs.

While forward availability is limited, generally sluggish demand has meant this has yet to cause significant supply problems in the European market. The major Dutch market for Malaysian sawn lumber continued to be slow in January, despite a relatively mild winter which should help boost construction activity. Depressed market conditions reflect underlying economic problems in the country, a situation which has been on-going since the second half of 2000. Consumer confidence is low, the unemployment rate is high and showing signs of worsening, while construction activity remains depressed.

Depressed Dutch market

In the Dutch market, demand for meranti-seraya is now particularly slow with many buyers now preferring meranti-bukit. This is reflected in relatively stable prices for bukit, while prices for seraya have tended to fall. CNF Rotterdam prices for 3"x5" Malaysian DRM bukit (Sel. & Bet. PHND) now stand at around \$1080-1090 per ton, while prices for the equivalent seraya spec are around US\$1070.

While the meranti market in the Netherlands remains stagnant, demand for the limited volumes of merbau available has been relatively good, particularly from the stair sector. Demand for merbau has been boosted by limited availability and high prices for African alternatives, including iroko and doussie. CNF Rotterdam prices for 3"x5" Malaysian Merbau (Sel. & Bet.) are being quoted at around US\$1300 per ton.

Steady meranti sales in the UK

UK traders report that forward demand for Malaysian lumber was quiet during January. The larger buyers covered themselves in the last quarter of 2004. However traders with stocks on the ground report consistent onward sales of merantitembaga to their UK customers, particularly for stocks of MTCC-certified material. In fact, the level of internal trading in the UK is such that one of the larger stockists suggested they are "not very comfortable on supply" and will be looking to top up from the forward market fairly soon.

With UK CIF prices standing at around \$750/ton (standard and better GMS), UK importers are buying very little keruing sawn lumber. Availability of keruing in standard UK specs is now very limited as much of the available log volume is diverted for plywood manufacture in Asia.

UK CIF prices for balau decking are also firm, now standing at between \$760-780/m³. Supplies are relatively tight, which may again boost prospects for Brazilian decking species in the UK market.

Indonesia

Illegal logging U-turn

Indonesia may be about to make a dramatic U-turn in domestic forest policy. Over the last few years, the previous Indonesian government greatly reduced the official annual commercial logging quota in an effort to gain control over national harvesting levels. However a growing realisation that unrealistic constraints on harvesting only serve to increase the incentive for illegal logging has led to calls for the new government, elected in October last year, to greatly increase the official quota so that it is more closely aligned with national wood processing capacity.

A report in the Jakarta Post during mid January quotes an announcement by the new Minister of Forestry Malam Sambat Kaban that the ministry would soon propose to the House of Representatives the revision of this year's logging quota from 5.45 million cubic meters to between 20 and 30 million m³.

The Minister said that "*Reducing the logging quota is not a wise way to curb illegal logging. The low quota has prompted most forestry-based companies to seek illegal timber to meet their demand... The quota reduction has made less raw materials available and caused higher production costs for the industry, leading to the shutdown of companies. At the same time, illegal timber still continues to flood the market.*"

The report notes that, at present, the Indonesian forestry-based industry has an installed capacity of about 42 million m³ per year, with much of the raw material comprising illegal timber from already depleted natural forests.

The Ministry hopes that the quota increase will boost the industry's contribution to the country's coffers to about US\$9 billion in foreign exchange revenue this year, from an estimated \$7.8 billion last year. By effectively legitimising a larger proportion of the national log trade, the ministry hopes to reap more taxes from industry activities and fees from timber sold, for forest rehabilitation.

According to the Jakarta Post, Kaban said the ministry would set up a special division to supervise the industry so that the industry could use the quota "sufficiently and efficiently" as well as to stop receiving illegal timber. The planned division will be supported by an audit from state-owned assessor PT Surveyor Indonesia and PT Sucofindo to determine an annual timber volume for each company and help verify the legality of the timber it acquires.

Furthermore, to encourage sustainable forest management following the quota increase, the ministry will also intensify its efforts to rehabilitate destroyed natural forests by allocating between Rp 4 trillion and Rp 5 trillion (US\$330-550 million) to replant some one million hectares of destroyed forests.

N. America

Hardwood supply

Keeping pace with demand

Despite heavy precipitation throughout parts of the United States, supplies of most American hardwood products seem to be keeping pace with demand. Buyers are tending to limit purchases and certain items are now backing up at mills. However supply conditions vary widely depending on region, species, grade and size of mill. For example red oak, particularly 4/4 #1C in the southern and Appalachian region, is widely reported to be in oversupply. By contrast, supplies of northern "whitewoods" are now lagging behind levels of demand. Heavy snow in recent weeks indicates this situation is likely to continue. In addition, finding and securing trucks remains difficult in parts of the United States, a situation which impedes the free flow of product throughout the wood chain. Generally, larger mills have been able to secure adequate log inventories while log stocks at smaller mills tend to be more varied and subject to weather related disruption.

Domestic demand

Good performance maintained

The dramatic decline in the United States furniture manufacturing industry over the last 5 years has meant that hardwood suppliers are now more heavily dependent on sales to the flooring, cabinet and joinery sectors, and on exports. While consumption of American hardwoods in these various sectors remains at high levels, improved supply of some species, particularly red oak, has meant intense competition for sales amongst hardwood suppliers.

The U.S. housing market continues to perform well. The National Association Of Realtors reports sales of existing single-family homes set a new record in 2004, and expect sales in 2005 to be second highest total on record. Following a disappointing month in November 2004, probably a reflection of poor weather, US housing starts rebounded strongly in December 2004. Starts during the month were up nearly 11% on November 2004, the largest monthly gain since September 1997. Building permits, which provide an indicator of future activity, were virtually unchanged in December 2004 from the previous month and were comparable to December 2003.

Good flooring and cabinet demand

The strong housing sector is driving good demand for hardwood flooring and cabinets. Solid wood flooring shipments were at record levels in the United States during 2004. NOFMA, the Wood Flooring Manufacturers Association, reports that total shipments for the year were up 6.3% compared to the previous year. Despite this growth,

□ 5

N. America

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US production of strip flooring overshot demand last year and manufacturers have now curtailed purchases, particularly of red and white oak. Competition has intensified amongst hardwood suppliers to the flooring industry, particularly as US imports of hardwood flooring products have also increased dramatically.

Shift to close-grained whitewoods

Considering individual species, there seems to be a significant shift underway in the US joinery and cabinet industry in favour of close-grained "whitewoods". This trend is particularly boosting domestic demand for northern hard maple, but also for soft maple, while undermining demand for oak, particularly red oak. Domestic demand for walnut remains strong. Demand for tulipwood is now generally limited to purchases for immediate requirements only. Cherry is still fashionable in the United States, boosting consumption. However cherry supplies have improved in recent months, encouraging more controlled purchasing on the part of buyers and increased competition for sales. There is steady demand for ash amongst long-term buyers, but overall the market for the species is rather flat.

Economic indicators look good

US domestic hardwood market prospects during 2005 are, of course, heavily dependent on the overall development of the national economy. The latest statistics suggest that prospects are good. Consumer confidence rose in January for the second month in a row. Interest rates are very low. Most analysts reckon GDP growth slowed from its 4% pace to closer to 3.5% in the last quarter of 2004 - but that hardly looks weak. The main downside risks relate to the nation's enormous budget and current-account deficits.

Export demand

Good performance maintained

Export levels continue to benefit from the relative weakness of the dollar against other currencies including the euro, yen and Canadian dollar. This factor meant that US export levels held up reasonably well into the EU and Japan at the end of 2004, despite relatively sluggish economic growth. The year 2005 began slowly for many exporters of American hardwood to the EU. However, most reports indicate that North American hardwood inventories remain relatively low in the EU, holding out the promise of consistent purchasing during the first half of the year. Low stocks reflect the prevailing cautious attitude to purchasing that now predominates amongst many European buyers. To some extent this attitude is encouraged by sluggish economic conditions and the strong euro rate, both factors which

undermine sales of finished goods manufactured in the EU. The EU is now the focus of Asian manufacturers seeking to develop new markets for their wood products.

German efforts to boost beech

Indications from recent furniture shows in Germany are that manufacturers are beginning to try to shift the existing strong fashion emphasis away from oak back towards beech. To some extent this reflects availability of supplies. There are signs of mounting pressure on European oak supplies (reflected in firm prices) whereas beech, particularly lower grade, is oversupplied. However, this is a long term project. For now the European market, particularly in the south, remains heavily oriented towards white oak. European demand for hard maple is beginning to wane in the face of high prices. However walnut remains very popular.

Mixed market in the EU

Considering individual European markets, underlying economic conditions in Germany remain weak, but American hardwood consumption has been boosted by the weak dollar rate. Economic conditions in Italy are also uncertain. The important Italian furniture sector is facing stiffer competition in export markets, which means great emphasis on cost-cutting in the industry. Italian importers stocks of American hardwoods are relatively light and underlying consumption of tulipwood, hard maple and white oak is sluggish. In Spain, the furniture sector is struggling in the face of stiff overseas competition, but the construction sector remains reasonably active. Spanish importers are maintaining relatively low stocks of American hardwood, being nervous about currency fluctuations and potential stock devaluation. Importers in the UK eased off purchasing before Christmas, but reports suggest they have been busy trying to fill gaps in stocks since early January.

Eastern European promise

Direct exports of American hardwood to Eastern Europe remain very confined. However recent discussions in Poland suggest that prices for American white oak are now competitive against European oak - which is in short supply - and that some large Polish manufacturers may now be encouraged to make the switch. Efforts to cut costs and improve yields in the EU market are reflected in growing demand for fixed width and sorted lumber. The Chinese market for American hardwoods has been progressively improving since final tariff rates in the wooden bedroom furniture anti-dumping suit were announced late last year. Despite recent improvement, many exporters suggest overall export sales to China are well below the levels prevailing this time last year. The Chinese market is intensely competitive, and

due to the yuan peg, the weak dollar has not helped to significantly boost prospects for American hardwood. Chinese buyers are aware of the supply situation for North American hardwoods and have been pushing for lower prices. Common grades of poplar, red oak and white oak are under particular pressure, although many exporters have so far succeeded in maintaining price levels. Market indications vary widely between suppliers. Some are very positive about the future, noting that their regular Chinese customers have been increasing orders since the start of the year and that they expect this trend to continue throughout the year.

Vietnam down on previous year

Elsewhere in the Far East, market trends in Vietnam have followed those in China. Demand has been improving but remains down on the same time last year. Exports to Taiwan and Japan have been steady, but these markets are now shadow of their former status. Thailand and Malaysia have been reasonably busy. Economic problems have meant only slow sales into South Korea. US exports to Canada have been boosted in the short term by the weak dollar, although this factor is also making life more difficult for Canadian manufacturers selling finished product back to the United States. Mexican demand for American hardwoods has been steady, buoyed by solid manufacturing activity and developing domestic consumption.

US sawn lumber indicative prices

North Appalachian US\$ MBF* CIF- W. Europe
Grade: FAS/IF, 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.
*One cubic meter is equivalent to 423.8 BF or 0.4238 MBF

	Nov	Dec	Jan
\$/£	1.89	1.93	1.88
\$/Euro	1.32	1.33	1.30
Red oak			
1"	2075	2075	2080
1.25"	2275	2275	2320
1.5"	2350	2350	2375
2"	2725	2725	2750
White oak			
1"	1750	1750	1790
1.25"	1900	1900	1950
1.5"	2300	2300	2425
2"	2900	2900	2975
Ash			
1"	1300	1300	1325
2"	1700	1700	1675
Tulipwood			
1"	1075	1075	990
1.25"	1125	1125	1050
1.5"	1150	1150	1080
2"	1175	1175	1125
Cherry			
1"	3650	3650	3650
1.25"	3775	3775	3775
1.5"	4000	4000	4000
2"	4175	4175	4175
Hard Maple (Northern US)			
1"			2950
1.25"			3175
1.5"			3000
2"			3125

EU-15 Imports

Data on these pages shows overall imports by the EU-15 group of western European nations from outside the EU-15. The data illustrates how the western European hardwood import trade has evolved over the last 5 years. The main trends are a big decline in primary wood products imports, offset by a significant increase in secondary wood product imports.

□ EU-15 imports of hardwood logs, both temperate and tropical have declined sharply since 2000. The large trade in industrial hardwood logs (mainly birch) between Nordic countries and Russia has remained reasonably constant at around 6 million tonnes during this period. However, tropical log imports have declined from around 1.7 million tonnes in 2000 to around 1 million tonnes in 2004. EU-15 imports of temperate hardwood logs from the U.S. have also declined from around 210,000 tonnes to 160,000 tonnes, notably into Italy, during this period.

□ EU-15 imports of tropical hardwood sawn lumber fell from around 1.9 million tonnes in 2000 to around 1.6 million tonnes in 2003. However there are signs of a slight recovery in imports during 2004 to an estimated 1.7 million tonnes. This may reflect the growing fashion for darker woods in parts of the flooring and furniture sector, together with growth in demand for wood decking.

□ EU-15 imports of temperate hardwood sawn lumber also fell between 2000 and 2003, from around 2.8 million tonnes to 2.5 million tonnes. This downward trend continued into 2004, with imports unlikely to rise much above 2.3 million tonnes for the year. The decline in imports is mainly due to a sharp downturn in the beech sawn lumber trade between 2000 and 2003, from 0.77 million tonnes to 0.52 million tonnes. The beech trade continued to decline in 2004. Meanwhile, EU-15 imports of oak sawn lumber bucked the downward trend between 2000 and 2003, rising from 0.69 million tonnes to 0.74 million tonnes. During this period, Eastern European countries (including Croatia, Ukraine, Romania, Hungary, Poland and Bosnia) were taking market share in the EU-15 oak market from the USA. However EU-15 oak lumber imports from Eastern Europe were falling again last year in response to tightening supplies, while imports from the US were rising in response to the weak dollar.

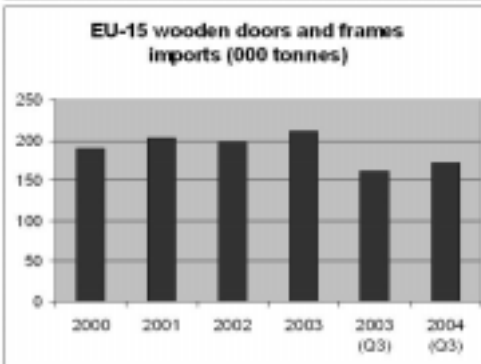
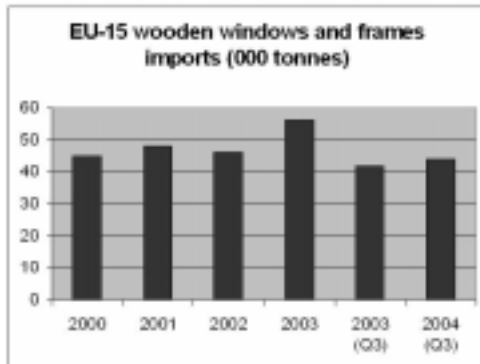
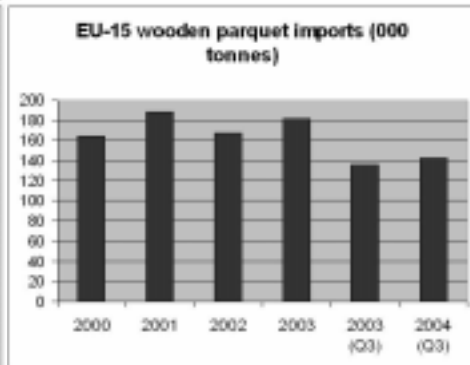
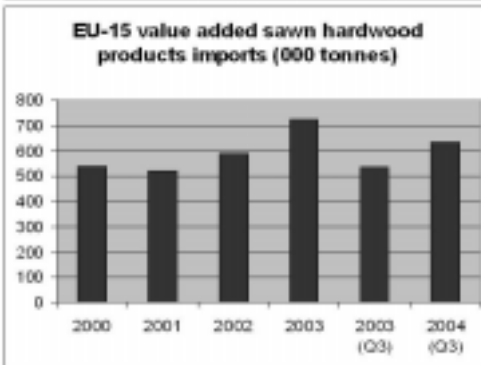
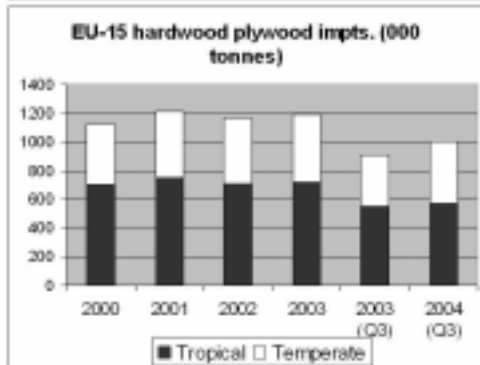
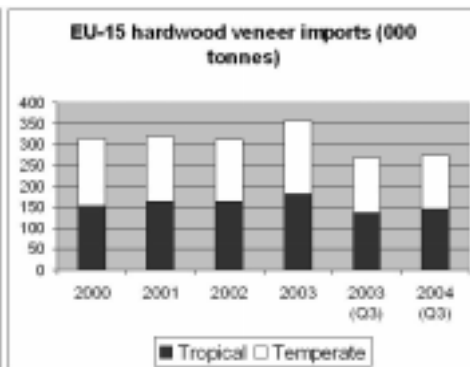
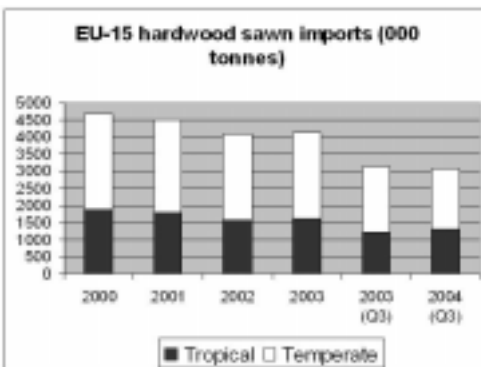
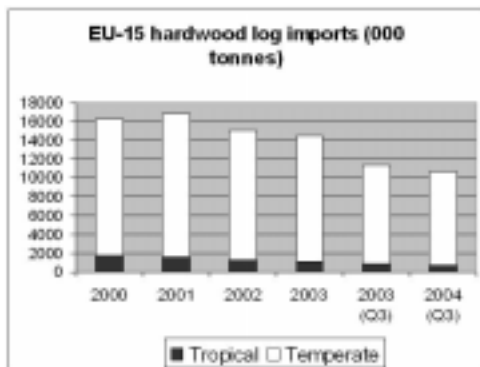
□ EU-15 imports of hardwood veneer increased from around 300,000 tonnes in 2000 to 350,000 tonnes in 2003, and the growth trend continued into 2004. The increase is mainly due to a rise in rotary veneer imports into France from Gabon in response to tightening controls on log exports.

□ Imports of hardwood plywood into the EU-

15 were fluctuating between 1.1 million and 1.5 million tonnes between 2000 and 2003. Temperate hardwood plywood imports increased from around 416,000 tonnes to 472,000 tonnes, notably from Russia. This rising trend continued into 2004 when imports are expected to have exceeded 500,000 tonnes. EU-15 tropical hardwood plywood imports have fluctuated between 700,000 and 750,000 tonnes per year since 2000. While the total volume has changed little, there has been a major shift away from Indonesian product in favour of Brazilian and Chinese product during this period.

□ EU-15 imports of “value added hardwood lumber” (which includes any lumber that has been planed, sanded, finger-jointed, moulded, or otherwise machined) have been rising strongly since 2000 and now make up a significant proportion of the overall trade. EU-15 imports of this diverse range of products increased from just over 500,000 tonnes in 2000 to over 700,000 tonnes in 2003. The rising trend continued strongly last year. Major external suppliers to western Europe are Indonesia and Poland.

□ EU-15 imports of wood furniture rose from around 2.7 million tonnes in 2000 to close to 3.5 million tonnes in 2003. The rising trend accelerated last year, with particularly strong growth in imports from China and Vietnam.



EU-15 Nations - Imports - 2000-2004

	By exporting nation								By importing nation								
	2000 Year	2001 Year	2002 Year	2003 Year	2003 9mth	2004 9mth	% chg		2000 Year	2001 Year	2002 Year	2003 Year	2003 9mth	2004 9mth	% chg		
Tropical logs (mill. euro)	GABON	190	193	152	132	96	104		FRANCE	195	180	155	140	109	94	-14	
	CAMEROON	139	99	84	69	55	49	-11	ITALY	104	97	87	79	63	58	-8	
	CONGO REPUBLIC	54	58	72	62	46	54	17	PORTUGAL	100	84	75	59	45	48	-7	
	LIBERIA	68	69	63	39	39	0	-100	GERMANY	53	53	42	35	26	31	18	
	CENT. AFR. REP.	21	29	22	28	22	19	-11	SPAIN	41	44	38	34	25	22	-12	
	EQUAT. GUINEA	28	21	14	13	9	8	-9	GREECE	22	24	21	17	14	8	-42	
	CONGO-KINSHASA	18	12	12	17	12	23	92	NETHERLANDS	22	18	13	9	8	4	-51	
	OTHER	44	42	30	34	26	23	-9	OTHER	24	29	18	19	14	16	13	
	TOTAL	561	528	449	393	304	281	-8	TOTAL	561	528	449	393	304	281	-8	
	Beech logs (mill. euro)	SLOVAKIA	18	19	17	14	10	9	-5	AUSTRIA	32	30	30	32	23	19	-16
SWITZERLAND		26	17	14	12	10	9	-11	ITALY	31	23	19	15	12	13	10	
OTHER		37	49	25	29	20	19	-4	OTHER	18	32	8	8	6	1		
TOTAL		81	85	56	55	41	38	-6	TOTAL	81	85	56	55	41	38	-6	
Oak logs (mill. euro)	U.S.A.	17	16	13	14	11	18	60	AUSTRIA	6	7	8	10	7	7	7	
	HUNGARY	10	10	8	9	6	7	21	ITALY	6	7	7	7	5	8	60	
	UKRAINE	4	7	6	6	5	4	-8	SPAIN	6	7	6	7	6	6	-3	
	OTHER	13	26	12	15	12	15	26	OTHER	26	37	18	19	15	23	47	
TOTAL	44	59	39	44	34	45	32	TOTAL	44	59	39	44	34	45	32		
Other hardwood logs (mill. euro)	RUSSIA	220	236	233	235	188	197	5	FINLAND	213	245	231	242	192	176	-8	
	U.S.A.	135	124	102	89	69	63	-9	SWEDEN	155	120	149	134	106	116	9	
	LATVIA	87	70	90	92	70	68	-3	ITALY	108	100	82	74	57	55	-4	
	OTHER	186	200	160	150	118	100	-15	OTHER	152	165	123	117	89	80	-10	
	TOTAL	627	630	584	567	445	427	-4	TOTAL	627	630	584	567	445	427	-4	
Tropical sawn lumber (mill. euro)	CAMEROON	293	302	249	249	185	193	4	ITALY	212	213	202	195	146	150	2	
	MALAYSIA	384	264	234	232	179	171	-5	NETHERLANDS	248	196	180	163	124	133	7	
	BRAZIL	195	212	172	168	124	156	26	SPAIN	178	204	178	166	125	132	5	
	IVORY COAST	166	174	166	121	90	109	21	FRANCE	185	179	123	129	94	103	10	
	GHANA	79	77	56	52	40	41	3	BELGIUM	183	145	114	119	92	94	2	
	CONGO REPUBLIC	18	20	29	30	23	22	-3	UK	114	103	94	89	70	62	-11	
	GABON	12	18	26	29	21	25	21	GERMANY	66	58	57	51	38	41	7	
	INDONESIA	40	28	24	32	24	22	-10	PORTUGAL	53	44	48	39	29	35	21	
	OTHER	123	139	120	105	81	69	-15	OTHER	71	83	81	68	49	57	18	
	TOTAL	1311	1233	1077	1018	767	807	5	TOTAL	1311	1233	1077	1018	767	807	5	
	Beech sawn lumber (mill. euro)	BOSNIA & HERZ.	56	43	39	33	25	26	6	ITALY	152	115	107	99	75	61	-19
		CROATIA	43	33	32	30	24	20	-16	GERMANY	41	25	23	22	16	14	-12
		SLOVENIA	28	21	22	21	15	11	-27	AUSTRIA	28	22	19	16	12	13	11
SLOVAKIA		19	20	20	20	15	13	-11	SPAIN	11	12	15	19	15	14	-3	
OTHER		129	105	89	88	68	60	-12	OTHER	42	47	36	38	29	27	-4	
TOTAL	274	222	201	193	147	130	-11	TOTAL	274	222	201	193	147	130	-11		
Oak sawn lumber (mill. euro)	U.S.A.	320	289	246	215	158	163	3	SPAIN	129	124	103	97	68	66	-3	
	CROATIA	37	39	37	39	29	27	-6	ITALY	66	68	72	83	62	55	-10	
	UKRAINE	18	25	31	39	29	33	15	UK	61	67	60	50	39	41	4	
	CANADA	32	30	27	20	15	15	-3	BELGIUM	42	61	33	27	21	19	-12	
	ROMANIA	8	16	20	18	14	13	-11	GERMANY	34	31	30	26	19	23	19	
	OTHER	80	107	90	95	72	67	-7	OTHER	164	155	153	144	107	112	5	
	TOTAL	495	506	451	427	317	316	0	TOTAL	495	506	451	427	317	316	0	
	Other hardwood sawn lumber (mill. euro)	U.S.A.	289	240	206	182	142	131	-7	ITALY	234	202	193	176	138	122	-12
CANADA		125	112	87	73	55	53	-2	GERMANY	97	93	80	75	57	59	3	
LATVIA		46	44	42	49	37	38	2	UK	87	85	71	63	48	53	9	
HUNGARY		34	33	32	29	22	17	-26	SPAIN	33	29	32	31	23	19	-18	
LITHUANIA		21	26	31	36	29	17	-40	AUSTRIA	30	27	26	27	22	19	-12	
OTHER		156	173	151	141	109	108	-1	OTHER	190	192	148	138	105	93	-11	
TOTAL		671	628	550	510	394	364	-7	TOTAL	671	628	550	510	394	364	-7	
Planed/finger jointed sawn lumber (mill. euro)		BRAZIL	18	28	30	27	21	20	-3	FRANCE	31	38	44	40	30	28	-5
		MALAYSIA	14	19	26	30	23	22	-3	NETHERLANDS	22	16	31	38	29	37	27
		INDONESIA	34	22	17	17	13	15	18	UK	3	4	17	16	13	14	13
	OTHER	67	72	85	91	69	74	6	OTHER	77	82	66	72	55	52	-5	
	TOTAL	134	140	158	166	126	131	4	TOTAL	134	140	158	166	126	131	4	
Tropical hardwood veneer (mill. euro)	IVORY COAST	53	58	48	45	34	34	1	ITALY	63	69	69	74	60	60	0	
	GABON	18	31	45	53	38	46	21	FRANCE	26	37	49	52	37	42	14	
	GHANA	39	39	39	36	28	24	-14	SPAIN	28	34	32	33	24	25	1	
	CAMEROON	23	23	25	30	25	23	-8	GERMANY	24	24	20	18	14	14	2	
	OTHER	51	58	50	52	40	44	8	OTHER	43	48	36	39	30	30	0	
	TOTAL	184	209	207	216	165	171	3	TOTAL	184	209	207	216	165	171	3	
Other hardwood veneer (000s m3)	U.S.A.	234	196	173	168	129	121	-6	GERMANY	170	145	123	127	96	93	-3	
	SLOVENIA	21	25	28	27	21	16	-24	ITALY	70	64	75	79	62	55	-10	
	POLAND	17	19	26	28	20	17	-17	SPAIN	64	60	70	74	56	55	-1	
	CROATIA	21	23	19	22	17	19	8	AUSTRIA	16	23	26	33	26	30	17	
	OTHER	126	130	122	145	110	123	12	OTHER	100	99	74	77	57	61	6	
	TOTAL	420	393	369	390	297	295	-1	TOTAL	420	393	369	390	297	295	-1	
Tropical hardwood plywood (mill. euro)	INDONESIA	303	294	236	193	154	122	-21	UK	180	200	174	146	112	149	33	
	BRAZIL	77	95	103	99	74	86	30	BELGIUM	115	124	102	102	80	80	0	
	MALAYSIA	53	49	37	39	30	56	84	GERMANY	78	68	51	61	39	29	-25	
	CHINA	5	10	26	40	32	33	3	NETHERLANDS	42	42	49	36	28	30	6	
	OTHER	94	105	86	79	62	66	8	OTHER	117	120	112	115	94	86	-9	
	TOTAL	532	553	488	451	352	374	6	TOTAL	532	553	488	451	352	374	6	
Other hardwood plywood (mill. euro)	RUSSIA	95	91	97	99	76	88	15	GERMANY	88	94	96	94	71	81	13	
	LATVIA	42	49	46	47	35	44	28	ITALY	39	49	58	53	41	42	3	
	POLAND	15	19	23	25	19	18	-6	UK	41	30	31	28	21	32	49	
	ROMANIA	5	9	15	17	13	18	39	FINLAND	10	19	22	20				

file of African aid and development is provided by the agenda set by Prime Minister Tony Blair for the UK presidency of the G8 in early 2005. Blair has announced that the main UK priority during the presidency, which will include a summit of G8 leaders in the UK during June - will be to further the cause of African development (alongside encouraging more action on climate change). In pursuit of this aim, the UK government has established a commission for Africa, which is also expected to call for billions of dollars of extra aid. Gordon Brown, the British finance minister, has already declared that Africa needs a Marshall Plan, akin to the generous package of aid and soft loans America offered to Europe after the second world war.

Increased global engagement

Recent trends therefore indicate a significant increase in global engagement – through the provision of new resources, both financial and technical – to encourage development in sub-Saharan Africa. Professor Sachs' report to the UN suggests that Africa is caught in a "poverty trap". Lack of education, poor health care, small markets, high transport costs, and low productivity all prevent development and deter investment. To escape, African countries need a "big push": large, co-ordinated investments in infrastructure, health, agricultural productivity and education.

A debate is now emerging on exactly where and how this new aid should be targeted. The development literature emphasises that aid should be disbursed primarily to countries with sound institutions and clean, effective government. Countries with those things can put aid to good use. The trouble is, countries with those things tend to make progress unassisted. The poorest countries, including most of the timber-supplying countries of sub-Saharan Africa, are the most deserving by the test of need, but tend

to be the worst governed.

A recent analysis by the Economist magazine compares African countries governance ratings according to a variety of measures (including those used by the IMF and World Bank as part of the Heavily Indebted Poor Countries initiative; by the American government for the purposes of its Millennium Challenge scheme; or according to whether countries have prepared a recognised poverty-reduction strategy paper). Of the significant timber supplying countries in sub-Saharan Africa, only Ghana scores well against these various indices. It is therefore the only country in the region likely to be fast-tracked for greater aid.

However, the countries of the Congo Basin are unlikely to be left out in the cold. Professor Sachs' report supports a new approach to development aid which is already gaining momentum. The report argues that aid can be spent directly on remedying failures of governance. There are critics of this approach. For example, the Economist argues that "*the problem with aid to bad governments is that it can help to keep them in place. Donors have tried before to invest in improved governance. The record is not good.*" Nevertheless, donor efforts to improve governance are now a central part of most projects targeting the forest sector in sub-Saharan Africa (see box 1).

What role for commercial forestry?

Another key area of debate in the Congo Basin is the role that should be played by the commercial forestry sector. From one perspective, the forests of the Congo Basin are one of world's largest reserves of tropical hardwood, a huge resource waiting to be exploited to contribute to the economic needs of the poverty-stricken people of the Congo basin (see box 2). Declining tropical hardwood resources in other parts of the world, notably East Asia, at a time of rising demand particularly from China and India, increase the global significance and poten-

tial exploitable value of these timber resources.

From another perspective, these forests represent one of the world's last great wildernesses, a huge reservoir of bio-diversity that needs to be protected for future generations. International green campaigning organisations have been lobbying furiously to prevent any expansion of timber production in the region, suggesting that prevailing poor systems of governance do not bode well for effective regulation in support of sustainable timber production.

Balancing act

There is merit in both arguments, and this is reflected in the policies now being adopted by donor agencies which aim to balance economic and conservation needs. These policies envisage a managed expansion of timber production in the Congo Basin alongside efforts to improve forest governance and eco-system protection in the region.

In Congo-Kinshasa, where the vast majority of the Congo tropical forest resources are located, the national government is working with the World Bank and UN FAO to strengthen forest and promote economic development. As part of this process, since 2002, the Government has cancelled 163 timber concessions covering around 25 million hectares, about 60% of the total area (41 million hectares) that had previously been allocated for concessions. The government also declared a moratorium on the allocation of new logging contracts pending the adoption of transparent procedures through a new Forest Code. This code requires that 40% of the cancelled concession area should be redistributed to local collectives for local social infrastructure works. The World Bank and FAO are also involved in preparing a national forest zoning plan, which will serve to define areas for logging, conservation and community use. The new Forest Code provides that protected areas are to cover 15% of the national territory.

Forest resources of the Congo Basin

	Land Area	Area lowland rain-forest	Per capita forest area	Annual deforestation 1990-2000	Annual log harvest 2000-2003	Harvesting Trend 2000-2003	Commercial species harvested according to ITTO concession survey in 2003
	mill. has	mill. has	has	%	000 m3		
Cameroon	46.5	18.0	1.2	-0.9	2110	Sharp decline	Ayous (38%), azobe (17%), sapele (16%), tali (14%).
Central African Republic	62.3	4.4	1.2	-0.1	640	Decline	Sapele (63%), ayous (23%), aniegre (8%), limba, acajou, sipo (all 2%).
Congo-Brazzaville	34.2	23.9	8.1	-0.1	860	Rising	Sapele (40%), okoume (12%), sipo (10%) iroko (8%), izombe (6%), wenge (4%), longhi (3%), bilinga (2.5%).
Congo-Kinshasa	226.7	110.5	2.2	-0.4	55	Rising	Afrormosia (35%), sapele (26%), iroko (15%), sipo (10%), wenge (6%), tiama (4%), limba (2%)
Gabon	25.8	21.3	17.2	-0.1	2500	Decline	Okoume (75%), padouk (8%), aiele (7%), moabi (5%)
Equatorial Guinea	2.8	2.0	4.3	-0.6	800	na	ITTO data not available. Main species is okoumé, which in 1999 represented 75% of total production.

Box 1: Sustainable forestry initiatives in the Congo Basin

At present, sustainable forest management planning is the exception rather than the rule in the Congo Basin. This reflects the grinding poverty of the people, rising population pressure, and bad governance. A variety of initiatives have been launched in recent years in an effort to improve standards of forestry.

□ **The African Forest Law Enforcement and Governance process** was launched at a Ministerial Conference in Yaoundé, Cameroon in October 2003, which drew together ministers from Africa, Europe and North America. The Conference resulted in the endorsement of a Ministerial Declaration and Action Plan. These included a commitment to a wide range of measures designed to tackle illegal logging and other forestry enforcement measures in the region such as development of national action plans, legislative reform, capacity building, information exchange, improved monitoring, implementation of forest management plans, and co-operation between public and private sector agencies. Since then, direct AFLEG-led activity has been fairly limited.

□ **The Congo Basin Forest Partnership (CBFP)** was launched initially with strong backing from the US government, but France has subsequently taken on the leadership role. CBFP brings together 29 governmental and nongovernmental organizations to improve coordination of their diverse projects. It provides an information clearing house for agencies working in the region.

□ **COMIFAC: the Conference of Ministers for the Forests of Central Africa** has been performing a coordination and decision-making role for the Congo Basin forests since 2002. It has adopted a “Plan de Convergence” designed to harmonise forestry and timber regulations in the region with the aim of sustainable forest management. Sustainable forest management planning process, led by European-African industry groups, notably the Inter-African Forest Industry Association (IFIA) and the technical tropical forestry organisation ATIBT. Currently around 15 million hectares of the 50 million hectares of forest concessions in the Congo basin are engaged in a process

to develop forest management plans.

□ This last process is now linked to the **Forest Concession Monitoring System for Central Africa (FORCOMS)**, a voluntary and independent system to monitor conformance with forest regulations and sustainable forest management plans. FORCOMS was initiated jointly by the Global Forest Watch (GFW), World Resources Institute (WRI), World Conservation Union (IUCN), and IFIA. FORCOMS is now being tested in the field in Cameroon, Gabon and Congo-Brazzaville. Already more than 35 forest enterprises have subscribed to this initiative, while the project aims to enlarge the system of monitoring to cover a larger number of concessions over a period of 3 years.

□ **A Pan African Forest Certification (PAFC) Scheme** is also proposed by the private sector, linking independent forest auditing with the ATO/ITTO/CIFOR process to develop national level sustainable forestry indicators and criteria in African countries. A national PAFC-Gabon organisation was established at the end of 2004.

Box 2: A globally significant forest resource

Aside from the Amazon Basin, the Congo Basin constitutes the largest expanse of intact tropical rainforest on earth. In total, the seven countries of the Congo Basin are host to around 140 million hectares of forest. Of this area around 110 million hectares may be suitable for timber production and around 50 million hectares are already under some form of concession agreement. Deforestation throughout the region, while significant, is less of an issue than in other tropical regions such as West Africa and South East Asia. Deforestation is expected to increase in the future due to rapid population growth and very high reliance of this population on extensive agriculture. Population in the Central African countries is expected to grow from 98 million in 2000 to about 164 million by 2020.

Intact and undeveloped

Much of the central African rainforest remains intact and undeveloped. The environmental group Global Forest Watch (GFW) suggests that over two-thirds (68%) of these forests comprise “large tracts of low-access forest” which they define as “contiguous forest blocks, unbroken by public roads, of at least 1,000 km²”. GFW suggest that 41% of central Africa’s remain-

ing “large tracts of low-access forest” are within commercial logging concessions, 8% are in protected areas, and 51% are outside concessions or protected areas.

Potential long term sustainable timber production in this region cannot be assessed with any degree of accuracy, being wholly dependent on the range of species that may be commercially exploited, and the different priority attached to economic, social and conservation goals. However, most studies suggest that the area could support well in excess of 20 million m³ per year on a sustained yield basis (that’s equivalent to Malaysia’s current production levels).

In recent years, annual harvesting is estimated around 7 million m³ across the region. Some of the more accessible regions have been over-exploited (e.g. in Equatorial Guinea and parts of Cameroon), while large tracts of forest in Congo-Brazzaville, Congo-Kinshasa, Central African Republic and Gabon still remain unexploited due to infrastructure constraints.

A recent ITTO survey of 31 logging concessions throughout the Congo Basin provides a further insight into the current state and potential of the forest resource. The survey showed how the concession system has evolved over the years. The earli-

est forest concessions developed in the region (over 25 years ago) tended to be large, foreign-owned and focused on the export market. A new wave of concessions has taken place in the last 15 years, with greater implication of nationally owned companies.

Okoume and sapele dominate

The survey showed that 35 species are logged in significant amounts in the Congo Basin. However the logging industry in the region is organised around the two dominant species, okoume in the south and sapele in the north. These act as the pillars of two spatially and market-wise differentiated groups of species. The average rotation period throughout the region, calculated on the base of the % of the concession logged in a given year, is over 30 years. However, there are large variations between concessions and countries, with 40% of the concessions having estimated rotation periods of less than 30 years. The CAR has the highest % logged per year (indicating shorter rotation periods) while Congo-Kinshasa has the lowest % logged in a year (indicating longer rotation periods). The average productivity is 6m³/ha, although again with large concession and country differences, marked in its extremes by Gabon (highest) and DRC (lowest).

Africa

African logs

Harvesting gears up slowly

It is the dry season in African supply regions north of the equator, a time of year when production should be in full swing. However, early reports suggest that logging is gearing up only slowly. Following a visit to Cameroon during January, one European agent noted that stocks of key commercial redwood species are as low as he has ever known them at this time of year. As usual, the issue of logging licenses in Cameroon was delayed until the end of January. Throughout the northern Congo region, tighter controls on commercial harvesting, high tax rates, high costs of production, freight problems and great uncertainty over likely market conditions this year are tending to deter forestry operations.

The strong euro, sluggish economic conditions, and long term shift in manufacturing capacity have meant a declining market for African logs in western Europe, which nevertheless remains the main source of demand for the higher value African redwoods from the northern Congo.

While recent reports indicate some increased interest in African logs in China and other parts of Asia – reflecting tight availability of competing Asian logs - real indi-

cations of the strength of this market during 2005 are unlikely to become apparent until after the end of the Chinese New Year in February.

Shippers have been holding FOB euro prices for most species of commercially valuable redwood logs steady over recent weeks. Log exporters are talking of raising prices for key species, notably sapele, early on in 2005 in an effort to absorb rising costs. However it remains to be seen whether buyers will be willing to accept higher price levels.

Big changes in the okoume market

International demand for okoume logs is currently very sluggish. Trading conditions for okoume suppliers remain extremely difficult, with exporters margins squeezed between high taxes on the one hand and slow market conditions on the other.

Major regulatory changes are currently underway in Gabon, the main source of okoume logs. In December, the government announced that SNBG, the state-controlled organization that holds a monopoly in the nation's okoume and ozigo log trade, would lose this monopoly from 1 January 2006. The announcement followed a study by a consultancy firm which had highlighted the organisation's precarious financial position. SNBG is to be restructured during a transitional period in 2005 with the aim of significantly reducing costs. The future role of SNBG, which was originally established to protect small and medium-sized forest operators in the country, will also be considered during the transition period. After 1 January 2006, exporters will be free to sell okoume and ozigo directly into overseas markets, although it is expected that the SNBG technical department will, as now, act to control log measurement and quality.

Other regulatory measures in Gabon are aimed at tightening harvesting levels and increasing domestic wood processing. Concessionaires that develop processing capacity in Gabon now benefit from a reduction in the level of tax imposed per hectare of concession. In recent years, log exports from Gabon have been falling by around 10-15% annually. Indications are that the decline in log exports accelerated during 2004. Production of sawn timber, rotary veneers and plywood in Gabon is now estimated to be in the region of 500,000m³ per annum, roughly equal to one quarter of total production. Rougier report that they will be opening a new sawmill in Franceville Gabon in early 2005.

In further moves to encourage domestic wood processing, Gabon intends to introduce a log export quota system, similar to that in Cameroon, from January 2006 after an introductory period starting in mid 2005.

African sawn lumber

Harvesting gears up slowly

The strong euro remains a key concern in the African sawn lumber market. African hardwoods – which are generally invoiced in euros - are struggling to compete on price with South American and Asian alternatives. Heavy stocks of South American lumber in France, Portugal and Netherlands are also contributing to the current low forward demand for African hardwood.

A reasonable volume of sawn lumber is reported to be at Douala port in Cameroon ready for shipment to Europe. However, wood shipments out of the port are being delayed as shipping lines are diverting capacity to other more lucrative trade routes and products (such as cocoa).

The market for sapele, which dominates production in the north Congo region, remains problematic. Consumption of this species is still sluggish in some European countries, with continuing intense price competition between European suppliers in onward sales of existing landed stocks. UK buyers report relatively cheap offers coming from suppliers on the European mainland. But the news from the sapele market is not all bad. One trading company with landed stocks in mainland Europe reported that UK buying of sapele sawn lumber has been strong in the opening weeks of 2005.

Iroko market very firm

Iroko prices remain very firm as shipments out of Ivory Coast have slowed again following a deterioration in political conditions since November 2004. Small volumes of product (often of uncertain provenance) are trickling out of the country. Price levels for iroko from Cameroon quoted in this journal are available only to buyers willing to purchase other redwood species alongside iroko. Prices on offer for orders of iroko only are significantly higher. Many UK and Irish buyers have become resistant to the higher iroko prices, although some orders are being placed at these price levels. Buyers in other parts of Europe (including Spain, Italy, and Greece) have also been willing to pay and are soaking up available iroko supplies. Availability of rough sawn iroko/odum from Ghana is also declining as the government now encourages machining of this species prior to export.

Prices for mahogany and framire sawn lumber also remain firm due to limited supply. There are reports of shortages of framire sawn lumber emerging in the UK due to the supply problems from the Ivory Coast. Prices for wawa/samba in the Ivory Coast and Ghana have remained stable over recent weeks, although shippers are now trying to push up prices.

African indicative prices

	Nov	Dec	Jan
Exchange rates			
U\$/£	1.89	1.93	1.88
Euro/£	1.43	1.46	1.44
All prices include agents commission of 5%			

Sawn lumber

Cameroon, CAR, Congo (Braz.)

Euro/m ³ ; FOB			
Grade/size: FAS, air dried, width 6"+, length 6'+			
Sapele	470	470	460
Sipo	550	550	550
N'Gollon	580	600	600
Iroko	680	680	680

Cote d'Ivoire

Euro/m ³ ; FOB Abidjan			
Grade: FAS			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
Iroko AD	680	695	695
Mahogany AD	550	575	600
Framire KD ^(b)		430	430
Samba KD No.1 C&S ^(b)		300 ^(a)	300
Ayous KD No.1 C&S ^(b)		340	340

Dimension stock

Azobe	430/	440/	440/
	490	500	500
Dabema	325/	325/	325/
	375	375	375

Gabon

Euro/m ³ ; FOB			
Grade and size: FAS, width 6"+, length 6'+			
Okoume KD ^(b)			340

Notes. (a) Prices for samba quoted in December were too high and have been amended downwards. (b) Price series for certain air dried products were removed in December and replaced with price series for kiln dried products. This reflects the rising volumes of African kiln dried products supplied direct to the European market, particularly the UK.

Illegal logging

Legality licensing looks shaky

The recent political debate over illegal logging has encouraged the publication of a range of reports on the issue. The most recent batch indicate that illegal logging is concentrated in a few problem countries, but suggest it nevertheless has a major impact on price competition. The reports also imply, not always intentionally, that the legality licensing approach now being considered by the European Union is inappropriate and will be ineffective.

The American and Forest and Paper Association (AF&PA) released a report in October 2004 on "Illegal Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry". This report highlights the complexity of factors that may contribute to illegal logging, with the implication that it is not an issue that lends itself to simplistic bureaucratic solutions targeting the timber trade.

Multiple causes of illegal logging

The study notes that illegal logging is primarily a symptom of unclear or poorly enforced forest tenure, weak political institutions, corruption, inadequate natural resources planning and monitoring, and lax enforcement of sovereign laws and regulations. The problem appears to be most acute in countries without private forest ownership or clearly controlled tenure. Ambiguous forest tenure is a major impediment to legality as there is less incentive to protect assets from theft and destruction.

The study notes also the uncertainties involved in assessing the extent of illegal logging. It comments that reported estimates – often derived from campaigning NGOs – are generally supported only through anecdotal information and supposition. These estimates are likely to be exaggerated. On the other hand, the report notes that illegal activity of the type that rises to international significance is pervasive in some countries.

15% of hardwoods illegally sourced

Despite the uncertainty, the report attempts to quantify the scale of the problem, based on a detailed analysis of existing estimates and analysis of wood trade flows. It is suggested that illegal forest activity (of the type that rises to a level of international concern) represents between 5% and 10% of global industrial roundwood production – approximately 4% for softwood, but 15% for hardwood. Most illegally produced timber is used domestically and does not enter international trade. The suspicious volume of roundwood that enters international trade represents on the order of just 1% of global production for both softwood and hardwood.

However, 12% of global softwood roundwood exports and as much as 17% of global hardwood roundwood exports are of suspicious origin. Less than 4% of global trade in softwood lumber and

plywood originates with timber of suspicious origin, but as much as 23% of hardwood lumber exports, and 30% of hardwood plywood exports might be considered suspicious. This is largely attributable to the Indonesian situation where a high percentage of production, and hence export, is believed to be illegal.

Despite this concentration on Indonesia, illegal logging nevertheless has a significant impact on timber prices. The study's economic analysis suggests that illegal material depresses world prices by 7% - 16% on average depending on the product.

The report considers the most appropriate response to illegal wood trade. It notes that policy advocates differ on whether an emphasis should be placed on capacity building efforts in countries of concern, or on influencing trade or consumption of suspicious products in the importing countries. The study is sceptical of the latter approach, noting that this approach forms an integral part of the European Union's Illegal Logging Action Plan.

Legality licensing not widely supported

The EU intends to enter into bilateral agreements with non-EU countries to develop and implement export licensing procedures that would be enforceable on EU imports of timber and sawn lumber. This approach is not supported by other major consuming countries. The United States, Canada, Japan and China have expressed no interest in similarly regulating imports from trading partners. Furthermore, the report suggests that because of fluidity of global trade and manufacturing, bilateral trade measures are not likely to be very effective in reducing unsustainable forest practices, or, for that matter, the extent of illicit harvesting. Operators engaged in illicit activities will likely find ways to circumvent any new bureaucratic systems and trade flows will adjust to the imposed constraints.

Scepticism over the value of the EU legality licensing system is also a feature of a new report by Emily Fripp, a consultant at the UK consultancy firm ERM. Fripp's study considers the likely impact of legality licensing on trade and illegal logging in three case-study countries (Indonesia, Brazil and Cameroon). It suggests that the overall impact is likely to be restricted, and that some effects will be counter-productive.

Not tackling the problem

In Brazil, the study notes, more than 80% of tropical products are consumed domestically and only a small share of production is exported, and only a minority of this is destined for the EU. Therefore the legality licence will only have a limited impact on both production and trade patterns. In Indonesia, Fripp notes that the legality licence is likely to have a limited impact in its initial form (logs and sawnwood only) on trade between the EU and Indonesia. It may even cause a distortion in trade patterns away from the EU towards other less stringent markets, where strong trade partnerships already exists, for example to China and Japan. With a log ex-

port ban in place and excess demand in the domestic market a switch from export to domestic markets is also a possibility.

Fripp suggests that only in Cameroon is legality licensing likely to have a significant, potentially positive impact. This is because 70% and 80% of Cameroon wood products exports go to the EU. Furthermore, strong vertical linkages and traditional buying relationships exist between producers in Cameroon and buyers in the EU, especially in southern Europe. The legality licensing scheme may be able to build on existing strong regional initiatives, such as a WWF Producer Group, a working group for certification, an independent observer, and significant donor presence.

More problems with licensing proposals

Some of the problems of legality licensing are also identified in a report "Options for a legality licensing system" by Duncan Brack for the Royal Institute of International Affairs. Brack notes that once licensing systems are up and running, there will be a strong incentive for evasion. This may be achieved relatively easily by transshipment through countries not participating in the licensing scheme, thus disguising their country of origin. If the products are processed in the second country, normal rules of origin procedures would mean that the second country becomes the country of origin in any case.

And because the scheme only covers logs, sawn lumber, plywood and veneers, exporters may also avoid the regulations by shifting to secondary processing. This is already happening on a massive scale, with more and more tropical producers sending raw material to China for secondary processing before export to the EU.

Rather than seeing the writing on the wall, Brack's perceived solution to these problems is a massive extension of the legality licensing scheme to cover pulp, paper, secondary and manufactured wood products, and to ensure coverage of as wide a range of countries as possible.

Big brother approach

As to the nature of the legality licensing framework, Brack's proposals are equally far-reaching. A top-down "big brother" approach is envisaged, involving the establishment of a hierarchy of monitoring organisations, each scrutinising the activities of organisations lower down the chain. Concessionaires would be monitored by the existing enforcement agencies, that would be monitored by a "legality licensing management authority", that would be monitored by an independent third party verification which presumably would have to be "accredited" by another agency. At the end of this chain of mistrust would be "another level of external monitoring, or 'whistle-blowing', giving civil society (including NGOs, local communities and the private sector) the ability to report evidence of illegal production, collusion between verifiers and timber companies, corruption within the issuing authority, and so on."

News Summary

Southsea log prices rise in response to tight supply

US\$ FOB prices for most species of South East Asian logs continued to rise at the end of 2004 in response to tight supplies and continuing good demand in China and India. A report in the Japan Lumber Journal in mid January comments that availability of Southsea logs from Sarawak, Sabah and Indonesia remains "chronically lacking". US\$ CIF prices in the region are also rising due to increased freight rates. **Pages 2,3**

Malaysian sawn lumber availability restricted

Log supply shortages in the Far East are inevitably impacting on the sawn lumber market. Availability of certain key species - including nemesu, bukit, keruing, bangkarai and merbau - is restricted and US\$ prices are generally firm. Availability of MTCC certified meranti-tembaga is also now very restricted, although uncertified meranti-tembaga can still be secured for late March shipment. Supplies are particularly tight from West Malaysia and Sabah, which is encouraging more European importers to look to Sarawak for supplies. **Page 3,4**

Indonesia announces expansion of legal logging

Indonesia may be about to make a dramatic U-turn in domestic forest policy. Over the last few years, the previous Indonesian government greatly reduced the official annual commercial logging quota in an effort to gain control over national harvesting levels. However a growing realisation that unrealistic constraints on harvesting only serve to increase the incentive for illegal logging has led to calls for the new government,

elected in October last year, to greatly increase the official quota so that it is more closely aligned with national wood processing capacity. **Page 4**

African logging starts the year only slowly

It is the dry season in African supply regions north of the equator, a time of year when production should be in full swing. However, early reports suggest that logging is gearing up only slowly and that stocks of key commercial redwood species are very low for the time of year. Trading conditions in Africa remain very difficult, with producers squeezed between rising costs of production and the strong euro, which undermines price competitiveness. African producers are hoping to push up prices for logs and sawn lumber during the first quarter of 2005 in expectation of rising Chinese and European demand. However they are likely to meet significant price resistance. **Page 10**

Focus on the Congo Basin

The political and economic climate in the Congo Basin has improved in the last two years. Meanwhile the signs are that there will be a significant increase in engagement in the region by international aid agencies. This raises difficult questions relating to the nature of engagement in an area where governance is generally weak, the population is chronically poor, and where forests represent both a major economic asset and a globally significant reservoir of biodiversity. **Pages 1,8,9**

US domestic market prospects still good

Despite heavy precipitation throughout parts of the United States, supplies of

most American hardwood products seem to be keeping pace with demand. Buyers are tending to limit purchases and certain items are now backing up at mills. However underlying hardwood consumption in the United States remains good, buoyed by continuing good activity in the housing sector. The latest raft of statistics hold out the promise of continuing good demand in 2005.

Pages 4,5

US exports boosted by weak dollar

US hardwood export levels continue to benefit from the relative weakness of the dollar against other currencies including the euro, yen and Canadian dollar. This factor meant that US export levels have held up reasonably well into the EU and Japan, despite relatively sluggish economic growth. While the year 2005 began slowly for many exporters to the EU, most reports indicate that North American hardwood inventories remain relatively low in the EU, holding out the promise of consistent purchasing during the first half of the year. Meanwhile the Chinese market for American hardwoods has been progressively improving since final tariff rates in the wooden bedroom furniture anti-dumping suit were announced late last year. **Page 5**

EU trade shifts from primary to secondary products

Import data for the EU-15 group of western European nations shows a big decline in primary wood products imports over the last five years, offset by a significant increase in secondary wood product imports. **Pages 6,7**

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