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## Rebound in world temperate sawn hardwood market

**The annual UNECE Forest Products Market Analysis reports that after a fall in 2001 and stabilisation in 2002, global production of temperate sawn hardwood increased during 2003. This was mainly due to increased domestic demand in the United States as a result of a buoyant construction sector, and increased demand in central and eastern Europe for secondary processing. Apparent consumption of sawn hardwoods in the UNECE region increased in 2003, as both production and imports increased, while exports decreased, due to a weakening of demand from Asian markets.**

The report suggests that production of sawn hardwood in the European Union and European Free Trade Association regions remained unchanged overall in 2003, after three years of consecutive drops. Furthermore, the UNECE statistics show that imports of sawn hardwood into Western Europe increased, while exports decreased, resulting in a 9.1% rise in apparent consumption. The data seems to contradict anecdotal reports from the market itself which suggest that European demand for sawn hardwoods was not strong through 2003 and the early part of this year. It may be that market sentiment has been overly pessimistic and therefore slow to register signs of a turnaround in the market last year. Pessimism may be a natural response to three years of severe market depression between 2000 and 2002.

The UNECE report notes that the European beech market has remained depressed during the last 18 months. This is indicated by price series data which shows a continuing decline in both French and German beech prices (page 9). However, the demand for

sawn oak has increased across Western Europe over the last eighteen months. The report goes on to suggest that overall Western European demand for sawn hardwood, including tropical species, is likely to remain stable, if not increase, in the near future.

### Eastern Europe on the rise

The UNECE statistics show that production of sawn hardwood in Eastern Europe rose again in 2003, by 4.2% to around 8.7 million m<sup>3</sup>. Long-term growth in Romania's forest products sector drove this increase, while significant production increases in both Turkey and Latvia, contributed to the overall growth.

While Romania has been focussing on investment within its domestic forest products sector and improving the quality of its sawn hardwood production, Latvia, Lithuania and Estonia have all increased production and exports of sawn hardwood. Slovakia has begun to supply Poland with hardwood logs and lumber, in order to supplement what is available from the domestic resource and both Croatia and Yugoslavia have stepped up exports. Turkey, which for many years has suffered from a lack of investment and management in the forest products sector, is now showing signs of becoming a major player in the future supply of sawn hardwood.

The UNECE report indicates that apparent consumption of sawn hardwood in Eastern Europe rose by 3.6% in 2003 as compared to the previous year. The pace of growth in 2003 did not equal the consumption increase of 6.2% reported in the previous year, and this is mainly due to a rise in exports from the region.

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## **Editorial - thoughts from a bus**

A few thoughts occur to me while traveling on a bus between Kuala Lumpur and the state of Perak on a forest familiarization tour arranged by the Malaysian Timber Council.

The first thought is on the quality of the road; a tolled highway arguably smoother and certainly much less congested than those I'm used to in the UK.

Malaysia's modern infra-structure will come as no surprise to those that are regular visitors to the country and have seen it's rapid transformation from agricultural subsistence to modern industrial economy. But to me, who last visited Malaysia in 1989, the change is startling. From the moment you set foot in KL's vast new international airport, you feel Malaysia is a country where things work.

The second thought is inspired by the landscape that whizzes by at a comfortable 100 kph. Once out of the vast building site in the immediate environs of KL, you enter a world of green. Much of the land is covered by oil palm plantations. But natural forests are also very much in evidence – sufficient at least to give an impression of what Malaysia's boast of 62% land area under natural forest still means on the ground.

It occurs to me that Malaysia's economic development and effective forest policy are intimately linked. Oil palm plantations created from the planned conversion of forest during the 1980s generated considerable wealth in Malaysia and provided an important foundation for the evolution of a modern industrial economy. And the creation of this economy in turn provided a stable platform on which to build a comprehensive

and fully enforced system of forest regulation. It just so happens that the living embodiment of this new system of forest regulation is sitting next to me on the bus. The technical forestry officer is employed by the Malaysian Timber Certification Council (MTCC). He tells me that his deep love of the Malaysian environment inspired him to become a forester. He is totally committed to his work with MTCC, an organization which has gone to great lengths to develop a Malaysian certification standard. It has consulted and sought consensus with anybody who could conceivably have an interest in Malaysian forestry – a process so thorough that it would put many western forestry authorities to shame. MTCC has independently certified 7 of the 8 state forest management units in West Malaysia against the standard. This enthusiastic forester is now dedicated to expanding the role of MTCC into Sarawak, his home state. He is slightly bemused by the criticism that has been leveled against MTCC by a few western environmental groups. He thinks this is more because MTCC is not part of the FSC brand, rather than any objective appraisal of the scheme's achievements on the ground.

But in the end, he is not too concerned by the posturing of western environmentalists. He says that his devotion to MTCC has nothing to do with improving the image of Malaysian timber products. It reflects his desire to preserve his country's unique natural heritage for the sake of his own children.

It is rare to find such inspiration on a bus.

Rupert Oliver

## **Africa African logs**

### **Prices continue to firm**

The firming trend in African log prices has continued, with improved demand in Asian markets, restrictions on supply, increased freight rates and transport fuel costs and higher taxation levels in exporting countries. In most species, FOB log prices have increased in recent weeks and reports suggest that this situation will not change in the immediate future, as overall global demand for tropical species is on the rise.

Strong demand from China's plywood manufacturers for okoume logs has driven up the price of peeler species and Gabon's own increase in domestic production of veneer and plywood has further limited the volume of logs available for export. European demand for iroko logs is high and cannot be met by supplies. This is particularly relevant for Central and Eastern European markets, where demand for tropical logs is rising, despite an increase in prices.

With overall global demand for tropical logs on the increase, and limitations on supplies of both African and Asian species, it seems

unlikely that prices will show any signs of weakening in the near future. If the forecast growth in the economies of Europe is correct and once the summer holiday period is over and European buyers look towards stock-building with less of a wait-and-see approach, their could well be an even tighter situation for tropical logs.

### **African sawn timber Increasing prices meet with increasing demand**

Until a few weeks ago, demand for African sawn lumber in European markets was relatively slow while FOB prices continued to firm. Exporters have been pushing for higher sawn lumber prices in response to the increased cost of logs. Freight rates from West Africa have increased significantly, to about 10% more than the norm at the end of last year. Demand for African sawn lumber in China has also continued to rise, while US demand for certain species, notably khaya, has remained good.

More recently, there have been signs of an

□ 3

# Africa

1□ improvement in European demand. Some Spanish importers have been buying greater volumes of sapele lumber. In the UK, stock-building has begun and interest in West African species is picking up, although overall demand remains fairly sluggish.

Supplies of almost all West African species are tight and with the rainy season in full flow in the Congo Basin, the situation is not being eased. Reports suggest that many African redwoods, with perhaps the exception of sapele and sipo/utile, are difficult to source and, furthermore, bottlenecks in shipping have aggravated this situation. However, in recent weeks, European vessels have stopped at multiple ports to help alleviate this problem.

## Eastern European demand

While Western European markets for African hardwoods have been slow to pick up this year, Central and Eastern European importers have been reporting a renewed interest for a number of weeks. Demand for tropical logs has been steady and stable for some time and prices, although firming, have not increased so rapidly. Likewise, increases in sawn lumber prices have not been as significant as in Western European markets. Reports suggest that this market is likely to remain fairly stable in the coming weeks. However increased log prices at source, coupled with higher freight rates and fuel costs, are likely to eventually filter through to the delivered product.

## Ivory Coast

### No longer a reliable source

For many years, the Ivory Coast had been a role model amongst African timber producing countries, but the devastating civil war of late 2002 and the on-going political, social and economic fall-out have meant that, today, the forestry sector is not able to produce and export at past levels.

Problems with supply of raw material, due to smaller and limited concessions and also transport (due to frequent road blocks), have reduced the country's ability to produce and export forest products on the scale that it could in the past. Furthermore, unrestrained and illegal exploitation in certain privately owned forested areas has led to a reduction in raw materials, whilst in government owned areas, there has been overexploitation, due to inaccessibility in other politically fragile zones. Annual volumes of felled timber have not seen a significant reduction, but what is being cut now should have spread over several years hence. This, in turn, is likely to

lead to a further deterioration of the Ivory Coast's forest products sector in the near future.

In 2003, exports of logs from the Ivory Coast fell by 5% to 12,298 tons, as compared to the previous year, while exports of sawn lumber fell by 12% to 136,870 tons over the same period. Recent reports from European buyers of African logs and sawn lumber suggest that this downward trend in production and export is continuing this year and showing few signs of easing. The net result of this decrease is an dramatic increase in prices of certain species, with iroko prices reaching almost record levels. Further limitations in supply, coupled with additional increases in prices will likely force certain buyers in export markets to turn away from these species and to look for alternatives. Problems in the forest sector are compounded by other external factors. There is constant agricultural pressure on forested land as well as habitual bush fires. The political situation is a constant concern. Another assassination attempt on the leader of the rebel faction in the country in the last week of June is indicative of the continuing instability. But recent reports hold out some hope of improvement. West African papers in early July were suggesting that, in view of an impending visit by the UN Security Council, there would be a renewed effort to further the peace process in the country.

### African indicative prices

	Apr	May	Jul
Exchange rates			
US\$/£	1.80	1.80	1.84
Euro/£	1.47	1.50	1.51
All prices include agents commission of 5%			
<b>Sawn lumber</b>			
<b>Cameroon, CAR, Congo (Braz.)</b>			
Euro/m3; FOB			
Grade/size: FAS, air dried, width6"+, length 6'+			
Sapele	440	470	480
Sipo	520	520	550
Bibolo	380	380	380
N'Gollon	565	565	580
Iroko	650	650	660
<b>Cote d'Ivoire</b>			
Euro/m3; FOB Abidjan			
Grade: FAS, air dried			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
Iroko	650	650	660
Mahogany	550	550	550
Framire	370	370	370
Samba No.1 C&S	275	275	275
Dimension stock			
Azobe	430/490	430/490	430/490
Dabema	325/375	325/375	325/375
<b>Gabon</b>			
Euro/m3; FOB			
Grade and size: FAS, width 6"+, length 6'+			
Okoume AD	310	310	310

## Khaya

### Queen of timbers

Mahogany has long been regarded as one of the outstanding timbers in the international timber trade. Some 400 years ago Sir Walter Raleigh's sailing ships were repaired in Trinidad with mahogany. The interest in mahogany in the UK is attributed to him. Hence many countries in the area of Central America shipped logs and curls. It became the "queen" of the cabinet woods and included supplies from West Africa and Gabon to supplement American supplies.

As supplies of the most popular American species (Sweitenia) declined, Africa captured a progressively larger share of the international market. The high quality and excellent texture of the African timber (khaya) has subsequently become widely appreciated around the world.

African mahogany grows in the Ivory Coast, Ghana and in the countries down to Gabon. There are essentially four commercially significant species of khaya, each with different characteristics and varying in their degree of market acceptance. The main traditionally traded species has been *K. ivorensis*. *K. anthotheca* is also often accepted in the market; so too is *K. grandifoliola*, although sometimes with more consumer resistance. *K. senegalensis* was previously only destined for local markets in parts of western Africa but is now being traded more widely. *Senegalensis* is darker, denser and heavier than the other three species.

With most west African countries imposing limits on raw log exports, the international trade in khaya logs is now restricted. However small volumes of logs from the Congo Basin continue to find their way into Spain, France and Turkey.

In recent years, the United States market has come to dominate international trade in khaya lumber. Khaya is widely used in the American furniture sector, substituting for South American mahogany as availability of the latter has declined in response to environmental concerns. The American market has traditionally preferred "sun-kissed" *ivorensis* lumber. Pieces are laid out in the sun to darken the face and then turned over for a similar effect. Khaya is also now often traded in squares. In recent months, there have been signs of rising interest in khaya in China.

*This article draws on notes prepared by Jim Fitzgibbon for the Ghana Timber Industry Development Division.*

# Asia/Pacific

## Malaysian sawn lumber High prices maintained

The international trade in Malaysian sawn lumber continues to be dogged by a lack of supply of raw material. Despite having now reached the end of the rainy season, there continues to be a lack of logs available for the mills to gear up production. This situation is also being compounded by the very tight restriction now imposed on trade in logs with neighbouring Indonesia. In addition, logs supplied directly from Indonesia itself are also in very low supply. In some cases, where dark red meranti (DRM) logs have not become available for sawmills, other species have taken up the slack. However, in general supplies of all species are on the slow side.

FOB price gains in DRM are reported for June and this is a continuation of a trend that emerged in early April. Furthermore, the increases in log prices in the Far East are widely forecast to be sustained. Not only have overall harvesting levels in Malaysia fallen, but of the logs that are being felled, an increasing percentage are being diverted to plywood production and to China, the US, Korea and India. Some reports indicate that mills in Malaysia are currently operating at only 75% production capacity.

### UK market still sluggish

The UK market continues to be slow, as demand for meranti sawn lumber is lacklustre and increasingly often substituted in manufacturing by sapele. The current situation has not changed significantly in the last eight to ten months and there are no indications that the near future will bring relief to a generally depressed market. The little demand that exists in the UK market is for MTCC certified sawn lumber and this has driven prices up further. Margins on sawn DRM sales in the UK are too low for importers to do much forward buying and carry large inventories and, therefore, stocks are generally on the low side.

### Dwindling trade

As for other European markets, importers report that not only meranti is in short supply and merbau and keruing are also posing difficult to obtain. Reports on the Dutch market for Asian hardwoods suggested that trading conditions were improving a few weeks ago and that optimism reigned. However, this was short-lived as trade has now dwindled to a very low level, not least due to the forthcoming summer holiday period. Most Dutch meranti importers seem disinclined to rush ahead with orders, at least until the holidays are over in mid-August. Another factor affecting Dutch demand for Asian sawn lumber is the rather less-than-

### Asian Sawn Lumber Indicative Prices

	May	Jun	Jul
Exchange rates:			
M\$/£	6.83	6.95	6.99
US\$/£	1.80	1.83	1.84
M\$/US\$	3.80	3.80	3.80
<b>Malaysia</b>			
All prices US\$/ton, C&F UK port, including 5% agents commission			
<b>West Malaysian Dark Red Meranti</b>			
Grade: Select & better GMS; Kiln dried			
Size: Width 6'+ avg 7"/8"; Length: 8'+ avg 12'/14'			
1"	840	845	870*
2"	865	870	895*
2.5"	885	890	940*
3"	900	910	980*
<i>Note prices quoted from July are for MTCC certified product. West Malaysian shippers are increasingly offering the certified product to the UK as standard.</i>			
<b>Myanmar Teak</b>			
US\$/50 cu ft, FOB Rangoon/Bangkok/Singapore			
Grade: Air dried boards			
Size: Width 6'+ avg 8", Length 6'+ avg 8'			
1"	3350/ 3600	3350/ 3600	3600+

forecast growth in the economy, which, despite being talked up by politicians, is showing few signs of real and sustained recovery. Rising unemployment, high oil prices and increased inflation are all adding to the pressure on the housing market, which is characterised by low levels in demand for new houses and rather more interest in renovation and refurbishment.

A certain amount of market optimism in the early part of the year led to increased purchasing of dark red meranti, which has now become a rather serious onus for importers, as the talked-up economic improvement has not come to fruition. The situation now is that many importers have very high stock levels, which they cannot shift and, furthermore, recent US dollar-euro rate movements have added to the pressure. For a short time in the near future, Dutch end-users may well be in the enviable position of being able to purchase meranti and other Malaysian species at relatively competitive levels.

### C&F price rise

To further exasperate the situation in Holland and in addition to all other influencing factors, importers are now extremely reluctant to purchase from Peninsula Malaysia, as increasing C&F Rotterdam prices are showing no signs of relenting, due to increased freight rates and few exporters are making offers to help their buyers.

One outcome of such high log prices in Peninsula Malaysia is an increase in substitution of species. Certain species, such as Indonesian bukit are in such short supply that prices have become prohibitive and nemesu has been purchased as a substitute. Despite the recent increases, price levels in the Neth-

erlands are still well below those achieved in peak years, which suggests that there may still be room for further upward movement. However, the overall sentiment and the impact of a continuing recession is making traders very cautious in their buying.

The wait and see purchasing policy has returned in both Holland and Belgium and one has to speculate that if not enough Malaysian sawn hardwoods reach their end-users in Europe, perhaps alternatives, such as sapele and sapupira will take up the slack.

## China

### Sawn lumber production rises

According to ITTO, China's timber production increased in 2003 after 6 consecutive years of decline due to the implementation of Natural Forest Protection Program. China's national timber production reached 47.6 million cubic metres in 2003, a year on year increase of 7.3%.

Of the total, production in the tropical regions of China totalled 2.6951 million cubic metres, or 5.7% of national production. Industrial log production was 43.2 million cubic metres; a year on year increase of 4.7% while wood for non-industrial purposes (mainly fuelwood) accounted for the balance. Rather surprisingly, the 2003 production of non-industrial round wood reportedly jumped some 42% compared to 2002. China's national sawnwood production also grew, reaching 11.3 million cubic metres in 2003, a year on year increase of 32%. Of the total, tropical sawnwood production was 726,000 cubic metres, comprising just over 6% of the national total.

ITTO suggest that forestry officials in China considering allowing a selective easing of the logging restrictions to increase further the domestic log harvest from the natural forest. Several officials have said that, during the period of implementation of the Natural Forest Protection Program, vegetative recovery in severely affected areas has been better than expected and that a review of logging restrictions would be justified. Even a modest 10% increase in harvests from the natural forest could have a major impact on the market and on imports of logs.

## Solomon Islands

### Over-exploitation

Current rates of logging in Solomon Islands will wipe out commercial forest resources by 2015 or earlier. This forecast is part of a report on the Solomons' economy prepared by the Economic Analytical Unit of Australia's Foreign Affairs Department. The report

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is aimed at helping the Solomon Islands Government build on the success of a regional assistance mission, RAMSI, which began its intervention in the Solomons in July 2003.

The study says that before the RAMSI intervention, the Solomon Islands was becoming a failed state where Government could not enforce law-and-order and corruption was rampant. From 1998 to 2002, the Solomons' economy shrank by 24%, but from that low base the economy last year grew by five percent.

The study says that at current rates of logging of more than 700,000 m<sup>3</sup> per year, the Solomons' forest resources will be exhausted by 2015. The study suggests the Solomons would need to more than halve the rate of logging if the vital industry is to continue until the middle of the century.

Most of the harvest is exported in round logs to Asia and there is very little process-

ing in the Solomon Islands. Nevertheless, the report points to the importance of the logging industry to the national economy, suggesting it has been crucial to the Budget with the timber export tax accounting for 15 per cent of all revenue. The importance of the logging industry has increased as the recent economic crises has killed off most other sectors of the national economy.

## **GDP growth key to forest protection**

Growth in the rest of the economy is necessary to enable the government to enforce regulations on forestry. There is also a clear need for the Solomon Islands to process more wood locally. But to achieve this, it must first get rid of what the report calls a raft of regulations inhibiting investment.

Another major problem for the forest sector in the Solomons is the existing system of land tenure. Most land in the Solomons, like Papua New Guinea, is customary or communally owned with no registered title.

While noting that communal land ownership is a central part of the traditional way of life, the Australian study suggests it also impedes efforts to move the economy beyond subsistence agriculture. Without any form of private land ownership, land is not transferable so can't be mortgaged to raise capital. There is also little personal incentive to invest in the long term productivity of the land. Rather each member of a community has an incentive to exploit as much as they can in the short term before their neighbours do the same – a situation often referred to as "the tragedy of the commons". At present over 80% of the population is involved in semi-subsistence agriculture. This is unlikely to change without major land reform. But the existing system is integral to the cultural heritage of the islands. So the process of reform is likely to be difficult and may only be achieved through participatory and democratic processes in the Solomons.

# Plywood

## **Indonesian plywood**

The market situation for Indonesian hardwood plywood is very complex, varying widely depending upon the log supply available to individual mills and each mill's product mix. Overall supplies of hardwood plywood from Indonesia are now well down on previous years as government efforts to reduce log harvests have begun to bite. Indonesian plywood production fell from over 8 million m<sup>3</sup> in 2000 to around 6 million m<sup>3</sup> in 2003, and this trend is likely to continue. While the long term trend has been downwards, in the short term log stocks have started to increase a little in some areas as the weather has improved. However this increase in supply seems to be limited to the larger well capitalized mills. Medium and small sized mills continue to be starved of logs.

Mill activity also varies widely depending on target export market. Mills targeting the European and North American markets had full order books during the second quarter of 2004. However, this demand may now be easing with the onset of the summer slowdown in these countries. But European demand for certain specifications – notably thinner panels – continues to outstrip Indonesian supply.

There are some reports that Indonesian mills focusing on the Japanese market have seen a decline in orders in recent weeks, which has encouraged these mills to look for alternative outlets. As a result some Japanese plywood specifications now being diverted

to the European market.

The wide range of market conditions is reflected by APKINDO's decision not to announce index prices at a meeting on June 22. This was in acknowledgement of the need for a more flexible sales attitude, allowing individual mills to respond directly to their specific log supply and niche market conditions.

European importers of BB/CC grade plywood now report a wide range of prices, although generally indicating a slight easing from the heights achieved in May. While prices of around Indo96 plus 15% were being quoted two months ago, prices seem now to be hovering around Indo96 plus 9% to Indo96 plus 12%. Some mills seem to have marginally reduced prices in order to generate cash flow as the first rush of orders during the spring months has now subsided.

## **Malaysian plywood**

Short term logging conditions have improved in Sarawak and Sabah in recent week due to improved weather conditions. However long term log supplies in both Sabah and Sarawak have been declining in response to tighter enforcement and resource constraints. Both states are now diverting a rising proportion of their log and veneer supplies to domestic plywood manufacturing plants. This is causing consternation in Japan and China whose own domestic mills are heavily dependent Malaysian raw material supplies. Malaysian manufacturers remain intent on taking market share from In-

donesia and China, particularly focusing on providing a reliable source of higher value products to niche markets, most notably in Japan. The European market, which is generally less willing to pay the higher prices, has become a lower priority.

## **Brazilian plywood**

Prices for Brazilian hardwood plywood have been falling. FOB prices are now being quoted at around Indo96 less 4% to less 6%. Even lower prices are being quoted by some mills. Lower prices partly reflect declining seasonal demand in the United States and Europe and expectations of improved supply from Brazil. The rainy season has now ended in the tropical north and larger volumes of tropical logs are expected to be available. Nevertheless, shipping out of Brazil remains a persistent problem. Although the effects of the port workers' strike earlier in the year have now eased, there is still a significant shortfall in container space. There continue to be reports of long lines of trucks queuing for days outside the Brazilian ports.

Meanwhile importers of hardwood plywood have stepped up efforts to find replacement products following the recent sharp increases in prices and supply problems from Brazil. For example, some importers are now replacing Brazilian hardwood plywood with Chinese combi-plywood faced with bintangor derived from Sarawak.

The most recent export data indicates high

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# Plywood

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levels of trade in Brazilian plywood between January and May this year. During this period, Brazilian exports reached 681,000 tons valued at US\$346 million, respectively 33% and 70% up on the same period the previous year. Hardwood plywood exports reached 214,000 tons, up 33% on the same period in 2003.

## Chinese plywood

While the recent imposition of a 48% tariff on imports of okoume plywood into the EU has effectively shut the door to marketing this product in Europe, Chinese exporters are making headway in the supply of other plywood products.

Chinese products are not directly comparable with the Indonesian and Malaysian products, being generally lighter weight combi products with a poplar core. The quality and prices of Chinese products vary widely. In addition to variations in the quality of wood raw material used, some Chinese manufacturers use cheaper domestically produced adhesives and coatings while others prefer more expensive imported products. So trading in Chinese products requires specialized knowledge. Nevertheless, some European importers have been buying 21mm Chinese poplar plywood as a substitute for Indonesian plywood, and some reports suggest emerging European interest in thinner plywood specifications manufactured in China.

## Europe

UK hardwood plywood importers remain fairly upbeat about market prospects despite recent signs of a slowdown both in underlying consumption and in forward buying. The slowdown in consumption is mainly attributed to the onset of the summer holiday season and delays in building projects. Reduced forward buying is partly due to the recent arrival of reasonable volumes of Far Eastern and Brazilian hardwood plywood purchased at high prices several months ago. Some importers also continue to hold off forward purchases in the hope that the recent trend towards a slight easing in prices will be maintained.

The European market for birch plywood remains brisk and prices are firm. Exporters' order books in Finland, Russia and the Baltic States are well filled with good demand from several European countries. This has meant extended delivery times. Demand for birch plywood has been boosted by difficulties in supply of alternative hardwood plywood and increased interest in CE marked products.

# North America

## US domestic market

### Steady economic growth

Business conditions for furniture in the US have greatly improved over the last couple of years, driven by phenomenal growth in the housing market. New and refurbishment construction activity has fuelled substantial demand for cabinets and is supporting an unprecedented rate of growth for solid wood flooring, as well as strong sales of related mouldings. In addition, both the pallet and railway/road transport industries are pumping financial resources into supplies and equipment necessary to accommodate today's cargo and traffic volumes, which is providing a boost to demand for low grade hardwood production.

### Ruling against Chinese furniture

The American furniture industry received at least a moral boost as the US Department of Commerce announced its preliminary findings in the anti-dumping suit regarding Chinese wooden bedroom furniture, saying that producers/exporters have sold wooden bedroom furniture from China in the US market at less than fair value. Reaction to this has been mixed and a number of exporters doing business in the Chinese market say that the net effect of this ruling will have little impact on sales from China to the US and that even with imposed tariffs, furniture

manufactured in China and other Asian nations will still be priced more competitively than American made products.

### Bad weather....

A number of issues are affecting the North American hardwood industry as the first half of 2004 reaches an end. In terms of the supply of raw material, there has been an unusual amount of rain on much of the Eastern Seaboard during the second half of spring, while logging and sawmill output has been disrupted to a lesser extent in the Upper Midwest and parts of the Northern Appalachian territory. Forecasters do not predict a repeat of last year's extraordinarily wet summer, but the events of 2003 were not predicted either.

### ....and pests

Further tightness in supplies is forecast for the near future, as pests and disease become increasingly problematic. The Bush Administration has taken pro-active steps to promote forest health, and none too soon given the Gypsy Moth and more recently discovered Emerald Ash Borer infestations, and the threat of Sudden Oak Death disease that are placing vital North American hardwood species at risk. The costs projected for containing these pests and disease are staggering, and the remedies for eradication could interfere with a normal flow of business for logs and lumber in selective species. Transportation is a problem that experts say has no quick solution. Regardless of actual availability of materials, the inability to deliver lumber on time raises "supply" as an issue.

## 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

	Apr	May	Jul
\$/£	1.80	1.80	1.84
\$/Euro	1.20	1.20	1.22
<b>Red oak</b>			
1"	1975	1975	1975
1.25"	2175	2175	2175
1.5"	2325	2325	2325
2"	2700	2700	2700
<b>White oak</b>			
1"	1680	1725	1725
1.25"	1875	1900	1900
1.5"	2350	2350	2350
2"	2850	2900	2900
<b>Ash</b>			
1"	1325	1350	1350
2"	1700	1700	1780
<b>Tulipwood</b>			
1"	1025	950	950
1.25"	1050	975	975
1.5"	1125	1075	1075
2"	1175	1125	1125
<b>Cherry</b>			
1"	3550	3550	3550
1.25"	3700	3700	3700
1.5"	3875	3875	3875
2"	4100	4100	4100
<b>Hard Maple</b>			
1"	2350	2350	2350
1.25"	2550	2550	2550
1.5"	2725	2725	2725
2"	2925	2900	2900

## US export market

### Europe poised for growth

Reports from the European Union suggest the economy is poised to show substantial growth in the near future, emerging from a long stretch of negative or near negative activity. While few North American shippers are expecting sales into Europe to boom after the summer holiday period, many exporters report solid orders on hand, and look for overall demand to remain consistent.

While there are certainly challenges with respect to alternative materials and species, the pace of sales and shipments remains brisk. Weather conditions across much of the eastern US and Canada have been wet, limiting logging activity in some locations, which has resulted in production slowdowns in certain mills. As a result, the availability of a number of species and grades key to export activity remains tight. However, the total volume of North Ameri-

# North America

can hardwood lumber shipped in the first half of 2004 is expected to be higher than last year. Furthermore, future orders are strong and little change is forecast for overall demand in the second half of 2004.

## Strong demand from Asia

Reports suggest that the trade in American hardwoods towards China remains fairly robust. In fact, a number of exporters say that their only limiting factor at present is

□ 8

U.S. hardwood exports January to April 2003 and 2004			
Logs/lumber - 000s m3, veneer - mill m2			
	2002	2003	% chng
<b>World</b>			
Logs	788.8	795.1	0.8
Lumber	951.5	983.9	3.4
Veneer	99.4	115.6	16.3
<b>Canada</b>			
Logs	527.5	484.9	-8.1
Lumber	360.1	333.8	-7.3
Veneer	33.3	36.1	8.4
<b>EU</b>			
Logs	93.1	109.3	17.4
Italy	34.6	43.2	24.6
Germany	27.1	23.8	-12.5
Lumber	222.0	223.0	0.5
Spain	57.9	53.7	-7.3
Italy	59.9	58.8	-1.8
United Kingdom	29.9	30.3	1.2
Germany	12.7	15.2	19.8
Veneer	37.4	41.2	9.9
Germany	15.3	15.5	0.9
Spain	8.9	10.2	14.7
Italy	4.7	4.8	1.3
<b>SE Asia</b>			
Logs	22.9	27.2	18.5
Vietnam	2.7	6.6	147.2
Lumber	41.6	43.1	3.6
Vietnam	5.4	13.0	141.2
Veneer	2.3	3.3	45.9
Vietnam	0.3	0.9	154.0
<b>Greater China</b>			
Logs	74.1	95.1	28.3
China	43.6	59.7	37.0
Hong Kong	21.5	24.5	13.6
Taiwan	9.0	10.9	21.3
Lumber	187.7	218.3	16.3
China	102.8	136.7	33.0
Hong Kong	59.6	56.5	-5.2
Taiwan	25.3	25.1	-0.8
Veneer	14.7	20.2	36.8
China	6.2	10.0	60.4
Hong Kong	5.9	5.9	0.1
Taiwan	2.6	4.3	64.3
<b>Japan</b>			
Logs	38.8	31.9	-17.7
Lumber	32.9	34.1	3.5
Veneer	0.3	0.9	192.2
<b>South Korea</b>			
Logs	14.9	15.6	5.3
Lumber	12.0	11.8	-2.1
Veneer	2.6	1.6	-39.3
<b>Mexico</b>			
Logs	4.5	11.8	161.2
Lumber	57.2	64.7	13.1
Veneer	2.7	4.9	78.9
<b>North Africa and Middle East</b>			
Logs	0.9	1.5	60.7
Lumber	11.8	16.2	37.4
Veneer	1.3	2.2	70.4

## Species notes

□ **Alder:** exports of alder have been a little slow so far in 2004, compared to last year. Problems with log supply continue to hamper production in the Pacific Northwest.

□ **Ash:** Exports were stronger in the first four months of this year than in 2003. UK importers suggest a renewed interest in the species. US industry is beginning to raise questions over ash's resilience to the Emerald Ash Borer. So far, however, the infestation has been relatively isolated and contained. Furthermore, availability of the species has not yet been affected and supplies have been neither tight due to problems with log supply nor plentiful as a result of over-cutting to prevent EAB migration. Both US domestic and international demand has been strong for ash so far this year and reports suggest that this trend will continue for the foreseeable future. Prices remain steady.

□ **Basswood:** demand for this species is not excessive at present. Sawmills have adjusted their production of green and kiln-dried lumber proportionately, which has led to a stable market climate and steady business.

□ **Cherry:** as previously reported, demand for green lumber continues to focus on established suppliers in the Penn-York region and the concentration of demand in this region has been intense. Prices have been forced to rise as a direct result. As for kiln-dried lumber exports, 2004 has been better than 2003, so far, with a 6.4% increase in export volumes in the January to April period. In value, however, the increase is nearer 16%, which gives some indication of the firming in prices. Prices have not risen too dramatically so far in 2004, as compared to other species and, through conscious efforts, production, supply and demand are relatively well balanced.

□ **Hard maple:** demand for green hard maple in the US domestic market is steady and it is a highly favoured species in manufactured goods. The outcome of this has been a measured approach to supply and production, resulting in balanced prices. Global demand for the species is gradually improving, while European demand is steady. Pricing levels for unselected hard maple have been relatively stable in recent weeks, while gains have been reported in kiln-dried white hard maple.

□ **Soft maple:** export demand for soft maple continues to rise slowly but surely, as it is increasingly being specified as a substitute for other species, notably in the Chinese and Italian furniture industries. Likewise, in the US itself, soft maple is in demand as a hard maple and cherry substitute, where ris-

ing prices have become prohibitive. Overall prices for kiln-dried soft maple are steady as supply and demand are well balanced.

□ **Red oak:** with the exception of China, red oak exports across Europe and the rest of the world have been slower so far this year, compared to the first four months of 2003. Domestic demand for the species seems to be holding firm. Prices are generally firm across the board, but some US domestic end-user sectors are actively increasing red oak purchases to support expanding finished goods production.

□ **White oak:** while a modest increase in overall exports of white oak has been seen so far this year, white oak exports to Europe have actually slowed down. Lack of supply has been the real problem in this case and, in addition, the impending summer holiday period in Europe and the Fourth of July holiday in the US will likely slow production even further for the time-being. Despite the reality of export statistics, demand for the species is steady, if not overly substantial. Prices for kiln-dried white oak have risen across all grades in recent weeks.

□ **Tulipwood/yellow poplar:** interest in tulipwood in export markets is increasing and US shippers are finding more and more markets receptive to the species and even in common grades. However, margins are not high and many exporters feel that their resources can be better used elsewhere. Production of common lumber has increased in order to service this demand, but the drawback is a increase in FAS&IF as a by-product, which does not have the same pull in overseas markets. Having said this, overall exports of tulipwood have risen by 40% to 107,000m3 in the first four months of 2004, as compared to the same period last year. Exports to the European Union have also risen by about 40%, while exports to China have more than doubled. US domestic demand for the species is described as comparatively lacklustre, but prices are steady across the grades.

□ **Walnut:** prices continue to firm, as demand for walnut is described as solid. Steamed production of both green and kiln-dried lumber is increasing in line with demand. Reports suggest that demand for un-steamed walnut is just as strong and that in some grades and thicknesses transactions for un-steamed lumber are equalling those for steamed product. Walnut logs continue to be in high demand also, with a 28% increase in exports so far this year, with volumes to both China and the European Union doubling in January to April 2004 as compared to the same period last year.

## North America

7□ supply - a trend which has dogged US hardwood producers in recent months. Despite a certain amount of sensitivity over pricing, future orders from Chinese buyers are recorded as strong.

US shippers supplying other Asian markets confirm that current demand is favourable and Vietnam continues to emerge as a booming market, with January to April 2004 up 141% than the same period last year. Malaysia, Thailand and Indonesia are also importing more US hardwood lumber.

In terms of price levels for hardwood lumber shipped to the Far East from North America, competition is fierce and minor adjustments can result in the immediate loss or gain of orders. However, at the same time, exporters have been able to pass on the general firming in prices to their Asian buyers, who are indeed aware of the current pressures on supply of raw material in the US. For the foreseeable future, exporters forecast little change in demand for North American lumber from the Chinese and other Far Eastern markets, except for a continued increase in exports to Vietnam.

### European summer slowdown

In contrast to the steady trade with Asia, European demand for North American hardwood is a little more varied. Demand from southern European buyers is reported as strong, while information concerning the northern European marketplace depicts a more competitive atmosphere. As is usual for this time of year, shipments into northern Europe are beginning to wind down for the summer holiday period and exports to southern Europe are also beginning to slow, despite some orders for well into July.

At a time when European inventories of North American hardwoods are generally on the low side, competition from other temperate hardwoods is increasing. Hardwood lumber from Central and Eastern Europe has made some considerable quality improvements in recent months and is still priced at much lower levels than North American hardwoods. However, market observers still remain convinced that European hardwoods will not take over from American hardwoods, due to their firm entrenchment in the marketplace and their species mix and their reliability of shipment. So far, the May 1st inclusion of eight new Central and Eastern European countries into the European Union has neither helped nor hindered the intra-European trade of hardwoods, but these are early days and the competition to American hardwood imports could well intensify.

## Sawn hardwood review

### 1□ CIS production also increased

The UNECE figures show a decrease in production of sawn hardwood of 9% in the CIS region during 2003. This is almost entirely due to the dramatic drop of 66% in production in Belarus. Production in the Russian Federation and Ukraine are estimated to

have increased by 2.1% and 6.5% respectively. Accurate data is not available for much of the region, but market commentators predict a slight, but continued increase in production, exports and consumption in the Russian Federation for the foreseeable future.

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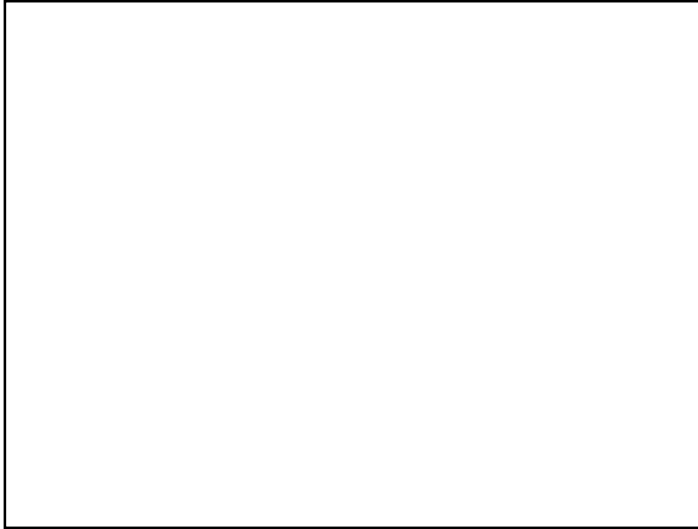
### Hardwood lumber production, import and export in the UNECE region

	2000	2001	2002	2003	Change 01/02	
					Volume	%
<b>Production (000s m3)</b>						
<b>EU/EFTA</b>	<b>7,870</b>	<b>7,657</b>	<b>6,839</b>	<b>6,839</b>	<b>-1</b>	<b>0</b>
Of which:						
France	2,968	2,804	2,329	2,405	76	3.3
Germany	1,320	1,242	1,140	1,071	-70	-6.1
Italy	900	900	890	880	-10	-1.1
Spain	960	1,055	843	920	77	9.1
<b>Other Europe</b>	<b>7,866</b>	<b>7,908</b>	<b>8,323</b>	<b>8,672</b>	<b>348</b>	<b>4.2</b>
Of which:						
Turkey	2,410	2,645	2,564	2,629	65	2.5
Romania	1,319	1,254	1,432	1,514	82	5.7
Latvia	580	645	848	868	20	2.3
Poland	730	605	606	620	14	2.3
<b>CIS</b>	<b>4,124</b>	<b>4,133</b>	<b>3,915</b>	<b>3,563</b>	<b>-352</b>	<b>-9</b>
Of which:						
Russian Federation	2,540	2,540	2,309	2,357	48	2.1
Ukraine	957	898	877	934	57	6.5
Belarus	597	679	698	239	-459	-65.7
<b>North America</b>	<b>31,015</b>	<b>28,328</b>	<b>29,461</b>	<b>29,507</b>	<b>46</b>	<b>0.2</b>
Canada	1,083	1,094	1,731	1,654	-77	-4.4
United States	29,932	27,234	27,730	27,853	123	0.4
<b>Exports (000s m3)</b>						
<b>EU/EFTA</b>	<b>2,340</b>	<b>2,102</b>	<b>2,958</b>	<b>2,507</b>	<b>-450</b>	<b>-15.2</b>
Of which:						
Germany	616	587	611	574	-37	-6.1
France	661	580	593	517	-76	-12.8
Belgium	347	306	965	646	-319	-33.1
Austria	209	152	186	216	30	16.1
<b>Other Europe</b>	<b>3,390</b>	<b>3,215</b>	<b>3,202</b>	<b>3,366</b>	<b>165</b>	<b>5.1</b>
of which:						
Romania	646	498	603	608	5	0.8
Latvia	442	494	568	626	59	10.4
Croatia	529	458	456	508	52	11.4
Lithuania	204	229	288	332	44	15.2
<b>CIS</b>	<b>603</b>	<b>670</b>	<b>752</b>	<b>770</b>	<b>18</b>	<b>2.5</b>
Of which:						
Russian Federation	391	375	420	340	-80	-19
Ukraine	92	204	251	355	105	41.8
Belarus	112	87	64	58	-6	-9.7
<b>North America</b>	<b>4,395</b>	<b>4,176</b>	<b>4,270</b>	<b>4,291</b>	<b>21</b>	<b>0.5</b>
Canada	1,445	1,293	1,392	1,373	-19	-1.4
United States	2,950	2,883	2,878	2,918	40	1.4
<b>Imports (000s m3)</b>						
<b>EU/EFTA</b>	<b>8,167</b>	<b>7,506</b>	<b>7,440</b>	<b>8,015</b>	<b>575</b>	<b>7.7</b>
Of which:						
Italy	2,076	1,837	1,918	1,863	-55	-2.9
Spain	1,124	1,111	1,040	1,047	7	0.7
Belgium	655	593	464	838	374	80.6
United Kingdom	655	699	680	737	57	8.4
<b>Other Europe</b>	<b>881</b>	<b>1,149</b>	<b>995</b>	<b>1,039</b>	<b>44</b>	<b>4.4</b>
Of which:						
Poland	160	206	239	219	-20	-8.3
Slovenia	143	122	131	141	10	7.6
Israel	121	121	121	121	0	0
Czech Republic	117	110	133	113	-20	-15
<b>CIS</b>	<b>204</b>	<b>191</b>	<b>115</b>	<b>112</b>	<b>-2</b>	<b>-1.9</b>
Of which:						
Moldova	53	53	53	53	0	0
Ukraine	37	34	14	21	7	52.1
Kazakhstan	79	79	19	13	-6	-29.4
<b>North America</b>	<b>2,864</b>	<b>2,463</b>	<b>2,842</b>	<b>3,073</b>	<b>231</b>	<b>8.1</b>
Canada	1,182	1,038	1,099	1,200	101	9.2
United States	1,682	1,425	1,743	1,873	130	7.4

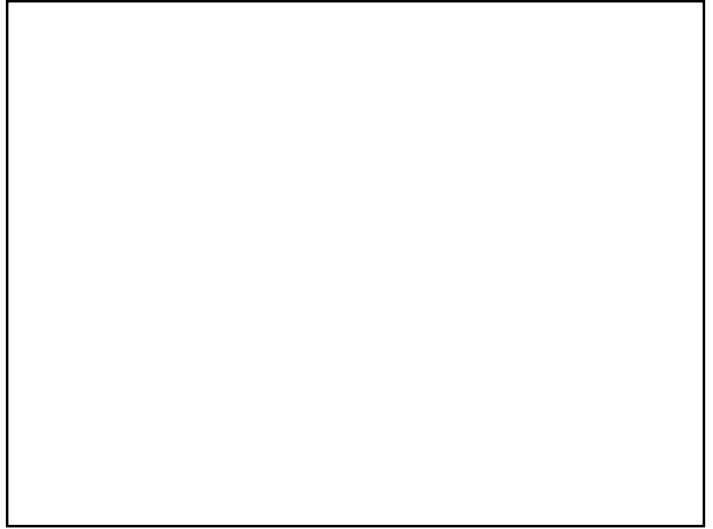


# Sawn hardwood review

## US sawn hardwood prices 1998-2004



## German and French sawn beech prices 1999-2004



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The UNECE figures suggest that production of sawn hardwood in North America edged towards its 1999 peak in 2003, rising by 0.2% to 29.5 million m<sup>3</sup>. Furthermore, this growth was entirely accounted for by production increases in the United States, as Canadian production of sawn hardwood actually decreased, by 4.4%. In 2002, Canada accounted for around 6% of all North American sawn hardwood production, while in 2003, this proportion fell to around 5.5%.

### Supply problems in the US

The UNECE report suggests that following bad weather in the winter of 2002-2003 and more rain than expected through the end of 2003 and into the spring of this year, United States' production of sawn hardwood has been severely hampered by difficulties in obtaining logs. Although this situation has begun to ease during the first half of 2004,

certain species – notably white oak – have been difficult to obtain. Increased demand for oak in Europe – the United States' largest export market for sawn hardwood – has put added pressure on this restricted supply line and the result has been that US exporters have found themselves in a seller's market. Increased demand has led to firming prices and not just in white oak, but across the range of species. In addition to this, the US construction sector has been buoyant and demand from within the domestic market for sawn hardwood has been strong. While US exports of sawn hardwood did not increase significantly in 2003, production, imports and, therefore, apparent consumption all increased.

### Rising demand for certified wood

The UNECE report suggests that interest in certified wood continued to rise in 2003 and the first half of 2004. This interest has been

most apparent in several northern European markets and in Spain. The furniture industry still shows little interest in certified hardwoods, but the European architectural and joinery sectors are moving increasingly towards demanding certificates – especially for publicly-funded buildings. Evidence continues to show that there is no premium available for certified wood, but more and more European importers are advertising the fact that they stock FSC, PEFC and occasionally SFI certified material.

*The UNECE/FAO Forest Products Market Analysis will be available in September in full from [www.unece.org/trade/timber/](http://www.unece.org/trade/timber/). It covers the entire UNECE region, comprising Western and Eastern Europe, the Confederation of Independent States (CIS) and North America.*

## Europe

### Flooring

#### Increased production

In contrast to the downward trend in 2001 and 2002, the European hardwood flooring sector recovered as a growing product sec-

tor in 2003. The latest statistics available from the European Federation of the Parquet Industry (FEP), show that production amongst traditional member countries (i.e., not including four EU accession countries)

rose by 5.6% to reach an all-time high of 65.8 million m<sup>2</sup>. FEP has always maintained that the health of the parquet sector is closely linked to the construction market. However, overall economic performance and, there-

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**Hardwood parquet flooring production in "traditional" FEP member countries 1985-2003 - million m<sup>2</sup>**

## 2003 hardwood parquet flooring production in all FEP member countries (%)

9□ fore, construction, was slow in Europe through 2003 and the growth in hardwood flooring production has actually been fuelled by confidence in the future of the market. Increased production has been brought into place by new production lines and increased capacities in existing plants in Austria, Spain, Sweden and also in Poland (although not taken into account in the figure quoted above). If the new members of FEP are taken into

## 2003 hardwood parquet flooring production by species in FEP member countries (%)

## European hardwoods

### Prices slide

With a continuing drop in both sawn oak and beech prices, West European hardwood producers are finding it harder everyday to maintain production capacity. Margins are tight and the result has been a year on year drop in output since 2000, with up to a 25% drop in overall capacity.

In general, beech has been less easy to make a profit on. Although oak has also dropped in price, it has been less dramatic. As reported by the Centre d'Etudes de l'Economie du Bois (CEEb), the price for sawn beech has fallen from an average of •380 per cubic metre in the first quarter of

account, production in 2003 increased to 81 million m<sup>2</sup>, representing the same year on year increase of 5.6%.

Increased production of hardwood flooring has been met by increased overall consumption within the FEP member countries, with consumption in 2003 reaching 84.2 million m<sup>2</sup>, a rise of 4.6% on the previous year. Despite the European-wide increase in consumption, Germany's consumption of hardwood flooring fell once again in 2003, from 25% to 23% of the market share, while increases were seen in

France, Italy and Spain.

FEP also reports that the preference for oak seen in 2001 and 2002 continued in 2003, accounting for 47.5% of all parquet flooring production, while beech just managed to hold its position as the number two species. As a con-

2000 to •327 per cubic metre in the first quarter of 2004, a drop of over 16%. The glut of European beech logs available is still in evidence and this has not been met by a rise in demand in the region. European sales of both beech logs and sawn lumber have been very sluggish and, furthermore, Chinese demand has also been slow so far this year.

### Matching supply with demand

One remedy adopted by the Office National des Forêts in France, has been to attempt to match harvesting of logs with demand. France actually increased harvests this winter season, but the focus was geared much more towards oak, which accounted for around half of all hardwood log sales in au-

## 2003 hardwood parquet flooring consumption in "traditional" FEP member countries (%)

tinuation of a trend reported last year, interest in darker, tropical species for hardwood flooring has increased and in 2003, tropical species accounted for 17.2% of production, up from 16%. This increase has been mainly at the expense of beech and forecasts suggest that tropical species will be second only to oak in 2004. The use of maple dropped to 5.8% from 6.5% in 2002 and there was a marginally increased interest in ash.

### Cautious optimism for 2004

Total consumption of hardwood flooring in the EU and EFTA region (including non-FEP member countries, like the UK, Greece, Ireland and Portugal), is estimated to have reached more than 95 million m<sup>2</sup> in 2003. In relation to the entire European flooring market, this figure would have represented a 5.3% market share.

By January this year, there was some optimism within the European hardwood flooring sector and this has prevailed for the first half of 2004. The results achieved in 2003 and the buoyant atmosphere at recent trade events would suggest that both production and consumption in 2004 will at least equal, if not surpass the levels achieved last year.

tumn 2003. French oak log sales within Europe have been improving this year, as compared to 2003, and in the UK, demand has been very strong. Furthermore, demand in the UK for oak sawn lumber has been increasing, suggesting a continuing shift to square-edged material.

Oak log exports from Germany continue to rise, as an increasing amount of sawn lumber production is shifted to lower cost countries. Exports of German oak to France, China and Italy have all increased significantly in the first half of 2004, while beech log exports have not fared so well.

In Poland, many sawmills are working at high

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capacity, with adequate volumes of domestically supplied beech logs, supplemented by an increase in imports of oak logs. Oak is, in general, in short supply in Poland and in many cases, the highest grade logs are exported directly to China. Germany and France have been the main sources of oak logs for the Polish sawmilling industry so far in 2004, but in southern Poland, large volumes of oak are imported from Slovakia. Across Central and Eastern Europe, demand for sawn temperate hardwood has been gradually increasing this year, with stable demand for beech furniture parts and gluelam, as well as an increase in interest in oak flooring. Furthermore, bottlenecks in the supply of tropical hardwoods from West Africa have allowed temperate hardwoods to take up the slack in some cases.

## Ukraine

### Slowly gearing up

Ukrainian timber production facilities have been dogged by lack of investment, a lack of demand since the break up of the USSR and, until recently, an unmanaged and polluted resource. Today, the Ukrainian forest products sector is slowly but surely gearing itself up towards sustainable production of quality hardwood and softwood products and looking at opportunities in export markets. However, evidence suggests that it will be a number of years before it can export large volumes of high-grade hardwood products at a sustainable level.

Ukraine became independent from the USSR on 24 August 1991 when the Parliament of Ukraine adopted the State Independence Act. Since independence, the country has been in transition through the difficult and intense process of socio-economic reforms, the establishing of national institutions, and the formation of new political alliances.

Ukraine has a total area of 603,600 km<sup>2</sup> and a population of 49.3 million (January 2001). It is made up of over 100 nationalities and ethnic groups, of which 73% are Ukrainian. From West to East, the country extends 1316 km, and from North to South, almost 900 km. The total length of the Ukrainian border is about 6500 km, including 1050 km of coastline.

### Struggle to maintain growth

After leaving the USSR, Ukraine headed towards a market economy. Since then, there has been a more or less consistent struggle to maintain economic growth, but in the past three years or so, positive GNP growth has been recorded. The economy is agrarian-

industrial and roughly 72% of land in Ukraine is agricultural, with about 78% of that being arable. Forestry has never played a significant role in the economy and accounts for around 1% of GNP.

Ukraine has a low percentage of forest cover and an overall deficiency of forest resources. According to the last state forest inventory (January 1996), the total area of forest land was just over 10 million ha, of which 9.4 million ha are stocked forests (15.6% of the total area of the country). Currently, almost all the forest area of Ukraine is state-owned. Almost 65% of the forest is under the use of state forest enterprises, while the remainder falls under the use of agrarian formations, state scientific and educational establishments, and other organisations. Less than 1% of forests are in private hands and state forestry bodies are responsible for the control of forest conditions.

Coniferous stands occupy about 42.6% of the stocked forest, including Scots Pine (*Pinus sylvestris* L.), which accounts for about 33.6%. Broadleaved stands account for the remainder, including both oak and beech, at 24.4% and 7.4% of the total respectively. Other major hardwood species include alder, birch and black locust, as well as some ash, sycamore maple and hornbeam. Despite relatively low forest cover, total growing stock in the forests of Ukraine is estimated at 1.7 billion m<sup>3</sup>. At present, it is a difficult period for forestry in Ukraine, but forest planting and harvesting, as well as the national economy are all beginning to adapt to modern global market conditions. The forest management systems developed under the USSR (which was one of the world's greatest exporters of timber), are no longer useful for Ukraine and the legal and operational base of the forest management system is gradually being replaced with a new one.

### FSC certification of state forest

Certification of forests in four state forestry enterprises was carried out under FSC-standards in 2000. The total area of certified forests is 203,000 ha, which could potentially supply up to 360,000 m<sup>3</sup> (roundwood equivalent) of certified production per year. Almost all of the forests of Ukraine are situated in zones of negative impact from industrial pollution and much harm was done to forests by the Chernobyl catastrophe in April 1986. More than 3.5 million ha of forests were affected by radioactive contamination and almost 200,000 ha of forestland were withdrawn from economic circulation. During recent years, the forests of Ukrain-

ian Polissya (forest zone) have provided considerably less timber production than before the disaster. Today, the area of forest available for wood supply is increasing through a clear-up of the contaminated areas and the dissipation of radioactive elements in the affected forests, but this is an on-going and lengthy process.

### Sawn lumber production falling

In 2002, Ukraine produced around 1.9 million m<sup>3</sup> of sawn lumber, a volume that has been declining since the early 1990's. Of the total, approximately 870,000 m<sup>3</sup> was hardwood sawn lumber and of this total, around 250,000 m<sup>3</sup> were exported at a value of \$59 million, with the remainder for domestic consumption. The average unit value of exported Ukrainian hardwood lumber in 2002 was \$236 per m<sup>3</sup>, which is significantly low and is a clear indication of both the low production costs in Ukraine and the grade of the product. Statistical data for Ukrainian exports of hardwood is not easy to find, but European import data shows that the largest markets are Estonia, Poland and Italy, which imported around 35 - 50,000 m<sup>3</sup> each in 2001. Significant volumes of beech and oak from Ukraine also found their way to Belgium, Holland and France in Western Europe and to the Czech Republic, Slovakia and Hungary in Central and Eastern Europe, while smaller volumes were exported to many other European countries, including the UK and Denmark. Chinese imports of Ukrainian hardwood sawn lumber reached around 2,500 m<sup>3</sup> in 2001.

### Mixed supply prospects

Given the conditions of "economy in transition", it is very difficult to forecast the development of forestry and wood processing industries in Ukraine. Based upon government policies, it is likely that changes in the near future will include trade liberalization, improved management of both state- and privately-owned forests and forest enterprises and the development of competition. Significant increases in forest resource are not forecast and sources suggest that by 2015, forest land may have only increased by about 3.2% to 9.7 million ha. Furthermore, increased government expenditure on conservation is likely to reduce the forest area available for wood supply, as well as concerns over the health of the resource. In contrast, though, eventual dissipation of radioactive elements after the Chernobyl incident will free up areas for production and overall productivity of the forests will improve, as management, extraction and processing develop.

## **African firming trend continues**

The firming trend in African log prices has continued, with improved demand in Asian markets, restrictions on supply, increased freight rates and transport fuel costs and higher taxation levels in exporting countries. FOB sawn lumber prices are also now following the upward trend. Demand for African sawn lumber in China has continued to rise, while US demand for certain species, notably khaya, has remained good. There has also been some improvement in European demand in June and July after a poor start to the year. **Pages 2/3**

## **Ivory Coast on the wane**

A long list of political and resource problems meant that in 2003 exports of logs from the Ivory Coast fell by 5% to 12,298 tons while exports of sawn lumber fell by 12% to 136,870 tons. Recent reports from European buyers of African logs and sawn lumber suggest that this downward trend in production and export is continuing this year and showing few signs of easing. **Page 3**

## **Malaysian supply problems**

The international trade in Malaysian sawn lumber continues to be dogged by a lack of supply of raw material. Further FOB price gains in DRM have been reported. Furthermore, the increases in log prices in the Far East are widely forecast to be sustained. However meranti supply is not yet a major problem in the European market where forward demand remains slow. Sapele is also being substituted for meranti. **Page 4**

## **Plywood prices ease**

European importers of BB/CC grade Indonesian plywood now report a wide range of prices, although generally indicating a slight easing from the heights achieved in May. While prices of around Indo96 plus 15% were being quoted two months ago, prices seem now to be hovering around Indo96 plus 9% to Indo96 plus 12%. Some mills seem to have marginally reduced prices in order to generate cash flow as the first rush of orders during the spring months has now

subsided. However the long term trend is towards declining availability from Indonesia. Prices for Brazilian hardwood plywood have also been falling and are now being quoted at around Indo96 less 4% to less 6%. Even lower prices are being quoted by some mills. Lower Brazilian prices partly reflect declining seasonal demand in the United States and Europe and some expectations of improved supply from Brazil. **Pages 5/6**

## **American supplies remain tight**

Supplies of North American hardwood remain tight as the US domestic market continues to absorb significant volumes, while hardwood production throughout much of the Eastern United States has been disrupted by unusually heavy rain. Export markets for American hardwood are active. Demand in China is robust. Exports to Vietnam have increased sharply from a small base, and demand has also been rising to the rest of South East Asia. While few North American shippers are expecting sales into Europe to boom after the summer holiday period, many exporters report solid orders on hand, and look for overall demand to remain consistent. Prices for most species of American hardwood lumber are either steady or rising. **Pages 6/7/8**

## **European flooring sector recovers**

In contrast to the downward trend in 2001 and 2002, the European hardwood flooring sector recovered as a growing product sector in 2003. The latest statistics from the European Federation of the Parquet Industry (FEP), show that production amongst member countries rose by 5.6% to reach an all-time high of 65.8 million m<sup>2</sup> last year. Increased production reflects increased capacity in Austria, Spain, Sweden and Poland. Overall consumption within the FEP member countries also increased last year reaching 84.2 million m<sup>2</sup>, a rise of 4.6% on the previous year. **Pages 9/10**

## **European beech in the doldrums**

With a continuing drop in both sawn oak and beech prices, West European hardwood

producers are finding it harder everyday to maintain production capacity. Margins are tight and the result has been a year on year drop in western European output since 2000, with up to a 25% drop in overall capacity. In general, beech has been less easy to make a profit on. Although oak has also dropped in price, it has been less dramatic. **Page 10**

## **Ukraine gears up, but very slowly**

Ukrainian timber production facilities have been dogged by lack of investment, a lack of demand since the break up of the USSR and, until recently, an unmanaged and polluted resource. Today, the Ukrainian forest products sector is slowly gearing itself up towards sustainable production of quality hardwood and softwood products and looking at opportunities in export markets. However, evidence suggests that it will be a number of years before it can export large volumes of high-grade hardwood products at a sustainable level. **Page 11**

## **Overharvesting in the Solomons**

According to an Australian government report, at current rates of logging of more than 700,000 m<sup>3</sup> per year, the Solomons' forest resources will be exhausted by 2015. The report suggests the Solomons will need to more than halve the rate of logging if the timber industry - which is vital to the Islands economy - is to continue until the middle of the century. **Pages 4/5**

## **Temperate hardwood rebound**

The annual UNECE Forest Products Market Analysis reports that after a fall in 2001 and stabilisation in 2002, global production of temperate sawn hardwood increased during 2003. This was mainly due to increased domestic demand in the United States as a result of a buoyant construction sector, and increased demand in central and eastern Europe for secondary processing. Apparent consumption of sawn hardwoods in the UNECE region increased in 2003, as both production and imports increased, while exports decreased, due to a weakening of demand from Asian markets. **Pages 1/8**