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U.K. hardwood market static

Trade statistics for 2003 show that the UK trade in sawn hardwood remained fairly unchanging, as compared to the previous year. Total sawn hardwood imports reached around 446,000 m³, up by just over 1% on 2002. However, in value terms, they dropped by just under 14% to a little over •237 million, mainly accounted for by a decrease in imports of oak, both European and American.

In hardwood logs, imports increased significantly to just under 81,000 m³, from 69,000 m³ in 2002. This volume increase was matched by a value increase of over 28%, raising the average unit price of imported hardwood logs rose from •399/m³ to •441/m³. Tropical hardwood log imports in 2003 dropped by around 24% from the previous year, while beech, oak and other temperate species increased by 84%, 68% and 20% respectively.

Hardwood veneer imported by the UK last year made a modest gain of a little under 6% in value and was mainly accounted for an increase in tropical and American veneer imports.

Decline in American oak imports

On the American side, white oak imports continued their steady decline during 2003 and this trend looks set to continue throughout 2004 as well. Furthermore, the added pressure of limited availability of KD white oak at source is not helping to encourage this trade. US oak prices have also firmed in the past few months, as exporters are finding that they have the upper hand and can afford to pressurize their buyers. This trend may not continue through the summer of this year, however, as UK demand for white oak is likely to decrease further and ex-US prices may be forced to ease.

Reports also suggest that renewed interest could be developing in American ash, although statistics do not yet confirm this and traders report that limited availability may

serve to temper this demand. As for other US species, demand for cherry in the UK has been slow and no change is forecast, while the interest in walnut has most likely peaked, but continues to offer good trading opportunities. So far in 2004, there have been signs of a pick up in imports of tulipwood and this may indicate a shift in attitude towards this species among the custom joinery and kitchen manufacturers.

Rise in French oak imports

In terms of European hardwood imports, demand so far this year has remained very strong for French oak logs. Sawn oak from France has not fared so well in volume terms, but continues to pick up in value, suggesting a continuing shift to square-edged material. Imports of oak lumber from Germany last year increased by as much as 73%, as compared to 2002, but the same increase was not seen in value, suggesting the continued availability of low priced oak, following overstocking and weak demand both from within Germany itself and from China. Beech log imports were strong in 2003 and have continued to remain fairly stable through this year, so far, while beech lumber imports remained static at low volumes.

Sales of tropical hardwood logs in 2003 were down on the previous year, but in sawn hardwood, the Brazilian species seemed to fair better than the African and Asian. However, the ongoing custom workers strike in Brazil is serving to hamper this trade and severe delays are being forced upon planned shipments. Furthermore, there are as yet unconfirmed reports that IBAMA could put forward strike action, once customs are back on track.

UK consumption of sapele has been slow so far this year and both Cameroon and Central African Republic prices have been firming. Stocks are reported to be on the low side, implying that importers could be faced

□ 3

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Contacts

By email

editor@hardwoodmarkets.com

By mail

Rupert Oliver,
Forest Industries Intelligence Ltd
19 Raikeswood Drive,
Skipton, North Yorkshire
BD23 1NA,
United Kingdom

By telephone and fax

Tel: +44 (0)1756 796992

Fax: +44 (0)1756 796992

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Editorial - expanded coverage

This month we take a different slant on international hardwood markets. Rather than the usual series of regional market reports, we provide a range of feature articles on different aspects of the trade. In part this reflects a desire to expand our regular statistical coverage to include a wider range of countries. From this issue we will be analysing on a quarterly basis, hardwood trade statistics for China, Brazil and the EU Accession countries. Each of these regions will play a key role in the future development of the international hardwood trade.

The influence of China on this trade, reviewed on pages 4/5, cannot be overstated. China now plays a pivotal role both as a market for primary hardwood products, and as a supplier of finished goods to other parts of the world.

The key role of Brazil may be less obvious. Indeed Brazil is often seen as the world's great under-achiever in the international wood industry. In terms of sheer volume and diversity, Brazil's forests are the world's largest hardwood resource. But due to a range of political, cultural, and economic problems, historically these forests have delivered only a fraction of their potential supply to the international market. Trends in the international timber trade indicate that there is enormous potential for Brazil to capture an increased share of the global market for wood products. The depletion of forest resources elsewhere is likely to give Brazil a natural competitive

advantage in terms of its resource base. The Brazilian government is not short of ambition. It has set out targets to increase its share of the global timber market from 4% to 10% by 2010. Even if this objective is only partially realized, Brazil's influence is likely to rise in the future. The rapid expansion of Brazilian wood exports during the first quarter of 2004, reported on page 7, may be a sign of things to come.

And in Europe, the accession of 10 new member countries to the EU from 1 May, including 8 from Eastern Europe, is likely to alter the whole structure of the hardwood trade. Some of the new EU members are significant hardwood suppliers, and all the new members have benefited in recent years from inward investment in wood processing. So it makes sense to monitor more closely trade developments in these countries. We begin the process on page 10/11 with an overview of key aspects of the hardwood trade in the accession countries during 2003.

Another new departure in this issue is to focus on the market for a particular species. We report on the current situation in the teak market on page 6. A species report will become a regular feature of this journal as a way of bringing a fresh perspective.

These new features will not detract from our regular regional market reports, which will run alongside these other articles in future issues.

Rupert Oliver
Editor

Africa

Liberian sanctions maintained

On 10 June, the UN Security Council ruled that peace in Liberia is still too fragile for sanctions on timber exports to be lifted. The decision came despite the pleas of Liberia's transitional government, which had called for an end to the export embargo. Gyude Bryant, who was nominated as chairman of a broad-based transitional government after Taylor was ousted last year, pleaded with the Security Council on 3 June for the sanctions to be lifted now that Liberia's 14-year civil war is over. Bryant said the sanctions were hurting Liberia as it struggles with an 85 percent unemployment rate and the near-total destruction of schools, hospitals, roads and most economic infrastructure. However the UN found that while there is no proof of timber being smuggled out of Liberia, and that efforts are being made to overhaul forest administration in the country, the Forestry Development Authority still does not function outside the capital, Monrovia. The UN said it would continue to monitor the situation.

FSC foothold in tropical Africa

The CIB (Congolaise Industrielle de Bois) logging company has declared it will work with the Tropical Forest Trust (TFT) to obtain FSC certification in their 1.3 million hectares of concession in Congo-Brazzaville. The CIB forest management programme identifies separate protection zones, while formalising the traditional rights of the local communities and indigenous populations. Management of fauna includes the use of buffer zones, providing habitats for the gorillas of the plains and the elephants of the forest, in some of the most species-rich forest of its type.

If CIB achieves certification, it will effectively be the first FSC certification of natural tropical forest in Africa. A previous attempt to achieve FSC certification in the Congo Basin - by Leroy-Gabon in 1996 - backfired when FSC initially issued the certificate, but then revoked it in 1997 following complaints from environmental groups.

Note, our usual African market report will continue next month

United Kingdom

1□

with shortages later on in the year and with even higher prices. Supplies of wawa have not been particularly fluid so far in 2004 due to limited log availability in Ghana.

Iroko prices at record levels

Iroko prices have reached record levels, due to high demand. Where iroko is not available or too competitive sapele and framire have been substituted. Increased use of framire has implied a gradual, but increasing, tendency to import from Ivory Coast. Demand for utile has been very slow so far in 2004 and, once again, sapele has found an opportunity for substitution.

So far this year, reports suggest that the trade in dark red meranti is slow, as demand is not high, in addition to supplies being tight. Furthermore, prices have firmed and sapele sawn lumber is taking up the slack. UK buyers have not been able to secure adequate stocks of keruing in their preferred 16 foot and longer specification this year. With the recent improvement in the plywood market, more keruing is now being diverted to the plywood sector in the Far East. Shippers are now offering keruing kd lumber in UK mspecifications at around US\$730/tonne C&F UK port prices, whereas UK importers are reluctant to pay more than around US\$680/tonne.

A strong policy emphasis by the UK government to tackle illegal logging has meant

UK hardwood imports 2002 to 2003

| | 2003 | 2002 | % change |
|-----------------------------------|---------|---------|----------|
| Hardwood Logs (m ³) | 80,874 | 69,384 | 16.6 |
| Hardwood Logs (000 euro) | 35,683 | 27,718 | 28.7 |
| Hardwood Lumber (m ³) | 446,210 | 440,841 | 1.2 |
| Hardwood Lumber (000 euro) | 237,196 | 269,952 | -13.8 |
| Hardwood Veneer (000 euro) | 40,442 | 38,227 | 5.8 |

there has been growing pressure on UK suppliers to the public sector to demonstrate the legality of wood product sources. This is impacting on the trade in tropical hardwoods.

Good demand for MTCC wood

Malaysian exporters of MTCC certified hardwoods report good demand for their products in the UK, and some willingness by importers to pay a price premium. For example, in recent weeks there have been reports of UK importers purchasing 2.5" and 3" kiln dried MTCC certified meranti-tembaga at US\$900 and US\$930 (C&F UK port) compared to price levels of around US\$890 and US\$910 respectively for the uncertified product. On the back of this success, and due to restricted supplies, Malaysian shippers are trying to push up prices for MTCC certified lumber.

Overall, in 2004, the UK hardwood market has picked up, with low stock levels forcing importers to keep busy for the first quarter.

Trading during April and May has remained reasonably buoyant and there are few concerns over the immediate future. Despite conflicting reports, the UK housing market has remained strong and the construction sector continues to be very active, but the dramatically increased oil price and Bank of England threats of early increases in lending rates, may cast a shadow over the latter part of the year. Increased fuel costs are likely to force an increase in already high production costs and this will mean that manufacturers turn to cost-saving devices, such as less expensive hardwood species and veneers as opposed to solid wood. Later on in 2004, the high end custom kitchen and shop-fitting manufacturers may also be faced with this rise in production costs, as well as a levelling off in demand, due to increased mortgage lending rates. However, at this stage, this is only speculation and much will depend on the Bank of England's decisions over the coming months.

Malaysia

In Malaysia, after the usual period of wet weather in the spring, logging conditions have improved in recent weeks and mills have been able to acquire logs. However, it is likely to take several months before new supplies of kiln dried material are available for forward shipment. The recent turnaround in the plywood market has meant that a large proportion of available supplies are being diverted for plywood production. Overall log availability in Malaysia is also restricted this year due to tight control of the cross-border trade with Indonesia.

Shortages of kiln dried

Malaysian sawn lumber exporters report widespread shortages of kiln dried dark red meranti. Few spontaneous offers are being made, and most are quoting for September/October shipment. Many exporters to the European market are focusing on production of denser meranti products – such as nemesu and seraya/meranti bukit – in Dutch specifications. Forward availability of other meranti specifications for other European markets are very restricted. FOB prices for all types of meranti and seraya sawn lum-

ber have continued to firm in recent weeks. While forward supplies are restricted and shippers are pushing up forward prices, slack underlying consumption has meant this has yet to be a significant problem for the majority of the European trade. Shipments of meranti purchased several months ago at lower prices are only now arriving in Europe. As a result prices for European landed stocks of meranti have not yet followed the strong upward tendency in FOB prices. Under such circumstances, few importers have been encouraged to buy forward and pay the higher FOB prices.

While still sluggish, the Dutch market has improved a little in recent weeks. Activity in the building industry has increased as usual at this time of year. However meranti demand remains weak, and there continue to be reports of importers reducing meranti prices for onward sales to manufacturers in an effort to generate cash flow.

Merbau supplies very tight

The situation in the merbau market is different. Due to very limited availability and better demand in the Netherlands, Dutch

importers have been willing to pay high forward prices for this species. ITTO reports that 2.5" merbau scantlings are now fetching US\$1170/1200 per ton CNF Rotterdam up from US\$1000 only two months ago.

Asian Sawn Lumber Indicative Prices

| | Apr | May | Jun |
|-----------------|------|------|------|
| Exchange rates: | | | |
| M\$/£ | 6.83 | 6.83 | 6.95 |
| U\$/£ | 1.80 | 1.80 | 1.83 |
| M\$/US\$ | 3.80 | 3.80 | 3.80 |

Malaysia

All prices US\$/ton, C&F UK port, including 5% agents commission

West Malaysian Dark Red Meranti

Grade: Select & better GMS; Kiln dried
Size: Width 6"+ avg 7"/8"; Length: 8'+ avg 12'/14'

| | | | |
|------|-----|-----|-----|
| 1" | 790 | 840 | 845 |
| 2" | 830 | 865 | 870 |
| 2.5" | 860 | 885 | 890 |
| 3" | 880 | 900 | 910 |

Myanmar Teak

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 | 3350/ 3600 |
|----|---------------|---------------|---------------|

China

China imports of primary wood products 2003, first quarter 2003 and 2004

| | US\$ million 2003 Year | US\$ million 2003 Jan-Mar | US\$ million 2004 Jan-Mar | US\$ million % Change | 000 m3 2003 Year | 000 m3 2003 Jan-Mar | 000 m3 2004 Jan-Mar | 000 m32004 % Change |
|-----------------------------|------------------------------|---------------------------------|---------------------------------|-----------------------------|------------------------|---------------------------|---------------------------|---------------------------|
| Softwood logs | | | | | | | | |
| RUSSIA | 778.28 | 189.71 | 239.54 | 26.26 | 12583.77 | 3069.91 | 3702.49 | 20.61 |
| NEW ZEALAND | 127.58 | 28.07 | 10.57 | -62.35 | 1911.48 | 452.11 | 121.94 | -73.03 |
| OTHER | 39.55 | 7.76 | 7.19 | -35.92 | 524.79 | 96.19 | 78.64 | -51.30 |
| TOTAL | 945.40 | 225.55 | 257.30 | 14.08 | 15020.04 | 3618.21 | 3903.06 | 7.87 |
| Hardwood logs | | | | | | | | |
| MALAYSIA | 395.42 | 86.11 | 95.39 | 10.79 | 2923.99 | 620.55 | 633.44 | 2.08 |
| GABON | 205.74 | 49.99 | 38.15 | -23.68 | 939.86 | 250.33 | 158.01 | -36.88 |
| RUSSIA | 190.75 | 45.65 | 60.48 | 32.48 | 1783.91 | 430.78 | 538.09 | 24.91 |
| PAPUA NEW GUINEA | 154.89 | 40.13 | 38.87 | -3.14 | 1377.75 | 371.47 | 340.14 | -8.43 |
| EQUAT. GUINEA | 95.47 | 26.46 | 15.26 | -42.34 | 510.84 | 152.68 | 77.83 | -49.03 |
| CONGO REPUBLIC | 76.93 | 20.24 | 26.20 | 29.43 | 372.84 | 105.05 | 118.41 | 12.72 |
| MYANMAR | 72.88 | 21.91 | 27.36 | 24.88 | 788.15 | 247.63 | 335.96 | 35.67 |
| GERMANY | 55.97 | 15.70 | 13.15 | -16.24 | 320.41 | 88.94 | 76.12 | -14.42 |
| LIBERIA | 41.89 | 17.14 | 0.00 | -100.00 | 395.13 | 163.36 | 0.00 | -100.00 |
| U. S. A. | 40.80 | 9.71 | 15.51 | 59.66 | 75.54 | 17.15 | 28.94 | 68.76 |
| CAMEROON | 34.52 | 11.55 | 8.40 | -27.29 | 139.11 | 46.99 | 28.94 | -38.41 |
| SOLOMON ISLANDS | 32.55 | 5.44 | 7.01 | 28.82 | 282.64 | 46.03 | 59.64 | 29.58 |
| MOZAMBIQUE | 26.81 | 10.57 | 6.11 | -42.26 | 81.29 | 31.68 | 18.59 | -41.32 |
| TANZANIA | 15.56 | 1.78 | 5.31 | 198.43 | 44.72 | 4.89 | 15.63 | 219.66 |
| INDONESIA | 15.52 | 3.28 | 4.34 | 32.11 | 115.95 | 24.26 | 31.41 | 29.47 |
| OTHER | 46.84 | 11.71 | 13.68 | -32.63 | 283.79 | 73.27 | 84.80 | -60.25 |
| TOTAL | 1502.54 | 377.37 | 375.20 | -0.57 | 10435.93 | 2675.06 | 2545.94 | -4.83 |
| Softwood sawn lumber | | | | | | | | |
| RUSSIA | 47.33 | 11.53 | 14.92 | 29.35 | 436.13 | 102.94 | 138.18 | 34.24 |
| NEW ZEALAND | 38.40 | 7.82 | 8.20 | 4.78 | 195.46 | 39.21 | 40.15 | 2.39 |
| CANADA | 37.84 | 7.27 | 11.77 | 61.95 | 264.98 | 53.80 | 79.26 | 47.31 |
| U. S. A. | 16.61 | 1.44 | 5.65 | 292.37 | 54.77 | 5.37 | 16.40 | 205.68 |
| CHILE | 13.80 | 1.95 | 3.44 | 76.61 | 76.53 | 10.71 | 19.01 | 77.55 |
| FINLAND | 12.80 | 2.94 | 2.81 | -4.32 | 55.58 | 13.10 | 13.15 | 0.43 |
| OTHER | 42.45 | 8.37 | 9.56 | 102.97 | 289.91 | 64.44 | 57.79 | 57.29 |
| TOTAL | 209.23 | 41.32 | 56.35 | 36.37 | 1373.36 | 289.56 | 363.94 | 25.69 |
| Hardwood sawn lumber | | | | | | | | |
| INDONESIA | 210.12 | 48.41 | 41.19 | -14.91 | 1052.17 | 250.86 | 212.20 | -15.41 |
| U. S. A. | 181.26 | 40.43 | 45.84 | 13.38 | 622.16 | 141.88 | 157.05 | 10.69 |
| THAILAND | 135.23 | 30.79 | 35.45 | 15.13 | 671.25 | 154.18 | 175.52 | 13.84 |
| BRAZIL | 105.97 | 23.47 | 35.50 | 51.27 | 239.21 | 51.52 | 80.65 | 56.54 |
| MALAYSIA | 87.87 | 20.36 | 19.35 | -4.97 | 436.09 | 103.92 | 95.70 | -7.91 |
| MYANMAR | 34.97 | 9.53 | 10.12 | 6.14 | 190.57 | 51.50 | 60.44 | 17.36 |
| CANADA | 31.33 | 8.91 | 7.68 | -13.81 | 115.92 | 37.54 | 22.12 | -41.07 |
| GERMANY | 27.81 | 5.33 | 4.03 | -24.42 | 119.41 | 23.28 | 16.02 | -31.17 |
| RUSSIA | 24.33 | 5.32 | 7.31 | 37.48 | 125.05 | 26.51 | 36.35 | 37.11 |
| ROMANIA | 20.14 | 3.16 | 4.97 | 57.38 | 65.43 | 10.32 | 16.66 | 61.42 |
| NEW ZEALAND | 13.04 | 1.71 | 6.46 | 278.24 | 66.36 | 7.60 | 34.40 | 352.45 |
| TAIWAN | 12.20 | 2.80 | 2.62 | -6.47 | 42.76 | 9.94 | 7.84 | -21.13 |
| SINGAPORE | 10.93 | 1.90 | 0.28 | -85.26 | 69.32 | 14.66 | 0.98 | -93.32 |
| CAMEROON | 10.65 | 2.62 | 1.90 | -27.51 | 24.97 | 6.13 | 5.68 | -7.23 |
| AUSTRALIA | 8.19 | 1.74 | 2.21 | 27.01 | 21.15 | 4.98 | 4.16 | -16.43 |
| FRANCE | 6.30 | 1.36 | 1.20 | -11.76 | 20.94 | 4.54 | 3.41 | -24.92 |
| OTHER | 61.05 | 13.16 | 15.80 | 26.90 | 255.84 | 53.58 | 66.47 | -9.47 |
| TOTAL | 981.39 | 220.99 | 241.90 | 9.46 | 4138.59 | 952.93 | 995.66 | 4.48 |
| Plywood | | | | | | | | |
| INDONESIA | 244.68 | 64.60 | 56.64 | -12.32 | 534.36 | 137.26 | 125.62 | -8.48 |
| MALAYSIA | 47.71 | 14.41 | 12.98 | -9.94 | 137.50 | 35.13 | 36.14 | 2.86 |
| SOUTH KOREA | 15.49 | 3.06 | 4.74 | 55.12 | 30.71 | 5.91 | 9.56 | 61.80 |
| JAPAN | 13.05 | 1.92 | 2.55 | 32.88 | 20.23 | 3.14 | 3.65 | 16.22 |
| OTHER | 34.02 | 8.44 | 4.92 | -41.70 | 74.99 | 19.92 | 10.93 | -45.13 |
| TOTAL | 354.96 | 92.44 | 81.84 | -11.46 | 797.78 | 201.35 | 185.89 | -7.68 |
| | US\$ million 2003 Year | US\$ million 2003 Jan-Mar | US\$ million 2004 Jan-Mar | US\$ million % Change | 000 kg 2003 Year | 000 kg 2003 Jan-Mar | 000 kg 2004 Jan-Mar | 000 m3 % Change |
| Veneers | | | | | | | | |
| U. S. A. | 27.32 | 5.96 | 6.19 | 3.99 | 17970.04 | 4076.07 | 4180.93 | 2.57 |
| GERMANY | 5.99 | 0.98 | 2.77 | 183.38 | 2861.47 | 461.77 | 1240.88 | 168.73 |
| MALAYSIA | 19.11 | 5.13 | 2.69 | -47.61 | 79837.96 | 26764.89 | 9353.94 | -65.05 |
| TAIWAN | 6.41 | 1.49 | 2.36 | 58.89 | 5647.04 | 1281.36 | 1742.32 | 35.97 |
| INDONESIA | 7.41 | 0.59 | 1.22 | 105.32 | 23664.06 | 1726.14 | 4312.91 | 149.86 |
| CANADA | 4.29 | 0.71 | 1.19 | 67.54 | 3389.43 | 726.25 | 697.41 | -3.97 |
| OTHER | 25.18 | 5.72 | 6.57 | -40.32 | 34176.14 | 11353.38 | 5808.27 | -66.30 |
| TOTAL | 95.70 | 20.57 | 22.99 | 11.78 | 167546.13 | 46389.86 | 27336.67 | -41.07 |

China

China's demand for wood continues to grow very rapidly. But questions are being raised over whether growth rates are sustainable.

Recent statistics on China's economic growth are startling. Annual GDP growth has averaged around 8% in recent years. National income levels have been increasing by 10% each year since 1991. After a minor "slowdown" in economic growth during 2003 as a result of slower global growth and the SARS virus, growth rates have been accelerating again. Official Chinese figures estimate that GDP grew 9.7 percent in the first quarter of 2004. Manufacturing output surged by over 11% during the same period.

Growth drive by internal market

While China is benefiting from rising export demand for the nation's finished and semi-finished products, growth is being driven largely by the huge internal market. Government privatization and liberalization policy has boosted entrepreneurial activity, contributing to higher disposal income and improved living standards. One of the key factors driving increased domestic demand for wood products is housing reform, which seeks to gradually scrap the systems of state- and workplace-distributed housing in favour of private ownership with easier access to housing loans. In 1998 the Chinese were allowed to own their homes for the first time in 50 Years.

The construction sector has been booming. The value of new real estate investment in China grew by 30% in 2003, after a similar rate of growth in 2002. In addition to underlying growth, new government policies are tending to favour the use of wood in construction. In 2001, the Chinese government announced a new policy to encourage building developers to sell furnished houses instead of empty shells. Interior decoration companies are increasingly being contracted both to design and decorate interiors. The new policy is likely to fuel growth for decorative hardwoods for flooring, doors, moulding, and joinery.

The China Timber Design Code introduced in late 2003 is also expected to boost wood construction. At present, wood construction housing starts comprise only a limited proportion of the market. However this is expected to change as the new Code establishes for the first time a regulatory framework for the use of wood as a structural construction material.

Flooring sector growth

The growth in demand for flooring has been particularly significant for the hardwood sector, generating huge demand for American hardwoods, notably red oak, and a wide range of relatively dense tropical hardwoods. China's flooring sector has now become a major industry with an annual production of more than 200 million square metres and annual sales of about yuan 30 billion. The growth of the sector has averaged between 20-30% annually in recent years. According to Lü Bin, Secretary-General of the Flooring Committee in the China Forest Products Industry Association, growth in the flooring industry is likely to continue at an annual rate of around 20% in the medium term.

The increase in demand for furniture has been equally dramatic. China is now the world's largest furniture producing nation. The value of China's furniture industry production (including non wooden furniture) in 1978 was just \$157 million but by 2002 had risen to around \$20 billion. There are now more than 50,000 furniture enterprises in China with a total of 5 million employees.

The rapid development of the furniture industry in China over the past years has been due largely to foreign investment (mainly from US, Taiwan and other Asian countries). Foreign investment in the furniture industry surged with China's entry to the World Trade Organization in 2002. In the Shanghai region alone, more than 200 foreign companies invested close to \$1 billion in the furniture sector between 2001 to 2003, more than twice the total investment during 1990s. Between 1995 to 2002, the total value of furniture exports increased nearly five-fold from \$1.1 billion to \$5.3 billion at an average annual growth rate of over 25%. Despite the booming furniture export industry, domestic demand is the engine driving growth in China's furniture industry. In 2002, the domestic furniture market accounted for around US\$15 billion.

Decline in wood supply

This rise in demand has coincided with a decline in domestic wood availability in response to China's Natural Forest Protection Strategy. This strategy has led to a particularly sharp fall in domestic supplies of high value decorative hardwoods. By 2005, it is estimated that China will need 230-240 million m3 of timber for both paper fiber and wood production. There is currently a supply gap of around 60-70 million m3. With domestic demand expected to reach 330-340 million m3 by 2015, and only marginal gains in domestic plantation production, the gap is forecast to grow to 140-150 million m3 in only 10 years time.

Looking to the future, two major questions arise. The first question is just how sustainable is China's current rate of economic growth? Some economists fear that the Chinese economy is dangerously overheated. A major problem is that councils have invested millions on huge construction projects using money borrowed from banks which operate minimal credit checks. On many of these loans, the banks are receiving so little interest that, in a free market, they would go bust. However, since the banks are government owned, they are being kept afloat. The government is trying to balance the books and slow the economy down. But it is not easy to deflate the bubble quickly.

Risk of hard landing

There is therefore a risk of a short sharp fall in the Chinese economy, which would have serious implications for the world economy. However, even the most pessimistic commentators reckon that a hard landing in the short-term is likely to be followed by a strong recovery in the medium to long term. The country has a vast pool of cheap labour, and masses of capital thanks to unusually high domestic saving and inward for-

eign direct investment. According to The Economist "if China's current investment boom turns to bust, it would be foolish to write off China's economic future."

Where will the wood come from?

This leads on to the second question. If rapid economic growth is sustained in the long-term, where in the world will China source all its wood? The data on page 4, which shows the level of Chinese primary wood products imports in 2003 and the first quarter of 2004, suggests that supply problems are already emerging. Last year, China imported over 25 million m3 of logs, and close to 5.5 million m3 of sawn lumber. While wood import volumes have continued to rise this year, the value of imports has increased even more strongly. This is partly due to currency fluctuations. The yuan is tied to the dollar and has weakened against other world currencies. Therefore the value of imported goods has tended to rise. However the sharp increase in import value may also reflect a significant rise in product prices, particularly for hardwoods, as supplies have become more restricted.

Hardwood supply restrictions in certain key exporting countries are also leading to changes in the source of supply. For example, Liberia can no longer supply logs due to UN sanctions, while supplies from several other key tropical supplying countries (Gabon, Indonesia, Cameroon) are now limited due to increased controls on exports. This year more hardwood logs are being imported from a diverse range of countries including Russia, Congo Republic, Myanmar, the United States, Solomon Islands, and Tanzania. However, these alternative supplies have only partially filled the gap.

Evidence of supply problems

More evidence for supply problems also emerges from recent news of wood raw material price rises in China. According to ITTO, during the first quarter of 2004, prices started to move up in the south eastern coastal regions and major cities including Beijing, Tianjin, Shanghai, Guangzhou and Shenzhen. Similar trends were subsequently reported in the Chinese interior. Price rises have been particularly pronounced for imported species. For example, C&F China prices for African sapele from Cameroon increased by over 15% between January and April. Nevertheless, it is too early to predict global shortfalls in wood supply resulting from the expansion of Chinese demand. A major part of the existing price hike reflects temporary bottlenecks in distribution networks and the sharp rise in oil prices which has led to increased transport costs. At the same time, the big rise in Chinese wood products manufacturing has been partly compensated by a decline in finished goods production in other parts of the world, including the United States, Taiwan, and parts of Western Europe. The world's forests have enough spare capacity to satisfy the huge expansion of Chinese demand, although there is likely to be a progressive shift away from natural forest tropical hardwoods in favour of boreal, temperate and plantation species.

Species focus: teak

For the last 150 years or so, teak has provided the standard for quality and usage potential against which all other tropical hardwoods (and some temperate hardwoods in tropical countries) have been compared. Few timbers conjure as much interest among the general public as teak and in some countries, notably India, it is almost accorded a spiritual significance. However, as the teak traded on the international market shifts from natural, old growth forest sources to plantations, questions over its long-term viability must be raised.

Natural teak forests cover an area of about 23 million hectares in India, Laos, Myanmar and Thailand, with about one third in India. In addition to these natural stands, at least 36 tropical countries across Asia, Africa and South America are growing teak in plantations, constituting about 5.7 million hectares, or roughly 75% of the world's high-quality tropical hardwood plantations. The vast majority of this is to be found in India and Indonesia, while about 5% comes from tropical West Africa and about 3% from Central and South America, notably Costa Rica, Trinidad and Tobago and Brazil. For over 150 years, the production of high-quality wood in relatively long rotations of 50-70 years has been normal practice, but today many countries are producing sawlogs and veneer logs in shorter rotations of about 20-30 years.

Quality of plantation teak

With the growing importance of plantation teak, there has been much speculation over the ability to produce timber that approaches the quality of that grown in natural forests. However, recent research indicates that short-rotation teak is not significantly inferior in density and strength, although it is less durable and its appearance is different. Since appearance is the main selling point of teak and that, despite genetic and silvicultural improvements so far, fast-grown teak will appear different in colour, grain and texture, it remains unlikely that the plantation-grown timber will ever command the market price of old-growth teak. This is easily illustrated by the \$300/m³ fetched on average by plantation teak logs, which is markedly less than the average price of \$700/m³ for natural forest teak.

The challenge facing teak growers is to raise the quality of plantation-grown timber through any means possible; extending rotation length, genetic selection and manipulation through tissue culture and silvicultural treatments, such as thinning and pruning. However, the question of how to optimise wood quality in teak plantations will continue to tax the forestry community for many years to come.

In the meantime, plantation teak producers

face the very real danger of flooding the international timber market with teak which is perceived as inferior and, therefore, undermining the reputation of teak in general and possibly even rendering it to commodity status. This is particularly relevant today, as demand for teak in countries like India, its biggest market, and China is greater than ever. Furthermore, logging bans in India itself and Thailand, in addition to forest management issues and illegal logging in Myanmar, the main sources of natural teak, mean that more plantation-grown teak than ever is finding its way into the global marketplace to meet demand. The effect of such a denigration of teak in general, would not only have an impact on the prices commanded by the natural forest timber, but would lower the global market price of teak altogether and, therefore, reduce the financial viability of many plantation teak producers.

Call for teak market research

A recent ITTO report on the future of teak, called for global, regional and national studies to assess the long-term demand, supply and price trends for teak, which should take into account the segmented nature of the market and variations in wood quality and dimensions. In addition, national and international agencies are called upon to strive to promote best-practice in teak management, especially to ensure the ability of small-scale growers to manage woodlots sustainably, to gain access to the international market and to make profitable returns on their investments. To lessen the potentially negative impact of plantation-grown teak in its traditional markets, such as India, there is a need for improved production methods and design, which would use technologies such as finger-jointing, glue-lamination and even additives to overcome the size and physical property limitations of the new resource.

Interest in certification

The importance of certification in the global marketplace is also increasing and, although certain traditional teak markets are not yet too concerned with this, many teak producers will seek to meet the various criteria of sustainable forestry management and certification under credible schemes, on order to ensure the long-term viability of their ventures.

The natural forests of Myanmar continue to be the country's primary source of forest products, providing both teak and other hardwoods. Of the total forest area of about 34.4 million hectares, 38% is accounted for by mixed deciduous forest, which includes teak. Forests are owned by the State and roughly 37.8% are classified as permanent forest estate (PFE), within which can be

Extent of teak plantations (has)

| ASIA PACIFIC | |
|-----------------------|-------------|
| Bangladesh | 73000 |
| China | 9000 |
| India | 2450000 |
| Indonesia | 1760000 |
| Laos | 3000 |
| Malaysia | 3990 |
| Myanmar | 139000 |
| Sri Lanka | 38400 |
| Thailand | 836000 |
| Vietnam | 1500 |
| AFRICA | |
| Ghana | 170000 |
| Côte d'Ivoire | 62500 |
| Nigeria | 70000 |
| Tanzania | 3000 |
| Togo | 4500 |
| CENTRAL/SOUTH AMERICA | |
| Brazil | 45000 |
| Costa Rica | 33000 |
| Ecuador | 8000-12000 |
| El Salvador | 4000-5000 |
| Guatemala | 4000-50000 |
| Panama | 30000 |
| Trinidad & Tobago | 10000-15000 |
| Venezuela | 10000-15000 |

found about 8.3 million hectares of productive mixed deciduous forest. The Myanmar Timber Enterprise (MTE), a state-owned, company, is responsible for the harvesting of both teak and other hardwoods, while some logging concessions have been granted as part of ceasefire deals in some border regions.

Threat to Myanmar's reputation

Myanmar has long enjoyed a reputation for good forest management, particularly in its teak forests and planned management for timber production dates back about 150 years, with the continuous productivity of its forests being testament to its quality. Under the latest forest legislation, the Myanmar government has stressed the importance of forestry codes of practice, the protection and conservation of wildlife and the sustainable utilisation of forest resources.

However, signs indicate that significant areas of the country's forest resource may well be in a critical or degraded condition and the sustainability of the resource could be undermined by a number of issues. These include the extraction of only a few species, including teak, which might lead to a devaluation of the forest as a whole; a chronic shortage of funds in the Forest Department and an inadequate manpower resource; and, illegal logging and poaching, particularly in border areas and especially on the Thai border as a direct result of Thailand's own 1989 logging ban. Likewise, increasing demand for forest products in southern China is putting more pressure on the forests of northern Myanmar, serving to threaten the conservation of biodiversity altogether.

Brazil

Brazilian exports of hardwood sawn lumber and plywood surged during the first quarter of 2004, boosted by the stronger global economy, the relative weakness of the Brazilian real which improved price competitiveness, and supply problems in other countries. The surge occurred despite mounting problems at Brazil's major ports due to labour strikes and the inability of port infra-structure to keep up with massive growth in global demand for Brazilian commodities.

China is now by far the largest export market for Brazilian hardwood sawn lumber, taking around 261,000 m3 during 2003. Exports of this commodity to China increased by over 50% during the first quarter of 2004. Much Chinese demand has focused on relatively dense Amazonian hardwood species used in the flooring industry, although there are now signs that Chinese demand is di-

versifying into a wider range of species. In \$ value terms, France was the second largest export market for Brazilian hardwood sawn lumber in 2003. Some of the large French manufacturers continue to buy significant volumes of Brazilian joinery species such as tauari, curupixa, and pau amerele. More recently, French importers have been buying more Brazilian tatajuba decking. In volume terms, Spain remains a very important export market for Brazilian sawn lumber, taking large volumes of flooring species such as jatoba and a range of decking species.

Increased Dutch interest

The weakness of the Brazilian *real* coupled with significant constraints on supply of alternative Malaysian species has boosted prospects for Brazilian hardwoods in the Dutch joinery sector. The recent rise Brazil-

ian hardwood exports to the Netherlands is also partly due to strong western European demand for decking.

Due to the ban on the mahogany trade, exports of Brazilian hardwood to the United States have tended to decline in recent years. However, export volumes to this destination were rising again during the first quarter of 2004 due mainly to strong demand for Brazilian decking timbers, notable ipe. Exports volumes of Brazilian softwood and hardwood plywood increased by 211% and 37% respectively during the first quarter of 2004. This massive surge was almost entirely due to increased exports to the US and UK. Problems in the supply of Indonesian plywood have boosted demand for Brazilian plywood in both countries. The strong US construction market has also been driving consumption of Brazilian plywood.

Brazilian exports of primary wood products, 2003 and January to March 2003, 2004

| | US\$ million 2003 Year | US\$ million 2003 Jan-Mar | US\$ million 2004 Jan-Mar | US\$ million % Change | 000 m3 2003 Year | 000 m3 2003 Jan-Mar | 000 m3 2004 Jan-Mar | 000 m3 % Change |
|-----------------------------|------------------------------|---------------------------------|---------------------------------|-----------------------------|------------------------|---------------------------|---------------------------|-----------------------|
| Hardwood sawn lumber | | | | | | | | |
| CHINA | 105.21 | 21.88 | 32.90 | 50.4 | 260.85 | 51.03 | 78.28 | 53.4 |
| FRANCE | 48.63 | 12.94 | 13.79 | 6.6 | 132.96 | 33.75 | 55.30 | 63.8 |
| NETHERLANDS | 28.32 | 4.90 | 9.96 | 103.3 | 96.91 | 16.85 | 33.78 | 100.5 |
| HONG KONG | 24.53 | 3.45 | 8.60 | 149.3 | 56.65 | 8.64 | 17.44 | 101.8 |
| UNITED STATES | 38.19 | 7.54 | 8.11 | 7.5 | 86.42 | 18.71 | 19.54 | 4.4 |
| SPAIN | 29.96 | 5.61 | 7.57 | 34.9 | 205.36 | 18.89 | 24.42 | 29.3 |
| PORTUGAL | 17.99 | 3.65 | 7.29 | 99.7 | 92.81 | 15.67 | 27.21 | 73.6 |
| BELGIUM | 18.90 | 4.34 | 6.55 | 51.0 | 50.50 | 12.15 | 16.28 | 34.0 |
| DOMINICAN REPUBLIC | 7.60 | 1.22 | 3.23 | 164.2 | 24.55 | 4.18 | 9.83 | 135.2 |
| ARGENTINA | 8.32 | 1.25 | 2.75 | 120.2 | 31.50 | 5.02 | 48.79 | 871.3 |
| TAIWAN | 5.44 | 0.79 | 2.42 | 204.7 | 13.47 | 1.85 | 4.85 | 162.5 |
| ITALY | 8.40 | 2.02 | 1.90 | -5.9 | 23.80 | 5.67 | 5.13 | -9.5 |
| THAILAND | 5.49 | 1.72 | 1.75 | 1.8 | 36.39 | 11.77 | 11.16 | -5.2 |
| JAPAN | 6.06 | 1.69 | 1.44 | -15.0 | 11.22 | 2.90 | 2.64 | -9.1 |
| UNITED KINGDOM | 3.48 | 0.86 | 1.23 | 42.6 | 8.51 | 1.83 | 2.73 | 49.5 |
| VIETNAM | 6.13 | 1.64 | 1.09 | -33.5 | 42.55 | 15.80 | 6.31 | -60.1 |
| OTHER | 30.27 | 7.93 | 9.18 | 15.8 | 143.24 | 58.26 | 25.53 | -56.2 |
| TOTAL | 392.92 | 83.44 | 119.77 | 43.5 | 1317.71 | 282.97 | 389.21 | 37.5 |
| Softwood sawn lumber | | | | | | | | |
| UNITED STATES | 164.30 | 46.06 | 40.61 | -11.8 | 1096.26 | 293.55 | 242.48 | -17.4 |
| SPAIN | 15.47 | 3.03 | 4.37 | 44.5 | 120.43 | 24.99 | 33.29 | 33.2 |
| MEXICO | 10.95 | 3.14 | 1.97 | -37.3 | 94.46 | 27.72 | 17.40 | -37.2 |
| CHINA | 6.11 | 1.39 | 1.88 | 35.4 | 47.41 | 11.29 | 12.69 | 12.4 |
| MOROCCO | 11.85 | 2.79 | 1.76 | -37.0 | 103.67 | 25.21 | 14.37 | -43.0 |
| OTHER | 46.32 | 10.54 | 8.39 | -20.4 | 237.96 | 53.05 | 42.59 | -19.7 |
| TOTAL | 255.00 | 66.94 | 58.98 | -11.9 | 1700.18 | 435.82 | 362.82 | -16.7 |
| Hardwood plywood | | | | | | | | |
| UNITED STATES | 81.57 | 14.52 | 23.25 | 60.1 | 372.50 | 67.04 | 99.97 | 49.1 |
| UNITED KINGDOM | 42.47 | 6.52 | 12.68 | 94.4 | 180.82 | 26.71 | 47.97 | 79.6 |
| PUERTO RICO (U.S.) | 16.78 | 4.02 | 5.67 | 41.3 | 83.76 | 14.11 | 16.99 | 20.4 |
| BELGIUM | 13.62 | 3.44 | 3.76 | 9.3 | 54.39 | 13.87 | 13.98 | 0.8 |
| ITALY | 8.90 | 2.03 | 2.48 | 22.2 | 31.70 | 7.42 | 8.77 | 18.2 |
| GERMANY | 14.07 | 2.68 | 2.37 | -11.5 | 46.72 | 9.54 | 7.85 | -17.7 |
| IRELAND | 8.13 | 1.38 | 2.15 | 55.7 | 36.39 | 6.46 | 9.00 | 39.4 |
| MEXICO | 6.39 | 1.38 | 0.94 | -32.4 | 23.20 | 4.85 | 3.32 | -31.5 |
| OTHER | 30.06 | 6.73 | 9.67 | 43.7 | 199.48 | 27.09 | 34.98 | 29.1 |
| TOTAL | 222.01 | 42.70 | 62.97 | 47.5 | 1028.96 | 177.10 | 242.83 | 37.1 |
| Softwood plywood | | | | | | | | |
| UNITED STATES | 154.78 | 17.63 | 51.82 | 193.9 | 884.91 | 99.92 | 746.35 | 646.9 |
| UNITED KINGDOM | 52.37 | 10.32 | 18.01 | 74.6 | 433.08 | 59.45 | 275.52 | 363.5 |
| BELGIUM | 36.17 | 11.73 | 9.57 | -18.4 | 226.99 | 66.62 | 45.55 | -31.6 |
| GERMANY | 31.69 | 11.39 | 9.54 | -16.2 | 205.49 | 66.53 | 45.42 | -31.7 |
| IRELAND | 14.42 | 3.06 | 5.74 | 87.9 | 192.11 | 52.98 | 26.31 | -50.3 |
| ITALY | 11.98 | 4.07 | 4.81 | 18.1 | 59.83 | 21.12 | 20.37 | -3.6 |
| MEXICO | 5.88 | 0.81 | 2.66 | 229.8 | 316.04 | 3.60 | 116.60 | 3135.3 |
| PUERTO RICO (U.S.) | 15.01 | 2.48 | 2.35 | -5.2 | 133.01 | 12.64 | 9.26 | -26.8 |
| JAMAICA | 6.22 | 2.97 | 1.32 | -55.4 | 59.68 | 16.31 | 5.80 | -64.5 |
| OTHER | 39.49 | 8.30 | 8.87 | 6.8 | 594.52 | 95.09 | 244.11 | 156.7 |
| TOTAL | 368.03 | 72.76 | 114.69 | 57.6 | 3105.65 | 494.26 | 1535.27 | 210.6 |

European trade in American hardwoods

Limited availability of green lumber in the US supply chain, strong domestic demand for KD lumber and low stocks carried by European importers, has meant that, European demand for US hardwoods is as strong today as it was in the same period last year.

Having suffered two hard winters and the inherent problems regarding logging, US exporters are now faced with the reality of a seller's market, where European importers are prepared to meet firming prices in order to replenish their stocks. This said, US exporters cannot afford to be too complacent, as they will have to work hard in order to meet the demands of their exacting European buyers. Certain US species, notably white oak and ash are in particularly limited supply and difficulties in meeting orders, especially in 6/4 and above are likely to be come more apparent in the coming months.

Increase in export value to the EU

First quarter statistics for US hardwood lumber exports to the EU, show an increase of 1.9% in volume and, indicative of firming prices, 8.8% in value over the same period last year. Total American hardwood lumber exports to the European Union reached a volume of 173,000m³ and a value of \$133 million, while US hardwood veneer exports rose by 26.8% to \$45 million as compared to the first three months of 2003. A 19.4% increase in the volume of US hardwood log exports to the EU during the first quarter of 2004 must also be noted.

Taking into account the ten new EU members from 1st May onwards, the increase in export figures from the United States is negligible. However, it is important to note that a significant percentage of both the US hardwood lumber and veneer that is shipped to Belgium, Denmark and Germany is, in fact, destined for Poland and other Central European markets.

Modest recovery in Germany

Exports of both US hardwood lumber and veneer to Germany have actually seen a modest increase in the first quarter of this year, suggesting a possible end to years of contraction. White oak, red alder, walnut and tulipwood lumber exports to Germany have all increased this year, along with rises in walnut and white oak veneer. German furniture production decreased once again last year and the outlook for this year shows little promise. However, signs of a certain amount of economic stabilisation may have once again helped to buoy the construction and remodelling sectors. However, the most significant factor influencing Germa-

ny's increase in imports of US hardwoods is the rise of Poland's furniture sector, which continues to step up its production for Western European markets. Until such time as Poland can afford to import its lumber and veneer needs directly, Germany and, to a lesser extent, Belgium and Denmark, will serve as intermediaries.

Spanish contraction

Spain, which in 2003 was Europe's largest market for US hardwood lumber, has shown signs of a contraction in imports so far this year. Since white oak has traditionally been Spain's number one import item, mainly for the door manufacturing sector, the shortfall can be partially, but not completely, accounted for by the limited availability of this species. Coupled with the difficulty in obtaining white oak, Spain continues to show signs of switching away from solid lumber as a cost saving device and the resultant increase in veneer imports confirms this. US hardwood veneer exports to Spain in the first quarter of this year were up by 49.6% on the same period in 2003, reaching a value of over \$12 million, placing it a close second behind Germany.

Stasis in Italy

Demand for US hardwoods in Italy so far in 2004 has been more or less static as compared to 2003, with little change in both lumber and veneer imports. However, demand for American hardwood logs in Italy has increased this year, notably in walnut, tulipwood and maple for the veneer slicing industries. Unlike its Northern European counterparts, Italy's furniture manufacturing sector has not suffered so severely in the past few years and continues to remain strong. However, pressure is mounting, as imports of finished products from China and Poland continue to flood the EU. Furthermore, the recent enlargement of the EU is likely to exacerbate the situation, as barriers between East and West come down. Despite this, Italy continues to lead the way in innovation and design and the recent Saiedue show in Bologna exemplified this. While the short-term future for hardwoods in general in Italy would seem to be assured, substitutes for American species can often be found. For Italy is a market where fashion leads the way and where designers are not so preoccupied with the actual materials they use, but more with the look that they achieve with those materials.

UK holding up

The UK continues to be a relatively strong market for US hardwoods and exports of lumber so far in 2004 have held up well as

compared to the first quarter last year. Partly buoyed by importers concerns over future availability and current low stock levels, April and May have seen increased activity in purchases from the United States. In addition to this, an increase in interest in tulipwood has also been witnessed, while a resurgence in interest in ash has been reported, but not yet seen. American hardwoods continue to remain a popular choice for all aspects of the interiors sector in the UK and the immediate future would give little cause for concern, were it not for the shortages of KD lumber available from the US and the resultant firming of prices. Other factors that have yet to show an impact on the UK's manufacturers are the dramatic oil price increase and the Bank of England's threat of increased lending rates. Nowhere else in Europe is the oil price increase felt quite so strongly as in the UK, where fuel taxes are high and this may well lead to a potentially damaging increase in production costs.

French comeback

American hardwoods have made a small comeback in the French market so far in 2004, where exports of lumber increased by 24.4%. However, from a relatively small base, this does not represent a particularly large volume increase. Nonetheless, the increase can be accounted for by higher volumes of cherry and red oak than in 2003 and, more interestingly, tulipwood. Despite the decline of France's domestic furniture industry over the past few years, architectural projects featuring US hardwoods are to be found and, perhaps, the increased use of less well-known species in these projects could signal a change to a more accepting market for US hardwoods in the future.

Portugal bouyant

Another market where US hardwood exports continue to increase is Portugal. Over the past three or four years, rising volumes of American hardwood lumber have been destined for the market, which has been one of the fastest developing countries in the EU. A certain proportion of this increase until now has been accounted for by Portugal's hosting of the 2004 UEFA Cup and the necessary infrastructural development. However, US export statistics for the first quarter of this year are still encouraging, with a 31.4% increase in lumber exports, as compared to the same period last year, reaching a volume of 10,500m³ and placing Portugal as the fifth most important European market for US hardwood lumber, after Germany.

Veneer

The centre of gravity of the European veneer sector has shifted eastwards. A much larger proportion of veneer supplied to the European market is now manufactured in Poland, Slovenia, Czech Republic, Romania and the Baltic States. Nevertheless, trading conditions for western European veneer producers have been more favorable this year than in 2003.

Supply of hardwood veneer logs has been consistent in western Europe allowing steady levels of production. European veneer exports have been improving to the Far East. Although a larger proportion of Chinese demand for standard species is now supplied by domestic mills, European exporters have been able to generate new sales in more specialist species. The United States market for European veneers has also improved due to domestic log shortages and strong economic conditions.

High value strategy

A strategy to move into higher value specialist markets by some Western European mills is beginning to pay off. Rather than competing directly with the large domestic production capacity of standard species in China and the US, western European veneer producers have focused on supply of a wider range of specialist veneers.

Nevertheless, overall western European demand for hardwood veneers has remained sluggish. Rather than build stock, manufacturers now demand small volumes on a regular basis. There have been some improvements in demand from the furniture, flooring and interiors sectors, but demand from door industry has been slow. Manufacturers are carrying high stocks of both finished product and raw material. There also continues to be a shift towards increased use of non-wood surfaces in the door sector.

Considering individual European veneer markets, there are reports of weakening demand this year in Italy, Spain and the UK, but of improving demand in Portugal and Denmark. Eastern Europe is seen to offer particular opportunities for market development. Furniture manufacturing is expanding rapidly in Poland and the Czech Republic, a trend which is expected to extend into Hungary, Romania and the former Yugoslavia.

Oak still main fashion item

With regard to species, the European fashion for oak is continuing, and interest in beech continues to decline. Walnut is still popular, while demand for maple and cherry veneer remains stable. Generally, the market is now more interested in a wider range of species.

Show report: Carrefour du Bois

The wood trade exhibition, Carrefour du Bois, took place in Nantes in western France from the 2-4 June. This year was the 8th edition of this biannual event but when it began back in 1990 it was a wood conference and very much a French affair. The Carrefour has evolved considerably since then. There is still a conference run by the Ecole Supérieure du Bois based in Nantes. But more emphasis is now placed on the exhibition element. According to the American Hardwood Export Council (AHEC), who have been sponsors since the beginning, *"the Carrefour is a unique event as it is the only 100% wood show in Europe with such an international profile"* Strong support for the event is also provided by the French wood industries through organisations such as CNDB, FNB, LCB and the export promotion initiative French Timber. In fact, over 20 meetings were held during the show as associations and trade groups took advantage of the fact that the Carrefour is firmly in the diary as a "must attend" event.

Increased international appeal

This year saw 453 exhibitors marketing a wide variety of wood products from sawn lumber and plywood through to finished products such as flooring. Part of Carrefour's evolution has been to expand the international appeal of the show. Although the majority of exhibitors and visitors are from France, 22% of exhibitors this year were from outside France including country pavilions from Belgium, Canada and Malaysia. There were also exhibitors from a number of eastern European countries and even as far away as Chile and Brazil, and two international trade delegations one from China and the other from Japan. The US hardwood industry was not as well represented as in the past although a number of exporters were present with their French sales agents. The AHEC stand with its strong visual images provided a focal point though for information on American hardwoods.

The Conference provides an additional opportunity for visitors to Carrefour to take part in discussions and seminars that address many of the most important issues facing international wood markets. This year's programme of high quality speakers focused on topics such as CE marking, eco-labelling and certification and market opportunities in France for sawn lumber and added value products. Of course, promotion was also on the agenda with presentations on the UK's wood for good campaign and the new campaign in France led by the CNDB (National Committee for the Development

of Timber) and the Nordic Timber Council. The atmosphere at the show was on the whole positive despite the current tough trading conditions, increasing competition throughout the wood chain and concerns over future economic and political stability. Levels of activity for the French hardwood processing industry are mixed, with beech demand and sales continuing to be weak but oak demand strong, both domestically and in export markets. Oak is very much in fashion at the moment in European markets, whereas beech is no longer in vogue and the decline of beech exports to China has compounded problems for producers as stocks grow and prices weaken. Tropical hardwoods were well represented on the stands of many French importers and continue to be used in significant volumes in France particularly for joinery applications such as windows and doors. However, concerns over long term supply from traditional African sources and more demand for proof of sustainability, will increasingly have an impact on levels of activity. American hardwoods have taken a knock in France as the furniture sector has declined and demand for species like cherry has fallen off. It is the flooring and joinery sectors that are seen by hardwood suppliers as key to future consumption. The French wood industries are very much focused on promoting and marketing their products to the building & DIY sectors, a theme that came out strongly in the discussions at Le Commerce du Bois (LCB) annual general meeting held during Carrefour.

Hardwood flooring on the rise

There were more stands marketing hardwood flooring this year compared to two years ago and although demand in France has stalled recently this sector still offers some of the best prospects for hardwood consumption. The growing demand in Europe, especially in markets such as Netherlands, Germany and UK for the natural rustic or character look has helped stimulate sales for French oak producers.

This year saw more companies promoting forest certification, mainly PEFC and FSC, but even where certified products were not available many company's stands were demonstrating their environmental credentials through their displays and company literature. This gearing up on sustainable promotion reflects the fact that the building sector requires more reassurance than the furniture sector and that all over Northern Europe tighter public procurement policies are being developed for wood products.

UK market slow but steady

Statistics for 2003 show that the UK trade in sawn hardwood remained fairly unchanging, as compared to the previous year. American white oak imports continued to slide, while tulipwood and European oak imports were tending to rise. Tropical hardwood imports rebounded slightly, with Brazilian hardwoods benefiting particularly from the weak dollar and solid demand from the decking sector. Trading during the first half of 2004 has remained steady with few concerns over the immediate future. Despite conflicting reports, the UK housing market has remained strong and the construction sector continues to be very active, but the dramatically increased oil price and Bank of England threats of early increases in lending rates, may cast a shadow over the latter part of the year. **Pages 1/2**

Shortages of Malaysian kiln dried

Malaysian sawn lumber exporters report widespread shortages of kiln dried dark red meranti. Few spontaneous offers are being made, and most are quoting for September/October shipment. FOB prices for all types of meranti and seraya sawn lumber have continued to firm in recent weeks. Nevertheless, slack underlying consumption has meant this has yet to be a significant problem for the majority of the European trade. **Page 3**

Liberian sanctions maintained

On 10 June, the UN Security Council ruled that peace in Liberia is still too fragile for sanctions on timber exports to be lifted. **Page 2**

Chinese growth raises questions

Last year, China imported over 25 million m³ of logs, and close to 5.5 million m³ of sawn lumber. China's demand for wood has continued to grow rapidly this year. Rapid expansion in demand has caused bottlenecks in supply and contributed to a worldwide increase in hardwood prices. However questions are being raised over the sustainability of existing growth rates. **Pages 4/5**

Future for plantation teak

In the past most teak derived from natural forests in Burma and long rotation plantations, notably in India and Indonesia. However today a wider range of countries are producing sawlogs and veneer logs from short-rotation plantations. With the growing importance of plantation teak, there has been much speculation over the ability to produce timber that approaches the quality of that grown in natural forests. Recent research indicates that short-rotation teak is not significantly inferior in density and strength, although it is less durable and its appearance is different. Careful marketing is required to secure long term growth in demand for the plantation grown product. **Page 6**

Rising demand for Brazilian wood

Brazilian exports of hardwood sawn lumber and plywood surged during the first quarter of 2004, boosted by the stronger global economy, the relative weakness of the Brazilian *real* which improved price competitiveness, and supply problems in other countries. The surge occurred despite mounting problems at Brazil's major ports due to labour strikes and the inability of port infra-structure to keep up with massive growth in global demand for Brazilian commodities. **Page 7**

Lack of supply boosts European demand for American hardwood

Limited availability of green lumber in the US supply chain, strong domestic demand for KD lumber and low stocks carried by European importers, has meant that European demand for US hardwoods is as strong today as it was in the same period last year. Having suffered two hard winters and the inherent problems regarding logging, US exporters are now faced with the reality of a seller's market, where European importers are prepared to meet firming prices in order to replenish their stocks. This said, US exporters cannot afford to be too complacent, as they will have to work hard in order to meet the demands of their exacting European buyers. **Page 8**

Veneer trade improves

The centre of gravity of the European veneer sector has shifted eastwards. A much larger proportion of veneer supplied to the European market is now manufactured in Poland, Slovenia, Czech Republic, Romania and the Baltic States. Nevertheless, trading conditions for western European veneer producers have been more favorable this year than in 2003. **Page 9**

Carrefour du Bois

The wood trade exhibition, Carrefour du Bois, took place in Nantes in western France from 2-4 June. The atmosphere at the show was on the whole positive despite current tough trading conditions in France, increasing competition throughout the wood chain and concerns over future economic and political stability. Levels of activity for the French hardwood processing industry are mixed, with beech demand and sales continuing to be weak but oak demand strong, both domestically and in export markets. **Page 9**

Expanding Europe

We are extending our regular coverage of European hardwood trade statistics to include the 10 countries that acceded to the European Union on 1 May 2004 – Poland, Czech Republic, Slovakia, Hungary, Slovenia, Latvia, Lithuania, Estonia, Cyprus and Malta. As a group, the eight Eastern European countries are major exporters of hardwood logs, lumber and finished products, with the majority destined for neighbouring western European countries, especially Germany and Italy. The expansion of domestic processing capacity in the accession countries has also meant that they are significant importers of hardwood logs and lumber. Slovenia imports significant volumes of oak and beech from the former Yugoslavia. Poland imports large quantities of oak sawn lumber from Ukraine and Germany. Of all EU accession countries, only Poland imports significant volumes of tropical hardwood, mainly from Indonesia. Imports of American hardwoods by the accession countries are negligible. **Pages 10/11**