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Hardwoods take center stage in China

China has become the largest export market for American hardwoods, said Theodore Rossi, chairman of the American Hardwood Export Council (AHEC) in his opening address to the AHEC's 10th Southeast Asia and Greater China Convention held in Beijing during June. According to AHEC statistics, in 2004 the value of US hardwood products imported to China's mainland, Hong Kong and Taiwan reached around $500 million, 29 percent up on previous year.

Michael Snow, AHEC Executive Director, highlighted the reasons for the rapid emergence of demand for American hardwoods in China. He said that China's rapid economic growth and new housing privatization initiatives have created a new generation of affluent consumers eager to outfit their homes and work environment with quality interior furnishings made with US hardwoods.

Domestic market most important

While other parts of South East Asia have seen imports of wood products increase in response to rising export demand for finished products, rising Chinese demand is more due to changes in the domestic market. China's overall consumption of wood products in 2003 reached 228.43 million m3. Of this, 75% was consumed by domestic industry and construction, 16% comprised firewood, and only 9% was for exported wood products.

Snow noted that China's annual construction output reached $200 billion in 2004, and annual production value of the domestic furniture market reached $24 billion. Analysts are predicting that by 2008 flooring demand in China may hit 2.5 billion square meters, while the door and window market may hit 500 million units. While so far much growth in demand has been focused on the main cities and more developed coastal zone, in the future construction demand is also expected to expand in the interior of China as farmers' living standards begin to improve. National government policies now target accelerated rates of growth in the central and western regions of China.

In the next 5 years, some forecasts indicate that China's house construction may increase by 15% per annum. At the same time, the 2008 Olympic and 2010 World Expo are expected to trigger extensive construction activity. Over 300,000 luxury hotel rooms are expected to be remodelled over the next few years.

Rossi said that US hardwoods are increasingly popular in China's interior decoration and furniture industries for their unique looks with rich grain texture and natural character marks, and the wide varieties of color, species and grades.

Themed "Design Excellence: Architectural Applications of US Hardwoods", the two-day convention demonstrated the use of US hardwoods in a range of quality applications, from flooring and panels to furniture manufacturing, and from architecture to interior design.

AHEC target designers

The theme of the Convention reflects the major thrust of AHEC's marketing campaigns in China and South East Asia. These campaigns are targeting the architecture and design professions, in recognition of the major contribution that hardwood products make to innovative contemporary design.

The success of AHEC's efforts to encourage greater interest in hardwoods in design in China was apparent from the turnout at the Convention which extended to around 900 designers, architects, timber traders, and trade association representatives.

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Editorial

Raising environmental issues in China

At AHEC's South East Asia and Greater China Convention in Beijing during June, Hardwood Markets' Editor was given the opportunity to speak to an audience of 900 Chinese designers and architects about hardwoods environmental benefits.

This is a new message in China, where environmental issues have yet to come to prominence and where much of the existing publicity surrounding wood's environmental credentials has been negative. In a country where domestic harvesting (particularly of hardwoods) has for long exceeded the sustainable capacity of forests, there has emerged a public perception that wood is scarce. This has been reinforced by recent media coverage of unsustainable and illegal logging in China's main supply countries, notably Russia, Indonesia and Myanmar.

The wood industry faces a major challenge to encourage wider use of wood in China, while at the same time shifting consumption to sustainable sources. A summary of the Editor's presentation follows.

China plays a central role in any discussion on the environment. China's energy demands are rising faster than any other country. These demands are projected to double over the next 20 years. By 2020, China's energy consumption is forecast to exceed that of Western Europe and to be second only to the United States. China is already the world's largest consumer of many commodities including steel, cement, coal and copper. China accounts for 40% of the world's coal consumption, 30% of the world's steel consumption and 30% of the world's concrete consumption. China is the world's second biggest consumer of oil after the United States.

Big focus on price

At this stage of the nation's development, there is inevitably a heavy focus on price in China's construction sector. However, there are signs of environmental issues becoming a more important factor in the choice of building materials. China's Ministry of Construction has on-going research into a possible Green Building Directive (understood to be non mandatory). The China Housing Industry Association has produced manuals for green building of low density housing (blue book) and high density housing (green book). Meanwhile, Tsinghua University in Beijing has been working on green building design since 1996, and has already developed an Assessment System for Ecological Housing. Recently, the University has been assessing the environmental credentials of Olympic buildings.

The use of any construction material involves trade-offs. Steel comes from iron ore that is mined, an activity that requires the removal of pre-existing eco-systems and causes severe surface erosion. Steel is then manufactured through an energy intensive process generating pollution and waste at all stages. In use, steel has high conductivity which causes thermal bridging wherever steel spans from the inside to the outside of a building.

Wood vs other materials

Wood products, on the other hand, derive from a renewable resource - a unique characteristic that gives wood an advantage over all it's competitors. Growing trees take up carbon dioxide, the principle greenhouse gas. Almost 50% of the dry weight of a tree is carbon. So conversion of wood into products such as structural beams, window frames, furniture, and doors, contributes to the long-term removal of carbon dioxide from the atmosphere, helping to reduce global warming. The creation of useful products in wood also requires relatively less energy than other materials.

Recent scientific Life Cycle Assessment (LCA) studies have provided independent confirmation of wood's environmental performance. For example, a survey by the UN FAO states that:

"The results of the comparative LCA studies clearly indicate that wood products and products systems show advantages in most environmental impact categories. The subjective impression that wood products are better than competitive products with respect to environmental aspects can be scientifically proved."

A key environmental issue for the wood industry relates to the source of timber products. This issue is particularly problematic in China given the nation's existing heavy reliance on poorly regulated and unsustainable forest resources.

On a global level there is no shortage of timber products. Data from the UN FAO Global Forest Resource Assessment indicates that forest area and timber volume in temperate and boreal forest regions is expanding rapidly. During the 1990s, the volume of wood standing in non-tropical forests increased by a massive 21,000 million cubic meters. That's enough to build a solid fence 1 meter high and 8 cm thick from the Earth to

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Editorial

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the Sun and back. The rapid increase in the size of temperate forests has resulted from increased agricultural efficiency (allowing more land to be turned over to forest), improved forest management, and more efficient timber utilisation.

Timber boycotts inappropriate

Despite media coverage of tropical deforestation, there should be no boycott of tropical timbers. On the contrary, a healthy trade in sustainably managed tropical hardwood has an important role to play in preventing deforestation. Countries like Malaysia and Ghana demonstrate how income from the sale of tropical hardwoods in high value international markets may be ploughed back into sustainable forest management. Forests that do not produce income for local communities are more likely to be converted to alternative land uses, including cash crops and agriculture.

However everyone involved in the trade and use of wood products needs to take an interest in where wood products are coming from. End users need an assurance that wood is derived from sustainably managed forests.

The timber industry's achievement of over 225 million hectares of independently certified forest land worldwide represents a major achievement. It demonstrates a degree of commitment to sustainability way beyond that of any other materials supplying industry. But certification is challenging and remains an incomplete solution. Certified forests currently cover only around 6% to7% of total global forest area, or perhaps 20% of commercial forest area worldwide. Other means of providing assurances of sustainable forestry practice remain valid, for example American hardwood suppliers have made available national forest inventory data going back 70 years at www.sustainablehardwoods.info.

Going green is good business

Experience in Europe indicates there are significant commercial advantages to be gained by embracing environmental issues. Procurement of wood products from known sustainable sources reduces the risk of damaging negative publicity. It tends to ensure greater reliability of service and more regular supply, and can contribute to more consistent, less volatile prices for wood products. And it is through such proactive measures, that the wood industry will be at last able to proclaim – without fear of contradiction – that wood is by far the most environmentally friendly building material.

Africa

Slow market

The African hardwood market situation remains little changed from last month. Log prices are generally stable. Demand for sapele logs remains very slow with buyers putting much pressure on suppliers to reduce prices. There is however resistance from suppliers, who indicate that harvesting has been curtailed as the weather is deteriorating in the Congo region and as producers have responded to weak demand. They suggest that sapele log supply will diminish further as operations close during the summer months. In addition, producers point to limited availability of alternative Far Eastern and Brazilian log supplies as another reason for maintaining current price levels.

Restricted log availability

Supplies of logs of most other African species - including sipo, iroko, ayous, bubinga, doussie and padouk – remain restricted, particularly for good quality material. While European consumption is unexciting, demand for certain log species continues to run ahead of available supply, keeping prices firm. Often sipo logs cannot be procured without buyers also making commitments to purchase sapele. European buyers report increasing problems sourcing veneer quality logs due to strong competition from Chinese buyers.

Obtaining freight space for logs from Africa to Europe remains a problem, partly due to increased diversion of shipping to the Far East. There continue to be reports of rising bunker surcharges for fuel.

A meeting of the UN Security Council on 21 June 2005 held out little prospect of a rapid resumption of trade with Liberia. The Security Council noted that even though the presence of UN peace keepers had improved security, the provisional government of Liberia (NTGL) had failed to extend its authority over the country's timber producing areas, or its borders. They also suggested that although there is no evidence now of illegal timber exports, the NTGL had so far undertaken few of the reforms that would lead to the lifting of the export embargo.

Summer slowdown looms

Sawn lumber markets remain largely unchanged from last month, although with the European summer vacation period looming there are reports of a general slowdown in activity. There remains little interest in forward buying of sapele, with European stocks generally sufficient to meet sluggish demand. Importers continue to report poor margins and intense competition for onward sales of landed stocks. Forward prices for iroko sawn lumber are not as hot as earlier in the year, with some Irish buyers now making a shift to sapele and the Spanish market slowing as the vacation period approaches.

Sales of khaya into the United States have been holding reasonably well in recent months, particularly from Ghana as supplies from Ivory Coast are now less readily available. Supply problems in Brazil may boost prospects for khaya and sapele in the United States, where these species are used mainly for doors and other joinery products - over coming months.

European importers report continuing supply problems for other species including afzelia/doussie, sipo, ayous and ekki/azobe. There are reports of okan making ground as an alternative to azobe/ekki in the railway sleeper business.

Some good news for Africa

Reports from the European speciality veneer sector – which can be an indicator of future trends in the sawn lumber sector – suggest that darker colours (browns and blacks rather than red mahogany tones) are becoming more fashionable. This factor, combined with mounting supply problems for merbau and alternative Brazilian flooring timbers, suggests good market prospects for certain African hardwoods (including iroko, bibolo, wenge, bosse/guarea, movingui/ayan and some other secondary species).

While sapele and sipo may benefit less from this fashion trend, prospects for these species may be boosted by rising meranti prices and redwood supply problems in South America.

African indicative prices

	Apr	May	Jun
Exchange rates			
US$/euro	1.29	1.23	
US$/£	1.90	1.81	
Euro/£	1.47	1.48	
All prices include agents commission of 5%			
Sawn lumber			
Cameroon, CAR, Congo (Braz.)			
Euro/m3; FOB			
Grade/size: FAS, air dried, width6"+, length 6'+			
Sapele	440	450	450
Sipo	550	575	575
N'Gollon	600	600	600
Iroko	680	710	710
Cote d'Ivoire			
Euro/m3; FOB Abidjan			
Grade: FAS			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
Iroko AD	710	710	710
Mahogany AD	600	600	600
Framire KD(b)	425	425	425
Ayous KD No.1 C&S	320	320	320
Dimension stock			
Azobe	440/500	440/500	440/500
Dabema	325/375	325/375	325/375
Gabon			
Euro/m3; FOB			
Grade and size: FAS, width 6"+, length 6'+			
Okoume KD	340	340	340

Hardwoods in contemporary design

At the cutting edge

AHEC's Southeast Asia and Greater China Convention held in Beijing during June highlighted the key role now played by hardwoods in cutting-edge modern design.

Backing her presentation with stunning images from a wide range of high profile architectural projects around the world, Amy Jakubowski, a Partner of Brennan Beer Gorman Monk Interiors (known as BBG-BBGM) in New York, smashed any lingering impression that hardwoods are quaint and old fashioned.

Throughout her presentation, Jakubowski emphasised the trend in contemporary design to combine hardwood in innovative ways with steel, glass, and concrete. The modernist approach to design which utilised and celebrated the strength and efficiency of modern materials and that so dominated the second half of the twentieth century, has evolved into a more naturalistic approach. Natural elements are used to soften the edges of modern materials and to provide a warmer more familiar living environment. The amount of wood used depends both on the size of the space and on the message that the designer is trying to convey.

Using the illustration of the Lodge at Turning Stone, a 5-star timber frame hotel in the tree clad hills of New York State, Jakubowski demonstrated how hardwood is used to integrate the whole structure with the natural environment. Cherry is used throughout to provide a warm welcoming atmosphere and to link the internal environment with the woodland landscape outside. Hardwood is used extensively in the presidential suite to add a sense of luxury.

Hardwoods represent luxury

Similarly, in the new Raffles hotel in Singapore, BBG-BBGM use cherry and maple to represent luxury, while hardwood textures and soft tones help to provide a sense of comfort. The use of hardwood in very large spaces helps to create a feeling of human scale. A project to rebrand the Shangri-La Hotel in Sydney, Australia, is used to demonstrate hardwoods' ability to provide warmth and to soften the hard edges of other materials.

A project at the Elizabeth Arden Red Door Spa in New York City shows how hardwoods are used to project the values associated with a high class cosmetics brand. In this instance, BBG-BBGM set out to create "classic design with a modern edge". References to art deco style are created using red oak which is white washed and scrubbed with a wire brush to bring out a dramatic grain pattern. This is combined with very dark stained walnut floors and stainless steel chairs to produce an overwhelming sense of glamour.

The Inn at Penn, an historic building in Philadelphia, is used to illustrate a more traditional use of hardwood. In this instance, BBG-BBGM specifically set out to create a historic sense of place. Darkly stained white oak dominates the whole design, drawing its inspiration from the arts and crafts movement.

As a startling contrast, hardwoods play a key role in the cutting edge design for the interior of Capital Towers in Dubai, the world's tallest building. Vast spaces within

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Best Asian design a match for the west....

The skills of East Asian architects and designers were championed at AHEC's Southeast Asia and Greater China Convention by William Lim of Hong Kong based CL3 Architects. Speaking on the theme "Inside-Out: Interior Design Through The Architect's Perspective", Lim emphasised the role of the designer to link the interior of a building with the exterior architecture. Lim demonstrated that the western fashion for mixing materials – including glass, concrete, natural stone, textiles and wood – also dominates the best Asian design. He showed how traditional Asian design features are being integrated into modern design. Chinese calligraphy and other motifs are introduced into minimalist designs with strong lines and subtle lighting. Many of the designs feature very dark - almost black - oriental style wood furniture, contrasting with deep reds. Cherry, white and walnut feature strongly.

In another display of Asian design talent, the Convention provided AHEC with an opportunity to show case one of their major promotional projects in China. AHEC commissioned Hong-Kong based Patrick Fong to design the interior of the Oasis Lakeside Villa, a high class show house in the ancient town of Zhujiajiao, close to Shanghia. Images of the show house made available at the Convention suggest that a wide range of American hardwoods were used imaginatively to successfully blend Chinese elements with western contemporary design. American hardwoods are used throughout the Oasis Lakeside Villa – for ceilings, wall panels, bath sides, flooring, stairs, cabinets and furniture – to develop a feeling of quality and style.

....but design profession still has problems

While Lim and Fong demonstrate that the best Asian design is a match for their western rivals, Professor Zhang Shi Li of the China Institute of Interior Design suggested that the Asian design profession as a whole still has significant shortcomings. Zhang said that most designers lack professional training. Many have simply shifted from other disciplines in response to rapidly emerging demand. These designers are trying to copy contemporary and traditional styles, but they have little knowledge of design theory and of the technical qualities of different materials. This situation raises questions with regard to the quality of design. The industry also lacks capacity to innovate.

For materials suppliers, this lack of technical training and information in China presents a tremendous opportunity. Forward looking organisations like AHEC can take the initiative to influence fashion trends for years to come, through the timely provision of information – using technical publications, seminars, show houses and similar projects.

Professor Zhang said the production value of the China's interior decoration industry is growing at an annual rate of 20%-30%, reaching 800 billion RMB ($97 million) in 2004. The industry is now composed of more than 200,000 professionals. In developed regions such as Southern China, Zhejiang, Jiangsu, Shanghai and Beijing, many high level designers and designing firms have emerged. Foreign-owned companies hold a significant share at the top-end of the market.

Professor Zhang was generally optimistic about the prospects for wood in the future development of the Chinese design industry. He noted that traditional styles use a lot of wood, suggesting that "*Chinese people have long been enamoured of wood for its high quality, graceful grain, warm feeling and versatility. Wood is the most expressive material for designers pursuing eco-friendly, humanistic and cultural-rich design.*"

On the downside, Professor Zhang suggested that "*China has used wood excessively in the past, with severe consequences for the environment*". Lack of domestic wood supplies have created a perception of relative scarcity in the Chinese design profession. This perception has been reinforced by the evidence of rising prices for better quality decorative hardwoods. Professor Zhang said that Chinese designers now tend to use wood "*only when necessary*". He concluded that "*decorative hardwoods should be used wisely, and there should be greater emphasis on recycling of materials.*"

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the building are broken up into homely zones using hardwoods. Hardwood floors and traditional carpentry features are used to accent the public seating area.

European architects turn to hardwoods

Reinforcing Jakubowski's message, Jim Greaves set out to explain why the European architectural profession is turning its' attention to hardwood. Jim Greaves is a Director at Hopkins Architects, a UK firm responsible for numerous high profile projects including Portcullis House in Westminster, London, providing office space for MPs and winner of the 2001 Royal Institute of British Architects (RIBA) Award. Like Jakubowski, Greaves showed how hardwoods are valued both for the creation of innovative modern structures, and in historic settings as a means of maintaining continuity with the past. But unlike Jakubowski, who focused on hardwoods for decorative use, Greaves demonstrated how hardwoods are also being used in modern structural applications.

Probably the most dramatic feature of Hopkins design for Portcullis House is the central courtyard, a large space enclosed by a barrel vaulted ceiling. The barrel vault is constructed using oak beams tied together with an innovative steel bracing system which in turn supports a glass roof. In designing such a high profile political building, a key concern was to make the structure bombproof and to ensure 200 year life span. American oak is used for the beams because of its high strength and Hopkins' desire to use a sustainable product.

Key benefits in structural design

Another Hopkins project – Habberdashers Hall in London – illustrates other key advantages of hardwoods in structural design. The internal walls of this building are clad in American white oak panels. The choice of timber reflects not only a desire to create a warm and attractively textured interior, but also wood's excellent acoustic properties. In this building, it is important to ensure that diners can talk without too much echo. When quizzed about the fire risks associated with wood, Greaves responded that the oak in this instance is fire treated to the highest standard and, in any case, he would "much prefer to be in a wooden structure than a steel structure in a fire - a steel structure is much more likely to fall down." Wood is such a good insulator that while the outside of a wood frame will char, the inside remains cool and relatively stable. Steel on the other hand will buckle when subject to intense heat.

Improved technical knowledge

Greaves went on to explain the philosophy behind Hopkins' work. He explained how architects are gaining a much deeper understanding of the technical properties of materials, allowing much more efficient use than before. No longer is it necessary to build thick walls and columns. Architects can use materials sparingly, giving everything a contemporary feel. When choosing a material, the key criteria for Hopkins is that the company thoroughly understands the technical properties. And in everything they do, Hopkins want the quality of the workmanship and the permanence of the structure to shine through. Greaves emphasised that American hardwoods, backed by detailed technical information relating to their properties, now play a key role in satisfying these needs.

Furniture

China records 15% industry growth rate

China's furniture industry is forecast to continue to grow at a rate of 12%-15% over the next 10 years, according to Jia Qing Wen, President of China National Furniture Association speaking at the AHEC South East Asia and Greater China Convention. Jia Qing Wen said the Chinese furniture market should reach 170 billion yuan (US$20.5 billion) this year, and is forecast to hit 300 billion yuan (US$36.2 billion) by 2015. This pace of growth is marginally slower than the first expansionary phase over the last 5 years, which saw annual growth averaging over 20%. However, a rate of 12%-15% growth on an expanding base represents an immense increase in manufacturing capacity, which is expected to generate continuing strong demand for high-grade timber.

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Overview of international furniture industry, 2003

	Production US$ mill.	Exports US$ mill.	Imports US$ mill.	Apparent Consumption US$ mill.	Population Million	Consumption Per capita US$
EU-25, Norway and Swizerland	**88321**	**36164**	**33674**	**85831**	**465**	**184**
of which						
EU-15	77673	27942	29074	78805	379	208
New EU members	8948	7415	1967	3500	74	47
EU-25	86621	35357	31042	82306	453	182
Norway and Switzerland	1701	807	2632	3526	12	294
Central-East Europe outside the EU and Russia	**3012**	**1298**	**1408**	**3122**	**234**	**13**
Asia and Pacific	**53316**	**15546**	**6972**	**44742**	**3050**	**15**
of which						
China	20017	7278	347	13086	1288	10
Japan	12871	327	3145	15689	127	124
Other Asia and Pacific	20428	7941	3480	15967	1635	10
Middle East and Africa	**4133**	**1032**	**1349**	**4450**	**224**	**20**
North America	**63217**	**7621**	**21807**	**77403**	**425**	**182**
of which						
United States	51294	2350	18717	67661	291	233
Canada	9176	4089	2548	7635	32	239
Mexico	2747	1182	542	2107	102	21
South America	**3581**	**747**	**153**	2987	**231**	**13**
World Total (60 countries)	**215580**	**62408**	**65362**	**218534**	**4629**	**47**

Source CSIL, in a Presentation to the AHEC South East Asia and Greater China Convention

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Jia Qing Wen expressed the view that if China's GDP growth rate is 7%, then 15% growth rate in the furniture industry should be sustainable, with export growth of 20%.

According to the Custom's statistics, China's furniture export value surged to US$10.4 billion in 2004, 39% up on the previous year. Furniture imports during the year reached US$726 million, up 26%.

There are already more than 50,000 medium to large furniture manufacturing companies in China employing around 5 million people. The industry can be sub-divided into five production regions (in order of manufacturing capacity):

- **Guangdong Province** accounts for one third of national production value, and 43.81% of national export value;
- **East China Region** accounts for slightly less than one third of national production value, and 43.98 % of national export value;
- **Bohai Sea Region,** comprising Beijing, Tianjing and Hebei;
- **Northeast China Region**, important because it mainly produces solid wood furniture;
- **West China Region**, mainly produces board furniture and sofas with its major production center in Chendu (the capital city of Sichuan Province).

Continuing growth in 2005

During the first quarter of 2005, the industry continued to expand. Production increased by 31% compared with the same period in 2004, while furniture exports increased by 34% to US$3.13. However furniture imports decreased by 32% to US$130 million

Jia Qing Wen identified the major industry trends as follows:

- **There are signs of overcapacity** in some parts of the industry as demand has not always kept pace with expanding production. This is particularly true at the middle and lower end of the market where competition for share is intensifying.
- **Availability of resources, including skilled personnel, raw materials and land is generally not keeping pace with industrial development** and is impeding even more rapid growth.
- **In order to overcome the constraints placed on the industry, and improve competitiveness, there is a trend towards mergers and a greater emphasis on major brands**. Although medium to small scale companies are expected to continue to dominate in terms of production, bigger companies and famous brands will increasingly take a leading role to develop and promote Chinese products.
- **There are signs of regional specialization and clustering developing in the sector**. This trend first began in Guangdong Province, but is now becoming more obvious elsewhere. For example Anji is developing a rail chair industry, while Haining is specialising in sofas. The trend towards regional specialization should help boost efficiency and product quality.
- **Efficiency and product quality is being boosted by rising investment** in equipment, training and cooperation with world renowned designers.
- **As the industry is expanding, so too is the range of furniture products now being offered**.
- **Export markets are beginning to diversify**. Manufacturers are hoping to repeat their early success in expanding market share in the United States, Japan and the UK in a wider range of countries.
- **High levels of foreign investment in the furniture industry are expected to continue**. In particular, Jia Qing Wen suggested the existing U.S., Japanese and Taiwanese investors would soon be joined by larger numbers of European investors. The appreciation of the euro in recent years has encouraged more Italian firms to contact Chinese companies with a view to joint ventures.
- **Overseas furniture manufacturers are increasingly looking to China not only as a manufacturing base, but as a major new market for their furniture products**. IKEA's efforts to expand sales in China are being reasonably successful.

No threat seen from Vietnam

Jia Qing Wen brushed off a question about the emerging competitive threat to Chinese furniture manufacturing from Vietnam, where labour rates are even lower. He suggested that prospects for Vietnamese manufacturers received a short-term boost from the US anti-dumping measures imposed on Chinese bedroom furniture in 2004. Some Taiwanese manufacturers shifted facilities to Vietnam to get around the sanctions. However some of these companies have subsequently moved their main operations back to China which is capable of offering a wider range of auxiliary services to manufacturers (for example supply of wooden dimension material and other components). Jia Qing Wen believed that Vietnamese and Chinese based manufacturers may in time develop complimentary rather than competitive roles in the Asian furniture sector.

Asians face significant obstacles in Europe

While Chinese-based furniture manufacturers are likely to greatly increase market penetration in Europe over the next few years, there are still significant obstacles to be overcome. This was the main message of CSIL Director Aurelio Volpe's presentation to the AHEC Greater China and South East Asia Convention.

Volpe began his presentation with an overview of the global hardwood trade (see table). He identified 9 countries as the key protagonists in the international furniture trade: United States (world's largest importer); Germany (world's second largest importer and third largest exporter); Italy (world's largest exporter); China (world's second largest exporter); United Kingdom (world's third largest importer); Canada (world's fourth largest exporter); France (world's fourth largest importer); Japan (world's fifth largest importer); and Poland (world's fifth largest exporter).

Volpe then highlighted the significant increase in the volume of furniture now traded internationally. The most notable trend has been a significant increase in the supply of furniture from "emerging countries", at the expense of western countries. Between 1995 and 2003, "emerging countries" share of world furniture exports increased from 23% to 39%. China has dominated this drive, with the nation's share of world furniture exports rising from only 3% in 1995 to 12% in 2003. Other emerging countries that have significantly increased their share of global exports during this period are Poland (3.4% to 5.9%) and Mexico (1.4% to 1.9%). Meanwhile during the same period, the EU-15 countries have seen their share of global furniture exports fall by 15%.

US import growth "astonishing"

Volpe noted the "astonishing" increase in US furniture imports between 1995 and 2003, from US$6.5 billion to US$18.7 billion. This is beginning to be repeated in western European countries. In the UK, the rate of furniture import growth even exceeded that of the United States, rising from only US$1.7 billion to US$5.3 billion between 1995 and 2003. And while other European furniture markets have been "boring" overall, with overall consumption levels remaining fairly static, there has been a progressive increase in the level of imported material (see charts). While Asian market penetration has been increasing in western Europe, Volpe noted some major differences between this market and the US market that may at least slow the advance of Asian products. He suggested that "Europeans love their home landscape even more than North Americans… generally they are willing to pay more for a qual-

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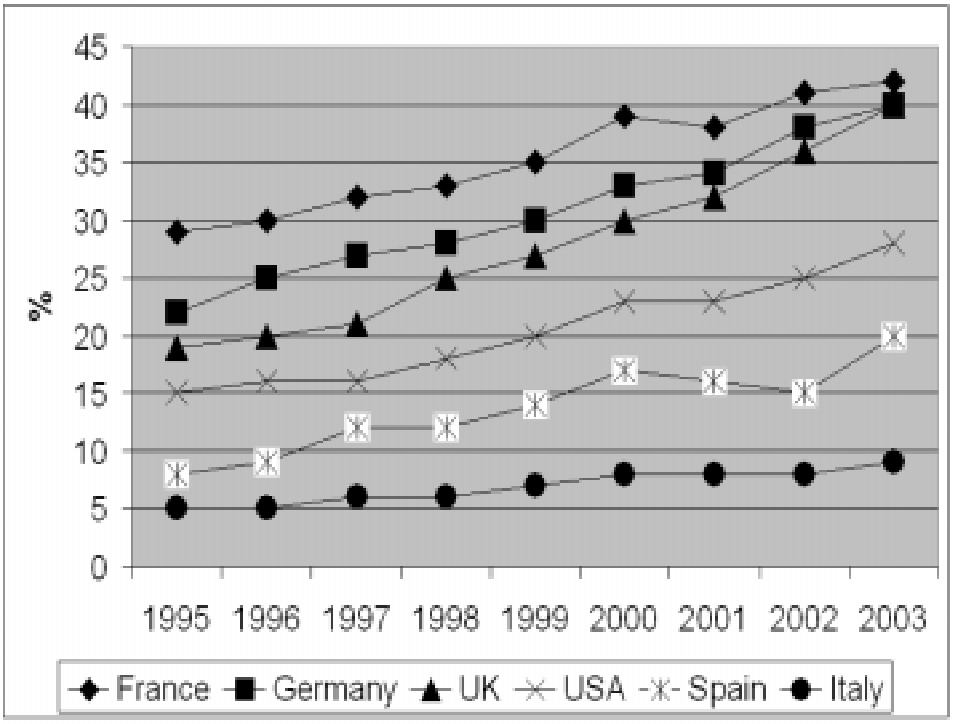
ity product". Therefore most Chinese manufacturers will first need to improve the quality of their designs before they can expect to achieve mass market share. This will be a major challenge for Asian companies.

Italy: success built on innovation

Volpe noted that the great success of the Italian furniture sector has been built on innovation and rapid turnover in design. Around 25% of sales made by Italian companies derive from furniture designed within the previous 12 months, with most exhibited for the first time at the Salone to Mobile held every April in Milan. A typical Italian furniture company will replace its entire product range within an eight year time span. An average Italian firm will invest 2% of their turnover in research and development of new designs, with the most design oriented companies investing up to 3.5%. While "follower" companies will study new products with an eye to matching their competitors, leading design firms develop close working relationships with retailers so they may immediately respond to and directly influence customer tastes.

The division of Italy's furniture sector into specialised districts has played a key role to encourage innovation and design. These furniture districts are composed of numerous inter-connected small sized companies focused on the production of specific furniture types. Building on a long craft tradition, The districts have proved highly effective at generating very high skill levels. District workers have numerous opportunities to interact with and compete with others in the same profession, helping boost innovation and efficiency. There is continuous interaction and technical collaboration between firms at various stages of the production chain.

Volpe also noted that large distributors have only a small share of the market in most parts of Europe (the UK being the main exception). A large share of the market is still dominated by relatively small retailing firms. These companies expect to purchase only small container loads containing a variety of furniture products. Unlike the US and UK, there is no great demand for 100s of container loads of standardised products.



The opening of furniture markets 1995-2003. Imports as a proportion of total consumption (%) in selected countries. Source: CSIL

The average large Italian furniture manufacturer will sell to perhaps 1500 different retailers, with perhaps 600 mainly independent retailers in Italy, 600 in other parts of Europe, and 300 "overseas".

Asians will have to work hard to build EU distribution channels

Therefore Asian manufacturers will have to work hard to find partners in the smaller European retailing sector and to invest heavily in creating distribution networks. For many, establishing joint ventures with established European brands is likely to be the most effective option.

Another factor that will slow Asian market penetration in Europe is recent inward investment in Eastern Europe, notably by the Germans in Poland and Italians in Romania. Many of the smaller distributors are now buying from Eastern Europe, and it may take time to encourage these companies to accept new suppliers in the Far East.

Volpe identified the main hardwood species likely to appeal to the European audience as oak, walnut, cherry and, to a lesser extent, beech. There are regional variations, for example alder is still popular in Germany, while Italy has developed a taste for African wenge in some production lines. With this exception, Volpe noted that tropical hardwoods are no longer popular in the European furniture sector.

Volpe expected world GDP to grow at a reasonable pace in 2005 and 2006. This combined with continuing globalisation should boost growth in the world furniture trade. Volpe forecast 6% growth in 2005, rising to 7% in 2006. On this basis, world trade in furniture would reach US$76 billion in 2005, and US$82 billion in 2006.

Indonesia turns to imported hardwood

An insight of factors currently affecting the Indonesian furniture sector was provided at the AHEC South East Asia and Greater China Convention by a representative of the Indonesian Furniture Industry and Handicraft Association (ASMINDO).

Wooden furniture manufacturing has a long history in Indonesia, with many traditional communities well known for their skills in wood carving. This culture has provided the basis for the establishment of large industrial furniture manufacturing centres, mainly located on the island of Java. Major locations for wood furniture are in Semarang, Jepara, Solo and Surabaya, while rattan furniture manufacturing is concentrated in Cirebon. Wood furniture is by far the dominant product, accounting for 75% of all output. A further 20% of output comprises rattan furniture, with the remaining 5% comprising bamboo, metal and other materials.

The industry is dominated by Small and Medium Enterprises (SMEs). The larger manufacturers are heavily reliant on clusters of complementary home industries for supply of components.

Indonesia's furniture industry has seen substantial growth in the last 6 years. Overall export value of wood furniture from the country hit US$1172 million in 2004, which compares with annual average of only $320 million during the 1990s. Indonesia is now the largest furniture exporter amongst members of the ASEAN Furniture Industries Council (comprising Indonesia, Malaysia, Philippines, Singapore and Thailand).

Exporting to US, EU and Japan

Major export markets are the United States (around 34% of export value); the European Union (31%); and Japan (12%). In the past, Indonesia has benefited from the relatively low cost of labour compared with other South East Asian nations, and from ample availability of wood raw material.

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Furniture

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However, the Indonesian furniture sector now faces difficult times as both these advantages are being undermined. On the one hand, it is coming under ever intensifying pressure from manufacturers on the Chinese mainland and in Vietnam where labour rates and other operating costs are lower. On the other hand, raw material supply problems are mounting.

Reference was made to the deteriorating log supply situation in Indonesia, particularly due to large scale unregulated logging since the collapse of the Suharto regime in 1998. The Indonesian government reduced the annual allowable cut from natural forest from 22 million m3 in 2000 to only 5.7 million m3 in 2004 and 5.4 million m3 in 2005.

5 million m3 of wood needed

On its own, Indonesia's wooden furniture industry requires raw material supplies of between 4.5 million m3 and 5 million m3. But to some extent, Indonesia's furniture sector has been insulated from the declining availability of natural forest species, relying much more heavily on plantation timbers. The most commonly used species include: teak wood, mahogany and pine, mainly from plantations managed by Perhutani (the state owned enterprises) in Java; acacia and gmelina from plantations outside Java; fruit tree timbers such as durian, and mango; and rubberwood. Only small amounts of wood currently derive from natural forest, including nyatoh, meranti, bangkirai and kempas.

A problem now arises: in order to improve Indonesian manufacturer's competitive position against rivals in China and Vietnam, the industry needs to move into higher-value products. This in turn requires better quality raw material – just the sort of raw material that Indonesia lacks due to previous unsustainable forest exploitation (notably for plywood exports).

Wood imports rising

So Indonesia is looking for overseas supplies of hardwood. Indonesian imports of German oak sawn lumber increased from 17,000 tonnes in 2003 to 34,000 tonnes in 2004. American hardwood exporters are also looking to develop markets for their products in Indonesia. ASMINDO noted that they had received 3 containers of sample products from the USDA State of Missouri. Species included walnut, ash, sycamore, red and white oak, maple, tulipwood and cherry. The wood samples were intended for production of furniture, drum sticks, and doors, both for sale in the domestic market and for export. The ASMINDO representative noted that "*based on the users' report, the samples are very beautiful with a strong fibre. The finished products are also very good, both in terms of aesthetic quality and performance, including ease of processing.*"

Flooring

Confidence in Europe

Overall, confidence in wood flooring* production across Europe reigns, as new production facilities continue to come on stream every year. This is according to the latest report from the European Federation of the Parquet Industry (FEP).

Continuing the growth trend in hardwood flooring production across Europe in 2003 and based on the initial figures available from some of the newer members of FEP (Czech Republic, Hungary, Poland and Romania), last years production increased by 12.5% to over 91 million m2. Of this total, 74 million m2 was accounted for by production in the "traditional" FEP member countries.

The majority of the increase in last year's production was due to new flooring lines in Sweden and Poland. There were also lesser increases in Spain and Austria.

During 2004, Sweden further extended its lead as Europe's main flooring producer, with a 21.56% share of overall production, rising from 18.54% in the previous year. Poland moved up to become the region's second most important producer, followed by Germany, the Nordic countries, Spain and France.

Once again last year, production of multi-layer flooring rose and now represents around 79% of overall production, while solid wood flooring retained its 15% share.

Consumption over 100 million m2

Wood flooring consumption in the "traditional" FEP member countries rose by 5.6% in 2004 to a level of 88.9 million m2. While, totally reliable figures from FEP's new member stated are not yet available, their best estimates indicate that healthy growth in their markets. Overall, therefore, it is estimated that total consumption of wood flooring in the EU and EFTA region topped 100 million m2 for the first time last year.

Despite again recording a minor decrease in consumption, Germany continued to claim the greatest share, with 22.4% of the market. Spain, Italy and France were the next most significant consumers of wood flooring last year, while Austria and Sweden showed the greatest per capita consumption.

Hardwood parquet flooring production (Mill. m2)

Year	Traditional FEP countries	New FEP countries CZ, PL, RO, HU	Total
2000	63	2	65
2001	62	7	69
2002	62	13	75
2003	66	14	80
2004	74	17	91

Source: FEP

Hardwood parquet flooring production in FEP countries. Million m2

	2003	2004	% chg
Sweden	14836	19620	32
Poland	8932	11175	25
Germany	10208	10884	7
Dnmk/Fin/Nwy	9672	9965	3
Spain	7160	8936	25
France	7104	7589	7
Austria	6088	7180	18
Italy	5920	6042	2
Hungary	2992	2912	-3
Switzerland	1632	1665	2
Netherlands	1776	1656	-7
Czech Republic	1656	1529	-8
Romania	1480	1301	-12
Belgium	544	546	0
Total	**80000**	**91000**	**14**

Hardwood parquet flooring consumption in "traditional" FEP countries, 2003-2004. Million m2

	2003	2004	% chg
Germany	19414	19869	2
Spain	14739	15682	6
Italy	12989	13095	1
France	9079	9726	7
Dnmk/Fin/Nwy	8275	8419	2
Sweden	4895	6001	23
Austria	4684	5761	23
Switzerland	3911	4374	12
Belgium	2969	3094	4
Netherlands	3145	2880	-8
Total	**84100**	**88900**	**6**

Hardwood parquet flooring production by species in FEP countries, 2003-2004, Million m2

	2003	2004	% chg
Oak	38000	45955	21
Tropical	13760	14924	8
Beech	13840	12467	-10
Maple	4640	5369	16
Ash	3440	3913	14
Red oak	400	1547	287
Birch	1440	1547	7
Cherry	1040	1183	14
Chestnut	640	546	-15
Pine	640	364	-43
Eucalyptus	240	364	52
Acacia	160	91	-43
Other	1760	2730	55
Total	**80000**	**91000**	**14**

Unsurprisingly, the preference for oak in wood flooring has made further gains and, last year, accounted for over 50% of all hardwood flooring production in Europe. At the same time, tropical hardwoods accounted for over 16% of flooring, and passing beech to become the second most popular choice. In terms of usage, there was little change for all other species, with the exception of American red oak, which made a modest gain of 1.2% on the previous year, perhaps enjoying a renewal in interest on the back of the oak wave.

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Flooring

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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 100 million m2 in 2004. In relation to the entire European flooring market, this figure would have represented a 5.3% market share.

Continued growth in 2005

The first three months of this year have shown that the growth achieved in 2004 could well continue through to the end of 2005 at least. However, there is little space for complacency, as numerous factors, including the increasing importance of the Asian markets, EU enlargement and varying economic performance across Europe's main markets, as well as the ever-present competition from alternative flooring surfaces, will continue to provide an uncertain future for wood flooring.

** Note FEP "wood flooring data" encompasses the full variety "parquet flooring" including multilayer (78% of production in 2003), solid hardwood (14%), lamparquet (6%) and mosiac (2%).*

Massive Chinese growth

Zhang Shen Lin, President of CNFPIA, China's forest products industry association, provided a detailed review of the current status and prospects in China's wood flooring sector at AHEC's South East Asia and Greater China Convention. He claimed that China is now the world's largest manufacturer and consumer of wood flooring. In 2004, China manufactured 257 million m2 of wood flooring including: 150 million m2 of laminated wood flooring; 70 million m2 of solid hardwood flooring; 33 million m2 of engineered wood flooring; and 4 million m2 of bamboo flooring.

China exported 193,000 tons of wood-based flooring valued at US$240 million in the first nine months of 2004, a year-on-year rise of 77% and 51% respectively. This compares with exports valued at less than US$6 million in 1998.

15%-25% sales growth expected

China is expected to expand its lead in global wood flooring markets, with annual sales of Chinese products forecast to grow at between 15% and 25% over the next 5 years.

China's laminated flooring sector is currently the largest part of the industry. It comprises more than 600 manufacturers, around 100 of which are classed as large/medium-sized enterprises. Manufacturers are mainly located in Guangdong, Sichuan, Hubei, Beijing, Shanghai, Jiangsu, Hunan, Liaoning, and Fujian. The sector is currently growing at a rate of around 20% per year.

The solid hardwood flooring sector is more fragmented, with more than 4,000 manufacturers, only 100 of which are classed as large/medium-sized enterprises. The sector is mainly located in Zhejiang, Jiangsu, Shanghai, Guangdong, Yunnan, Beijing and north-eastern China. Production is currently at around 70 million m2, but Zhang Shen Lin suggested that production could rise to as much as 200 million square meters in coming years. However, shortages of hardwood supplies and rising prices led to severe problems in this sector during the opening months of this year. Production in the first quarter of 2005 was 20%-25% down on the same period in 2004. Major factors have been the crackdown on illegal logging in Indonesia (particularly merbau from the state of Papua), the diversion of wood supplies for Tsunami reconstruction, and mounting supply problems in Brazil. Brazil is currently the other key supplier of hardwood to the Chinese flooring sector.

China's engineered wood flooring sector comprises over 100 manufacturers with annual production of around 22 million square meters. This is expected to be the fastest growing sector of the industry in coming years, with annual sales expected to grow at anywhere between 30% and 60% over the next 5 years. This growth will generate strong demand for hardwood veneers and for softwood or panel product substrates. The sector is mainly located in Guangdong, Tianjin, Zhejiang, Jiangsu and north eastern China. Two types of engineered wood flooring are being manufactured in China: three layer (with dimensions 910-2200mm X 125-205mm X 12-15mm); and multi-layer (with dimensions 910-2200mm X 90-303mm X 8-18mm)

There are over 100 manufacturers of bamboo flooring with annual production 4 million square meters. Most are located in Zhejiang, Jiangxi, Hunan, Guizhou, Fujian, Anhui, and Shanghai. Two categories of product are being manufactured: natural bamboo and bamboo-wood composite.

Asia

Asian logs

While weather conditions have improved since the end of May, there are reports of restricted log supplies throughout Malaysia. Government scrutiny of logging licenses and harvesting volumes has increased, tending to delay operations. Malaysian FOB log prices have strengthened in recent months for all the key species including meranti, keruing, merbau, and selangan batu.

Reports indicate steady shipments of logs from the Malaysian State of Sarawak, although harvesting volumes are down on previous years, and a growing proportion of Sarawak logs are being diverted to domestic plywood and sawn lumber facilities. China and India continue to dominate export demand for Sarawak logs, particularly now that availability of illegal supplies from Indonesia have become more restricted following recent measures to stamp out the trade. Sarawak log exports to Japan are now restricted, with most Japanese buyers unwilling to pay the high prices on offer. Japan is switching more and more to imports of Malaysian plywood.

Past over-exploitation and tightening government regulations mean that domestic log supplies in Sabah are very limited with a significant proportion destined for domestic mills. Sawn lumber suppliers in Sabah are now exporting the majority of product to China and Korea.

Indonesian logs entering Sabah

There are continuing rumours of significant volumes of illegal logs from Indonesia still crossing the border into Sabah, tending to undermine log prices in the State. A high proportion of logs illegally imported into Sabah are being re-exported to China.

With overall supplies scarce, Chinese log buyers are now taking a much wider range of Malaysian species and specifications.

Prices for FSC certified logs from the Deramakot Reserve in Sabah have been strong this year. Data from recent auction sales at the Reserve suggest that the most sought after Salangan Batu logs were selling for over MR1000/m3 (US$264/m3) and the least valued were going for RM360/m3 (US$95/m3) with the overall average for the whole auction about MR650/m3 (US$171/m3). These prices are considerably higher than the prices for equivalent uncertified logs. For example, the most recent ITTO report quotes FOB prices for Sarawak Selangan Batu logs (SQ up) at US$175/m3.

The high Deramakot prices reflect specific circumstances now prevailing in the outdoor furniture and decking sectors where there is strong demand for certified wood from EU/North American retailers, and extremely limited supply – particularly now that there

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is no certified teak from Java.

The Indonesian government seem to have shelved their proposal to increase the formal annual allowable cut as a means of legitimising the illegal log trade and thereby increasing tax revenues. Recent industry reports indicate that Indonesia's official log harvesting quota for natural forest in 2005 has been set at only 5.4 million m3, down from 5.7 million m3 in 2004.

Malaysian sawn lumber

Traders on-the-spot in Peninsular Malaysia report that the meranti sawn lumber supply situation remains very difficult and prices are "extremely firm". European orders for Peninsular Malaysian meranti are unlikely to be shipped until September/October at the earliest. This is unusual at this time of year when logging should be in full swing after the rains and when stocks are traditionally available for prompt shipment.

European buyers in Malaysia have found shippers extremely reluctant to negotiate prices downward, despite being reminded of very sluggish hardwood trading conditions in Europe. Malaysian shippers also seem unmoved by the news that the dollar strengthened 8% against the euro between early May and early June, bringing meranti prices (quoted in dollars) very close to those of African sapele (quoted in euros). With sapele stocks fairly high on the ground in Europe, it seems inevitable that meranti will lose market share to the African species.

Such strong Malaysian resistance to European importers efforts to reduce prices suggests there is unlikely to be any significant increase in meranti supplies as the logging season progresses. CNF Europe prices are expected to remain firm.

Good demand in emerging markets

Peninsular Malaysian shippers suggest that their concerns over potential loss of market share in the European meranti sawn lumber market are partly offset by solid demand in several emerging markets, including Australia, South Africa, the Middle East and Poland. Malaysian shippers also report some increased interest in the German meranti sawn lumber market in recent weeks.

Meanwhile demand for meranti in the large Dutch window frame market remains very subdued. Economic conditions in the country are weak. Landed stocks of 3"x5" dark red meranti remain high relative to weak demand. Despite clear evidence of rising CNF prices, intense competition between importers means continuing pressure to discount prices for onward sales to end-users.

The UK market for meranti tembaga sawn lumber is better balanced. UK traders report steady sales although lack of confidence in the market means most buyers are purchasing little and often. A few gaps are beginning to appear in UK landed stocks for some meranti items. This is encouraging more interest in forward buying. There also continues to be steady demand for MTCC certified meranti in the UK, although overall volumes remain unexciting. News of the imminent arrival of a vessel carrying 3000 m3 of keruing sawn lumber to the UK has generated some interest, although contacts suggest this volume may be quickly absorbed in a market starved of keruing for many months. And forward supplies of keruing sawn lumber remain very restricted.

Reflecting the generally tight log supply situation, prices for bangkarai/balau decking remain extremely firm, now being quoted at between US$800-850/m3 CIF North Sea Port.

The crackdown on illegal logging in the Indonesian state of Papua has had a particularly big impact on prices for merbau, which have continued to rise in recent weeks.

Rubberwood price weakens

In contrast to natural forest timbers, domestic rubberwood prices in Malaysia are reported to be weakening. This seems to reflect declining demand for Malaysian and Thai rubberwood furniture in international markets, partly a result of increased competition from China and Vietnam. There are reports that sawmillers in southern Thailand are aggressively selling sawn rubberwood in the Malaysian market.

Meranti Sawn Lumber Prices

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

	Apr	*May*	*Jun*
1"	920	940	940
2"	955	980	980
2.5"	1000	1015	1015
3"	1010	1030	1030

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

Plywood

Indonesian prices fall

Prices for Indonesian BB/CC grade plywood have fallen away from the heights achieved earlier in the year. This is partly a response to an easing in the supply situation, particularly following a big loss of market share in the key Japanese market, and the rising competitive threat from Chinese mills. Forward prices quoted in Europe now stand at around INDO96 +4% to +6% depending on size of order, a decline from levels of around INDO96 +8% to +10% prevailing at the start of May. Equivalent Malaysian products are being offered to European buyers at marginally lower prices.

In Japan, the overall market for hardwood plywood has continued to decline. High prices for South East Asian logs have meant the market has shifted more and more to softwood plywood. Japanese domestic production based on imported South East Asian logs has fallen dramatically, so that imports now take a larger share of a declining market. Meanwhile the Sarawak export industry has adopted a strategy of reducing log and rotary veneer exports to China, and increasing supply of logs to domestic plywood mills. Through this strategy Sarawak producers have been taking a larger share of the Japanese plywood market, while Indonesian producers have been rapidly losing market share. Malaysia has now overtaken Indonesia as the largest supplier of plywood to Japan. Japan is also importing more plywood from China, although Chinese producers still occupy only a relatively small share of the Japanese market.

The latest Japanese import data to end April 2005 records that imports from Indonesia experienced double digit falls for seven months in a row. The massive decline in sales to Indonesia's major plywood export market goes a long way to explaining improved availability of Indonesian product in other markets and declining prices for Indonesian plywood, despite continuing price rises for Asian logs.

Brazil out of the market

Meanwhile prices for Brazilian hardwood plywood have been firming. This reflects supply side rather than demand side issues. The Brazilian real has been strengthening against the dollar since the middle of 2004, putting pressure on Brazilian exporters to push up their dollar prices. More recently, log supply has become a significant problem. Temporary bans on the movement of logs throughout large swathes of the Amazon region following the arrest of senior IBAMA and state officials in Mato Grosso on corruption and illegal logging charges have severely disrupted supplies to mills.

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Plywood

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While dollar prices have been rising, export demand for Brazilian hardwood plywood has remained weak, particularly under pressure from cheap Chinese substitutes. Under current market conditions, many Brazilian manufacturers are generally unwilling to supply plywood and have curtailed production.

Following the EU duties on okoume plywood from China, European buying of plywood from the country now focuses on combination product with a plantation poplar core faced with the Asian hardwood species bintangor. This product is being offered to northern European markets at around $370/m3 (CIF).

There are also reports of rising European interest in Chinese plywood manufactured throughout in Russian birch. Chinese exporters offering this product at around 25% less than Russian suppliers. However the colour of the raw product is generally no match for the whiteness achieved by Russian and European manufacturers.

Birch plywood prices still firm

Meanwhile prices for Russian and European birch plywood have remained firm. Delivered prices in the UK for 18 mm BB/CP Russian birch plywood were being quoted at around £340/m3 in mid June, up from £320/m3 in early March. Prices for 18 mm BB/WG Finnish birch plywood (PEFC certified) were being quoted at £380/m3, equivalent to levels quoted in March. A protracted strike by the Finnish Paper Worker's Union during May and June has had a severe impact on log supply in the country, raising concerns that production of all types of Finnish plywood may have to be curtailed.

The UK plywood market is shifting towards Chinese hardwood plywood at the expense of Indonesia, Malaysia and Brazilian product. Prices for Chinese product on offer in the UK are reported to be around 25%-39% cheaper than Indonesian material, although questions continue to be raised over the quality of the Chinese material. Importers of Chinese products claim that quality is continuing to improve and suggest that as long as it is not used for the most demanding applications, it is fit for purpose.

UK imports of Chinese plywood continue to rise even as consumption levels remain sluggish. There are reports of excessive stocks of Far Eastern and Brazilian plywood in the UK following excessive purchases during 2004. Interest in the forward market therefore remains subdued.

Weak construction activity has meant slow demand for hardwood plywood in Germany in recent months.

European hardwood

The European hardwood sawmilling sector continues to struggle both in domestic and export markets, according to members of the European Sawmilling Organisation at their General Assembly in St. Petersburg on 27 May 2005.

Members took cold comfort from a solitary piece of good news: sawn hardwood production amongst EOS member countries increased by 5.7% during 2004, the first increase in production recorded since 2001. The increase was due to two factors: a recovery in German production, up 7.5% between 2003 and 2004 from 1,070,000 m3 to 1,150,000 m3; and a 10% rise in Austria's production from 210,000 m3 to 231,000 m3 over the same period.

But while production rose last year, overall hardwood consumption in EOS member countries declined, reaching 9,835,000 m3, down from 9,893,000 m3 in 2003. The biggest decrease was in Romanian consumption, estimated to have fallen from 663,000 m3 to 514,000 m3. The Romanian sawmilling sector has been going through a difficult period in recent times following a surge in log prices last year. A recent USDA report suggests that overall selling prices for standing timber offered by Romsilva, Romania's state forest management company, surged by 85% in 2004. As a result almost 40% of logs offered for sale in Romania during Autumn 2004 did not find a customer.

Small increase in production forecast

EOS members estimated that sawn hardwood production in member countries would increase by 0.4% overall during 2005, with much of the gain due to Austria where one large mill has resumed operations. Production in most other countries is expected to be static or increase only marginally.

Austrian and German sawmillers are expecting to expand hardwood sawn lumber exports during 2005. In Germany rising sawn hardwood exports are expected to off-set a significant decline in home consumption.

At the meeting, the EOS hardwood sector agreed to organise a European Hardwood Conference on 4th November in Paris to discuss the market situation and other matters relevant to the sector.

The European organisation of the sawmill industry represents the sawmilling industry from 12 European countries (Austria, Belgium, Czech Republic, Finland, France, Germany, Italy, Norway, Romania, Russia, Sweden and Switzerland).

For further information: EOS Secretariat, Filip De Jaeger/Paula Serrano. Tel: +32 2 5562597, email: eos@cei-bois.org.

Hardwood production and trade in EOS member countries: 2004 estimates and forecasts for 2005

All data 1000 m3	2004	2005	% chg
Austria			
Production	231	300	30
Imports	199	180	-10
Exports	144	180	25
Consumption	286	300	5
Belgium			
Production	385	385	0
Imports	529	490	-7
Exports	278	250	-10
Consumption	656	625	-5
Czech Republic			
Production	305	305	0
Imports	115	115	0
Exports	41	41	0
Consumption	379	379	0
Germany			
Production	1150	1100	-4
Imports	560	600	7
Exports	610	700	15
Consumption	1100	1000	-9
Finland			
Production	100	100	0
Imports	61	61	0
Exports	16	16	0
Consumption	145	145	0
France			
Production	2300	2300	0
Imports	180	180	0
Exports	480	480	0
Consumption	2000	2000	0
Italy			
Production	920	930	1
Imports	1930	1950	1
Exports	120	115	-4
Consumption	2730	2765	1
Norway			
Production	28	30	7
Imports	4	5	25
Exports	0	0	na
Consumption	29	29	0
Romania			
Production	1272	1280	1
Imports	0	0	na
Exports	753	761	1
Consumption	514	525	2
Russia			
Production	2000	2000	0
Imports	6	10	67
Exports	380	380	0
Consumption	1626	1630	0
Sweden			
Production	130	130	0
Imports	140	140	0
Exports	15	15	0
Consumption	255	255	0
Switzerland			
Production	95	90	-5
Imports	40	40	0
Exports	20	20	0
Consumption	115	110	-4
All EOS countries			
Production	8916	8950	0
Imports	3764	3771	0
Exports	2857	2958	4
Consumption	9835	9763	-1

Source: EOS and EUWID

AHEC target Chinese designers
AHEC's South East Asia and Greater China Convention held in Beijing during June targeted the Chinese design profession. The Convention highlighted the value of hardwood in the development of cutting edge interior design and modern architecture and smashed any lingering impression that hardwoods are quaint and old fashioned. Presentations emphasised the trend in contemporary design to combine hardwood in innovative ways with steel, glass, and concrete. The modernist approach to design which utilised and celebrated the strength and efficiency of modern materials and that so dominated the second half of the twentieth century, has evolved into a more naturalistic approach. The Convention provided the Editor of Hardwood Markets with an opportunity to promote the environmental benefits of timber compared with other products, a new message in China. **Pages 1,2,4,5**

African market stable for now
The African hardwood market situation remains little changed from last month. Log prices are generally stable. Demand for sapele logs remains very slow with buyers putting much pressure on suppliers to reduce prices. There is however resistance from suppliers, who indicate that harvesting has been curtailed as the weather is deteriorating in the Congo region and as producers have responded to weak demand. Sawn lumber markets also remain largely unchanged from last month, although with the European summer vacation period looming there are reports of a general slowdown in activity. **Page 3**

Massive Chinese furniture growth
China's furniture industry is forecast to continue to grow at a rate of 12%-15% over the next 10 years, according to Jia Qing Wen, President of China National Furniture Association. The Chinese furniture market should reach 170 billion yuan (US$20.5 billion) this year, and is forecast to hit 300 billion yuan (US$36.2 billion) by 2015. This pace of growth is marginally slower than the first expansionary phase over the last 5 years, which saw annual growth averaging over 20%. However, a rate of 12%-15% growth on an expanding base represents an immense increase in manufacturing capacity, which is expected to generate continuing strong demand for high-grade timber. **Pages 5,6**

EU obstacles to Asian furniture
While Chinese-based furniture manufacturers are likely to greatly increase market penetration in Europe over the next few years, there are still significant obstacles to be overcome. Experts at CSIL, the Italian furniture research organisation suggest that Chinese manufacturers will first need to invest heavily to ensure a regular turnover in cutting-edge designs before they can expect to achieve mass market share in Europe. They will also have to work hard to build distribution channels in a region where furniture retailing is extremely fragmented. Competition from recently created plants in Eastern Europe will be an additional challenge. On the other hand, there is considerable potential for European-Chinese joint ventures. **Pages 6,7**

Indonesia turns to imports
Indonesia's furniture industry has seen substantial growth in the last 6 years. Overall export value of wood furniture from the country hit US$1172 million in 2004, which compares with annual average of only $320 million during the 1990s. Pressures on domestic log supplies and efforts by Indonesian furniture manufacturers to develop export markets in the US, Japan, and Europe are encouraging greater interest in imported temperate hardwoods. **Pages 7,8**

Confidence in EU flooring sector
According to the European Federation of the Parquet Industry (FEP), confidence in wood flooring production across Europe reigns as new production facilities continue to come on stream every year. Particularly strong production growth was seen in Sweden and Poland last year. Considering species, oak increased its already dominant share of the market, accounting for over 50% of FEP production in 2004. There was also a potentially significant boost in production of tropical hardwood flooring, while production of beech flooring continued to decline. **Pages 8,9**

China largest flooring producer
China's forest products industry association reports that the country is now the world's largest manufacturer and consumer of wood flooring. Production amounted to 257 million m2 last year. China's engineered wood flooring sector is expanding more rapidly than other sectors. Solid hardwood flooring production went into decline during the first quarter of 2005 due to problems in hardwood supply from Indonesia and Brazil. **Page 9**

Limited Far Eastern log supply
While weather conditions have improved since the May, there are reports of restricted log supplies throughout Malaysia. Government scrutiny of logging licenses and harvesting volumes has increased, tending to delay operations. Malaysian FOB log prices have strengthened in recent months for all the key species including meranti, keruing, merbau, and selangan batu. Similarly, traders in Peninsular Malaysia report that the meranti sawn lumber supply situation remains very difficult and prices are "extremely firm". The recent weakening of the euro against the dollar is undermining the competitive position of Malaysian lumber against African alternatives. **Pages 9,10**

Japanese market collapse leads to weaker Indonesian plywood prices
Prices for Indonesian BB/CC grade plywood have fallen away from the heights achieved earlier in the year. This is partly a response to an easing in the supply situation, particularly following a big loss of market share in the key Japanese market, and the rising competitive threat from Chinese mills. Meanwhile strengthening of the Brazilian *real* against the dollar and log supply problems have pushed Brazil out of the international hardwood plywood market. **Pages 10,11**

European hardwood production rises, but sawmillers struggle
The European hardwood sawmilling sector continues to struggle both in domestic and export markets, according to members of the European Sawmilling Organisation at their General Assembly in St. Petersburg on 27 May 2005. Members took cold comfort from a solitary piece of good news: sawn hardwood production amongst EOS member countries increased by 5.7% during 2004, the first increase in production recorded since 2001.Production is expected to stagnate again in 2005. **Page 11**