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** Note that journal issues have been moved from the end to the beginning of the month. There was therefore no May issue - see notice page 2*

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Cameroon's forest sector problems

Cameroon's forest policy has been subject to a major overhaul over the last 5 years. Nevertheless serious problems continue to afflict the nation's forest industry. There is also uncertainty over the long term impact of certain policy changes, notably the log export ban introduced in July 1999. Against this background, the Cameroon government commissioned an audit of the forest sector which highlighted threats of over-capacity and illegal logging in Cameroon.*

In 1994, Cameroon introduced a forest law which in many ways was a model of its kind. The law established permanent forest reserves for productive timber management and environmental protection; it introduced concession management obligations; and provided a framework for community forests managed for the benefit of local people. At the same time, the authorities agreed to progressively phase out the export of logs over five years.

Some things have improved since the law was introduced. The devaluation of the CFA Franc and development of new Asian markets for Cameroon products have allowed forest operators to re-establish reasonable profit margins after suffering serious financial difficulties in the early 1990s. Cameroon has been a breeding ground for environmentally oriented forestry projects. There have been some major achievements. Forest zones have been delineated and forest management units created. Preliminary inventories of timber species have been undertaken. Guides for forest management planning have been developed.

However, 5 years on, there continue to be significant forest sector problems in Cameroon. Serious conflicts have arisen between industry and government over new systems of forest taxation. A particular bone of contention has been the competitive bid-

ding system for concession rights implemented in 1997. The results of the process and the selection criteria for concessionaires have been much disputed. At the insistence of the World Bank, an independent observer had to be appointed in an effort to improve the transparency of the process.

The log export ban was brought into force in 1999 as planned - but uncertainty exists over the ban's impact on forest management, processing efficiency, government receipts, and economic development. Implementation of the ban has also been inconsistent. The ban was accompanied by an exception clause for species described as "secondary". The list of exempt species included Cameroon's principal harvested species, ayous, with a potential annual export of 500,000m³. Rather than representing part of an overall strategy for the nation's forest sector, the exemption of ayous reflected government fears of falling tax receipts.

Against this background, the Cameroon government commissioned an audit of the forest sector. Highlights of the audit are presented here.

The most notable feature of Cameroon's forest sector over recent years has been the significant expansion of wood processing industry. In the years prior to the ban, forest operators and overseas companies invested heavily in processing capacity. Processing capacity rose from 1.2 million m³

** This report is based on an article by Alain Karsenty of CIRAD-Foret "Les Difficulties du Secteur Forestier au Cameroon" published in Les Marches Tropicaux 24/3/2000.*

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hardwoodmarkets.com

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Editorial

Going Global

The hardwood trade has always been international. This is particularly true of the tropical hardwood trade, the former focus of this journal. In the past, the relatively small size of domestic markets for tropical wood ensured that the majority of high quality logs and sawnwood was exported to the economically wealthy markets of western Europe and North America. The nature of the tropical trade meant that *Tropical Timbers* always provided extensive international coverage.

So what now has changed to make our new title **hardwoodmarkets.com** more appropriate? The answer has much to do with the trend towards globalisation of trade flows and corporate operations. This trend has undermined the division which formerly existed between markets for tropical and temperate hardwoods. It has led to an accelerating increase in the complexity of the international wood trade. To take a few of many possible examples:

* teak from natural forests in Myanmar is being exported to manufacturing plants in Thailand, Vietnam and Cambodia, where it is converted - and in some cases combined with smaller teak components from plantations in Africa - to manufacture garden furniture for export to Western Europe and North America.

* tulipwood is sawn and kiln dried in the United States, from where it is shipped to Italy to manufacture beds which are then exported to the UK

* European beech harvested in the former Yugoslavia is converted in Northern Italy and exported to China for manufacture of furniture which may then be exported to Europe or North America.

The trend towards globalisation is also reflected in changing corporate structures and ownership. In the early 1990s, Asian-owned companies began to expand forestry operations into other continents, acquiring concessions in Africa and South America. More recently they have become involved in temperate and boreal forest regions of Russia. In the late 1990s, the big North American and European forest products companies began a process of consolidation, culminating this year in efforts to force through the first trans-Atlantic mergers. Large North American and European forest products companies have also been active in forging joint ventures with Asian firms in order to force their way into Far Eastern markets.

A whole host of factors should ensure that the linked trends towards globalisation and cross-border consolidation in the forest sector will accelerate. The emergence of the internet may well be the most influential factor. It is already improving the international flow of information on the forest products trade. Newly developed electronic market places will provide new opportunities for producers to sell into new markets, and for buyers to seek out suppliers in all areas of the world.

A globalised hardwood industry needs a truly global hardwood information service. It also needs a service which exploits the internet to ensure information is timely and readily available. **hardwoodmarkets.com** aims to satisfy both these needs.

Rupert Oliver

Notice concerning subscriptions and internet site

Please note that from now on, **hardwoodmarkets.com** will be issued at the beginning, rather than the end, of each month. As a result there was no May issue. Subscription renewal dates will be shifted forward one month to take account of the change (i.e. all readers will receive

12 issues for their annual subscription fee). Despite the name change, we will continue to issue a paper journal for all readers who prefer the traditional format. Launch of the **hardwoodmarkets.com** website has been delayed slightly and is now due in September 2000.

Asian Hardwoods

Weak euro leads to "non existent trade"

The weakness of the euro in relation to the dollar has severely undermined European markets for East Asian hardwoods. Dollar-denominated Asian species are currently not price competitive against euro-denominated African species. In the UK, agents suggest that markets for Malaysian Dark Red Meranti and Seraya during May were "bordering on non-existent". A representative of a Sabah-based shipper notes that "markets throughout Europe were improving until mid May. However they have slowed rapidly since then. In all mainland Europe countries the story is the same. Due to the weakness of the euro importers claim they can no longer afford Malaysian prices and that they are looking to switch to African supplies".

Malaysian sawnwood shippers are going through a very difficult period. In addition to the problems created by the strength of the dollar, they are having to absorb rising freight costs. Fuel surcharges have been increased to cover oil price rises during 2000, while the number of carriers in Asia

taking forest products has been decreased. According to *ITTO's Market News Service*, the situation has been aggravated by booming steel demand in Hong Kong and Taiwan which has taken up much of Asia's shipping capacity.

Prospects for East Asian hardwoods in European markets are not expected to improve significantly for at least the next 2 to 3 months. While there are now fewer reports of log supply problems, stocks are only just beginning to be rebuilt after the monsoon. Freight rate increases and limited stocks have encouraged Malaysian shippers to maintain prices for the time being. However some may be willing to cut deals at lower levels to maintain cash flow.

The Asian logging season should extend until October. By contrast, the African season is now near its end so prices for African species should start to rise later in 2000. Asian shippers are therefore hopeful that they should - by August or September - be in a position to start clawing back those European buyers that have temporarily switched to African species. However with global currency markets so unstable, any predictions can only be tentative at this stage.

Prices for keruing remain unchanged. Shippers are reported to be pushing for higher prices but have met with little success due to weak demand. In the UK, agents report the truck decking market which used to absorb significant quantities of the species is now very quiet.

Log markets depressed

Turning to Southsea log markets, FOB prices for the major export log species are being held flat for the time being. Log exporters margins are therefore being hit by the rapid increase in freight rates. However opportunities to raise FOB prices are limited. The dry season has arrived in the major producing regions of Sarawak and logging activity is in full swing. Stocks at Sarawak's ports are now adequate. Japan's market for tropical logs remains depressed due to the weakening yen; the country's slow plywood sector; and the shift amongst Japanese plywood manufacturers to softwood logs.

China remains the one bright spot for Asian log exporters. *ITTO's Market News Service* reports that China is buying tropical logs more heavily again, with particularly strong purchases in the smaller diameters.

China

Economy performing well

During early 2000, China has continued in its role as the major engine driving the Far Eastern hardwood market. According to official figures, China's economy performed well during the first quarter of the year. The total value of overseas trade and industrial production (all products and sectors) were up 40% and 11% respectively on the same period last year. Inward investment has been increasing.

In the forest sector, efforts to control domestic harvesting are being increased. Last year, the official logging quota, which is set annually by China's state authorities was exceeded by around 30%. Plans are now being put in place to improve the monitoring of compliance with the quota - especially in areas where forest protection is considered vital - and to impose much stricter penalties on state forestry officials that violate the quota. By the end of 2000, Chinese domestic wood supply should reach around 65 million m³, while demand is projected to hit over 110 million m³.

Japan

Wood market stagnates

Japan's wood market is forecast to stagnate during 2000. The Japanese Wood Agency predicts that wood demand in Japan will reach 95 million m³ this year, which is 1% less than last year. Plywood demand will be down 11%. Lumber demand will remain almost static. However the Agency predicts a 20% increase in Japanese laminated lumber consumption to around 2.3 million m³. European softwood producers are leading the charge to open up and exploit this new market niche in Japan.

The most recent data on housing starts in Japan provides little cause for optimism. Housing starts in March registered 96,149 units, a decrease of 3.6% from the same month the previous year. The annualised rate amounts to 1,241,000. There was a particularly large (31% drop) in house starts funded through the Government's Housing Loan Corporation. Private funded starts actually increased by 17% - a continuous rise for 5 months. Wooden housing starts also continue to decline.

Japan's recent efforts to reform building codes have led to much stricter controls on the quality of wood products. The emphasis is increasingly on kiln dried. Green lumber is now very difficult to sell.

Asian Sawn Indicative Prices

	Mar	Apr	May
Exchange rates:			
M\$/£	6.06	5.94	5.64
US\$/£	1.60	1.56	1.48
M\$/US\$	3.80	3.80	3.80

Malaysia

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

Dark Red Meranti

Grade: Select & better GMS; Kiln dried

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

1-2"	910	910	900
2.5"	930	930	910
3"	970	970	960

Keruing

Grade: Standard & Better GMS

Size: Random or fixed 16'+

1"-3"	540	540	530
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Kapur

Grade: Standard & Better GMS

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

1"-3" plnd	550	550	540
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Myanmar Teak

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

Grade: Air dried boards

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

1"	2750/ 3700	2750/ 3700	2650/ 3500
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Note private-sector prices for Myanmar teak boards vary considerably from one mill to the next. Prices from the cheapest private mills in Myanmar currently start at the lower end of the range. The most expensive mills, many based in Singapore and Bangkok, are selling boards from best quality teak logs at the top end of the range.

African Hardwoods

Easing European demand leads to price plateau

Over recent months European importers have been purchasing African hardwoods steadily. Demand has been boosted by the weakness of the euro which has made dollar denominated Asian and South American woods less competitive than euro-denominated African wood. Prices for many African hardwoods rose consistently between May 1999 and March 2000 in response to tight supplies and rising European demand. However price levels have now stabilised. There are signs that European buying slowed during May as stocks built up sufficiently to meet current levels of demand. While there continue to be long lead times for forward purchases, and there are still reports of late and unfulfilled contracts, supplies have generally become more readily available during the current dry season.

Agents report that the UK, Spanish, and Portuguese markets for African wood are now "off the boil" as stocks have risen and currency fluctuation has created uncertainty over future price developments. Italian demand for African wood is reported to be "steady".

By contrast the journal *Commerce International du Bois* reports that demand for African wood in France remains firm. French importers have full order books and the joinery and manufacturing sectors are busy. The log export ban in the Cameroon, which has held 100%, has encouraged

French importers to look to alternative log supply sources, notably Liberia, and to increase purchases of sawnwood from Cameroon.

Looking at individual species. Prices for Sapele have now stabilised at around FrF3350-3400 FOB for air dried sawnwood exported via Douala in the Cameroon. Shippers in the Cameroon are booked for the next 3 months. Supplies are expected to tighten as Cameroon enters the rainy season in the next few weeks. One agent noted that new markets for Sapele in the Far East and the United States will be an increasingly important factor affecting prices and availability of the species in the future.

Iroko supplies are restricted, with numerous reports of delayed contracts. Supplies from the Ivory Coast are now very constrained and erratic. Resource constraints have meant that log production in the Ivory Coast this year is well down on previous years. European demand for Iroko is steady, although agents note that the Irish market is now off the top. European importers are being forced to pay the higher prices quoted for Cameroon stock. Irish importers have been unable to source fixed sizes from Ivory Coast and are also switching to randoms from Cameroon. The limited volume of kiln dried Iroko/Odum available from Ghana is selling well and prices have firmed.

African logs indicative prices

	Mar	Apr	May
Exchange rates			
Fr.F/£	10.94	11.49	9.53
CAR & Congo (Brazzaville)			
Fr. Francs/m3; FOB Douala			
Grade: B+ & better (good UK sawing quality)			
All diameters in cm			
N'gollon			
70+ (20% 60-69)	1700	1700	1600
Bosse 60+	1650	1650	1650
Ayous 70+	na	na	na
Sapele			
80+ (20% 70-79)	1950	1950	1950
Sipo			
80+ (20% 70-79)	2450	2500	2500
Gabon			
Fr. Francs/m3; FOB Douala			
Grade: B+ & better (good UK sawing quality)			
All diameters in cm			
Acajou			
70+ (20% 60-69)	1450	1450	1300
Douka			
70+ (15% 60-69)	1350	1350	1350
Sipo			
70-79 (10% 60-69)	2000	2100	2100
80-99cm	2350	2450	2450
Liberia			
US\$/m3, FOB Liberia			
Grade: B+ & better (good UK sawing quality)			
All diameters 60 cm+			
A. mahogany	215	215	205
Walnut	215	215	200
Iroko	320	320	300

The weakness of the euro and improving economic conditions in Europe have encouraged strong European demand for African constructional timbers including Dahoma/Dabema and Opepe.

Availability of higher value African species such as Sipo/Utile, and Afrormosia is now very restricted. United States demand for the limited volumes of khaya available is described as "hot". The strength of the dollar against the euro has meant US importers are sourcing this species at very competitive prices.

Looking at the other end of the quality spectrum, in Gabon forward markets for sawnwood of the cheap redwood, okoume, are booked through until September/October. Other lower value African woods - including wawa, samba, and framire - are more readily available and demand remains steady. However one agent commented that Ghana's determined effort to bring national logging levels down to sustainable levels of 1 million m3/annum is beginning to affect supplies even of wawa. Ghanaian wawa supplies are "tighter than they were, with some signs of shortage in certain thicknesses and grades". The Ghanaian authorities have been considering implementing a levy on kiln dried wawa.

Log production in Liberia, now a significant player in the international log market, is in full swing during the closing stages of the dry season. Production is ex-

African Sawn Indicative Prices

	Mar	Apr	May
Exchange rates			
Fr.F/£	10.94	11.49	9.53
Cameroon, CAR, Congo (Braz.)			
Fr. Francs/m3, FOB			
Grade and size: FAS, air dried, width 6"+, length 6'+			
Sapele	3400	3400	3400
Sipo	4100	4100	4200
Bibolo	2700	2700	2700
N'Gollon	3200	3200	3500
Afrormosia	5500	5500	5600
Iroko	3550	3600	3750
Cote d'Ivoire			
Fr. Francs/m3; FOB Abidjan			
Grade: FAS, air dried			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
Iroko	3450	3500	3550
Mahogany	2750	2750	2750
Framire	2050	2100	2050
Samba No.1 C&S	1525	1525	1525
Dimension stock			
Azobe	2500/	2500/	2500/
	2900	2900	2900
Opepe	2100/	2100/	2100/
	2800	2800	2800
Dabema	1950/	1950/	1950/
	2550	2550	2550
Gabon			
Fr. Francs/m3, FOB			
Grade and size: FAS, width 6"+, length 6'+			
Okoume AD	2150	2150	2250
Okoume KD			2500
Ghana			
Exchange rates			
DM/£	3.26	3.42	3.13
C/£	6666	7409	6915
DM/m3, FOB Takoradi			
Grade: FAS, Air dried (AD) or kilned (KD)			
Size: width 6"+, avg 9", length 6'+, avg 9'			
A.mahogany AD	1100	1100	1100
A.mahogany KD	1250	1250	1250
Emeri AD	760	760	760
Utile KD	1550	1550	1550
Odum AD	na	na	na
Odum KD	1300	1325	1375
Sapele KD	1150	1200	1280
Edinam AD	670	670	670
Edinam KD	850	850	850
Walnut AD	910	910	910
Naington AD	925	925	925
Danta AD	730	730	730
Danta KD	1000	1000	1000
Wawa AD	530	530	530
Wawa KD	600	600	600
Makore KD	1050	1050	1050

pected to come to an end with the onset of rains at the end of June, and only restart again at the end of 2000. Much of the Liberian log production is destined for plywood manufacture in East Asia.

Continuing political uncertainty has meant that exports from the Democratic Republic of Congo (formerly Zaire) continue only at very low levels.

Currency developments critical

The direction of future price movements for African hardwoods is difficult to predict. Much will hinge on currency developments over the next few months. If the dollar remains firm against the euro, demand for African hardwood should remain strong. If the dollar weakens, Asian and South American hardwoods will become more competitive, tending to weaken African shippers' competitive position.

Stock levels are another important factor. European stocks of African hardwood are reported to be adequate for now. However, these supplies will have to see importers through the long African rainy season which is already beginning in the Congo basin, and which should have hit most of West Africa by the end of June. Usually inventories are high at this stage of the season as mills prepare for the slow down in logging operations. This year agents report relatively low log inventories.

The consensus is that price levels should remain relatively stable during the summer. After that much will hinge on currency developments, but tightening supplies in the second half of 2000 make further upward movement in African hardwood prices more likely.

Ghana

Log production down 22%

Recent data on Ghana's log harvests provides an indication of the nation's efforts to cut back on production. During the first 2 months of 2000, Ghana produced only 159,000 m3 of logs, 22% down on the same period during 1999.

Other data indicates that Ghanaian production is shifting increasingly away from primary to secondary species. In March 2000, the volume of Ghana's wood exports was up 6% on the same month during the previous year. However the value of exports declined by 1.3% due to Ghana's increased sales of Lesser Known Species. Air dried lumber exports fell 23% during the first 3 months of 2000 compared to the same period last year.

South American Hardwoods

New season supplies imminent

Harvesting operations in the tropical supplying regions of the Amazon basin are just beginning as the rains have begun to abate. New season sawnwood supplies should begin to become available during the next 2-3 weeks.

Mahogany prices are usually expected to fall as the new season progresses. However this year, limited financing for mahogany operations and increased environmental controls in Brazil suggest that mahogany production will remain restricted this year. This coupled with continuing firm demand for mahogany from the US should ensure that existing high price levels are maintained. Some UK importers are not covered for mahogany and the limited supplies of FAS material available to the UK market are also expected to sell fairly readily. Mahogany now occupies a specialist high value and small volume niche market with prices well above those of other tropical hardwoods.

France is the largest European importer of Brazilian sawnwood, with imports focused particularly on kiln dried stock of tauari, a lower grade wood used extensively for joinery in France. The journal *Commerce International du Bois* reports that prices of Brazilian sawnwood sold in France have been rising in response to tight supplies at the end of the rainy season and booming consumption in France.

In the past, cedar has been a popular species in the UK, but prices are currently uncompetitive against alternative Asian and African hardwoods such as Meranti and Sapeli. Shippers are maintaining prices at these levels as Cedar has more receptive markets in the Caribbean and Italy. Brazilian domestic hardwood demand remains relatively stable. Brazilian macro-economic indicators are favourable. Inflation continues to drop with an overall level of 6% projected during 2000. GDP

growth reached 3.1% in the first quarter of the year, and the government's target of 4% growth during 2000 now looks as if it may be surpassed.

However, rising interest rates in the United States have recently caused fresh worries about the availability of finance for Brazil. The *real* has slipped 7% against the dollar since March 23, and shares and bonds have sagged.

In April, Brazil officially launched a process to develop a new National Forest Program with wide ranging objectives including to promote sustainable forestry; encourage the establishment of new plantations; improve forest protection; prevent illegal logging; support the development of the forest industry; and enlarge national and international markets for Brazilian wood products. The Program will be further elaborated during a detailed consultation in the forest sector. The Brazilian President has instructed that the finalised program should be ready by Brazil's "National Tree Day" on 21 September.

Brazilian sawn indicative prices

	Mar	Apr	May
Exchange rates			
\$/£	1.59	1.56	1.48
US\$/m3 C&F UK Port			
Grade & size: FAS, width 6"+ avg 9-10", length 6'+ avg 10-11', air dried (AD) or kiln dried (KD)			
Mahogany (Swietenia)			
1"-2" AD	1300	1300	1300
2.5"-3" AD	1310	1310	1310
1"-2" KD	1370	1370	1370
2.5"-3" KD	1400	1400	1400
Virola			
1" KD No.1 C&B			
boards	380	380	380
strips	360	360	360
Cedro			
1"-1.5" KD	700	700	700
2" KD	720	720	720
2.5"-3" KD	750	750	750

New money for Amazon's protected areas

At least 10% of the Amazon rainforest will be totally protected from conversion, logging and mining operations over the next 10 years under a joint project of the Brazilian government, environmental groups and the World Bank. For the first phase of the project, the groups pledged US\$53 million, including US\$30 million from the Global Environment Facility, a multilateral lender administered through the World Bank; US\$18 million from the

Brazilian government; and US\$5 Million from the World Wide Fund for Nature. At present around 3% of the Amazon region is set aside in totally protected reserves, while 28% is reserved for use by indigenous and local people. The aim of this project is to expand the area of totally protected reserves and to improve enforcement. Selection of land for protection will be based on biological content with priority given to areas of high diversity.

North American Hardwoods

Export Markets

Export performance hampered by strength of US market

While US hardwood exporters have benefitted from improving economic conditions in Far Eastern and European markets, export performance is hampered by the strength of US economy. The strength of the US dollar; limited availability for export; and firm pricing have all slowed momentum. These problems persist despite generally good log supplies and relatively high levels of lumber production. Green lumber availability is now reported to be good, but lack of kilning capacity has meant that KD inventories - particularly for thicker sizes - are more restricted. Increases in freight rates and lack of container capacity, notably for US east coast shipment, is also creating difficulties in some export markets.

During May, continental European markets have been feeling the effects of the weak euro. Currency uncertainty has encouraged importers to buy for immediate needs only. Nevertheless, buying in southern Europe - Spain, Italy, and Portugal - has continued relatively firm. Germany continues to be the laggard of the European market, with relatively slow buying.

Demand for US hardwoods in France has been hindered by the recent increase in domestic production following severe storm-damage at the end of last year. However booming economic conditions began to feed through into improved French demand for US hardwoods during May.

Outside the euro zone, UK markets for US hardwoods have benefitted for some time from the relative stability of the dollar-sterling exchange rate. For the past 4 years, sterling scarcely moved out of a range between US\$1.55 and US\$1.65. However since the beginning of May, the pound's long running stability against the dollar seems to have come to an end. At the end of May, sterling had sunk to US\$1.47, its lowest level for 6 years. Such a decline will tend to lead to further price resistance in the UK market, which is already highly competitive for US hardwoods.

In the Far East, there are reports that the Japanese market continues to improve slowly, with increased purchasing of Ash and White oak. Demand in China is also steady, with some reports of improving demand for US hardwoods. Demand in Indonesia, Malaysia, and Thailand remains flat. The Far Eastern market is becoming increasingly competitive.

The market situation by individual species is as follows:

Hard maple: Production is declining as usual with the onset of summer. Supplies are therefore expected to tighten over the coming months. European demand is fair, but is being undermined by high prices and weakening European currencies. Buying is mainly to cover immediate needs only. CIF prices (KD FAS UK Port) quoted this month are marginally down on last month.

Cherry: log production and demand for Cherry usually slow at this time of year. However demand for cherry logs continues at relatively high levels, and most analysts predict this situation will continue

Red oak: Firm buying continues in the US. Export demand for higher grades is quiet. Sales of lower grades to Mexico and the Far East are reasonably strong. CIF prices (KD FAS UK Port) quoted this month are equivalent to last month.

Tulipwood: Supplies have increased slightly since last month. Demand for higher grades in Italy is steady, but prices are lower than those offered on domestic markets. Demand for lower grades in the Far East is also steady. CIF prices (KD FAS UK Port) quoted this month are marginally down on last month.

US Economy

Inflation fears encourage interest rate rise

The US economy continued strong throughout the first quarter of 2000 recording 5.4% growth. *The Economist Poll of Forecasters* for May is now predicting 5% growth for the whole of the year - up from 4.7% in the April forecast. The job market is robust, with unemployment standing at only 3.9%, the lowest level since 1970.

However this has fed through into rising labour costs and fueled consumer spending. US corporations are feeling the effects of rising wages and higher benefit costs. Consumer spending rose 3.7% in the year till March. Households have been borrowing heavily to satisfy consumption levels. As the *The Economist* notes on 13 May "In recent weeks, the signs that the economy is being stretched beyond its limits have become unmistakable. Every measure of inflation has ticked up". These fears encouraged the US Federal Reserve to increase interest rates by 0.5% to 6.5% on 16 May. In doing so the Fed abandoned their strategy of gradually tightening monetary policy in quarter-point rises.

The big question now is whether the rapid US expansion of the 1990s is at risk of ending with spiralling inflation forcing a hard landing. This in turn depends on the strength of today's inflationary pressure, and on whether interest rate rises will slow the economy fast enough to dampen down price pressure without tipping the country into recession. So far it is hard to see any evidence of the US economy slowing. For example April house starts were firmer than expected. It seems certain that to achieve a sustained slow down, interest rates will need to rise again. Financial markets have priced in a high probability of short term rates rising to 7% this year. Some analysts

US lumber indicative prices			
North Appalachian US\$ MBF CIF UK			
Grade: KD square edged			
Net measure after kilning			
	Mar	Apr	May
\$/£	1.60	1.56	1.48
Red oak			
1"	1835	1850	1850
1.25"	2060	2100	2100
1.5"	2225	2200	2250
2"	2610	2600	2600
White oak			
1"	1605	1580	1550
1.25"	1760	1740	1740
1.5"	2220	2180	2150
2"	2770	2700	2700
Ash			
1"	1345	1390	1390
2"	1810	1820	1820
Tulipwood			
1"	1295	1290	1270
1.25"	1305	1300	1290
1.5"	1325	1330	1310
2"	1345	1350	1330
Cherry			
1"	3465	3640	3600
1.25"	3620	3740	3700
1.5"	3810	3960	3900
2"	4160	4180	4150
Hard Maple			
1"	2950	3030	2970
1.25"	3060	3075	3075
1.5"	3250	3305	3300
2"	3365	3445	3420

throughout the summer. Orders from Italy and the UK are fair, while demand in France has slowed. In France there has been increased price resistance, particularly due to increased availability of domestic cherry in the wake of last year's storms. CIF prices (KD FAS UK Port) quoted this month are marginally down on last month.

Ash: UK and Japanese demand for FAS grades have continued to improve. Orders of lower grades from the Far East and Mexico have been reasonable. Production remains relatively limited. CIF prices (KD FAS UK Port) quoted this month are equivalent to last month.

White oak: Buying in southern Europe has been reasonably active. Markets in the UK and Germany have been more sluggish and highly competitive. CIF prices (KD FAS UK Port) quoted this month are marginally down on last month.

expect even more aggressive tightening with rates forced up to 7.25% by August. Higher interest rates this year will hit house starts and should cool consumer spending. Housing starts are forecast to decline from 1.66 million units in 1999 to 1.56 million units in 2000 and 2001. Another result of higher interest rates may be to boost the value of the dollar on international markets. In the short term there seems little likelihood of the dollar weakening.

US Domestic Market

Export performance hampered by strength of US markets

The strength of the US economy has continued to feed through into booming US hardwood demand and rising prices for domestic hardwoods. Between April 1999 and March 2000, US hardwood lumber prices for most species rose at rates well in excess of inflation. Only in the last 2 months have prices stabilised as supply and demand have come into balance.

By contrast, over the last 12 months, wood imported into the US has become progressively more competitive. For example, prices for the major tropical wood species have remained flat in US-dollar terms since April last year. According to *ITTO's Market News Service* prices for Brazilian Mahogany and Meranti lumber in US-dollar terms are very similar today than they were 12 months ago. The strength of the dollar has counter-acted rising prices expressed in exporters' currency

The strength of the US economy has boosted demand for furniture. US household furniture consumption is expected to increase by 5.1% from US\$60.7 billion in 1999 to US\$63.7 billion in 2000. This increase builds on a 6.4% rise between 1998 and 1999. Demand from the smaller office furniture sector is expected to decline slightly from US\$33.6 billion in 1999 to US\$32.1 billion in 2000, with a return to positive growth in 2000. This year's decline reflects higher interest rates, which have increased costs and reduced profit-growth for US corporations, and temporary excess capacity in some office sectors. The strength of the dollar has encouraged significant growth in US furniture imports, notably from countries in the Far East (China, Indonesia, Thailand, Malaysia) where labour costs are relatively low. Ironically US hardwood exporters are now supplying overseas furniture plants that will re-export a significant part of their production back to the United States.

European Hardwoods

Progressively improving demand

The European hardwood market is characterised by progressively improving demand, backed by solid growth in the construction sector, an active joinery sector, and steady demand from furniture manufacturers. The weakness of the euro has meant that European hardwoods are very competitive against US equivalents. Firm demand has ensured that European prices for higher grade European sawnwood have remained stable despite excess log supply resulting from the severe damage to French and German hardwood stands during the December 1999 storms.

In France, the damage to beech is by far the most significant effect of the storms on the hardwood sector. Up to 45% of the standing mature saw logs were felled. Throughout Europe, hardwood mills have bought much larger volumes of beech logs this year to soak up the storm damage. There is also widespread concern that the loss of so many mature stands last year will impair supplies of European beech in future years. Many buyers are worried that next season they will be forced to import or even change to other species for some uses. The French Office National de Forêt (ONF) may well restrict new cutting licences. Relatively low interest rates, the weak euro, and signs of improving economic conditions have stimulated demand for European beech, providing a further incentive for mills to build up stocks.

Due to blue staining of logs during the warmer spring weather, the window of opportunity to extract storm thrown beech is now closed. Despite a huge national effort to convert and store storm felled logs, the ONF estimates that up to 50% of storm damaged beech has been left on the forest floor. All remaining un-recovered beech logs will be low grade. Depending on grade, beech log prices have been depressed by between 30% and 60%. Excess logs have found markets in Spain, China, Belgium, the Netherlands and Scandinavia. In France problems of transporting logs and financing forest clearance operations have been a very significant headache.

Hardwood mills across the continent have been running extra shifts to process the logs. Large volumes of beech have been stored in irrigated yards. Banks have been willing to make loans to mills to finance the purchase and holding of excess stock. The French government has subsidised the creation of new kilning capacity to overcome a bottleneck which has led to a build

up of green goods.

While prices for beech logs have fallen, firm demand and supply bottlenecks have meant that prices for sawnwood have been little affected by the storms. Price reductions of only around 10% have been recorded for lower grade French beech, while prices for higher grades have remained stable. C&F beech sawnwood prices quoted in the UK (see table) remain unchanged from last month.

Demand for sawn beech has been particularly strong in France. The French economy is now very buoyant, stimulating activity in the construction, joinery and furniture sectors. Demand for beech from Spain is also good, although the market has become intensely competitive. In the wake of the storms, Spanish importers have been attempting to force down European beech prices. Due to the cheaper costs of transport, Spanish importers are turning primarily to French rather than German beech suppliers.

Chinese demand for European beech continues firm. There are reports of Chinese importers stocking up with beech logs with very flexible size specifications (a one meter allowance compared with the usual allowance of 20 cm) due to their concern that beech logs will be in short supply next year. On the sawnwood side, there continue to be reports of increasing quality demands from Chinese importers who now focus heavily on edged and steamed goods without blemishes. French beech suppliers to China are coming under increasing competitive pressure from Italian producers. Beech logs are being imported from the former Yugoslavia into Northern Italy for conversion and re-export to China.

Demand for European oak remains firm.

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European sawnwood indicative prices

	Apr	May
Exchange rates		
DM/£	3.43	3.13
DM/\$	2.19	2.11

Northern Germany, DM/m3, C&F, UK Port

European beech

Grade: kiln dried, steamed and square edged.

1"	1750	1750
2"	1800	1800

European oak

Grade: kiln dried, waney edged prime grade*.

1"	1505	1505
2"	1945	1945

*waney edged prices provided as there is very little square edged available - French prices are similar to German prices)

The high value of the dollar has ensured the species is price competitive against the US alternative. European oak is also increasingly favoured for its aesthetic appeal to Europeans and consistent colour. Prices for quality oak sawnwood (see table) are unchanged from last month. The loss of oak from last year's storm's was far less than that of beech - estimated at 15% of standing mature saw logs in France. The unrecovered logs will deteriorate less than beech - although some insect attack in sapwood will reduce yields. One adverse effect may be a shortage of stave material for the barrel trade. Major efforts to recover storm-felled oak logs will resume this Autumn. The French oak manufacturers continue their efforts to increase the consumption of oak with their campaign "J'ai choisi le chene". With the recent loss of fashion for traditional oak furniture and the general trend in European furniture to use species such as red alder, maple and cherry, French sawmills are turning their attention increasingly to the joiners, specifiers and architects.

PEFC labels imminent

The Pan European European Forest Certification scheme (PEFC) is developing rapidly. The first PEFC certified wood should soon be available to European consumers. The board of the Pan European Forest Certification Scheme (PEFC) has recommended approval of Finland's, Sweden's and Norway's forest certification systems. Representatives from the PEFC member countries, with the exception of each applicant country, will make the final decision on approval of the systems by postal ballot. The result of the ballot was imminent as this article went to press.

Forest certification creates tension in Germany

Forest certification is creating severe tension within Germany's forest sector. A fierce dispute has arisen between German forest owners, both private and public sector, and the leading German DIY retailers. In early 2000, Germany's leading DIY retailer chain - OBI - increased the pressure on their suppliers to start working towards FSC certification. In response, the forest Ministers of Baden-Wurttemberg, Bavaria, and Thuringia, sent a letter to OBI asking them to reconsider their exclusive request for FSC products and encouraging them to stock PEFC certified wood alongside FSC branded products.

Following approval of a national certification system by PEFC, organisations possessing a forest certificate and enterprises with a chain of custody verification system will have the right to apply for the PEFC label.

A total area of 16.2 million hectares of certified forests have so far been certified under the three Nordic schemes seeking PEFC approval. The area includes 13.7 million hectares under the Finnish Forest Certification scheme, 1 million hectares under the Swedish Skogsgarna scheme, and 1.5 million hectares under Norway's Living Forests scheme. The total area of certified Nordic forest is expected to double by the end of 2000.

PEFC has also begun the process of evaluating the forest certification scheme of PEFC Germany, which was presented to the PEFC Board in March 2000. Pilot certifications in Germany already extend to 670,000 hectares. Current projections suggest that 4.5 million hectares of German forest will be certified by the end of the year. Austria, Switzerland and France are expected to lodge applications for PEFC endorsement in the near future.

PEFC are now looking closely at mutual recognition for forest certification schemes operating outside Europe. A Working Group on Mutual Recognition has drawn up a preliminary policy and strategy which was subsequently approved by the PEFC Board of Directors. The strategy refers to an open dialogue and network building with other important certification systems. As a follow-up, the PEFC Board announced that PEFC will host a professional seminar for invited forest certification schemes and expert groups on international mutual recognition. The seminar will be held in Brussels on the 26 and 27th June 2000.

Meanwhile forest owners representatives in Baden-Wurttemberg and Bavaria began to collect signatures from associations opposed to the retailers' FSC commitment. By the end of March, around 200 forest associations, representing 100,000 forest owners, had signed a petition noting that the retailers' commitment to FSC effectively excluded domestic wood from German DIY chains and claiming it infringed the legitimate rights of German forest owners. The forest owners suggest their next move will depend on negotiations with the retailers.

Carrefour du Bois

For the first time at its new venue in Nantes, the Carrefour du Bois has established itself as the leading wood trade show and conference in France. Exhibition space and delegates were almost double that of the last show. Strongly represented were the American hardwood and Canadian forest product industries, as well as delegations and companies from Malaysia, Scandinavia and Belgium. Seventy percent of exhibitors were from within France including many of the regional wood industries. Their presence reflected the growing importance of Carrefour as a market. The Vendee in western France, where Carrefour now takes place, boasts the highest concentration of wood processing industries in Europe. It is the gateway for tropical hardwoods from the former French colonies of west Africa and is well served by the major ports of Nantes Saint-Nazaire and La Rochelle for supplies from Asia, Scandinavia and North America.

Alongside the show, an enormous number of meetings, seminars and a wood forum provided visiting delegates with opportunities to focus on forest industry issues. The French trade and industry discussed the final stages of the amalgamation of the French wood agents, importers and merchants into one organisation under the banner of "Le Commerce du Bois" (LCB). The new Association will provide the French timber trade with one voice to Government and its markets on trade, environmental and legislative issues. The French forest products industry continues to be represented by the La Federation National du Bois (The National Timber Federation).

One focus of attention was the American Hardwood Export Council (AHEC) exhibit based on its current European advertising campaign. As an added attraction on the first day, twenty four wine bottles - each of different species of American hardwood - were displayed unmarked. Delegates were invited to identify the species in a competition for which a prize was presented. During Carrefour, the AHEC together with American shippers met with the French hardwood representatives of LCB to discuss the increased promotional of American hardwood in the French market where they augment French species.

Plywood

More talk as prices slip back again

Indonesian plywood prices have slipped back again over the last month and now stand at INDO96 less 22/23. Malaysian and Brazilian competitors are not exporting to European markets at these levels. Various announcements by plywood trade representative associations to the effect that their members should force through price rises seem little more than a waste of breath. Overwhelming market forces continue to dictate price levels.

The prospects for price rises for Indonesian plywood are bleak in the short term. The rupiah remains extremely weak against the dollar giving Indonesian producers a considerable advantage on international markets. The logging season is at its height in Indonesia. There appears to be no shortage of logs - a factor which surprises no one given the well publicised levels of uncontrolled and illegal logging currently underway in Indonesia.

While the Indonesian plywood manufacturing sector was hit during the Asian crises, it remains a massive industrial complex capable of churning out huge volumes of the finished product. According to *ITTO's Market News Service*, of the 95 Indonesian plywood factories operating at the height of Indonesian plywood production in the 1980s, only 14 have closed down. The mills that have survived are reported to be operating at around 60 percent capacity today.

Indonesian exporters continue to sell enthusiastically on the international market with the short term aim of acquiring foreign exchange. Continuing political and economic uncertainty at home discourages mill owners from looking to the long term. There is evidently little concern for the effects of current harvest levels on the future of their industry. Indonesia reportedly plans to manufacture 8 million cubic meters of plywood this year, of which about 7 million cubic metres will be exported - only slightly lower than in 1999 (7.76 m cubic metres).

According to the Indonesian Forestry Society (MPI) Indonesia's plywood exports in 2000 are expected to be valued at US\$2.7 billion - equivalent to 1999 levels.

These export volumes are not so far short of the levels reached when Indonesia's plywood industry was at its height in the 1980s. At that time exports totalled around 9 million cubic metres annually. What has changed is the price. Indonesian manufacturers are offering plywood today at prices 25% below those of 1981.

Although Indonesian plywood production and export volume remain high, there are few places for it to go. Markets for plywood

are weak in many parts of the world. Japan's economy is weak and demand for imported plywood is tailing off. Inventories at the ports are reported to have fallen recently, but stocks in the distribution channels are high and sales have been limited to small lots. Despite there being little hope of an improvement in underlying demand, import arrivals since April have been increasing with speculative buying, which is further cooling the market. China's plywood market has been hit this year by the government's decision to drop import tariffs on logs to zero, while maintaining plywood tariffs at 15%.

In the United Kingdom, the largest European market for imported plywood, there continues to be over-stocking after heavy arrivals earlier in the year. Importers may also be concerned about the impact of recent interest rate rises on construction activity. With stocks still high and the prevailing assumption that prices will remain weak until the end of the Asian logging season in late autumn, importers have little incentive to purchase at present. Under current market conditions, Brazilian plywood manufacturers are uncompetitive on European markets. Brazilian production is being maintained only at low levels. Manufacturers are surviving on the business they can pick up in domestic and regional markets, notably the Southern United States and Caribbean.

Meanwhile, policy makers are expending a lot of breath in an effort to restrict production levels and force through price rises. The Indonesian Wood Panel Association (APKINDO) and the Japan Lumber Importers Association, have apparently agreed that Indonesian plywood exports to Japan should be restricted to 2.5 million cubic metres for the year 2000. APKINDO has insisted that JLIA also apply import restrictions on Malaysian plywood exports to less than 1.3 million cubic metres in 2000.

More recently, at the Council meeting of the ASEAN Panel Products Federation (APPF) held in Sarawak on 19 May, representative plywood trade associations from Malaysia, Indonesia, and the Philippines jointly endorsed a single APPF price index for the European market. Prices quoted in the index are equivalent to around INDO96 less 11 - around a 13% gain on prevailing market prices. Plywood traders suggest that, in the current economic environment, the associations have little hope of making these prices stick.

As this article goes to press, at the instigation of the Malaysian government,

ITTO is discussing the development of a plywood futures market in the hope that this would reduce risks inherent to the plywood trade by protecting buyers and sellers against future price changes.

The sentiments behind these various initiatives may be sound. But they also seem to reflect a lack of ability to tackle the real underlying causes of plywood price weakness: economic uncertainty and continuing plywood overcapacity in Indonesia; and the failure of the nation's authorities to control log harvesting.

Indonesia/Malaysia

Illegal logging Dispute

A dispute has arisen between Indonesia and Malaysia over alleged Malaysian company involvement in illegal logging operations in Borneo. According to local press reports, the Secretary General of Indonesia's Forestry and Plantations Ministry, Mr Suripto, claimed at a press conference that an Indonesian government sweep in Tarakan in East Kalimantan during May found indications of involvement in the Borneo illegal timber trade by Malaysian military personnel and timber companies. The operation was ordered by President Abdurrahman Wahid and involved more than a battalion of the army's elite Strategic Reserve Command.

Mr Suripto stated that the Malaysian government was not involved. However he alleged the Malaysian military may be implicated by the presence of items including spent bullets and wrappings of army food rations discovered in the forest area during the operation.

In response to the allegations, the Malaysian Defence Minister said at a news conference that "*There is neither proof nor sign of the involvement of any ATM members (Malaysian army personnel) in the log thefts (in Kalimantan)... Following an investigation, it was stated that what the Secretary General of the Indonesian Ministry of Forestry and Plantations said was groundless and untrue.*"

Mr Suripto had earlier suggested that their operation was largely a failure partly because news of the sweep seems to have been leaked ahead of time to illegal operators, possibly from sources in Indonesia's own military headquarters. Mr Suripto said illegal logging and timber smuggling out of Tarakan to Sabah has been underway for 10 years, costing Indonesia 80,000-100,000 m3 of timber monthly, or US\$ 8-10 million per month.

ITTO Producers

Official data released by ITTO in their 1999 Annual Review suggests that overall tropical log production and exports in that year continued at the comparatively low levels prevailing during the height of the Asian crises in 1998.

First, a word of warning. It is clear that in some important respects the "official" government data is misleading. For example, Indonesia's official log production is recorded at 29,000 m3 during 1999. This data excludes an equivalent volume widely acknowledged is illegally felled in Indonesia each year.

Similarly in Cameroon, the official harvest recorded by ITTO during 1999 is down 26% on the previous year. In Cameroon, official log harvests are certainly being reduced in response to government moves to tighten concession agreements and implement management plans. However this has, in turn, contributed to an increase in illegal logging - the volume of which is not recorded in the ITTO data.

Despite these shortcomings, the ITTO Review (which can be accessed in full at www.ITTO.or.jp) provides a valuable overview of the international tropical timber trade.

The data highlights significant changes in the structure of tropical log exports. African exports declined 10% during the year, mainly due to the log export ban in Cameroon and continuing problems of log supply in Gabon. Other African countries are clearly in no position to fill the gap. By contrast, Asian log exports increased by 7% during 1999. Malaysian exports were boosted by rising demand in China and the first signs of recovery in South Korea. The state of Sabah also reduced former restrictions on log exports. Log exports from PNG were up 24% on the previous year - a response to the temporary removal of log export taxes between July 1998 and August 1999.

ITTO data suggests that overall tropical sawnwood production and exports by ITTO members during 1999 was little changed from the previous year. But again some significant trends are made apparent. In Africa there are signs of an increasing shift to sawnwood production as log exports are increasingly restricted. Sawnwood production in Cameroon is continually increasing. Similarly sawnwood production and exports from Congo (Brazzaville), the Central African Republic, and Gabon all increased during 1999. Other African coun-

ITTO Producer Members - Tropical Hardwood Production and Export								
000s m3	Tropical Hardwood Production				Tropical Hardwood Exports			
	1997	1998	1999	% Change 98/99	1997	1998	1999	% Change 98/99
Logs								
Cameroon	3000	2895	2135	-26	1706	1604	900	-44
Central African Republic	461	530	600	13	110	117	135	15
Congo	911	1056	1191	13	478	710	862	21
Congo, Dem Rep.	300	300	350	17	100	90	100	11
Cote d'Ivoire	2054	2245	2500	11	107	93	70	-25
Gabon	3000	2100	2200	5	2720	1679	1800	7
Ghana	1189	1138	1200	5	0	0	0	na
Liberia	75	157	113	-28	49	81	41	-49
Togo	99	55	60	9	68	16	25	56
Africa	11089	10476	10349	-1	5338	4390	3933	-10
Cambodia	700	550	600	9	100	50	50	0
Fiji	360	428	428	0	0	0	0	-100
India	15500	15500	15500	0	5	5	5	0
Indonesia	30500	27500	29000	5	45	99	100	1
Malaysia	31161	21672	20000	-8	6593	5583	6000	7
Myanmar	1989	2110	1766	-16	484	656	415	-37
Papua New Guinea	3440	1970	2370	20	3006	1613	2000	24
Philippines	441	478	502	5	0	0	0	na
Thailand	50	50	36	-28	0	12	0	-100
Trinidad and Tobago	53	32	15	-53	0	0	0	na
Asia/Pac	84194	70290	70217	0	10233	8019	8570	7
Bolivia	491	475	475	0	0	0	0	0
Brazil	24000	24500	24500	0	0	0	4	na
Colombia	1167	1095	1299	19	12	17	21	25
Ecuador	3300	3300	3500	6	113	124	136	10
Guyana	554	410	494	20	81	71	71	0
Honduras	41	32	25	-23	0	0	0	0
Panama	34	20	20	0	0	1	2	161
Peru	916	1617	1500	-7	0	0	0	na
Suriname	180	144	144	0	31	21	20	-5
Venezuela	700	620	868	40	0	0	0	na
S/C America	31383	32213	32825	2	236	234	255	9
Total	126667	112979	113391	0	15808	12643	12757	1
Sawn								
Cameroon	560	588	600	2	356	353	345	-2
Central African Republic	72	91	119	31	48	72	108	50
Congo	64	78	120	54	16	47	92	94
Congo, Dem Rep.	70	80	80	0	25	20	20	0
Cote d'Ivoire	613	623	600	-4	493	508	500	-2
Gabon	26	90	100	11	3	30	60	99
Ghana	575	590	600	2	270	253	250	-1
Others	18	24	26	4	1	1	1	0
Africa	1998	2164	2245	4	1212	1284	1376	7
Cambodia	90	60	40	-33	71	40	30	-24
Fiji	77	67	70	4	9	12	12	0
India	7000	7000	7000	0	25	25	25	0
Indonesia	5570	5000	5500	10	300	575	543	-6
Malaysia	7176	5091	5000	-2	3007	2735	3000	10
Myanmar	334	286	372	30	110	270	33	-88
Papua New Guinea	170	135	135	0	38	41	39	-5
Philippines	351	216	191	-12	103	39	85	118
Thailand	390	113	80	-29	77	90	95	6
Trinidad and Tobago	28	17	20	18	0	1	1	40
Asia/Pac	21186	17985	18408	2	3740	3827	3864	1
Bolivia	180	203	203	0	133	86	86	0
Brazil	9642	9740	9860	1	885	749	392	-48
Colombia	520	488	483	-1	6	8	8	-1
Ecuador	1660	1663	1749	5	12	13	15	10
Guyana	57	50	55	10	22	21	20	-5
Peru	482	590	600	2	36	62	65	5
Venezuela	240	238	287	20	0	0	0	-100
Others	73	66	62	8	8	5	5	0
S/C America	12854	13037	13299	-2	1101	945	590	-38
Total	36038	33186	33952	2	6053	6057	5830	-4
Plywood								
Cameroon	90	90	85	-6	45	41	65	59
Cote d'Ivoire	61	67	70	4	18	14	15	7
Gabon	60	54	60	11	25	11	20	87
Ghana	65	71	70	-1	26	12	10	-20
Others	14	13	14	3	3	2	3	0
Africa	290	295	299	1	117	80	113	41
India	300	300	300	0	20	20	20	0
Indonesia	8800	7800	7900	1	8534	7424	7500	1
Malaysia	4447	3904	4000	2	3825	3622	3500	-3
Philippines	484	244	264	8	14	6	10	67
Thailand	44	39	39	0	1	0	0	na
Others	81	75	78	16	16	22	24	0
Asia/Pac	14156	12362	12581	-17	12410	11094	11054	0
Brazil	1200	1200	1000	-17	584	465	401	-14
Ecuador	109	109	115	5	29	32	36	13
Guyana	67	76	90	18	61	70	80	14
Peru	53	57	60	5	15	10	15	50
Others	81	66	64	17	17	5	9	0
S/C America	1510	1508	1329	-12	705	582	542	-7
Total	15957	14165	14208	0	13232	11757	11708	0
Veneer								
Cameroon	61	59	53	-10	32	41	30	-26
Congo	46	55	60	9	37	46	52	11
Cote d'Ivoire	252	274	285	4	155	156	157	1
Ghana	75	90	115	28	66	84	108	29
Others	30	45	50	18	18	27	35	0
Africa	464	523	563	8	309	354	382	8
Cambodia	182	181	180	0	182	170	170	0
Malaysia	1165	760	800	5	747	730	800	10
Others	139	137	173	48	48	43	43	0
Asia/Pac	1486	1078	1153	7	977	943	1013	7
Brazil	250	150	150	0	10	8	5	-38
Others	63	65	71	5	5	8	9	0
S/C America	313	215	221	3	15	16	14	-13
Total	2263	1816	1937	7	1301	1313	1409	7

ITTO Statistics

tries have reached the limit of their resource capacity - notably the Ivory Coast.

In Asia, three countries dominate in terms of sawnwood production: India, Indonesia, and Malaysia. Only the last focuses on export markets. Last year, Malaysia's sawnwood exports recovered to pre-crises levels.

In South America, overall sawnwood production during 1999 was equivalent to the previous year - but there appears to have been a significant shift to domestic markets. For example, only 4% of Brazil's tropical sawnwood production was exported during 1999.

ITTO Consumers

ITTO data on tropical timber imports to the principal consumer countries indicates a shift away from tropical logs by European importers during 1999. European log importers have been most affected by the new restrictions on log exports from Africa.

By contrast, Asian consuming countries significantly increased log imports during the year. A particularly significant feature of the trade during 1999 was the huge 78% gain in tropical log imports by China, from 2.76 million m3 to 4.91 million m3. In one bound, China deposed Japan from its long standing position as the world's largest tropical log importer. Japan's tropical log imports, at 3.8 million m3, were a significant increase on 1998 levels, but remain well short of imports prevailing prior to the Asian crises. Given Japan's increasing shift to softwood logs for plywood manufacture, and the well publicised collapse of a number of Japanese plywood companies - current lower levels of tropical log imports into Japan may be a long term trend.

When it comes to the Asian log trade, some so called "ITTO Producers" would be better classified as "ITTO Consumers". India is becoming an increasingly significant importer of low quality tropical logs. Import volumes have increased by 50% over the last two years. Log imports into the Philippines also made a significant recovery during 1999, after being hit by the Asian crises in 1998.

Overall European imports of tropical sawnwood were down 10% in 1999 compared with the previous year. Significant falls were experienced in France, Germany, the Netherlands, and Spain. A wide variety of factors will be behind this trend including tropical supply problems; exchange rate uncertainty; high stocks; increased competition from temperate (notably Eu-

ropean) hardwoods; and slow economic growth (notably in Germany). Only two European countries actually increased imports of tropical sawnwood during 1999: Portugal and Ireland.

Thailand's tropical sawnwood imports reached 2.1 million m3 in 1996 before its economy crashed. Since then Thai sawnwood imports have progressively fallen to 0.9 million m3 in 1998 and to 0.4 million m3 in 1999. Thailand was ITTO's largest tropical sawnwood importer in 1998 but was overtaken by Japan, China and several European countries in 1999. The economic woes plaguing Thailand have continued to take their toll the nation's large furniture and secondary processing industries. Furthermore, the Thai construction industry has been substituting wood with lower-cost products such as reinforced concrete and steel beams while sawmills are increasingly using raw materials which are easier to find and less expensive than tropical timber including rubberwood and eucalyptus.

Tropical sawnwood imports into the US remained stable during 1999, maintaining the gains made in the US market by Asian shippers in 1998. In 1998 weak currencies ensured Asian wood products were particularly competitive in the US.

China significantly increased tropical sawnwood imports during 1999. Chinese imports of this product have doubled since 1997. Japan's tropical sawnwood imports also recovered to pre-crises levels. By contrast, Korea's market for tropical sawnwood remained weak during 1999, constrained by low activity in the construction sector. Overall tropical plywood imports by European countries fell 6% between 1998 and 1999, with the most significant fall recorded by the Netherlands (down 29%). However the availability of cheap supplies from Indonesia contributed to a slight increase in UK tropical plywood imports. Competitive pricing also contributed to an increase in tropical plywood penetration into the US market during 1999.

By contrast, China's imports of tropical plywood during 1999 were well down on the previous year. This reflects the Chinese government's decision to maintain plywood import tariffs at 15%, while reducing log import tariffs to 0%.

Note our standard statistical content relating to hardwood imports is subject to review and will be resumed in the August 2000 issue

ITTO Members Tropical Hardwood Imports 000s M3

	1997	1998	1999	% Chng 98/99
Logs				
Austria	4	1	1	0
Belgium/Lux	88	80	75	-6
France	740	923	820	-11
Germany	122	153	120	-22
Italy	230	477	350	-27
Portugal	325	484	362	-25
Spain	257	355	320	-10
Sweden	1	2	1	-50
Other	292	298	283	
Europe	2059	2773	2332	-16
Canada	0	0	0	na
U.S.A.	4	6	9	50
N. America	4	6	9	50
China	2852	2761	4910	78
Japan	5854	3427	3850	12
Rep. of Korea	1181	660	1050	59
Taiwan	1500	1200	1300	8
Others	13	15	14	
Total ITTO Consumers	13463	10842	13465	24
India	1000	1400	1500	7
Philippines	665	203	502	147
Thailand	816	255	211	-17
Others	137	68	249	
Total ITTO Producers	2618	1926	2462	28
Sawn				
Belgium/Lux	192	276	275	0
Denmark	34	34	30	-12
France	263	337	250	-26
Germany	193	185	120	-35
Ireland	49	70	73	4
Italy	160	470	450	-4
Netherlands	305	357	300	-16
Portugal	89	109	124	14
Spain	368	489	450	-8
U.K.	300	200	200	0
Others	58	74	70	
Europe	2011	2601	2342	-10
Canada	12	15	15	0
U.S.A.	323	355	357	1
N. America	335	370	372	1
Australia	88	98	107	9
China	661	800	1288	61
Egypt	3	4	4	0
Japan	1137	757	1150	52
Rep. of Korea	391	262	250	-5
Taiwan	450	375	400	7
Others	13	17	17	
Total ITTO Consumer	5089	5284	5930	12
Brazil	372	239	54	-77
Malaysia	229	351	400	14
Philippines	352	233	191	-18
Thailand	1282	850	391	-54
Others	64	31	49	
Total ITTO Producers	2299	1704	1085	-36
Plywood				
Belgium/Lux	187	328	325	-1
Denmark	63	49	50	2
France	95	156	150	-4
Germany	209	188	175	-7
Ireland	8	20	20	0
Italy	95	105	100	-5
Netherlands	196	212	150	-29
U.K.	460	393	400	2
Others	45	42	37	
Europe	1358	1493	1407	-6
Canada	96	100	100	0
U.S.A.	1396	1559	1680	8
N. America	1492	1659	1780	7
China	1369	2084	1100	-47
Egypt	110	100	100	0
Japan	4835	3583	4838	35
Rep. of Korea	895	456	700	54
Taiwan	362	385	385	0
Others	42	58	60	
Total ITTO Consumers	10463	9818	10370	6
Total ITTO Producers	74	78	61	-22
Veneer				
Belgium/Lux	22	18	20	11
France	29	26	25	-4
Germany	66	40	40	0
Italy	160	90	100	11
Netherlands	9	10	15	50
Spain	30	27	25	-7
U.K.	10	7	10	43
Other	25	30	30	
Europe	351	248	265	7
Canada	5	5	5	0
U.S.A.	53	62	61	-2
N. America	58	67	66	-1
Australia	12	12	8	-33
China	417	527	615	17
Japan	93	52	48	-8
Rep. of Korea	263	59	85	44
Taiwan	150	185	200	8
Other	5	5	5	
Total ITTO Consumers	1349	1155	1292	12
Malaysia	12	13	15	17
Philippines	66	63	96	52
Other	38	12	6	
Total ITTO Producers	116	87	117	34

Germany

Newly released data on hardwood imports into Germany during 1999 highlight a number of significant trends.

* Tropical hardwood log imports fell by 10% compared with the previous year. The fall partly reflects supply difficulties in the major source regions of Central and West Africa. Exports from Cameroon fell by 10% in response to the log export ban implemented mid way through 1999. Significant political and transport problems in the Congo basin severely restricted German log imports from that region.

* Some German importers have clearly tried to shift to alternative sources of tropical log supply - reflected in a minor increase in tropical log imports from countries such as Liberia and Mozambique. However the major shift appears to have been a significant increase in temperate log imports.

* German tropical sawnwood imports remained flat during 1999 compared with the previous year. Imports of tropical sawnwood from Cameroon increased by over 50% to partially compensate for the decline in log imports from there. Despite a 5.5% fall in German imports of Ghanaian sawnwood, which may reflect increasing resource constraints, the West African country remains Germany's leading tropical sawnwood supplier. Germany is a leading importer of Ghanaian wawa. German imports of Malaysian sawnwood during 1999 were equivalent to 1998 levels at just over 55,000 m3.

* German imports of temperate logs and

sawn contrast markedly with tropical wood imports, increasing respectively by 10% and 24% over the previous year. The weakness of the euro favoured purchases from other European sources. German imports of European logs and sawn increased by 12.4% and 33% respectively. By contrast, log and sawn imports from the US were down 12.5% and 11.5% respectively.

* Germany is buying larger volumes of hardwood from Eastern Europe. For example, there were particularly notable increases in oak imports from the Ukraine, and of beech imports from Romania, Bosnia and Yugoslavia.

* German imports of European beech logs and sawn increased by 19% and 40% during 2000 compared with the previous year - a reflection on the continuing popularity of European beech.

* The weakness of the euro and slow pace of Germany's furniture sector during 1999 is reflected in a 16% decline in German veneer imports. Dollar-denominated veneer imports from the United States and Brazil suffered a 16% and 59% decline respectively. By contrast veneer imports from European countries, notably in the East, were equivalent to 1998 levels. Resource constraints contributed to a 14% reduction in veneer imports from the Ivory Coast. Veneer imports are also coming under pressure as furniture manufacturers have increasingly switched to alternative artificial foil surfaces.

* The weak euro also appears to have ben-

efited German domestic veneer manufacturers during 1999. This factor is demonstrated both by a 10% increase in German temperate log imports and by a 4% increase in German veneer exports to other European countries during 1999.

* Unlike many other European window manufacturers who prefer solid wood, those in Germany have been willing to use laminated materials. Indonesia has been a major beneficiary of this trend. Although Indonesia continued to be the leading supplier in 1999, the import data reveals that competition from alternative Eastern European suppliers - notably in Poland and Latvia - intensified during the year.

Mixed prospects

Prospects for hardwood shippers selling into Germany during 2000 are mixed. The underlying economy is improving. But the continuing weakness of the euro presents a significant obstacle for shippers outside the euro-zone.

Germany's economy has been listless for several years, suffering from the combined effects of over-regulation, high social costs, an extremely rigid labour market, and the huge costs of integrating Eastern Germany into the national economy. However, most economic indicators now point to improved business prospects in Germany this year. Recent surveys of German business confidence suggest that it is at its highest level for 5 years. Confidence has been boosted by rising exports, improved consumer spending, and corporate tax reductions. So far this year, economic growth has been faster than expected - most analysts now forecast GDP growth over 3% compared with the official government figure of 2.5%. Significant economic reform is still required in Germany, but progress is being made. For example, the power of the unions and Germany's system of collective bargaining - which has remained virtually unchanged for the last 5 decades - is now being challenged. Firms are increasingly negotiating more flexible wage settlements with their work forces. In the wood processing manufacturing sector, a recent survey by the leading trade associations - VDH and HDM (representing respectively furniture manufacturers and wood and plastics processing) - revealed that wage settlements are now being kept in line with both sales and productivity growth. Between January and December 1999, wages in the sector rose on average by 2%, while overall sales increased by 3.5% compared with

German temperate hardwood imports by species

000s m3 - Source EUWID

	Oak		Beech		Others		Total	% Change	
	1998	1999	1998	1999	1998	1999	1998	1999	98/99
Logs									
France	14.4	10.1	51.0	49.1	20.7	16.6	86.1	75.7	-12.0
Others	4.9	1.6	12.3	18.4	18.4	20.4	35.5	40.4	13.8
EU	19.3	11.6	63.3	67.5	39.0	37.0	121.6	116.1	-4.5
Others	10.3	15.3	16.2	27.0	12.5	21.9	39.0	64.3	64.9
Europe (E & W)	29.5	27.0	79.4	94.5	51.6	58.9	160.5	180.4	12.4
US	6.8	3.7	0.1	0.1	39.6	36.9	46.5	40.7	-12.5
Others	0.5	0.1	0.9	0.9	15.5	23.9	16.8	25.0	48.7
Total	36.8	30.8	80.4	95.6	106.2	119.8	223.4	246.1	10.2
Sawn									
France	13.2	12.7	10.3	13.4	3.5	3.3	27.0	29.3	8.5
Others	5.1	3.8	8.6	10.0	15.8	12.2	29.4	26.0	-11.9
EU	18.3	16.4	18.9	23.3	19.3	15.5	56.5	55.3	-2.1
Lithuania	1.0	1.2	0.2	0.1	110.0	114.2	111.2	115.4	3.8
Poland	6.0	6.2	17.2	17.2	17.3	20.4	40.5	43.8	8.1
Hungary	2.4	3.4	1.9	2.4	6.2	6.0	10.6	11.8	12.0
Romania	0.1	0.9	15.9	35.4	1.5	1.7	17.5	37.9	116.4
Ukraine	18.6	27.1	3.1	4.9	6.1	6.6	27.8	38.5	38.4
Bosnia-Herzegovina		0.3	1.4	8.2	0.2	0.1	1.6	8.7	440.7
Yugoslavia	0.3	0.1	5.8	8.1		0.2	6.0	8.4	39.5
Others	10.8	15.2	30.7	33.6	58.3	126.9	99.8	175.6	76.0
Europe (E & W)	57.4	70.7	95.2	133.2	218.8	291.6	371.5	495.5	33.4
US	32.4	26.6	0.1	0.1	39.4	36.9	71.9	63.6	-11.5
Canada	8.9	6.6	0.8	0.1	38.4	42.1	48.0	48.9	1.8
Others	0.1	0.4	0.1	0.1	6.2	6.6	6.5	7.0	9.0
Total	98.8	104.2	95.5	133.5	302.8	377.2	497.1	615.0	23.7

Germany continued

the previous year. Furthermore, 0.2% fewer hours rendered the 3.5% sales increase. Recent reports suggest that Germany's building sector remains depressed. For example ZDB, Germany's construction industry association, reported in their most recent monthly survey (for March 2000) that activity was "poor" in both East and West

Germany - although some operators in the residential sector reported a slight upward trend in orders. More promising - and more significant for the hardwood sector - are recent signs that Germany's furniture industry is improving. For example, sales of hardwood veneer into the sector have exceeded expectations during 2000.

German wood imports 1997-1999 000s m3 - Source BD-Holz

	1997 Year	1998 Year	1999 Year	% Chng 98/99
Tropical hardwood logs				
Eq. Guinea	8.7	11.8	6.2	-47.3
Gabon	17.2	21.1	18.1	-14.2
Cameroon	77.1	89.5	80.2	-10.4
Central African Republic	0.2	0.7	3.7	428.6
Congo (Rep.)	18.3	22.9	19.0	-17.1
Congo (Dem. Rep.)	7.5	6.4	3.4	-46.5
Liberia	0.2	5.0	6.0	19.6
Mozambique	0.0	0.6	1.4	133.3
Other	2.5	0.6	2.3	307.1
Africa	131.7	158.5	140.3	-11.5
S. & C. America	0.3	3.2	3.6	10.9
Malaysia	0.3	0.4	0.3	-16.0
Myanmar	2.1	3.0	2.7	-10.0
Other	0.2	0.3	0.7	104.1
Asia	2.7	3.7	3.7	0.0
Total	134.7	165.5	147.6	-10.8
Tropical hardwood sawn				
Ivory Coast	5.6	6.3	4.3	-31.9
Ghana	66.0	72.7	68.7	-5.5
Cameroon	3.1	6.5	10.0	53.8
Congo (Rep.)	1.2	2.9	0.5	-82.5
Congo (Dem. Rep.)	2.5	0.7	1.3	79.1
Other Africa	1.0	2.0	3.6	80.4
Africa	79.4	91.1	88.4	-3.0
Brazil	3.0	3.1	2.6	-16.1
Other S&C America	1.3	1.1	1.1	0.0
S. & C. America	4.2	4.2	3.6	-13.4
Indonesia	9.7	11.6	9.1	-21.6
Malaysia	76.1	55.2	55.6	0.8
Singapore	3.9	4.0	3.2	-20.5
Other Asia	0.9	1.1	1.0	-9.0
Asia	90.7	71.8	68.9	-4.1
Belgium/Lux	1.8	1.6	3.4	116.6
Netherlands	9.5	11.6	14.0	20.7
Other	4.7	3.8	2.1	-44.4
Total	190.2	184.0	180.3	-2.0
Veneers				
Belgium-Lux	8.3	4.8	4.3	-9.8
Finland	3.4	6.2	9.1	47.1
France	10.2	12.6	8.6	-32.1
Italy	5.9	7.3	5.3	-28.0
Netherlands	5.6	1.2	1.0	-19.3
Poland	4.2	4.9	5.5	11.2
Switzerland	10.3	11.4	11.5	0.4
Czech Republic	9.6	5.0	6.8	38.1
Others	18.1	22.3	24.1	8.0
Europe	75.5	75.7	76.2	0.5
Ivory Coast	32.4	37.4	32.0	-14.4
Ghana	8.6	8.9	9.1	2.7
Republic of Congo	5.5	7.0	2.2	-69.0
Others	1.8	2.4	1.8	-24.9
Africa	48.3	55.7	45.1	-19.0
Canada	2.2	3.5	2.8	-21.6
USA	56.1	49.6	41.6	-16.1
North America	58.3	53.1	44.3	-16.4
Brazil	17.8	23.7	9.7	-59.0
Others	0.0	0.2	0.1	-20.7
South/Central America	17.8	23.8	9.8	-58.7
Asia	0.4	0.2	0.2	0.0
Total	201.4	209.9	176.4	-16.0
Laminated wood				
Indonesia	94.2	88.0	84.7	-3.8
Poland	20.4	22.8	31.0	35.9
Latvia	10.7	12.9	25.7	99.2
Austria	18.9	21.3	14.8	-30.3
Czech Republic	4.0	3.4	9.8	184.6
Malaysia	14.7	8.9	7.8	-12.3
Sweden	3.5	11.3	6.5	-42.8
Others	25.1	33.6	33.3	-1.0
Total	191.5	202.4	213.7	5.6

Papua New Guinea

PNG's National Executive Council (NEC) endorsed at the end of May a series of recommendations to overhaul the timber industry. The measures include an independent inquiry into proposed logging projects to ensure full compliance with the Forestry Act. Announcing the cabinet decision, Prime Minister Sir Mekere Morauta said the inquiry will take no more than three months from commencement. Sir Mekere also announced that:

* an inter-agency committee will be set up to facilitate the inquiry;

* a review will also be conducted into progress made to develop downstream processing in the light of continuing high levels of raw log exports;

* certain changes would be made to the timber permit system, including the drafting of amendments to the Forestry Act to cover geographical extensions to timber permits. The aim is to make the system much tighter. Extensions must now consist of very small additions that border the current timber permit. Extensions could no longer cover extensive new resources. Further conditions preventing multiple extensions would also apply;

* the National Forest Board would be required to ensure full public disclosure of their decisions and plans for Forest Authority management;

* the Forest Industries Association (FIA) would lose its ex-officio position on the National Forest Board. A representative of the Chamber of Commerce and Industry would be appointed in place of the FIA.

Sir Mekere noted that the NEC had in effect redefined last year's moratorium decision on logging operations to specifically cover current proposals for the clearing of forest for large-scale agricultural or road projects and geographical extensions to timber permits and timber authorities. These would remain under the moratorium. However, forestry licences and licence renewals would no longer be subject to the moratorium.

Teak

Moving from a niche market into the commodity trade?

European markets for teak are currently extremely weak. Short term factors related to currency rates and falling prices, which have discouraged importers from committing to forward purchases, are partly to blame. However it is clear that longer term trends are also having a major impact on trade. The international teak market is going through a period of transition. Agents report that - unlike many other tropical woods - teak may be moving from a limited high value niche market to a broader commodity market.

On the market side, European demand has been in serious decline as major garden furniture manufacturers have shifted their operations wholesale to the Far East. Furthermore, the recent major revival in European demand for garden products, including furniture, over recent years has largely passed teak by. It has focused most heavily on lower quality preservative treated softwoods that can be sold on to consumers at relatively low cost.

On the supply side, the teak industry has been transformed by the emergence of large private sector mills to process teak in Myanmar, Bangkok and Singapore. In the past, teak supplies were tightly controlled by the Myanmar state authorities. Low production volumes were destined for a relatively high value niche market. Prices have been, for example, well in excess of levels prevailing for North American hardwood species.

However agents contacted by *hardwoodmarkets.com* speculate that Myanmar's moves to liberalise the teak trade and the subsequent development of new private sector capacity has opened up a whole new trading environment for teak.

The change in the trading environment is clearly reflected in recent data on Myanmar's timber exports. In the first 10 months of 1999, Myanmar exported 286,113 m3 of teak, earning US\$150 million in foreign exchange. Export volumes increased by 175% and earnings by 97% compared with the same period in 1998. This flood of wood has meant that the traditional niche markets are currently in over-supply. In the longer term, teak may have to establish a wider niche with prevailing prices at lower levels.

of logs in 1994 to 2.7 million m³ by the end of 1999. Capacity is expected to reach 3 million m³ by 2001. There are currently 58 active units. The sawmilling sector predominates. 90% of units are sawmills which together account for 85% of total capacity. However, new plywood and veneer mills are currently under construction and their share of overall capacity is forecast to increase.

Most Cameroon sawmills are medium sized and focus only on the initial processing phase. The existing industrial base is highly variable with regard to modernity of plant and production efficiency. Much restructuring will be required in future years.

Much of the new capacity has been established close to the urban areas of Douala, Yaounde, and Ede rather than in the major forest zones. In part this reflects the fragmented nature of supply sources in Cameroon and the industry's uncertainty over future harvesting plans. Urban areas also provide better facilities for equipment maintenance and supply and a more favourable living environment for ex-pat technicians, thereby improving recruitment potential.

Many of the new urban facilities do not have their own concession areas, particularly Italian-owned processing plants which are becoming increasingly important in Cameroon. The government-backed ideal of a vertically integrated industry, in which there is a direct link between processing plant and forest, is out of step with recent developments on the ground. Instead Cameroon processing plants are heavily dependent for their supply on independent forestry sub-contractors.

The new processing operations have some strong incentives for relying on sub-contractors rather than involving themselves directly in log harvesting. These include the extra costs and uncertainties associated with logging operations and the acquisition of concession rights, and the difficult relations that may exist between concessionaires and local people.

Nevertheless, an efficient internal log market does not exist in Cameroon. As a result industrialists have realised that their continuing existence is dependent on securing a long term supply of logs. Industrialists are therefore seeking to ensure that 50% to 60% of supplies derive from their own concessions.

The Audit suggests that official estimates of sustainable harvesting may be in excess of real forest potential. This increases the

risk of the processing sector developing towards over-capacity.

According to official government estimates, the volume of wood that can be supplied on a sustainable basis to Cameroon's domestic processing industry is around 3.5 million m³ of logs per annum. However, given that log exports for certain species will continue (potentially around 800,000 m³ in 1999/2000) and that local markets supplied through "informal" harvesting absorb between 500,000m³ and 800,000m³ per annum, it is estimated that Cameroon's total annual harvest probably lies between 4.5 million and 5.1 million m³. Much exploitation will also tend to be focused on more valuable commercial species (iroko, sipo, sapeli, afrormosia), while other species will tend to be under-utilised.

Under such circumstances, effective forest management planning and control of harvest levels is clearly critical. However forest management planning is currently hindered by lack of adequate information on the forests existing potential. Forestry officials base their estimates of sustainable harvesting potential on the assumption that production forests are capable of yielding 15 m³/hectare/annum. Logging operators judge that the real potential may be less than 8 m³/hectare/annum.

Furthermore, it is clear that Cameroon mills are already suffering from a shortage of logs despite existing processing capacity being well below official estimates of sustainable harvest levels. This has led many industrialists to argue that a complete log ban should be implemented to ensure continuing availability for their mills.

Illegal Harvesting

The Audit refers to a significant increase in illegal log harvesting over recent years. For example, in the major logging region of eastern Cameroon, it is suggested that around 50% of logs may be extracted illegally. The practice is not confined to small scale wood cutters for the local market. Concessionaires have sometimes exceeded government harvesting limits. Furthermore, many of the large processing plants often have little awareness of the source of logs supplied by sub contractors. A number of factors are cited for the trend towards increased illegal harvests.

First, serious delays in the government allocation of concession rights have encouraged reliance on illegally harvested wood. These delays are themselves partly the result of disputes between the government

and the World Bank over the terms of concession allocation.

Second, there has been a significant reduction in the area of forest land available for legal harvesting operations over recent years. Concession areas were cut from 6 million hectares in 1991 to only 2 million hectares in 1995. The area has since increased again to 4.4 million hectares, but management plans have severely curtailed the size of annual logging coups. Legally extracted volumes are unable to satisfy the existing demand for wood in Cameroon.

Third, while official harvests are limited, the forestry administration lacks funds and capacity to impose the regulations - although signs of improvement are becoming apparent.

The Audit suggests that current over-exploitation threatens the long term future of the whole Cameroon forest sector. There is a risk that Cameroon will find itself in the grip of the "Indonesia Syndrome" in which illegal logging and over-capacity in the value added sector feed off one another.

Next month: audit recommendations designed to tackle Cameroon forest sector problems

Cameroon Log Exports			
Volume (000s m ³)			
Source SGS/Commerce International du Bois			
	96-97	97-98	98-99
Banned from export as logs on 1/7/99			
Sapeli	162.1	202.6	217.4
Iroko	67.2	91.7	86.7
Sipo	30.4	37.1	38.1
Movingui	48.4	58.0	33.9
Moabi	33.5	33.5	29.2
Bibolo/Dibetou	15.9	17.1	17.3
Padouk	22.7	26.0	16.6
Doussie	9.3	14.4	16.2
Assamela/Afrormosia	21.5	20.3	15.5
Bubinga	15.5	11.9	15.0
Acajou/Ngollon	15.0	15.8	12.6
Bosse	14.0	13.2	12.6
Ceiba/Fromager	167.6	110.6	5.7
Illomba	99.4	104.7	5.7
Others	15.2	15.2	17.6
Total	737.8	772.0	540.1
First Category Species*			
Ayous	492.9	526.1	458.5
Azobe	91.6	79.1	62.4
Frake/Limba	95.0	16.8	56.4
Tali	30.9	16.1	49.7
Bilinga	24.7	26.7	10.2
Framire	12.5	2.0	1.6
Others	13.8	15.2	11.0
Total	761.4	681.9	649.7
Second Category Species*			
Evong	18.1	11.8	21.8
Evene/Ekop		10.9	21.3
Ekop/Ekaba	29.9	1.3	8.9
Ekop/Naga			7.2
Agba/Tola	1.5	3.2	5.4
Aiele/Abel	28.2	25.3	5.0
Others	74.1	55.4	15.6
Total	151.8	107.9	85.2

* First category species may be exported in log form subject to a high rate of duty. Second category species may be exported in log form subject to a low rate of duty.

News items

Cameroon crack down

The Government of Cameroon has imposed sanctions against 18 logging companies for cutting wood without permit and failing to adhere to authorised harvesting levels. Four of the companies had their licenses suspended for 3 months. Seven others have been excluded from all future invitations to tender for logging contracts. Eleven of the companies were fined between CFAFr 1 million and 20 million.

Malaysian Convention

The Malaysian Timber Marketing Convention 2000 is scheduled to be held between 28 and 29 September at the Mandarin Oriental Hotel In Kuala Lumpur. The programme includes a presentation on forest certification by Mr Kees Bosdijk of Keur Hout, the Dutch labelling scheme; a panel discussion on certification; a presentation on market opportunities in China; a panel discussion on wood markets; and a series of business networking sessions. Full details are available from MTMC 2000, Level 18 Menara PGRM, 8 Jalan Pudu Ulu, 56100 Cheras, Kuala Lumpur, Malaysia. Tel: +603 984 7443; Fax: +603 982 6059 or +603 9828 999; email ppkm@tm.net.my

Brazil's landowners defeated by greens

Green groups and Brazilian landowners were involved in a major trial of strength during May which resulted in a landmark Brazilian Congress decision in favour of environmental protection. Representatives of the ranchers' and large landowners' caucus of the Brazilian Congress were defeated in their efforts to water down existing legislation designed to prevent Amazonian forest conversion. The landowners' lobby had succeeded in pushing a draft law through a joint House/Senate Committee which, if passed, would have cut from 80% to 50% the amount of land that must be maintained as rainforest when developing land. However environmental groups responded with mass e-mail and fax protests to Congress and the President, and a broad national media campaign. This was enough to kill the measure before it could come for debate on the House floor.

As one press report points out, the defeat marks the first time that the Brazilian environmental movement has prevailed over the ranchers' special interest group. The latifundistas' caucus, with some 200

votes in the Congress, represents the rural elite - the 1% of the landowners who control some 50% of Brazil agricultural land.

World Bank funding for China's forests

The official Chinese news agency (Xinhua) reports that China has planted 75,000 ha of fast-growing trees in northeast China's Heilongjiang Province with the loan from the World Bank. The US\$ 17.64 million loan was the largest ever granted to China for afforestation. The trees planted in the relatively cold northeast will mature in 25 years, instead of the usual 35 years. The forest is expected to yield around 9 million cubic meters of timber with an output value of 3.9bn yuan (US\$ 470m). Heilongjiang Province is one of the key forest zones in China and started cooperation with the World Bank in 1985.

Radical change for Indonesia's forests

A recent newspaper report in the Indonesian Observer suggests a radical change in the nation's forest concession system may be on the way. The State Forestry and Plantations Minister, Nur Mahmudi Isma'il, is quoted as saying that the Indonesian government is planning to "drop the forestry concession scheme" and to transfer forest management and control from private loggers to state firms. Private companies would continue to operate concessions but as sub-contractors to state timber firms. The Minister said that "Forests are important state assets and Indonesia needs a better system to manage forest areas" and suggested the new management system would be based on the principles of sustainable development.

Exchange rates for one pound sterling and one US dollar

		4-Apr	4-Apr	4-May	4-May	26-May	26-May
		£STG	US\$	£STG	US\$	£STG	US\$
Argentina	Peso	1.5955	0.9999	1.5622	0.9998	1.4830	0.9993
Australia	Aus.\$	2.6297	1.6480	2.6439	1.6921	2.6080	1.7575
Bangladesh	Taka	81.3670	50.9944	79.6813	50.9960	75.6815	51.000
Belgium	Belgian Fr.	67.2948	42.1763	70.6714	45.2489	64.6532	43.5883
Belize	B\$	1.9208	3.0650	3.0170	1.9309	2.9234	1.9700
Bolivia	Boliviano	70.9220	6.0201	9.4527	6.0500	9.0521	6.1000
Botswana	Pula	7.7555	4.8603	7.9498	5.0878	7.8787	5.3093
Brazil	Real	2.7829	1.7440	2.8336	1.8135	2.7335	1.8420
Fr. Africa*	CFA Fr.	1098.9011	684.9315	2.3274	1.4895	1051.3100	708.4500
Canada	Canadian \$	2.3190	1.4533	1149.43	735.63	2.2303	1.5029
Chile	Peso	806.4516	505.0505	806.4516	516.1290	780.3350	525.8500
China	Yuan	13.2100	8.2788	12.9366	8.2802	12.2828	8.2771
Czech Republic	Koruna	60.4230	37.8644	63.6537	40.7384	58.0559	39.1225
Denmark	Danish Krone	12.4239	7.7863	13.0582	8.3577	12.0037	8.0890
Estonia	Kroon	16.3613	26.1097	27.4198	17.5469	25.0568	16.8852
Europe	Euro	1.6686	1.0257	1.7525	1.1216	1.6027	1.0800
Finland	Markka	9.9206	6.2170	10.4395	6.6684	9.5293	6.4216
France	Franc	10.9445	6.8592	11.4956	7.3572	10.5131	7.0845
Germany	D-mark	3.2634	2.0451	3.4276	2.1937	3.1347	2.1124
Ghana	Cedi	6666.67	4166.67	7400.00	4800.00	6915.23	4660.00
Guyana	Guyanese \$	286.5330	179.2115	282.4859	180.7910	267.8530	180.5000
Hong Kong	HK\$	12.4254	7.7869	12.1714	7.7900	11.5631	7.7921
India	Rupee	69.5894	43.6110	68.2128	43.6562	65.8429	44.3700
Indonesia	Rupiah	12500.0	7692.3077	12311.0	7975.0	12635.8	8515.0
Irish Republic	Punt	1.3141	0.8235	1.3802	0.8833	1.2622	0.8506
Italy	Lira	3225.81	2040.82	3360.00	2175.00	3103.28	2091.23
Japan	Yen	167.2241	104.8218	170.3578	109.0290	158.6940	106.9400
Kenya	K. Shilling	119.474	74.906	116.550	74.592	113.745	76.650
Korea South	Won	1785.71	1111.11	1715.00	1111.25	1687.25	1137.00
Liberia	Liberian \$	1.5957	1.0000	1.5625	1.0000	1.4840	1.0000
Malaysia	Ringgit	6.0635	3.8000	5.9375	3.8000	5.6390	3.8000
Myanmar	Kyat	10.6281	6.6605	10.6281	6.8020	9.2747	6.2500
Netherlands	Guilder	3.6770	2.3043	3.8619	2.4716	3.5319	2.3801
New Zealand	NZ\$	3.1933	2.0012	3.1836	2.0375	3.2701	2.2036
Nigeria	Naira	162.0746	101.5228	157.4803	100.7874	152.0680	102.4750
Papua NG	Kina	4.1558	2.6043	3.9659	2.5382	3.5896	2.4190
Philippines	Peso	65.6599	41.1523	64.4745	41.2637	63.5502	42.8250
Poland	Zloty	6.6256	4.1520	7.0077	4.4851	6.7149	4.2520
Portugal	Escudo	334.448	209.643	350.877	224.561	321.315	216.527
Romania	Leu	33333.3	20000.0	30433	19722	30602.0	20622.0
Russia	Rouble	45.8926	28.7687	44.3459	28.3814	41.9735	28.2850
Singapore	Singapore \$	1.7166	2.7391	2.6883	2.7205	2.5729	1.7338
Solomon Islands	Slmn. Is. \$	8.0665	5.0551	7.9120	5.0637	7.5035	5.0564
South Africa	Rand	10.4745	6.5638	10.6872	6.8398	10.6070	7.1478
Spain	Peseta	277.7778	173.9130	291.5452	186.5889	266.6690	179.7020
Sweden	Krona	8.6768	13.8447	14.1423	9.0511	13.4752	9.0806
Taiwan	\$	48.5909	30.4507	47.9616	30.7031	45.7280	30.8150
Tanzania	Shilling	1265.82	800.00	1250.00	800.00	1184.94	798.50
Thailand	Baht	60.2773	37.7786	60.1323	38.4763	58.0892	39.1450
Uganda	New Shilling	2439.02	1515.15	2367.79	1534.29	2355.77	1587.50
U.S.A	US \$	1.5957	1.0000	1.5625	1.0000	1.4840	1.0
Venezuela	Bolivar	1063.83	671.1409	1043.57	676.00	1014.88	683.9050
Vietnam	Dong	25000.0	14285.7	21613.0	13989.0	20897.0	14082.0
Zimbabwe	\$	60.9756	38.2117	59.9880	38.4025	56.6202	38.1550

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

Asian shippers hit by weak euro

The weakness of the euro in relation to the dollar has severely undermined European markets for East Asian hardwoods. Dollar-denominated Asian species are currently not price competitive against euro-denominated African species. In the UK, agents suggest that markets for Malaysian Dark Red Meranti and Seraya during May were "bordering on non-existent". **Page 3**

China booms

During early 2000, China has continued in its role as the major engine driving the Far Eastern hardwood market. According to official figures, China's economy performed well during the first quarter of the year. **Page 3**

Japan stagnates

Japan's wood market is forecast to stagnate during 2000. The Japanese Wood Agency predicts that wood demand in Japan will reach 95 million m³ this year, which is 1% less than last year. **Page 3**

China leads Japan on log imports

Recently released ITTO data indicates that during 1999 China deposed Japan in its long standing position as the world's largest tropical log importer. China's tropical log imports increased by 78% from 2.76 million m³ to 4.91 million m³ between 1998 and 1999. Japan's tropical log imports in 1999, at 3.8 million m³, were a significant increase on 1998 levels, but remain well short of imports prevailing prior to the Asian crises. **Pages 10/11**

African prices stabilise

Prices for many African hardwoods rose consistently between May 1999 and March 2000 in response to tight supplies and rising European demand. However price levels have now stabilised. There are signs that European buying slowed during May as stocks built up sufficiently to meet current levels of demand. As to the future, the consensus is that African hardwood price levels should remain relatively stable during

the summer. After that, much will hinge on currency developments, but tightening supplies in the second half of 2000 make further upward movement in African hardwood prices more likely. **Page 4**

Brazilian supplies imminent

Harvesting operations in the Brazilian Amazon region are just beginning as the rains have begun to abate. New season sawnwood supplies should begin to become available during the next 2-3 weeks. Expectations are that existing high prices for mahogany will be maintained this year. **Page 5**

US exports hampered

While US hardwood exporters have benefitted from improving economic conditions in Far Eastern and European markets, export performance is hampered by the strength of US economy. The strength of the US dollar; limited availability for export; and firm pricing have all slowed momentum. These problems persist despite generally good log supplies and relatively high levels of lumber production. **Page 6**

US economy "stretched"

The US economy continued strong throughout the first quarter of 2000 recording 5.4% growth. But, as the *The Economist* notes on 13 May "In recent weeks, the signs that the economy is being stretched beyond its limits have become unmistakable. Every measure of inflation has ticked up". These fears encouraged the US Federal Reserve to raise interest rates by 0.5% to 6.5% on 16 May. Higher interest rates will inevitably hit house starts and should cool consumer spending. Higher interest rates may also boost the value of the dollar. In the short term there seems little likelihood of the US dollar weakening. **Page 6**

European demand improves

The European hardwood market is characterised by progressively improving

demand, backed by solid growth in the construction sector, an active joinery sector, and steady demand from furniture manufacturers. The weakness of the euro has meant that European hardwoods are very competitive against US equivalents. Firm demand has ensured that European prices for higher grade European sawnwood have remained stable despite excess log supply resulting from the severe damage to French and German hardwood stands during the December 1999 storms. **Page 7**

Plywood prices slip back again

Indonesian plywood prices have slipped back again over the last month and now stand at INDO96 less 22/23. Malaysian and Brazilian competitors are not exporting to European markets at these levels. Indonesian plywood exporters continue to sell enthusiastically on the international market with the short term aim of acquiring foreign exchange. Trade associations are discussing price rises. However overwhelming market forces suggest these talks will have little impact. **Page 9**

1999 tropical log production

Official data released in the ITTO Annual Review suggests that overall tropical log production and exports in 1999 continued at the comparatively low levels prevailing during the height of the Asian crises in 1998. The data highlights significant changes in the structure of tropical log exports. For example African log exports declined 10% during 1999, while Asian log exports increased by 7%. **Page 10**

Cameroon overcapacity threat

A recent government audit of the forest sector in Cameroon has highlighted the growing threats of illegal logging and overcapacity **Pages 1 & 14**

German shift to temperate

Newly released German hardwood import data highlights the continuing shift away from tropical wood in favour of temperate suppliers, notably in Eastern Europe. **Pages 12 & 13**