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US exports recover in 2nd half of 2003

Due to rising unit prices and a surge in exports towards the end of last year, the value of U.S. exports of hardwood logs, lumber and veneer during 2003 overtook the previous year's level. Export volumes were marginally down on the previous year.

The volume of U.S. hardwood log exports last year declined by 5% compared to the previous year, while the export value increased by 9%. These trends reflect a significant increase in the unit value of exported logs from \$198/m³ to \$225/m³. The increase in unit value reflects limited log availability during 2003 and rising demand, particularly in the domestic market. U.S. exporters were also taking advantage of the weak dollar to push through price rises and ease pressure on margins that had intensified during the previous two years.

The rising unit value also reflects a shift in the direction of trade. The volume of logs exported to Canada – which imports a larger quantity of cheaper lower grade logs - declined by 6%. Meanwhile, there was a significant increase in higher value log exports to several more distant locations, including the E.U. and mainland China.

In the E.U., American hardwood log exports to Italy, Portugal, the U.K and Spain were significantly higher in 2003 than during the previous year. Exports were stable to Germany and declining to France.

While mainland China is importing more hardwood logs, the overall level of log exports to Greater China – which includes Hong Kong and Taiwan – actually declined last year. There was no repeat of the surge in log exports to Greater China that occurred in 2002. The recent rise in log exports to mainland China seems indicative of internal shift in the geographic distribution of wood processing capacity away from Taiwan and Hong Kong, rather than any significant move by Chinese manufacturers to increase their reliance on American hardwood logs.

The shifting location of Asian manufacturing capacity towards mainland China may also explain the decline in American hardwood log exports to several other key Asian markets last year - including Japan, South Korea, and Indonesia.

Lumber exports marginally down

The overall volume of American hardwood lumber exports during 2003 was only marginally down on the 2002 level. The value of exports actually increased by 4%, reflecting a rise in the average unit value of exports from \$449/m³ to \$469/m³. This accords with price series data which indicates a progressive rise in average dollar prices for American hardwood lumber during 2003.

The volume American hardwood lumber exported to the E.U. declined by 4% last year and was stable in value terms. The E.U. was a difficult market for American hardwood lumber during 2003. This reflected sluggish economic performance, rising competition from European white oak, and uncertainty created by currency volatility.

Nevertheless, the end of year data indicates a significant improvement in export performance during the second half of 2003 (export volume to the E.U. was down over 11% in the first 6 months of 2003). Export demand picked up particularly strongly in Spain towards the end of 2003, boosted by the weak dollar. Exports also picked up in Germany and Portugal last year. Exports to Italy in 2003 closely paralleled the levels reported in both 2001 and 2002.

However last year there was a significant decline in U.S. hardwood lumber exports to the U.K. (down 14%), Belgium (down 15%), France (down 26%), the Netherlands (down 21%), and Denmark (down 36%).

In the Far East, the volume of American hardwood lumber exports to mainland China increased by 25% last year. This followed a

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Editorial - 10 key factors

In an effort to make some sense of a highly complex market situation, I set myself the task of identifying 10 key features of the trade at present. This is the list I came up with, in no particular order:

■ Restricted log supplies in key supplier countries. Availability of commercially valuable hardwood logs is constrained in North America, the Far East, South America, and tropical Africa.

■ Exchange rates - the euro and yen are relatively strong, the dollar and yuan are weak.

■ The big shift in wood processing location from high cost countries, mainly in the West, to low cost countries mainly in the East, which has intensified over the last 4 years.

■ Improving demand in North America buoyed by strong construction activity.

■ Demand in China is rising strongly, due partly to the growth of the domestic economy and partly to good export sales of manufactured product on the back of the weak yuan.

■ Demand in the E.U. is patchy. Domestic consumption is improving slowly, but manufactur-

ers' exports are down due to the strong euro.

■ Prices for species and products invoiced in dollars - including North American and Asian hardwoods - are tending to rise.

■ Prices for species and products invoiced in euros - including European and African hardwoods - are much more mixed.

■ The shift in shipping capacity to service the Chinese market has meant rising freight rates and inconsistent shipping from other countries.

■ Environmental campaigning, which in recent months has focused heavily on illegal logging. This has encouraged efforts in key tropical supply countries to restrict harvests. Demand for timber certification is also rising.

On balance, this list implies that 2004 is likely to be a year of generally firming prices for hardwood products. But it also highlights the limitations of predictions based on simplistic analysis of supply and demand. Numerous external factors acting on the trade create uncertainty.

Rupert Oliver, Editor

Africa

African logs

Conflicting pressures

Conflicting pressures are acting on the African log market. On the one hand, rising costs resulting from higher taxes, increased freight rates and limited availability of many species argue in favour of price rises. On the other, the strong euro which reduces the competitive price position of African logs and sluggish export demand argue in favour of price reductions.

These conflicting pressures have created a complex market position. Market trends vary considerably by species, depending upon current availability, country of origin, and end use sector. FOB log prices (in euros) have firmed for certain species for which supply is now very restricted - for example iroko and pachyloba. In addition, producers in the Congo Basin have been forced to raise prices for sapele logs - despite relatively weak demand - because tax levels have risen and producers are so reliant on the margins derived from this single species. By contrast, euro FOB prices for other log species - such as okoume, movingui and sipo - have been declining in recent months to adjust for the strong euro and in response to limited demand.

Shipping problems have added another layer of complexity to the African log market. China's rapidly expanding economy and rising level of trade has meant a huge diversion in global shipping capacity to China. Capacity on other routes is becoming restricted. African countries have been particularly hard hit, with shipping opportunities becoming more limited and freight rates to all des-

tinations rising. ITTO reports that the shipping situation between Africa and the Far East has become "catastrophic with very limited immediate availability and delays of up to 2 months being talked about for shipments from Gabon." While underlying consumption of African logs remains sluggish in several key markets, inconsistent shipping tends to encourage importers to take logs when cargoes become available.

African indicative prices

	Jan	Feb	Mar
Exchange rates			
US\$/£	1.79	1.89	1.80
Euro/£	1.41	1.48	1.47

All prices include agents commission of 5%

Sawn lumber

Cameroon, CAR, Congo (Braz.)

Euro/m3; FOB

Grade/size: FAS, air dried, width 6"+, length 6'+

Sapele	470	470	440
Sipo	550*	550	520
Bibolo	380	380	380
N'Gollon	535	535	550
Iroko	630	640	650

*sipo price quoted in Jan 2004 was too high and has been corrected

Cote d'Ivoire

Euro/m3; FOB Abidjan

Grade: FAS, air dried

Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"

Iroko	630	640	650
Mahogany	440	470	500
Framire	340	340	370
Samba No.1 C&S	240	240	275

Dimension stock

Azobe	430/ 490	430/ 490	430/ 490
Dabema	300/ 380	320/ 350	300/ 350

Gabon

Euro/m3; FOB

Grade and size: FAS, width 6"+, length 6'+

Okoume AD	320	320	310
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Africa

African sawn lumber Losing market share

Trading conditions remain difficult in the African sawn lumber market. The high euro rate has meant prices are uncompetitive and there are signs in some sectors that market share is being lost to Brazilian and Asian timbers. European demand is generally confined, except for a few species for which supplies are now very restricted such as iroko and niangon. The European parquet sector has also been an exception, continuing to offer a good outlet for African lumber.

Species notes

■ **Acajou**: logs from Gabon are mainly destined for Mediterranean ports of France, Greece, and Turkey. Spain is also taking small quantities.

■ **Agba/tola**: Portuguese demand for good quality logs was down in January in response to over-stocking. More recent reports indicate steady demand in February. Log availability from Democratic Republic of Congo is rising, supplementing existing supplies from Gabon.

■ **Appa**: demand for good quality sawn lumber is in excess of supply.

■ **Azobe**: log supplies are restricted, but so too is demand. The Netherlands now imports very few logs and a higher proportion are directed towards Italy, France and Greece. Prices have been reasonably stable for logs, sawn lumber and manufactured products.

■ **Bahia**: lack of availability from Liberia has meant logs from Gabon are in good demand, particularly in Italy. Log prices are firm.

■ **Beli**: Gabon log prices are rising. Small quantities of logs are being shipped to Italy, France and Portugal.

■ **Belinga**: log prices from Gabon and Cameroon are tending to rise. Destinations include France and the Netherlands.

■ **Bosse**: There is steady demand for the limited volume of logs available from Gabon and prices are stable. Spain and France are importing logs for slicing.

■ **Dibetou**: Portugal is buying in small volumes at stable prices from Cameroon and Gabon.

■ **Douka/makore**: French demand for douka logs from Cameroon/Gabon has fallen alongside weakening demand and prices for moabi.

■ **Doussie**: log demand is tending to fall. Limited volumes are being exported from Gabon to Portugal, Germany, and Greece.

■ **Iroko**: log prices were rising in late January and early February, but now seem to

Demand for African lumber in this sector has been boosted to some extent by a partial return to fashion for darker woods. Sluggish demand in the E.U. has meant a continuing trend amongst African sawmillers to shift more of their production to the Middle and Far East. Considering major supply sources, log supplies have improved in Cameroon as the government has now started releasing coupe permits – although overall supplies are likely to remain down on previous years due to the shortened logging season and

have stabilized at a higher level as buyers in France and Italy have become more resistant. The increase resulted from higher demand, low production and delays in shipments of alternative species from Brazil. Availability of fixed sized sawn lumber from Ivory Coast remains restricted. Cameroon can offer stock in random sizes, but availability is restricted as iroko is only a minor species in this country. Shortages elsewhere are encouraging some buyers to take another look at iroko sawn lumber from Nigeria, despite logistical problems.

■ **Framire/idigbo**: supplies from Ivory Coast are now more consistent. Sawn lumber is moving well in the U.K. at stable prices.

■ **Izombe**: demand for logs from Gabon is high, particularly in Portugal where the species is partially substituting for iroko. Availability is restricted and prices are tending to rise.

■ **Khaya**: the limited volumes of sawn lumber available continue to be soaked up by U.S. manufacturers who are paying good prices. However the weak dollar has meant returns on this species have declined.

■ **Kevazingo/Bubinga**: France and Germany are buying limited quantities of logs. Chinese demand for logs has been quite buoyant and export prices were rising early in the year.

■ **Moabi**: A short term rise in FOB log prices was reported in January in response to limited supply and increased demand as French buyers came back into the market. However more recent reports suggest France is now well stocked, so the rise in demand was short-lived and prices have fallen away again. Moabi sawn lumber prices have remained more stable.

■ **Movingui/ayan**: log prices from Gabon and the Congo were falling at the turn of the year following over-buying by French importers in the second half of 2003. However on-hand inventories are now reduced in France and prices have stabilized. Movingui sawn lumber prices have been weakening

tighter control over harvesting.

Supplies from the Ivory Coast are now more consistent. The country remains politically unstable. However prospects for a lasting peace improved on 27 February when the United Nations agreed to finance and send around 10,000 UN peacekeeping troops and a 1,000 strong UN police force to take over from the French troops whose mandate has now ended. In recent months, a Lebanese group has bought up a large proportion of forestry permits and several German and Italian sawmills in the Ivory Coast.

in recent months.

■ **Niangon/ogue**: niangon is currently not available due to UN sanctions against Liberia. This has generated strong demand for ogue logs, a similar species derived from Gabon. Ogue is selling well in Italy, France, and Germany.

■ **Okoume**: the strong euro has undermined log demand from the Far East and resulted in continuing pressure to reduce prices.

■ **Pachyloba**: limited availability from Cameroon is creating demand for logs of this species from Gabon, notably in Italy. Smaller volumes are destined for Portugal and Greece

■ **Sapele**: the increase in FOB log prices reported in January has held, but it has yet to filter through into higher sawn lumber prices. The strength of the euro combined with the perception that stocks are adequate to meet current levels of demand has meant very restricted forward buying of sapele sawn lumber in the UK, Germany and the Netherlands. In fact there are reports that intense competition for sales has encouraged U.K. importers to reduce prices for onward sale to manufacturers.

■ **Sipo**: demand is now limited and focused on the highest quality logs from Congo basin. Small volumes are destined for niche markets in France. There is very little demand for lower qualities. Few buyers have been willing to pay premium prices for the better quality offered by this species over sapele.

■ **Tali**: there is some demand for logs from Cameroon and Gabon in northern Spain.

■ **Tiama**: there is a demand for small volumes of logs in Germany, Italy, and Portugal.

■ **Wawa/ayous**: Availability of Cameroon ayous logs is restricted and prices are stable to firm. Italian demand for sawn lumber has slowed. Demand for sawn lumber is stable at historically low levels in Germany. Demand in Spain, UK and South Africa is quiet.

Asia

Asian sawn lumber

Shippers maintain low profile

Availability of tropical sawn lumber from the Far East remains restricted due to the monsoon, the recent crack-down on illegal logging in Indonesia, and forest resource constraints. In Europe, low supply continues to be matched by restricted demand for most species and grades. Far Eastern shippers are therefore maintaining a relatively low profile in the European market, cutting only restricted volumes for European consumption and making few offers.

Reports from the Netherlands indicate that CNF Rotterdam prices (in US\$) being quoted by Malaysian shippers for dark red meranti (seraya and bukit) and merbau in typical Dutch specifications are tending to rise. Malaysian shippers are reported to have only limited stocks of 3x5" meranti lumber, the key specification for the Dutch market. Merbau is virtually sold out for immediate shipment. Although small parcels of merbau may be secured for shipment from July/August onwards, the signs are supplies will remain restricted for the rest of the year. But with Dutch demand very restricted, there is little willingness on the part of importers to accept higher prices for Far Eastern sawn lumber.

In early March, agents were quoting C&F Western Europe prices (in US\$) for meranti-tembaga sawn lumber at the same levels as early February, but they note that shippers are now talking of price increases. Although Malaysian shippers are said to be carrying only limited inventories of meranti-tembaga sawn lumber, stocks are still available for prompt shipment in April.

Keruing shortfall

U.K. importers are struggling to obtain sufficient volumes of keruing at attractive prices. Keruing lumber in the longer specifications required in the U.K. is in limited supply and shipping times are extended. Far Eastern shippers have been unwilling to cut at the prices typically paid by U.K. importers. The plywood industry has been paying better prices for raw logs, while Malaysian sawmills have found it more profitable to sell keruing sawn lumber to Thailand which is less demanding with respect to quality and size specifications. European agents are currently quoting prices for keruing sawn lumber at between US\$ 550-600 per tonne, C&F inclusive of agents commission.

European importers have been steadily building stocks of bangkirai/balau decking in anticipation of good consumption dur-

ing the spring and summer months. C&F Europe prices for balau/bangkirai decking profiles are reported as stable at around US\$ 675-685/m³ inclusive of agents commission. Far Eastern shippers are now reporting that availability is becoming more restricted and prices may have to rise further. There are also widespread reports of delayed shipments. These trends have encouraged more enquiries for Brazilian alternatives such as massaranduba. However availability of these Brazilian competitors tends to be erratic.

Dutch market remains quiet

The Dutch market remained very quiet throughout February and early March. There is very little buying activity despite a relatively mild winter which has meant only limited disruption to construction activity. However sluggish economic growth has meant that overall construction sector activity in the Netherlands is well down on previous years. Low consumption and continuing uncertainty over the US-dollar exchange rate is discouraging forward buying in the Netherlands. Existing landed stocks of meranti and merbau are widely reported to be more than adequate to meet current levels of demand.

Traders are keen to generate cash flow on the stock already on the ground and have been aggressively seeking orders. Prices to end users in the Netherlands have therefore continued to weaken.

Some importers are still holding stocks of Indonesian bukit, which is cheaper than Malaysian bukit but only available in shorter lengths. Prices for bukit 3x5" are often quoted to end users on the basis of Indonesian bukit in an effort to generate sales. This has the damaging effect of reducing end users' price expectations, and further restricting demand for Malaysian bukit.

Slow German consumption

German consumption of Malaysian sawn lumber remains subdued, although there have been reports of a slight improvement in buying from some sectors in recent weeks. Some German importers have been encouraged to take advantage of the weak US dollar to restock, although volumes involved are not large.

Demand for South East Asian laminated scantlings remains restricted in Germany. While the weaker dollar tends to improve price competitiveness of South East Asian products, this has been largely offset as exporters have imposed higher C&F dollar prices in response to restricted supply and rising freight rates. Supplies of scantlings

from Indonesia are becoming more restricted due to increased controls on illegal logging. The German market is currently not receptive to higher priced scantlings. In addition, due to inconsistencies in the quality of wood raw material, South East Asian producers are struggling to meet technical standards for windows in Germany which require a critical density of 450kg/m³. Longer shipping times are required in order to accumulate material of sufficient density.

Limited forward buying in the UK

Some of the larger trading companies that already hold Malaysian lumber stock on the ground in Europe, report steady buying of meranti-tembaga sawn lumber by UK manufacturers. However their existing stocks are said to be adequate to meet current levels of demand. UK agents report that forward demand for Malaysian meranti-tembaga remains slow, although the level of enquiries has picked up a little in recent weeks. Overall consumption of meranti in the U.K. is now well down on previous years. The weak dollar and relatively competitive pricing has yet to stimulate any significant shift to meranti away from African sapele, the UK's preferred tropical redwood.

However, the limited volume of MTCC certified meranti available from West Malaysia is generating more interest in the U.K., despite a price premium of around 6% over uncertified material. This reflects increased pressure from public sector specifiers in the U.K. to provide assurances that wood derives from legal and sustainable sources, in particular to demonstrate that it does not derive from Indonesian sources. Demand for MTCC certified wood is expected to increase in the U.K. during 2004.

Asian Sawn Lumber Indicative Prices

	Jan	Feb	Mar
Exchange rates:			
M\$/£	6.83	7.19	6.83
US\$/£	1.79	1.89	1.80
M\$/US\$	3.80	3.80	3.80
Malaysia			
All prices US\$/ton, C&F UK port, including 5% agents commission			
West Malaysian Dark Red Meranti			
Grade: Select & better GMS; Kiln dried			
Size: Width 6"+ avg 7"/8"; Length: 8'+ avg 12'/14'			
1"	770	790	790
2"	800	810	810
2.5"	850	855	855
3"	870	875	875
Myanmar Teak			
US\$/50 cu ft, FOB Rangoon/Bangkok/Singapore			
Grade: Air dried boards			
Size: Width 6"+ avg 8", Length 6'+ avg 8'			
1"	3350/ 3600	3350/ 3600	3350/ 3600

Asia

Japan

Import decline continues

Japan's imports of Southsea logs during 2003 fell 13.3% compared to the previous year. Although log imports increased at the start of 2003 as domestic plywood mills benefited from the shift to JAS-certified product, this boom was short-lived. The long term trend towards declining tropical hard-

Japan tropical hardwood imports 2002 and 2003, 000 m3

	2002	2003	% chg 01-02
Southsea logs			
Total import	1982	1717	-13.4
Sabah	126	149	18.3
Sarawak	1389	1121	-19.3
Indonesia	0	0	0.0
Solomon Is.	55	38	-29.7
PNG	413	409	-1.0
Total demand	1962	1779	-9.3
For plywood	1766	1604	-9.2
For lumber	196	175	-10.7
Stock	465	404	-13.1
African logs			
Total import	111	120	8.1
Total demand	130	107	-17.7
For plywood	123	102	-17.1
For lumber	7	5	-31.8
Stock	11	25	117.5
Southsea lumber			
Total import	816	786	-3.7

wood log imports resumed in the second half of 2003.

Japanese imports of Southsea lumber reached 786,400 cubic meters in 2003, down 3.7% compared to the previous year. Imports had been rising until the end of October 2003, but this trend was sharply reversed during November and December, pulling down the annual results. The big fall in tropical lumber imports at the end of 2003 was due to a decrease in the availability of logs in the major south east Asian producing countries, and continuing weak demand in Japan which meant importers were unwilling to accept price rises. Rising prices combined with declining and inconsistent availability of high quality raw material have meant that Japanese end-users are turning away from Asian hardwood lumber.

Japanese domestic production of tropical lumber based on imported logs is also in long-term decline. This industry consumed only 174,800 cubic meters of tropical logs in 2003, down 10.7% on the previous year. This trend is expected to continue into 2004.

Japan's imports of temperate hardwood logs increased by 12.1% during 2003 to 336,000 m3. This is a rebound following two years of declining temperate hardwood log imports during 2002 and 2003 as supplies from Russia had become increasingly difficult. Imports from Russia were rising again in 2003,

although this seems to reflect a shift away from Russian oak which is not readily available, perhaps in favour of birch which may be more accessible.

Japan's temperate hardwood lumber imports declined by 3.2% last year, with a particularly sharp fall in imports from the USA. This was compensated by increased lumber imports from China, Canada, and Russia last year.

Japan temperate hardwood imports 2002 and 2003, 000 m3

	2002	2003	% chg 01 to 02
Logs			
Total import	299.7	336.0	12.1
Russia	225.2	261.0	15.9
USA	59.0	60.0	1.7
China	13.7	12.0	-12.4
Canada	1.2	2.0	63.4
Oak	104.8	96.0	-8.4
Russia	61.0	51.0	-16.4
USA	41.0	43.0	4.9
Sawn lumber			
Total import	178.7	173.0	-3.2
China	80.4	81.0	0.7
USA	74.4	67.0	-9.9
Canada	13.5	14.0	3.4
Russia	8.3	10.0	20.7
Oak	34.2	33.0	-3.6
China	19.3	19.0	-1.5
USA	10.9	10.0	-7.9
Canada	2.6	2.1	-20.0
Russia	1.1	1.4	30.0

Plywood

Dramatic price rise

FOB prices for Indonesian plywood have risen dramatically as supplies have become increasingly restricted. Forward prices for BB/CC plywood are now being quoted in the UK at around INDO96 plus 9% or 10%. This is up from prices equivalent to the INDO96 level in early February, and at around INDO96 less 22% in November last year. The rapid price rise reflects a range of factors including the on-going crackdown on illegal logging, resource constraints, the weakness of the US dollar, poor weather in the major regions of log supply, mounting technical requirements, rising freight rates and improving demand.

Government policy in Indonesia is to reduce officially sanctioned harvesting in natural forests to 6.89 million m3 this year. Installed capacity in Indonesia is well in excess of sustainable supply, so the government is also trying to downsize industry through a mandatory certification process which assesses each manufacturer's ability to source timber from well managed forests. The aim is to use the certification process to take

out the worst run mills and concessions.

In early March 2004, the Indonesian government announced emergency measure to establish a force with special powers to arrest smugglers and illegal loggers and seize their timber. The force will have the power to immediately sell seized timber and submit the money to state. The force will be composed of people from the police, the prosecutor's office and the navy and will have special authority to detain even government employees helping the smugglers. A special court may also be established to ensure cases of illegal logging are handled quickly and effectively.

Mounting supply problems

Recent trade statistics give some indication of the extent of the mounting supply problems in Indonesia. 45% of Indonesia's domestic market for plywood is now supplied by imports compared with only 17% in 1995. Meanwhile Indonesia's plywood exports during 2003 are estimated to have reached around 5.5 million m3, down 1 million m3 on the previous year.

Japanese demand for plywood has been

sluggish in recent weeks due partly to the usual winter slowdown in construction activity. Nevertheless, Japanese importers are reported to be having difficulty securing adequate stocks of hardwood plywood.

Big changes in Japan

Newly released data indicates that overall plywood supply in Japan during 2003 reached 7,595,000 m3, a decline of 1.9% compared to the previous year. While the overall level was relatively stable, this masks some very significant changes in the Japanese plywood market during 2003.

A major factor was the revision of the Building Standards Law which became effective in July last year and imposed new requirements for formaldehyde emissions. The new regulations require that all plywood used for construction must be JAS certified. Japanese plywood manufacturers were well prepared for the legal change and were able to extend their share of the market during 2003, particularly for softwood plywood. As a result, Japan's production of softwood plywood in 2003 surged by 40%. Japan's hard-



Plywood

wood plywood production also increased for a brief period in the first half of 2003. Overall Japan's plywood production increased by 9.7% during 2003 to 3,019,000 m³.

By contrast, Indonesian manufacturers - who are the largest external suppliers of plywood to Japan - were slow to react to the new regulations. JAS-certified plywood from Indonesia only started to arrive in Japan in autumn last year. As a result, Japan's overall imports of plywood for the whole of 2003 declined by 8.3% to 4,576,000 cubic meters.

The rapid rise in Indonesian plywood prices suggests that the pace of change in the Japanese market is unlikely to abate during 2004. The price differential between domestically manufactured and imported plywood is likely to diminish in Japan, opening up further opportunities for Japan's domestic mills to expand market share.

Europeans taken by surprise

The pace of the Indonesian price rises has also taken many European importers by surprise. It has produced a complex price situation in the importing markets. Newly arriving material was ordered some time ago at much lower prices.

Many European importers were hesitant to rebuild stock of tropical hardwood plywood at the end of last year and they are carrying only relatively low inventories. Many are now looking for alternatives to Indonesian plywood. Some importers are taking a closer look at plywood manufactured in China. In addition to offering lower prices than Indonesian suppliers, Chinese manufacturers benefit in the European market from more stable freight rates and shipping times. However, the Chinese product which is generally composed of a tropical hardwood face and poplar core is less durable than Indonesian plywood and often cannot be directly substituted.

The problems of finding alternatives in the European market are made more complex by the introduction of new CE-Marking requirements in Europe from 1 April 2004.

Mandatory CE-Marking in Europe

CE marking will be mandatory for wood-based panels entering the European Economic Area (EEA), which, this year, will expand to 28 countries, the 15 European Union (EU) Member States, the 10 new EU Member States and the 3 European Free Trade Association (EFTA) Member States. In practice, the new regulations mean that it will be a requirement for wood-based panels used in construction to conform to the

European Harmonised Standard (hEN) EN 13986 "Wood-based panels for use in construction - Characteristics, evaluation of conformity and marking". This standard encapsulates the requirements of around 100 individual standards containing specifications, performance criteria and test methods applicable to plywood, particleboards, fibreboards, OSB, and other solid wood panels. Conformance with the standard is required irrespective of whether the product

is manufactured inside or outside the European Union. The standard specifies performance requirements for particular end-use applications, including strength and durability, reaction to fire; and level of formaldehyde emissions. The standard also itemises the marking requirements themselves and describes appropriate certification procedures. Where third-party certification is required to support the CE Mark, this must be carried out by a European Notified Body.

Veneer

The global sliced veneer market has undergone massive changes in the last few years. Germany's dominance in this market has been eroded as veneer producers and their major buyers in the furniture sector have chosen to relocate operations to lower cost locations. The rapid increase in furniture manufacturing capacity in the Far East has been associated with a decline in furniture manufacturing in western Europe and North America.

In line with these developments, the leading veneer manufacturers in western Europe have shifted their main veneer production capacity to Eastern Europe. For example, Danzer's main production plants are now in the Czech Republic and Latvia and these

mills have become leading suppliers to the Eastern European furniture manufacturing sector. Danzer's remaining German mill focuses heavily on high value low volume niche markets such as the car industry and high-end joinery. Meanwhile, due to increased restrictions on log exports, there has also been a shift in veneer processing capacity to tropical countries.

The changes have not only been geographical in nature. The structure of the western European furniture industry is also changing. Companies like IKEA have created a mass market for relatively low-end furniture, undermining the market for higher quality veneer products offered by German production plants. Many of the furniture manufac-

Veneer exports from main E.U. supplying countries

	2002 Jan-Sept million euro	2003 Jan-Sept million euro	% chg 02-03	2002 Jan-Sept 000 m ³	2003 Jan-Sept 000 m ³	% chg 02-03
Germany						
Total temperate	185.8	181.5	-2.3	72.2	73.7	2.1
Italy	24.7	26.1	5.5	7.7	9.6	25.5
Spain	17.1	19.0	11.3	6.9	7.9	14.8
USA	12.9	12.2	-6.0	1.7	1.6	-8.5
Austria	10.3	11.3	9.4	2.3	3.0	30.5
Total tropical	24.6	25.8	5.0	11.9	13.8	16.0
Greece	4.1	4.5	7.8	1.7	2.1	24.9
USA	4.6	3.9	-14.4	0.8	0.9	16.8
Austria						
Total temperate	55.3	63.3	14.5	17.3	20.1	16.4
Germany	20.3	23.1	13.7	6.5	8.7	35.5
Romania	12.6	17.9	41.5	1.7	1.7	-1.3
Italy	4.4	4.2	-5.9	1.5	1.5	-1.2
Italy						
Total temperate	53.0	56.0	5.6	15.8	18.0	14.0
Germany	18.5	19.4	4.8	3.2	3.1	-4.9
Spain	5.2	7.0	36.2	2.2	2.6	15.3
Slovenia	4.4	4.1	-7.3	1.4	1.3	-3.9
Total tropical	14.2	10.2	-28.3	6.2	5.5	-12.2
USA	2.2	2.0	-8.5	0.6	1.0	85.9
Germany	2.4	1.6	-32.4	0.8	0.6	-14.1
France						
Total temperate	53.3	53.9	1.1	39.7	33.9	-14.7
Germany	12.6	13.2	5.4	6.9	7.2	4.2
Italy	9.7	8.5	-13.1	11.6	6.2	-46.5
UK	4.0	5.4	35.9	1.5	1.6	5.0
Total tropical	13.4	9.2	-31.5	32.7	21.3	-35.0
Italy	7.4	5.1	-31.1	30.4	19.4	-36.2
USA	2.6	2.1	-19.6	0.5	0.5	17.7
Spain						
Total temperate	19.4	27.2	40.4	17.2	22.8	32.1
Italy	7.5	8.5	13.5	9.3	11.4	21.9
Portugal	1.3	5.5	319.6	1.0	4.8	396.9
France	1.3	4.4	230.6	0.9	2.0	119.7
Total tropical	13.2	13.4	1.1	13.8	15.8	14.5
Italy	2.2	2.1	-6.2	2.1	2.7	26.9
Portugal	2.0	1.9	-5.1	1.5	1.6	7.8

Veneer

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 rurers still based in the western world have shifted away from solid wood veneers in favour of non-wood foils and paper finishes as a cost saving device. These materials may also be more easily adjusted to cope with changing fashions. There has also been a shift towards use of mass-produced veneered panels. Rather than selling direct to the furniture manufacturers, a higher proportion of veneer sales are now bulk sales to the veneered panel manufacturers.

More recently, European veneer producers have been struggling to cope with declining prices for mass produced items. The strength of the euro is also undermining demand. At present, European producers are unable to compete in the Asian market. The weak dollar means that North American producers are better placed to compete, but even they are losing market share to manufacturers based in the Far East.

The German trade journal EUWID reports that after two years of stagnation, signs are now emerging of improved veneer demand from the western European furniture sector. However, demand from the door and interiors sectors remains weak. Many manufacturers in these sectors are reported to be carrying relatively high stocks of veneer. Demand for sliced veneers in Italy and Greece has been showing signs of improvement this year. However demand in France, Spain, Benelux, Scandinavia and the UK remains slow.

An indication of current fashions in veneers emerged at the Cologne furniture fair and ZOW furniture supply show in January and February respectively this year. At both fairs, there were indications that manufacturers are now less focused on the lighter shades and instead are using a wider range of colours. Although still significant, the importance of beech has continued to decline. Darker hardwood species are now often used in conjunction with the lighter species. The trend towards increased use of oak is well documented, this species having been heavily promoted since at least 2000. At the German trade shows, it was clear this species has become well established. Initially lighter oak finishes were prevalent, but now there is growing use of darker oak finishes. Walnut is another species that is benefiting from recent fashion trends. Walnut has been a feature of Italian furniture design for some time and has also penetrated the UK and Benelux markets fairly effectively. The Cologne and Zow shows indicate walnut is now also fashionable in Germany.

European hardwoods

■Hardwood log availability at the main winter auction sales in western Europe has been rising this year.

■In Germany availability has recovered after a significant reduction in harvesting during the 2002/2003 logging season. The volume of oak saw and veneer logs on offer at the big German auction sales this year is up around 25% on last year. The volume of beech logs on offer also increased by around 20% compared to the 2002/2003 season, although levels are still well down on those prevailing in 2001/2002.

■In France, harvests were severely affected between 1999/2001 and 2002/2003 by the December 1999 "hurricane" which threw large quantities of lower grade logs onto the market. In the immediate aftermath of the storm, the French Office National des Forêts (ONF) severely restricted new harvesting. However the forests are recovering and ONF report that growth rates have now recovered to levels prevailing before December 1999. Overall log harvests in the French autumn auction sales were up 7% in 2003 compared to the previous year. The proportion of lots sold in France has also improved since last winter season, indicating that stocks of material stored in irrigated yards are now depleted.

■The last few years of price volatility in the European hardwood sector has encouraged the ONF to adopt a policy of adapting harvest levels more closely to market demand. Therefore increased harvesting in France this year has focused more on oak than on beech. During the auction sales in autumn 2003, around 50% of hardwood logs comprised oak while only 20% comprised beech.

■For lower and medium grades of oak, the rise in availability of logs in both Germany and France has been matched by solid demand from mills supplying the western European flooring and joinery sectors and prices have remained level. However prices for high grade oak logs have tended to weaken as demand from the French cask sector is not as strong as last year.

■For beech, increased availability has not been matched by a rise in demand. Chinese

demand has remained very weak this year. In addition, demand from western European sawmills has been sluggish due to reduced capacity and continuing slow sales of beech sawn lumber. As a result, average prices for all grades of beech log at the German winter auction sales this year are down around 10%-15%. In France, average prices for higher grade beech logs at the auction sales in autumn 2003 were down around 15-20% compared to the 2002 sales. Prices for medium and lower grade beech logs, which fell dramatically between 2001 and 2002, continued to decline in 2003.

■Harvests of ash have also been rising in Germany this year. Average prices have been falling due to increased availability and lower average quality of the logs extracted.

■More of Germany's log harvest is being exported due to a decline in domestic sawn lumber production and a shift in processing capacity to lower cost countries.

■In the first nine months of 2003, German exports of oak saw logs reached 116,000 m3 compared to only 68,000 m3 in the first nine months of 2002. Oak exports to Denmark increased 19% to 40,250 m3 and exports to France increased 60% to 19,500 m3. Oak log exports to China and Italy rose from negligible levels in the first nine months of 2002 to 15000 m3 and 12000 m3 respectively in the same period of 2003.

■In the first nine months of 2003, German exports of beech saw logs reached 505,500 m3 compared to only 451,700 m3 in the first nine months of 2002. Exports to China/Hong Kong declined sharply from 276,000 m3 to 224,000 m3. However this was compensated by an increase in exports to Denmark (from 86,000 m3 to 134,000 m3), Italy (from 29,000 m3 to 50,000 m3 and Sweden (from 9,000 m3 to 39,000 m3).

■Indications from the Croatian winter log auctions, which take place during peak logging season between November and January suggest oak log prices remained reasonably stable at the higher levels achieved last year. Croatian oak lumber prices are also reported to be stable.

Average hardwood log prices at French ONF autumn auction sales (euro/m3)

	Diameter	1993	1995	1998	1999	2001	2002	2003	% 02-03
Oak	50 cm and more	103.7	123.0	118.1	127.3	120.4	114.2	102.4	-10.3
Oak	30-45 cm	30.2	37.7	34.8	37.2	32.5	29.8	27.2	-8.7
Oak	25 cm and less	8.2	11.1	9.1	9.0	9.3	8.2	6.6	-19.5
Oak	All diameters	65.9	79.6	75.3	81.3	75.0	74.1	69.0	-6.9
Beech	40 cm and more	58.5	84.3	92.5	94.8	70.0	55.1	42.9	-22.1
Beech	30-35 cm	19.5	28.2	25.8	25.3	21.0	18.3	15.4	-15.8
Beech	25 cm and less	7.6	11.0	9.9	9.5	9.3	8.1	7.0	-13.6
Beech	All diameters	46.5	67.8	73.9	76.5	51.2	41.5	34.7	-16.4

Source: *Commerce International du Bois*

Romania

Of all Eastern European countries, Romania holds the largest stock of hardwoods. The net annual increment of Romania's hardwood forests is around 21 million m3, twice that of Ukraine and three times that of Poland. Romania's domestic consumption of solid wood continues to expand as the country makes efforts to regain some of its traditional export markets for furniture (especially the EU), while domestic demand from the construction sector is also rising. However Romania's wood industry continues to export a significant volume of hardwood sawn lumber, particularly to Italy, Greece and Hungary.

These are the main conclusions of a recent report on the Romanian wood industry by the U.S. Department of Agriculture.

Domestic demand exceeds supply

Romanian domestic demand for solid wood for construction, furniture, and all other uses, is estimated at between 18 and 20 million m3 a year. This is in excess of the legal allowable cut and has triggered increases in domestic log prices in recent years. This situation has led the domestic processing industry to lobby hard for export restrictions. An export ban on logs was briefly introduced in November 2001 in response to this pressure. The ban was removed in April 2002 as the log supply problem eased. At present there are no formal restrictions on the export of Romanian logs and lumber. However these exports are monitored by means of licenses issued by the Ministry of Agriculture, Waters, Forestry and Environment, in order to prevent a recurrence of domestic market shortages. During 2003 Romanian log exports fell significantly in parallel with a vigorous push to increase lumber exports.

Increase in allowable cut

The allowable cut to be harvested throughout the November 2003 – April 2004 season was set by the National Forest Administration at 18 million cubic meters, compared to 16 million m3 in the two previous harvesting seasons. Of the approved amount, 12 million cubic meters will come from forests publicly owned and administered by the National Forest Administration (Romsilva), with the balance allowed to be cut from forests in private property and in local administration. The actual harvest is likely to be lower than the allowable cut due to lack of infra-structure.

Romania has a well established wood processing industry which has benefited from inward investment in recent years. This has driven rising levels of production and increased consolidation. Total volume of

production in the sector is estimated to have increased by 16% in 2003. The volume of wood product exports (excluding furniture) is expected to have risen around 9% last year. Despite recent consolidation, a large proportion of lumber production continues to derive from small and medium sized enterprises which benefit from a number of fiscal and financial incentives, consistent with the Romanian government's efforts to promote regional and rural employment.

Large lumber production

In 2003, Romania produced over 3.5 million cubic meters of lumber (of which more than half came from relatively small factories). National statistics indicate that the relatively large wood processing companies produced 27 million m2 of veneer sheets, and 75,000 m3 of plywood.

In 2003, Romania exported around 85,000 m3 of hardwood industrial roundwood, with the major destinations being Turkey (oak, beech), Austria, Italy, and Spain. In addition, Romania exported around 490,000 m3 of hardwood lumber in 2003 mainly to European destinations including Italy, Greece, Turkey, Spain, France, Portugal, and Germany. Last year, Romania is thought to have imported around 3,300 m3 of oak and beech logs from Ukraine and Russia.

Rising log prices

Despite the increase in harvest this year, latest reports (March 2004) indicate that prices for hardwood logs have been rising and that good demand from domestic sawmills has meant few logs are being exported. This year, the Romanian market for hardwood sawn lumber has followed different paths depending on species. In common with other parts of Europe, demand for rough sawn beech remains weak. As a result Romanian processing plants have been switching from rough sawn beech production in favour of value added products and wood components for the furniture industry. Demand for Romanian beech glulam boards has been strengthening this year from furniture manufacturers in north western Europe. Meanwhile demand for sawn oak in Romania has been in excess of demand. Romanian furniture producers report steady demand for finished oak furniture and for oak parquet in their major European markets. More Romanian companies are now considering supplementing oak supplies by importing from Ukraine.

The dilapidated furniture sector that existed in Romania in the communist era crashed in the early 1990s. However the sector is now being gradually rebuilt with producers look-

ing to regain market share in Western Europe. Production has been rising by an average of around 7% per year since 1998. There are now around 2900 furniture producers employing about 100,000 people. Domestic demand for high value furniture products – Romania's specialty - remains low. As a result, around 80% of the furniture produced in Romania is exported. In 2002, furniture exports reached \$614.4 million, 23% up on 2001. Provisional estimates suggest the value of furniture exports increased by a further 7% in 2003.

Large hardwood resource

Romania's forests cover 6.5 million hectares, around 27% of the nation's territory. 18% of total forest area comprises white oak, 31% comprises beech, and 21% other hardwoods such as poplar and willow. Although only 30% of forest area comprises conifers, these are a more important source of wood supply. Over 65 percent of the wood processed in Romania is harvested from coniferous forests, with the balance of 35 percent derived from deciduous forests.

4.7 million hectares, over 70% of total forest area, is owned by Romsilva. The balance is in private ownership. Until the end of the 1990s, around 95% of the total forestland was public property. However after completion of the land restitution process - by 2005 - one third of the country's forests are expected to have been returned to the former owners or their heirs.

Deforestation on private land

A recent report by the National Control Authority reveals that the deforestation rate in forests returned to private owners was unexpectedly high during the 1991-1999 period. The new private owners lack experience of sustainable forestry practices. They have also preferred to harvest timber quickly rather than risk losing it all in an illegal cut. Another problem is that there is no effective system of forest land registration in Romania. This means property rights cannot be clearly determined and forest authorities have lacked the means to track timber removals from private lots and to impose fines when the allowable cut is exceeded.

Measures are now being introduced to improve management of private forests. In mid-2003, forest rangers were made available free of charge to private forest owners to help guard their stocks. In addition, the Ministry of Agriculture and Forestry is trying to buy back ownership rights to private forests which are being neglected or poorly managed by their new owners.

North America

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52% climb in 2002. This reflects the rapid expansion of China's economy, shortages in Chinese domestic wood supply, and growth in China's furniture industry. However the volume of lumber exports to Hong Kong fell by 21% last year, as the region lost business to the mainland and suffered serious economic disruption in early 2003 due to the SARS outbreak. Exports to Taiwan also continued to decline last year.

After a very slow start to the year, there was some pick-up in lumber demand in Japan in the second half of 2003 as the yen strengthened against the dollar. Overall U.S. hardwood lumber exports to Japan finished the year 5% down on 2002. The boom in U.S. lumber exports to South Korea in 2002 due to increased renovation activity proved short-lived, and exports fell last year.

South East Asian markets were generally sluggish last year, perhaps indicative of growing pressure on wood product manufacturers in this region from competitors in mainland China. It remains to be seen whether efforts by manufacturers in Malaysia and Thailand to go up-market will create significant new opportunities for American hardwood in the region.

American hardwood lumber exports to Vietnam were slow at the start of 2003 following excess buying in 2002. However, exports to this destination picked up in the last quarter of 2003, finishing the year only 5% down on the previous year.

American hardwood lumber exports to Canada rose strongly in 2003, following a big increase the previous year. Exports have been boosted by strong demand from Canadian flooring manufacturers.

Tough conditions for veneer

Trading conditions were tough for U.S. hardwood veneer producers during 2003. With the decline in furniture manufacturing in the United States, U.S. sliced veneer manufacturers have been looking to export more product. However, during 2003 they were unable to hold on to the export gains made the previous year. The overall volume of exports was down 5%, while the dollar value of exports remained static during 2003. Exports to mainland China and Taiwan fell significantly last year as competition from China's domestic manufacturers intensified. Exports of American hardwood veneer to the E.U. were stable overall but there were changes in the direction of trade. Exports increased to Germany, Italy and Portugal, but declined to Spain and Belgium.

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United States Hardwood Exports 2002-2003

	Value US\$1000			Volume 000 m3/mill. m2		
	2002	2003	% chg	2002	2003	% chg
Hardwood logs (000 m3)						
CANADA	174602	192347	10	1610.8	1512.2	-6
CHINA	44438	49604	12	98.6	114.4	16
ITALY	21743	25500	17	70.9	89.0	26
JAPAN	23206	23307	0	84.4	69.9	-17
HONG KONG	38423	32748	-15	94.3	65.9	-30
GERMANY	37413	41320	10	61.6	59.7	-3
SOUTH KOREA	16330	13697	-16	41.3	34.1	-18
INDONESIA	16466	14843	-10	36.8	29.3	-20
SPAIN	11759	13313	13	21.1	23.7	12
TAIWAN	12744	11353	-11	24.9	22.1	-11
MEXICO	5014	7706	54	11.6	22.0	90
PORTUGAL	5328	8448	59	11.2	16.4	47
UNITED KINGDOM	3746	6839	83	7.4	12.2	65
MALAYSIA	4858	5168	6	8.8	12.1	38
VIETNAM	4682	6024	29	8.9	11.7	30
FRANCE	5543	4666	-16	14.8	11.0	-26
THAILAND	2755	3518	28	8.4	10.3	22
EUROPEAN UNION	94687	112341	19	217.7	234.6	8
GREATER CHINA	95604	93706	-2	217.8	202.4	-7
SOUTH EAST ASIA	24407	23758	-3	54.7	52.2	-5
N. AFRICA/MID. EAST	2225	2556	15	3.4	3.8	11
TOTAL	449714	488723	9	2272.4	2168.3	-5
Hardwood lumber (000 m3)						
CANADA	360285	413938	15	969.0	1019.3	5
CHINA	84315	109131	29	243.6	301.2	24
HONG KONG	86939	70967	-18	219.8	174.3	-21
MEXICO	63586	69812	10	172.5	173.5	1
SPAIN	88566	93953	6	173.3	171.3	-1
ITALY	82010	88939	8	160.8	165.2	3
UNITED KINGDOM	74125	65387	-12	103.8	89.2	-14
JAPAN	48351	48747	1	93.5	88.5	-5
TAIWAN	29105	24798	-15	73.1	66.0	-10
THAILAND	23989	18699	-22	63.9	49.5	-23
GERMANY	22163	24733	12	32.8	40.3	23
PORTUGAL	21775	25353	16	37.6	39.4	5
SOUTH KOREA	24659	20331	-18	40.4	33.9	-16
BELGIUM-LUX	22533	20943	-7	35.4	30.3	-15
MALAYSIA	16701	14529	-13	35.8	28.0	-22
VIETNAM	11114	11301	2	26.5	25.6	-3
FRANCE	16512	13105	-21	28.9	21.6	-26
IRELAND	16503	15921	-4	22.0	20.1	-8
SWEDEN	15208	14688	-3	20.5	18.5	-10
SAUDI ARABIA	16236	12386	-24	24.0	18.1	-25
SOUTH AFRICA	11172	11385	2	18.7	17.8	-5
INDONESIA	9654	8406	-13	21.8	16.9	-22
GREECE	9990	10396	4	13.9	14.4	4
NETHERLANDS	13238	11357	-14	17.9	14.1	-21
DENMARK	12052	10219	-15	18.6	11.9	-36
SINGAPORE	4267	5108	20	7.5	10.3	37
EUROPEAN UNION	398588	398716	0	671.7	641.6	-4
GREATER CHINA	200359	204897	2	536.5	541.6	1
SOUTH EAST ASIA	56451	48609	-14	132.5	108.3	-18
N. AFRICA/MID. EAST	37133	30916	-17	53.7	43.6	-19
TOTAL	1240981	1285497	4	2764.8	2739.0	-1
Hardwood veneer (million m2)						
CANADA	132118	139482	6	99.7	95.9	-4
GERMANY	48571	60254	24	41.6	47.5	14
SPAIN	46380	40508	-13	31.9	27.0	-16
CHINA	31208	24527	-21	27.9	20.9	-25
HONG KONG	20585	20505	0	16.9	17.2	2
ITALY	23574	25076	6	12.4	13.4	8
MEXICO	14529	13760	-5	11.5	11.3	-2
TAIWAN	10863	9769	-10	9.3	8.3	-11
SOUTH KOREA	13088	7824	-40	9.8	7.3	-26
BELGIUM-LUX	11199	8789	-22	8.5	7.2	-15
SOUTH AFRICA	4643	7647	65	3.2	6.0	89
UNITED KINGDOM	6996	7366	5	5.1	5.1	-1
PORTUGAL	5837	6511	12	4.3	4.8	11
MALAYSIA	6772	5365	-21	5.1	3.9	-23
EGYPT	4553	3032	-33	6.2	3.4	-45
INDONESIA	3792	4288	13	2.7	2.3	-15
EUROPEAN UNION	155538	162163	4	112.4	113.5	1
GREATER CHINA	62656	54801	-12	54.1	46.4	-14
SOUTH EAST ASIA	14814	12268	-17	10.6	8.0	-24
N. AFRICA/MID. EAST	6910	4834	-30	8.0	4.8	-40
TOTAL	417916	417630	0	320.4	304.0	-5

North America

United States Hardwood Exports 2002-2003

	Value US\$1000			Volume 000 m3/000 m2		
	2002	2003	% chg	2002	2003	% chg
Maple lumber (000m3)						
CANADA	78319.4	83488.4	7	207.8	208.7	0
MEXICO	9123.8	13142.6	44	20.6	30.3	47
CHINA	6302.3	11907.8	89	15.6	28.1	80
HONG KONG	10680.1	6616.1	-38	17.9	11.8	-34
UNITED KINGDOM	10274.4	7133.5	-31	11.0	7.7	-30
GREATER CHINA	19488.8	20282.5	4	39.6	43.9	11
EUROPEAN UNION	27641.8	24365.8	-12	33.6	29.4	-12
SOUTH EAST ASIA	9929.9	9922.7	0	20.5	20.5	0
N. AFRICA/MID. EAST	5002.6	4235.0	-15	7.2	6.5	-9
TOTAL	163343.2	166843.1	2	348.3	355.3	
Maple veneer (000 m2)						
CANADA	32232.5	36903.6	14	33463.4	30488.1	-9
GERMANY	8926.4	12159.5	36	8922.0	11137.4	25
CHINA	2664.8	3538.9	33	2689.6	3313.7	23
HONG KONG	1107.1	2899.8	162	1129.5	2347.9	108
EUROPEAN UNION	15739.5	20525.4	30	13901.1	17483.8	26
GREATER CHINA	4020.7	7350.3	83	4112.6	6633.7	61
SOUTH EAST ASIA	1483.8	1512.6	2	1275.8	1165.8	-9
TOTAL	60787.5	72839.3	20	58597.1	61199.0	4

U.S. hardwood exports 2003: species highlights

■ **White oak:** lumber exports declined 7% last year in response to supply constraints and greater competition from European white oak. Exports to the E.U. declined by 6% last year, but this remains by far the dominant export market for white oak. Exports declined to Spain, the UK, Portugal, and Belgium last year. However there was some recovery in exports to Italy and Germany.

■ **Red oak:** exports are mainly destined for flooring manufacturers in Canada, Mexico and China. Last year export volumes rose strongly to Canada, increased more slowly to China, and declined slightly to Mexico. Most other markets were buying less red oak last year. Restricted harvesting and rising U.S. domestic demand meant availability was an increasing problem as the year progressed.

■ **Ash:** lumber exports to Japan and the UK were flat last year, but there was a significant rise in exports to China and South Korea, perhaps reflecting reduced availability of their domestic ash.

■ **Cherry:** there was a significant increase in the \$ value of cherry log and lumber exports in 2003. The volume of exports remained stable but unit values increased. There was a partial switch away from exports to the E.U. in favour of Greater China. Overall exports of cherry veneer were stable last year, rising significantly to Canada, but declining to the E.U. and China.

■ **Walnut:** log exports rose significantly last year, particularly to Italy and China. Overall lumber exports fell 7% by volume, perhaps reflecting resistance to high prices and the switch to log exports. Exports of walnut lumber to Japan more than doubled last year.

■ **Western red alder:** lumber exports continued to rise in 2003, building on gains made in 2002. The species is making progress as a low cost substitute to cherry. Lumber exports increased to Mexico, Hong Kong, Taiwan, Canada, and Spain. However exports declined to mainland China, the leading market, perhaps due to price resistance. New restrictions on harvesting in riparian zones in the Pacific North West has tended to reduce availability.

■ **Maple:** last year the large cross border trade in maple lumber with Canada remained stable in volume terms, but the unit dollar value of traded product increased by 7%. Maple lumber exports rose strongly to Mexico and China last year, but continued to fall to the E.U.

■ **Tulipwood:** Tulipwood lumber exports were stable overall last year. China and Spain were significant growth markets, while exports to Hong Kong declined sharply. Exports to the important Italian market for tulipwood lumber declined 6% in volume terms but remained stable in value terms. Italy and China were importing more tulipwood logs last year.

United States Hardwood Exports 2002-2003

	Value US\$1000			Volume 000 m3/000 m2		
	2002	2003	% chg	2002	2003	% chg
Tulipwood logs (000m3)						
ITALY	5509.3	6421.9	17	26.8	32.8	22
CHINA	4874.6	9131.9	87	16.7	32.2	93
HONG KONG	11521.0	5585.0	-52	41.1	19.2	-53
GREATER CHINA	17311.7	14867.8	-14	60.1	51.8	-14
EUROPEAN UNION	6379.2	7228.8	13	30.3	35.8	18
SOUTH EAST ASIA	661.5	834.5	26	2.4	3.3	37
TOTAL	25138.2	23936.4	-5	97.8	94.4	-4
Tulipwood lumber (000m3)						
ITALY	26292.5	25931.0	-1	57.7	54.1	-6
HONG KONG	15913.2	15121.5	-5	53.8	44.9	-17
CHINA	7979.5	12115.7	52	28.4	41.6	46
MEXICO	9520.8	7442.3	-22	34.1	24.3	-29
SPAIN	3251.6	5791.2	78	5.8	12.9	124
GREATER CHINA	26031.9	29324.1	13	88.8	93.0	5
EUROPEAN UNION	37564.1	41550.5	11	79.3	85.7	8
SOUTH EAST ASIA	3490.0	1986.9	-43	10.6	6.2	-42
TOTAL	88186.9	90345.3	2	238.4	232.8	-2

Trade issues

New solid wood packaging regulations

New solid wood packaging regulations are being introduced that will affect anyone that imports or exports materials that are shipped with wooden pallets, boxes, crates, blocking, or dunnage. Over the past couple of years, the United Nations, through the International Plant Protection Convention (IPPC), has created a global standard for wood packaging. The standard applies only to solid wood packaging (both coniferous and non-coniferous), and not to corrugated or engineered wood products such as plywood and OSB. The standard requires that all solid wood packaging material (WPM) be treated and marked. The acceptable types of treatment are heat treatment to a minimum wood core temperature of 56°C for a minimum of 30 minutes, or methyl bromide fumigation.

The standard requires that the wood packaging material must be marked with the following information: the designated IPPC logo; the two letter ISO code for the country that certified the wood packaging material; and a unique number assigned by the national plant protection organization to the company responsible for ensuring the wood packaging material was properly treated; the abbreviation HT (heat treatment) or MB (methyl bromide). Implementation of the standard will obviously add to the cost of packaging and transport of goods.

Regulation and implementation dates for the global standard are up to each of the 134 individual countries that are signatories to IPPC. The standards are voluntary and may be modified by those countries that wish to do so. However, the signs are there will be very wide application of the standard.

The United States and Canada both introduced regulations based on the standard in early January 2004. The U.S. will implement the standard from May 2004. During the 12 month period after implementation (May 2004-May 2005), unmarked WPM will not be rejected, but delays at the port of entry may occur for intensive inspections. Exporters are advised to start using treated/marked WPM as soon as possible to prevent costly delays.

The European Union has announced that it will be introducing equivalent regulations on 1 July 2004. Therefore all solid wood packaging and lumber imported into EU countries after July 1, 2004 will have to comply with the international standard.

China has announced it will introduce equivalent regulations "in the course of 2004, probably not before the 2nd semester." China is likely to allow several months before insisting on full implementation.

Variable market for African logs

African log market trends vary considerably by species, depending upon current availability, country of origin, and end use sector. FOB log prices (in euros) have firmed for certain species for which supply is now very restricted – for example iroko and pachyloba. In addition, producers in the Congo Basin have been forced to raise prices for sapele logs – despite relatively weak demand – because tax levels have risen and producers are so reliant on the margins generated from this single species. By contrast, euro FOB prices for other log species – such as okoume, movingui and sipo - have been declining in recent months to adjust for the strong euro and in response to limited demand. **Pages 2/3**

Difficult conditions for African mills

Trading conditions remain difficult in the African sawn lumber market. The high euro rate has meant prices are uncompetitive and there are signs in some sectors that market share is being lost to Brazilian and Asian timbers. European demand is generally confined, except for a few species for which supplies are now very restricted such as iroko and niangon. The European parquet sector has also been an exception, continuing to offer a good outlet for African lumber. **Page 3**

Restricted availability in Far East

Availability of tropical sawn lumber from the Far East remains restricted due to the monsoon, the recent crack-down on illegal logging in Indonesia, and forest resource constraints. In Europe, low supply continues to be matched by restricted demand for most species and grades. Far Eastern shippers are therefore maintaining a relatively low profile in the European market, cutting only restricted volumes for European consumption and making few offers. **Page 4**

Rise in Indonesian plywood prices

FOB prices for Indonesian plywood have risen dramatically as supplies have become increasingly restricted. Forward prices for BB/CC plywood are now being quoted in

the UK at around INDO96 plus 9% or 10%. This is up from prices equivalent to the INDO96 level in early February, and at around INDO96 less 22% in November last year. The rapid price rise reflects a range of factors including the on-going crackdown on illegal logging, resource constraints, the weakness of the US dollar, poor weather in the major regions of log supply, mounting technical requirements, rising freight rates and improving demand. **Pages 5/6**

Struggling veneer producers

European veneer producers have been struggling to cope with declining prices for mass produced items. The strength of the euro is also undermining demand. However, after two years of stagnation, signs are now emerging of improved veneer demand from the western European furniture sector. Demand from the door and interiors sectors remains weak. **Pages 6/7**

Rising log availability in Europe

Hardwood log availability at the main winter auction sales in western Europe has been rising this year. For lower and medium grades of oak, the rise in availability of logs has been matched by solid demand from mills supplying the European flooring and joinery sectors and prices have remained level. However prices for high grade oak logs have tended to weaken as demand from the French cask sector is not as strong as last year. For beech, increased availability has not been matched by a rise in demand. Chinese beech demand has remained very weak this year. In addition, beech demand from European sawmills has been sluggish due to reduced capacity and continuing slow sales of beech sawn lumber. **Page 7**

Romania's expanding consumption

Romania's domestic consumption of wood continues to expand as the country makes efforts to regain some of its traditional export markets for furniture, while domestic demand from the construction sector is also rising. However Romania's wood industry continues to export a significant volume of hardwood sawn lumber, particularly to Italy, Greece and Hungary. **Page 8**

Japan's imports fall in 2003

Japan's imports of Southsea logs during 2003 fell 13.3% compared to the previous year. Although log imports increased at the start of 2003 as domestic plywood mills benefited from the shift to JAS-certified product, this boom was short-lived. Japanese imports of Southsea lumber reached 786,400 cubic meters in 2003, down 3.7% compared to the previous year. Imports of temperate hardwood logs increased by 12.1% during 2003 to 336,000 m³. Japan's temperate hardwood lumber imports declined by 3.2% last year to 173,000 m³ **Page 5**

US exports recover at end of 2003

Due to rising unit prices and a surge in exports towards the end of last year, the value of U.S. exports of hardwood logs, lumber and veneer during 2003 overtook the previous year's level. Export volumes were marginally down on the previous year. Highlights from the U.S. 2003 export data include:

- The volume of U.S. hardwood log exports declined by 5% in 2003 compared to the previous year, while the export value increased by 9%. The increase in unit log value reflects limited log availability during 2003 and rising demand.

- The overall volume of American hardwood lumber exports during 2003 was only marginally down on the 2002 level. The value of exports increased by 4%.

- The volume American hardwood lumber exported to the E.U. declined by 4% last year and was stable in value terms. There was a surge in exports to the E.U. in the last quarter of 2003, much destined for Spain.

- The volume of American hardwood lumber exports to mainland China increased by 25% last year following a 52% climb in 2002. However U.S. lumber exports to other parts of East Asia declined last year.

- During 2003, U.S. hardwood veneer producers were unable to hold on to the export gains made the previous year. The overall volume of hardwood veneer exports was down 5%, while the dollar value of exports remained static during 2003.

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