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Russia: the great bear stirs

In 2004, total exports of forest products from Russia were estimated to have reached a record value of \$4.1 billion (up 31% from 2003), while imports of all forest products were estimated to be \$273 million (up 28% from 2003). The significant increase in exports can be attributed to the continued appreciation of the euro, substantial increases in exports to Japan, China and Finland and the United States. With domestic and overseas demand for Russian wood products increasing, the government and forest sector will have to work hard to improve infrastructure and to create a better business climate. Russia has the potential to become one of the world's leading suppliers of wood products, but continues to struggle with its own internal problems.

Production increases forecast

Russia's production of forest products widely forecast to rise over the next few years. This increase will be predominantly accounted for by growth in the softwood lumber and hardwood plywood sectors, but will have an impact across the industry. The driving factor behind this expansion is a predicted increase in demand from and exports to China, Japan and other Asian markets. In addition, continued growth in Russia's own economy is driving increased domestic consumption in the furniture, construction and paper and pulp sectors. Overall, production and export levels across most sectors of the forest industry are predicted by local analysts to set new records in 2005. Furthermore, the Russian government will bring in important changes into the indus-

try, such as the Forest Code and Tariff reform, which will begin to address some of the many problems faced by the sector, which will, in turn, improve production and export potential.

A quarter of world growing stock

With a fifth of the world's forests and a quarter of the world's timber stock, Russia's role in the global supply of wood products far from corresponds with its supply potential. This has been recognised by the government and the industry and investment in the sector is increasing and ease of access to forests and log supplies is improving. Last year, for example, total investment in the forestry sector was estimated to have reached \$1 billion, which was a 21% increase on 2003. This investment included an estimated \$280 million of foreign investments, of which 70 to 80% was channeled into downstream wood processing. According to the Federal Agency for Forestry, the total annual investment needed to modernize the Russian forest sector is \$2 billion.

Low market share

Russia's market share of the world market for all wood products is low and consists mostly of unprocessed wood products. The Russian government is trying to pursue long-term policies to improve the sector's efficiency and competitiveness. Some of the most important issues and constraints currently faced by the sector are as follows: increasing the share of processed and higher-value wood and wood products; curbing the illegal export of logs; applying tariffs and other government measures to promote the export of processed products versus logs; and to promote the consolidation of major wood and pulp processors to improve their financial position versus foreign competitors. In the medium-term, the

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Editorial: on continuity of supply

This issue of Hardwood Markets underlines probably the most important issue facing the international hardwood industry: long-term continuity of supply. The failure of large parts of the industry to guarantee supply continuity has been the main reason for loss of market share, both to softwoods and panels, and to non-wood substitutes. It continues to be a major factor contributing to price volatility.

Our market reports indicate firm prices for nearly all internationally traded hardwood products, a sure sign that supply is falling short of demand. Tellingly, the main exceptions – red oak and beech – dominate production in relatively wealthy countries that have sustainable management in place and where manufacturing is under pressure from competitors in low-cost locations. Upward price movement is particularly evident for hardwoods from South East Asia, mainly due to mounting supply problems in Indonesia; and from West Africa, where political problems in Ivory Coast are less significant – from a timber supply perspective – than the impact of intense population pressure and forest conversion.

Continuity of supply lies at the heart of each of our feature articles: on Russia, Brazil and

Myanmar. Each of these countries has potential to play a pivotal role in the wood industry over the coming decades.

The sheer enormity of the Russian and Brazilian forest resources – which together account for 36% of world forest area – guarantee these countries a key role. Both are now developing infrastructure which will increase forest access. And both are now struggling to evolve forest regulatory frameworks that may, perhaps, provide a sound basis for long-term sustainable supply. Myanmar's wood resources, while not so globally significant, remain one of the largest in South East Asia and are pivotal to the global teak trade. Here, short term economic and political concerns seem to have led to the abandonment of sustainability principles that governed timber extraction during much of the last century.

All this contributes to an overwhelming feeling of uncertainty when forecasting future availability of hardwood products. Only one thing seems certain. Only those countries that succeed in shifting successfully to sustainable models of wood supply, will remain players in world hardwood markets during the 21st century.

Rupert Oliver

Africa

African hardwood logs

Good stocks of sapele, but other species in tight supply

It is now the main production season in African supply regions north of the equator. Recent reports suggest reasonably good stocks of sapele logs - the main commercial hardwood sourced from the northern Congo region - in Douala port in Cameroon. However availability of logs of most other commercially valuable hardwood species remains restricted.

Meanwhile, there is now heavy rain in the main African production regions south of the equator. Stocks of sapele and other commercially valuable redwood logs are currently very limited at the port of Pointe Noire in Congo-Brazzaville. In addition to bad weather, there continue to be problems with the rail link from the interior of Congo-Brazzaville to Pointe Noire.

Logs diverted to mills in Gabon

Availability of okoume logs, the main species supplied out of the southern Congo, is also restricted. More of the logs harvested in Gabon are now being diverted to domestic plywood and lumber mills.

Overseas buyers are focusing more on Equatorial Guinea for okoume log supplies, as the weather is better there and prices are relatively low. However, this can only be a temporary measure given the limited extent of forest resources in Equatorial Guinea. Already there are rumours that one large

producer in the country will be forced to cease log harvesting before the end of 2005. Relatively low production of African hardwood logs is matched by continuing levels of restricted demand. As a result euro FOB prices for African hardwood logs have generally remained stable, although prospects

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African indicative prices

	Jan	Feb	Mar
Exchange rates			
US\$/euro	1.30		1.30
US\$/£	1.88	1.91	1.89
Euro/£	1.44	1.46	1.46

All prices include agents commission of 5%

Sawn lumber

Cameroon, CAR, Congo (Braz.)

Grade/size: FAS, air dried, width 6"+, length 6'+			
Sapele	460	460	450
Sipo	550	550	550
N'Gollon	600	600	600
Iroko	680	680	680

Cote d'Ivoire

Grade: FAS			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
Iroko AD	695	695	695
Mahogany AD	600	600	600
Framire KD(b)	430	430	430
Samba KD No.1 C&S	300	300	300
Ayous KD No.1 C&S	340	320	320
Dimension stock			
Azobe	440/500	440/500	440/500
Dabema	325/375	325/375	325/375

Gabon

Grade and size: FAS, width 6"+, length 6'+			
Okoume KD	340	340	340

Africa

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vary by species. Sapele is showing some signs of weakness, but prices for other key species such as azobe, iroko and ayous remain firm.

The weak euro continues to undermine overseas export sales of African logs. The European market is sluggish and now more confined than in previous years, with a general switch away from log imports in favour of sawn and other further processed wood products. While there has been some increased interest in sapele logs in the Chinese market, volumes are still insufficient to off-set the decline in the European market.

UN assess Liberian sanctions

The export trade in Liberian logs remains suspended pending the lifting of UN sanctions. A UN Panel of Experts is currently in Liberia assessing the social and humanitarian impact of the sanctions and progress by the Liberian authorities to comply with the sanction regime. The UN has stated that in order to be lifted, the Liberian authorities must comply with 3 conditions: all revenues generated by the government must go to their legitimate purposes; the Government must be able to control the forest industry; and logging companies must refrain from using militia groups as their security. The Panel's preliminary report presented to the UN Security Council on March 17, 2005, indicates that progress is being made, but that there is still some way to go before the sanctions may be lifted. The Panel conceded that no company is now operating militia groups in the country. Furthermore, they note that

the virtual closure of all timber companies in the country indicated compliance with the sanction regime. However the Panel want more evidence that the Forestry Development Authority (FDA) has established control over the use of the forest resources. For instance, said the experts, rules needed to be established by FDA to ensure that the "illegal" small scale timber extraction currently ongoing is restricted to local consumption only.

African sawn lumber

Patchy European demand

Log market conditions are mirrored in the sawn lumber sector. Supplies of African sawn lumber are generally tight, particularly for key West African species including iroko, framire, khaya, azobe, wawa and ayous. Prices for these species remain firm. Availability of sapele from the northern Congo is better and this is reflected in softer price levels.

Overall European demand for African sawn lumber remains patchy, undermined by slow economic conditions and the strong euro which has boosted market prospects for South American and Asian alternatives. European on-ground stocks of these competing species are reported to be reasonably high compared to current levels of demand, although supply trends suggest this is likely to be only a temporary situation.

There are some reports of Chinese importers taking more African sawn lumber, but volumes are still quite restricted. The United States market has been buoyant, with signs

that the strong focus on khaya is being gradually eroded in favour of sapele, possibly also sipo/utile.

Political conditions in the Ivory Coast – formerly a major supplier of hardwood lumber to the international market – remain extremely fragile. The UN has warned that the country risks sliding back into full-scale conflict as militia groups are ramping up their activity across the country and the political peace negotiations remain mired in deadlock. The Ivory Coast remains split between the government-run south and the rebel-held north. South African President Mbeki is attempting to mediate a solution and reunify the country in time for Ivorians to head to the polls in October, but he has so far made scant progress. For the time being, wood is flowing out of the country but at much reduced levels.

Ghana timber exports expand

Data released by the Ghana Timber Industry Development Division indicates that wood products exports from the country increased by 2.4% between 2003 and 2004, from 444,388 m³ to 455,180 m³. The value of exports increased from 163 million euro to 171 million euro. The results represent a recovery from a decline the previous year.

Ghana's exports of hardwood sawn lumber increased from 199,000 m³ in 2003 to 210,000 m³ in 2004. During the same period, exports of sliced veneer increased from 32,000 m³ to 38,000 m³, while exports of peeled veneer declined from 75,000 m³ to 65,000 m³. Exports of plywood also declined by 6.5%, from 80,000 m³ to 74,500 m³.

Asia

Myanmar

A sustainable resource?

With no let up in global demand for teak, Myanmar's forests are coming under increasing pressure. Furthermore, development of wood processing along China's border with Myanmar and continued illegal-logging are just two factors contributing to the depletion of Myanmar's forest resources.

Myanmar's government claims that roughly 52% of the country remains forested and that it possesses sizeable stands of commercial hardwoods due to a sound policy of sustainable forest management that has been in place since British times. However, when analysed more closely, this so-called sound policy of forest management remains so only on paper and has been out of practice since the early 1990's, due to the country's ever-increasing need for hard currency

from exports. As hardwood is one of the few readily marketable resources that Myanmar possesses, it is extremely hard for external environmental pressures to change the way the country handles its internal affairs. It is necessary to look more closely at the way the forest is managed in Myanmar to determine whether the resource will be sustainable in the long-term.

Cash flow interferes with log supply

The Myanmar Timber Enterprise (MTE), which controls exports of teak under the government, claims that, based on the sustainable yield of their forest management programme, more than 66 million m³ of teak have been extracted over a period of 132 years and the reserved forests remain "intact" to this day. Yet good quality teak exports have fallen, suggesting that the available supply of quality teak has indeed dwindled. This was particularly evident at the

end of 2004, when buyers of teak lumber were forced to look elsewhere to find quality teak lumber in large sizes. The MTE had created a system, where it supplied logs free to foreign-owned mills in the country, only recouping the cost once the logs had been converted to lumber and sold in export. The system worked well and it seemed to be a very real and positive step towards stamping out illegal-logging, as mills would have to account for all the lumber they produced. However, after a while the MTE itself struggled to get good quality logs at States auction, as many of these were being earmarked for direct export. The result was that buyers of teak, looking for large width, thick stock and high grade lumber moved to Thailand and other neighbouring countries to source their needs. It seems that the Myanmar forest industry is constantly dogged by the

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need to improve cash flow and this, in turn, stops it from supplying logs in an organised and methodical way, to suit all of its customers.

Limited supply of quality teak boards from Myanmar is reflected in rising prices. In March 2005, FOB Yangon prices for air dried boards (8" by 8") were being quoted at between \$3,800 and \$4,000 per 50 cubic foot, around 10% higher than the same period in 2004.

Tackling forest depletion

There has been no assessment of change in forest area since 1990, but Myanmar's Forestry Department estimates that the average loss of forest cover is about 220,000 hectares per annum. However, FAO has estimated that the country is losing forest cover at a rate of 1.4% per year. This is one of the highest rates of deforestation, matched only by the Philippines, in South-

east Asia and is blamed primarily on shifting cultivation, agricultural encroachment and illicit cutting.

In the past, only the government was able to grow teak in plantations, as it is regarded as a royal plant. However, the Ministry of Forestry has recently allowed Myanmar Honda Company, a private entity, to grow teak commercially for the first time in order to preserve natural resources. The amendment of the Forestry Law will be promulgated accordingly. According to government sources, Myanmar Honda is allowed to grow 12,146 hectares of teak plantations within a ten-year period (1,215 hectares annually). There are currently 18 private companies involved in commercial teak production on a contract basis with Myanmar's government. Each of these companies is required to reforest 4,008 hectares of land over two and half year in numerous areas around the country. 1,235 hectares were

planted in 2004 and 2,773 hectares will be planted in 2005.

Along with commercial teak plantations, various other initiatives have recently been set up in Myanmar to tackle deforestation, including eradicating shifting cultivation and re-greening border and other sensitive areas. However, illegal-logging is still very much in evidence and the government's lack of control over border tribes means that this can continue unhindered. It will, therefore, take complete government control of all of Myanmar's forests to ensure that the resource does not continue its steady decline and to ensure that the world's teak-hungry markets do not go unsatisfied.

Vietnam

Wood furniture exports exceed \$1 billion

Last year, exports of wooden furniture from Vietnam reached a value of over \$1 billion, more than double the value recorded in 2003. Of the total, roughly one third was exported to the United States, while Vietnam's other main markets for its furniture products were the European Union and Japan. Extremely low wages, substantial Chinese investment and the US anti-dumping case against bedroom furniture from China have all helped to underpin the significant growth seen in the Vietnamese wooden furniture sector in recent months.

Not only did exports double of wooden furniture double last year, but industry sources suggest that by the end of 2005, they will have reached \$1.5 billion. The growth in exports has also been helped by the Vietnamese government, which, through various programmes and incentives, is encouraging Vietnamese companies to seek and develop overseas markets for their products.

Vietnam has more than 1,500 woodworking companies, of which around 450 are active in exporting wooden furniture. Of this total, around 120 are involved in making outdoor/garden furniture, while the remainder are catering for interiors. These numbers are forecast to grow considerably in the coming years and in just the last few months, 30 new companies were set up in a new industrial area to the West of Ho Chi Minh. In 2004, the total capacity of Vietnam's woodworking companies was estimated to be around 2.8 million m³.

US an important trade partner

While one third of Vietnamese wooden furniture was exported to the US last year, American hardwood exports to Vietnam also increased substantially. US hardwood log exports to Vietnam increased by 82% in 2004.

Japan

Uncertain future for hardwoods

By most accounts, it would seem that Japan is still enjoying economic recovery, after some years of poor performance. The construction sector is always a clear indicator of this and 2004 proved to be a strong year for housing starts, with five consecutive months of more than 100,000 unit starts – a substantially better picture than in the previous year. So far, 2005 has not been weak either, although housing starts did dip to around 95,000 units in January. This, however, can be almost entirely accounted for by the general winter slowdown and still represents a 7% increase on the same month last year. Economic forecasts for 2005 have not been too positive, but it is too early in the year to see which way things will go and the strength of the US economy and global economies, in general, may serve to prove the forecasters wrong.

Little improvement for hardwoods

Despite improved economic conditions and increased housing starts, hardwood market contraction is still very much in evidence. In fact, it seems that increased housing starts have actually created such a surge in demand for softwood logs and lumber that market share for hardwoods is under ever-increasing pressure. One major indicator of this has been the very much increased imports of softwood logs and lumber from the Russian Federation, which rose by 10% last year overall. Log imports from Russia increased to 5.7 million m³ in 2004, which was below the record established in 1999 while imports of lumber from Russia were the highest ever. Furthermore, the proportion of Russian softwood logs destined for lumber and plywood production was far greater in 2004, than in previous years and imports of kiln-dried softwood lumber from Russia also increased substantially.

Imports of softwoods from North America also

increased in 2004, as compared to the previous year and this was primarily bolstered by Japan's surge in 2x4 construction and critical inventory shortages in 2003 and early 2004. However, imports of US hardwoods into Japan did see some positive results in 2004, with hardwood log imports rising by 23% to 86,000 m³, underpinned by the increasing interest in interior wood finishes. At the same time, however, imports of US hardwood lumber actually fell by 2%.

Southsea log imports into Japan also fell last year, as compared to 2003, with the continuing shift towards Russian and Chinese material being very much in evidence. Actual imports of logs from Malaysia and Indonesia fell by 6.1% from 2003 and were down to 1.6 million m³, while lumber imports were down to 587,000 m³. Furthermore, there is little evidence to suggest that the hardwood market in 2005 will prove to be much better.

Japan tropical hardwood imports

000 m ³	2002	2003	2004	% chg 03/04
Southsea logs				
Total import	1982	1717	1611	-6.2
Sabah	126	149	198	32.9
Sarawak	1389	1121	1018	-9.2
Indonesia	0	0	0	0.0
Solomon Is.	55	38	65	69.7
PNG	413	409	330	-19.3
Total demand	1962	1779	1650	-7.3
For plywood	1766	1604	1490	-7.1
For lumber	196	175	160	-8.6
African logs				
Total import	111	120	63	-47.5
Total demand	130	107	80	-25.2
For plywood	123	102	77	-24.5
For lumber	7	5	3	-33.3
Southsea lumber	na	786	587	-25.3

Source: Japan Lumber Journal

while lumber exports nearly doubled to 50,000 m³. At the same time, US hardwood veneer exports more than doubled to just under \$3 million. Supplies of wood products (mainly logs and lumber) from the US in 2004 accounted for approximately 8% of Vietnam's total wood imports. As Vietnam's wood processing and furniture industries develop further and as its export markets grow, demand for American and other hardwoods will increase significantly.

Wood product imports rise rapidly

Over the past four years, Vietnam's imports of wood products (mainly logs and lumber) have increased four-fold, to reach an estimated value of \$400 million in 2004. By the end of this year, that figure is expected to have risen to \$550 million and this trend is not forecast to change for the foreseeable future. Of the total value imported in 2004, roughly 80% was accounted for by logs and lumber, with the main suppliers being Indonesia, Malaysia, Laos and Cambodia. Other hardwood suppliers include the Solomon Islands, Brazil and the United States. Hardwood and softwood logs for the expanding wood processing industry are also sourced from Vietnam itself. However, precise figures for the volume of legally-harvested timber are difficult to obtain, but are probably in the region of 500,000 m³.

Malaysian sawn lumber Prices stable, supply limited

Limited log supplies in the Far East are impacting on the sawn lumber market. Prices for most species of Malaysian sawn lumber have continued to rise in recent weeks. CIF North Sea prices for west Malaysian meranti-tembaga increased by around \$20/ton across the board during March. Some shippers are now quoting CIF North Sea prices for bangkarai decking profiles at over US\$800/m³, up from around US\$685/m³ at this time last year. Some other sawn lumber items – such as keruing and kapur – are now so difficult to source and trade so limited that it is difficult to assess prevailing market prices. Sawn lumber supplies are particularly tight from West Malaysia and Sabah, which is encouraging more importers to look to Sarawak for supplies.

While supplies are tight, these continue to be balanced by relatively sluggish market conditions in Europe. In the Netherlands, a bout of cold weather during March led to a slowdown in construction activity, which was already sluggish due to continuing economic problems. Consumption of meranti in the window frame sector almost ground to a

Asian logs: prices on the rise again

Supplies of tropical hardwood logs in the Far East remain restricted, even with the end of the Chinese New Year holiday season at the end of February. Unsettled weather throughout the main log supplying regions has undoubtedly played a part. But long term factors are probably more important including: improved enforcement of harvesting regulations; strong consumption in China and India; declining avail-

ability of wood from conversion forests; and over-harvesting in the past. Production in both Sarawak and Sabah remained relatively inactive into March. As a result, FOB prices for Far Eastern logs have continued to rise in recent weeks. The trend is across the board, affecting nearly all the key species including nemesu, meranti-bukit, meranti-seraya, meranti-tembaga, keruing, kapur, bangkarai, balau and merbau.

halt in parts of the country. Dutch trade in the most important Malaysian hardwood specification (3x5" PHND dark red meranti seraya and bukit) has remained extremely difficult. Prices for onward sales of landed stocks of meranti in the Netherlands barely reflect the replacement cost. This has undermined interest in the forward market. However importers are now looking carefully at their stock position, with the knowledge of limited forward supplies combined with the prospect of improved demand during the spring. There are reports of many Dutch importers making business trips to Malaysia.

Market conditions in Germany have been poor, a reflection of continuing sluggish conditions in the construction sector. On-ground sales prices in Germany for key Malaysian products – including dark red meranti lumber, meranti laminated window scantlings, and balau/bankarai decking – have frequently fallen short of replacement prices as importers have scrambled for market share. Meanwhile, meranti has been under growing pressure from non-wood substitutes in the window sector.

Reports from the UK indicate that the market has been better balanced, with the limited number of importers now involved in the Malaysian meranti trade keeping stocks reasonably aligned with prevailing levels of demand.

Meanwhile Poland has been gaining in importance as a market for meranti laminated window scantlings, now thought to account for around 13% of wood window production in the country.

Indonesia

Uncertain log supplies

The current log supply situation in Indonesia remains uncertain. Research by the Environmental Investigation Agency indicates that large quantities of merbau continue to be illegally exported from Irian Jaya in eastern Indonesia into China. On the other hand, the border between Indonesia and Sarawak and Peninsular Malaysia seems now to be effectively sealed to illegal log transfers. Malaysian shippers in these regions are no longer able to supplement their production capacity with Indonesian wood raw material. However there continue to be rumours of illegal logs from Indonesia entering Sabah, mainly for onward shipment to China.

Meanwhile the new Indonesian government – elected in October last year – continues to explore the possibility of reversing the previous government's policy of tightening the official annual logging quota. This reflects a belief that unrealistic constraints on harvesting may actually serve to increase the incentive for illegal logging. The official quota may therefore be increased to be more closely aligned with national wood processing capacity and ensuring the capture of a greater proportion of tax income. Legally sanctioned harvests in Indonesia have been suspended until the permitted logging volume is announced.

The vast amount of work required to rebuild communities in Aceh Province shattered by the tsunami disaster of December 2005 is another area of uncertainty. Already the UN is raising alarm bells over the potential impact of the rebuilding work on forests in Sumatra. Greenomics Indonesia, an environmental think tank in Jakarta, estimates that reconstruction in Aceh – which will require around 100,000 new homes – will soak up at least 4 million cubic meters of raw and processed logs over the next five years.

Environmental campaigners are now urging international aid groups to source certified lumber from overseas, or asking donors to send logs to Aceh as tsunami aid. But these ideas are not widely endorsed, both for practical and economic reasons.

Meranti Sawn Lumber Prices

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

	Jan	Feb	Mar
1"	910	910	925
2"	935	935	955
2.5"	960	960	980
3"	975	975	1000

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

North America

US domestic market

Healthy economy, buoyant housing sector

Niche market and competitor issues aside, the broader view on the US domestic market for hardwoods remains very favourable. With GDP increasing at 3.8% during the final quarter of 2004 and little change forecast for the beginning of this year, the US economy continues to strengthen. This is underlined by the latest figures from the US Census Bureau for the housing market. Interest rates and mortgage rates continue to hold at nearly 40 year lows. New and remodelling home construction remains robust. Single-family housing starts for February 2005 were up by 16.7% from the same reporting period in 2004 and are at the highest level on record at 1,775,000 units. Total housing starts for February 2005 were up by 15.8% from a year ago; the estimated figure is the highest since February 1984 and the third highest since May 1973. Industry experts also believe that the increasing age of houses in the US will help fuel remodelling activity for the foreseeable future.

Challenging conditions for red oak

Despite an excellent overall market, challenging conditions have begun to develop in certain market sectors and for certain species. None has been more in evidence than for 4/4 red oak. Declining hardwood consumption by the American furniture industry and changes in fashion in the cabinet industry and other markets have undermined demand for 4/4 No. 1 Common and, to an extent, 4/4 No. 2 Common red oak. Furthermore, the strip flooring industry is still in contraction mode, as it strives to eliminate surplus inventories of finished goods. Significant reductions in manufacturing output have already been made, with additional temporary cutbacks slated for later this month. Lower manufacturing production equates to less lumber consumption, and buyers are taking proactive measures to either prevent inventory growth or decrease on-hand supplies. Market commentators report that selling the volume of 4/4 Nos. 1, 2 and 3 Common red oak that normally develops from sustained runs of red oak logs has become increasingly challenging and a vital issue for many sawmills.

While there is no denying the important role red oak plays in the Southern region, some contacts say they are currently doing what they can to rein in the total volume of this species they produce. According to reports, these efforts include the elimination of shifts, reduced production hours, and a focus on developing markets for a wider range of species. Even still, the availability of 4/4 red oak, especially No. 1 Common, continues to

be characterised as ample, and prices are reportedly subject to stiff competition.

Temporary closures at some strip flooring manufacturing locations have added to the level of competition for orders in markets for green 4/4 Nos. 2 and 3 Common red and white oak, as reports suggest that more than a few suppliers are currently unable to move the full run of developing production. Reports surrounding log decks continue to describe ample supplies at most locations, and as a result, some sawmills are reportedly attempting to bring log prices down to a point that better reflects current market conditions for sawn lumber.

While sales of red oak are facing a particularly challenging time, this issue is mainly confined to the Southern producers. At the same time, however, mills located in areas where the growing stock is heavier to maple, cherry and other species are experiencing very brisk business. Contacts indicate demand for these items is keeping close pace with or, even, exceeding developing green and kiln dried production. In addition, recent information shows demand has even improved for No. 1 Common white oak - primarily from export markets -, enabling sellers to work down supplies.

The strong US economy, increased housing starts and continued growth in the remodelling sector have all led to a healthier overall market for hardwoods. However, increased imports of hardwoods means increased competition for domestically produced hardwoods. Furthermore, there is little evidence to suggest that imports of hardwoods into the US will slow in 2005. One factor that underlines this is that fact that the International Wood Products Association (IWPA) has increased its membership dramatically in the past twelve months, proving that there is some long-term confidence in this growing business sector.

Strong demand for imported wood

Imports of all hardwood products by the United States increased significantly in 2004, as compared to the previous year. Overall, imports of hardwood lumber last year reached a volume of just over 1.8 million m³, representing a 15% increase on 2003. At the same time, imports of hardwood plywood increased by a staggering 56% to reach around \$1.5 billion and imports of hardwood veneer increased by 16% to a value of \$335.5 million.

Imports of hardwood lumber from Brazil saw a 12.6% (equating to around 20,000 m³) increase last year, reflecting the country's re-emergence as one of the world's leading and most competitive hardwood suppliers, while imports from Malaysia were down nearly 23% - a result of firming prices and tightening supplies. At the same time, many hard-

wood importers in the US turned their attention back to Indonesia, which perhaps benefited from supply problems in Malaysia and witnessed an increase of over 22% in its exports to the United States. Although imports of hardwood lumber from Germany increased by a healthy 23%, the greatest increases were seen in imports from the tropical supply regions of Latin America and West/Central Africa.

Greater interest in tropical wood

What appears obvious, is that demand for tropical hardwoods is growing in the US. Furthermore, opportunities are being opened up to new tropical hardwood supplying regions and eating into the market share for imported temperate hardwoods. Imports from Peru, which had been steadily increasing through 2003 and the early part of 2004 actually recorded a small decrease over the full twelve months of last year, while Argentina emerged as an important supplying nation. With regard to African suppliers, imports from Ghana held firm, while imports from Cameroon and Ivory Coast jumped up significantly.

While accounting for only a small proportion of hardwood lumber imports into the US, imports from China increased by nearly 69% to reach just under 9,000 m³. It is likely that a significant proportion of this was accounted for by American species coming back to the US, having been shipped to China in log form.

US sawn lumber indicative prices

North Appalachian US\$ MBF* CIF- W. Europe
Grade: FAS/IF, KD square edged
Net measure after kilning
NOTE US prices are highly variable depending on quality and point of origin. These prices are shown only to highlight trends over time.
*One cubic meter is equivalent to 423.8 BF or 0.4238 MBF

	Dec	Jan	Mar
\$/£	1.93	1.88	1.89
\$/Euro	1.33	1.30	1.30
Red oak			
1"	2075	2080	2080
1.25"	2275	2320	2275
1.5"	2350	2375	2350
2"	2725	2750	2725
White oak			
1"	1750	1790	1750
1.25"	1900	1950	1900
1.5"	2300	2425	2450
2"	2900	2975	3000
Ash			
1"	1300	1325	1325
2"	1700	1675	1725
Tulipwood			
1"	1075	990	1000
1.25"	1125	1050	1050
1.5"	1150	1080	1100
2"	1175	1125	1150
Cherry			
1"	3650	3650	3550
1.25"	3775	3775	3700
1.5"	4000	4000	3875
2"	4175	4175	4100
Hard Maple (Northern US)			
1"		2950	2965
1.25"		3175	3250
1.5"		3000	3520
2"		3125	3600

North America

US Export Markets

Rising volumes should continue

Last year, US hardwood lumber export volumes to countries other than Canada rose by over 15% to 838 million board feet (1.98 million m³) while export values climbed 17.7% to \$1.025 billion. Shipments increased for each of the 8 most frequently exported species – ash, alder, cherry, maple, the oaks, tulipwood and walnut. Among the top twenty export destinations for US hardwood lumber in 2004, the fastest growing markets were Vietnam (up by 94.9%), Saudi Arabia (up by 59.2%), Indonesia (up by 58.1%), Mexico (up by 35.9%) and Malaysia (up by

23.2%). Shipment volumes increased more to China than to any other country, rising by 83,000 m³. Mexico wasn't far behind, increasing its consumption of US hardwood lumber by 61,000 m³ last year. Perhaps surprisingly, export shipments also increased to nine of the top ten European destinations, helped by the declining value of the US dollar against the euro.

With domestic business not as robust as the last couple of years, it is likely that US hardwood producers will be motivated to find new markets in 2005. This development will cause many to examine foreign markets for the first time, while seasoned exporters will refocus their attention on exports. How-

ever, it will not be easy, as they will encounter highly competitive markets where they will be up against hardwoods from every corner of the world – rubberwood, European beech and oak, Baltic birch, Russian maple and jatoba, to name a few.

As a result of increased competition in export markets, some commentators predict that US hardwood export growth will slow to 5% overall this year. This will mean that by the end of 2005, US hardwood lumber exports (excluding shipments to Canada) should have reached around 880 MMBF, or 2.1 billion m³. Furthermore, it is expected that export growth will be more robust to Asia and Mexico than to Europe.

Species Notes

□ **Alder:** exports of alder jumped up by 28% to reach over 277,000 m³ in 2004 and this year it is expected that this figure will continue to rise, but by around only 7-10%. This is due to a levelling off in demand, after the surge in late 2004 caused by supply problems earlier on in the year.

□ **Ash:** there has been a small change in the price of ash in the past few weeks, as domestic demand has not been steady. However, exports of ash increased by around 6% last year and demand is set to strengthen in Europe for this species through 2005, as the fashion for oak continues and supplies remain somewhat difficult. Overall, however, it is expected that ash exports could see a minor downturn this year, as demand for Nos. 1 and 2 Common for furniture manufacturing in China could weaken.

□ **Basswood:** demand for this species remains in line with production and prices have remained unchanged for some time now. No change is forecast for the immediate future and most mills are content to just service their existing customer base. In export, however, where basswood has seen strong demand in recent years for offshore blind manufacturing, stiffer competition from alternative species is likely to keep exports in check.

□ **Cherry:** demand is strong as the species remains fashionable and popular for floors, kitchens and cabinets. Production has increased in recent weeks, to meet continuing demand and prices remain firm. In export, the volume of cherry lumber exported last year rose by 8% to reach over 184,000 m³, while the value rose by 10.4% to reach \$127 million. It is very likely that exports of cherry will continue to increase though this year, as demand for the Common grades will be strong in Europe and increased demand will be seen from Chinese furniture manufacturers, to meet increased demand for cherry furniture in the US.

□ **Hard maple:** demand for hard maple, and other "whitewoods" is very strong in the US domestic market at present. Prices are firm and mills can sell all that they produce and more. The domestic market for hard maple is in fact growing and, while most customers are looking for colour-selected boards, the high price is forcing some to buy unselected stocks. In overseas markets, demand for hard maple was weaker in 2004, than through previous years, as the fashion for oak dominated. However, market analysts do not predict further downturns this year.

□ **Soft maple:** no change is reported in the last few weeks for this species and export demand for soft maple continues to rise slowly but surely, as it is increasingly being specified as a substitute for other species, notably in the Chinese and Italian furniture industries. Likewise, in the US itself, soft maple is in demand as a hard maple and cherry substitute, where rising prices in these species have created renewed interest in soft maple as a substitute. Furthermore and as with hard maple, demand for colour-selected stock is much higher than for unselected.

□ **Red oak:** overall supply and demand for red oak are no longer well-matched in the US domestic market and production is exceeding supply in the lower grades. In export, red oak saw a 4.6% increase in volume leaving the US during last year, but this is mainly accounted for by China, while demand in other markets (with the notable exception of Saudi Arabia) has generally been sluggish. Forecasters for this year predict a significant downturn in exports of red oak, which is being undermined by demand for European oak and white oak in the European furniture consuming markets. Demand is likely to remain much more settled in Mexico and the Middle East, but red oak dominance could come under increasing pressure from other species, as importers

and manufacturers diversify their portfolios.

□ **White oak:** for the same reasons that red oak is facing challenging market conditions in the US domestic market, particularly in the Common grades, white oak producers are finding it difficult to keep production moving. At the same time, however, demand for white oak in export markets continues to be very strong and exports rose by 11.3% in volume last year, to reach 562,000 m³. Prices for this species continue to hold firm in export markets and supplies are sometimes limited. Market demand in Europe is not expected to change in 2005 and it seems likely that exports will continue to grow at the same pace as in 2004.

□ **Tulipwood/yellow poplar:** demand for this species both in the domestic and export market is strong and some upward price adjustments have been made in recent weeks, helped by inclement weather in the Appalachian region. Exports of tulipwood increased by over 31% in 2004, as compared to the previous year to reach a volume of over 305,000 m³. A surge in exports to China during the first part of this year and excellent overall demand in export markets during 2005 are likely to mean that exports will continue to grow through the year, if a little less rapidly. As domestic demand for painted wood products grows and export demand grows, forecasters also predict a general firming in prices.

□ **Walnut:** demand for walnut continues to be strong, both in the US and in export markets. Production and demand are equally matched, however, in the US and prices are stable. Walnut sales overseas increased by over 15% last year, to reach a volume of just under 91,000 m³ and this upward trend is expected to continue through the remainder of this year, as demand from European consumers will remain strong.

Brazil wood exports 2004

	2003 million US\$	2004 million US\$	% chg	2003 000 m3	2004 000 m3	% chg	2003 000 tonnes	2004 000 tonnes	% chg
Hardwood sawn lumber									
CHINA	105.21	121.10	15.1	260.85	276.98	6.2	253.81	266.09	4.8
FRANCE	48.63	66.05	35.8	132.96	176.82	33.0	113.93	139.43	22.4
NETHERLANDS	28.32	40.31	42.4	96.91	127.80	31.9	107.45	143.12	33.2
HONG KONG	24.53	34.79	41.8	56.65	67.97	20.0	51.76	66.89	29.2
UNITED STATES	38.19	60.64	58.8	86.42	129.85	50.3	73.32	117.77	60.6
SPAIN	29.96	42.91	43.2	105.36	119.47	13.4	100.00	120.89	20.9
PORTUGAL	17.99	30.59	70.1	92.81	100.28	8.0	78.22	108.22	38.4
BELGIUM	18.90	32.04	69.5	50.50	72.80	44.1	45.29	69.59	53.7
DOMINICAN REP.	7.60	13.84	82.1	24.55	40.00	62.9	19.13	31.78	66.1
ARGENTINA	8.32	13.38	60.8	31.50	81.73	159.4	23.15	32.42	40.1
TAIWAN	5.44	12.17	123.8	13.47	24.10	79.0	11.27	20.70	83.7
MOROCCO	0.44	2.72	520.5	1.31	3.36	155.8	1.26	3.40	168.6
ITALY	8.40	11.47	36.5	23.80	29.91	25.7	16.55	20.67	24.9
THAILAND	5.49	5.88	7.1	36.39	40.13	10.3	35.16	38.45	9.4
JAPAN	6.06	6.93	14.3	11.22	11.44	2.0	9.15	9.18	0.4
UNITED KINGDOM	3.48	5.46	57.1	8.51	10.71	25.9	5.50	6.89	25.3
OTHER	35.96	43.14	20.0	184.48	152.91	-17.1	143.15	128.87	-10.0
TOTAL	392.92	543.41	38.3	1217.71	1466.25	20.5	1088.11	1324.37	21.7
Softwood sawn lumber									
UNITED STATES	164.30	214.64	30.6	1096.26	1082.65	-1.2	478.64	516.30	7.9
SPAIN	15.47	15.73	1.7	120.43	113.22	-6.0	60.26	57.12	-5.2
MEXICO	10.95	8.19	-25.2	94.46	63.14	-33.2	42.85	29.13	-32.0
CHINA	6.11	5.25	-14.1	47.41	35.33	-25.5	24.32	19.43	-20.1
MOROCCO	11.85	10.30	-13.1	103.67	75.79	-26.9	54.78	41.46	-24.3
CANADA	8.23	4.06	-50.6	21.65	11.09	-48.8	10.25	5.12	-50.1
OTHER	38.09	36.31	-4.7	216.31	203.74	-5.8	108.38	100.52	-7.2
TOTAL	255.00	294.48	15.5	1700.18	1584.96	-6.8	779.48	769.08	-1.3
Hardwood plywood									
UNITED STATES	81.57	117.08	43.5	372.50	422.87	13.5	194.58	218.39	12.2
UNITED KINGDOM	42.47	71.58	68.5	180.82	221.31	22.4	93.14	115.41	23.9
PUERTO RICO (U.S.)	16.78	25.24	50.4	83.76	71.05	-15.2	28.31	37.27	31.7
BELGIUM	13.62	20.29	48.9	54.39	66.31	21.9	28.13	34.62	23.1
ITALY	8.90	14.67	64.9	31.70	47.63	50.3	16.41	25.10	53.0
GERMANY	14.07	13.08	-7.0	46.72	38.07	-18.5	26.65	21.36	-19.9
IRELAND	8.13	10.12	24.6	36.39	35.71	-1.9	18.96	18.71	-1.3
GREECE	2.83	2.26	-20.4	12.99	7.97	-38.6	6.14	4.15	-32.4
NETHERLANDS	2.18	4.60	111.3	7.11	12.94	82.0	4.10	7.13	74.0
MEXICO	6.39	6.88	7.7	23.20	21.43	-7.6	12.36	11.53	-6.7
VENEZUELA	1.47	5.71	288.0	5.26	15.33	191.5	2.38	7.96	234.6
FRANCE	2.24	4.02	79.5	9.17	13.29	44.9	4.73	7.09	49.9
CANADA	1.78	3.45	94.1	6.00	10.84	80.7	3.52	5.92	68.4
OTHER	19.56	33.07	69.1	158.95	106.77	-32.8	39.71	55.69	40.2
TOTAL	222.01	332.08	49.6	1028.96	1091.54	6.1	479.09	570.31	19.0
Softwood plywood									
UNITED STATES	154.78	260.41	68.2	884.91	1629.78	84.2	341.10	542.45	59.0
UNITED KINGDOM	52.37	80.11	53.0	433.08	524.78	21.2	146.69	167.63	14.3
BELGIUM	36.17	53.01	46.5	226.99	348.05	53.3	98.51	116.24	18.0
GERMANY	31.69	43.25	36.5	205.49	196.56	-4.3	85.12	91.17	7.1
IRELAND	14.42	19.60	35.9	192.11	81.99	-57.3	39.93	41.42	3.7
ITALY	11.98	19.56	63.3	59.83	119.08	99.0	29.84	38.76	29.9
OTHER	66.61	85.61	28.5	1103.24	2544.44	130.6	159.53	162.64	1.9
TOTAL	368.03	561.55	52.6	3105.65	5444.68	75.3	900.71	1160.31	28.8
Hardwood veneer									
UNITED STATES	17.77	23.63	33.0	na	na	na	40.51	54.46	34.4
ARGENTINA	2.59	4.21	62.3	na	na	na	2.27	3.13	38.0
SPAIN	2.40	3.39	41.3	na	na	na	2.71	4.17	54.1
CHINA	1.61	3.44	114.1	na	na	na	0.72	1.32	84.7
PORTUGAL	1.58	2.85	80.1	na	na	na	2.77	4.33	56.4
VENEZUELA	0.56	1.33	140.2	na	na	na	1.41	2.84	100.9
ITALY	1.87	1.65	-11.5	na	na	na	1.60	0.82	-48.7
HONG KONG	0.40	0.70	76.3	na	na	na	0.19	0.24	26.2
ISRAEL	0.68	0.34	-49.4	na	na	na	2.85	1.22	-57.1
OTHER	3.93	7.26	84.7	na	na	na	4.26	6.78	59.1
TOTAL	33.38	48.81	46.2	na	na	na	59.28	79.32	33.8
Softwood veneer									
SPAIN	1.48	2.10	41.8	na	na	na	3.35	2.98	-11.3
UNITED STATES	3.74	1.71	-54.2	na	na	na	11.51	4.84	-58.0
MALAYSIA	0.81	0.94	17.0	na	na	na	3.05	3.28	7.6
ISRAEL	0.59	0.40	-31.5	na	na	na	2.93	2.27	-22.6
OTHER	1.65	1.03	-37.4	na	na	na	5.47	2.68	-51.0
TOTAL	8.27	6.19	-25.1	na	na	na	26.32	16.05	-39.0

Brazil

A massive boom in Brazilian exports during 2004 raises questions over the long-term sustainability of the trend.

Data for the 12 months of 2004 indicate that Brazilian hardwood sawn lumber exports were up a massive 38% in value terms and 20% in volume terms. Plywood exports and hardwood veneer exports were also rising rapidly. The unit value of exports of these products increased during the year, indicative of rising prices for Brazilian hardwoods. Various factors came together during 2004 to boost export market prospects for Brazilian hardwood products including: the weakness of the dollar and the Brazilian real; rising availability of various woods from forests converted in the Amazonian region, and of eucalyptus lumber ("Lyptus") from plantations in the south; tight supplies of alternative tropical hardwood lumber and plywood from the Far East and Africa; increased investment in the Brazilian wood sector; strong underlying consumption in certain overseas markets, notably China and the United States; and increased export marketing by the Brazilian wood industry.

China is now by far the largest single export market for Brazilian hardwood lumber, taking nearly double the volumes exported to France, the next largest export market. Exports to China are dominated by dense and durable hardwoods used for China's massive flooring industry. France now takes a range of species, principally for utility joinery, flooring and decking. Despite continuing tight constraints on mahogany trade, the United States imported 50% more lumber from Brazil during 2004, with a strong focus on jatoba for flooring, but including smaller volumes of a range of species such as ipe, andiroba, cumaru and marupa.

Brazilian exports of plywood, both softwood and hardwood, rose strongly in 2004. Major destinations were the United States and the United Kingdom.

But is it sustainable?

The increase in Brazilian exports last year raises a key issue for the international hardwood trade: for how long can these increases in export volumes be sustained. This is an extremely difficult question to answer with any degree of certainty. On the surface, Brazil is host to a vast hardwood resource with great long term potential for development. The Amazon forests in Brazil cover 260 million hectares, accounting for 80% of Brazil's forest resources, 40% of the nation's land area, and 20% of the world's tropical hardwood resources.

But closer analysis indicates that while current trends are strongly indicative of a short or medium term boom in hardwood exports, there remain many obstacles to sustainable timber production in the Amazon region. At present, the majority of wood derived from the Brazilian Amazon derives from unregulated logging of forests earmarked ultimately for conversion. Over the last 3 years, defor-

estation in the Amazon region has been running at historically high levels. Following a 40% jump in the Brazilian Amazon deforestation rate during the August 2001 to August 2002 period, the rate remained level at around 2.3 million hectares per year in the 2002-2003 and 2003-2004 period. This conversion is driven partly by government projects to develop new roads – which facilitate development of new settlements and agricultural areas in the interior – and partly by strong demand for Brazilian commodities, including lumber, soya beans, rice and beef-cattle. Estimating the volume timber being derived from this largely unregulated conversion activity in the Amazonian region is almost impossible. For example, ITTO has variously estimated tropical log production in the region at between 30 million and 60 million m³. The US Embassy in Brazil estimates current Brazilian tropical log production at around 30 million m³, with only about 25% from areas covered by forest management plans. Taking the lower estimate, and assuming around a 40% conversion rate, it seems that exports of tropical hardwood can account for no more than about 20% of total production. The majority is consumed in Brazil, mostly in the state of Sao Paulo.

Sharp short term rise in exports....

It seems possible – even likely - that in the short to medium term, production and exports of tropical hardwood products will continue to rise from Brazil. While the President Lula's government has vowed to slow Amazonian deforestation, it is unlikely that the trend towards increased conversion will slow quickly. In fact, existing government policy may well make the situation worse. Lula's government is continuing with the Avanca Brasil program, a \$40 billion project for a network of highways, dams, power lines, ports, mines, oil fields and gas concessions which is expected to open up much of the Amazon to unregulated logging and follow-on agriculture. One key project now underway is to pave the roads from western Brazilian Amazon region across the Andes and through Peru to allow direct exports to Asia. This seems certain to boost hardwood lumber exports to China in the years ahead. Meanwhile, the private sector complains that populist policies targeting commercial logging are also damaging prospects for a shift to sustainable timber production. Responding to environmentalists campaigns in the 1990s, the government has progressively tightened regulations governing development of commercial forestry operations in the Amazon. However the regulatory process has suffered severely from bureaucratic problems. In theory, it is meant to take no more than 60 days for private companies to gain approval for a sustainable forest management plan, but in practice there are usually lengthy delays. Furthermore, the intense regulatory focus on commercial timber extraction has not yet been matched by tougher policies and meas-

ures aimed at preventing conversion. In fact, even now there is a proposal due for consideration by the Brazilian Congress to decrease the official (and regularly abused) requirement for the protected forest area on each individual farm in the Amazon from the current 80% to only 50%. Timber companies complain that in practice it is easier, and more profitable, to gain approval for conversion to non-forestry uses than for sustainable timber production.

...but long term prospects mixed

In the long-term, prospects for development of a sustainable tropical hardwood industry in the Brazilian Amazon remain mixed. Geographical factors will always be a major problem. Climatic conditions are generally unfavourable for commercial forestry, characterised by a relatively short dry season interspersed by an intense rainy season. Lack of a reliable land tenure system in the region is a major problem and remains a source of intense, sometimes violent, conflict. And being dependent on a short-term and unreliable supply base, much of the wood processing sector in the Brazilian Amazon remains small-scale and fragmented. The lumber industry in Brazil is composed of nearly 10,000 companies, mostly small and medium scale operations.

But there are also some positive trends. Over the past 5 years, the lumber industry has seen some significant structural changes aimed at increasing its competitiveness, technology, and investment. There has been a gradual increase in the contribution of hardwood lumber – notably eucalyptus - derived from southern Brazilian plantations.

Some positive trends

While government policy has been erratic and populist, it is not all bad. Some elements of the National Forest Plan (PNF), created by Presidential Decree in April 2000, hold out the promise of better management in the future. It calls for an expansion of the area of National Forests – effectively permanent production forests – in the Amazon from 15 million hectares to 50 million hectares by 2010. It envisages sustainable management of these areas by the private sector under concession agreements with the aim of ensuring that they supply 10% of Brazil's future log demand. There are also plans to establish a forest development fund with an annual budget of US\$40 million. Meanwhile the Forest Stewardship Council has focused heavily on developing independent forest certification capacity in Brazil in recent times. It has accredited three organisations in Brazil, giving authority to issue FSC forest certificates. Several Brazilian companies and state forest authorities have made far-reaching commitments to achieve forest certification. So far, FSC has certified 3 million hectares of forest in Brazil, including 1.2 million hectares of natural forest mainly in the Brazilian Amazon.

Russia

10

strategy is to boost exports of high-value wood products from European Russia to the European Union and to increase Western Siberia's exports of sawn wood, plywood, and particleboard products to China, Japan and the United States.

Russia's economic performance in 2004 exceeded expectations, as preliminary data shows 7.1% GDP growth, which surpasses the previous forecast of 6.5%. However, industrial output slowed last year to 6.1%, down from seven percent growth in 2003. The forest sector's share of Russia's economy, still insignificant related to its potential, is estimated at 2.3% of current GDP.

Growth in the forest sector is estimated to have been at around 4% last year and this was mostly due to the dynamic development of the pulp and paper industries, but was also due to growth in particleboard production (7%), MDF production (14%), and veneer (13%).

Infrastructure problems

Logging and the sawmilling sectors continue to face constraints related to infrastructure. Nothing illustrates this better than roundwood output, which is estimated at 98 million m³ in 2004 (256 million m³ in 1990), around quarter of the total allowable cut. According to government sources, to obtain an annual increase in logging of 60 million m³, an additional 3,000 km of forest roads per year must be constructed. In order to address this problem, the federal government has announced plans to launch a federal forest road infrastructure development programme as early as 2006. The outlook for 2005 and 2006 calls for a continued increase in Russia's forest sector output, due to continued strong export demand and increasing domestic demand. Production of value-added wood products (veneer, particleboard, and packaging materials) will continue to grow at average rate of 4% in 2005 and 2006, driven mainly by foreign investment and the expansion of large, verti-

cally integrated Russian paper/pulp/wood processing enterprises.

Hardwood trade set to increase

While softwood log production and exports increased substantially in 2004, mainly driven by export demand in China and Japan, analysts are generally predicting that production of hardwood logs will increase by around 5% in 2005 and 2006. This growth will be spurred, in the main, by continued expansion in export markets and higher demand from the hardwood plywood industry. Last year, exports of hardwood logs increased by 10%, to around 10.1 million m³ and this was almost entirely accounted for by a substantial growth in exports to China and Japan. Last year China imported 2.2 million m³ of logs from Russia comprising 402,000 m³ of oak, 360,000 m³ of ash, and 1.44 million m³ of "other hardwoods" (assumed to be mainly birch). Russian hardwood logs are competitive in China, providing an ideal source of low-cost hardwoods for its massive furniture industry. Furthermore, large gateway cities in northeastern China favour Russian imports and serve as distribution centers and wood processing zones. Despite the massive increase in exports to China, however, Russia's main export market for hardwood logs continues to be Finland, which takes around 68% of the total. This volume is almost exclusively lower-value industrial roundwood of birch and other "soft" deciduous species typical of boreal forest regions destined for the pulp and panels industry. Analysts are predicting that exports of hardwood logs from Russia will continue to increase over the next two years.

Analysts are also predicting that production of sawn hardwood lumber will rise in the next 2 years. Production is responding to increased investment, which is designed to enable the upgrading and construction of new plants in the Far East and Vologda region. This sub-sector is attractive because of abundant raw materials and does not require as much investment as the value-added sector. However, investment in lumber pro-

Chinese hardwood log imports from Russia (000 m³)

	2003	2004	% chg
Oak	251	402	60
Ash	285	362	27
Other	1248	1437	15
Total	1248	1437	15

Source: *hardwoodmarkets.com* based on *BTS Limited* data

duction can also be seen as a precursor to additional investment in further processing. In addition to this, higher domestic demand from the furniture sector and growing exports are supporting increased hardwood lumber production.

Exports of hardwood lumber are projected to increase at an average rate of 5% in 2005 and 2006, reflecting higher demand from China and Lithuania.

Growth in hardwood plywood sector

Hardwood plywood output is also widely forecast to increase in 2005 and 2006 as a result of higher demand, both in the domestic market and overseas. Particularly important will be projected expansion in the Russian furniture industry with the introduction of higher import tariffs on imported furniture and components. There is also expected to be growing demand from the United States (which increased by 13% in 2004) and the EU (mostly the UK and Germany). These countries account for almost 50% of overall exports and in 2004, total exports of hardwood plywood increased by 16% to a record of 1.2 million m³.

Domestic consumption increasing

The strength of the economy, improving forest sector infrastructure and investment, housing construction programmes and increased import tariffs on finished furniture are all helping to drive higher demand for wood products within Russia itself. Local analysts are predicting that demand for solid wood products in Russia may grow at a steady rate of around 5% during 2005 and 2006. Although a net importer of furniture, the Russian furniture sector is rapidly improving due to the steady growth of the economy, improved domestic quality and styling, and higher exports. In addition, recent government measures to set higher import tariffs for several categories of furniture will enable local producers to compete with imported furniture. In 2004, furniture exports increased by 40%, to nearly \$100 million, while imports increased by 32 percent to \$295 million. The European Union, mostly Germany and Italy, are the main destinations for Russian furniture, while Italy and Poland are the major suppliers of furniture to Russia.

USDA estimates and forecasts of Russian wood production and exports

000 m ³	Production			Exports		
	2004 estimate	2005 forecast	% change	2004 estimate	2005 forecast	% change
Softwood logs	72500	74875	3	30710	32245	5
Softwood lumber	15800	17160	9	12075	13285	10
Softwood plywood	275	283	3	186	190	2
Hardwood logs	25500	26625	4	10160	10975	8
Hardwood lumber	4890	5040	3	343	360	5
Hardwood plywood	1800	1940	8	1230	1353	10

Source: *US Department For Agriculture, Foreign Agricultural Service, Based on Report from US Embassy in Moscow*

Europe

Italy

Saiedue, Bologna

Aptly titled "Saiedue Living" this annual exhibition in Bologna in Northern Italy celebrated its 24th anniversary this year. Held in early March and organised by Federlegno-Arredo, the Italian wood industries federation, the show demonstrates technology, design and innovation for architecture. The show has always had an important emphasis on wood products, such as doors, windows, stairs, flooring and general joinery and construction. A total of 1,432 exhibitors took part with over 120,000 Italian trade professionals, including many architects and specifiers, coming to see a wide range of current building products and solutions.

As always hardwood products were strongly represented with exhibitors ranging from hardwood agents and importers promoting raw material through to fully finished products, such as pre-finished hardwood flooring and solid hardwood interior doors and stairs. In general, the hardwood sector in Italy is reasonably up beat at the moment. The furniture sector may be experiencing tough trading conditions but kitchen producers and manufacturers of joinery products for the building industry, are seeing positive demand both at home and in export markets. However, all sectors are facing increasing competition from imported products, especially from China and Eastern Europe.

Wood renaissance in construction

The growing renaissance for wood in the building sector all over Europe is also evident in Italy. A number of exhibitors reported that many of architects visiting Saiedue seemed far more interested in wood solutions than in the past. This trend was confirmed by the American Hardwood Export Council (AHEC), who were exhibiting in a specially designated area of the show called "Naturpolis", which showcases sustainable building products and attracts many architects. According to the AHEC, more and more Italian architects are keen to use hardwood in their designs and increasingly they are favouring the "temperate hardwood" look. AHEC also believe architects are more receptive to "new" species, and not perhaps as conservative as they are sometimes portrayed. AHEC carried out a survey to gauge architects attitude to the red oak strip character grade floor on their stand. There is little demand for red oak from the hardwood sector in Italy or from the rest of Europe for that matter, yet their reaction was very posi-

Italian hardwood imports

(000 m3 unless otherwise stated)

	2002	2003	2004 (e)
Tropical logs	312	252	205
Temperate logs	1965	1741	1839
Tropical lumber	446	433	436
Planned hardwood	21	27	20
Temperate lumber	1199	1199	1077
Tropical veneer	113	138	136
Temperate veneer	147	135	124
Tropical plywood	106	125	125
Temperate plywood	226	217	218
Mouldings (million euro)	135	147	160

Data for 2004 is estimated

Source: hardwoodmarkets.com based on BTS Limited data

itive, even though most had no idea what species it was.

Leading wood trade magazine IL Legno organised a seminar during Saiedue titled "New wood based products". Wood product consultant Paulo Gardino focused on whether Italian wood distributors (timber yards) were embracing new products such as edge-glued and composite panels, dimension products and engineered products. Referring to research carried out in 1998 and again in 2004 with timber trade companies in Italy, Germany and Spain, Gardino drew the following conclusions:

□ In Italy the number of companies selling hardwood lumber in 2004 has increased from 20% to 30% since 1998.

□ But the number of companies selling added value products has fallen. For example those selling framing were down from 40% to 35%, flooring down 40% to 32%, and doors from 20% to 12%

□ In comparison 60% of companies surveyed in Germany sold wood doors and 55% in Spain.

□ While other EU markets have seen timber yards embrace the distribution of "new product" as well as raw material, this has happened to a much lesser extent in Italy, where lumber and panels constitute the main turnover for most timber yards.

According to the latest survey by Federlegno-Arredo, the total consumption of wooden products in the construction sector in Italy increased in 2004 compared to 2003. This data includes sales of doors, windows, flooring, and general joinery, all of which use significant amounts of hardwood. Although domestic production by Italian companies increased there was also further penetration of imported products, which were up 6% on 2003.

Flooring

Exports of wood flooring from Italian manufacturers continues to grow according the latest figures. In 2004 exports were up 24% in volume and 27% in value to over €60 million. The main export markets are Germany

(18%) and USA (16%), followed by France and Switzerland (10%). Flooring imports also increased in value, up 15% compared to 2003 but volume was actually lower, probably signifying a shift towards higher end products and higher value species such as walnut. What is most significant is that imports now represent about three times the value of exports. Many in the flooring sector believe this trend will continue as China and other Asian producers, such as Indonesia, target the Italian Market. It should be noted that there is still huge potential for wood flooring growth in Italy, where ceramic, marble and stone still dominate. It is estimated that wood only accounts for 20% of the Italian flooring market and this includes laminate products.

Doors

Italy has a sizeable door industry, where hardwood is widely used. Export is an important focus for the door producers and in 2004 exports increase by around 10% compared to 2003 to over €90 million. The main export market is Russia which now accounts for 33% of total exports. Door imports are much lower at around €25 million but still very significant, and increasing. Imports were up 10% in value in 2004 compared to the year before with Romania supplying 59% of the total. Romania is a significant supplier of hardwood lumber, components and increasingly product such as doors and furniture to the Italian market.

Economic outlook

Italy has been experiencing its longest-serving Government since 1945 and will host the 2006 Winter Olympics in Turin in 2006. But economic performance has been disappointing in recent years with stalled growth and flagging competitiveness. The Italian government predicts GDP for 2005 will rise 2.1%, a big improvement on the 0.4% recorded for 2002 and the 0.3% in 2003 and better than the 1.1% estimated for 2004. However, some industry leaders and private forecasters think the government is over optimistic and that 1.5% is more realistic. For the hardwood sector in Italy, which has a heavy focus on export, it is not just the state of the Italian economy that is important. Continuing concerns over the general health of EU economies and the fortunes of Germany in particular remain crucial to the prospects of many companies. Italian wood industries are targeting new export markets outside the EU but the high value of the Euro is affecting sales, a fact that the Chinese producers are able to take advantage of, even before their lower labour costs are taken into account!

African log prices remain stable

It is now the main production season in African supply regions north of the equator. Recent reports suggest reasonably good stocks of sapele logs in Douala port in Cameroon. However availability of logs of most other commercially valuable hardwood species remains restricted. Meanwhile, there is now heavy rain in the main African production regions south of the equator. Log stocks are currently very limited at the port of Pointe Noire in Congo-Brazzaville. Prices for most species of log have been steady over recent weeks. **Pages 2,3**

Sapele soft, other species firm

Log market conditions are mirrored in the sawn lumber sector. Supplies of African sawn lumber are generally tight, particularly for key West African species including iroko, framire, khaya, azobe, wawa and ayous. Prices for these species remain firm. Availability of sapele from the northern Congo is better and this is reflected in softer price levels. **Page 3**

Far East log supplies very tight

Overall log supplies are extremely tight throughout the Far East, a trend which has led to significant upward pressure on FOB log prices for most species. While the Chinese New Year and wet weather have played a role, longer term factors associated with increased forest enforcement and past over-exploitation are now playing a key role. The future log supply situation from Indonesia is particularly uncertain. Large quantities of illegal logs continue to flow out of Irian Jaya in the east, mainly to China, but illegal log flows into Sarawak and West Malaysia seem to have almost ceased. The Indonesian government is currently in the process of reassessing forest enforcement policy. Meanwhile, a NGO has estimated that post-Tsunami reconstruction work in Aceh Province may absorb 4 million m³ of wood over the next 5 years. **Page 5**

Rise in Malaysian lumber prices

US\$ prices for Malaysian sawn lumber have been firming over recent weeks due to limited log supply. European forward buying is still slow. However importers are now looking carefully at their stock position, with the knowledge of limited forward supplies combined with the prospect of improved demand during the spring. **Page 5**

Myanmar teak supplies threatened

With no let up in global demand for teak, Myanmar's forests are coming under increasing pressure. Furthermore, development of wood processing along China's border with Myanmar and continued illegal logging are just two factors contributing to the depletion of Myanmar's forest resources. **Pages 3,4**

Japan's hardwood market continues to contract

Japan is still enjoying economic recovery, after years of poor performance. However the market for most hardwood products has continued to contract as trends in the construction and plywood sector have favoured softwoods. Japan's imports of tropical hardwood logs reached only 1.6 million m³ in 2004, down from levels of over 10 million m³ in the early 1990s. **Page 4**

Vietnamese wood furniture exports exceed \$1 billion for the first time

Last year, exports of wooden furniture from Vietnam reached a value of over \$1 billion, more than double the value recorded in 2003. Of the total, roughly one third was exported to the United States, while Vietnam's other main markets for its furniture products were the European Union and Japan. Extremely low wages, substantial Chinese investment and the US anti-dumping case against bedroom furniture from China have all helped to underpin the significant growth seen in the Vietnamese wooden furniture sector in recent months. **Pages 4,5**

Strong US market, but competition mounts for domestic producers

The US domestic market for hardwoods remains very favourable. With GDP increasing at 3.8% during the final quarter of 2004 and little change forecast for the beginning of this year, the US economy continues to strengthen. Housing starts remain at an all time high. However weakness in the domestic furniture sector and a fashion for whitewoods has led to a significant problems in the market for red oak. Domestic sales of American hardwood are also coming under increased pressure from imports. **Page 6**

US exporters face tougher trading conditions in 2005

With domestic business not as robust as the last couple of years, it is likely that more

US hardwood producers will be motivated to develop exports in 2005. However competition will be intense - so much so that some analysts predict a slowdown in US hardwood export growth in 2005. **Page 7**

Brazilian export growth raises questions over long-term supply

2004 data indicates that Brazilian hardwood sawn lumber exports were up a massive 38% in value terms and 20% in volume terms. The rapid pace of export growth raises questions over the long-term sustainability of this trend. Much hardwood coming out of Brazil is likely to derive from conversion forest. Government policy to promote long-term sustainable forestry operations has been erratic, seemingly driven more by populist measures to appease environmentalists than by a rigorous assessment of the long-term needs of a sustainable industry. But there are some positive trends. **Pages 8,9**

Russian bear begins to stir

In 2004, total exports of forest products from Russia reached a record value of \$4.1 billion (up 31% from 2003), while imports of all forest products were estimated to be \$273 million (up 28% from 2003). The significant increase in exports can be attributed to the continued appreciation of the euro, substantial increases in exports to Japan, China and Finland and the United States. With domestic and overseas demand for Russian wood products increasing, the government and forest sector will have to work hard to improve infrastructure and to create a better business climate. **Pages 1,10**

Hardwoods feature at the Saiedue show in Italy

Hardwoods were well represented at the annual "Saiedue Living" exhibition in Northern Italy in March. The show demonstrates technology, design and innovation for architecture. Hardwood traders interviewed at the show were reasonably up beat about market prospects in Italy. The furniture sector may be experiencing tough trading conditions but kitchen producers and manufacturers of joinery products for the building industry, are seeing positive demand both at home and in export markets. However, all sectors are facing increasing competition from imported products, especially from China and Eastern Europe. **Page 11**