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EU furniture manufacturers lose ground

How is China's economic expansion affecting the hardwood trade?

China's overheating economy is having a significant impact on global hardwood markets. It is putting a big demand on world supplies of hardwood primary products, at a time when availability is relatively restricted, and helping to drive a significant rise in prices for some key items (see chart). Chinese import data this year (see page 5) suggests that the rise in hardwood prices may already be acting as a deterrent to Chinese purchasing. The volume of hardwood log imports during the first nine months of this year is marginally down on the same period in 2003, while the dollar value of imports has climbed over 7%. Hardwood sawn lumber imports continued to climb during this period, up 9%, while the value of imports increased by 15%.

Chinese importers have generally been switching away from tropical hardwoods in favour of temperate hardwoods, notably from Russia and the United States. Amongst tropical hardwood suppliers, they have shifted away from African supplies in favour of South East Asian supplies, particularly Sarawak, and Brazil. This reflects supply problems in Africa, the strong euro, and high costs of shipping from Africa.

What happens to prices for hardwood primary products, particularly tropical hardwoods, over the next year or so will depend heavily on whether China's economy can engineer a soft landing. A slowdown in annual growth to 7%, as many economists predict, may sound soft enough, but investment could slow much more sharply, from an annual growth rate of 35% early this year to, say, 10%. Since investment spending is very raw-materials-intensive, such a slowdown could significantly weaken prices for a wide range of hardwood primary products.

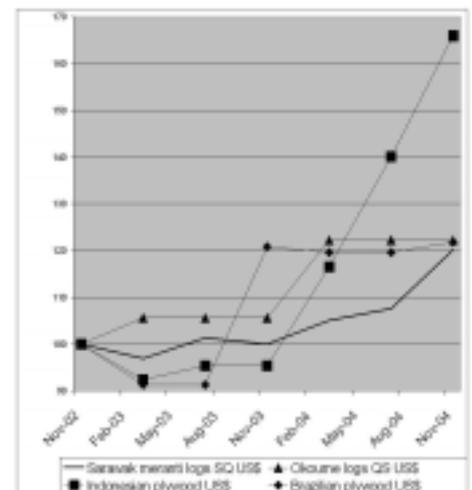
In the longer term, however, continuing industrialisation and urbanisation will increase

China's demand for hardwoods. As incomes rise, more Chinese households will be able to afford better quality hardwood furniture and fittings.

In around 20 years' time, China's income per person could be close to South Korea's today. If its wood consumption per person also rose to current South Korean levels, its timber demand would increase by 50%. In terms of volume, that would be an increase in annual industrial roundwood consumption of around 70 million m³. This estimate may be conservative: even after such growth China's wood use per capita would still be only a half that of Japan and quarter that of Europe.

As China has limited domestic wood resources, much of this extra volume will have to be imported. China's domestic forests are particularly bereft of high value decorative hardwoods. This supply gap cannot be filled by China's newly established fast-growing plantations, which will produce lower quality less durable wood. Availability of high value decorative hardwoods is also declining. □ 5

**Change in hardwood prices (US\$ FOB).
Price in November 2003 = 100 units**



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Africa

African logs

Falling trade volume

Tight supplies, increased export restrictions, rising taxes and the strength of the euro have led to a significant fall in the volume of international trade in African hardwood logs during 2004. Solid international demand combined with very limited supplies has meant that FOB prices for certain specific species – including iroko, ayous, acajou, bubinga/kevazingo and moabi – have remained firm. However international demand for other key species – including sapele and okoume – has been slow, leading some reports to indicate weakening prices.

China and India now play a key role in the international trade in international logs. While overall demand for tropical hardwood logs has been strong in these two countries during 2004, there has been a significant shift away from African supplies. The strength of the euro combined with limited availability of African logs has encouraged Chinese and Indian buyers to focus on Asian sources of supply in 2004.

Demand for okoume logs in China, now an important market for this commodity, has varied widely this year. In the first half of 2004, Chinese importers first resisted and then accepted price increases. Now the market is swinging the other way. China is well stocked with okoume and other peeler logs, demand is falling and prices have begun to weaken again.

Indian demand wanes

Indian stocks of their favoured African species including padouk and belli are reported to be high and forward demand has slowed. Overall, European demand for African logs remains depressed. Difficult supply conditions, combined with higher costs resulting from increased fuel prices and tax rates in producer countries, have led to tightening margins. At the same time, log processing capacity in many parts of Europe is tending to decline. There are now few opportunities for large volume sales. While overall volumes of European trade in African logs have declined, there are still opportunities for specialist niche market sales. There are pockets of demand for specific species in France, including movingui, acajou and sipo. There are also reports of good demand for some African hardwood logs in Greece and Turkey, with acajou mentioned as doing particularly well. There continues to be interest in ayous and iroko in Italy, although availability of both species is now a significant problem.

Log buying in the Netherlands is now well

down on previous years due to the closure of processing facilities. Azobe demand in Netherlands and Belgium has also been hit by excess stocking of angelem vermeilho, a cheaper Brazilian alternative. The Portuguese market – which has made a significant switch from iroko to izombe – is now extremely slow.

African sawn lumber

Slow European buying

European consumption of African sawn lumber continues to be slow. Demand for flooring timbers has been better than in other end-use sectors. Limited availability of some species combined with the strong euro against the dollar has undermined the competitive position of African hardwoods against Asian and Brazilian alternatives.

Iroko sawn lumber prices remain very firm as supplies are now extremely limited. Prospects for any improvement in supply during the coming dry season have been undermined by political chaos in the Ivory Coast in recent weeks. High prices mean that European buyers are reluctant to commit to new contracts. Many suppliers are now talking about strategic withdrawal from the iroko market and are trying to persuade buyers to switch to other species, notably sapele.

Overall European demand for sapele sawn lumber has remained sluggish, with continuing reports of soft prices in Europe. So far

□ 3

African indicative prices

	Sept	Oct	Nov
Exchange rates			
US\$/£	1.81	1.81	1.89
Euro/£	1.47	1.44	1.43

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	500	500	500
Sipo	550	550	550
Bibolo	380	380	380
N'Gollon	580	580	580
Iroko	680	680	680

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	680	680	680
Mahogany	550	550	550
Framire	370	355	355
Samba No.1 C&S	275	275	275

Dimension stock

Azobe	430/ 490	430/ 490	430/ 490
Dabema	325/ 375	325/ 375	325/ 375

Gabon

Euro/m3; FOB

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

Okoume AD	310	310	310
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Africa

2

FOB prices for sawn lumber have continued to hold steady, with suppliers emphasising high taxes and costs of production. Some European buyers are now substituting sapele sawn lumber in place of other African species in short supply, including iroko and niangon.

European demand for sipo/utile sawn lumber still remains relatively restricted. However, there are signs of emerging interest in utile in the United States as a substitute for South American mahogany. Sipo FOB prices

are holding steady.

Exports of framire/idigbo sawn lumber were flowing more freely from the Ivory Coast during the autumn, but the re-emergence of political problems in the Ivory Coast raises doubts over long term supply prospects.

Wawa supplies tight

Supplies of wawa sawn lumber remain tight due to resource constraints and the prolonged wet season in Ghana. Wawa demand has been good in South Africa and parts of Europe. Wawa prices remain firm.

US buyers are continuing to pay good prices for Ghanaian khaya sawn lumber and are importing the vast majority of the volume that comes available. Tight supplies and recent price increases for Peruvian swietenia have helped boost this trade in the USA.

There has been some increased interest in African hardwood lumber in China during 2004, although volumes are still very confined. China's is buying African sawn lumber mainly from Cameroon, Gabon and the Congo Republic.

Asia

Malaysian sawn lumber No end to shortages

A recurring theme when reporting on the state of production and trade in Malaysian hardwoods is that prices are firming and supplies are tight. This statement still holds true. With respect to firming prices, this is particularly relevant for dark red meranti, while shortages in supply are being felt hardest in merbau, nemesu and keruing.

Log availability to Malaysian mills remains restricted and no short-term improvement is forecast. The consistently strong demand for logs from the Southeast Asian and Chinese plywood sectors puts constant pressure on supplies and the forthcoming monsoon season is likely to exasperate this situation.

Depressed in the Netherlands

Demand for dark red meranti in the Netherlands has been severely depressed for many weeks already and analysts see little hope for a quick recovery. Joinery companies are experiencing lean times and find it increasingly hard to get work and expectations that the Dutch market would pick up in the latter stages of this year have proven to be unfounded. Furthermore, with winter on its way, it is expected that this quiet spell will linger for some time to come and perhaps even until the spring.

Early 2004 government projections for the economy led to improved confidence in Holland's general outlook for this year. Trading improved, housing starts grew and the situation for joinery companies strengthened, allowing for importers to build stocks once again. However, since September this year, importers have been paying a hefty price for this earlier flurry of activity and the current landed stock situation is no longer in line with demand. The sale price for the most popular meranti size

(3" x 5") in Holland remains under constant pressure, as traders are squeezed by increasingly cost-conscious buyers.

Dutch Buyers market

The position of a buyer's market is well-established in the Netherlands and buyers know all too well that traders need to shift their stocks. Despite the weak demand from their largest continental trading partners, Malaysian producers have not buckled under the pressure and, in the main, prices continue to hold very firm C&F Rotterdam. In some cases and in certain Malaysian species, it may well be cheaper to buy in Holland than in Malaysia.

Merbau has fortunately escaped from the price erosion cycle in the Dutch market. The species is in such short supply in both unsold position by exporters and in stock by importers that, in contrast to meranti, merbau is seeing almost daily price increases. However, it is not expected that these price increases can be absorbed forever and substitution by alternative species may well begin to take place. In fact, in decking species, Malaysian balau has already come under increasing pressure from more competitive alternatives from Brazil, such as garapa and massaranduba.

Prices are generally very firm and demand is generally very slow in the UK market for Malaysian sawn hardwood lumber. Prices

for all Far Eastern products are rising, with keruing, meranti and yellow balau leading the way. As is the case for their continental buyers, Malaysian mills are only producing to meet demand and forward prices are not dropping.

Little and often in the UK

UK buyers are not placing large volume orders and yet further down the trade chain, joinery manufacturers are only buying in small quantities and on an as-and-when basis. The result, with the exception of keruing, which is in very short supply in UK specifications and of very limited availability for prompt shipment, is well-balanced stocks in most species and little price-erosion, as is the case in Holland. One continuing development, is the increasing interest in MTCC certified sawn lumber in the UK, driven by increasing demand for certified forest products in the public sector.

Thailand

Domestic supplies decline

Non-rubberwood log supplies in Thailand are obtained from the Forest Industry Organisation's (FIO) reforested area, as well as timber which is confiscated from illegal-logging activities. The volumes have declined in recent years, reflecting both a lack of reforested mature trees, as well as tighter controls on illegal-logging. In 2003, non-rubberwood log supplies stood at around 32,000m³, dropping by about 5% from the previous year. Thailand is the world's second largest rubber producer and in addition to the supply of indigenous hardwood species, there is a significant production of rubberwood from plantation forests. Last year, sawn rubberwood lumber production was at around 1.7 to 1.8 million m³.

Supplies of rubberwood have become a major substitute for logs from reforested ar-

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'			
	July	Sept	Nov
1"	870	870	890
2"	895	900	915
2.5"	940	950	960
3"	975	975	975

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.

8

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cas. However, due to political unrest in Thailand's southern provinces, which has all but ceased the processing of logs from the early part of this year, as well as the prevailing high price for natural rubber products, fewer rubber trees are available for logging. The result is that rubberwood lumber production in 2004 is not forecast to reach 2003 the level obtained last year and may well drop by around 13-15%. Furthermore, rubberwood prices have been rising, as a result of limited supply.

This increase in price and tightening in supply has galvanised a group of rubberwood furniture manufacturers to impose a ban on Thai exports of rubberwood to China. Chinese manufacturers, who are able to benefit from lower labour costs than in Thailand, have been able to undercut Thai rubberwood furniture producers. However, the Thai government has not implemented such a ban, as many of the rubber farmers have voiced serious opposition to the idea.

Hardwood imports rising

With domestic log production of both rubberwood and other hardwood species declining, the need for imports of hardwoods for the country's expanding furniture and interiors sectors will become greater. In 2003, tropical hardwood log imports stood at around 337,000m³, all of which was converted and consumed domestically. The main sources of tropical hardwood logs are Malaysia, Myanmar, Papua New Guinea, the Solomon Islands, Gabon and Indonesia. This volume is forecast to increase to about 450,000m³ by the end of 2004. At the same time, imports of hardwood lumber stood at around 1.6 million m³ in 2003, of which 1.4 million m³ were tropical species from Malaysia, Brazil, Laos and Myanmar in the main. Taking into account the local production of rubberwood and non-rubberwood lumber and also the significant export of rubberwood lumber to China and elsewhere, total consumption of tropical hardwood lumber in 2003 was at around 2.6 million m³. With domestic production of tropical hardwood lumber declining, but imports increasing by around 6% this year, apparent consumption is due to increase by to around 2.7 million m³. In terms of temperate hardwood lumber, imports reached a volume of 217,000m³ in 2003 and were mainly from the United States, Canada and the European Union. This volume is forecast to increase to about 230,000m³ by the end of this year. It is likely that Thailand's furniture industry will benefit from improved export markets in the United States and Japan and that this

will create a need for bigger volume imports of Malaysian, Indonesian and American hardwoods, amongst others. Furthermore, the US-imposed anti-dumping duties on Chinese furniture could allow for greater market share in the US for Thai goods. In addition to the growth in Thailand's furniture export markets, the country's own tourism industry is expanding rapidly and more hotels and tourist infrastructure will lead to a greater need for furniture, flooring and interior joinery.

Furniture industry transformed

The Thai furniture industry has changed dramatically in recent years, as it has moved away from traditional hardwood species to rubberwood, imported hardwood, MDF and other wood-based panels. Rubberwood furniture now accounts for around 70% of total wooden furniture production in Thailand, with the balance being made up by other hardwood furniture and panel-based furni-

ture, at 15% each. Furthermore, Thailand has shifted the orientation of its furniture manufacturers towards export and, today, around 70% of its production is destined for overseas markets. The diversification and modernisation of the furniture industry has allowed for Thailand's wooden furniture production to become more desirable on the global market and, with the improved economic situation in its main export markets, exports of wood products, including furniture, are expected to increase by around 10-15% in value this year. In the first half of 2004, Thai exports of wooden furniture and parts increased by 13% to \$322 million, as compared to the same period last year. At the same time, exports of other wood products (construction materials, picture frames, kitchenware and ornaments) increased by 16% to a value of over \$407 million. The main importers of Thai wood products are the United States (around 38%), Japan (29%) and the European Union (around 15%).

Japan

Increased housing starts

The Japanese economy has shown real signs of recovery in 2004, after some years of poor performance. One clear sign has been the improved construction sector. September housing starts were 10% higher than the same month a year ago. This represents four consecutive months of more than 100,000 units starts, which is a significant increase on 2003. Furthermore, the October 23rd earthquake in Niigata, which damaged thousands of homes, will serve to boost housing starts once again in November and December, as the government works hard to rebuild infrastructure before the heavy winter snow sets in. Forecasts for 2005 are not so positive, but the strength of the US economy and increased personal spending in Japan may serve to curb a further economic contraction.

Hardwood market contracting

Despite an improved economic situation, the Japanese market for hardwoods has shown signs of slowing in recent times. Significant increases in Japan's imports of softwood logs from the Russian Federation have eaten into hardwood market share and bilateral agreements between the two nations are unlikely to help Japanese demand for hardwoods in the near future. Furthermore, the euro now sits at 1.36 against the yen and this is the highest rate ever and the affect of this is a tougher situation for European hardwood exporters.

Over the past ten years, Japan's imports of logs have steadily decreased from around 22 million m³ to around 12 million m³. The greatest decline has been seen in hardwoods and hardwood log imports from the United States and tropical countries have fallen from around 14 million m³ in 1994 to 5 million last year. At the same time, imports of sawn hardwood lumber have also fallen, by about 10% over the period.

A changing market

One of the main changes in Japan's timber market is the move - with the obvious exception of Russian softwood logs - from imports of primary wood products to imports of further processed products. This change has come about due to three main factors: the loss of specialist wood technicians and craftsmen; the loss of competitiveness of Japanese mills; and tighter controls on industrial emissions. In addition to these factors, recent earthquakes have forced home builders to come up with newer and stronger methods of building, which include the increased use of engineered softwood panels and beams. The impact of this last point has particularly great, as the house builders are the largest end-users of wood products in Japan. The effect of all this has been to reduce hardwood demand. Today, only niche markets exist for these products. The situation can be compared to the UK, where large furniture and joinery manufacturing has all but disappeared and only small, high-quality custom manufacturers are left.

Asia

ing from some of the world's traditional supply sources – for example throughout much of South East Asia and West Africa. The implication of these trends is that the hardwood trade generally may be moving towards a period of relatively high prices. Of course, such bold forecasts should be treated with caution. Higher prices for hardwood will also curb demand and encourage new efforts to find alternative supply sources and substitute products. Already China is turning to the huge softwood and birch forests of Eastern Russia. Parts of

Europe still have considerable spare capacity in hardwood production and are looking to increase market share in China. The United States has experienced hardwood shortages this year due to strong domestic demand, but longer term that nation's hardwood resource is large and expanding. Even in the tropical hardwood industry, there is still considerable scope to increase natural forest production in Brazil and the Congo Basin, while plantations are beginning to come on-stream in certain areas.

Another offsetting factor is that rich countries' demand for hardwood products is tend-

ing to fall as these economies shift from manufacturing to services. Many furniture factories being built in China are replacing those elsewhere. Globally, furniture manufacturing is also becoming less heavily dependent on solid hardwoods as there continues to be a shift from solid timber to veneers, panel products and artificial foils. Technological advances are also improving supply in various ways, for example by improving efficiency of wood processing.

All the same, China's economic expansion and rising per capita income should provide a long-term boost to hardwood prices.

China imports of primary wood products 2003, Jan-Sept 2003 and 2004

	US\$ million 2003 Year	US\$ million 2003 Jan-Sept	US\$ million 2004 Jan-Sept	US\$ million %	000 m3 2003 Year	000 m3 2003 Jan-Sept	000 m3 2004 Jan-Sept	000 m3 %
				Change				Change
Softwood logs								
RUSSIA	778.3	591.2	775.2	31.1	12583.8	9615.6	10933.2	13.7
NEW ZEALAND	127.6	101.6	66.3	-34.8	1911.5	1554.9	696.3	-55.2
OTHER	39.5	26.8	30.8	14.8	524.8	365.1	306.4	-16.1
TOTAL	945.4	719.6	872.3	21.2	15020.0	11535.6	11935.9	3.5
Hardwood logs								
MALAYSIA	395.4	280.2	304.5	8.6	2924.0	2085.6	1991.9	-4.5
GABON	205.7	158.7	122.5	-22.9	939.9	733.1	470.0	-35.9
RUSSIA	190.7	138.2	190.2	37.6	1783.9	1303.0	1651.5	26.7
PAPUA NEW GUINEA	154.9	117.1	116.9	-0.1	1377.8	1057.9	929.1	-12.2
EQUAT. GUINEA	95.5	73.5	54.0	-26.5	510.8	400.8	248.9	-37.9
CONGO REPUBLIC	76.9	55.4	88.2	59.3	372.8	273.9	355.3	29.7
MYANMAR	72.9	57.3	79.7	39.1	788.2	623.5	830.0	33.1
GERMANY	56.0	47.6	46.0	-3.4	320.4	273.3	262.2	-4.0
LIBERIA	41.9	41.9	0.0	-100.0	395.1	395.1	0.0	-100.0
OTHER	212.6	161.9	212.7	31.4	1023.0	754.6	954.8	26.5
TOTAL	1502.5	1131.8	1214.8	7.3	10435.9	7900.8	7693.8	-2.6
Softwood sawn lumber								
RUSSIA	47.3	37.3	56.5	51.7	436.1	344.3	477.0	38.5
NEW ZEALAND	38.4	29.3	33.3	13.4	195.5	149.6	161.2	7.7
CANADA	37.8	27.5	41.5	50.8	265.0	191.7	263.2	37.3
U.S.A.	16.6	10.9	17.7	62.0	54.8	35.9	52.5	46.5
CHILE	13.8	9.5	16.7	75.3	76.5	53.5	89.4	67.2
FINLAND	12.8	10.0	11.5	15.2	55.6	43.2	54.2	25.5
OTHER	42.5	33.3	33.6	0.9	289.9	236.5	191.8	-18.9
TOTAL	209.2	157.8	210.7	33.6	1373.4	1054.7	1289.4	22.2
Hardwood sawn lumber								
INDONESIA	210.1	155.4	151.7	-2.4	1052.2	775.5	739.3	-4.7
U.S.A.	181.3	130.3	164.5	26.2	622.2	452.8	559.5	23.6
THAILAND	135.2	101.9	130.2	27.8	671.2	504.8	631.8	25.2
BRAZIL	106.0	73.5	108.1	47.0	239.2	163.4	221.2	35.4
MALAYSIA	87.9	65.2	66.1	1.3	436.1	323.2	322.7	-0.2
MYANMAR	35.0	28.0	29.6	5.8	190.6	155.4	173.3	11.5
CANADA	31.3	25.2	27.6	9.5	115.9	94.0	77.2	-17.9
GERMANY	27.8	22.6	13.9	-38.2	119.4	97.9	54.2	-44.7
RUSSIA	24.3	17.3	27.0	55.8	125.1	91.2	120.4	32.0
OTHER	142.5	105.0	115.4	9.9	566.8	417.3	438.9	5.2
TOTAL	981.4	724.5	834.3	15.1	4138.6	3075.6	3338.7	8.6
Plywood								
INDONESIA	244.7	200.3	190.8	-4.7	534.4	426.5	376.2	-11.8
MALAYSIA	47.7	37.2	42.7	14.5	137.5	100.7	106.2	5.4
SOUTH KOREA	15.5	12.8	16.5	29.6	30.7	24.5	29.7	21.1
JAPAN	13.1	9.3	8.1	-12.5	20.2	14.5	23.0	58.4
OTHER	34.0	27.9	26.2	-6.1	75.0	59.9	54.7	-8.7
TOTAL	355.0	287.5	284.3	-1.1	797.8	626.2	589.8	-5.8
Veneer								
U.S.A.	27.3	21.6	27.7	28.5	18.0	13.8	15.9	15.4
GERMANY	6.0	4.2	8.2	91.8	2.9	2.0	3.7	88.8
MALAYSIA	19.1	15.1	8.3	-45.0	79.8	66.8	25.2	-62.4
TAIWAN	6.4	4.5	7.8	74.1	5.6	3.9	5.0	29.7
INDONESIA	7.4	5.2	4.3	-16.6	23.7	15.8	15.4	-2.2
CANADA	4.3	3.6	3.8	7.5	3.4	2.8	2.2	-22.0
OTHER	25.2	19.5	22.0	13.4	34.2	28.5	17.8	-37.5
TOTAL	95.7	73.5	82.1	11.7	167.5	133.4	85.1	-36.2

Peru

Rising wood exports

Peruvian wood product exports increased by around 25% in the period January-September 2004 to reach a value of \$97 million, compared to \$73 million for the same period last year. The increase was in spite of a fall in exports of mahogany, which were down by about 22% to 12,797m³, compared with the same period in 2003. The principal export market for Peruvian wood products continues to be the United States, which currently accounts for some 47% of exports and sales are up by about 4.5%.

Domestic prices for logs are increasing and this, coupled with higher export demand, has led to a significant rise in export values. With species in short supply and restrictions on mahogany harvest volumes, firming prices are unlikely to ease within the short-term.

30% destined for Mexico

Exports to Mexico registered a positive growth of 57%, compared to the first nine months of 2003. Peru now exports around 30% of all its wood products to the Mexican market. Demand for virola sawn lumber from Mexican importers is very high and the majority of exports from Loreto – Peru's main virola producing region – are destined for Mexico. Virola and lupuna based plywood are also in high demand in Mexico.

Shift to Central America and China

Peru's third most important export markets for hardwood products are China and Hong Kong, which are especially important for sales of mouldings, decking and flooring. Furthermore, a number of Chinese hardwood importers have set up production plants in Peru. Meanwhile, in Central America, the Dominican Republic, Puerto Rico and El Salvador take up most of the balance of exports of plywood and sawn hardwood and these countries have displaced European export markets, such as Germany and the United Kingdom.

Plywood at full capacity

Hardwood plywood and veneer prices have also been firming in recent months, in line with sawn hardwood lumber prices. Greater export demand has meant that producers of plywood are working at full capacity with three shifts to meet orders. Demand for virola, lupuna and cedar plywood is particularly strong and the main export markets are to be found in Central America.

Brazil

Boom time

Despite tighter restrictions on mahogany exports and various strikes throughout the year, which have, amongst other side-effects, served to hamper the flow of goods through Brazil's international ports, exports of all wood products have increased significantly so far this year. The greatest increases have been seen to China, the United States and many European markets.

The Brazilian forest products industry is currently experiencing a period of very positive growth and exports of pulp, paper, plywood, sawnwood and many other forest products have been posting impressive export numbers. During the first nine months of 2003, Brazil's forest products industry exported approximately US\$4 billion worth of products, while exports of these products in the January-September period of 2004 registered US\$5 billion; a 26.5% increase overall.

Hardwood lumber exports increase 44% in value

Exports of Brazilian hardwood sawn lumber for the first three quarters of this year achieved a total value of \$386.6 million, which is almost equal to the value of Brazilian hardwood sawn lumber exports for the whole of 2003. Compared to the same January-September period in 2003, this year's exports have increased by 44% in value. However, this massive increase in value has not been matched by the same increase in volume. Nevertheless, exports of Brazilian hardwood sawn lumber did increase by 17% to just over 1 million m³ during the same period.

Increases in the value of sawn hardwood imports from Brazil were seen across all destination markets, while volume increases were seen in most markets, with the exception of Spain, which dropped significantly. China, which is Brazil's number one export market for sawn hardwoods saw a 20% increase in imports during the first nine months of this year, to reach a volume of 215,000m³. At the same time, France and the Netherlands – the second and third most important markets – saw increases of 35% and 49% respectively, taking their imports up to 122,000m³ and 98,000m³, which, in the case of the Netherlands exceeds to total volume imported in 2003. This is particularly significant, as the Dutch market for Malaysian sawn hardwood is reported as very slow in the past few months. The United States' imports of Brazilian sawn

hardwoods also increased by 33% in the first three quarters of 2004, while other Latin American markets have showed increasing interest over the period. Argentina, which imported some 30,000m³ of Brazilian hardwood sawn lumber in 2003, has stepped up trade with its neighbour considerably so far this year. Brazil's exports of sawn hardwood to Argentina reached 70,000m³ during the January to September period.

Dramatic increase in hardwood plywood exports to US and Europe

In the same vein as sawn hardwood, Brazilian hardwood plywood exports increased by 60% in value during the first nine months of this year, reaching a total of \$247.7 million. Feeding the construction boom in the United States, imports of hardwood plywood from Brazil increased by over 50% in the period and reached a value of \$84 million. The same was true for Puerto Rico, which saw an increase of over 73% to \$21 million. In Europe, the UK - Brazil's second most important destination for hardwood plywood - also saw a significant increase in exports during the first nine months of the year, with the value increasing by 96% to \$57 million. At the same time, exports to all other European markets increased, with particularly significant increases in Belgium, Ireland and the Netherlands.

Exporters of plywood are reporting an apparent slowing of demand in the US, but this is mainly for pine plywood. However, this fact has led Brazilian plywood producers to shift their focus to the EU market. Chinese plywood producers are also shipping their products to the EU market, which is beginning to create over supply and weakening in prices. Some producers say that Chinese plywood marketing is now dictating prices in the market and lowering prices to Brazilian plywood producers. However, this remains to be reflected in current prices.

Increasing demand means increasing prices

Much of the export value increase seen in Brazilian sawn hardwood lumber has been accounted for by firming of the prices for Brazilian hardwood species. Ipe, jatoba, guaraba and mesal have all increased in price in the past two months and this trend seems set to continue into the short-term future. This increase has almost entirely been driven by growth in export demand, but has also taken into account the overall rise in fuel and transport costs.

Latin America

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It may be nothing new, but strike action at Brazilian ports has hampered exports throughout 2004. The latest action affected goods worth an estimated \$12 million, which were blocked due to a strike by civil servants. During the 30-day strike, only 8 exporters were able to get critical orders away. The strike movement also affected all inspection activities, including environmental crime investigations. Despite this and other strikes this year, exports of wood products have grown considerably. However, if Brazil is to become a reliable source of regular and large volume orders, the current dis-

enchantment between the government and workers will need to be resolved.

Is Brazil's image problem over?

At a time when environmental awareness has progressed from a talking point to a point of action and when numerous European countries have enforced restrictive environmental procurement policies, one might expect Brazil's forest products sector to be suffering. However, it seems that long-gone are the days of Sting in the rainforest and accusations of clear-felling to make space for beef production for American fast-food giants. In fact, Brazil can now of-

fer hardwood species with the correct environmental credentials to suit the changing needs of the international market and while global demand for tropical hardwoods is increasing, Brazil can now profit from limitations in supply in both the Far East and Africa, without having to worry about public opinion. In addition to this, an increasing diversity of species are now exported from Brazil and, in some cases, they are beginning to undermine traditional markets for African species. So, is Brazil's image problem over? Based on this evidence, at least, it seems to be well and truly resolved.

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

	US\$ million 2003 Year	US\$ million 2003 Jan-Sept	US\$ million 2004 Jan-Sept	US\$ million %	000 m3 2003 Year	000 m3 2003 Jan-Sept	000 m3 2004 Jan-Sept	000 m3 %
				Change				Change
Hardwood sawn								
CHINA	105.2	73.9	94.0	27.1	260.9	180.7	215.3	19.2
FRANCE	48.6	33.5	42.0	25.7	133.0	89.9	121.7	35.4
NETHERLANDS	28.3	18.8	29.4	56.5	96.9	65.4	97.6	49.2
HONG KONG	24.5	15.4	28.7	86.5	56.7	35.9	56.3	56.9
UNITED STATES	38.2	26.1	37.6	43.9	86.4	61.6	81.8	32.8
SPAIN	30.0	22.0	29.8	35.5	205.4	180.7	87.8	-51.4
PORTUGAL	18.0	12.6	21.3	68.9	92.8	51.6	73.5	42.6
BELGIUM	18.9	13.4	21.2	58.7	50.5	36.8	50.4	37.0
DOMINICAN REPUBLIC	7.6	4.6	10.1	120.3	24.6	15.7	29.7	89.0
ARGENTINA	8.3	5.4	9.3	70.8	31.5	20.4	69.6	241.2
TAIWAN	5.4	3.5	9.5	167.1	13.5	8.8	18.1	107.0
MOROCCO	0.4	0.2	2.7	1132.9	1.3	0.6	3.3	415.8
ITALY	8.4	5.6	7.4	31.1	23.8	15.9	20.2	26.9
THAILAND	5.5	3.2	5.3	65.2	36.4	19.4	38.5	98.6
JAPAN	6.1	4.1	4.5	8.2	11.2	7.6	7.8	3.1
UNITED KINGDOM	3.5	2.6	4.2	60.7	8.5	6.4	8.4	30.8
VIETNAM	6.1	3.7	4.1	8.3	42.6	28.1	22.4	-20.2
OTHER	29.8	20.4	25.7	25.6	141.9	104.6	84.9	-18.8
TOTAL	392.9	269.2	386.6	43.6	1317.7	930.0	1087.3	16.9
Softwood sawn								
UNITED STATES	164.3	125.2	161.0	28.6	1096.3	858.9	805.6	-6.2
SPAIN	15.5	10.5	12.0	13.9	120.4	83.4	88.1	5.6
MEXICO	10.9	7.9	5.6	-29.2	94.5	68.8	45.2	-34.3
CHINA	6.1	4.8	4.4	-7.1	47.4	37.6	30.1	-19.9
MOROCCO	11.8	8.3	7.3	-12.7	103.7	73.4	54.7	-25.5
OTHER	46.3	32.3	30.7	-4.7	238.0	173.5	144.1	-16.9
TOTAL	255.0	189.0	221.0	17.0	1700.2	1295.6	1167.9	-9.9
Hardwood plywood								
UNITED STATES	81.6	55.8	83.9	50.5	372.5	254.5	312.8	22.9
UNITED KINGDOM	42.5	29.1	57.1	96.0	180.8	123.9	176.6	42.5
PUERTO RICO (U.S.)	16.8	12.1	20.9	73.4	83.8	69.7	61.0	-12.5
BELGIUM	13.6	9.6	15.4	60.9	54.4	38.0	49.6	30.4
ITALY	8.9	6.6	10.6	60.1	31.7	23.7	34.3	44.6
GERMANY	14.1	10.1	10.5	3.8	46.7	33.3	31.2	-6.3
IRELAND	8.1	5.4	9.3	71.3	36.4	24.5	32.4	32.6
GREECE	2.8	2.1	1.4	-34.7	13.0	10.2	5.2	-49.0
NETHERLANDS	2.2	1.4	4.0	178.6	7.1	4.6	11.5	150.3
MEXICO	6.4	4.6	4.6	0.9	23.2	16.6	14.9	-10.4
OTHER	25.1	18.4	30.1	63.4	179.4	152.8	97.9	-35.9
TOTAL	222.0	155.2	247.7	59.6	1029.0	751.7	827.5	10.1
Softwood plywood								
UNITED STATES	154.8	77.5	203.9	163.1	884.9	453.1	2409.2	431.7
UNITED KINGDOM	52.4	38.4	64.3	67.4	433.1	334.4	453.2	35.5
BELGIUM	36.2	27.0	36.4	35.0	227.0	151.3	269.6	78.1
GERMANY	31.7	25.6	32.0	25.3	205.5	174.0	138.8	-20.2
IRELAND	14.4	9.8	16.3	66.6	192.1	90.6	67.0	-26.1
ITALY	12.0	9.8	16.4	66.3	59.8	50.0	105.4	110.6
MEXICO	5.9	2.9	9.2	213.3	316.0	300.8	1463.2	386.4
PUERTO RICO (U.S.)	15.0	12.8	17.0	33.0	133.0	93.3	79.3	-15.0
JAMAICA	6.2	5.5	6.5	17.9	59.7	30.0	27.8	-7.4
OTHER	39.5	29.0	32.5	12.0	594.5	310.6	884.8	184.9
TOTAL	368.0	238.2	434.4	82.3	3105.7	1988.2	5898.4	196.7

North America

Mexico

Sustained economic growth

Latin America's largest economy, Mexico, is currently rebounding from its three slowest years of growth since the devaluation of the peso in December 1994. The main driving force behind Mexico's economy is the United States, and when there is growth in the US, there is usually growth in Mexico. The US accounts for 86% of Mexico's agricultural exports and the Mexican economy grew in the second quarter of 2004 at its fastest pace since 2000, due to US demand for Mexican electronics, oil and metals. Gross domestic product (GDP) grew 3.9% in the second quarter of 2004, as compared to the same period last year, after expanding 3.7% in the first quarter.

Strong competition

Over the long-term, it is likely that Mexico will remain a substantial importer of forest products and most of these will come from the United States, its most important trading partner. However, competition from several other countries exists and is building in the Mexican market, with many differing suppliers taking advantage of favourable trading conditions. Brazilian, Canadian and Chilean exporters, amongst others, have developed fierce targeting strategies to gain market share.

While US exports of sawn hardwood to Mexico increased by 9% in 2003 to reach a value of \$70 million, Mexican imports of tropical sawn hardwood achieved a value of \$14 million, up from only \$5 million in 2002.

Increased dependence on imports

Despite a domestic temperate sawn hardwood production of around 400,000m³ and a tropical sawn hardwood production of around 175,000m³, Mexico is becoming in-

creasingly dependent on imports. Positive forecasts for economic growth, as well as inefficiencies and lack of competitiveness within the domestic hardwood lumber processing industry mean that the expanding furniture manufacturing sector cannot rely on domestic production alone. Furthermore, Mexican furniture producers are looking increasingly towards export markets for their products and consumers in export markets demand a wider variety of species than is available from Mexican forests. Industry sources suggest that consumption of sawn hardwood could reach 655,000m³ in 2005, 290,000m³ of which will be tropical sawn hardwood, assuming that the current rate of economic growth will not change and that continued strengthening of the peso will keep imports affordable. The primary market for imported sawn hardwood will continue to be the increasingly global furniture industry, with secondary markets in the flooring and joinery sectors. One significant development in the Mexican hardwood market is the increase in purchases of hardwood dimension products and components. Smaller furniture manufacturers are attempting to cut costs by using cut-to-size and semi-machined blanks and components, while the developing DIY sector is accounting for the remainder.

Rising hardwood plywood exports

Mexico's domestic hardwood plywood industry is relatively small and has an annual production capacity of around 12,000m³. This creates a need for imports of hardwood plywood and Mexico is looking increasingly towards Brazil and other Latin American suppliers. Brazil's exports of hardwood plywood to Mexico in 2003 reached a volume of around 23,000m³ and Mexico's total consumption of hardwood plywood last year

was in the region of 50,000m³. Imports this year are expected to increase and the main driver is, once again, the expanding and modernising furniture and interiors sectors

United States

Prices remain firm

US\$ CIF Western Europe prices quoted end November 2004 indicate gains for FAS grade American hardwood in most key species over recent months. A full report on the US hardwood trade will be included in the December issue.

US sawn lumber indicative prices

	Jul	Sept	Nov
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 overtime.			
*One cubic meter is equivalent to 423.8 BF or 0.4238 MBF			
\$/£	1.84	1.81	1.89
\$/Euro	1.22	1.23	1.32
Red oak			
1"	1975	1975	2075
1.25"	2175	2175	2275
1.5"	2325	2325	2350
2"	2700	2700	2725
White oak			
1"	1725	1725	1750
1.25"	1900	1900	1900
1.5"	2350	2350	2300
2"	2900	2900	2900
Ash			
1"	1350	1350	1300
2"	1780	1780	1700
Tulipwood			
1"	950	1000	1075
1.25"	975	1050	1125
1.5"	1075	1100	1150
2"	1125	1150	1175
Cherry			
1"	3550	3550	3650
1.25"	3700	3700	3775
1.5"	3875	3875	4000
2"	4100	4100	4175
Hard Maple (W. Virginia)			
1"	2350	2450	2675
1.25"	2550	2650	2900
1.5"	2725	2825	3025
2"	2900	3000	3100

Europe

Spain

Madrid show grows in stature

Construtec, the biannual building exhibition held in Madrid still comes second in size to its larger rival Construmat, which will take place next in Barcelona in May 2005. Having said that Construtec is growing in importance and this year's event held from the 13-16 October saw around 413 exhibitors take part, up from 310 in 2002. This year there were more than 25,000 visitors, including many architects, construction companies and specifiers.

Wood products were reasonably well represented promoting design solutions both for construction and interiors. Hardwoods

featured in displays of doors, flooring and interior mouldings and components. A few Spanish hardwood distributors were present with stands and the Spanish wood importers association AEIM joined forces with the wood manufacturers association FEIM and the American Hardwood Export Council (AHEC) to promote a hardwood message to architects and specifiers. Other wood promotional organisations present included American Softwoods.

Construction boom

The construction boom in Spain in the last few years has been fuelled by the development of many new public projects and a strong housing market in most regions, and

this has helped boost hardwood activity in the building sector. Although new construction activity has slowed in the last 12 months this sector is still producing a good demand for hardwood products at a time when demand from the furniture sector has dropped away. More Spanish architects appear to be using hardwood and the Spanish architectural press are increasingly featuring projects where hardwoods have been used. In fact widespread publicity has been given to one of the latest projects, the Navarra historical archive in Pamplona, from internationally acclaimed Spanish architect, Rafael Moneo, whose design features Eu-

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European oak and maple and American cherry. The door industry in Spain consumes significant quantities of hardwood lumber and veneer as 90% of doors produced in Spain still use real wood finishes as opposed to foil or paper substitutes. With the shift in fashion more towards a temperate hardwood look, American white oak is now the most important species for the door industry although sapele still remains popular in some market sectors. In fact according to the US hardwood industry Spain is the largest single export market for white oak lumber and veneer anywhere in the world. Both exports of white oak lumber and veneer to Spain from the USA increased in the first half of the year compared to 2003.

Wood flooring on the up

In contrast to the door industry, growth in the flooring sector is being led by cheap laminate products (mostly imported from Europe and Asia) whereas the door industry continues to use mostly real wood veneer. Laminate flooring sells for about one quarter of the price of solid wood and half the price of many engineered flooring products that have a solid wood top layer. Although the laminate products dominate the market there is still good news for real wood flooring because the overall market is growing. Hardwood flooring is becoming increasingly popular even in the south of Spain where traditionally, in the hotter climate, ceramic coverings have been the most popular. The problem is that in the domestic portion of the market (which is the largest potential volume) consumers are less discerning about what is real wood. They appear to be more influenced by the look of the product and the price. Some analysts believe there is a clearly a need for more education of consumers by the Spanish wood sector.

Oak and "exotics" popular

In terms of flooring fashion for hardwood, oak is the dominant force at the moment. Although in the Northern regions of Spain darker tropical species such as west African iroko are still very popular. There is also a growing trend for the dark exotic look, creating demand for black walnut and oak products stained dark to simulate wenge. Maple (American and European) and cherry (mostly American) flooring are more in demand in the public sector, for restaurants, bars and theatres. Maple is also widely used for gymnasiums and basketball courts. Furniture industries worldwide are facing dramatic structural changes. The issue of

China's emergence as the world's leading producer and the effect it has had on the structure of the USA furniture industry, is well documented. However, there is growing evidence to suggest that Chinese producers are increasingly targeting European markets. It is therefore not surprising to learn that 200 Chinese companies have already signed up to exhibit at the International furniture fair in Cologne in January 2005 with many more trying to book space.

China crises

According to sources associated with the Spanish furniture industry the impact of Chinese producers is already being felt as the sector faces structural change and new challenges. Not only are manufacturers facing more and more competition in their own market from cheaper imported furniture but they are also losing business to the same competition in their traditional export markets. There is clearly a stark contrast in production costs that is virtually impossible to overcome. For example, according to the experience of one manufacturer wooden chairs imported from China are one seventh of the price of the same chairs made locally in Spain. The Spanish furniture industry is also very concerned that the quality of wooden furniture being exported from China, in terms of machining quality and finishing, has improved so much it can now match or even better some Spanish producers.

Change in the furniture industry

In the opinion of one leading furniture journalist from Valencia, an area traditionally considered as the heart of Spanish furniture production, the industry is already experiencing structural changes. He believes some producers are already importing furniture from China incorporating their own branding and selling the products as their own production. The result of this trend will be a shift by the industry from a focus on production to an assembly and distribution role with the inevitable loss of jobs, an all too familiar story seen across Northern European countries in recent years.

New furniture trends also affecting change. There is a definite shift in demand in Spain now for more modern furniture design. Many Spanish manufacturers have historically produced "classic" furniture with a darker more traditional look. In order to remain competitive in today's global market, many are changing production to more modern styles, focusing on new designs and product innovation to win back demand and compete with the growing volume of im-

ports. The implications of this for the trade in hardwood has been a move away from tropical species to lighter temperate ones such as; oak, beech, cherry and maple.

A recent article in the UK based Financial Times confirmed that a decade of sustained growth has seen the economy expand by almost 40% since the mid-1990's. During which time more than 100 billion Euros have poured into Spain from foreign direct investment. As a result Spain is the second tourist destination in the world, the sixth largest car manufacturer and the eighth biggest economy in the OECD.

Move up the value chain

Over the next ten years however, the FT believe that competition from China and eastern Europe will threaten the Spanish economic model and the foundation of its rapid development. The challenge in all sectors of the economy is to move up the value added chain - a clear message that many hardwood manufacturers in Spain have already taken on board.

European hardwoods

Oak trade buoyant

An analysis of European hardwood export data for the first half of 2004 (pages 10 and 11) shows that beech exports continue to decline, while oak remains in high demand.

Exports of beech logs from the leading European producing countries during the January to June period, were down 24% to 1.13 million m³ as compared to the same period last year, while beech sawn lumber exports were down 6.5% to 411,603 m³. Total beech log exports from these countries in 2003 reached a volume of 2.35 million m³. Based on this year's export data so far, the forecast for 2004 is likely to be in the region of 1.8 to 2.0 million m³. At the same time, total sawn beech exports from these countries reached a volume of 817,859 m³ last year and are likely to be in the region of 760,000 m³ by the end of this year.

For European oak logs and sawn lumber, the picture has been altogether much brighter and sawn oak exports are fast catching up with sawn beech exports. The global trend for oak has placed welcome pressure on European suppliers this year. Total oak log exports from the main European supplying countries reached a volume of 449,354 m³ during the first six months of 2004. This represented an increase of 20% on the same period last

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European oak exports (m3)

Volume (m3)	2003 Year	2003 Jan- Sept	2004 Jan- Sept	03-04 -% Chg
Oak logs				
Austria				
ITALY	29807	13487	14615	8.4
FRANCE	5070	3012	1585	-47.4
GERMANY	2294	1757	1776	1.1
HUNGARY	1554	914	1856	103.1
OTHER	943	552	748	35.5
TOTAL	39668	19722	20580	4.4
Belgium				
GERMANY	2572	3120	326	-89.6
FRANCE	12976	4768	8762	83.8
NETHERLANDS	2556	947	2767	192.2
BELGIUM	2377	581	977	68.2
U.K.	3634	1487	2946	98.1
CHINA	2034	346	2117	511.8
OTHER	3245	1052	2832	169.2
TOTAL	29394	12301	20727	68.5
France				
BELGIUM	41267	20514	24897	21.4
ITALY	35929	15930	27534	72.8
SPAIN	24665	14730	19652	33.4
GERMANY	7945	4960	5245	5.7
U.K.	15888	7866	9788	24.4
PORTUGAL	13363	9133	5453	-40.3
NETHERLANDS	6716	3639	3306	-9.2
SWITZERLAND	7567	2076	1305	-37.1
AUSTRALIA	656	534	143	-73.2
TUNISIA	554	325	562	72.9
OTHER	3875	1728	3992	131.0
TOTAL	158425	81435	101877	25.1
Germany				
DENMARK	42962	31389	16476	-47.5
FRANCE	24851	18078	26163	44.7
SWEDEN	18657	7431	7702	3.6
POLAND	9114	2422	11142	360.0
NETHERLANDS	5248	1954	6984	257.4
SPAIN	3992	2102	2536	20.6
ITALY	14908	8147	8366	2.7
CHINA	27297	5363	53342	894.6
AUSTRIA	1531	634	2238	253.0
SWITZERLAND	943	720	540	-25.0
OTHER	6785	2972	7086	138.4
TOTAL	156288	81212	142575	75.6
Denmark				
SWEDEN	14832	10240	9055	-11.6
GERMANY	1983	599	1747	191.7
OTHER	1288	335	1071	219.7
TOTAL	18103	11174	11873	6.3
Netherlands				
GERMANY	2838	370	5623	1419.7
BELGIUM	72	57	4745	8224.6
OTHER	999	565	533	-5.7
TOTAL	3909	992	10901	998.9
Spain				
PORTUGAL	1055	524	1177	124.6
OTHER	1339	1093	368	-66.3
TOTAL	2394	1617	1545	-4.5
Czech Rep.				
AUSTRIA	3700	2851	3023	6.0
BELGIUM	435	191	352	84.3
GERMANY	604	479	390	-18.6
SLOVAKIA	129	0	3381	na
OTHER	580	492	360	-26.8
TOTAL	5448	4013	7506	87.0
Hungary				
AUSTRIA	53420	30858	25258	-18.1
ITALY	171647	117511	92471	-21.3
SLOVENIA	4474	3375	2117	-37.3
CROATIA	2852	2203	1688	-23.4
FRANCE	746	678	107	-84.2
GERMANY	616	508	37	-92.7
OTHER	257	111	1242	1018.9
TOTAL	234012	155244	122920	-20.8
Poland				
SPAIN	3029	1436	856	-40.4
AUSTRIA	759	516	891	72.7
SLOVAKIA	1036	536	349	-34.9
GERMANY	197	28	253	803.6
DENMARK	302	230	166	-27.8
OTHER	1384	796	1844	131.7
TOTAL	6707	3542	4359	23.1
Slovenia				
ITALY	6516	3882	4040	4.1
OTHER	332	114	451	295.6
TOTAL	6848	3996	4491	12.4
Oak sawn lumber				
Austria				
GERMANY	10003	4409	6446	46.2
ITALY	6274	2962	6031	103.6
HUNGARY	5711	1602	4318	169.5
BELGIUM	1627	925	426	-53.9
SWITZERLAND	2659	1456	1616	11.0
SLOVENIA	1219	568	703	23.8
OTHER	5683	2339	2559	9.4
TOTAL	33176	14261	22099	55.0
Belgium				
NETHERLANDS	8579	4618	5402	17.0
FRANCE	7165	3887	4589	18.1
U.K.	3471	1973	1709	-13.4
SPAIN	3308	2543	2284	-10.2
OTHER	12317	8914	3825	-57.1
TOTAL	34840	21935	17809	-18.8

Volume (m3)	2003 Year	2003 Jan- Sept	2004 Jan- Sept	03-04 -% Chg
Oak sawn lumber (cont)				
France				
U.K.	30104	15579	17552	12.7
BELGIUM	32686	16965	19223	13.3
NETHERLANDS	29375	15370	13915	-9.5
GERMANY	17760	10044	9818	-2.3
SPAIN	15728	8725	8583	-1.6
ITALY	5750	2386	3306	38.6
PORTUGAL	6202	4058	7052	73.8
NETHERLANDS	7129	2673	3166	18.4
LUXEMBOURG	3126	1930	2702	40.0
OTHER	9610	5619	5800	3.2
TOTAL	157470	83349	91117	9.3
Germany				
SPAIN	16686	4845	10453	115.7
NETHERLANDS	16245	7894	7710	-2.3
INDONESIA	20470	8760	14960	70.8
BELGIUM	7657	2647	5152	94.6
U.K.	8990	4388	5989	36.5
POLAND	7814	4598	5785	25.8
SWITZERLAND	6201	3171	3931	24.0
DENMARK	5488	1404	2033	48.4
AUSTRIA	3344	1243	1942	56.2
FRANCE	4685	3233	1336	-58.7
ITALY	6526	3381	9371	204.2
CZECH REPUBLIC	3344	1233	2969	140.8
OTHER	14355	7559	8210	8.6
TOTAL	121805	54056	79891	47.8
Denmark				
SWEDEN	2609	1377	2548	85.0
OTHER	1756	946	1083	14.5
TOTAL	4365	2323	3631	56.3
Italy				
U.K.	3902	1807	3395	87.9
GERMANY	2010	924	876	-5.2
SLOVENIA	2091	1232	978	-20.6
SPAIN	911	400	676	69.0
FRANCE	1883	1106	1076	-2.7
OTHER	4295	2257	2875	27.4
TOTAL	15092	7726	9876	27.8
Netherlands				
BELGIUM	3336	1413	1241	-12.2
CZECH REPUBLIC	2817	1403	1805	28.7
U.K.	1349	407	729	79.1
OTHER	6054	3242	1975	-39.1
TOTAL	13556	6465	5750	-11.1
UK				
IRISH REPUBLIC	1437	706	1332	88.7
OTHER	153	31	137	341.9
TOTAL	1590	737	1469	99.3
Spain				
PORTUGAL	880	312	1178	277.6
OTHER	1236	545	990	81.7
TOTAL	2116	857	2168	153.0
Portugal				
SPAIN	2966	1409	2391	69.7
OTHER	192	167	52	-68.9
TOTAL	3158	1576	2443	55.0
Sweden				
FINLAND	1685	721	427	-40.8
OTHER	1323	942	825	-12.4
TOTAL	3008	1663	1252	-24.7
Czech Rep.				
NETHERLANDS	6347	2166	1150	-46.9
GERMANY	3495	1926	1178	-38.8
AUSTRIA	3993	2035	2301	13.1
BELGIUM	1354	563	1397	148.1
FINLAND	1174	382	796	108.4
OTHER	4619	2325	1370	-41.1
TOTAL	20982	9397	8192	-12.8
Hungary				
ITALY	10969	5472	6271	14.6
AUSTRIA	12492	5991	9867	64.7
NETHERLANDS	5339	4140	2736	-33.9
SWITZERLAND	1565	693	590	-14.9
GERMANY	1685	972	452	-53.5
SLOVENIA	1548	421	1326	215.0
CROATIA	993	494	1893	283.2
OTHER	3656	1778	2670	50.2
TOTAL	38247	19961	25805	29.3
Lithuania				
NORWAY	2274	1097	691	-37.0
GERMANY	2323	987	1321	33.8
SWEDEN	2807	1752	1896	8.2
DENMARK	2163	992	854	-13.9
OTHER	4069	2310	1345	-41.8
TOTAL	13636	7138	6107	-14.4
Latvia				
DENMARK	851	443	241	-45.6
OTHER	1008	463	358	-22.7
TOTAL	1859	906	599	-33.9
Poland				
SPAIN	9906	2985	6069	103.3
FINLAND	5355	2507	3619	44.4
NETHERLANDS	8738	4880	3056	-34.7
SWEDEN	6663	3596	4410	22.6
BELGIUM	8137	4783	2381	-50.2
GERMANY	5153	1555	1300	-16.4
DENMARK	2744	1163	620	-46.7
NORWAY	1962	757	578	-23.6
ITALY	2155	1090	1078	-1.1
OTHER	3343	1485	1770	19.2
TOTAL	54156	24601	24881	1.1
Slovenia				
ITALY	3787	1685	2086	23.8
CROATIA	545	359	265	-26.2
OTHER	1670	794	786	-1.0
TOTAL	6002	2838	3137	10.5

Source: and hardwoodmarkets.com, Forest Industries Intelligence Ltd, based on statistics from BTS Limited

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year. At the same time, total oak sawn lumber exports from the leading European countries were up by 18% reaching a volume of 306,226m3.

More German oak to China

In contrast to last year, January to June 2004 statistics would suggest that Germany's exports of oak logs will exceed those from France by a significant margin this year. Germany exported some 142,575m3 in the first six months of this year, against France's 101,877m3, whereas in 2003 they were at the same level at the half-year point. This shift is, no doubt, partly due to the increasing use of oak in furniture production in central and eastern Europe, where numerous manufacturing facilities are not only dependent on Germany for their finance, but also for their raw materials. In addition to this, oak flooring production across Europe has been increasing in line with the current trend and logs from Germany are destined for both Austria and Poland, where new flooring plants have recently opened. However, the main reason for Germany's significant increase in oak log exports is the dramatic rise in demand from China. In fact, Chinese direct imports of oak logs from Germany increased from 5,636m3 in the first six months of 2003 to 53,342m3 in the same period this year. This year's January to June figure is almost exactly double Germany's total oak log exports for the whole year of 2003. At the same time, France has been concentrating its oak log marketing efforts on buyers closer to home.

Central European oak producers steer away from exporting logs

With the exception of Hungary and Slovakia (for which data is unavailable), central and eastern European oak producers tend to export few logs, preferring to convert them first. However, in the case of Hungary, this is quite the reverse and oak logs have been exported in significant volumes for many years, with the majority destined for Italy, Austria, and the Balkans. During the first half of this year, however, it would appear that Hungary's oak log exports have decreased as compared to the same period in 2003 and this may be partially accounted for by its traditional export markets ramping up their own domestic oak production. Furthermore, Hungary's own exports of sawn oak increased during the first half of this year, as more logs were processed domestically.

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In the case of Slovakia, there is clear evidence of large volumes of oak logs being exported to Poland, whose furniture and flooring sectors cannot rely on domestic production alone.

Oak lumber exports on the rise

With the exception of Belgium, the Netherlands and Sweden, which are not amongst the main producer countries, sawn oak exports increased from all western European markets during the first six months of this year. The greatest rise was seen in Germany, where exports grew by 48% to a volume of 79,891 m3, but significant increases were also seen in exports from Austria and France. The main destinations for German oak sawn lumber were Indonesia, Spain and Italy.

Meanwhile, in central and eastern Europe, oak sawn lumber exports remained fairly static during the first half of this year, as compared to 2003. This is more an indication of where the material is being consumed and shows clearly that a significant proportion of oak from these countries is used for furniture and flooring production where it is grown. Furthermore, what is exported from central and eastern Europe tends not to leave the European market at all, unless it is shipped to the Far East through Germany.

Mixed results for beech exports

The story for beech logs and lumber has been one of decreased production and decreased exports, as demand for the species has tailed off in recent years, to be replaced by oak. However, while this has been felt hard in western European producer countries, in central and eastern Europe the first half of this year has shown some positive signs. Needless to say that Germany and France have felt the impact of the demise of beech quite considerably and this is clearly reflected in their export figures for the first six months of this year. However, in central and eastern Europe both beech log and lumber exports actually increased during the same period. The main reason for this is that the material from these markets is significantly more competitive than from western Europe and some market share has been maintained.

The question that needs to be raised is whether demand for beech will continue to decline. The short-term future for beech is definitely uncertain, especially as the fashion for oak and darker species continues to grow. But the very size and value of the European beech resource cannot be ignored. Beech is sure to make a comeback at some time in the not to distant future.

European beech exports (m3)

Volume (m3)	2003 Year	2003 Jan- Sept	2004 Jan- Sept	03-04 % Chg
Beech logs				
Austria				
ITALY	221108	117460	118141	0.6
CHINA	1360	667	0	-100.0
HONG KONG	1487	1181	0	-100.0
GERMANY	2944	1523	1254	-17.7
CZECH REPUBLIC	490	464	736	58.6
OTHER	1812	795	917	15.3
TOTAL	229201	122090	121048	-0.9
Belgium				
ITALY	17172	15270	5609	-63.3
CHINA	3188	2816	3246	15.3
SPAIN	6363	3631	2696	-25.8
FRANCE	40304	28442	12423	-56.3
GERMANY	2235	2138	183	-91.4
BELGIUM	1976	1539	418	-72.8
EGYPT	4142	683	1106	61.9
OTHER	21150	12751	35517	178.5
TOTAL	96530	67270	61198	-9.0
France				
BELGIUM	200805	123265	89942	-27.0
CHINA	17586	15109	5104	-66.2
SPAIN	44412	25405	26705	5.1
ITALY	37303	20892	27596	32.1
GERMANY	26194	12705	17415	37.1
PORTUGAL	14175	8856	6843	-22.7
TUNISIA	7610	4591	4157	-9.5
SWITZERLAND	3598	3059	4973	62.6
AUSTRIA	5450	2551	6754	164.8
HONG KONG	4071	2531	2098	-17.1
MOROCCO	11754	3658	2416	-34.0
LUXEMBOURG	13979	7521	6722	-10.6
INDIA	2089	852	1079	26.6
OTHER	3007	1435	3250	126.5
TOTAL	392033	232430	205054	-11.8
Germany				
SWEDEN	409157	223465	163544	-26.8
CHINA	266047	204481	129772	-36.5
DENMARK	141060	117007	48489	-58.6
ITALY	88859	50136	47493	-5.3
AUSTRIA	31942	18028	14508	-19.5
HONG KONG	4432	3725	2214	-40.6
JAPAN	19592	15260	10580	-30.7
NETHERLANDS	6047	3948	5557	40.8
SWITZERLAND	5202	4648	2473	-46.8
BELGIUM	6116	2102	1952	-7.1
CZECH REPUBLIC	8785	7488	6918	-7.6
FRANCE	10889	5939	11864	99.8
POLAND	297	201	927	361.2
OTHER	17774	14175	15510	9.4
TOTAL	1E+06	670603	461801	-31.1
Denmark				
CHINA	12190	11310	2024	-82.1
GERMANY	5318	1484	1320	-11.1
PORTUGAL	4006	1681	2249	33.8
JAPAN	2887	1914	2486	29.9
OTHER	3804	2430	2369	-2.5
TOTAL	28205	18819	10448	-44.5
Czech Rep.				
AUSTRIA	219865	71460	81677	14.3
SPAIN	429	321	204	-36.4
GERMANY	1310	1013	777	-23.3
SLOVAKIA	2002	418	13895	3224.2
OTHER	1323	832	79	-90.5
TOTAL	224929	74044	96632	30.5
Hungary				
AUSTRIA	102759	60737	44092	-27.4
SLOVENIA	39982	29320	10068	-65.7
ITALY	42610	28053	34720	23.8
OTHER	930	524	885	68.9
TOTAL	186281	118634	89765	-24.3
Poland				
DENMARK	29992	17413	10910	-37.3
SWEDEN	29251	14219	23972	68.6
CHINA	3313	2234	1386	-38.0
AUSTRIA	1916	846	781	-7.7
LATVIA	904	656	828	26.2
ESTONIA	695	635	954	50.2
OTHER	3701	2253	2215	-1.7
TOTAL	69772	38256	41046	7.3
Slovenia				
ITALY	107516	55312	40865	-26.1
AUSTRIA	1542	527	1497	184.1
OTHER	576	144	1445	903.5
TOTAL	109634	55983	43807	-21.7
Beech sawn lumber				
Austria				
ITALY	33195	18288	17392	-4.9
GERMANY	23649	7662	12376	61.5
CHINA	4684	3657	2115	-42.2
HONG KONG	1449	539	1441	167.3
HUNGARY	4902	3144	5035	60.1
SWITZERLAND	3028	1911	1528	-20.0
OTHER	10358	3738	5310	42.1
TOTAL	81265	38939	45197	16.1
Belgium				
FRANCE	1999	921	1011	9.8
SPAIN	1737	1195	1255	5.0
NETHERLANDS	1328	844	638	-24.4
ALGERIA	3317	1295	7605	487.3
OTHER	6932	4227	1944	-54.0
TOTAL	15313	8482	12453	46.8

Volume (m3)	2003 Year	2003 Jan- Sept	2004 Jan- Sept	03-04 % Chg
Beech sawn lumber (cont.)				
France				
SPAIN	29145	19797	19550	-1.2
GERMANY	36156	22229	11866	-46.6
CHINA	10177	5437	4812	-11.5
MOROCCO	15494	9108	9425	3.5
ALGERIA	16472	9938	6350	-36.1
BELGIUM	12702	6566	6584	0.3
LUXEMBOURG	9153	4435	4905	10.6
ITALY	8036	4933	4056	-17.8
PORTUGAL	5893	3672	4324	17.8
HONG KONG	1559	1193	632	-47.0
NETHERLANDS	2146	1213	344	-71.6
U.K.	1281	842	425	-49.5
OTHER	10299	5090	4456	-12.5
TOTAL	158513	94453	77729	-17.7
Germany				
CHINA	78677	48106	25561	-46.9
SPAIN	43310	24909	26110	4.8
HONG KONG	22124	14061	8864	-37.0
ITALY	26423	14524	14638	0.8
U.K.	24498	12297	13409	9.0
NETHERLANDS	24220	13448	10782	-19.8
POLAND	19906	12454	9606	-22.9
BELGIUM	14232	5751	6672	16.0
U.S.A.	14550	6229	12711	104.1
DENMARK	4391	3105	1252	-59.7
JAPAN	5629	3103	2874	-7.4
CZECH REPUBLIC	3999	2218	4271	92.6
AUSTRIA	5030	2676	4891	82.8
OTHER	43790	20513	26815	30.7
TOTAL	330779	183394	168456	-8.1
Denmark				
U.K.	6998	3631	3112	-14.3
SWEDEN	2609	1664	635	-61.8
GERMANY	568	1032	751	-27.2
NORWAY	1261	489	569	16.4
OTHER	1742	1074	2016	87.7
TOTAL	13178	7890	7083	-10.2
Italy				
HONG KONG	8666	5621	1060	-81.1
CHINA	6049	3701	2857	-22.8
SPAIN	6088	3003	4355	45.0
GERMANY	1390	1220	82	-93.3
JAPAN	3140	1277	1231	-3.6
TAIWAN	1223	406	3224	694.1
U.K.	1373	558	761	36.4
OTHER	16238	8468	5883	-30.5
TOTAL	44167	24254	19453	-19.8
Netherlands				
BELGIUM	1022	264	737	179.2
GERMANY	227	37	1365	3589.2
OTHER	683	329	262	-20.4
TOTAL	1932	630	2364	275.2
Spain				
PORTUGAL	3116	1644	3188	93.9
FRANCE	2549	1430	1737	21.5
OTHER	514	252	186	-26.2
TOTAL	6179	3326	5111	53.7
Sweden				
JAPAN	3929	2808	472	-83.2
OTHER	695	192	326	69.8
TOTAL	4624	3000	798	-73.4
Czech Rep.				
GERMANY	6856	2974	2802	-5.8
AUSTRIA	4459	2704	4246	57.0
ITALY	749	530	630	18.9
OTHER	4457	2404	1546	-35.7
TOTAL	16521	8612	9224	7.1
Hungary				
ITALY	6050	3605	3883	7.7
AUSTRIA	6167	3982	5799	45.6
SWEDEN	3055	3046	1419	-53.4
OTHER	2500	1596	1483	-7.1
TOTAL	17772	12229	12584	2.9
Poland				
GERMANY	9820	5377	5040	-6.3
SWEDEN	8958	7719	4682	-39.3
ITALY	5338	5357	2696	-49.7
DENMARK	5290	2393	2506	4.7
FINLAND	3963	2185	2159	-1.2
LITHUANIA	2854	1649	1019	-38.2
U.K.	1232	349	1651	373.1
FRANCE	752	301	279	-7.3
SPAIN	1219	955	304	-68.2
NETHERLANDS	715	285	456	60.0
OTHER	5809	2990	2423	-19.0
TOTAL	45950	29560	23215	-21.5
Slovenia				
ITALY	74866	20717	23728	14.5
GERMANY	2627	1281	1819	42.0
POLAND	733	440	144	-67.3
BELGIUM	1850	479	473	-1.3
AUSTRIA	364	202	233	15.3
OTHER	1226	658	1539	133.9
TOTAL	81666	23777	27936	17.5

Source: and hardwoodmarkets.com, Forest Industries Intelligence Ltd, based on statistics from BTS Limited

Chinese hardwood importers switch to temperate woods

Chinese import data this year suggests that the rise in hardwood prices may already be acting as a deterrent to Chinese purchasing. The volume of hardwood log imports during the first nine months of this year is marginally down on the same period in 2003, while the dollar value of imports has climbed over 7%. Hardwood sawn lumber imports continued to climb during this period, up 9%, while the value of imports increased by 15%. Chinese importers have been switching away from tropical hardwoods in favour of temperate hardwoods, notably from Russia and the United States. Amongst tropical hardwood suppliers, there has been a switch away from Africa to Sarawak and Brazil. **Page 1**

Declining trade in African logs

Tight supplies, increased export restrictions, rising taxes and the strength of the euro have led to a significant fall in the volume of international trade in African hardwood logs during 2004. Solid international demand combined with very limited supplies has meant that FOB prices for certain specific species – including iroko, ayous, acajou, bubinga/kevazingo and moabi – have remained firm. However international demand for other key species – including sapele and okoume – has been slow, leading some reports to indicate weakening prices. **Page 2**

African prices stable despite sluggish demand

European consumption of African lumber remains slow. Demand for flooring timbers is better than in other end-use sectors. Limited availability of some species combined with the strong euro has undermined the competitive position of African hardwoods against Asian and Brazilian alternatives. **Page 2/3**

Meranti prices stay firm

Malaysian hardwood lumber supplies remain tight and prices are firming, notably for dark red meranti, merbau, nemesu and keruing. **Page 3**

New opportunities in Thailand

Limited availability of natural forest woods has resulted in the Thai furniture industry coming heavily dependent on rubberwood. This year, political unrest in Thailand's southern provinces has disrupted rubberwood supply in the country. Rising demand for rubberwood from China has also put pressure on supplies and contributed to rising prices. This trend, combined with efforts by furniture manufacturers to move up market in an effort to avoid direct competition with China, is opening up opportunities for a wider range of imported hardwoods in Thailand. **Page 3/4**

Rising exports from Peru.....

Peruvian wood product exports increased by around 25% in the period January-September 2004 to reach a value of \$97 million, compared to \$73 million for the same period last year. The increase was in spite of a fall in exports of mahogany, which were down by about 22% to 12,797m³, compared with the same period in 2003. The principal export market for Peruvian wood products continue to be the United States and Mexico, although China is increasing in importance. **Page 6**

.....and from Brazil

Despite tighter restrictions on mahogany exports and various strikes throughout the year, exports of all wood products have increased significantly so far this year. The greatest increases have been seen to China, the United States and many European markets. **Page 6/7**

Mexican rebound

Latin America's largest economy, Mexico, is currently rebounding following three slow years. Mexico is a substantial importer of forest products, with most derived from the United States. However, competition from several other countries is building in the Mexican market. Brazilian, Canadian and Chilean exporters, amongst others, have developed fierce marketing strategies to gain market share. **Page 8**

Good demand from Spain's construction sector.

Wood products were well represented at the Construtec biannual building exhibition held in Madrid in October. This event is growing in importance as a showcase for Spanish architects, construction companies and specifiers. Hardwood exhibitors emphasised wood design solutions both for construction and interiors. Hardwoods featured in displays of doors, flooring and interior mouldings and components. Oak is currently very dominant in Spain. Spain's domestic construction sector is performing well and absorbing large volumes of hardwood. However, Spain's large furniture sector is feeling the heat of Chinese competition. **Page 8/9**

Oak on top

An analysis of European hardwood export data for the first half of 2004 shows that beech exports continue to decline, while oak remains in high demand. In Western Europe, Germany is overtaking France as the leading exporter of oak. There are emerging signs of rising demand for European oak in Asia. Oak log and rough sawn exports from Central and Eastern European countries remain static as large volumes are now being consumed by domestic manufacturers. **Page 9/10/11**