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Key issues affecting the European hardwood trade

A range of key issues affecting the EU hardwood market were highlighted during the American Hardwood Export Council (AHEC) European Convention held in Venice during October.

Has underlying hardwood consumption improved during 2004, or is the recent upsurge in EU imports of American hardwoods due to other factors?

There was widespread consensus at the AHEC Convention that the fall of the dollar value against the euro has been a major factor boosting market prospects for US hardwoods in Europe this year. Discussion indicated that European hardwood consumption trends have varied very widely by sector and country. There have been positive trends in the interior joinery sector. Hardwood consumption in the flooring sector has been generally good. There is also a growing fashion for wood to be used in modern interior design, partly boosted by interest in the environment. As one speaker noted "wood is part of our lifestyles again". A growing fashion for European families to extend use of the kitchen beyond cooking to become the main living area of the house has boosted prospects in the kitchen cabinets sector.

Other trends affecting the European furniture sector have been less positive. Many manufacturers are struggling to maintain sales in the face of mounting global competition. European manufacturers are also struggling in export markets due to the current strength of the euro.

By region, there were reports that consumption of American hardwoods has been very good in Spain this year and reasonable in Italy. Consumption has improved in Germany this year but is still well down on 5 years ago. Consumption of American hardwoods in the UK and in the Benelux

region has been disappointing this year with declining manufacturing activity and rising competitive pressure from European hardwoods.

To what extent are suppliers of European hardwoods competing with suppliers of American hardwoods?

Commentators from across Europe reported on the rising competitive pressure on American white oak from European oak. Until recently, all European oak was supplied as waney-edged lumber (boules). However mills throughout the continent have responded rapidly to customer demands for square edged lumber and dimension stock. European oak suppliers are proving to be adaptable. Many will now supply products tailored precisely to manufacturers' requirements, and will despatch mixed trailer-loads on a just-in-time basis. The grain and colour of European oak tends to be preferred over the American product. European oak is also dried to 12-15% moisture content, more suitable in European conditions than 6-8% moisture content which is the norm for American oak.

But the balance of advantage is not all one way. American oak is more readily available in larger sizes than European oak and tends to be more competitively priced in these specifications. Unlike European oak, American oak is supplied according to a universal grading system. Lack of an equivalent European system means that trade in European oak requires much greater experience on the part of the buyer. Despite recent progress,

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Contacts

By email

editor@hardwoodmarkets.com

By mail

Rupert Oliver,
Forest Industries Intelligence Ltd
19 Raikeswood Drive,
Skipton, North Yorkshire
BD23 1NA,
United Kingdom

By telephone and fax

Tel: +44 (0)1756 796992

Fax: +44 (0)1756 796992

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Editorial

2004 has been a buoyant year for the global hardwood trade, but not everybody is feeling the benefits.

Anecdotal reports of scintillating hardwood demand in some parts of the world are now being confirmed by trade statistics. Data for the first half of 2004 has been filtering in for the last few weeks. In this issue we publish the US trade data for the first half year (page 7), which indicates very strong growth in exports of hardwood lumber and veneer. This data follows on from Brazilian export figures published in August 2004, which showed massive growth in exports of hardwood sawn lumber and plywood during the first half of 2004.

On the demand side, the United States and China have been booming for the last 12 months, and this has supported export-oriented manufacturing growth in other parts of the world. Despite gloomy newspaper reports, even the Middle East market is buoyant (see page 4). And Japan is showing the first signs of positive growth for decade.

Unlike previous global booms in hardwood demand, this one has not been matched by a massive explosion of production. For the

first time in many years, the balance in the hardwood market has shifted strongly towards the seller. Supplies in most of the main supplying regions – both tropical and temperate - have remained reasonably tight. So 2004 has also been a year of firm pricing for hardwood products.

But as in every business cycle, there are winners and losers. The first half import data for the leading EU markets (pages 11-15) suggests that growth in Western Europe has lagged behind the rest of the world. Some of the causes of this are identified on page 8 in an article on global economic prospects. Major factors have been the shift in wood processing capacity and manufacturing to Eastern Europe, and the strength of the euro which has undermined export growth. So for many Western European importers, 2004 is likely to be remembered more with frustration than with any sense of satisfaction.

Rupert Oliver
Editor

Africa

African logs

Sapele prices show weakness

Some reports indicate emerging weakness in sapele FOB log prices due to sluggish European and Chinese demand with stocks from the northern Congo building up at Douala port in Cameroon. However, African producers suggest that due to increased forest tax levels throughout the Congo region, margins are already extremely tight. Therefore prospects for any significant fall in prices are limited.

Prices for other African hardwood logs remain generally firm on the back of restricted supplies. The rainy season in the main supplying areas north of the equator continued into early October. It is only now beginning to ease in Ghana and the Ivory Coast. Weather conditions are not expected to improve significantly in the northern Congo for several weeks. Demand for iroko, ayous and moabi logs remains good and supplies are restricted. Prices for these species remain firm. Mixed reports are emerging for logs of movingui and sipo. Sluggish demand has led to occasional reports of softening prices for these species.

The shipping problems resulting from diversion of capacity to China which

disrupted the European market for African logs at the start of the year seem now to have eased.

African indicative prices

	Jul	Sept	Oct
Exchange rates			
US\$/£	1.84	1.81	
Euro/£	1.51	1.47	

All prices include agents commission of 5%

Sawn lumber

Cameroon, CAR, Congo (Braz.)

Euro/m3; FOB

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

Sapele	480	500	500
Sipo	550	550	550
Bibolo	380	380	380
N'Gollon	580	580	580
Iroko	660	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	660	680	680
Mahogany	550	550	550
Framire	370	370	355
Samba No.1 C&S	275	275	275

Dimension stock

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

Gabon

Euro/m3; FOB

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

Okoume AD	310	310	310
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Africa

African sawn lumber

Iroko prices remain firm

□ Overall western European markets for African sawn lumber remain sluggish. This reflects continuing slow consumption and the strong euro which undermines the competitive price position of African hardwoods against Asian and Brazilian alternatives.

□ Western European buyers now tend to buy little and often. They are also looking for a wider range of species in mixed container loads.

□ Iroko sawn lumber prices remain very firm as supplies are now extremely limited. Although the end of the rainy season in West Africa holds out some hope of an improvement in the supply situation, there is unlikely to be any significant increase in production. Remaining resources in Ivory Coast and Ghana are now very restricted. Prices are now at such a level that European buyers are reluctant to commit to new contracts. There has been a significant shift to sapele in the key Irish market.

□ FOB prices for sapele sawn lumber have

been holding steady despite sluggish European demand. High tax levels now limit opportunities for African supplies to reduce prices.

□ FOB prices for framire sawn lumber have eased off the heights achieved earlier in the year. Supplies are now flowing more freely from the Ivory Coast while UK demand is less buoyant.

□ Supplies of wawa sawn lumber are very tight due to resource constraints and an unusually prolonged wet season in Ghana. Prices remain stable and firm.

Africa-EU trade

Significant rise in prices

First half EU import data provides an insight into recent trends in the African tropical hardwood trade.

□ EU imports of African tropical hardwood logs fell dramatically during the first half of this year. However this was mainly due to UN sanctions on the Liberian trade.

□ These sanctions have encouraged EU log buyers to shift their attention to the northern Congo.

□ All the main EU log buying countries imported less from Africa during the period, with the exception of Portugal.

□ The overall volume of EU imports of African hardwood sawn lumber showed little change in the first half of 2004 compared to the previous year.

□ There were minor changes in the main sources of sawn lumber. EU imports from Gabon continued to rise, while supplies from Ivory Coast were improving following the severe political problems last year. The volume of imports from Cameroon and Ghana continued to decline, indicative of restricted supplies.

□ Considering EU countries, Spain's imports of African sawn lumber fell dramatically in the first half of this year, while Italian, Dutch and French imports were tending to rise.

□ Limited availability of African hardwoods, combined with competition for supplies from the Far East, is reflected in a significant rise in average unit values.

□ The average unit value of African logs imported by EU countries this year amounts to 293 euro/m³ compared to only 270 euro/m³ last year.

□ Germany tends to import the highest value African logs (average value 375 euro/m³), and France the lowest (246 euro/m³).

amounts to 471 euro/m³ compared to only 433 euro/m³ last year.

□ Ireland and the UK import the highest value lumber (average unit values of 669

euro/m³ and 591 euro/m³ respectively). The Netherlands takes the lowest value

African hardwood lumber (321 euro/m³).

EU-15* Imports of African Tropical Hardwood Logs and Lumber

	Volume (000 m ³)			Value (million euro)		
	2003 Jan-Jun	2004 Jan-Jun	% chg	2003 Jan-Jun	2004 Jan-Jun	% chg
Logs by importing country						
FRANCE	315.3	250.1	-21	73.4	61.5	-16
PORTUGAL	103.8	107.9	4	30.1	33.3	11
ITALY	143.4	106.1	-26	40.7	34.3	-16
SPAIN	57.4	47.1	-18	17.1	14.7	-14
GERMANY	49.1	46.2	-6	17.4	17.3	0
OTHER	29.1	21.6	-26	9.6	8.3	-14
TOTAL	698.1	578.9	-17	188.2	169.5	-10
Logs by exporting country						
GABON	261.1	255.4	-2	61.6	64.2	4
CONGO REPUBLIC	86.2	109.1	27	27.3	35.4	29
CAMEROON	117.1	101.3	-14	34.8	31.3	-10
CONGO DEM. REP.	19.2	44.5	131	6.7	16.0	140
EQUAT. GUINEA	39.1	32.7	-16	7.7	5.7	-26
CENT. AFR. REP.	38.6	29.9	-22	13.9	13.3	-5
IVORY COAST	1.9	2.1	8	1.0	1.6	61
LIBERIA	130.3	0.0	-100	32.7	0.0	-100
OTHER	4.6	4.1	-11	2.5	2.0	-20
TOTAL	698.1	578.9	-17	188.2	169.5	-10
Sawn timber by importing country						
ITALY	164.8	178.7	8	68.9	77.9	13
SPAIN	179.0	140.0	-22	63.9	64.9	2
FRANCE	67.0	72.5	8	32.3	35.4	9
NETHERLANDS	50.1	57.4	15	17.5	18.5	6
UK	33.4	40.0	20	19.2	23.6	23
BELGIUM	35.1	31.8	-9	20.2	18.3	-9
GERMANY	31.1	28.4	-9	14.6	15.0	3
IRELAND	20.3	22.5	11	13.1	15.0	15
PORTUGAL	16.7	15.3	-9	8.2	7.5	-9
OTHER	1.7	1.6	-6	1.2	1.0	-21
TOTAL	599.2	588.2	-2	259.2	277.0	7
Sawn timber by exporting country						
CAMEROON	298.3	291.3	-2	118.2	131.5	11
IVORY COAST	131.4	138.7	5	61.4	68.6	12
GHANA	68.1	65.2	-4	29.8	30.3	2
GABON	36.8	42.8	16	14.8	18.0	21
CONGO REPUBLIC	31.8	28.6	-10	16.2	14.9	-8
NIGERIA	6.4	6.6	4	4.1	3.8	-8
CONGO DEM. REP.	7.0	5.7	-19	4.5	3.9	-11
CENT. AFR. REP.	7.7	3.2	-58	3.7	1.6	-58
GUINEA	0.7	1.7	134	0.4	1.0	154
MOZAMBIQUE	1.7	1.6	-5	1.1	1.0	-8
LIBERIA	4.4	0.0	-100	1.8	0.0	-100
OTHER	4.9	2.9	-41	3.2	2.4	-25
TOTAL	599.2	588.2	-2	259.2	277.0	7

* Note Denmark and Greece are excluded as January to June data was not available at time of publication

Middle East

The following is an assessment of Middle Eastern markets for hardwoods including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Gulf markets drive regional development

The Gulf markets can be characterised by rapid population growth, fast economic expansion, high levels of construction activity and, in some cases, residential and tourist development. Dubai continues to lead the way in development in the Gulf and the scale of construction activity has created a buoyant market for interior joinery and furniture. Over the last five years or so, there has been a significant increase in the number of furniture and joinery manufacturers based in the Gulf, whereas, a decade ago, very little was manufactured locally and most was imported finished or semi-finished from Europe. Today, the reverse is the case. Gulf-based manufacturers are winning contracts for the interiors of new developments – hotels, palaces, commercial centres – and even exporting their skills and products overseas. In fact, examples of hotels fitted out by Middle Eastern manufacturers can be found in Europe, the Caribbean and Central Asia.

The booming construction sector has created a need for high-quality custom manufacturing in the region and cheap imported labour and low local taxes have made it possible for them to set up locally. The arrival of manufacturers in the Gulf has also led to an increased need for high-quality raw materials. This has been reflected in the growth in imports of hardwoods, witnessed over the last decade or so.

Dubai becomes region's hub

Development of hotels, offices, shopping malls, schools, hospitals and residential buildings in the UAE – notably, Dubai – continues at a rate probably only matched by certain cities in China. The opportunities that this would seem to afford the hardwood sector are enormous and, indeed, hardwoods are being used to a great extent throughout many of these developments.

Dubai has always been a trading hub for the region and, in addition to the difficulty in determining the actual volume and value of US hardwood imports into the UAE, much of what comes in to the market does not stay there. In fact, an estimated 30% of all hardwood imports are shipped to other Gulf markets, to East Africa and across the Straits of Hormuz to Iran. Hardwood buyers from as far as Libya, Pakistan and Kenya are now coming to the UAE to source their needs.

European beech dominates hardwood market

Looking at the Gulf in its entirety, hardwood imports were traditionally dominated by construction-grade meranti from Malaysia, which would have accounted for between half and three quarters of consumption in the region. The remaining market for hardwoods was filled by decorative hardwoods, including red meranti from Malaysia, iroko from Africa, teak from Myanmar, beech from Europe and North American hardwoods. Today North American hardwoods probably account for around 10% of the market for decorative hardwood lumber, while European beech is now the clear market leader. Until about five years ago, few European hardwood species had made their mark on the UAE's market in any significant volumes. This was almost entirely due to a lack of awareness of temperate species. However, a slight increase in the awareness of species, products and grades amongst those involved in the hardwood trade and end-user sectors has led to increased imports and consumption of European species today and beech is the number one hardwood species imported. However, the general awareness of wood is not as high as it is in Europe and a wood culture does not exist. In addition, knowledge of hardwoods tends to be stronger on tropical species than temperate species and more often than not, the sizes, yields and grades of Asian and African species are expected from European and U.S. species.

Saudi Arabia develops despite political difficulties

In spite of the world's press reporting difficult times in Saudi Arabia, market commentators argue that a construction boom continues unhindered. This has led to the rapid development of numerous large furniture and kitchen manufacturers, as well as large capacity joinery companies. Saudi Arabia's young and fast growing population requires that a constant development of schools, hospitals, housing, offices and shopping malls takes place in order to furnish their needs. Furthermore, in some areas of the Kingdom, notably Jeddah, the development of a tourist sector is underway. This is in complete contrast to the way the country is portrayed to the outside world.

Hardwoods have played a significant role in the interior decoration and furniture supplied to Saudi Arabia's construction sector for many years and, as in many other parts of the region, European beech is the number

one species. However, for many years, American red oak has been exported to the Kingdom, both directly from the US and also from Europe. In addition, Saudi importers and manufacturers are interested in exploring the use of a wide variety of hardwood species and hardwoods from Asia, Africa and South America all end up there. However, one tempering factor to Saudi imports is the additional duty incurred for containerisation, as all shipments have to be rigorously inspected for hidden contraband.

Egyptian manufacturers focus on export

Egypt is the largest and most powerful market in North Africa and has, for hundreds of years, been the base for one of the largest furniture industries in the world. The industry, centred in a triangle between Alexandria, Cairo and Damietta is the source of millions of jobs and is by far the largest single employer in Egypt. In recent years, this industry has begun to look at increasing its focus on production for export and, with the help of Government initiatives, has achieved a certain amount of success with 18th Century reproduction furniture in France and the US. The basis of this production is a solid substrate of beech or oak from Romania and the Balkans faced in hardwood veneer. American hardwood veneers have become increasingly popular in Egypt for this kind of work and recently, numerous different species have been imported for the various complicated marquetry techniques required.

At present, Egypt is the largest export market for Romanian beech, taking approximately 200,000m³ per year for furniture production, as well as a further 100,000m³ or so of oak. Ease and speed of access for timber carrying vessels, an acceptance of low grade material, the good working properties of beech and the importance of keeping the price as low as possible have created an ideal partnership between the Egyptian furniture industry and suppliers from Romania and the Balkans.

Trade continues despite US sanctions

American hardwoods and other American products continue to reach Iraq, Iran, Libya and Syria despite trade sanctions imposed by the United States. Dubai in the UAE, which is a trading hub for the Middle East region, is regularly visited by buyers from Libya, Iran and East African countries like Ethiopia and Sudan. In the case of Iran, tran-

Middle East

4

shipments of hardwoods are made in Dubai and small, traditional vessels are used to make the short journey across the Straits of

Hormuz. In the case of Libya, trucks regularly cross the Arabian Peninsular into North Africa. At the other end of the region from Dubai, Syrian importers and manufacturers

manage to fulfil their American hardwood needs through traders in Lebanon and in the case of Iraq, Jordanian traders can supply all their requirements.

Philippines

The following article draws from a recent Global Agriculture Information Network report by the United States Department of Agriculture.

Decline in domestic resource boosts imports

Despite a lack of official figures, the Philippine forest resource is expected to have declined to roughly 5 million hectares this year, or 16% of the 30 million hectares of total land area of the country. Tropical rain-forest covers an estimated 3 million hectares, with 800,000 hectares being old-growth or virgin forest. Despite a ban on logging of old-growth forest since 1992, 2004 estimates show a decline in this part of the resource, due to illegal felling. Furthermore, the volume of timber available in commercial forests is also estimated to have fallen below 2003 levels. This decline is expected to continue through 2005 and into the foreseeable future, resulting in an increased need for imported hardwoods. However, the declining availability of domestic hardwood logs has not resulted in an increase in log imports, but has actually been the cause of closure for a significant number of Philippine sawmills. Instead, imports of hardwood sawn lumber, veneer and plywood are expected to increase through 2004 and 2005 to make up the shortfall in converted wood products.

In addition to the expected increase in imports, there is a forecasted stepping up of domestic veneer and plywood production through new wood processing plants. However, due to the weakness of the peso and on-going economic difficulties, a dramatic increase is not expected.

Imports of sawn lumber, veneer & plywood set to grow

Philippine imports of logs, sawn lumber, veneer and plywood in 2003, collectively declined 52% to 762,000 m3 from 1.59 million m3 the previous year. This was almost entirely accounted for by the weak performance of major wood-consuming industries, particularly the construction sector. Last year, log imports comprised 46% of overall imports of wood products (logs, sawn lumber, veneer and plywood), while sawn lumber accounted for 36%, veneer 12%, and plywood 6%. Imports of logs and sawn lum-

ber declined during the year while veneer and plywood imports increased from 2002 levels.

Tropical hardwood log imports accounted for 86% of all imported logs in 2003 and imports of tropical hardwood logs are expected to decline from the 2003 level through 2004 and 2005.

At the same time imports of semi-processed (sawn lumber) and processed (veneer and plywood) products are expected to increase during the period. Imports are likely to come from traditional sources such as Malaysia and Brazil, the dominant sources of tropical hardwood sawn lumber imports in 2003. New Zealand is also expected to be an important supplier to the country.

Sawn lumber production down, but veneer & plywood production set to increase

Philippine exports of sawn lumber increased by 32% last year, as compared to 2002. At the same time, however, exports of logs, veneer and plywood all decreased.

In 2002, there were only 36 active sawmills in the Philippines, down from 44 in the previous year, with an aggregate daily rated capacity of 2,000 m3 and an annual log requirement of 622,000 m3.

Sawn lumber production declined to 163,000 m3 in 2002 from 197,000 m3 in 2001, but recovered to its 2001 production level of 197,000 m3 in 2003. Tropical hardwood sawn lumber output increased last year due to higher log production during the period, but sawn lumber production is likely to contract in 2005, consistent with the expected decline in the number of active sawmills.

In contrast, however, veneer production increased to 245,000 m3 in 2003. The number of veneer plants increased in 2003 compared to the previous year's level but is likely to stay flat in 2004 as investors are expected to remain cautious given the sluggish economy. The number of veneer plants in 2005, however, is again expected to increase due to strong demand. Veneer production is expected to increase marginally this year and modestly expand in 2005, enhanced by the expected shift away from solid wood use. At the same time, plywood production is expected to increase in 2005, reflecting increasing veneer production.

Furniture industry poised for growth?

Reports from the Philippine furniture industry itself suggest 5-6% growth in the sector during 2004. This is contingent with the performance of the US economy, which is the Philippines' largest furniture export market. As well as servicing the US market, furniture manufacturers are beginning to look increasingly towards new markets and the Middle East is high on the target list, with exports already reaching the Gulf markets in significant volumes. Independent market commentators, however, suggest that the forecast growth is a little ambitious and that several factors will, in fact, temper development. Not least of these is the competition from low-cost producers in China and Vietnam. Quality is a major strength of Philippine manufacturing, but quality is improving rapidly in other Asian producer countries and unless Philippine manufacturers can secure niche markets for their less competitive products, they will find it hard to compete effectively. In addition and not to be ignored, are the increasing world crude prices and the resulting higher energy costs.

Philippine hardwood trade (000s m3)

	2002	2003	% chg
Hardwood imports			
Logs			
Tropical	370.0	299.3	-19.1
Temperate	5.2	0.2	-96.2
Total	375.2	299.5	-20.2
Sawn Lumber			
Tropical	933.1	208.6	-77.6
Temperate	39.0	65.8	68.7
Total	972.1	274.4	-71.8
Veneer			
Tropical	68.3	70.4	3.1
Temperate	1.6	10.9	581.3
Total	69.9	81.3	16.3
Plywood			
Tropical	22.6	41.5	83.6
Temperate	2.3	5.4	134.8
Total	24.9	46.9	88.4
Tropical Hardwood Exports			
Logs	0.0	9.0	100.0
Sawn lumber	90.6	119.4	31.8
Veneer	2.6	2.9	11.5
Plywood	21.9	16.4	-25.1

AHEC European Convention

US hardwood trade

Booming exports in 2004

The following is an analysis of the US hardwood lumber and veneer exports to the main export markets for the first six months of 2004. The data is from the US Bureau of Census.

US hardwood exports rise

In value, global US hardwood sawn lumber and veneer exports rose during the first six months of this year by just under 15% each to \$741 million and \$240 million respectively, as compared to the first half of 2003. In volume terms, US hardwood sawn lumber exports increased by a little under 11% to 1.6 million m³ in the same period. American hardwood log exports, on the other hand, dropped in volume, but increased by 21% in value. This can be attributed to tight availability of logs during 2004, which contributed to rising prices, together with rising exports of veneer quality logs to China.

Growth in exports to the EU

Exports of both hardwood logs and sawn lumber from the United States to Canada – America's largest export market – actually decreased in the first half of this year, as compared to 2003. Meanwhile, the United States' second largest export market, the European Union, saw increases across the board. US hardwood log exports to the EU reached a total volume of 156,426 m³, an increase of 16% on the previous year and US hardwood sawn lumber exports to the EU reached a total of 358,989 m³ in the same period, marking an 8.4% increase on 2003. In value terms, US hardwood log and sawn lumber exports to the European Union also increased, by 21% and 13.4% respectively, while US hardwood veneer exports increased by 7.2% to reach a value of \$87 million. The average unit value of American hardwood sawn lumber exported to the EU also increased in the first half of this year, from \$611.29 per m³ to \$639.76 per m³.

German recovery in sight?

The United States' top four European export markets for sawn hardwood lumber all saw increases in their direct imports in the first six months of 2004. The most important export market for US sawn hardwood lumber in the EU is Italy and exports in the first half of this year increased by 10% to a volume of 103,657 m³, as compared to the same period in 2003. Spain, the second most important export market in the EU, also saw an increase in imports of US hardwood sawn lumber - by 4% - but this was tempered by the market's heavy dependence on white

oak, which has been in limited supply. While the UK's imports of US hardwood sawn lumber increased by 5% to 48,068 m³, exports to Germany leapt up by over 17% to 24,394 m³. This marks a very significant turning point in the German market, where negative growth in imports of US hardwoods has been seen since 1997. The question that has to be asked is whether this could signal a positive change for the future in Germany. Part of the reason for the increase is that Germany is becoming a gateway for supplies of hardwoods into Eastern Europe.

Chinese imports leap in value

Between January and June 2004, exports of American hardwood products to Greater China increased across the board, with the exception of sawn hardwood lumber to Hong Kong. To China itself, massive increases were seen in exports of US hardwood logs and lumber, at 35% and 39% respectively by volume. However, the most remarkable change is the value increase across all three products.

In US hardwood logs, China's imports in the first half of this year increased by over 54% in value, most likely accounted for by an increase in imports of veneer grade logs. Domestic veneer production is rising rapidly, a trend that has been encouraged in recent times by Chinese government subsidy of veneer producers.

In terms of value, China's imports of American hardwood sawn lumber and veneer increased by 45% and 62% respectively. This signalled in part a change in the grades and species being imported, but more significantly, a general firming in price of US hardwood products.

Also in Greater China, Taiwan's imports of US hardwood sawn lumber increased significantly, by 72% in volume to 58,295 m³ and by 50% in value.

More recent reports suggest that Chinese demand for American hardwood lumber may have slowed in the 3rd quarter due to a build-up in stocks. Chinese export markets for wooden bedroom furniture have also been hit hard by the United States introduction of punitive import tariffs on these products. Nevertheless long term market prospects in China continue to look positive, buoyed by continuing economic growth and constraints on supplies of other high value decorative hardwoods. US hardwoods also continue to benefit from the Chinese fashion away from European beech.

Other Asian markets doing well

In most other parts of Asia, including South-east Asia and Japan, US hardwood exports

also rose during the first half of this year. However, exports to South Korea did not fair so well and the volumes of US hardwood logs and lumber were both down on the same period last year, while the value of US hardwood veneer exported to the market was nearly 46% down on 2003. Nevertheless, longer term prospects in South Korea's interiors market may be improving with the introduction of laws removing a cap on the resale value of homes. This law had previously greatly inhibited spending on interior decoration.

In Japan, the volume of US hardwood log, lumber and veneer exports have picked up in 2004, the first sign of an upturn in this market for 7 years. However, the value of American hardwood sawn lumber exported to Japan was actually down on the first half of last year, which marks a significant change in species and grades being exported to the market and is in contrast with the general firming trend in US hardwood prices.

Middle East markets picking up

Following a major downturn in direct exports of US hardwoods to the Middle East and North Africa in recent years, the first half of 2004 has shown results that were better than expected. Although American hardwoods are shipped from Europe (and even China) to the Middle East's markets, direct shipments from the US have not been strong for some time and 2003 showed no sign of improvement. With exports of US hardwood logs and sawn lumber up by 53% and 37% in volume as compared to the first half of 2003 and veneer up by 53% in value, there could be signs of a better future for American hardwood exporters. The principal markets for American hardwoods in the region are Saudi Arabia and the United Arab Emirates – the latter acting as a hub for the whole Middle East region and parts of East Africa as well. While, Saudi Arabian imports of sawn hardwood lumber from the United States more than doubled during the first half of this year, as compared to 2003, exports to the UAE actually decreased. However, the shortfall was taken up by an increase in shipments to other Gulf markets (Bahrain, Kuwait, Oman and Qatar) and also to Egypt.

Mexican come-back

The Mexican market has also made a partial come-back this year as Mexican manufacturers have benefited from strong demand for finished products in the United States. Severe supply shortages of domestic pine also continue to encourage Mexican furniture manufacturers to switch to US wood products.

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US Hardwoods Exports January to June 2003 and 2004

	Volume (m3)			Value (\$000)		
	2003	2004	% chg	2003	2004	% chg
World						
Logs	1,132,130	1,126,448	-0.5	258,719	313,821	21.3
Lumber	1,400,927	1,552,653	10.8	645,037	741,234	14.9
Veneer	na	na	na	209,194	240,220	14.8
Canada						
Logs	764,390	643,892	-15.8	96,674	101,226	4.7
Lumber	534,373	512,789	-4.0	213,053	219,131	2.9
Veneer	na	na	na	72,829	78,835	8.2
EU						
Logs	135,109	156,426	15.8	62,771	75,950	21.0
Italy	56,094	60,113	7.2	15,654	18,013	15.1
Germany	35,485	30,280	-14.7	24,225	22,034	-9.0
Lumber	331,241	358,989	8.4	202,485	229,668	13.4
Spain	82,969	86,397	4.1	46,048	51,454	11.7
Italy	94,155	103,657	10.1	49,767	53,572	7.6
United Kingdom	45,738	48,068	5.1	33,682	34,659	2.9
Germany	20,790	24,394	17.3	11,837	18,224	54.0
Veneer	na	na	na	81,153	87,002	7.2
Germany	na	na	na	28,156	30,567	8.6
Spain	na	na	na	20,200	22,454	11.2
Italy	na	na	na	13,648	12,516	-8.3
SE Asia						
Logs	31,184	51,679	65.7	13,647	19,402	42.2
Vietnam	3,591	8,954	149.3	1,944	4,227	117.4
Lumber	60,050	65,906	9.8	26,034	30,711	18.0
Vietnam	7,203	19,584	171.9	3,172	9,285	192.7
Veneer	na	na	na	5,911	7,820	32.3
Vietnam	na	na	na	676	1,222	80.8
Greater China						
Logs	105,516	142,878	35.4	47,344	73,008	54.2
China	61,818	93,913	51.9	26,338	45,326	72.1
Hong Kong	30,800	33,282	8.1	14,324	19,727	37.7
Taiwan	12,898	15,137	17.4	6,683	7,956	19.0
Lumber	262,383	364,119	38.8	94,613	136,794	44.6
China	141,612	221,114	56.1	49,218	80,291	63.1
Hong Kong	86,870	84,710	-2.5	33,413	38,469	15.1
Taiwan	33,901	58,295	72.0	11,983	18,033	50.5
Veneer	na	na	na	27,045	36,918	36.5
China	na	na	na	11,766	19,109	62.4
Hong Kong	na	na	na	10,071	11,547	14.7
Taiwan	na	na	na	5,208	6,262	20.2
Japan						
Logs	48,236	66,192	37.2	14,599	17,103	17.2
Lumber	48,821	51,051	4.6	27,321	24,576	-10.0
Veneer	na	na	na	1,182	1,907	61.3
South Korea						
Logs	22,106	21,165	-4.3	9,594	9,215	-4.0
Lumber	16,906	14,995	-11.3	9,793	9,896	1.1
Veneer	na	na	na	3,958	2,153	-45.6
Mexico						
Logs	7,042	17,349	146.4	2,867	6,204	116.4
Lumber	92,171	101,719	10.4	37,288	40,190	7.8
Veneer	na	na	na	5,670	9,937	75.3
North Africa and Middle East						
Logs	1,482	2,273	53.4	1,036	1,331	28.5
Lumber	18,922	25,980	37.3	13,482	19,130	41.9
Veneer	na	na	na	2,097	3,214	53.3

US hardwoods in a global economy

The US hardwood industry never needed exports as much as they do today. This was the opening statement of a presentation by George Barrett, Editor of Hardwood Review, at the AHEC European Convention in October. His main message was that global market trends are increasingly impacting on the United States hardwood industry. He also suggested that overall demand for US hardwoods is likely to remain strong. 2005 is likely to see tight supplies of US hardwood lumber and firm prices.

Barratt noted that a rising proportion of US hardwoods are being exported year on year. In 1994, less than 8% of US hardwood lumber was exported. Last year the figure had risen to 11%. Exports form a particularly important component of export demand for certain species. 35% of American ash, 22% of white oak, 32% of American cherry and 60% of American walnut are exported.

Considering export destinations, since 1997 exports to the EU have tended to decline, while exports to the Far East have tended to rise. However, the European Union as a whole remains by far the largest single market for American hardwoods. It is particularly important as an outlet for the highest value American hardwoods, particularly white oak. The unit value of US hardwood exports to the EU is much higher than to the Far East.

Globalisation drives restructuring

Globalisation trends are also having an effect on the supply side of the industry. Rising competition is driving a process of restructuring which is contributing to a leaner more efficient industry. The number of dedicated hardwood sawmills in the United States has declined from around 1118 in 1992 to only 679 in 2002. The average sawmill today is larger and more productive. In 1997, sawmills averaged \$4.4 million in sales, by 2002 this figure had increased to 6.5 million in sales. Total hardwood lumber production declined from 13 billion board feet in 1997 to only 10.32 billion board feet in 2003, but a significant rebound is forecast for 2004 to around 11.35 billion board feet.

Meanwhile, end using industries in the United States have come under intense pressure from imports of finished products. Barratt noted that the biggest single change in the US domestic market has been the dramatic decline in the US furniture industry. Barratt commented "this industry has probably been the worst managed in the United

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States". During the 1980s and 1990s there was very limited investment in plant, design and innovation. As a result, the industry quickly caved in to overseas competition. Between 1993 and 2003, US overall imports of furniture increased by 276% from \$2,149 million to \$8,092 million. In 1993, the United States imported only \$139 million of furniture from China. By 2002, this figure had increased to \$2,743 million. In 2003, there was another 25% increase in imports from China to \$3,433 million.

Flooring influence

The flooring industry has been another major influence on the US hardwood market in recent years. Demand for wood flooring in the United States is booming. This has provided a major new outlet for US hardwood products. However the process of import substitution which occurred in the furniture sector is now hitting the flooring sector. Between 2002 and 2003, US flooring imports increased from 4 million m² to 7.4 million m². Imports from China increased from 0.6 million m² to 2 million m² during this period, while imports from Canada increased from 0.7 million m² to 1.9 million m², and imports from Brazil increased from 0.5 million m² to 1.3 million m².

The US mouldings industry is coming under equally intense pressure. US imports of hardwood moulding increased from 374 million lineal feet in 1998 to 613 million lineal feet in 2003. This year imports look set to reach 675 million lineal feet. Again China has been the leading supplier, with imports from that country rising from only 5 million to 243 million lineal feet in 2003. Meanwhile US exports of mouldings have been falling.

Rising log exports

The decline in US domestic manufacturing and the rise in overseas competition is also driving a big change in the structure of US hardwood exports. Log exports have risen progressively from only 1.2 million m³ in 1996 to a predicted 2.4 million m³ in 2004. Barratt suggested that "US log exports may exceed lumber exports in only a few years". A significant proportion of log exports are destined for Canada. In Quebec mills have been actively encouraged to become established just over the border from the United States and to import US logs. Canada imports mainly hard maple, cherry and red oak. China is also emerging as a key source of demand for US hardwood logs, with export volumes rising almost six fold between 1999 and 2003. China takes mainly white oak, walnut and hard maple.

Turning to the future, Barratt predicted that the US hardwood industry will be smaller but more efficient and productive. It will be more customer-oriented, and more profitable. In the immediate future, during 2005 there is unlikely to be any significant increase in supply. More markets are now competing for available supplies, both domestically and overseas. Log supply will remain tight. Loggers are now very hard to find as

many have left the profession and insurance costs are extremely high. More forest land is being sold to large private investment companies that are more inclined than small private owners to impose strict limits on logging. Most sawmills have no plans to increase production. Hardwood mills now face real obstacles to the raising of capital. Banks are generally unwilling to underwrite investment in the sector.

Downside risks for the global economy

A strong global recovery began in the second half 2003, starting in the U.S. and then spreading to other regions. At present, monetary and financial conditions remain reasonably favourable, particularly as central banks are tending to maintain relatively low interest rates. However the recovery has lost some momentum since spring 2004, partly due to the dampening effect of rising oil prices, and there seem to be mounting downside risks for the global economy. These were the main conclusions of a presentation on economic prospects at the AHEC European Convention by Dieter Hesse of the UNECE.

Low interest rates around the world have contributed to very high levels of liquidity, so that fears of inflation have been mounting. There is also concern of a mounting asset price bubble. The challenge now is to withdraw the monetary stimulus without risking recovery and provoking a hard landing for the global economy.

The recent surge in commodity prices, particularly for oil, is making matters more complicated for policy makers. The oil price rise has so far been manageable, but if it continues next year, a trend which is widely forecast, they will become a more significant drag on the world economy.

There are other significant downside risks for the global economy. During the last 12 months, the United States has been acting as a "shock absorber" for the EU and Asian economies by keeping up strong demand for their exported products. Therefore any weakening of the US recovery would resonate around the world. And although investment growth remains robust in the US, there are now signs of weakening private sector consumption. Contributing factors include sluggish labour market performance and record levels of personal debt in the United States. Meanwhile the impact of the tax cuts introduced by George Bush is beginning to wane at a time when public sector finances are less healthy. US policy makers now face the difficult task of tightening monetary and fiscal policy at a meas-

ured pace so as not to endanger recovery. Business surveys on economic activity in the US indicate that optimism rose dramatically at the end of 2003 and remained high until mid 2004, but that this optimism is now showing signs of weakening.

Other downside risks for the global economy include a stronger than expected rise in inflationary pressures; a hard landing in China; and a sharp reversal of the boom in house prices in the United States and parts of Europe.

Meanwhile, the recovery in the euro area remains subdued and fragile. European consumer consumption has been dampened by a relatively weak labour market and concerns over pensions and health reform. Slow activity in Germany has acted as a brake on the rest of the European economy. Weak domestic demand has meant that the economic recovery in the EU has been strongly dependent on export growth. And now exports are hindered by the strong euro. Business surveys suggest that confidence and economic activity in the EU area peaked at the end of 2003 and may already be waning. Policy makers are focused on the difficult and politically sensitive task of structural reform, for example liberalisation of the labour market.

Eastern Europe presents a contrast. Economic growth in this region is now broadly based. There is robust private consumption and fixed investment. Exports have been stimulated by a favourable external environment, particularly boosted by the strong euro in neighbouring EU countries. Eastern Europe also remains attractive as a target for foreign direct investment.

Assuming the major downside risks are avoided, the short term global economic outlook is that the recovery will continue in 2005, but at a more moderate pace. The US will continue as the engine of global growth, and there will be good growth in Asian emerging markets. Prospects are that the moderate recovery in the euro area will continue, while there will be dynamic economic growth in Eastern Europe and CIS.

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Eastern European suppliers are still some way behind their American counterparts in terms of distribution networks and availability of supplies in western parts of the continent.

While oak is the main focus of direct competition between European and American hardwood suppliers, there was also a reference to European beech increasingly taking market share from traditional red oak markets in the Middle East.

Which hardwood species are in fashion in the EU?

Hardwood fashion trends have always varied across Europe. For example, beech and maple have generally been more popular in the north, whereas cherry has been more popular in the south. But taking the market as a whole, the consensus at the Conference was that oak and walnut are still in fashion, whereas cherry and maple are generally declining. There is now very little interest in American red oak throughout the whole of Europe. Dark coloured species such as wenge are currently fashionable in office furniture. The interest in darker contrast timbers to offset pale coloured species continues. There is a general trend amongst designers to use a wider pallet of species to generate more interesting effects.

Some more local trends were also identified. In Spain, the trend is very strongly towards oak, with one importer noting "Spain will buy as much white oak as can be obtained". There were reports of a moderate increase in interest in ash in a few markets, including the United Kingdom. In Italy, tulipwood is still very popular, mainly because it is so good at carrying stain and so can be substituted for more expensive species such as walnut.

Is the growing interest in rustic grades in some European markets improving the competitive position of European hardwoods at the expense of American hardwoods?

There is a strong fashion for rustic grades of oak for flooring and bespoke joinery in north western Europe. The trend does not extend to southern countries where the preference continues to be for clear grades. Some contributors to the Conference suggested the trend to rustic grades tends to favour European oak at the expense of American oak. The demand is for strips which European mills are willing to supply, whereas American mills tend to supply only boards. Furthermore the preference is for wood with numerous small but sound defects. These precise characteristics are not

covered in the NHLA grading rules and this has tended to restrict the use of American white oak. By contrast, European suppliers have created a huge range of grades for rustic for which there is no comparable US system. Nor are the physical characteristics of American oak well adapted to the European demand. American oak tends to have bigger knots which are further apart than in European oak.

Despite these constraints, other participants at the conference suggested that the rise in demand in rustic represented more of an opportunity than a threat for American hardwoods. While rustic grades of European oak are generally used over only small areas, for example in country cottages, American oak suppliers may be able to develop and occupy another niche market for rustic grades covering larger areas in bigger buildings. American oak with less frequent larger knots would be better adapted for this market.

There was also a comment that discussion of "rustic" grades should not be restricted to use of oak for flooring. There is already a distinct trend towards integration of wood character marks in a wide range of species into modern European design. As one speaker noted, "wood is allowed to be wood again". This presents a new opportunity for all wood suppliers to shift European manufacturers away from their current over-reliance on clear grades of timber.

Are American hardwood exporters doing enough to satisfy European customer demands?

Compared with only a few years ago, there was a clear feeling at the Conference that US exporters have adapted to the rising tide of competition in Europe by becoming more responsive to European customer demands. Much of this discussion focused on the ability of US suppliers to satisfy the significant shift in European demand away from random specifications to fixed sizes. Buyers are also increasingly demanding increased sorting for colour and other characteristics prior to delivery. These trends reflect moves by European manufacturers to minimise waste during processing and thereby cut costs. Many US suppliers have responded to this demand. They will offer premium services where required (for fixed sizes and for additional sorts for colour and sap content).

However, some European contributors highlighted the difficulties for US suppliers to compete with the level of service increasingly provided by some European suppliers. Simple distance from the customer base

ensures that US suppliers are at a competitive disadvantage. Furthermore, US exporters' continuing reliance on imperial rather than metric measures creates an obstacle in Europe.

One European importer noted that to a large extent the issue boiled down to who should shoulder responsibility for satisfying end-user demand for extra sorts and fixed size lumber. Rather than relying on the US exporter, many European importers continue to buy a proportion of randoms and offer extra services to sort and cut-to-size American hardwoods for their customers.

Another possibility was raised. Perhaps in time the Chinese will take on the challenge of producing the metric strips in American hardwoods that Europeans are looking for.

Is the rapid emergence of Chinese furniture manufacturing likely to impact on the European furniture sector as heavily as on the United States furniture sector?

There was a lively debate at the Conference on the ability of the Chinese furniture industry to penetrate the European furniture market. Paolo Gardino, an Italian wood industry analyst took the view that Chinese furniture manufacturers are unlikely to have the same level of success in Europe as they have had in the United States. He suggested that in the US, Chinese manufacturers were competing against a relatively unsophisticated furniture sector, heavily dependent on mass production and mass distribution of relatively low value furniture in a single reasonably well integrated market. In contrast, the European furniture sector is less integrated, adapted to supply a wide range of products to a huge array of niche markets. The European sector demonstrates high levels of innovation and design skills, and is generally selling a higher quality product. Gardino suggested that while Chinese market penetration will increase, the trend will not progress as far and as fast as in the US and will impact primarily on the lower quality end of the spectrum. However other speakers emphasised the increasing sophistication of Chinese furniture manufacturing, and the improving quality of the product. Even at the higher value end of the spectrum, the threat to European manufacturing is significant. This is particularly true as Chinese manufacturers are proving adept at stealing European designs.

While there was disagreement over the precise scale of the threat to European manufacturing, there was no doubting that the Chinese are about to mount a major new campaign targeting the European market.

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Mike Snow, Director of AHEC, through his contacts with the Chinese furniture sector noted that there is a concerted effort on the part of the Chinese furniture industry to diversify export markets away from the US. The recent introduction of tariffs on Chinese bedroom furniture exported to the US has exposed the industry's vulnerability and over-reliance on a single market. Chinese marketing efforts are now focusing heavily on Europe and Japan. The European market looks particularly attractive at present due to the relative strength of the euro against the Chinese RMB (which is tied to the dollar). Snow commented that whereas only 90 Chinese companies attended the Cologne furniture fair last year, 200 companies are already pre-registered to attend the next show.

One European commentator suggested that European furniture manufacturers are likely to respond to this threat in the same way as their US counter-parts, by pushing for introduction of tariffs on Chinese furniture. The EU's imposition of punitive tariffs on Chinese okoume plywood earlier this year may have set a precedent in this respect.

Does the increasing availability of PEFC and FSC certified hardwoods pose a threat to the market position of American hardwoods?

The competitive position of American hardwoods on environmental issues was a central point of discussion at the Conference. So far, American hardwoods have tended to benefit from increased market concern for environmental issues. American suppliers have been able to point to reliable inventory data going back over 70 years to demonstrate that harvesting is well below the level of growth. And because American hardwoods mainly derive from naturally regenerated forests, suppliers can legitimately claim a positive record on biodiversity issues. AHEC has focused on these aspects in its marketing.

However, at the Conference several speakers noted that the increased European focus on independently certified wood products which are traceable to precise forest of origin will create particular challenges for US hardwood suppliers. Demands for traceability are becoming more pronounced, particularly from the European public sector as it seeks to grapple with new EU and other inter-governmental policy initiatives which aim to clamp down on illegal logging.

But establishing traceability in the American hardwood sector is particularly difficult due to the high reliance on large numbers of

small non-industrial forest owners for supply. In the EU, similar problems are being tackled through group certification of existing marketing co-operatives, or regional certification of existing regulatory frameworks. But in the United States, where the emphasis has always been on a free market in logs, similar structures on which to base regional and group certification schemes have generally been absent. Nor have American non-industrial forest owners, who depend largely on domestic markets, been subject to the same intense market pressure to move forward in the development of these schemes. AHEC's response to demands for certified wood products is encapsulated in a new statement (see box)

Opinions were split at the Conference on the extent to which the US hardwood industry's response is sufficient for the EU market. Some European importers suggested that end-user demand for legal verification and forest certification is mainly an issue for tropical hardwoods and is not a concern for American hardwoods.

Interest only likely to increase

On the other hand, one leading UK importer commented that demand for certified wood in certain sectors is now "exploding", and that interest in environmental issues is only likely to get bigger. While there is no price premium, the real benefit from certification lies in taking market share from uncertified wood products. He noted the irony that "South America is becoming the fashionable place to buy timber" because more progress is being made to certify tropical hardwood forests in that part of the world. A Spanish importer noted that a large proportion of the biggest wood importers in Spain are now pursuing chain of custody certification in response to mounting public sector demand for certified timber.

So while European demand for certified American hardwood products may still be restricted, there was an underlying feeling at the Conference that it may soon become a key competitive issue for the industry.

One speaker noted that available supplies of European certified hardwood are rising rapidly, with FSC having certified large areas of state forests in Eastern Europe, and PEFC moving rapidly to certify the main hardwood producing areas of Germany and France. In time, European hardwood suppliers will be able to provide forest certificates for a large proportion of their products and can be expected to use these as another tool to expand their market share.

AHEC statement on Forest Certification

While there is an increasing volume of US hardwood products certified through such schemes as the Sustainable Forestry Initiative (SFI) and the Forest Stewardship Council (FSC), forest certification frameworks that rely on establishing traceability to specific forest management units are not always appropriate for the majority of U.S. hardwood forests. It is not the forestry practices which are at issue, but the nature of forest ownership.

Lack of certification does not imply lack of sustainability. In the case of American hardwoods, the forests are themselves living proof of sustainability. The U.S. Federal government has seventy years of national forest inventory data to provide ample evidence that the resource is thriving. To take just one headline statistic: over the last half century the volume of hardwoods standing in U.S. forests has increased by over 90% while the area of American hardwood forests has increased by 18%. Detailed supporting information is available at the USDA Forest Service website:

<http://www.fs.fed.us/pl/rpa/list.htm>

Around 73% of hardwood forest land in the United States is privately owned, often by families whose ownership stretches back several generations. There are approximately 4 million private forest owners with an average lot size of 20 hectares. It is usual for a sale of hardwood logs to occur only once, perhaps twice, in any landowners' lifetime. Timber sales are a low percentage of lifetime expected income for these owners, so even a significant increase in timber value (which at present does not occur with certification) provides no real incentive for owners to achieve certification. The lumber that an American hardwood mill supplies to its customers will often come from thousands of these small landowners – and next year it will be an entirely different group.

There can be no doubt of the sustainability of the American hardwood resource, which reflects the effectiveness of the existing regulatory framework on the federal and state levels, the natural resilience of the American hardwood forests, and the nature of forest ownership. The dominance of small non-industrial forest owners makes independent forest certification difficult. But from a sustainability perspective it is a considerable strength, creating a strong link between U.S. rural communities and their forests.

Visit www.sustainablehardwoods.info for more information.

EU Nations - Imports - Jan-Jun 2004

Statistical Commentary

Overall, imports of hardwood products into the EU-15 for the first half of this year were characterised by a general decline in tropical log and sawn lumber imports and a gearing up of interest in oak. The statistics, coupled with reports from market commentators, show that the fashion for oak across Europe is now very well-established. Furthermore and in many cases, it is imports of oak from the United States that have been increasing, to the detriment of European oak suppliers.

Germany

Shift to North American wood

Unlike during the first quarter of this year, the first six months showed a decrease in tropical log imports into Germany. However, imports of beech logs showed a significant increase, while oak log imports remained unchanged as compared to the same period last year. This stasis, however, was born out of a significant decrease in imports of oak logs from the Ukraine, France and other European suppliers and a massive increase (68%) in imports of American oak logs. In line with the shift to American oak logs, Germany also saw significant increases in imports of American oak sawn lumber from the USA and Canada during the first half of this year, while imports from Poland dropped by 40%. This shift, and indeed the overall increase in North American hardwood exports to Germany this year, could represent a major upturn in the German market for US hardwoods. In fact, 2004 is the first year in which positive growth in exports of American hardwoods to Germany has been witnessed since 1997. However, one must always be aware that much of what goes into Germany may well be re-exported to Central and Eastern Europe to feed German-owned furniture production facilities.

Belgium

Increase in log imports

The first half of the year showed an increase in Belgian imports of most primary products from both tropical and temperate sources. In contrast to Germany, however, imports of North American hardwoods have not picked up this year and the emphasis has been on beech and tropical hardwood logs.

In further processed products, imports of tropical plywood were down by over 10% on the first half of 2003, while hardwood plywood imports from European and other temperate sources saw a significant increase.

France

Sawn lumber imports up

The most notable trend in France's imports of hardwood products for the first half of 2004 is the slide in log imports, both from tropical and temperate sources. However, on a more positive

note, imports of beech, oak and tropical sawn lumber all increased over the period, as compared to last year. In terms of tropical sawn lumber, by far the most obvious change was the upturn in imports from Brazil, while there was also an increase in imports from most African sources and from Malaysia. While France's domestic production of beech sawn lumber has not been strong so far this year, imports of the same have been rising, with Slovakia and Romania emerging as the main sources. In terms of oak sawn lumber, imports from the United States were down on 2003, but imports from Canada and most European sources have held reasonably firm.

France's imports of further processed products during the first half of this year remained strong as compared to the same period in 2003, with imports of hardwood profiles, wooden doors, parquet panels and wood furniture all showing increases. This could signal strengthening confidence in the country's economic outlook.

United Kingdom

Further processed imports rise

The strong UK demand for oak reported for the first quarter of this year has prevailed into the first six months of 2004, with imports of oak logs up by 62% on the same period last year. In the main, this increase has been seen in imports from the United States, but imports of oak logs from France have also increased significantly. Demand for tropical logs has also been fairly robust during the first half of this year, but the same cannot be said for imports tropical hardwood sawn lumber, which were down from all supplying countries, with the exceptions of Cameroon and Ivory Coast. UK stocks of hardwoods have been generally on the low side for some months, but the expected pick up in imports has been slow and is not apparent in the main from the first half statistics.

In contrast to the UK's imports of primary products, imports of further processed products fared much better during the first half of this year. For plywood, the story has been very positive, with imports of tropical and other hardwood plywood up by 26% and 20.5% respectively. On the back of a rising market, UK importers stepped up their purchases of Malaysian and Brazilian plywood during the first half of 2004. There was also an increase in American hardwood plywood imports, although the overall volume remained small.

Italy

Tropical logs down, oak up

As reported earlier on this year, imports of tropical logs to Italy have continued their decline and statistics for the first six months of 2004 show no improvement. In contrast to this development, however, is the very significant increase in imports of temperate hardwood logs, particularly oak. Temperate hardwood logs were imported in large volumes from Central and East-

ern Europe during the first half of the year. As with tropical hardwood logs, the volume of tropical hardwood sawn lumber imported by Italy during the first half of this year was also down from all supplying countries, with the exception of Gabon. Like logs, sawn oak imports to Italy increased during the first six months of 2004, with a 9.4% rise overall. Increased imports were witnessed from France, Ukraine and Croatia. However, a 21% decrease in imports of American white oak lumber was also seen in the period.

There were mixed results for Italian imports of further processed products from January to June this year. Wood furniture imports are showing signs of increasing, although not at the rate experienced in some other countries. There is a significant trend amongst younger Italians to buy lower cost furniture, for example from Ikea, which is contributing to increased levels of import.

Spain

Oak, oak and more oak....

Statistics for the first half of 2004 show that Spain's imports of logs and sawn lumber were well down on the previous year, with the exception of oak and other sawn lumber, although it is not clear what this last category represents in this case. What is particularly interesting is that Spain has not switched from European suppliers to American suppliers for its imports of oak or vice versa, like other markets, but that imports of oak from Europe and the United States have both increased. Overall oak sawn lumber imports to Spain increased by 56% during the first six months of this year, as compared to the same period in 2003. One influencing factor, other than fashion and price, in the ever-increasing demand for oak and the declining use of tropical species may be tight availability of African hardwood supply.

In terms of further processed products, the first half of the year showed more positive results than for logs and sawn lumber. Increases were seen in the imports of all products, with the exception of wooden windows and window frames. Wood furniture imports continue to climb, particularly from China and Vietnam, implying greater competition for the domestic industry.

Portugal

Sawn lumber imports strong

For the first half of 2004, Portugal's imports of sawn lumber showed a significant increase, with oak, beech and tropical species all gaining in volume on the same period last year. In hardwood logs, however, an increase was only seen in tropical imports and this was almost entirely accounted for by supplies from the Democratic Republic of the Congo. Imports of veneer, both temperate and tropical were also up during the first six months of 2004, while mixed results were seen for the imports of further processed products.

News Summary

Mixed reports on African logs

Mixed reports are emerging from African log markets. As the rainy season nears its end in the main producing regions north of the equator, availability is limited and prices are firm for some key species, such as iroko and ayous. In contrast, demand for sapele, the main redwood species derived from the Congo basin, has been sluggish. This has led to talk of softer prices. However, African producers suggest that due to increased forest tax levels throughout the Congo region, margins on sapele production are already extremely tight. Therefore prospects for any significant fall in prices may be limited. (page 2)

African lumber finely balanced

Generally speaking the fine balance between tight supplies and sluggish demand for African sawn lumber has been maintained. Prices are generally steady, despite slow consumption. This year the strong euro has undermined the competitive price position of African hardwoods against Asian and Brazilian alternatives. (page 3)

African-EU log trade falls again

First half EU-Africa trade data provides an insight into recent trends in the African tropical hardwood trade. EU imports of African tropical hardwood logs fell dramatically during the first half of this year. The overall volume of EU imports of African hardwood sawn lumber showed little change in the first half of 2004 compared to the previous year. However there were significant changes in the direction of trade. Spain's imports of African sawn lumber fell dramatically in the first half of this year, while Italian, Dutch and French imports were tending to rise. (page 3)

Middle East market bouyant

Despite gloomy newspaper reports, markets for hardwoods in the Middle East can be characterised by rapid population growth, fast economic expansion, high levels of construction activity and, in some cases, residential and tourist development. Dubai continues to lead the way in development in the Gulf and the scale of construction activity has created a buoyant market for interior joinery and furniture. (page 4)

Philippines shifts to veneer

Before the early 1990s, the Philippines was a major exporter of tropical logs. But following excessive over-exploitation, the country is now

heavily dependent on imported raw material. Over the last decade, much of this has comprised imported tropical logs and sawn lumber. However, constraints on tropical hardwood supply have meant there is a now significant shift in the country's wood market towards greater use of veneer, plywood and temperate hardwoods. Meanwhile the country's furniture sector is feeling the heat of Chinese competition. (page 5)

Bouyant US exports

US hardwood lumber and veneer exports have been bouyant this year. In value, global US hardwood sawn lumber and veneer exports rose during the first six months of this year by just under 15% each compared to the first half of 2003. In volume terms, US hardwood sawn lumber exports increased by a little under 11%. American hardwood log exports, on the other hand, dropped in volume, but increased by 21% in value. This can be attributed to tight availability of logs during 2004, which contributed to rising prices, together with rising exports of veneer quality logs to China. (page 6)

Oak all the rage in the EU

Overall, imports of hardwood products into the EU-15 for the first half of this year were characterised by a general decline in tropical log and sawn lumber imports and a gearing up of interest in oak. The statistics, coupled with reports from market commentators, show that the fashion for oak across Europe is now very well-established. Furthermore and in many cases, it is imports of oak from the United States that have been increasing, to the detriment of European oak suppliers. (page 11)

AHEC discusses EU trade

The AHEC European Convention was held in Venice during October. Discussions at the Convention highlighted some key issues affecting the European trade in hardwoods.

□ A UN economist reported on the strong global recovery that began in the second half of 2003, starting in the U.S. and spreading to other regions. At present, global monetary and financial conditions remain favourable, particularly as central banks are tending to maintain relatively low interest rates. However the recovery has lost some momentum since spring 2004, partly due to the dampening effect of rising oil prices. There seem to be mounting downside risks for the global economy. (page 8)

□ George Barratt of Hardwood Review suggested that overall global demand for US hardwoods is

likely to remain strong next year. 2005 is also likely to see tight supplies of US hardwood lumber and firm prices. Barratt also highlighted the importance of export markets generally, and the EU in particular to the US hardwood industry. (pages 7/8)

□ The fall of the dollar value against the euro was identified as the major factor boosting market prospects for US hardwoods in Europe this year. However, discussions indicated that EU hardwood consumption trends have not all been positive and there have been huge variations by sector and country this year. (page 1)

□ Commentators from across Europe reported on the rising competitive pressure on American white oak from European oak. (pages 1/9)

□ There was much comment on fashion trends. Oak and walnut still seem much in favour in Europe, whereas cherry and maple are declining. There is now very little interest in American red oak throughout the whole of Europe. Dark coloured species such as wenge are currently fashionable in office furniture. (page 9)

□ There was discussion of the strong fashion for rustic grades of oak for flooring and bespoke joinery in north western Europe. To some extent this trend favors European oak over American oak. (page 9)

□ A distinct trend towards integration of wood character marks in a wide range of species into modern European design was identified. As one speaker noted, "wood is allowed to be wood again". This presents a new opportunity for all wood suppliers (page 9).

□ There was discussion of the significant shift in European demand away from random specifications to fixed sizes and its likely impact on trade in American hardwoods. (page 9)

□ It was noted that Chinese furniture manufacturers are mounting a major campaign to increase penetration of the European market. There was a lively debate at the Conference on the likely success of this initiative. (pages 9/10)

□ The competitive position of American hardwoods on environmental issues was a central point of discussion. So far, American hardwoods have tended to benefit from increased market concern for environment. However increased European focus on independently certified and fully traceable wood products may create particular challenges for US hardwood suppliers. (page 10)

□ AHEC issued a new statement on the American hardwood industry's approach to forest management and certification. (page 10)