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## National certification schemes are key to sustainability

*Duncan Yeong, MD of Ivory Pearl SDN BHD in Malaysia, is a pioneer of FSC forest certification in the tropics. He was one of the first timber traders anywhere to recognise the emerging business opportunities for supply of certified products to the UK DIY sector in the early 1990s. A core aspect of his business strategy when establishing Ivory Pearl, a manufacturer and exporter of timber doors, builders joinery and wood furniture, was to supply fully traceable FSC certified wood products to retailers in the UK. But while Yeong praises the pioneering role of FSC, and recognises the marketing advantages of FSC labels, he also seems convinced that the development of national schemes like the Malaysian Timber Certification Council is the key to sustainable forestry.*

When Yeong speaks about forest certification, you get the feeling he knows what he is talking about. Back in the early 1990s, he endeavoured, unsuccessfully, to convince the state forest authorities in Perak of the benefits of moving swiftly towards FSC certification. At the time, he soon ran up against issues of sovereignty over national forestry standards. The same issues which have hindered the development of FSC certification in most timber supplying countries.

But Yeong was not to be denied. He applied to the state government for one of the few areas of sizable private concession available in Peninsular Malaysia. The outcome of this effort has gone far beyond the original intent of establishing a Malaysian source of FSC certified raw material.

The 9,765 hectares of natural dipterocarp forest which was granted under a 30-year lease became the basis of the Perak Integrated Timber Complex (PITC). PITC now operates as a joint public-private sector venture, with the Perak State Economic Development Corporation (SEDC) maintaining a 75% stake. Ivory Pearl Sdn Bhd now hold a 15% stake, with the remaining 10% stake in the hands of another private sector partner, Etika Mekar Sdn Bhd (EMSB).

PITC's main corporate objective is to de-

velop a sustainable vertically integrated timber based industry. It also has a particular role to actively develop and integrate ethnic Malay and other native peoples into the timber based industry. This is to be achieved through production of higher value added wood products for export backed by internationally recognised forms of forest certification, notably FSC. The PITC became only the third FSC certified forest in Asia in June 2002, being awarded the certificate by FSC-accredited certifier SCS in June 2002.

### Good environmental performance

PITC has received widespread recognition for high levels of environmental performance and for sensitive handling of indigenous people's rights. But despite the benefits that have accrued from PITC's pursuit of FSC forest certification, Yeong suggests that "FSC has started something good... but the whole industry answer is MTCC.... In order to achieve sustainable forestry, it has to be a national initiative." A national certification process, involving a fully participatory national dialogue to develop forestry standards, is probably the only effective means of resolving key issues, such as indigenous peoples' rights. It is also the best

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## Editorial

### National forest certification standards are essential, not optional

Recent events in Malaysia highlight the relative merits of FSC and the Malaysian Timber Certification Council (MTCC), a national forest certification scheme, as efficient mechanisms to promote sustainable forestry. In Malaysia, as in many other countries, FSC has acted as a catalyst for change, adding impetus to the drive towards sustainable forestry. But there are shortcomings in the approach adopted by FSC in Malaysia. And probably the most important outcome of FSC's involvement in the country has been to encourage the creation of MTCC.

While drawing on internationally recognised forestry principles, legitimate sustainable forestry standards may only be the end product of a national process of stakeholder dialogue. These national processes – involving all legitimate interests in a participatory consensus-building process – are essential to determine a regionally appropriate balance between economic, social and environmental objectives in forest management. That is the essence of sustainability. These processes are also necessary for practical reasons. In most countries there are complex forestry issues – such as indigenous peoples' rights or biodiversity conservation – that can only be fully understood and resolved through a national dialogue. In this respect, FSC falls short. On 1 September 2004, FSC had issued forestry certificates in 61 countries. But it had accredited national forest certification standards in only 9 countries. In the other 52 countries, including Malaysia, FSC certificates are issued against so-called "generic" standards. These are adapted from the FSC international principles by the FSC certification bodies following what is essentially a fast-track local consultation process.

Take for example the certification of the Perak Integrated Timber Complex (PITC) in Malaysia in 2002. SCS – the FSC accredited certifier – developed the forest management standard for this certification in only 4 months between June and September 2001. The process involved 2 days in the field followed by the issue of a draft standard to stakeholders with an invite to comment. The thoroughness of this consultation is open to doubt when SCS acknowledge in their certification summary report that their efforts elicited only 3 comments from stakeholders. And under current FSC rules, the certification body is not specifically required to seek or develop a consensus with any stakeholder raising concerns.

The end result of this process is to create a standard of limited legitimacy. The PITC case illustrates the problems that this can create. In 2003, the Tropical Forest Trust commissioned an independent research report specifically on this certification. The report does not question the achievement of PITC, indeed suggesting that "PITC can be seen as a model for better forestry, with a potentially positive influence on the forestry of the state of Perak and of Peninsular Malaysia". So far so good. But the report also criticises the internal procedures of SCS, which in turn reflect badly on the continuing reliance of the FSC on generic standards. The report shows that customary land issues were not adequately addressed in the generic standard and that SCS, relying on an incomplete consultation process, showed limited understanding of the local situation of indigenous peoples. SCS efforts to develop an FSC generic standard for Malaysia contrast with the process initiated by the MTCC to develop a national certification standard. This process involved two nationwide consultations culminating in national meetings to develop a consensus around the draft standard. The first MTCC national meeting was attended by 111 participants from 58 organisations; the second was attended by 113 participants representing 71 organisations (including 22 environmental and social NGOs). MTCC provided financial support to ensure participation of some key NGO and indigenous peoples groups. The process also involved extensive field testing of the standard and further consultations in the three regions of Malaysia, and the development of regionally appropriate verifiers.

Over the years, FSC has acquired power and influence, particularly in the minds of consumers and policy makers in the west. With this power comes new responsibility, particularly to ensure that these clients of the timber industry are not misled concerning the quality and legitimacy of forest certification standards. Perhaps it's time for FSC to come clean and make a clearer distinction between certificates issued against generic standards, and those issued against fully endorsed national standards.

As for Malaysia, if you are truly interested in promoting sustainable forestry, then back the MTCC.

Rupert Oliver  
Editor

# Malaysia

## Malaysian sawn lumber

### Resistance to lower prices

Supplies of most species of Malaysian sawn lumber remain tight and FOB prices remain firm. Recent efforts by some European importers to negotiate for lower FOB prices in the face of sluggish demand have fallen on deaf ears in Malaysia. Log availability to the mills remains restricted, particularly as there continues to be strong demand for logs from the Asian plywood sector and in China. The monsoon period is imminent in the major Malaysian supply regions, so pressure on supply is unlikely to ease significantly over coming months. Shortages are particularly acute for merbau, nemesu and keruing.

### Dutch demand still slow

Dutch demand for Malaysian sawn timber is in the doldrums. Expectations earlier in the year that the market might pick up on the back of an improving economy have been disappointed. During the first half of 2004, importers re-entered the forward market in expectation of better conditions later in the year and at a time when forward prices rising. However underlying consumption slowed early on in the summer vacation period and activity has remained sluggish ever since. Economic conditions in the Netherlands have remained poor, with the most recent data indicating a 0.2% contraction of the economy in the second quarter. As a result importers now see reasonable volumes arriving or on the water but only weak demand amongst end-users. Importers are again dumping dark red meranti stock on the local market at below replacement value. Interest in the forward market has dried up. In contrast to meranti, demand in the Dutch door and stair sectors for merbau remains good. Strong demand reflects supply shortages both for merbau and substitute species such as African afzelia and iroko. CNF Europe prices for merbau have continued to firm while shipping times are becoming more extended. Orders are currently being placed for January/February shipment.

### UK confined but steady

UK consumption of meranti-tembaga is steady but relatively confined. The UK trade is now heavily dependent on 5 or 6 companies still involved in the forward market and that carry landed stock. All other buyers purchase from these companies on a little-and-often basis. Current levels of landed stock are reported to be reasonably well balanced with current demand. UK traders report that Malaysian shippers have only limited volumes of their favoured meranti-tembaga available for prompt shipment.

However stock is relatively easy to secure for November/December shipment. In contrast, sourcing keruing in typical UK specifications is extremely difficult.

UK agents are now regularly reporting increased interest in MTCC certified sawn lumber driven by rising demand for certified products in the UK public sector. The price premium over uncertified wood – at around 3% - is sufficiently low not to discourage market interest.

### Rising scantling prices

German demand for meranti sawn lumber and laminated meranti window scantlings fell during the summer vacation period and has remained subdued since. German importers report that shippers pushed through further C&F price rises for meranti window scantlings during the summer period. German importers report that availability of most Southeast Asian wood products has been sufficient to meet current levels of subdued demand, with the exception of high-density meranti scantlings which are in very short supply.

The Belgian market for Malaysian sawn timber is extremely slow. There are reports of a significant shift to cheaper Brazilian sawn lumber in the Belgian market. Belgian importers are also under more pressure than most other European importers to increase reliance on FSC, which is more readily available from Brazil.

European demand for decking remains very strong, but Malaysian balau decking is now coming under greater competitive pressure from cheaper Brazilian species such as garapa and massaranduba. Brazilian supply sources have been unreliable in the past, but some European trading companies are heavily focused on improving the reliability of Brazilian supply chains.

After supply problems earlier in the year, there are reports that significant volumes of Brazilian timber may soon arrive unsold at the port of Antwerp. This may further depress the European market for Malaysian sawn lumber in the short term.

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'			
	June	July	Sept
1"	870	870	870
2"	895	895	900
2.5"	920	940	950
3"	940	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.			

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way of expanding the practice of sustainable forestry on an industry-wide basis.

Like many other trading companies, Ivory Pearl is now adapting to a multi-scheme environment. Yeong suggests that while "I am happy with FSC, I'm also working hard for MTCC". Ivory Pearl already possess FSC chain of custody certification, but are now also working towards MTCC certification. This implies duplicate auditing costs, but the Ivory Pearl management system is capable of satisfying both standards.

### Lobbying for MTCC

Meanwhile Yeong is now actively lobbying his large customers to accept MTCC alongside FSC. He seems to have had some success, suggesting that the UK builders merchant Wickes is looking seriously at accepting it, while B&Q seem willing to endorse MTCC as "progressing towards sustainability". Another key customer, the large joinery manufacturing company Jeldwen, are also said to be accepting MTCC in the absence of sufficient supplies of FSC certified wood.

From a supply perspective this acceptance of MTCC is critical. Yeong's plant consumes around 18,000 m3 per year of wood raw material. While timber production from the PITA concession has increased progressively, rising from 1800 m3 in 2001 to around 16,000 m3 in 2003, much of this volume comprises lower quality wood unsuitable for manufacturing. An increasing volume is now finger-jointed and supplied to the local market, where there is no demand for certified wood. MTCC therefore fills an important gap in the supply base.

But acceptance of MTCC is not only about supply. Yeong believes that if FSC was to acknowledge that MTCC is equivalent to FSC, this "would be good for the whole industry". It would encourage more suppliers to engage in certification and ultimately drive wider improvements in forest management.

### NGOs obstacle to FSC process

However some international campaigning organisations are a significant obstacle to progress. Rather than acknowledging the existing MTCC participatory process, which has been working towards an FSC-consistent national standard, they are insisting that the whole process must be started over again from scratch. Yeong suggests "some ENGOs are trying to make things too complicated, pulling the certification idea in too many directions."

## The Malaysian Timber Certification Council (MTCC) Scheme

### Standards-setting process

#### *Participation*

The standard was developed at national level through a fully participatory and transparent process. All interests were invited to participate in the development of the standard, and proactive steps were taken to ensure broad participation, including provision of financial assistance to certain social and environmental NGOs. All groups were given fair opportunities to influence decisions. Decisions were taken by consensus.

#### *Conformance with international forestry principles*

International Tropical Timber Organisation Sustainable Forest Management Criteria initially used as the framework. A new standard based on the Forest Stewardship Council Principles will be introduced in 2005.

### Content of forestry standard

#### *Legal conformance*

The standard requires conformance with all applicable national and international laws as a baseline.

#### *Forest management planning*

The current standard requires the existence and implementation of forest management plans and forest harvesting (operational) plans. Records must be maintained of the extent and nature of forest management operations. The 2005 standard will be in conformance with FSC requirements which place more emphasis on social and environmental impact.

#### *Consultation during forest operations*

Under the current standard, forest operations are assessed for the degree of public participation in forest management, such as in planning, decision making, data collection, monitoring and assessment. The new 2005 standard shall be in conformance with FSC, for example requiring forest operations to incorporate the results of evaluations of social impact and on-going public consultation.

#### *Forest cover and sustained yield*

The current standard requires the existence of a framework of laws, policies, and regulations to govern the establishment and security of the permanent forest estate. These areas must be protected from illegal harvesting, settlement and other unauthorised activities. There must be measures to supplement natural regeneration where necessary.

#### *Biodiversity conservation*

Forest managers must develop and implement procedures to identify endangered, rare and threatened species of forest flora and fauna. They must keep undisturbed a part of each production forest. They must protect features of special biological interest. They must monitor changes in biological diversity. Use of exotic species shall be carefully controlled and actively monitored.

#### *Protection of soil and watercourses*

Forest managers must demonstrate the existence and implementation of procedures to identify and demarcate sensitive areas for the protection of soil and water. Harvesting procedures must be adapted to protect the soil. There must be adequate buffer strips along waterways. Guidelines for forest road lay-out must be developed and implemented.

#### *Social and cultural forest values*

There must be a framework of laws, policies, and regulations to govern land tenure and property rights relating to forests, and the participation of local communities in forest management decisions. Certified forest operations are assessed for the number and extent of forest sites available primarily for education, direct use and benefit of local communities, and recreation. The 2005 standard is equivalent to the FSC standard.

### Certification procedures

At present MTCC acts as the certification body, basing its decisions on reports from independent assessors and operating in accordance with internationally recognised procedures for certification bodies established in ISO Guide 62. There is a clear separation of decision making and assessment functions. Decisions are subject to peer review. Detailed requirements are established for the forestry and technical competence of audit teams. Certification systems are currently under review with the intention of ensuring closer conformance with ISO Guidelines. The new procedures are expected to include accreditation of independent certification bodies by the Department of Standards Malaysia (DSM). DSM is in conformance with ISO Guide 61 and is a full member of the International Accreditation Forum (IAF).

### Green claims and labelling

Companies may opt for two alternative chain of custody (CoC) systems: a full physical segregation system; or a minimum average

percentage system. The minimum percentages of certified materials for the different wood products are as follows: (i) Solid wood products - 100%; (ii) Collections of solid wood products - at least 70% by volume; (iii) Assembled products made of solid wood parts - at least 70% by volume; (iv) Chip and fibre products - at least 30% by weight; and (v) Assembled products containing both solid and chip and fibre parts - at least 70% of the wood and at least 30% of the new virgin chip and fibre components. Management and documentation systems requirements are established to ensure effective monitoring and control of chain of custody.

The existing standard currently does not have rules pertaining to legality of the non-certified component of % labelled products. The standard is being reviewed in 2004, during which it is expected that the use of wood from illegal or controversial sources will be incorporated.

MTCC has developed specific rules for chain of custody assessor companies. They must have a team comprising at least two auditors with necessary training and expertise to carry out CoC assessment, one auditor must be trained in the assessment of ISO9000 or ISO14001, and all auditors must be familiar with the local wood industry and applicable regulations. Accreditation procedures are being developed.

### Certified area and timber supply

All certificates have so far been issued in Peninsular Malaysia and cover the Permanent Forest Reserves managed by the state forest authorities. By July 2004, 7 forest management certificates had been issued in Peninsular Malaysia covering 4.11 million hectares. The remaining state forest management unit in Peninsular Malaysia, covering 0.63 million hectares was expected to be certified by the end of summer 2004. In total around 30% of total Permanent Forest Reserves throughout Malaysia (including Peninsular, Sarawak and Sabah) has been certified. The process to certify one forest management unit in Sarawak is now underway. Currently certified forests of Peninsular Malaysia are estimated to have a total production capacity of around 2.5 million m<sup>3</sup> of round logs per year. MTCC labelled sawn lumber products are now becoming more readily available and are being offered to European buyers at a premium of around 3% over the uncertified product.

## Sarawak

### Neighbour trouble

*The Sarawak state authorities have come under intense fire from NGOs for their failure to take adequate measures to stem the illegal wood trade with Indonesia. In a recent series of meetings with a European trade and media delegation, government and trade officials in Sarawak gave their side to the story. The meetings were held with the Sarawak Timber Industry Development Corporation (STIDC), the Sarawak Forest Department, and the Sarawak Timber Association.*

The most far-reaching allegations that Malaysian traders and government officials have actively colluded in the illegal trade came in a report "Profiting from Plunder" by the Environmental Investigation Agency and Telepak published in February 2004. This report claims that "hundreds of millions of dollars of illegal Indonesian timber are estimated to be entering neighbouring Malaysia each year, providing cheap raw materials to a voracious wood industry which can no longer be sustained by the country's own dwindling forest estate." The report focuses particularly on ramin which has been listed on CITES Appendix III by the Indonesian government, claiming that the NGOs undercover investigations have exposed "wholesale laundering of ramin through Malaysia on an unprecedented scale". The report builds on an earlier report, "Above the Law", published by EIA/Telepak in 2002 which focuses on corrupt practices within Indonesia itself.

### Indonesia as victim

Inadvertently perhaps, the EIA/Telepak report provided the Indonesian central government with a perfect way of diverting damaging criticism for their own failures – a particularly useful device in an Indonesian election year. After publication of the report, the Indonesian government began to lay much of the blame for the continuing illegal timber trade in Indonesia at the Malaysians' door. The Indonesian Forestry Minister Prokosa made a direct appeal to the international community for a "worldwide boycott of Malaysian wood products."

With its large land border with Indonesia, the East Malaysian state of Sarawak took the full brunt of this joint Indonesian/ENGO onslaught. It was clear from the series of meetings with the European trade and media, that the Sarawak authorities are angry that they have been used as a pawn in a dirty political battle waging next door. They

are also frustrated that their difficult and often dangerous work to combat the illegal log trade remained largely unacknowledged in the international media.

The foundation of the Sarawak authorities' response is that, while problems undoubtedly exist, they are doing all they can to combat the illegal trade with Indonesia. They spell out in detail the measures imposed in Sarawak over the years to ensure that all wood products trade in the state is derived from legal sources.

### Measures to combat illegal trade

Co-ordinating bodies have been established in Sarawak to guide enforcement activities of the Forestry department, Customs Department, Police, Armed Forces, Road and Immigration Departments. It is now compulsory for Indonesian wood to be imported into Sarawak through a limited number of controlled checkpoints. Wood transported through any other entry point is considered illegal and subject to detention. A company – Harwood Timber sdn bhd - has been established as a wholly owned subsidiary of STIDC to manage the import of timber through these checkpoints. Anybody trading wood must be registered with the STIDC. There are extensive documentation requirements that all traders must adhere to. All wood imported is subject to separate inspections by customs and by representatives of the STIDC. Regular spot checks are undertaken of logging trucks on the roads. Illegal inland transport routes are identified using satellite imagery and other methods and made impassable.

This co-ordinated and determined response on the Sarawak side of the border is contrasted sharply with the inconsistent and uncoordinated approach adopted on the Indonesian side. By July 2004, many checkpoints on the Indonesian side of the border with Sarawak were unmanned and not operational. Meanwhile, the Indonesian central and regional governments are divided over what should be recognized as "legal" and "illegal".

### Regional autonomy creates chaos

Following collapse of the Suharto regime in 1998, Indonesia's regional governments were given greater autonomy over their natural resources, including forests. However the loss of central control led to a massive increase in unauthorised logging operations. Now the central government is scrambling to wrest a level of control back from the regions. Regional governments continue to authorise logging operations and issue all the necessary legal documentation for trans-

port and export. The legality of this documentation is subsequently questioned by the central authorities. Rather than seeking to resolve this issue through internal negotiations with the regions, the central government has resorted to dictating legal amendments, including new requirements for wood transport documentation, without negotiation and in some cases without even informing the regions.

Another graphic example of the inconsistencies in the Indonesian approach is provided by Barney Chan of the Sarawak Timber Association. He notes that in their "Above the Law" report, EIA/Telepak allege that Abdul Rasyid, owner of the Tanjung Lingga Group of companies, was a leading player in the illegal ramin trade. Far from being investigated, this man was subsequently recommended as a member of parliament by the Golkar party, the largest party in the lower house of the Indonesian legislature.

### Imports from Indonesia continue

The Sarawak authorities acknowledge that significant volumes of wood continue to be imported from Indonesia into the state via the official checkpoints. Since the trade in roundwood and squared logs is now banned, this wood all comprises rough sawn and hewn timber and various other value-added wood products. They claim that all the wood coming through the checkpoints is supported by what appears to be the appropriate legal documentation from Indonesia – including CITES certificates in the case of ramin. Furthermore, all this trade is essentially to the benefit of Indonesia. It accounts for only 2% of Sarawak's wood requirement. Meanwhile the trade in sawn lumber rather than logs provides a vital source of income for communities on the Indonesian side of the border.

The Sarawak authorities also acknowledge that wood continues to arrive via unauthorised routes, but claim that the volumes are now likely to be small. They stress that these continuing imports should not be seen as evidence of lack of diligence on the part of the Malaysian authorities. They reflect failures on the Indonesian side. Encouraging a victim mentality within the Indonesian government does little to resolve the problem. Haji Len Talif Salleh, General Manager of STIDC summed up: "EIA don't need undercover operations in Sarawak, they should work with STIDC. EIA say they have risked their lives to prepare their reports. We will risk our lives every day for the rest of lives to solve this problem".

# Malaysia

## Malaysian trade trends

*Malaysia is the world's largest exporter of tropical hardwood products by a significant margin. There follows an analysis of key trends in the Malaysian export trade over the last 5 years.*

□ **Sawlog production:** harvesting levels fell dramatically throughout Malaysia between 1997 and 1998 with the collapse of regional markets during the Asian Financial Crises. Production recovered only slightly between 1998 and 2001, but then fell again between 2000 and 2001. This was mainly due to a sharp fall in production in Sabah owing to efforts by the forest authorities to re-organise concession arrangements and harvesting regulations. Production subsequently increased in 2002 and is now hovering around 20 million m<sup>3</sup> per year.

□ **Log exports:** after a big fall between 1997 and 1998 during the Asian financial crises, log exports recovered to around 7 million m<sup>3</sup> in 1999. However, there was another steep fall in exports between 2000 and 2001 to around 5 million m<sup>3</sup> partly in response to tightening government controls on harvesting. There was also a big decrease in orders from key markets at that time as Japan reoriented plywood production towards softwoods, while China switched to cheaper illegally felled logs from Indonesia. Between 2001 and 2003, Malaysian log exports recovered slightly reaching around 5.5 million last year. A large part of the recovery has been due to rising levels of log exports from Sarawak to India. Availability of illegally traded logs from Indonesia has also declined during this period.

□ **Sawn lumber:** sawn lumber production and exports fell between 1997 and 1998 during the Asian Financial Crises. They then recovered between 1999 to 2000, but fell dramatically between 2000 and 2001. This was mainly due to a big fall in exports from Sabah as domestic harvesting was reduced that year. Availability of supplementary logs also fell after October 2001 when Indonesia imposed a ban on log exports. Since 2001, the overall level of Malaysian sawn lumber exports has remained stable at around 2.4 million m<sup>3</sup>, with little change in the balance of exports from West Malaysia, Sabah and Sarawak. In broad continental terms, there is no clear indication of a major shift in export destinations. However, closer analysis of the data indicates changes in the direction of exports within Asia. Exports to Thailand and China have tended to

# Malaysia

rise, while exports to Japan and South Korea have been falling.

□ **Plywood:** Malaysian plywood exports have tended to rise since 1999 as Sarawak has diverted more logs towards domestic plywood production and as availability of competing products from Indonesia has declined. Since 1999, Malaysian plywood exports have increased marginally to Japan and grown dramatically to South Korea. Malaysian plywood exports to Greater China recovered in 2003 after falling sharply between 1999 and 2002. This may reflect mounting log supply problems in China's domestic plywood industry last year.

□ **Veneer:** Malaysian veneer exports have fallen by around 50% since 1999. As logs have become less readily available in Malaysia, a larger proportion of rotary veneers are being diverted to domestic plywood production. There has been a concerted effort by the Sarawak and Sabah industries to reduce exports of rotary veneer to the Chinese plywood sector which is seen as an important competitor in the market for finished plywood products.

□ **2004 performance:** log production is tending to fall in Malaysia due to a progressive decline in the remaining area of conversion forest which still accounts for around 40% of total production. Reports this year indicate tight log supplies throughout the country. Sarawak log production data to end May indicates that overall harvesting levels were running at slightly below levels of last year. While supplies have been tight, trading conditions for Malaysian wood products in Asia during the first half of 2004 were better than the same period in 2003 when trade was disrupted by SARS. Sarawak log exports to both China and India have continued to rise this year. The most recent West Malaysian data indicates that sawn lumber exports to end April were 15% up on the same period last year. There was significant growth in exports to Thailand, Singapore, and China. Demand for Malaysian plywood was also good during the first half of 2004 with improved global demand at a time of limited availability from Indonesia. Meanwhile tight log supplies in Malaysia have encouraged further efforts by the Malaysian industry to reduce exports of rotary veneers. Tight supplies coupled with better demand are reflected in rising prices for most Malaysian hardwood products during 2004.

# Africa

## African logs

### Tight supplies and stable prices

The rainy season in the main supply regions north of the equator Ghana, Ivory Coast, Cameroon, CAR and northern parts of Congo (Brazzaville) and Congo (Kinshasa) has been on-going for several months and is now nearing its end. Availability of some of the commercially valuable redwood species is very confined, for example of iroko and ayous. In addition to weather conditions, this is due to tighter controls on harvesting and export, and political problems in some supply countries.

However supplies of logs of the entandrophragma species – sapele and sipo – that dominate commercial production in the Congo basin, have remained more stable in recent months.

European demand for African tropical hardwood logs slowed during the summer months in response to declining manufacturing activity during the vacation period. This followed on from a slow first half of the year in Europe, with a particularly dramatic fall in the level of French imports. This reflected a sharp decline in availability, particularly with the UN sanctions imposed on Liberia, and a partial shift in wood processing capacity to supplier countries, notably Gabon. European log buying is now focused on much smaller lots than in previous years. China's import data suggests that availability of African hardwood logs has been a significant issue for Chinese importers this year. Although China's total hardwood log

import has remained stable during 2004, there has been a big decline in imports from African countries. Liberia has been removed from the supply equation, while imports from all other African countries – with the exception of Congo (Brazzaville) – have fallen away.

This implies that Chinese buyers have generally been unwilling to follow the sharp increase in African hardwood log price that occurred at the start of 2004 and have turned to substitutes.

There has also been a slight increase in Chinese imports of rotary veneers in response to declining availability of African logs and veneers from other sources, notably Sarawak. However, overall Chinese imports of African rotary veneers remain at a very low level.

## African sawn lumber

### Disappointing forward demand

In the European market for African sawn lumber, activity was relatively slow during the summer period due to the vacation and heavy rain in major supply regions. Very mixed reports of the European market emerged during September. Overall the signs are that while there has been a seasonal increase in demand, the level of forward orders has been disappointing for the time of year. There is still a great deal of uncertainty surrounding future economic conditions. But while the overall level of European orders is down, severe supply shortages have meant that good prices are being paid for certain species.

The Chinese market has been showing more interest in African sawn lumber during 2004, but current price levels and the strong euro value against the dollar continue to impede sales.

The USA and South Africa are providing strong niche markets for particular species of African sawn lumber.

Further details are provided in the species notes.

## African species notes

□ **Iroko:** Prices for iroko sawn lumber are particularly firm. Supplies remain limited due to continuing political problems in Ivory Coast – formerly the major supplier – while in Ghana efforts have continued to restrict exports of rough sawn lumber.

□ **Sapele:** sawn lumber has held on to the price gains made during the second quarter of the year. The onset of the rains, which has inevitably led to reductions in log sup-

□ 8

### China imports from Africa

	2003 Year	2003 Jan- Jun	2004 Jan- Jun
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#### Hardwood logs (000 m3)

GABON	940	482	351
EQUAT. GUINEA	511	296	144
CONGO REPUBLIC	373	179	231
LIBERIA	395	365	0
CAMEROON	139	88	62
MOZAMBIQUE	81	58	43
TANZANIA	45	13	29
CENT. AFR. REP.	8	8	5
<b>ALL AFRICA</b>	<b>2492</b>	<b>1487</b>	<b>865</b>
<b>ALL COUNTRIES</b>	<b>10436</b>	<b>5389</b>	<b>5334</b>

#### Hardwood sawn (000 m3)

CAMEROON	25	13	13
GABON	19	10	9
CONGO REPUBLIC	6	4	3
<b>ALL AFRICA</b>	<b>50</b>	<b>26</b>	<b>26</b>
<b>ALL COUNTRIES</b>	<b>4139</b>	<b>2047</b>	<b>2217</b>

#### Veneer (tonnes)

CONGO REPUBLIC	663	325	478
GABON	206	67	301
<b>ALL COUNTRIES</b>	<b>167546</b>	<b>90467</b>	<b>56393</b>

## African indicative prices

	May	Jul	Sept
Exchange rates			
U\$/£	1.80	1.84	1.81
Euro/£	1.50	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	470	480	500
Sipo	520	550	550
Bibolo	380	380	380
N'Gollon	565	580	580
Iroko	650	660	680

#### Cote d'Ivoire

Euro/m3; FOB Abidjan

Grade: FAS, air dried

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

Iroko	650	660	680
Mahogany	550	550	550
Framire	370	370	370
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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ply, has encouraged sawmills to maintain forward prices at the higher level. Demand has also been boosted as buyers have substituted sapele in place of other African species in short supply, including iroko and niangon. Chinese buyers have also shown greater interest in sapele sawn lumber, although they have been resistant to the current higher prices. In the UK, there are reports of fierce competition for sapele orders amongst importers which is undermining prices for existing landed stock.

□ **Sipo/utile:** sawn lumber demand remains restricted to a small niche market. Few buyers are willing to pay the premium for the better quality offered over sapele sawn lumber. Prices are holding steady.

□ **Framire/idigbo:** framire may still be obtained from Ivory Coast, but volumes are well down on previous years. Availability of 63mm+ stock is in particularly short supply. Demand in the UK is steady. Prices are holding firm at relatively high levels.

□ **Wawa/ayous:** supplies are generally reported to be restricted, with regular reports of delayed contracts. Prices are firm. Assessing real price levels is difficult because numerous contracts agreed at lower prices several months ago have yet to be delivered. One UK agent notes he is offering wawa KD sawn lumber forward at around £240/m3 delivered to the UK yard. However,

UK buyers looking for immediate delivery have paid as much as £280/m3 delivered from existing landed stock on the continent. There are now reports that the Ghanaian authorities are seeking to push prices for wawa sawn lumber up to higher levels. However it's uncertain how prices for wawa sawn lumber can rise before buyers will start shifting to alternative materials. South African demand for wawa sawn lumber is very good.

□ **Khaya:** US buyers are continuing to pay good prices for Ghanaian khaya sawn lumber and importing the vast majority of the volume that comes available.

□ **Afzelia/doussie:** supply is now very limited and prices are firm.

## Congo (Kinshasa)

### Gearing up continues

Despite recent political problems, European operators in the country report that progress is being made to gradually gear up levels of production based on sustainable forest management plans. While export levels are still restricted they are becoming more consistent. Transport infrastructure to Matadi is improving and ships are now calling regularly at the port. However, there are reports that the government is planning to impose a 10% Congo river freight surcharge which will impact on costs of export from Matadi. The overland route from the north of the country to Douala is currently in very poor condition due to the rains, and this situation is unlikely to improve significantly until the New Year.

## Cameroon

### Global Witness brew up a storm

Global Witness, which has been commissioned by the Cameroon government and international donor organisations to act as an independent observer of forestry operations, published a report on their website in July designed to identify cases of illegal logging in the country. The report consists of an analysis of data produced by the Forestry Information Database (SIGIF) in Cameroon, comparing the volume and the numbers of trees authorized to be harvested by the Ministry of the Environment and of Forests (MINEF) with the declared volumes logged by the companies. Using this data, Global Witness allege that a wide range of named companies are continuing to break the Cameroon forestry laws. In total, Global Witness suggest that of around 250,000 m3 declared as logged by 42 named companies, 73,000 m3 was not authorized by MINEF. Global Witness publication of the report has

brewed up a storm in Cameroon. Global Witness claim they published the report with the approval MINEF. However, a press release from the Inter-African Forest Industry Association counter-claims that Global Witness manipulated the figures and quotes the MINEF minister as disowning the report.

In another report, the MINEF Minister is quoted as suggesting that recent efforts to combat illegal logging and tighten controls on concessions has ensured a continuous increase in government tax receipts from forest operations, which have been at around CFA 144.5 billion per year since 2002. He suggested that companies winning contracts to exploit the forest are now "80% in conformance with the law".

## Liberia

### UN review of sanctions

The final report of a UN Expert Panel convened to review the sanctions against Liberia, including the ban on the timber trade, is scheduled to be completed by early December 2004 in time for discussion by the UN Security Council at the end of that month. The 5-member Expert Panel is currently undertaking an extensive tour of Liberia assessing progress by the Liberian government is meeting the conditions imposed for removal of the sanctions.

## Ivory Coast

### Still unstable

Local press reports suggest that two years after the outbreak of civil war, Ivory Coast remains partitioned and unstable. The guns have fallen silent, but none of the underlying causes of the conflict have been resolved. Diplomats and political analysts worry that the prospects for holding free and fair presidential elections in October 2005 are increasingly uncertain. Deadline after deadline for implementing political reforms agreed under the terms of a January 2003 peace accord has been missed, pushing the West African country from one crisis to another. There has been no relapse into full-scale fighting, but ethnic killings have continued in government-held areas of western Cote d'Ivoire and rival factions of the rebel movement have periodically clashed with each other in the north. As one sign of the continuing instability, the World Bank suspended aid to Cote d'Ivoire in May following an accumulation of debt arrears and frozen the disbursement of US\$331 million.

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# Africa

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But Ivory Coast is not another Liberia. Unlike the neighbouring country, which was totally destroyed by 14 years of civil war, the economic infrastructure in Ivory Coast remains intact. Abidjan, a city of modern skyscrapers and urban freeways, has been untouched by the fighting. The country's tarred roads are still in good condition, the electricity supply and telephone systems still work throughout the country.

The timber industry, much of which was formerly owned by European companies, is now largely in the hands of Lebanese operators.

## South Africa

### Soaring demand

Local press reports indicate that timber for commercial, industrial and household use has come under growing pressure from soaring demand - to the extent that domestic log supplies may have to be substituted for imports. South African sawmills process about 5.3-million cubic metres a year, but domestic plantations grow only 3.8-million cubic metres of saw logs a year. Meanwhile domestic demand is booming, boosted particularly by strong construction activity. As a result the export of sawn timber and saw logs is expected to decline drastically and might even stop. Supplemental log supplies will most likely be derived from softwood and eucalypt plantations in southern Brazil and Chile. The strengthening rand has also boosted prospects for imports.

In 2003, South Africa imported sawn timber valued at US\$75 million. Malaysia has become the largest external supplier of sawn lumber to South Africa, accounting for 32% of the total import value in 2003. Much of this volume comprises red meranti for joinery applications, but Malaysian balau decking is also now popular.

Other major suppliers of sawn timber in 2003 were USA (16% of imports), Zimbabwe (14%), and Brazil (5%). Imports from the US comprise mainly hardwoods for high class furniture and joinery. Imports from Zimbabwe comprise mainly pine. Imports from Brazil include softwoods and a range of tropical hardwoods, notably virola, andiroba, cedar, ipe and garapa.

The largest supplier of African tropical sawn lumber to South Africa is Ghana, accounting for 3% of total sawn lumber imports in 2003. Much of this was wawa. Okoume sawn lumber is also becoming popular in South Africa, with much of the volume derived from Malaysian-owned mills in Cameroon.

# North America

## US domestic demand Investment drives economy

According to the US Department of Housing and Urban Development, housing construction grew by over 15% in the second quarter of 2004 and continues to show few signs of slowing in the near future. Total production of housing has once again reached levels which have not been experienced for 20 to 30 years. This, coupled with reports of a property boom in the major cities, such as New York, is a clear indication that Americans prefer to invest at home at a time when overseas travel is less conducive. The US economy is showing real signs of recovery, after some years of doom and gloom.

One important tempering factor for all US businesses, however, is the projected 15% increase in health insurance, which is due to come into effect this year. How the economy will be affected by this is uncertain at this early stage, but some negative effects on smaller businesses are expected, including in the hardwood industry.

## Strength in all end-user sectors keeping prices firm

In terms of hardwoods, demand from within the US is very strong, driven by the burgeoning housing sector as well as the remodelling and renovation sectors. The position of a seller's market reported in the June issue of *hardwoodmarkets.com* still holds true and producers and exporters are struggling to meet demand, rather than look for sales.

In general terms in the US domestic market, supply and demand are in good balance, with shortages in only a few species, such as soft maple, hard maple and possibly ash. Strength in the flooring market is serving to keep all lower grade oak - red and white -, both kiln dried and green, at firm prices. Furthermore, this trend is showing no indication is slowing. At the same time, strength in the kitchen cabinet industry is keeping the middle grades moving, and strength in the distribution business is keeping the upper grades in tight supply.

## US growth pushes up hardwood imports

The booming housing and remodelling markets, coupled with firm prices and tight supplies in some US species has also led to a significant increase in imports of hardwoods in the US. Total sawn hardwood imports reached a volume of 915,000 m<sup>3</sup> in the first six months of this, as compared to 765,000

m<sup>3</sup> over the same period last year. In particular, imports of tropical sawn hardwood from Malaysia and some Latin American countries have increased, while imports of sawn hardwood from Canada have also increased to supplement US demand for temperate species.

## Supply problems still an issue, especially in the northern US

Limited supply of logs is still an issue and thick stock red and white oak sawn lumber continue to be the most elusive. The grade of logs required to cut thick oak is coming under enormous pressure from the export market and the best logs continue to be exported, rather than processed into lumber at home.

Although rains from the remnants of hurricane Frances soaked the Appalachians, upper Ohio Valley and Northeast - spawning tornado activity in much of the same areas - contacts say any temporary disruption in production resulting from this tropical depression will have no meaningful impact on sawn lumber availability. In fact, some buyers are altering their position on purchasing green lumber from expanding to maintaining inventory. Greater sawmill production and faster drying times this

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### US sawn lumber indicative prices

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

	May	Jul	Sept
\$/£	1.80	1.84	1.81
\$/Euro	1.20	1.22	1.23
<b>Red oak</b>			
1"	1975	1975	1975
1.25"	2175	2175	2175
1.5"	2325	2325	2325
2"	2700	2700	2700
<b>White oak</b>			
1"	1725	1725	1725
1.25"	1900	1900	1900
1.5"	2350	2350	2350
2"	2900	2900	2900
<b>Ash</b>			
1"	1350	1350	1350
2"	1700	1780	1780
<b>Tulipwood</b>			
1"	950	950	950
1.25"	975	975	975
1.5"	1075	1075	1075
2"	1125	1125	1125
<b>Cherry</b>			
1"	3550	3550	3550
1.25"	3700	3700	3700
1.5"	3875	3875	3875
2"	4100	4100	4100
<b>Hard Maple</b>			
1"	2350	2350	2450
1.25"	2550	2550	2650
1.5"	2725	2725	2825
2"	2900	2900	3000

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summer have also bolstered supplies of selective kiln dried items. In the northern region, however, supply remains a critical factor, as many mills continue to describe their log decks as anemic. In fact, while log inventories and sawmill production in the Southern and Appalachian territories are described as much improved, many contacts in the Northern US and Canada say wet weather and mild temperatures have wreaked havoc on logging, preventing any significant build up in inventory or production.

## Species notes

□ **Alder:** until May, exports of alder had been slow, as compared to last year, with log supply problems hampering production in the Pacific Northwest. However, in May, exports increased by a substantial 57%, more than making up for the earlier shortfall.

□ **Ash:** sources continue to report solid interest in this species from buyers in both domestic and export markets and renewed interest from UK buyers. Comparatively lower pricing has a strong appeal for those targeting ash as a substitute for oaks. Other uses are designed to take advantage of the visual and mechanical properties of ash in appearance applications. In both circumstances, colour and texture are important characteristics buyers take into consideration. Prices observed for green stocks are holding steady in recently reported activity, whereas kiln dried ash prices continue to move forward for selective items.

□ **Basswood:** demand for basswood remains in line with production in the US and in export markets, demand remains steady but slow. However, some competition for the species has been brought to the US by imported species and the longer-term outcome of this is not yet known.

□ **Cherry:** market information for this species is unchanged from what has been reported in past weeks. Cherry continues to draw positive results from domestic consumers in finished-goods, and is a particularly popular species used in furniture, cabinets and flooring. Not coincidentally, most of the energy in demand stems from these traditional Common markets and is mostly confined to established buyer/seller arrangements, concentrated heavily in the Penn-York and surrounding locations. In export, shipments of cherry were up by 10% during the first five months of 2004, with the great-

## US exports

### Strong demand

Overall, exports of US hardwoods have been very strong so far this year and in May, the total volume of US sawn hardwood exported exceeded 300,000 m<sup>3</sup>, which is a 33% increase on the same month last year. Of that total, 87,000 m<sup>3</sup>, or 29% was shipped to China and this figure was more than double the volume sent to China in 2002. The same story cannot be told for US hardwood veneer. Nonetheless, exports in May this year (the latest month for which figures are available), reached a value of \$43 million, a 15% increase on the same month last year.

Despite the enormous quantity of US sawn

est increase in the month of May. At the same time, the value of cherry exported during the period has increased by around 18%, giving some indication of firming export prices.

□ **Hard maple:** reports show no changes in market conditions for this species. Hard maple is still a leading show wood used in US consumer wood products, and is experiencing strong demand from virtually all market sectors. While buyer interest has remained at a high level, logging, sawmill production and green lumber purchases have been limited this summer as a means to control stain. Reportedly, supplies have diminished as a result, contributing to firm to upward pricing for both green and kiln dried stocks. Global demand for hard maple has been relatively good so far this year and European demand, although not strong, has been steady.

□ **Soft maple:** export demand for soft maple continues to rise slowly but surely, as it is increasingly being specified as a substitute for other species, notably in the Chinese and Italian furniture industries. Likewise, in the US itself, soft maple is in demand as a hard maple and cherry substitute, where rising prices have become prohibitive. Overall prices for kiln-dried soft maple remain steady as production, supply and demand are well balanced.

□ **Red oak:** overall demand for red oak in export markets continues to be slow, with the exception of some interest in China. In the US market and on the supply side, it has not always been easy to meet demand this year, but this has been somewhat eased by optimum air drying conditions over the summer period.

□ **White oak:** global exports of white oak increased by 10% in the first five months of this year, as compared to 2003, with May

hardwood shipped to China earlier this year, some US suppliers are murmuring that business in that direction is not as good as it could be. However, exports to Thailand, the Philippines and other Southeast Asian countries is holding firm.

### European buyers work hard to maintain stocks

The summer period is always a relatively quiet time for business activity in the European market. However, some hardwood buyers have probably been busier than expected this year as a climate of restricted availability and rising prices has prevailed from most hardwood supply regions. This

□ 11

showing the greatest activity. Furthermore, up until the month of May, exports of white oak to the European Union had actually slowed compared to 2003. This situation has been reversed, as European trade activity has picked up and white oak supplies have become comparatively less restricted. White oak exports to the EU reached a volume of 129,000 m<sup>3</sup> in January to May this year, an increase of over 8% on the same period in 2003.

□ **Tulipwood/yellow poplar:** reports continue to describe a mixed business climate for tulipwood. Slower activity into Europe and China has caused some exporters to gain inventory this summer. By and large, the declines in orders and shipments were expected, and by no means are unprecedented; Europe traditionally takes time off over the summer, whereas China's close ties to the US furniture industry make business susceptible to seasonal trends in retail furniture sales. Regarding exports to China, some contacts say activity would have slowed if that same business was still based in the US. As far as inventory gains are concerned, some exporters say they are now better positioned to service international customers once business regains full momentum.

□ **Walnut:** according to reports, domestic and international markets continue to show interest in this species, and overall demand is keeping close pace with developing production. Prices are holding in a firm to upward mode in response. January to May 2004 exports of walnut reached a volume of 41,500 m<sup>3</sup>, which is a 28% increase on the same period last year. Almost one third of all walnut sawn lumber exported in the first five months of this year was destined for China.

# North America

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is certainly the case for American hardwoods, where buyers are finding it harder to replace kiln dried stock at short notice, an approach many had begun to take for granted. The supply situation is unlikely to improve much in the short term. Add to this improving domestic demand in the USA and an overall strong export demand, led by Asia, then it appears the pattern maybe set for the rest of the year.

## Demand for oak exceeds supply

European demand for white oak is exceeding supply in middle and upper grades across all thicknesses. Demand in Germany seems to be reviving, while in the Netherlands it remains stable and in Belgium it continues to be slow. However, demand from Scandinavia is taking up the slack and Spain is also returning to activity and seems to be at least as buoyant as last year. The difficulty will be to procure, cut and ship enough white oak to meet demand with the existing customer base. However, to expand that base at this point would be nigh on impossible for most exporters. Reports suggest that this is the case with many US suppliers, which is helping to keep supply in check, and demand for white oak unsatisfied.

The question that has to be asked of European buyers, is whether limited supply of US hardwoods will drive them back to European hardwoods, at a time when exchange rates have moved back in favour of US hardwood exports. It may well force some to reconsider, especially for species like oak, which is widely available in Europe. However, oak is not the only species in fashion and for others such as walnut, maple and cherry, where equivalent European species are more limited, it is likely that North American supplies will remain crucial to meet market demand. There are also the issues of grades and specifications. At the top end of production, some European producers can offer large specifications and very high quality grades, but supplies can sometimes be limited. Furthermore, reports suggest that increasing numbers of northern European buyers are turning away from American oak because of over-drying. Humid northern European markets are better suited to a slightly higher moisture content and, in the UK in particular, many buyers have turned to Europe for their supplies of 2½" and 3" oak. The most likely reality is, however, that temperate hardwoods are increasingly fashionable and US oak will continue to be exported to Europe in order to supplement European supplies.

# Europe

## France

### Hardwood sector slows

The French hardwood lumber business was reasonably buoyant during the first half of the year. However trade activity slowed significantly during the summer months.

The domestic market is now sluggish, reflecting continuing economic uncertainty. Manufacturers that built up reasonable stocks earlier in the year have now reigned in purchasing activity. The French furniture sector has remained slow throughout the year.

Export activity has also been sluggish. The market for beech sawn lumber has been particularly depressed. Demand for oak sawn lumber has been more active, both in France and in export markets.

Mills have responded to sluggish market condition by reducing production. According to the Centre d'Etudes de L'Economie du Bois, the big cutback in production of beech sawn lumber allowed some moderate recovery in beech sawn lumber prices during the early summer months after a long period of decline. However beech prices remain at historically very low levels. Prices for French square edged oak also showed some improvement in the early summer months, while prices for boules have tended to weaken.

The first hardwood log auction sales of the new season were due to commence in September.

## Germany

### Efforts to diversify markets

As in France, German hardwood sawmills experienced a significant decrease in demand during the summer months and reduced production accordingly. Demand for beech sawn lumber has remained very subdued. Many mills have now switched to production of oak for which market demand has been more stable.

The German domestic market for hardwood lumber is a little better than last year, but remains subdued overall, an indication of continuing economic uncertainty.

According to VDM, the German furniture industry association, the industry recorded a moderate 1.5% improvement in the value of sales during the first half of 2004. Despite the increase in sales, their figures show a continuing decline in the number of furniture industry companies (down 8% during the first 6 months of 2003) and employees. Efforts to diversify German hardwood products and markets have continued, for exam-

ple through increased marketing in Eastern Europe, the United States, the United Kingdom and Asia. German producers are having some success in developing new markets for sawn oak in the European flooring sector, and have been taking market share from American hardwoods in some niche markets.

## Poland

### Oak log supplies remain tight

Polish sawmills continue to report shortages in supplies of oak logs. Oak log prices have risen by around 20% this year. As a result Polish mills are importing growing volumes of oak sawlogs, notably from German. But Polish oak sawn lumber production has continued to decline.

Supply of beech sawlogs is more in line with restricted demand, but there have been minor price increases this year. Overall European demand for beech sawn lumber has remained very sluggish, but Polish mills have performed better than most due to the strength of the euro against the zloty.

## Romania

### Oak log supplies remain tight

Beech and oak log supplies are fairly well balanced with demand. Log yards are reasonably well furnished with logs and most mills have extended order books.

As elsewhere, demand for oak is significantly better than demand for beech. This has led to a partial switch in production away from beech towards oak.

Nevertheless, demand for Romanian kiln dried oak lumber continues to exceed supply. In part this is due to restricted kiln drying capacity in the region combined with the lengthy drying schedules required for oak. Domestic and regional demand for oak from the furniture sector has also been good. Demand for Romanian sawn beech is restricted in Central Europe but better in Scandinavia, particularly for flooring and furniture.

Overall export demand for Romanian hardwood lumber is tending to decline in Western Europe, and increase in the domestic market and other Eastern European countries. This reflects the continuing shift in furniture, joinery and flooring manufacturing capacity to Eastern Europe.

There is also a general shift away from trade in rough sawn timber in favour of dimension products.

## **African log supplies still confined**

Availability of logs of some African hardwood species including iroko and ayous is very confined. In addition to weather conditions, this is due to tighter controls on harvesting and export, and political problems in some supply countries. However supplies of logs of the entandrophragma species – sapele and sipo – that dominate commercial production in the Congo basin, have remained more stable in recent months. Tight supply is matched by restricted demand for African tropical logs in Europe. Chinese buyers have been deterred by high prices and continuing strength of the euro against the dollar. **Page 7**

## **Disappointing European market for African sawn lumber**

European trading activity in African sawn lumber was relatively slow during the summer period due to the vacation and heavy rain in major supply regions. Very mixed reports of the European market emerged during September. Overall the signs are that while there has been a seasonal increase in demand, the level of forward orders has been disappointing for the time of year. There is still a great deal of uncertainty surrounding future economic conditions. But while the overall level of European orders is down, severe supply shortages have meant that good prices are being paid for certain species. Chinese buyers have been taking more interest in African sawn lumber during 2004, although so far prices have prevented a significant increase in trade. **Pages 7/8**

## **Malaysians hold firm on price**

Supplies of most species of Malaysian sawn lumber remain tight and FOB prices remain firm. Recent efforts by some European importers to negotiate for lower FOB prices in the face of sluggish demand have fallen on deaf ears in Malaysia. Log availability to the mills remains restricted, particularly as there continues to be strong demand for logs from the Asian plywood sector and in China. The monsoon period is imminent in the major Malaysian supply regions, so pressure on supply is unlikely to ease significantly

over coming months. Shortages are particularly acute for merbau, nemesu and keruing. **Page 3**

## **US domestic market still bouyant**

Total production of housing has once again reached levels which have not been experienced for 20 to 30 years and continues to show few signs of slowing. Hardwood demand from within the US is very strong. The position of a seller's market reported in the June issue of *hardwoodmarkets.com* still holds true and producers are not having to look for sales. Overall supply and demand are reasonably balanced, with shortages in only a few species, such as soft maple, hard maple, and white oak. **Pages 9/10**

## **Supply shortages encourage overseas interest in US hardwood**

Despite the enormous quantity of US sawn hardwood shipped to China earlier this year, some US suppliers are now murmuring that business in that direction is not as good as it could be. However, exports to Thailand, the Philippines and other Southeast Asian countries is holding firm. The summer period is always a relatively quiet time for business activity in the European market. However, some hardwood buyers have probably been busier than expected this year as a climate of restricted availability and rising prices has prevailed from American supply regions. **Pages 10/11**

## **European oak still best performer**

Demand for European beech sawn lumber remains restricted. However efforts to reduce production seem now to have put a floor under prices. Demand for European sawn oak is better and many mills have switched to oak production. European sawn oak prices remain generally stable. Overall demand for European hardwood sawn lumber is tending to decline in Western Europe and rise in Eastern Europe in response to shifting manufacturing capacity. Poland continues to suffer from shortfalls in oak log supplies. **Page 11**

## **Malaysian trade analysis**

Malaysia is the world's largest exporter of

tropical hardwood products by a significant margin. This month we include an analysis of key trends in the Malaysian export trade over the last 5 years. Sawlog production has fallen from over 30 million m3 in 1997 to around 20 million m3 today. Log exports have fallen from 7 million m3 in 1999 to 5 million m3 last year. Sawn lumber exports have remained static at around 2.4 million m3 since 2001. Plywood exports have risen from 3.2 million m3 in 2000 to 3.8 million m3 last year. Exports of veneer have fallen by around 50% since 2000. **Pages 6/7**

## **Sarawak responds to NGO criticism**

The Sarawak state authorities have come under intense fire from NGOs for their failure to take adequate measures to stem the illegal wood trade with Indonesia. In a recent series of meetings with a European trade and media delegation, government and trade officials in Sarawak gave their side to the story. They outline the measures that they have taken and reveal their frustration at being used as a pawn in a dirty political war being waged in neighbouring Indonesia. **Page 5**

## **The essential need for national forest certification standards**

Recent events in Malaysia highlight the relative merits of FSC and the Malaysian Timber Certification Council (MTCC), a national forest certification scheme, as efficient mechanisms to promote sustainable forestry. While FSC allows certification against fast-track forestry standards developed by the certification bodies, schemes like MTCC have evolved standards through participatory national mechanisms.

**Editorial comment - Page 2**

**Details of MTCC scheme - Page 4**

## **Certification Pioneer**

Duncan Yeong, MD of Ivory Pearl SDN BHD in Malaysia, is a pioneer of FSC forest certification. However he now seems convinced that the development of national schemes like the Malaysian Timber Certification Council is the key to expansion of sustainable forestry in the tropics. **Pages 1/3**