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Exploiting China's potential

The American Hardwood Export Council's (AHEC) South East Asia Convention, held in Guangzhou in southern China during June, demonstrated that, in this region at least, there is tremendous potential to develop new markets for hardwood. Testimony to this market potential was the sheer size of the turn-out – over 700 delegates for the one day event, most of whom remained glued to their seats until late in the afternoon.

For many of the delegates – a significant number of whom were designers and architects – the main attraction was the morning session where the theme was “Using Hardwoods to Humanize Interior Space”. This theme was well covered by Carol Bentel, an American architect, and by Alphonse Mattia who teaches furniture design at Rhode Island School of Design. The chaos at the end of this session - as hundreds of delegates rushed to secure copies of AHEC's glossy information packs - was a vivid illustration of the sheer hunger in China for reliable information on hardwood properties and design trends.

Stats confirm potential

Statistics provided by market analysts during the afternoon session provided more scientific, if perhaps less colourful, confirmation that imported hardwoods are of growing importance to China's wood processing sector. John Wadsworth, a UK-based consultant, discussed the role that Asian destinations are now playing in US hardwood exports (box page 9). He noted that, if recent growth rates in sales to these countries were maintained, US hardwood lumber exports to China and South East Asia could rise from current levels of 407,000 m³ to over 1 million m³ in 5 years time. Chun Xiang Ran of the China Timber Import and Export Company (page 8) highlighted the

impact of recent government harvesting restrictions on China's domestic hardwood supplies, and described high rates of growth in China's furniture sector, an industry which now comprises 50 thousand manufacturing facilities and consumes 24 million m³ of timber every year.

Challenges remain

But delegates were not allowed to get carried away with all this talk of huge market potential. It became very clear during the panel discussion of market issues, which concluded the Convention, that there are many obstacles to overcome if the potential is to be converted into a real increase in trade.

Chun Xiang Ran, emphasised that China's accession to WTO, expected later this year, would be a double edged sword for U.S. exporters. It would, on the one hand, increase foreigners access to Chinese markets and boost China's furniture sector by reducing import duty on China's products in other parts of the world. But it would also greatly increase the intensity of competition for market share in China. This competition is already heating up as the global economy has cooled, encouraging producers around the world to turn to China as an outlet for excess production.

Delegates at the Convention also made clear that, in China, market access is still heavily dependent on price. This presents particular problems for U.S. exporters, whose products tend to be more expensive due to higher fixed costs and the strength of the dollar. U.S. exporters need to convince Chinese manufacturers that the quality advantages of U.S. hardwoods are worth paying for. Several delegates stressed that, at present most Chinese manufacturers have only

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Editorial

Keep smiling

Over recent months, the media seems to have been intent on undermining consumer confidence with its constant talk of imminent global recession. If the reporters have their way, this may yet become a self fulfilling prophecy. So as other journalists are intent on sowing discord, we feel it is our duty to spread a little happiness.

It is appropriate to turn first to the United States, since this is where much of the gloom originated. If you believe Alan Greenspan, whose record suggests he is more often right than wrong, then the U.S. economy may already have hit bottom. It is reasonable to expect that there will be return to growth in the U.S. during the second half of 2000, which would go a long way to boost flagging business confidence in other parts of the world.

Already, we believe there is evidence of greater stability in international hardwood markets. U.S. hardwood prices seem to have stabilised, as the U.S. industry has reacted quickly to reduce production. Prices for

most species of African logs and lumber have remained firm despite all the talk of weakening demand. Malaysian sawn lumber exporters are still having problems - but hopes are rising that demand will gradually pick up in the second half of the year. European hardwoods have suffered recently from over-stocking, but market interest in these species remains strong.

If that were not enough to keep you cheerful, then there is always China. Economic growth remains strong in China, which is already the largest export market for European hardwoods, and according to ITTO's 2000 Annual Review reported on pages 12 and 13, now by far the world's largest importer of tropical hardwood logs and lumber. And our lead article from the recent AHEC SE Asia Convention in Guangzhou shows the huge potential for American hardwoods in China.

So keep smiling and, more to the point, spending.

Rupert Oliver
Editor

Africa

African log markets Market finely balanced

West African log markets are characterised by relatively low supply, balanced by subdued demand. Rains throughout the major producing regions north of the equator will restrict supplies further over the coming weeks. However there are reports of excess stocks of logs in Gabon.

European demand began to slow during the second quarter of the year, and is now very quiet during the vacation season. Slow demand partly reflects uncertainty over future economic prospects. Demand in Germany has been undermined by continuing weakness in the construction sector. Although there are reports that underlying demand in Spain remains reasonably buoyant, there has been a slowdown in forward purchases of sapele as stocks have mounted. In Italy, demand for logs has been affected by a longer term trend towards imports of sawn lumber and semi-finished products. Some African producers have been concentrating more on markets in China and South East Asia.

Since the introduction of export restrictions in mid 1999, Cameroon's log exports now consist primarily of secondary species, most notably ayous for the Italian and Chinese markets. Export volumes of ayous and other

peeler species from Cameroon remained reasonably stable during the second quarter of 2001. Price levels have also been stable as harvesting controls in Cameroon have tightened and placed limits on availability. There is also growing domestic demand for secondary species in Cameroon, notably ayous, following increased investment in local peeling units and sawmills. Already there are signs of over-capacity in Cameroon, as many domestic mills are having difficulty securing adequate stocks of logs.

A significant proportion of logs of high value African redwood species of interest to the international market are now exported via Douala in the Cameroon from Congo (Brazzaville) and the Central African Republic (CAR).

An increasing volume from the southern parts of Congo (Brazzaville) is also being exported via that nation's port of Pointe Noire as the Brazzaville-Pointe Noire CFCCO railroad is being progressively rehabilitated. According to ATIBT, a small part of Congo (Brazzaville)'s forestry production along the Oubangui river is also transported by river to Kinshasa in the Democratic Republic of Congo and exported via Matadi.

Gabon continues to supply to the international market large volumes of logs of okoume and ozigo, and increasing

Africa

volumes of a range of other species, notably padouk, moabi, and iroko. However there are growing fears that, once again, SNBG, the state purchasing company, is in trouble. SNBG has decided to cut purchases of okoume and ozigo by 50%, from 120,000m³ per month to only 60,000m³ per month. There are reports that SNBG payments against bills of exchange have slipped to 90 days, that logging operations have been curtailed, and that SNBG has unsold stock of between 250,000 m³ and 300,000 m³ of good quality okoume logs. The problems arise from slowing demand in China due to various factors including the ready availability of cheap Indonesian logs, a slowdown in Chinese exports of manufactured products as the global economy has cooled, and the unwillingness of Chinese importers to buy on a falling market.

Over the last 18 months, Liberia has emerged as a major supplier of logs to the international market, notably of niangon to France and a wide range of species to China. This year

international pressure has been mounting on the government of Liberian President Charles Taylor in connection with its alleged diamonds-for-guns deals and other forms of support for Sierra Leone's Revolutionary United Front (RUF). Drawing on a United Nations report which suggested that Liberian logging companies may be implicated in arms trafficking, environmental groups (Greenpeace, Global Witness and Nepenthes) have been calling on European companies to cease trading in Liberian logs. At least one leading European timber trading company has announced that it would stop buying timber from Liberian companies until the situation has been normalised.

EUWID, the German trade journal, reports that two African species are selling well in log form at present. The first is anigre/longhi, a pale species that is birch-like in appearance which has a wide range of uses, notably in veneer form to provide surface finishes in the furniture sector. Logs of this species are being sold to Asian buyers, notably in China, both directly and also via European ports and intermediaries. The second species is ekki which has an expanding niche market in Europe for heavy duty structural applications. Demand remains good in the main market in the Netherlands, and is also expanding in the Germany for public sector construction projects. However EUWID notes that current good European demand for ekki may be seasonal as outdoor construction work has got underway in the summer months. In the UK, competitive pricing coupled with ekki's use in a number of high profile building projects, has allowed the species to make inroads into a market previously occupied by Guyanese greenheart.

hurry to offload stock and prices are generally firm. Many forward contracts are now being offered for November/December shipment at the earliest, which suggests that shippers' order books are reasonably full.

■ **Sapele:** market reports are mixed. Some commentators suggest that prices for sapele have come under pressure as European stocks have risen. However prices quoted to this journal for good quality sapele from the more reliable suppliers have remained firm, with exporters apparently in no hurry to generate sales during the current slow season. In the UK there is a feeling that underlying stocks are not particularly high and that there should be some return to the forward market in the autumn. Reports from Germany also suggest that market conditions are well balanced and prices stable. Availability from the Cameroon has been more restricted this year due to tightening logging controls. However more sapele sawn lumber is now being produced in CAR and Congo for export via Douala. This product is high quality and prices have been firm and stable.

■ **Iroko:** market conditions are little changed from last month. Forward buying in the major Irish market has yet to resume in earnest following the arrival of large stocks earlier in the year. This situation is unlikely to change for at least two months. Stocks are on offer from both Ghana and Ivory Coast, and there are some reports that prices have eased a little.

■ **Sipo/utile:** market conditions are unchanged. Availability is restricted and prices firm and stable.

■ **Wawa/ayous:** demand for wawa and ayous has eased a little during the summer vacation period, but prices remain reasonably stable.

■ **Ghana:** various new government measures have imposed extra costs on Ghanaian wood producers. New procedures have been introduced by the Forest Services Division and the Forest Products Inspection Division to control illegal felling. This, coupled with the recent increases in fuel, electricity and water rates by more than 6% has driven up domestic log prices. Discussions between government and industry over the implementation of additional export taxes have not yet been resolved, but it seems certain that a tax of at least 5% will be imposed on both kiln dried and air dried sawn lumber. Exports of veneers and plywood are likely to be subject to a 3% and 1% tax respectively. It seems inevitable that these measures, when combined with

African indicative prices			
	May	June	July
Exchange rates			
US\$/£	1.42	1.41	1.43
Fr.F/£	10.88	10.92	10.73
Logs			
Liberia			
US\$/m ³ , FOB Liberia			
Grade: B+ & better (good UK sawing quality)			
All diameters 60 cm+			
A. mahogany	200	190	190
Walnut	200	190	190
Iroko	280	270	270
Kusia (Opepe)	130	120	120
Sawn lumber			
Cameroon, CAR, Congo (Braz.)			
Fr. Francs/m ³ , FOB			
Grade and size: FAS, air dried, width 6"+, length 6'+			
Sapele	3400	3500	3500
Sipo	4400	4400	4400
Bibolo	2600	2600	2600
N'Gollon	3500	3500	3500
Afrosmosia	5600	5600	5600
Iroko	3600	3600	3550
Cote d'Ivoire			
Fr. Francs/m ³ ; FOB Abidjan			
Grade: FAS, air dried			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
Iroko	3450	3450	3400
Mahogany	2750	2750	2750
Framire	2150	2150	2150
Samba No.1 C&S	1540	1540	1540
Dimension stock			
Azobe	2600/ 3000	2600/ 3000	2600/ 3000
Dabema	1950/ 2550	1950/ 2550	1950/ 2550
Gabon			
Fr. Francs/m ³ , FOB			
Grade and size: FAS, width 6"+, length 6'+			
Okoume AD	2250	2250	2250
Okoume KD	2500	2500	2500

African sawn lumber Summer slowdown

Markets for African sawn lumber are characterised by relatively restricted supply. Production is currently constrained by the rains. Many mills also shut down at this time of year to undertake maintenance work. European demand for African sawn lumber has benefitted this year from the strength of the dollar against the euro (as most African hardwoods are invoiced in euro-linked currencies). However in the run-up to the summer vacations, European forward demand weakened in response to uncertainty over future economic prospects and rising stock levels. Although there are occasional reports of cheap offers for certain species, most African shippers seem in no

Continued page 4

Africa

Ghana - Cont. from page 3

reduced availability of logs and slowing overseas sales, will speed the closure of many Ghanaian mills.

Ghana's export figures this year highlight the continuing shift away from air dried

lumber to kiln dried lumber and other value added products. Between January and May this year, the volume of air-dried lumber exports was 9.2% down on the previous year, while kiln dried exports increased 2.2% to 61,000 m3. During the same period, exports

of plywood increased to 23,800 m3 up from last year's figure of 17,100 m3. Between January and May, Ghana's exports of furniture parts increased to 1,500 m3, up from 1,100 m3 in 2000.

Asia

SE Asian sawn lumber suffering from a hangover

European sales and prices for kiln dried sawn lumber of dark red meranti/seraya remain depressed. Northern European importers bought heavily in Malaysian sawn lumber last year, and have been feeling the effects of over-stocking ever since. After a very disappointing start to the year, during early March there were some hopes of a revival in demand for Malaysian sawn lumber. In the crucial Dutch market for meranti and merbau, there were even signs of a brief revival, as importers opened new contracts with Malaysian shippers. However, uncertainty over economic prospects, coupled with the persistent weakness of the euro against the dollar soon dampened the optimism. By the end of March, importers throughout Northern Europe had returned to their "wait and see" attitude. Business remained practically unchanged throughout the second quarter

of 2001, and is now not expected to improve until at least the end of August. At present forward orders are very restricted and offer prices remain very soft.

Underlying weak market conditions in Europe have been compounded by changes in buying habits. Manufacturers and importers have become even more conscious of the risks associated with the maintenance of high stocks and are tending to buy smaller volumes on a more regular basis. In a report about the Dutch market, the *ITTO Market News Service* describes how consolidation in the importing sector has served to intensify this trend. A series of mergers has resulted in fewer but bigger importers of Malaysian sawn lumber in the Netherlands. Joinery companies have also merged and, in some cases, are themselves importing directly. These groups often have one single purchasing unit that buys for the whole group and which provides a more efficient system of stock control. There has been a big reduction in the number of smaller independent companies that were previously importing and holding stock for joinery manufacturers. The overall impact has been to reduce the level of stockholding in the Netherlands.

lumber during the second half of the year are very uncertain. But it seems likely that, as long as prices for Malaysian sawn lumber remain reasonably stable – neither falling further, nor rising too fast - demand will gradually improve during the second half of the year. There are already reports that current low prices, and some expectation of rising demand after the summer vacation, has encouraged some European buyers to contract for new shipments in the autumn, although volumes are still limited.

■ **Keruing:** availability is good, while global demand remains weak. US demand has weakened this year as their economy has cooled. Demand in the UK is stable at low levels with buyers able to acquire the sizes they need. Reports from the Far East suggest that logs are readily available, that there is intense competition between suppliers to secure orders, and that prices remain weak.

■ **Ramin:** there are reports that companies certified by the Indonesian forest certification authority, LEI, or by the Forest Stewardship Council may be given exemption from the Indonesian ban on the harvest and export of ramin introduced in April this year. Meanwhile European orders for ramin strips have risen as importers have sought to obtain supplies in advance of the introduction of the CITES trade restrictions on 9 August.

■ **Teak:** Prices for Myanmar teak boards have edged up slightly. This reflects increases in log prices due partly to heavy rains during May and June which hampered log transportation from up-country to Yangon and led to tightening supplies. Myanmar mills are also pushing for higher prices in an effort to see some return in their investment in new equipment to comply with the Myanmar government's regulations, introduced in March requiring machining prior to export. Teak demand has continued reasonably firm in the Far East. European demand has slowed slightly during the summer vacations.

Asian Sawn Lumber Indicative Prices

	May	Jun	Jul
Exchange rates:			
M\$/£	5.40	5.34	5.43
U\$/£	1.42	1.41	1.43
M\$/US\$	3.80	3.80	3.80

Malaysia

All prices US\$/ton, C&F UK port

West Malaysian Dark Red Meranti

Grade: Select & better GMS; Kiln dried

Size: Width 6"+ avg 7"/8"; Length: 8'+ avg 12'/14'

1"	690	680	665
2"	700	690	680
2.5"	720	710	700
3"	740	730	720

Keruing

Grade: Standard & Better GMS

Size: Random or fixed 16'+

1"-3"	520	520	520
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Kapur

Grade: Standard & Better GMS

Size: Width 6"+, avg 7"-8"; Length 16'+

1"-3" plnd	535	535	535
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Myanmar Teak

US\$/50 cu ft, FOB Rangoon/Bangkok/Singapore

Grade: Air dried boards

Size: Width 6"+ avg 8", Length 6'+ avg 8'

1"	2750/ 3500	2750/ 3500	2850/ 3500
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Note private-sector prices for Myanmar teak boards vary considerably from one mill to the next. Prices from the cheapest private mills in Myanmar currently start at the lower end of the range. The most expensive mills, many based in Singapore and Bangkok, are selling boards from best quality teak logs at the top end of the range.

Partial switch to African

As Malaysian sawn lumber is invoiced in US dollars, it has suffered this year from the weakness of the euro. Even in the Netherlands, which generally favours production from the large Malaysian mills that can reliably cut to size and supply kilned lumber, there has been a partial shift to African lumber. Some Dutch importers have preferred to buy air dried sapele, competitively priced because it is invoiced in euros, for kilning in the Netherlands. Dutch importers have also experimented with Brazilian species like sucupira and angelim pedra as an alternative to merbau, although with less success due to technical difficulties during kilning.

Continuing uncertainty over the future of the dollar-euro rate has added an extra incentive for European importers to maintain lower stocks for the time being.

Being dependent on so many variables, market prospects for Malaysian sawn

SE Asian logs

Challenging market conditions

Weather conditions for logging in Sarawak have been good, but some shippers have reduced production in response to weak

demand, and gaps in stocks of certain species are emerging. FOB prices for most species remain weak. Log stocks in Sabah are also restricted due to continuing delays in the issue of logging licenses. This has resulted in supply shortages for many mills in Sabah, and there continue to be reports of closures. Logging operations in Indonesia have been proceeding well so that major plywood mills now have adequate stocks of logs.

Data from ITTO's Annual Review shows that China is now by far the world's largest importer of tropical logs. Indonesia is the largest supplier of tropical logs to China, followed by Malaysia and Gabon. Underlying demand for imported logs in China this year has been good, boosted by rising investment in China's wood processing sector, increased restrictions on domestic hardwood harvests, and solid economic growth. The Chinese authorities have revealed that China's log imports during the first quarter of this year reached 3.56 million m³, up 27% on the same period during 2000. Hardwood log imports reached 1.81 million, up 14% on the same period in 2000.

Despite these figures, it appears that selling logs into China is becoming more challenging. Chinese importers are now more demanding in terms of both quality and price. Furthermore Indonesian logs have been available at low prices this year due to poor regulatory control in Indonesia and the weakness of the rupiah. The new phytosanitary measures imposed on all logs imported into China from 1 July has heightened the uncertainty. But there is little doubt that China will be a major growth market for hardwood logs in the future.

Japan weakens

By contrast, the Japanese market for tropical logs continues to weaken. In late June, Japan's Southsea Lumber Conference made substantial downward revisions to their estimates of Japanese demand for Southsea and African logs during 2001. They suggested log demand from plywood manufacturers would reach 2.5 million m³ (down 15.8% from the earlier estimate made in December 2000), while log demand from Japanese sawmillers would total 239,000 m³ (down 20.3%). The downward revision reflects depressed demand for Japanese hardwood plywood due to depressed housing starts and rising levels of plywood imports from Indonesia and China. Overseas shippers of logs to Japan, who were previously pushing for higher prices in the face of restricted supplies, are now having to cut prices in an effort to boost sales.

Malaysian exports

A number of trends are revealed in the Malaysian hardwood export data for the year 2000:

■ Log exports from Malaysia fell last year due mainly to supply-side issues in Sabah. Sabah suffered a shortage of logs following government measures to reduce the annual allowable cut. Sabah also reduced log export quotas and implemented an outright ban on exports of selangan batu logs.

■ A recovery in overseas demand for tropical hardwood sawn lumber during 2000 is reflected in a 4.1% increase in exports. The figures were boosted by a recovery in demand from Thailand during 2000.

■ While sawn lumber exports from Sarawak

increased, they declined from Peninsular Malaysia and Sabah due to logging restrictions in these states and limited supplies.

■ Despite fiercely competitive conditions, Malaysia's exports of plywood remained steady last year. Markets were lost in the U.S. and U.K. due to intense price competition from Indonesian and Brazilian suppliers, and in China due to unfavourable duties and competition from domestic producers. However Malaysian producers took a larger slice of the Japanese market, and benefitted from a recovery in Korean demand.

■ Overall exports of Malaysian veneer were down during 2000. A rise in Korean demand failed to compensate for a fall in exports to China and the Philippines.

Volume of Malaysian Primary Wood Products Exports in 1999 and 2000

Source: Maskayu, 000s m³

	Penin- sular 1999	Sabah 1999	Sara- wak 1999	All Mal. 1999	Penin- sular 2000	Sabah 2000	Sara- wak 2000	All Mal. 2000	% chng. 99/00
Logs by destination									
Japan	0.0	212.3	2072.1	2284.4	0.0	129.8	2051.1	2180.9	-4.5
China	0.0	420.0	1288.1	1708.1	0.0	160.0	1244.4	1404.4	-17.8
Taiwan	0.0	57.7	861.7	919.4	0.0	8.5	890.9	899.5	-2.2
India	0.0	10.5	829.7	840.3	0.0	4.6	867.8	872.4	3.8
Hong Kong	0.0	na	430.0	430.0	0.0	na	533.8	533.8	24.1
South Korea	0.0	73.3	320.6	393.9	0.0	51.4	250.4	301.8	-23.4
Indonesia	0.0	253.1	0.0	253.1	0.0	323.9	0.0	323.9	28.0
Thailand	0.0	21.0	68.0	89.0	0.0	8.8	92.6	101.4	14.0
Others	0.0	10.7	69.4	80.1	0.0	11.0	174.7	185.7	131.8
Total	0.0	1058.6	5939.7	6998.4	0.0	698.0	6105.8	6803.8	-2.8
Sawn by destination									
Thailand	218.4	119.1	152.7	490.2	222.0	140.6	200.4	563.0	14.9
Netherlands	177.5	87.9	6.0	271.3	200.9	70.8	6.6	278.3	2.6
Philippines	3.6	82.7	183.1	269.4	0.5	65.4	208.2	274.0	1.7
Japan	46.6	177.4	35.7	259.7	46.6	184.4	37.0	267.9	3.1
Taiwan	6.4	44.0	161.4	211.8	8.2	43.0	177.5	228.6	7.9
Singapore	171.5	10.6	67.1	249.2	134.7	8.1	77.6	220.4	-11.6
China	14.1	43.5	82.3	139.8	19.7	21.0	94.5	135.2	-3.3
South Korea	8.8	71.1	63.7	143.6	7.7	60.2	61.8	129.7	-9.7
Yemen	26.2	5.7	0.0	31.9	21.9	6.3	85.8	113.9	257.1
Hong Kong	10.3	61.5	48.1	120.0	13.6	50.6	49.7	113.9	-5.1
U.A.E	56.4	0.0	20.8	77.2	53.1	0.0	29.2	82.3	6.6
Belgium	52.2	10.8	2.7	65.7	55.4	14.0	1.6	71.0	8.0
South Africa	11.1	39.1	15.4	65.6	10.0	46.5	11.6	68.1	3.8
UK	28.3	36.4	3.1	67.8	20.8	33.0	1.7	55.5	-18.0
Saudi Arabia	16.4	9.4	17.0	42.8	12.9	4.4	34.0	51.2	19.7
Germany	41.2	1.0	4.3	46.6	34.5	2.0	2.0	38.4	-17.5
France	7.0	18.0	6.4	31.5	6.5	25.2	6.6	38.4	22.0
Australia	13.7	12.0	4.2	29.9	15.2	12.8	5.1	33.1	10.8
Italy	24.4	0.4	4.1	29.0	22.3	0.2	3.5	26.0	-10.1
USA	7.7	2.5	7.0	17.2	6.5	7.2	8.4	22.0	28.1
Others	32.0	17.7	77.9	127.6	31.3	17.9	41.0	90.3	-29.2
Total	973.8	850.8	963.1	2787.7	944.2	813.5	1143.5	2901.2	4.1
Plywood by destination									
Japan	46.3	350.8	1150.1	1547.3	39.3	390.3	1233.4	1663.0	7.5
USA	4.4	122.6	318.3	445.3	4.3	125.1	205.5	335.0	-24.8
South Korea	na	95.2	71.0	166.2	na	128.0	128.9	257.0	54.7
Hong Kong	8.7	114.1	152.6	275.4	2.4	79.8	134.6	216.8	-21.3
China	8.1	71.8	109.5	189.4	2.7	25.0	125.7	153.4	-19.0
Singapore	95.6	23.8	51.7	171.1	86.7	16.9	49.7	153.3	-10.4
Taiwan	5.2	57.2	99.4	161.8	4.9	86.0	54.5	145.4	-10.1
UK	41.0	8.2	54.1	103.3	20.1	10.2	42.5	72.8	-29.6
Others	67.4	24.0	110.2	201.6	57.6	41.4	161.8	260.9	29.4
Total	276.8	867.8	2116.8	3261.4	218.1	902.7	2136.7	3257.5	-0.1
Veneer by destination									
China	na	237.9	204.4	442.3	na	191.3	210.8	402.2	-9.1
Philippines	na	22.1	137.8	159.9	na	14.5	108.0	122.6	-23.3
South Korea	na	11.5	60.9	72.4	na	28.8	88.8	117.6	62.3
Taiwan	0.7	76.2	69.9	146.8	0.6	64.9	50.3	115.8	-21.2
Hong Kong	na	15.4	28.5	43.9	na	12.2	59.5	71.7	63.4
Japan	0.2	32.8	39.8	72.8	0.2	19.3	42.5	62.0	-14.8
Others	9.5	5.2	4.7	19.4	3.3	4.6	2.5	10.4	-46.5
Total	10.4	401.1	546.1	957.5	4.0	335.7	562.4	902.1	-5.8

North America

U.S. Domestic Demand Cautious optimism

According to Alan Greenspan, "we are seeing signs that the bottom is beginning to restructure itself." Not a particularly clear statement, but perhaps the closest to optimism that the Chairman of the Federal Reserve is allowed. There were also signs that Greenspan was in a buoyant mood during his half yearly testimony to Congress on 18 July. According to *The Economist*, he suggested that the economic outlook is "clearly far better, given what has happened, than I would have forecast six, eight, nine months ago...we have come a long way through this adjustment process and we are still standing."

So while the U.S. second quarter GDP data released on 27 July was disappointing - the economy grew at an annualised rate of only 0.7% - there are reasons to believe that the economy will start to improve during the second half. A number of leading indicators suggest the economy may already have hit bottom. The Chicago Purchasing Managers index rose sharply in June to the highest since December, while surveys by the National Association of Purchasing Managers also rebounded in June. Manufacturers may be seeing light at the end of the tunnel. So too may be consumers; the University of Michigan's index of consumer sentiment edged higher in July for the third consecutive month. Consumers seem to be responding to the Fed's recent round of interest rate cuts. These is also the promise of more disposable income resulting from the Bush administration's tax cuts.

U.S. economy not in the clear

The US economy is not yet in the clear - unemployment continues to rise, and further falls in share values and corporate profits may undermine the fragile confidence of consumers - but there are reasons for hope. Meanwhile trading conditions in the North American hardwood sector remain challenging. Although many suppliers claim they can still shift stocks, considerable effort is required and competition is intense. Margins are being squeezed throughout the chain of distribution; maintaining cash flow is a constant problem, and considerable emphasis is now placed on inventory management. The market is particularly quiet at present due to manufacturers vacation schedules.

In the Appalachian region, consolidation and shut-downs in the furniture sector, resulting from domestic market weakness and intense competition from overseas

manufacturers, are taking a particularly heavy toll. There are concerns that this will lead to a long-term reduction in US domestic demand for hardwood lumber. Mills located in areas heavily dependent on the furniture sector are still having great difficulty shifting inventory, which has meant continuing pressure on prices. This pressure is focused heavily on certain species and grades including ash and tulipwood and the lower grades of cherry.

Market better balanced

Nevertheless there is cautious optimism amongst many producers in the United States that a better balance between supply and demand may already be emerging. Cut-backs in production have meant that kiln dried markets in the US are now reasonably stable, although in some areas supplies of green lumber are still well in excess of demand. Many mills are operating fewer hours or production shifts, and some have ceased operating completely. The US journal "Hardwood Review" predicts that lumber hardwood production in the US this year will drop 24% below 2000 levels, to 10.7 billion board feet, the lowest in the past 10 years. In many areas logging operations are being reduced in response to slow demand and weakening prices.

So if there is an increase in hardwood demand later in the year, there could a quick turnaround in market conditions and rising demand may be matched by low supply.

Export Markets Signs of price stability

Markets for American hardwoods in Europe, which have been subdued all year, have slowed further with the onset of the summer vacation period. A combination of economic uncertainty and the strong dollar rate has meant that, despite lean inventories, most importers are refraining from large contracts and continue to buy "little and often". Nevertheless, there are indications that production cuts have begun to bite, and that prices for kiln dried FAS lumber preferred in Europe are now more stable after weakening during the second quarter of the year.

Overall prospects for the European market during the rest of the year are mixed. Most analysts forecast steady, if unspectacular, economic growth of perhaps 1.9% throughout the euro-zone, and 2.2% in the UK. There is less optimism in the European furniture sector than there was earlier in the year, but flooring and joinery are still performing reasonably well.

Meanwhile, European hardwoods are being mentioned more often as a source of growing competition for American hardwoods in Europe. Availability of sawn lumber of oak, beech and other hardwoods from Eastern Europe are tending to increase. Quality is said to be improving, prices are competitive and exporters are now better able to supply in a wide range of sizes and components.

News from Germany "less bad"

As ever, market conditions for American hardwoods vary by country. The news from Germany has been less bad over recent weeks, although the outlook there remains pretty grim. Industrial output rose slightly in May after a major fall in April and retail sales, although weak, are falling at a slower rate. German importers are maintaining only low stocks of American hardwoods and few analysts expect a significant upturn in demand before the end of the year.

Market sentiment in France deteriorated in the second quarter as a number of furniture companies went out of business and importers began to reduce hardwood stock holdings.

American hardwood sales in Spain have been reasonable, although demand is down on last year. Over recent weeks, sales have slowed as importers have focused on reducing stock holdings which built up during the first half year. According to

US sawn lumber indicative prices

North Appalachian US\$ MBF* CIF- W. Europe			
Grade: 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	Jun	Jul
\$/£	1.42	1.41	1.43
\$/Euro	0.86	0.84	0.87
Red oak			
1"	1750	1750	1850
1.25"	1850	1850	1950
1.5"	1900	1900	2100
2"	2250	2250	2300
White oak			
1"	1550	1550	1500
1.25"	1650	1650	1600
1.5"	2200	2200	2150
2"	2650	2650	2600
Ash			
1"	1200	1200	1200
2"	1450	1450	1500
Tulipwood			
1"	950	950	950
1.25"	1000	1000	1000
1.5"	1100	1100	1100
2"	1125	1125	1125
Cherry			
1"	3600	3600	3800
1.25"	3700	3700	3900
1.5"	3800	3800	4000
2"	4000	4000	4300
Hard Maple			
1"	2400	2400	2350
1.25"	2550	2550	2525
1.5"	2750	2750	2725
2"	2800	2800	2800

North America

AHEC, Spanish importers have been increasing veneer purchases from Germany to avoid the 4% import tax on direct shipments from the USA.

The UK market has been reasonably stable, although importers are buying for immediate needs only.

Buying in Italy has been slow and importers' price expectations are comparatively low.

Amongst smaller markets, Ireland is still reasonably buoyant although down from the heights of last year. Demand for US hardwoods in Portugal has been undermined as that nation's furniture sector is struggling to compete with Eastern European suppliers. Demand for American hardwoods in Scandinavia is reasonably steady.

There is some optimism that European buyers, who have refrained from building stocks for some time, will begin to re-enter the market for American hardwoods in September. However, without a more significant shift in the euro-dollar exchange rate, the likelihood is that buying will remain cautious.

Mixed bag in the Far East

Market conditions for US hardwoods in the Far East have been mixed this year. Demand has been well down on last year in North East Asia (Japan, Korea and Taiwan), and in South East Asia (Thailand, Malaysia, Indonesia, Singapore, the Philippines). Market weakness in these countries reflects both domestic economic problems and a big shift in Asian manufacturing investment to the Chinese mainland. China is becoming increasingly dominant as regional supplier of wood products and components. This factor, coupled with continuing strong economic growth in China itself this year, has meant that American hardwood exports to China both directly and indirectly through Hong Kong have continued to expand. Another significant trend has been a shift towards Chinese imports of U.S. logs rather than lumber, reflecting the strength of the dollar – which makes processing in the U.S. relatively expensive – and the development of China's own domestic wood processing capacity.

In recent months, China's market for U.S. hardwoods has been a little slower as weakening furniture demand in the U.S. led to a build up in inventories of finished product. Buying in Japan remains depressed. There are reports of reasonable buying of US lumber in Thailand and Vietnam, but sales to Indonesia have been quiet due to the weakness of the rupiah and on-going domestic problems. Demand in Korea is also slow.

Species notes

■ **Ash:** Production has been reduced in response to poor demand. Prices for higher grades of sawn lumber quoted to European importers remain weak, but appear to have stabilised. In the major export markets there is good demand for higher grades of lumber in the UK and fair demand in Japan. Sales of lower grade ash to China and Thailand have slowed. American domestic markets remain weak.

■ **Hard maple:** domestic markets are still highly competitive, although there are signs that a better balance between excess supply and generally weak demand may now be emerging. In a buyers market, quality is at a premium. Producers with well established customer relationships and a reputation for good handling of hard maple during the high risk summer months have been able to shift stocks. Others are finding sales more difficult. On export markets, sales of lumber to northern European markets has slowed during the vacation period. However there are reports of continuing good demand for lumber in the UK, and there is continuing interest in export markets in strips, flooring blanks and dimension. Demand for sawn lumber in China and Mexico is fair.

■ **Soft maple:** domestic demand for developing green and kiln dried production is limited. Colour selected stock is faring better than unselected. Sales in two of the leading export markets, Korea and Mexico, have weakened. There are some reports of slightly better demand in Japan.

■ **Cherry:** domestic markets for lower grades of cherry have been severely affected by the slowdown in the US furniture sector, and by changing fashions away from cherry to paler woods. However production cut-backs have meant that there is now a much better balance between supply and demand in the market for higher grade cherry, both green and kiln dried. On export markets, Western European orders of higher grades have been relatively quiet due to uncertainty in the furniture sector and the strong dollar. But restricted supplies have meant that prices for high grade cherry quoted to European buyers rose significantly during the month.

■ **Red oak:** while domestic demand has been hit by the economic slowdown and weakness in the furniture sector, there are reports that American markets began to pick up at the end of July following the forth of July holiday break. Producers are expressing cautious optimism that the pace of orders

and shipments will pick up even more as domestic end-users and the European market complete scheduled vacations. Weak markets for other species have encouraged greater production of red oak, so the marketplace is likely to be highly competitive. However much of the production has focused on 4/4 size most widely accepted in the domestic market, rather than thicker sizes of interest to export markets. At present export demand is subdued. Demand in the Far East has been fair to slow. Some orders of high grades have been secured from western European buyers for shipment in September/October – although volumes are still unspectacular. There are some reports that, due to high inventories, Chinese markets for lower grades have slowed. There is steady demand for lower grades in Mexico.

■ **White oak:** market conditions for white oak remain challenging due to vacation schedules in export markets, the strength of the dollar, and weaker demand from domestic manufacturers. Some exporters are reported to have secured reasonable orders for higher grades from Europe for forward shipment at improved prices. However the overall level of demand and the average size of orders is down on previous years, and buyers are now more demanding over quality and date of shipment. Most mills have sought as far as possible to avoid output of white oak, but supply is still adequate for current levels of demand. In the Far East there are reports of an emerging market for lower grade white oak in Vietnam.

■ **Tulipwood:** markets are highly competitive and despite cutbacks in production are still affected by over-supply. To generate sales, and in an effort to stop prices falling even further, mills have been sorting more for size and colour. On export markets, price expectations for higher grades in Italy are so low that exporters have been doing less business there. Sales to China, Mexico and Korea have been slower, but there have been reports of some improved buying in Thailand. There have been reasonably steady shipments of lower grades to Mexico.

■ **Walnut:** now strongly favoured by manufacturers, domestic demand in the U.S. returned quickly to pre-vacation status after the 4 July. Much interest is focused on the higher grades. On export markets, walnut is still favoured in China, and there is fair demand from Japan, Italy, and UK.

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Convention - cont. from p.1

limited understanding of US hardwood grades and quality standards.

Chinese delegates were also quick to point out that, like other countries, China has evolved its own standards for wood use in various sectors. Market access in these sectors – flooring was particularly highlighted – will be heavily dependent on ability to supply to required dimension and specification. Successful exporters will need to acquire a detailed knowledge of their Chinese customers' requirements.

Red tape and red economics

It became clear during discussion that the Chinese Government is acting pro-actively to restrict the use of wood in the construction sector in an effort to reduce reliance on imported raw materials. This policy goes some way to explain why Chinese builders rely so heavily on concrete, brick and steel.

Despite Chinese government formal commitment to liberalising the hardwood trade, it was evident that many obstacles still remain. Wood distribution systems are still very underdeveloped, and participation by foreign corporations in this sector – although officially sanctioned – seems in practice to be extremely difficult due to the endless red tape. A delegate from the Taiwanese furniture sector, who like many others from Taiwan is seeking to transfer a large part of his production to mainland China, noted the “many hidden barriers” that will remain to overseas companies participation in the Chinese market even after WTO entry.

And in an economy for so long controlled by government, there is apparently still some failure to appreciate the operation of

the free market. This was implied by Chinese delegates complaints over stock devaluation as US prices have weakened over recent months, and the apparently naive suggestion by one leading Chinese industry representative that, under such conditions, “the seller should compensate the buyer.”

Despite these obstacles, there were indications at the Convention that market trends may now be favouring American hardwoods in China. One Chinese importer went so far as to suggest that American hardwood is already seen as “the first choice” by many Chinese manufacturers. There has been growing appreciation of US hardwood quality in China due partly, perhaps, to AHEC's own marketing efforts.

Resource issues favour U.S.

But there is also evidence that resource issues may be favouring U.S. hardwoods in China. It was clear from comments made by delegates at the Convention that forest certification has yet to emerge as a significant marketing issue in China. However there was no doubting the concern of Chinese importers about continuity of raw material supply. Delegates wanted to know whether they would be able to obtain, over the long-term, the same species, in the same grades, and at reasonably stable prices.

This concern may partly reflect supply and quality problems that many hardwood importers in China have experienced over the last few years. Chinese delegates referred to these problems specifically in relation to European beech and to hardwoods from Gabon, China's leading African supplying country.

On this issue, AHEC representatives were quick to exploit positive trends on the

supply side in the United States. Mike Snow, Executive Director of AHEC in Washington DC, said in response to questions on future availability that “*the US industry is confident of maintaining its hardwood export performance, which is based on a forest resource that has been sustained throughout the last century despite the enormous harvest for domestic consumption by a growing population. This is largely due to improved efficiency, a huge reduction in forest fire losses, and more advanced forest management programmes.*”

Recent data on US hardwood resources derived from the 2000 Renewable Resources Plan Act Assessment, made available at the Convention, seemed to support this analysis. The data shows that the inventory of hardwoods standing in US forests nearly doubled between 1953 and 1997 from 184 billion cubic feet to 352 billion cubic feet. In the long run, this fact alone should ensure a strong future for U.S. hardwoods in the Asian market.

Chinese market

Trends favour hardwoods

Chun Xiang Ran of the China Timber Import and Export Company set out to highlight the huge market growth potential for hardwoods in China. Part of this potential derives from recent changes in China's forest policy. In terms of area, China's forest resources are reasonably large covering around 160 million hectares, about 17% of land area. These resources are now expanding with the implementation of an ambitious plantation program. Forest area has increased from 134 million hectares in 1993. However, on a per capita basis, China's domestic forest resources are extremely restricted: at around 0.11 hectares, only one sixth of the world average. China's authorities are now severely restricting domestic harvests of natural forests. Since 1998, the government has banned harvesting of natural forest in the upper and middle reaches of the Yangtze and Yellow rivers, and implemented increasingly severe restrictions on harvests of Northeastern forests.

43 million m3 shortfall

Although China's forests continue to supply around 140 million m3 of timber each year, already the nation suffers an annual shortfall in commercial wood production of between 33 million to 43 million m3, a volume which has to come from imports. In future, China's developing plantations will offset this shortfall to some extent. However much

No shortage of ambition in China's furniture sector

On the second day of the Convention, delegates were invited to visit furniture manufacturing facilities in Guangzhou. One of these stood out from the rest - the Guang Dong Westband Group represented a new breed of modern and ambitious manufacturers in China. The company has invested heavily in German and Italian processing technology and proudly proclaims their adherence to ISO9001. The company currently sells primarily into the domestic market through a network of more than one hundred agents, but is now seeking to develop export markets. Westband's price claim was particularly striking - that they could supply Chinese

customers with equivalent quality to imported furniture “at one third the price”. As production is currently mainly for the domestic market, there is still a strong emphasis on darker tropical woods and fairly heavy designs, particularly in their “executive desk” lines. However cherry and walnut were also being used, and lighter coloured woods were being introduced into modern office and hotel furniture lines. A very wide variety of woods from all areas of the world were being used in upholstery grades. All production was in real wood mainly as thin veneer over a wood composite substrate – no photographic film substitutes were being used.

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of this production will be of fast-growing softwoods, suitable for conversion to pulp, paper and panel products, but unsuitable for higher value decorative use and for many furniture applications.

Big growth potential

Meanwhile continuing rapid economic growth should ensure growing demand for hardwoods. Some indication of the growth potential of China's market is reflected by the fact that China's per capita consumption of wood is currently only 0.22 m³, only one third the world average of 0.65 m³, and a small proportion of the developed world average of 1.16 m³. The Chinese authorities reckon that by the year 2010, total annual timber consumption in China could reach 240 million m³, comprising 64 million m³ for construction and decoration, 44 million m³ for furniture production, 91 million m³ for paper making, 25 million m³ for infrastructure, and 20.5 million m³ for other applications.

China now imports a significant volume of softwood from Russia, New Zealand, and North America. Russian softwood is expected to play an increasingly important role, particularly for construction and infrastructure projects. Tropical hardwood logs are imported mainly from South East Asia, notably Indonesia and Sarawak, the South Pacific, and Africa, while large quantities of beech logs have been imported from Western Europe.

Vigorous wood importing sector

A vigorous hardwood importing sector has developed in China as the nation's authorities have progressively liberated the economy and reduced controls on private enterprise. Altogether there are 1,115 organisations importing logs and 1,808 importing sawn lumber, including state and private enterprises, joint ventures, and manufacturers of plywood, furniture, flooring and other decorative products. Nearly half of these organisations are located in Guangdong and Shanghai, the rest in the South West and North East. There are almost none in the underdeveloped regions of China's interior.

China's furniture sector provides particularly good opportunities for overseas exporters. In 1999 total output was valued at 104 billion RMB yuan, while exports were valued at US\$2.74 billion. In 2000 these figures rose to 120 billion RMB yuan and US\$3.56 billion respectively. Just over half of China's furniture exports are destined for the United States. Chinese production of furniture is

Regional shift in Asian hardwood markets

John Wadsworth's presentation compared markets for US hardwoods in Asia with those in other parts of the world.

Together Asian markets now account for around 23% of US hardwood lumber export volume, down from 33% in 1987. However the market may be divided into two sub-regions where demand trends have followed different trajectories. North East Asia - Japan, South Korea and Taiwan - developed early as an important market for U.S. hardwoods, but has since declined as investment in manufacturing transferred to China and South East Asia. US hardwood exports to the latter region (comprising China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore and Thailand) have seen rapid growth since 1993.

Although a very high volume market, China offers relatively low unit values for U.S. hardwood lumber at around \$411/m³, only slightly higher than Mexico (\$370/m³) and considerably lower than most European countries (for example average value in the UK is \$755/m³). Unit values in other Asian

markets are diverse ranging from an average of \$603/m³ in Korea to \$403/m³ in Thailand.

In terms of hardwood species (see table), Asia follows closely the world pattern of imports for walnut, hickory, birch, cherry and beech. For white oak and hard maple, Asia is a proportionately less important

US Hardwood Lumber Exports by Region of the World, 000s m³

	1987	1993	2000
North East Asia	530	524	261
South East Asia	17	94	407
Western Europe	508	726	815
Canada	452	702	1026
C/S America	101	124	252
Others	44	76	137
World	1651	2247	2899

market. This is particularly true of white oak in China where it only accounts for 7.6% of US exports. For other maple (soft maple and Pacific Coast maple), tulipwood and ash, Asia is a proportionately more important market. Tulipwood accounts for 15% of Chinese imports from the USA.

The star performer in Asia from all US species is red alder which accounts for 17.5% of Asian imports compared with 7.4% globally. In China, alder accounts for 21.4% of US exports.

Wadsworth concluded that the importance of China and South East Asia to US hardwood exporters is likely to increase rapidly. But he added a word of caution; export demand in this region would suffer from a slowdown in the global economy. Wadsworth estimated that close to 70% of US lumber exports to the region are processed into wood products which are subsequently exported.

US Hardwood Lumber Exports by Species to the World and Asia Year 2000, 000s m³

	World		Asia	
	Vol.	%	Vol.	%
Red Oak	653	22.5	63	15.4
White Oak	577	19.9	55	13.5
Beech	14	0.5	3	0.6
Hard Maple	344	11.9	32	7.9
Other Maple	108	3.7	29	7.1
Red Alder	215	7.4	71	17.5
Cherry	178	6.2	26	6.3
Tulipwood	254	8.8	54	13.2
Birch	35	1.2	negl.	negl.
Ash	146	5.1	24	6.0
Hickory	18	0.6	3	0.7
Walnut	41	1.4	5	1.3
Others	314	10.6	42	10.4

expected to increase at an annual rate of 10% over the next 10 years.

Much Chinese furniture is manufactured of panel products with a thin veneer. The domestic furniture market has traditionally preferred darker shades, with heavy reliance on imported species such as meranti, sapele, mahogany, and cherry. Domestic oak and ash have also been used extensively for interior decoration and flooring. Now more modern furniture designs in lighter colours are being introduced for both the domestic and export markets. Domestic hardwoods are being supplemented by European beech and increasingly by American hardwoods such as red and white oak, maple, and tulipwood.

China's accession to the World Trade Organisation, widely anticipated later this year, should provide a further boost to China's demand for hardwoods, and create new opportunities for companies seeking to invest in China. Following admission to WTO, the Chinese authorities would undertake to abolish remaining administrative measures on the international wood trade, including import licenses and quotas. Existing controls that limit opportunities for foreign companies to become involved in the import, distribution and retailing of wood in China would be phased out. At the same time, China's wood products and furniture manufacturers would benefit from the relaxation of import controls in major overseas markets.

Europe

during 2000 – providing vivid confirmation of increased overseas competition for EU manufacturers, and of the rapid trend towards relocation of manufacturing to low cost locations. The value of EU imports of hardwood “profiles” (which includes mouldings, unassembled blocks, strips and friezes for parquet flooring, and all other wood tongued, grooved, rebated chamfered, V-jointed, beaded, or moulded along any of its sides) was up 115%, with particularly significant growth in imports from Indonesia and Poland. EU imports of wood doors were up 22%, with Indonesia – the largest overseas supplier – increasing sales by 22%. EU imports of wooden furniture were up 25% during 2000, with Indonesia and Poland again the major suppliers, and increasing sales by 24% and 29% respectively. China is increasingly the place to watch as an expanding source of finished wood products. By value EU imports of wood furniture and parquet panels from China increased by 62% and 110% respectively during 2000.

European Oak Log markets disrupted by storm-felled stock

On-going operations to recover storm-felled logs left on the forest floor after the December 1999 storms have meant that French sawmills and stave producers have built up high stocks of logs. Excess stocks of storm-felled oak logs also contributed to a reduction in production and demand for new season logs in Germany this year. A survey of German auction sales during the 2000/2001 season by the German trade journal EUWID, indicates that oak log supplies were down 37% compared to the previous year, while prices were down 3%.

As beech markets have weakened more mills have focused on production of oak sawn lumber this year, leading to relatively high stocks. Prices for lower and medium grades have been softening. However, producers have been reluctant to reduce prices for higher grades of oak sawn lumber due to the long term investment required to saw and dry oak - a process that takes at least a year - and continuing confidence that there will be an upturn in demand during the autumn. Demand for European oak sawn lumber continues to benefit from the strength of the dollar against the euro, which has encouraged some manufacturers to look for alternatives to American white oak. This factor has contributed to growing demand for Eastern European oak in EU markets.

EU importers continue to report problems in obtaining the reliability of service and average sizes typical of American suppliers. However, an increasing number are now monitoring developments in the Eastern European wood processing sector with a view to increasing purchases in the future.

Beech Logs

Storm-felled stocks linger on

Availability of new season beech logs has been very limited in France this year due to harvesting restrictions imposed by the French authorities. However French sawmills continue to carry excess stocks of storm-felled logs in irrigated yards. Plans to complete conversion of these stocks during the first half of the year have been frustrated by weak demand for lower grades of steamed beech sawn lumber.

In their survey of last year’s auction sales, EUWID report that sales of high quality new-season beech logs from German forests were equivalent to the previous year. However weak demand for beech on both domestic and export markets meant that average prices for these logs were down 9% compared to the previous year.

Europe’s veneer industry has announced cuts in production over the summer months, and this has led to a fall in demand for veneer quality logs, particularly of beech. Demand for European beech logs in China has been lower during 2001 than last year, and continued to weaken in June and July. Market uncertainty has increased with the introduction from 1 July of phyto-sanitary measures requiring all logs and sawn lumber carrying bark entering China to be furnished with a plant health certificate issued by the qualified pest control authority of the exporting nation. Exporters to China are now having to ensure that logs are either sprayed or gassed prior to shipment. This adds an extra cost at a time when Chinese importers price expectations have been falling and quality expectations rising. Production and prices of European beech logs during the next winter season will depend heavily on the demand situation in the Far East. Negotiations between exporters and Chinese buyers are currently ongoing. At present there are no firm price indications, although these are likely to be down on previous years. Chinese importers are now more interested in buying beech logs direct from forest owners, a trend which is raising concerns within the European wood processing industry.

European sawnwood indicative prices

	May	Jun	Jul
Exchange rates			
DM/£	3.24	3.26	3.20
DM/US\$	2.28	2.32	2.24
Euro/£	1.66	1.67	1.64
Euro/US\$	1.17	1.18	1.15
German beech			
Northern Germany, DM/m3, C&F, UK Port			
Grade: kiln dried, steamed and square edged.			
1"	1475	1475	1425
2"	1575	1575	1525
German oak			
Northern Germany, DM/m3, C&F, UK Port			
Grade: kiln dried, waney edged prime grade*.			
1"	1505	1505	1505
2"	1945	1945	1945
*waney edged prices provided as there is very little square edged available from Germany or France - French prices are similar to German prices			
Croatian oak			
Northern Italy, Euro/m3, C&F, UK Port			
Grade: kiln dried and square edged.			
1"	920	920	920
2"	1400	1400	1400

Beech Sawn Lumber

Soft prices for steamed beech

French and German sawmills continue to carry excess stocks of steamed beech produced from logs stored in irrigated yards and prices have been softening, particularly for lower and medium grades. However, due to limited availability of new season logs, prices for unsteamed beech have remained more stable and are now significantly higher than prices for steamed beech. Chinese interest in all forms of European beech sawn lumber is much reduced this year and remained weak during June and July. Prices offered by Chinese importers have been low and many European exporters are therefore looking for business elsewhere. This has increased competition for sales in Europe at a time when domestic markets have been weakening. Demand for sawn beech from European furniture and parquetry sector is down on last year. The German market is particularly weak due to continuing slow activity in the construction sector.

Underlying demand for European hardwoods in the important Spanish market has remained reasonably buoyant this year, boosted by the continuing high dollar/euro exchange rate which has made American hardwood prices less competitive. Spanish importers have been shifting purchases of European beech away from traditional suppliers in France and Germany, to Romania where availability of good quality air dried beech has been improving. The UK market for beech sawn lumber continues to benefit from competitive pricing and demand remains steady.

Special report - tropical hardwood trade

on the previous year, with strong growth in exports from both Peru (perhaps reflecting buoyant demand in the United States last year), and Brazil. The latter reflects good export demand for joinery grades in France, and strong demand for flooring species in several markets including the US and Spain. Overall tropical plywood production and exports was little changed last year. Exports from Indonesia were equivalent to the previous year, while Malaysian production and exports declined. With the Indonesian rupiah remaining extremely weak last year, Malaysian plywood producers were unable to compete on price in international markets. However supply problems in Indonesia allowed Brazilian tropical plywood producers to recapture some market share, with their exports increasing nearly 50% during 2000. Last year was characterised by a 21% increase in tropical veneer production by ITTO members, although a higher proportion was used domestically rather than exported. ITTO's members tropical veneer exports actually declined 6%. Much of the production increase and decline in exports is attributable to Malaysia which has been developing its own domestic furniture manufacturing sector.

ITTO Consumers

ITTO data on tropical timber imports to the principal consumer countries suggests that the shift away from tropical logs by European importers continued during 2000. European log importers have been most affected by restrictions on log exports from Africa. There seems to have been a particularly significant fall in Spanish tropical log imports.

In Asia, the shift in tropical log imports away from Japan to China continues. China is now by far the world's largest single importer of tropical logs, with imports rising 10.5% during 2000 to 5.3 million m3. Japan's tropical log imports during 2000, at 3.1 million m3, were a significant decrease on 1999 levels. While China's wood processing industries are expanding, Japan's are in recession and there is also a shift to softwood logs for plywood manufacture in Japan. Meanwhile some so-called "ITTO Producers" in Asia may be better classified as "ITTO Consumers", as they are becoming increasingly important buyers of tropical logs. Imports of tropical logs into India, Malaysia, Philippines, and Thailand rose significantly last year. In Africa, the Ivory Coast is also emerging as an importer of tropical logs. ITTO Consumer countries recorded reason-

able growth in tropical sawn lumber imports last year. Imports into Europe increased by 6.7%, a minor revival in fortunes after a long period of decline. There was particularly good demand for tropical sawn lumber in France, Spain and the UK. However the signs are this year that the rising trend into Europe will not be a sustained trend. In Asia, China consolidated its position as the world's largest of importer of tropical sawn lumber during 2000, although imports rose at a much slower rate than the previous year. Thailand's tropical sawn lumber imports, which were running at 2.1 million m3 in 1996 before its economy crashed during the Asian crises, appear to have recovered some of their previous strength, reaching 1.24 million m3 in 2000, a 19% increase on the previous year. The data suggests that tropical sawn lumber imports into the U.S. fell last year - apparently a statistical error given that U.S. Customs data reveals strong growth in U.S. tropical lumber imports.

ITTO consumer plywood imports were little changed during 2000 compared with the previous year. In Europe, the weakness of German imports, down 42% on the previous year, is striking. In Asia, the availability of cheap supplies from Indonesia contributed to an increase in tropical plywood penetration into the Japanese market during 2000. China's imports of tropical plywood remained subdued in 2000 after dropping dramatically between 1998 and 1999 following the government's decision to maintain plywood import tariffs at 15%, while reducing log import tariffs to 0%.

Statistical notes

In theory statistics in the ITTO Review are compiled from questionnaires issued to ITTO member governments. However, ITTO note that in practice many of these statistics contain "significant and obvious errors in one or more data categories." For example ITTO note that in 15 of the 26 responses from ITTO producers, production data was "missing on unusable". The ITTO secretariat therefore rely heavily on their own analysis of a range of secondary sources. They warn that "despite the best efforts of the Secretariat to ensure data consistency and accuracy it should be noted that considerable discrepancies exist between available data sources in many categories, for both producing and consuming countries" Nevertheless, the ITTO Review (available in full at www.ITTO.or.jp) provides a valuable overview of the tropical timber trade.

ITTO Members Tropical Hardwood Imports 000s M3

	1998	1999	2000	% Chng 99/00
Logs				
Belgium/Luxembourg	80	27	30	11.1
France	886	815	814	-0.1
Germany	165	148	130	-11.9
Greece	74	76	80	5.3
Italy	477	480	480	0.0
Netherlands	91	87	80	-7.8
Portugal	485	368	352	-4.4
Spain	265	456	300	-34.2
Other	70	66	55	-16.0
Europe	2593	2522	2321	-8.0
N. America	1	3	4	33.3
Hong Kong	220	208	208	0.0
Taiwan	924	796	796	0.0
China	2761	4796	5300	10.5
Japan	3427	3526	3146	-10.8
Republic of Korea	749	967	1000	3.4
Other	9	3	2	-28.3
Total ITTO Consumers	10684	12822	12777	-0.3
India	1328	1700	1900	11.8
Malaysia	423	677	700	3.4
Philippines	226	366	586	60.1
Thailand	255	386	461	19.4
Côte d'Ivoire	0	84	100	19.0
Other	25	31	51	62.9
Total ITTO producers	2257	3244	3798	17.1
Sawn lumber				
Belgium/Luxembourg	276	235	245	4.1
Denmark	38	41	45	9.8
France	247	245	269	9.8
Germany	166	160	160	-0.3
Greece	13	22	25	13.6
Ireland	88	73	79	9.0
Italy	470	419	400	-4.5
Netherlands	358	385	370	-3.9
Portugal	54	74	100	36.1
Spain	384	351	375	6.7
United Kingdom	198	210	300	42.9
Other	39	50	49	-1.0
Europe	2330	2265	2417	6.7
Canada	15	31	30	-3.2
U.S.A.	352	357	285	-20.2
N. America	367	388	315	-18.8
Hong Kong	101	282	282	0.0
Taiwan	393	452	452	0.0
Australia	91	98	90	-8.2
China	800	1465	1500	2.4
Japan	564	661	691	4.5
Republic of Korea	246	272	300	10.3
Other	14	14	9	-36.7
Total ITTO Consumers	4907	5896	6056	2.7
Thailand	845	1038	1239	19.4
Philippines	239	307	437	42.3
Malaysia	436	398	400	0.5
Brazil	239	144	174	20.7
Other	37	45	37	-18.2
Total ITTO Producers	1796	1932	2286	18.4
Plywood				
Belgium/Luxembourg	328	176	200	13.6
Denmark	51	54	56	3.7
France	110	128	130	1.6
Germany	205	328	190	-42.0
Ireland	30	33	35	6.1
Italy	166	107	100	-6.5
Netherlands	212	239	250	4.5
United Kingdom	537	569	600	5.4
Other	59	63	42	-33.2
Europe	1698	1697	1603	-5.5
Canada	84	75	80	6.7
U.S.A.	1559	1680	1700	1.2
N. America	1643	1755	1780	1.4
Taiwan	558	384	384	0.0
Australia	52	56	60	7.1
China	2084	953	900	-5.6
Japan	3583	4415	4553	3.1
Republic of Korea	456	710	750	5.6
Egypt	125	95	95	0.0
Other	46	29	29	0.0
Total ITTO Consumers	10245	10094	10154	0.6
Total ITTO Producers	80	112	99	-11.2
Veneer				
Belgium/Luxembourg	18	9	15	66.7
Denmark	20	6	30	400.0
France	26	26	30	17.3
Germany	79	54	54	0.0
Italy	90	58	60	3.4
Spain	37	33	35	5.4
United Kingdom	6	4	5	25.0
Other	29	20	20	-1.7
Europe	305	210	249	18.5
Canada	12	16	10	-35.8
U.S.A.	43	52	55	5.8
N. America	55	68	65	-3.8
Taiwan	139	150	150	0.0
China	397	508	400	-21.3
Japan	52	51	45	-11.8
Republic of Korea	59	55	180	227.3
Other	1	9	6	-32.9
Total ITTO Consumers	1008	1051	1095	4.2
Philippines	58	133	128	-4.0
Brazil	24	18	24	28.4
Other	32	107	38	-64.7
Total ITTO Producers	114	258	189	-26.9

South America

Brazil

Domestic problems

Brazilian shippers of tropical sawn lumber report steady export demand for most species. But interest rate rises and falling domestic demand are creating problems for the industry.

Mahogany production is underway during the dry season, but the trade has been plagued by bureaucratic problems. Although mahogany is being shipped out of Brazil, the major review of trade documentation which began several months ago following seizure of a large quantity of illegally felled logs, has led to significant delays. Export demand for mahogany remains strong, particularly in the U.S., and prices have firmed even further.

Brazil's domestic market has a crucial bearing on the health of the nation's tropical hardwood sector. Consumption of tropical timber in Brazil is the highest in the world. Sao Paulo alone consumes in the region of 5.5 million m3 per annum. Of timber extracted in the Amazon between 86% and 90% is

used domestically.

Demand in Brazil was firm during the first quarter of the year, but has now dipped as economic uncertainties have mounted at home and abroad. A combination of economic problems in neighbouring Argentina, Brazil's own electricity shortages, and political squabbling, have undermined investor and consumer confidence. Foreign direct investment has been sliding and the *real* has weakened despite interest-rate rises. Weakening demand for exports, particularly in the U.S. has undermined Brazilian manufacturing activity. Brazil's national debt is beginning to weigh heavy again, contributing to high levels of taxation and forcing the government to announce that it would trim 1 billion *reais* (\$405m) from public spending this year.

Prices for tropical hardwoods on Brazil's domestic market have weakened as demand has slowed and supplies increased during the current dry season.

In June, a Presidential Decree created two new National Forests in Amazonia: Arara-

Brazilian sawn lumber Indicative prices

	May	Jun	Jul
Exchange rates			
\$/£	1.42	1.41	1.43
US\$/m3 C&F UK Port			
Grade & size: FAS, width 6"+ avg 9-10", length 6'+ avg 10-11', air dried (AD) or kiln dried (KD)			
Mahogany (Swietenia)			
1"-2" AD	1450	1490	1520
2.5"-3" AD	1470	1510	1540
1"-2" KD	1520	1560	1620
2.5"-3" KD	1550	1590	1640
Virola			
1" KD No.1 C&B			
boards	380	380	380
strips	380	380	380
Cedro			
1"-1.5" KD	725	725	725
2" KD	750	750	750
2.5"-3" KD	775	775	775

Mirim National Forest in Para state and "Santa Rosa do Purus" National Forest in Acre state. There are now 51 National Forests in Brazil, with a total area of 15.5 million ha. National forests are managed by IBAMA on behalf of the public as permanent estates for the sustainable production of forest resources including timber.

Association Profile - STA - Malaysia

Members Approx 600

The Sarawak Timber Association (STA) represents about 600 companies in logging, forest plantation, timber trading and industry, which are extensively involved in hardwoods. The Association, based in Kuching in Sarawak in East Malaysia, exists to "promote, foster and enhance the relationship between members of the Association" and "to uphold their interests and well being". It also seeks to protect the timber trade in Sarawak and to "invest and/ or engage with the approval of the general

meeting in any business which may be beneficial to the Association.

Daily activities of the Secretariat include services to the members as well as dealing technical issues, such as research and training, monitoring world markets, coordinating trade delegations and organising seminars. The Association also takes a keen interest in environmental matters and represents members in meetings with government and other relevant authorities on matters concerning policies and procedures relating to forestry and the timber industry. The Board of STA is

governed by its elected chairman and Council members to, which the secretariat is responsible.

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Hardwood Events

Date	Event	Venue	Target audience	Contact
2001				
24-29 Sept	FIM	Valencia, Spain	Furniture industry	
4-5 Oct	ATIBT 50th Anniversary Forum	FAO Headquarters Rome	Tropical forestry, trade and industry	ATIBT, Paris, Tel: +33 143 42 42 00 Fax: +33 1 43 42 55 22, www.atibt.com
1-3 Oct	Tropical Forestry Research in the New Millennium	Kuala Lumpur, Malaysia	Tropical forestry	www.frim.gov.my
25-26 Oct	American Hardwood Export Council European Convention	Dublin	Timber trade	AHEC London, Tel (+44) 0207 626 4111 Fax, (+44) 0207626 4222
5-10 Nov	Batimat	Paris, France	International building industry	www.batimat.com
6-10 Nov	Maderalia	Valencia, Spain	Suppliers to the furniture industry	
20-24 Nov	The Fifth Plywood and Tropical Timber International Congress and Expo	Belem, Brazil	Timber and plywood trade	contact WR Sao Paulo email: wrsp@uol.com.br

African market finely balanced

Supplies of most African hardwoods are relatively restricted and demand has been subdued. Production is constrained by the rains and many mills have closed for maintenance work. Gabon, where there are reports of high stocks of okoume logs, is an exception. European forward demand has been quiet during the summer vacation period. Nevertheless, most African shippers seem in no hurry to offload stock and prices are generally firm. Many forward contracts are now being offered for November/December shipment at the earliest, which suggests that shippers' order books are reasonably full. **Pages 2 & 3**

Meranti's lasting depression

European sales and prices for kiln dried sawn lumber of dark red meranti/seraya remain depressed. Northern European importers bought heavily in Malaysian sawn lumber last year, and have been feeling the effects of over-stocking ever since. Market prospects during the second half of the year are uncertain. But it seems likely that, so long as prices for Malaysian sawn lumber remain reasonably stable – neither falling further, nor rising too fast – demand will gradually improve. There are already reports that low prices, and some expectation of rising demand after the summer vacation, has encouraged some European buyers to contract for new shipments in the autumn, although volumes are still limited. **Page 4**

Southsea log markets quiet

Weather conditions for logging in SE Asia have been good. However weak demand, particularly in Japan, has encouraged a reduction in logging in Sarawak. Log stocks in Sabah are also restricted due to continuing delays in the issue of logging licenses. This has resulted in supply shortages for many mills in Sabah, and there continue to be reports of closures. Logging operations in Indonesia have been proceeding well so that major plywood mills now have adequate stocks of logs. FOB prices for most Southsea log species remain weak. **Pages 4 & 5**

Rising optimism in the U.S.

The US economy is not yet in the clear, but continuing consumer confidence gives reason for hope. Trading conditions for American hardwoods are challenging, but there is cautious optimism that a better balance between supply and demand may be emerging. Cut-backs in production have meant that kiln dried markets in the US are reasonably stable, although in some areas supplies of green lumber are still well in excess of demand. **Page 6**

Caution in Europe

There is some optimism that European buyers of American hardwoods, who have refrained from building stocks for some time, will begin to re-enter the market in September. However, without a more significant shift in the euro-dollar exchange rate, buying is likely to remain cautious. **Page 6**

High stocks of European oak logs

On-going operations to recover storm-felled logs left on the forest floor after the December 1999 storms have meant that Western European sawmills and stave producers have built up high stocks of logs. However prices for high grade European oak lumber remains firm. **Page 11**

Steamed beech prices weaken

French and German sawmills continue to carry excess stocks of steamed beech produced from logs stored in irrigated yards and prices have been softening, particularly for lower grades. However, due to limited availability of new season logs, prices for unsteamed beech have been more stable and are now significantly higher than prices for steamed beech. Chinese demand for all forms of beech remains subdued. **Page 11**

Eastern promise

The American Hardwood Export Council's (AHEC) South East Asia Convention, held in Guangzhou in southern China during June, demonstrated that, in this region at least, there is tremendous potential to develop new markets for hardwood. **Pages 1, 8 & 9**

Falling tropical production

ITTO's latest Annual Review indicates that tropical log production and exports during 2000 continued at the low levels prevailing since the Asian crises in 1998, despite last year being a buoyant one for the international hardwood trade. **Pages 12 & 13**

Mahogany prices rise even higher

Brazilian mahogany prices have continued to rise this year as bureaucracy associated with the trade has mounted. Controversial regulations to increase value added production in Peru are also affecting the supply of mahogany this year. Domestic demand for tropical hardwoods in Brazil was firm during the 1st quarter of the year, but has now dipped as economic uncertainties have mounted. **Pages 14 & 15**

European hardwood review

EU-wide import data for 2000 reveals that:

- EU imports of nearly all hardwood products were at high levels, reflecting the buoyancy of the EU economy last year.
- The long term decline in EU imports of primary wood products from the tropics was reversed – perhaps temporarily – last year.
- Of temperate hardwoods, EU imports of oak were particularly strong – a response to the fashion for oak in joinery and flooring.
- The USA dominated EU imports of temperate hardwood sawn lumber during 2000, but the data confirms anecdotal evidence of increasing competition for American suppliers from Eastern Europe.
- EU hardwood veneer imports rose strongly last year in response to solid growth in the EU furniture sector, and the cost benefits of using veneer over solid lumber in a wide variety of applications.
- EU imports of added value products increased dramatically last year – vivid confirmation of increased overseas competition for EU manufacturers, and of the rapid trend towards relocation of manufacturing to low cost locations.

Pages 10 & 11