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Contents

Illegal Logging

Europe's flawed response	1/10/11
European Action Plan.	10
UK-Indonesia Bilateral Agreement	10
U.K. Public Procurement Policy	10
Editorial - Corporate procurement policy	2
African hardwoods	
Direction of trade	3
Market report.	3/4
ITTO Meeting, Japan	4
Malaysian sawn lumber	5
China	5/6
Japan	6
Brazilian sustainable forestry report	6/7
Illegal logging in Brazil	6
N. American domestic demand and supply.	7
N. American export demand.	7/8
European hardwoods	9
Profile: Belgian Federation	11
Hardwood Events	11
News summary	12

Statistics in this issue

■ African tropical logs and lumber	3
Jan-June 2002, value	
Direction of trade with E.U. nations	
■ U.S. exports	8
Jan-September 2002, volume	
Logs, lumber, veneer	
By regional destination	

Flawed response to illegal logging

Over last few years there has been a rapid increase in European political interest in the whole issue of illegal logging. This interest has led to a range of government initiatives in European countries that will have significant implications for the international trade. While well intentioned, some of these initiatives are flawed.

The illegal logging issue was thrust centre stage last year at the Forest Law Enforcement and Governance (FLEG) Conference in Bali, Indonesia. This Conference, held in the immediate aftermath of the 11 September attack in the United States, was characterized by an international consensus that measures needed to be taken to combat illegal logging. Another FLEG meeting is due to be held in the Congo basin in Spring 2003.

Flurry of activity

The so-called "FLEG process" has led to a flurry of activity by European governments. For example:

■ the European Commission has announced that it intends to develop, before the end of the year, an EU Action Plan to combat illegal logging (Box 1, page 10).

■ at a joint meeting with the Japanese government in Tokyo during July to discuss collaboration on a wide range of issues, the European Union committed to co-operate with Japan on measures to combat illegal logging.

■ in April 2002, the U.K. government signed a bilateral agreement with the Indonesian government to work jointly to combat the trade in illegally sourced logs (Box 2).

■ in April 2002, the U.K. Environment Minister said that the U.K. government "gives absolute priority to combating the importation and use of illegally logged timber in the U.K." The U.K. government commissioned a consultancy firm to draw up a new public

procurement strategy for timber (Box 3).

■ there have been preliminary discussions within the EC on the development of a possible EU-wide Framework Directive on environmental timber procurement in the public sector.

■ in April 2002, the German and French Ministers for Environment stated at the Biodiversity Convention in the Hague that their respective governments would include criteria in their public procurement policies favouring the purchase of timber "certified by FSC or equivalent".

Increased trade scrutiny

Where is this all leading? At present some of these initiatives are still in the preliminary planning stages and some may fall by the wayside. However, it seems certain there will be increased scrutiny of the sources of E.U. wood imports. And while NGO campaigns have been directed at tropical woods, it is likely there will be implications for suppliers of all wood products to the E.U.

There are some good things about the various European initiatives. The underlying emphasis on legality should be welcomed by any responsible wood trading company. Illegal operations create unfair competition for legal operators and severely damage the reputation of the whole industry. There is also some recognition in the initiatives of the critical need for European countries to avoid imposing solutions on wood producing countries. At least they refer to the need for co-operative agreements with wood producing countries.

But there are problems. In drawing up these various policies, too much weight seems to have been attached to the environmentalists' portrayal of illegal logging as the result of rapacious logging companies intent on liquidating the world's resources for short

Continued page 10

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Editorial

A better solution than chain of custody

This month's lead article highlights the growing political pressure being placed on the European wood industry to demonstrate the legality of wood raw material. The solutions offered stress independent assessment of chain of custody. This emphasis reflects a simplistic view of the legality issue and a lack of appreciation of the complexity of the wood trade and problems of chain of custody.

Nevertheless, there is a real danger that the "chain of custody" solution will be imposed on the European industry, unless it can show real commitment to a better alternative. Various initiatives already in place are instructive in the search for this alternative. Important lessons can be drawn from the WWF's "Global Forest and Trade Network" which links companies committed to independent, preferably FSC certification. This initiative demonstrates the power of a common commitment by wood trading companies to a set of environmental goals. It has succeeded in generating a level of market demand for certified wood products and in stimulating efforts towards the achievement of certification in producer countries.

The WWF approach has merits, but is too narrowly focused to provide an industry-wide solution. It effectively recognises only one system of certification and gives no credit for commitment to alternative certification programs. Nor does it seem to recognize the arsenal of other methods – other than third party certification - that can be employed by wood trading companies to raise standards of environmental wood procurement. For example, they can develop their own procedures for second party assessment of suppliers; they can work in partnership with their key suppliers to progressively improve environmental performance; they can implement environmental management systems (like ISO14001) and establish requirements for their suppliers to do the same; and they can participate in programs to raise awareness of environmental issues amongst suppliers.

In the U.K., this wider approach to environmental timber procurement has been promoted for 10 years by the UK Timber Trade Federation's "Forests Forever Campaign" through their Environmental Timber Purchasing Policy. But both this initiative and the WWF Trade Network have another flaw. Neither provides an independent assurance that the participating company is actively implementing the policy commitments. Companies may sign up to boost their green credentials and then, in fact, do very little.

A more complete answer lies in developing a flexible corporate procurement code of practice - that recognises a range of certification schemes and other approaches to environmental timber procurement - backed up with procedures for voluntary independent audit of conformance against the code.

In designing such a system, it would also be possible to draw on experience from another part of the world. In the United States, participants in the Sustainable Forestry Initiative (SFI) are required to implement and be audited against a "wood procurement system standard". Rather than emphasising traceability to forest of origin, this standard requires SFI Program participants to establish management systems to ensure that all their direct suppliers are known, to undertake assessments of the legal and environmental credentials of these suppliers, and to participate in a range of environmental education programs for suppliers. This standard is helping to promote good environmental practice throughout the U.S. forest sector, not just to the forest owners that are certified and not just to organizations that own forests.

European wood traders may object to the idea that they should be subject to an independent audit of conformance with an environmental timber procurement policy. But the alternative, that they be required to provide independent verification of chain of custody through all stages of distribution, transport, and processing from forest to final consumer, is far worse.

Rupert Oliver

Africa

Direction of trade

E.U. log imports down 19%

The value of European imports of African tropical logs was down 19% during the first half of 2002 compared to the same period last year. Nevertheless, slow European demand did not lead to a fall in prices which have remained generally stable this year. The weak European market was compensated by reasonable Asian demand and by a decline in the availability of African wood.

The decline in E.U. log imports was common to all European countries, with only Portugal and Greece coming close to the levels of the previous year. Of leading African log exporting nations, only Congo-Brazzaville boosted log sales into Europe during the six month period. The reasons for the decline in European African log imports are various but include: economic uncertainty leading to a fall in E.U. consumption; increased controls on log exports and increased investment in domestic wood processing in African countries; increased competition for E.U. okoume plywood manufacturers, particularly from China; increased diversion of African logs to China; and falling availability of okoume logs from Gabon. The EU import data also indicates significant shifts in the African sawn lumber trade during the first half of the year. Overall, the value of E.U. imports of African sawn lumber declined by 8% during the period. E.U.

imports from two traditionally large supplying countries – Cameroon and Ghana – fell sharply. However imports from several smaller supplier countries increased. The larger traditional suppliers are tightening up log supplies and concentrating more on upstream processing due to resource constraints and in line with sustainability objectives. Meanwhile less accessible countries that still have significant forest resources but which formerly relied on log exports - such as Congo-Brazzaville, Gabon, Liberia and the Central African Republic - have seen some increased investment in lumber mills over recent years.

Amongst E.U. countries, Greece stands out as a big growth market this year – partly due to increased building activity in Athens in preparation for the 2004 Olympic Games. The U.K. and Belgium were also reasonably buoyant markets for African wood during the first 6 months of 2002, but imports into Spain, France, Netherlands and Ireland fell sharply.

Market report

Logs

The log supply situation in West Africa remains unchanged and prices have been stable. European markets picked up slightly in October in order to replenish depleted stocks, but underlying consumption is still slow hindering exporters efforts to raise

prices. Chinese demand for okoume logs remained good, but there may be a seasonal slowdown as importers seek to avoid arrivals over Chinese New Year. Limited log production in Gabon has contributed to firm prices for okoume logs.

Sawn lumber

In September and October, European importers took steps to replenish stocks leading to a slight increase in buying of African sawn lumber. Arrivals of African hardwood into Europe during late October and November were steady. However, economic uncertainty has discouraged European importers from buying speculative stock and overall levels of demand are down on last year. At the end of November, forward buying is slowing as importers stocks are adequate and nobody wants wood arriving over the Christmas holiday season. No significant upturn in European demand is expected until at least Spring 2003.

The situation in Ivory Coast continues to dominate market discussion on African sawn lumber. At time of writing, a vanguard has just arrived of the West African Economic Community (ECOWAS) regional force being deployed to oversee the ceasefire between the government troops and the rebels. Talks are on-going between Ivory Coast President Laurent Gbagbo and the

Continued page 4

**African tropical logs and sawn lumber, direction of trade with E.U. importing countries
January to June 2002, million euro**

Logs												
	Total		Gabon		Cameroon		Liberia		Congo Republic		Other	
	2002	% chg 01/02	2002	% chg 01/02	2002	% chg 01/02	2002	% chg 01/02	2002	% chg 01/02	2002	% chg 01/02
France	79.3	-18.7	44.1	-27.0	4.9	-42.3	16.5	-0.1	8.4	97.1	5.5	-32.1
Italy	46.5	-11.5	6.7	-19.7	14.6	-25.5	10.6	-10.8	9.8	23.1	4.9	0.5
Portugal	40.0	-8.2	12.7	-23.3	9.6	33.3	0.4	-55.5	11.1	26.4	6.2	-39.3
Germany	20.2	-26.3	2.9	-20.7	9.7	-26.2	2.8	6.0	2.6	-39.2	2.2	-41.0
Spain	17.2	-32.3	3.1	-26.5	3.0	-33.5	2.7	-2.3	2.6	40.1	5.7	-52.2
Greece	12.2	-8.1	5.6	-41.5	1.3	105.5	4.7	91.2	0.6	-17.6	0.1	1940.0
Netherlands	4.4	-46.6	3.7	-26.5	0.5	-80.4	0.0	-100.0	0.0	na	0.1	na
Belgium	3.0	-42.4	1.4	-26.6	0.6	-60.8	0.0	-100.0	0.1	20.2	0.9	-31.7
Other	3.1	-57.0	0.1	-72.6	0.7	-78.0	0.8	-46.6	0.1	373.3	1.5	-36.6
Total	225.9	-19.5	80.2	-27.0	45.0	-25.9	38.5	-2.9	35.3	26.4	26.9	-36.3

Sawn lumber												
	Total		Cameroon		Ivory Coast		Ghana		Congo Republic		Other	
	2002	% chg 01/02	2002	% chg 01/02	2002	% chg 01/02	2002	% chg 01/02	2002	% chg 01/02	2002	% chg 01/02
Italy	84.7	-9.8	31.2	-15.2	31.6	-9.7	6.6	-11.3	0.9	-28.9	14.4	7.5
Spain	63.8	-24.9	26.3	-33.7	25.7	-25.5	0.9	-43.9	5.9	68.6	5.0	-12.9
France	34.6	-18.4	14.8	-28.5	7.0	-15.1	4.5	-32.0	3.1	28.3	5.2	17.4
Greece	24.0	269.6	1.1	-47.1	23.0	507.7	0.1	30.3	0.0	na	-0.2	-149.0
Netherlands	23.9	-18.9	17.7	-18.1	3.2	-32.1	1.7	1.8	0.1	124.6	1.0	-18.2
Belgium	22.1	11.7	14.4	5.5	0.9	-16.3	2.1	-1.5	0.3	-43.8	4.5	82.0
U.K.	21.3	9.1	9.1	-13.3	5.2	11.6	5.2	30.4	1.5	2614.0	0.3	-19.0
Germany	15.9	-3.8	3.8	-22.3	0.8	120.5	8.7	-13.8	0.1	68.1	2.5	123.6
Portugal	11.3	49.1	4.2	2.2	2.1	143.0	0.0	-100.0	1.3	138.1	3.7	84.2
Ireland	8.9	-51.3	4.6	-49.7	2.1	-56.3	2.0	-48.6	0.1	na	0.1	-68.0
Other	3.3	0.3	0.5	-10.2	0.4	-65.9	0.9	6.0	0.6	128.3	0.8	207.4
Total	313.8	-8.3	127.8	-22.0	102.0	2.7	32.7	-14.9	14.0	59.8	37.3	16.8

Africa

Market report *cont.*

Patriotic Movement of Cote d'Ivoire (MPCI) rebels. However, after several weeks of negotiation the two sides still seem far apart. The President is demanding that the rebels surrender their arms, and is refusing the rebels demands for a rerun of presidential elections. Tensions remain high. The curfew is still in place which is placing limits on production. Mills have been feeding off existing log stocks which are generally low and declining. Meanwhile wood has continued to arrive into Europe from Ivory Coast. However few Ivory Coast shippers are quoting for new contracts and most are concentrating on the supply of existing contracts only. The long term impact of the unrest remains uncertain being entirely dependent on political events. European importers' fears of a future short-fall in supply led to some increased interest in forward orders for iroko and framire during early November.

The rainy season in Cameroon is nearing its' end. Few Cameroon exporters are mak-

ing new offers at present and log yards in Cameroon are currently low. Production should start to gear up from around the middle of January.

Forward availability of sapele lumber is limited and FOB prices are stable. Steady volumes of sapele have been arriving on old contracts into Europe over recent months and stock levels on the ground are more than sufficient to meet demand. There is now very little interest in forward buying of air dried material from Africa in the U.K., most

importers preferring to buy kiln dried from the continent. The Spanish market for sapele remains slow.

The rainy season in Ghana is now petering out. However this is unlikely to change the tight log supply situation in the country which is due more to long term forest resource constraints. Demand for wawa lumber, Ghana's leading export species, has been sluggish leading to some easing in price over recent weeks.

An emerging consensus on tropical forests

The controversy that surrounded the International Tropical Timber Organisation in the early 1990s now seems a distant memory. The 33rd meeting, held in Japan during November, was devoid of conflict.

The Earth Negotiations Bulletin notes that the meeting was "a shining example of constructive dialogue...almost entirely devoid of overt conflict, leaving everyone happy, if not slightly bored".

Even the renewed presence of the environmental community failed to turn up the heat. After withdrawing in the early 1990s from a process they labeled insignificant in order to concentrate on the Forest Stewardship Council, the environmental NGOs have now returned to ITTO. The reasons for their return are many, but foremost was the inaugural meeting of a Civil Society Advisory Group (CSAG). On the whole the environmental groups chose not to criticize – perhaps indicative of a broader consensus on tropical forestry issues.

At the meeting there was, as usual, much discussion of forest certification. Less usual was the conciliatory tone of these discussions. Environmentalists seemed impressed by the desire of some producer countries to work more closely with the certification movement. There was also praise for ITTO as an action-oriented organization, as evidenced by the huge range of ITTO-funded projects. At the same time, environmentalists seemed willing to take on board the need for phased approaches to forest certification in tropical countries. For example, a representative of the WWF Global Forest and Trade Network - which supports FSC certification, highlighted growing interest in so-called 'transition timber' within the Network. This is wood coming from forests which are in transition to certification, but have not yet achieved this goal.

The tone of the meeting also suggested that there is a growing international consensus on the priority need to tackle illegal

logging. In the past, the mere mention of illegal logging at ITTO promised a barrage of defensive reactions. However those days are passed and producer countries are more willing to talk openly of the need for solutions. ITTO is now gathering information on the scale of illegal logging. It is supporting various projects on this issue in the Congo basin and has also funded a study looking at disparities between tropical wood import and export data.

But despite all the evidence of consensus, there were detractors. Several participants, including one large financial institution, were very pointed in their appraisal of the ITTO, saying that in the grand scheme of international project work, ITTO makes very little difference. The level of funding for ITTO project work is tiny compared to that of other agencies, such as the World Bank. It is also out of proportion with the huge task that ITTO has set itself, nothing less than the sustainable management of the world's tropical forests. Some observers suggest that the emphasis of some of ITTO's work is misplaced. For example, the importance attached to certification was criticized given the evidence of limited market demand for certified products.

Much of the meeting involved "housekeeping" discussions to streamline the work of ITTO. There was also consideration of the timescale for renegotiation of the International Tropical Timber Agreement which establishes the framework for ITTO's operation. Renegotiation of the existing agreement, established in 1994, is due to start next year. This will be a drawn out affair, likely to take around 2 years, and may be controversial. Some countries want to expand ITTO, with the most ambitious viewing Objective 2000 as a possible foundation on which to build legally binding commitments to sustainable forestry worldwide. Others are equally concerned to maintain the focus of ITTO on tropical timbers.

African indicative prices

	Sept	Oct	Nov
Exchange rates			
US\$/£	1.55	1.56	1.56
Euro/£	1.59	1.59	1.56
All prices include agents commission of 5%			
Logs			
Liberia			
US\$/m3, FOB Liberia			
Grade: B+ & better (good UK sawing quality)			
All diameters 60 cm+			
A. mahogany	185	185	185
Walnut	185	185	185
Iroko	240	240	240
Kusia (Opepe)	120	120	120
Sawn lumber			
Cameroon, CAR, Congo (Braz.)			
Euro/m3; FOB			
Grade and size: FAS, air dried, width 6"+, length 6'+			
Sapele	520	515	515
Sipo	640	630	630
Bibolo	400	380	380
N'Gollon	535	535	535
Iroko	530	540	540
Cote d'Ivoire			
Euro/m3; FOB Abidjan			
Grade: FAS, air dried			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
Iroko	515	520	520
Mahogany	420	420	420
Framire	315	320	320
Samba No.1 C&S	240	240	240
Dimension stock			
Azobe	400/ 460	420/ 460	420/ 460
Dabema	300/ 390	300/ 390	300/ 390
Gabon			
Euro/m3; FOB			
Grade and size: FAS, width 6"+, length 6'+			
Okoume AD	320	320	320
Okoume KD	365	365	365

Malaysian sawn lumber

Low demand, low supply

There were some signs of a slight easing in price for thinner sizes of dark red meranti during November. This seems to be a short-term adjustment. Price rises between August and October may have overshoot realistic expectations of market demand. There has also been a slight easing in container rates. There is some speculation that Malaysian shippers will reduce prices further in the run-up to Chinese New Year as they seek to generate cash flow and empty their yards prior to the vacation season.

Low levels of production

However this year has seen large log price rises and relatively low levels of sawn lumber production in the Far East. At present Malaysian production is not high due to wet weather. Therefore any easing in prices – if occurring at all – is likely to be minor and short-lived. Price reductions are more likely for certain sizes – for example for strips which are more readily available than thicker sizes of sawn lumber.

Rises in container shipping rates were a factor leading to increased C&F prices from Malaysia to Europe during September and

early October. Rates have remained stable since then, but further freight rate rises are expected next year. At a meeting on 28th October to discuss their 2003 Business Plan, the 15 shipping lines that are members of the Far Eastern Freight Conference agreed to a series of three freight rate rises for west-bound shipments from Asia to Europe during 2003. Rates will rise by \$ 250.00/Teu on 1st January, by \$ 150.00/Teu on 1st April, and by \$ 250.00/Teu on 1st July. The shipping lines note that “While there have been some increases [in prices] in certain sectors of the market since the beginning of the year the overall [container] rates have not recovered to their 2000 level, and are still 30%–40% below acceptable levels.”

European demand for Malaysian sawn lumber has been sluggish over recent weeks. Some importers may still be waiting for cheaper offers to become available, but generally forward demand is likely to remain slow at least until after the Christmas vacation.

Just-in-time approach entrenched

Now that the just-in-time purchasing philosophy is well entrenched in Northern Europe, many importers at this time of year are focusing on reducing stocks in anticipation of the holiday slow down. There is much greater reliance in Europe these days on purchases from the large trading companies that hold stocks at ports in Peninsular Malaysia and in Europe.

Market sentiment in the Netherlands is pessimistic. The usual pick-up in demand after the summer vacation completely failed to materialize this year. Against a background of slowing economic growth and a depressed construction sector, buying has been cautious and hand-to-mouth. As the Christmas and winter slowdown in construction activity is now approaching, there seems little likelihood of any quick market turnaround. Existing landed stocks in the Netherlands of dark red meranti are reported to be generally sufficient to meet limited levels of demand. Exporters tried to push up C&F prices to the Netherlands during the Autumn but met with considerable resistance from importers. There has been intense competition for sales amongst Dutch importers, leading to price weakness on the ground in the Netherlands.

After a period of increased activity in September and October, the U.K. forward market for meranti is now slow. Existing stock levels on the ground in the U.K. are generally regarded as being reasonably well balanced with demand. Few importers are looking beyond the Christmas vacation season and they are, in any case, confident of fill-

ing gaps in stock when necessary by purchasing from the large trading companies. But underlying consumption of meranti is probably better in the U.K. than most other European markets. Construction and joinery activity has been boosted by a strong house market, good consumer spending, and increased public-sector investment. National statistics indicates that British manufacturers' sales of builders carpentry and joinery products to domestic and overseas markets were on the rise in the 3rd quarter of 2002. However the U.K. market for keruing remains very weak.

German consumption slow

Lack of availability has meant that good quality rough sawn meranti from reliable Malaysian mills commands good prices in Germany. However underlying consumption of Malaysian sawn lumber in Germany has been slow. The very slow construction sector and a decline in sales of wood windows has meant weak demand for meranti laminated window scantlings. German stocks of these scantlings are in excess of demand and prices have been weakening on the ground in Germany. Forward prices for meranti window scantlings increased during the first half of this year and through the summer months. However since then they have tended to weaken, partly due to increased offers from Indonesia.

China

Soaking up wood

China continues to absorb a rising volume of logs and sawn lumber. Chinese customs statistics indicate that log imports totalled 16.3 million m³ between January to August 2002, up 57% year-on-year. During the same period, China also imported 3.6 million m³ of sawn lumber, up 45.7% year-on-year. Meanwhile plywood and veneer imports continue to decline as China switches to domestic production. Between January to August 2002, plywood and veneer imports reached 402,000 m³ (down 17.6%) and 122,000 tons (down 8.8%) respectively.

The huge increase in China's wood imports this year has been driven more by domestic consumption than by the growth of export oriented manufacturing facilities. There are now more than 21 million housing starts in China each year, and timber consumption for building and decoration now accounts for some 63 million m³ – double the level of just 2 years ago. Growth in the use of wood by the furniture sector is equally startling. This industry now uses 44 million m³ of timber annually, also twice the level of 1999.

Continued page 6

Asian Sawn Lumber Indicative Prices			
	Sept	Oct	Nov
Exchange rates:			
M\$/£	5.89	5.91	5.91
US\$/£	1.55	1.56	1.56
M\$/US\$	3.80	3.80	3.80
Malaysia			
All prices US\$/ton, C&F UK port, including 5% agents commission			
West Malaysian Dark Red Meranti			
Grade: Select & better GMS; Kiln dried			
Size: Width 6'+ avg 7 7/8"; Length: 8'+ avg 12'14'			
1"	810	810	800
2"	860	850	840
2.5"	910	920	920
3"	925	930	930
Keruing			
Grade: Standard & Better GMS			
Size: Random or fixed 16'+			
1"-3"	525	525	525
Nemesu			
Kiln dried			
2"	970	960	960
2.5"	990	980	980
3"	1000	990	990
Myanmar Teak			
US\$/50 cu ft, FOB Rangoon/Bangkok/Singapore			
Grade: Air dried boards			
Size: Width 6'+ avg 8", Length 6'+ avg 8'			
1"	3000/3250	3000/3250	3000/3250
<i>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.</i>			

Asia

China cont. from page 5

The growth in demand looks set to continue. China's interior decoration industry is expected to grow from US\$24 billion this year to US\$72 billion in just 5 years time. China's urban population is forecast to double between 1999 and 2020, a rate of increase that is expected to create demand for 2.52 billion m² of new residential housing during the next 20 years. And that does not include the 100 million m² of housing needed annually to replace old homes.

Japan

Declining tropical log demand

Japanese arrivals of "Southsea" logs have been declining this year, both for plywood manufacture and for Japanese saw mills. Between January and August, Japanese imports of Southsea logs were down 17% compared with the previous year. This has been due to several factors including weak Japanese plywood and lumber consumption; increased market share for imported plywood; declining availability and rising FOB prices for good quality Southsea logs; particularly since the Indonesian log export ban in October 2001; increased competition for supplies from Chinese importers; and the weakness of the yen against the dollar which has amplified the FOB price rises.

Slight recovery in lumber imports

Between January and August 2002, Japanese imports of "Southsea" sawn lumber reached 523,000 m³, down 13.7% on the same period the previous year. The 8 monthly data hides a slight increase in imports to over 70,000 m³ during both July and August 2002, compared to an average of 63,000 m³ during the first 6 months of the year. Increased imports over the summer months served to alleviate anxieties in Japan that this trade was about to come to an end. Low levels of import during the first 6 months of 2002 were mainly due to a major drop in the availability of good quality seraya from Sabah, so the increase suggests some improvement on the supply side at that time. More recent reports suggest that although there may have been a partial loosening up in sawn lumber supply from Sabah since the start of the year, Japanese importers have continued to struggle to pay the higher FOB prices now demanded by Malaysian shippers. The Japanese Forestry Agency have forecast that plywood consumption in Japan during 2002 will reach 7.57 million m³, down 0.26 million m³ compared to the previous year. A major factor in the decline has been a slowdown in new house construction.

South America

Brazil

New sustainability report

Drawing on the experience of an expert mission, a major report on progress towards sustainable forest management in Brazil was presented to the recent ITTO meeting in Japan.

By and large, the Brazilian forest sector depends on the domestic markets. Of the estimated 13.8 million m³ of tropical hardwood lumber produced in Brazil in 2000, around 12.8 million was consumed in the domestic market. No hardwood logs are exported. Dependence on export markets is significant only in wood-based panels and pulp production. The importance of export markets for the whole forest sector is expected to increase, particularly in value added products. The Ministry of Development, Industry and External Trade has launched a program to develop furniture exports (O

Programa de Competitividade: Cadeia Produtiva de Madeira e Móveis).

Brazil's primary and secondary wood processing industry is characterized by small-scale establishments, the bulk located in the Amazon.

Mainly small scale operations

The Brazilian sawmill industry is estimated to have about 10 000 production units and 75% of them are classified as small. Only 70 mills in the whole country have a capacity of 30 000 m³/yr or more. The veneer and plywood industry, as more capital-intensive operations, has more concentration on medium and large units. Pine and eucalyptus have been the fastest growing segments of the Brazilian wood industry. In mouldings, companies are mostly small and there are only a few larger producers (> 15 containers/month). The main raw material is plantation pine. About 200 major companies pro-

Sharp drop in illegal logging in Brazil

The ITTO report on Brazilian forestry suggests that levels of illegal logging have fallen sharply in Brazil over recent years. But this does not mean that harvesting is more sustainable.

Based on various studies, the ITTO report suggests that levels of illegal logging in the Amazon region during the mid 1990s were probably in the order of 65% to 80%. Much of the illegal activity was closely associated with the advancing agricultural frontier.

These alarming figures created awareness in the government to step up control and enforcement efforts. The situation has been transformed since 1996 due to two factors: increasing costs of illegality and the agrarian reform. The government has introduced a huge number of new legal requirements and has improved IBAMA's monitoring and enforcement capacity and introduced tougher penalties. As a result, the level of illegal logging has been sharply curtailed in the Brazilian Amazon. But it is not all good news. As illegal operations have declined, the level of legally sanctioned forest destruction has increased considerably. As part of the Brazilian government's program of agrarian reform, around 600,000 families were settled on land area covering 20 million ha between 1995 and 2001. Friends of the Earth (FoE) estimate that 62% of the settlement area is located in the Amazon region where about 50 000 families were annually settled. Although the policy of the Ministry of Agrarian

Development is not to locate settlements in tropical rainforest areas, they will recognize new settlements in these areas when they are established spontaneously. Conversion of around 1.1 million hectares of tropical forest was officially authorized both in 2000 and 2001 as part of the resettlement program. This conversion is estimated to have resulted in legal production of 22 million m³ of roundwood per year. Furthermore, timber has become the main legal source of short-term financing in settlement schemes.

As a result, the relationship between legal and illegal timber production and processing appears to have been inverted: whereas in 1996, 80% of the timber production was estimated to be illegal by FoE, the same body now estimates that 80% of timber production is legal - 75% from authorized deforestation and 5% (1.5 million m³) from approved management plans. The apparent progress made in "legalizing" timber does not, therefore, mean that sustainability has improved. The ready low-cost supply of timber from conversion areas makes it difficult for other producers complying with sustainability requirements to compete. This undermines any incentives to move towards sustainability. The issue of legality in the Brazilian context is therefore complicated by the fact that the legal requirements are not necessarily aligned with the goals of sustainable forestry.

South America

duce flooring from tropical timber. The solid wood flooring industry is heavily concentrated (eight major producers). Laminated flooring is the main growth sector (12 producers), and it is largely integrated with MDF/fiberboard.

Furniture and components are produced by 15 000 plants, most located in the south and southeast. About 500 medium/large mills account for 35-40% of the total production. There is little or no vertical integration with primary processing. There are ten major regional furniture centers (pólos moveleiros) in the country, none in the Amazon.

Amazonian survey

The ITTO report contains details of a recent survey on the problems and constraints of the Amazon timber industry. The Amazon region produces about 60 million m³ of roundwood per year, about one fifth of the total roundwood production in Brazil. The main constraint in the sawmilling sector is identified as the fragility of the wood supply chain. This is due to several factors including climate conditions, bureaucracy, risk of land occupation, and pressure from NGOs. There is also over-reliance on short-term supplies from land cleared for agriculture. Logging operations have been concentrated on "pólos madeiros", the zones of new agricultural settlement on the forest fringes. After the initial boom in an area, these "frontier" areas have always gradually faced severe wood shortages, followed by inevitable outmigration of the industry to new areas. Such instability has meant that the wood-based industry in the Amazon has only a few larger, efficient and well-managed companies. There is a serious shortage of modern management skills and knowledge of efficient technologies. Recovery rates in the region are still low but slowly improving. Small and medium-sized mills do not have direct links with markets which is reflected in low revenues.

Major restructuring needed

The report emphasizes that the Amazonian industry will need to undergo major restructuring if it is to become a more significant player on the international market. Such restructuring will need to involve changes in both the spatial distribution of capacity and rationalization of ownership. Increased horizontal and vertical integration will be necessary. Further moves towards added-value processed wood products are seen as one measure to overcome the competitive weakness of the region due to long transportation distances and resulting high costs.

North America

Domestic demand

An uncertain future

The U.S. economic recovery continues to look shaky. Many analysts reckon U.S. GDP will grow at an annual rate of only 1% in the last 3 months of 2002. And a quick rebound next year now looks unlikely. In early November, America's central bank cut interest rates by a half a percentage point in an effort to boost confidence, citing "greater uncertainty that is currently inhibiting spending, production and employment." American consumer confidence dropped sharply in October, a trend widely blamed on stockmarket losses and uncertainty over the prospect of war.

But there are bright spots. The boom in the U.S. residential construction sector continues. After slipping moderately in each of the three previous months, U.S. housing starts jumped to a seasonally adjusted annual rate of 1,843,000 units in September, the highest level on record since June 1986 according to the U.S. Commerce Department's Census Bureau. The September 2002 figure for total starts represents a 13.3 percent increase from August, and a 16.5 percent spread above results posted for September 2001. Building permits also posted gains in September. Housing permits are up 3.7 percent from August and a full 10 percent higher than September 2001.

Strong residential construction

Strong activity in the residential sector continues to feed growth in other sectors important to the hardwood industry. The Kitchen Cabinet Manufacturers Association Trend of Business Survey indicates that sales increased nearly 12.9% in September 2002 over the same month in 2001. During the first eight months of 2002, cabinet sales were up 11.4% on the same period in 2001. According to NOFMA: The Wood Flooring Manufacturers Association solid wood flooring shipments in the U.S. reached 52,606,000 board feet in October 2002, 15.3% higher than the same month last year. Total shipments during the first 10 months of 2002 were 9.3% up on the same period in 2001. Favourable forecasts of future sales growth were also released by the American Furniture Manufacturers Association in advance of the fall International Home Furnishings Market in High Point during October. Industry shipments of residential furniture are expected to increase 6% this year to a total of \$24.3 billion. Sales are forecast to continue to rise next year, increasing 4.9% to a total of \$25.5 billion. The latest forecast

shows slightly stronger sales than AFMA had predicted in its earlier forecast in July and reflect the recent expansion in housing construction and a mortgage refinancing binge that is freeing up additional money for purchases of furniture. Furthermore, because 2001 was such a weak year for furniture sales, AFMA suggest there is continued pent-up demand for furniture.

Recent increases in domestic demand in the United States seem to be focused primarily on the common and lower grades of lumber. This positive development is apparent in both the United States and Canada, and seems to have been driven partly by good underlying consumption by secondary manufacturers and partly by concerns of possible future supply shortages.

Rising concern about supply

For the American hardwood sector, the main concern seems to be low log supplies. Harvesting levels are restrained at present due to wet weather conditions, the hunting season now in full swing, high log costs and poor cash flow. Many mills now have limited log decks and with winter weather and holidays now imminent, most mills foresee little relief in the short-term. Some mills are already reported to be losing production time due to lack of raw material. This is cre-

Continued page 8

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

	Aug	Oct	Nov
\$/£	1.55	1.55	1.56
\$/Euro	0.98	0.98	0.99
Red oak			
1"	1880	1880	1880
1.25"	2060	2075	2075
1.5"	2100	2150	2150
2"	2500	2500	2500
White oak			
1"	1420	1450	1450
1.25"	1690	1750	1750
1.5"	2060	2100	2100
2"	2725	2750	2750
Ash			
1"	1100	1050	1050
2"	1560	1560	1560
Tulipwood			
1"	1100	1050	1050
1.25"	1150	1125	1125
1.5"	1175	1150	1150
2"	1200	1225	1225
Cherry			
1"	3660	3425	3425
1.25"	3720	3580	3580
1.5"	3870	3750	3750
2"	4175	4050	4050
Hard Maple			
1"	2370	2350	2350
1.25"	2470	2450	2450
1.5"	2630	2750	2750
2"	2840	2850	2850

North America

U.S export markets

cont. from page 7

ating real concern that log prices may be about to rise even further, putting further pressure on margins.

Concerns over future supplies have meant that green lumber markets have generally become more active over recent weeks and there are signs that green lumber prices are rising. Some "traditionally" green lumber buyers are purchasing kiln dried stocks to buffer against supply shortfalls. Although this has led to increased demand for kiln dried hardwoods in some areas, prices for kilned lumber have generally been static. As a result, margins in the kilning sector have become even tighter. Some operators have shut-down their kilns until market conditions improve.

Despite signs of falling green lumber availability, most reports suggest that there are no indications of panic setting in, or of buyers simply trying to obtain volume. Intense competition, tight margins and efforts to maintain cash flow, mean that most hardwood trading companies are still keeping inventories low.

U.S. hardwood exports January to September			
Logs/lumber - 000s m3, veneer - mill m2			
	2001	2002	% chng
World			
Logs	1,593	1,736	9.0
Lumber	1,986	2,122	6.9
Veneer	218	238	9.4
Canada			
Logs	1,160	1,211	4.5
Lumber	700	725	3.6
Veneer	69	77	11.3
EU			
Logs	198	172	-12.9
Lumber	551	526	-4.5
Veneer	93	81	-13.2
SE Asia			
Logs	32	40	26.3
Lumber	73	100	38.2
Veneer	8	8	9.4
Greater China			
Logs	81	176	117.4
Lumber	321	426	32.8
Veneer	23	40	72.3
Japan			
Logs	72	68	-5.2
Lumber	79	73	-7.3
Veneer	2	2	0.6
Mexico			
Logs	6	9	54.3
Lumber	140	124	-12.0
Veneer	5	9	61.3

Export demand Intense competition

American hardwood export markets remain intensely competitive, with many exporters citing dull European demand and increased usage of European hardwoods as a major factor driving competition. Nevertheless, export volumes have been rising this year. In the 9 months to end September, the volume of U.S. hardwood lumber exports was up 6.9% compared to the previous year. A fall in export volume to the EU, Japan and Mexico is compensated by increased exports to China, South East Asia and Canada. The value of lumber shipments was also up, but by only 2.1% at US\$951.2 million. Slower growth in export value is due to various factors including intense competition, which is keeping a lid on the unit value of exports; a shift to lower grades as a cost saving measure in some traditional markets; and the increased influence of Far Eastern markets which generally use lower value wood.

Sluggish European demand

The European market remained sluggish throughout the autumn and, at the end of November, is already beginning to wind down for Christmas. There is much economic uncertainty. Growth in Germany has been stalling which, as Europe's largest economy, creates ripples throughout the continent. The radical structural changes required in Germany to boost growth are not likely to happen in the near future. But in most other countries, forecasts suggest a gradual improvement in economic conditions in the new year.

Meanwhile availability of Eastern European hardwoods has been improving while there are signs of over-stocking of domestic hardwoods in Western Europe. This has tended to discourage importers building stocks of American lumber. Few importers yet seem concerned about the reports of tightening green lumber availability in the United States.

But the news is not all bad. Inventories of North American hardwoods are reported to be relatively limited at a number of locations throughout Europe, and underlying consumption, although down from previous levels, is still reasonably consistent from long term buyers. The euro has also remained reasonably stable at near parity against the dollar over recent months, contributing to a feeling of greater stability in the market.

Considering individual European markets, the U.K. remains an important market for

American hardwoods in terms of volume, but sales have been sluggish all year. Shipments to Ireland have been more stable, but this is a relatively small market. Germany and Belgium have been particularly slow over recent months. Spanish demand for white oak has been reasonable, although there were some reports of more sluggish demand in October and November due to a stock build up. Italian demand has also been steady, with some reports of increased buying of tulipwood and white oak during the autumn months.

Short term congestion in China

Long term market growth trends in China remain positive (see page 5). However the market is intensely competitive and price sensitive. There are also reports of short term market problems caused by a build up in finished goods inventories in China. This seems to be partly due to the 12 day shut-down of U.S. West Coast ports during November resulting from a labour dispute. This led to a backlog of finished goods orders that could not be shipped from China to the United States. Although containers are again being unloaded at U.S. west coast ports, it's taking time for the congestion to clear.

Considering species trends, there has been particularly strong growth this year in China's imports of tulipwood, red alder, walnut and ash, both in log and lumber form. Cherry log and veneer imports are also rising strongly. Chinese imports of oak have remained more stable, while imports of hard maple have tended to fall.

Mixed results elsewhere in Asia

Sales of North American hardwoods into other Asian nations are very variable. Exports to Korea have been buoyant this year, boosted by new property laws that have stimulated a house renovation boom. However demand in Japan, which traditionally takes twice the volume of Korea, has remained slow and focused increasingly on speciality products. U.S. lumber exports to Taiwan have been static. But some emerging markets in Southeast Asia have been reasonably buoyant. In Vietnam, demand is rising, particularly for red and white oak, as that country's furniture sector is growing and having some success as a competitor to China as a low cost manufacturing location. Exports of American hardwood to Malaysia, Indonesia, Singapore and Thailand have also been rising this year, partly a response to efforts by local manufacturers to diversify away from domestic species.

Europe

European hardwoods

Big fall in harvesting

Beech harvesting levels in Western Europe are forecast to be well down this year. In Germany, requirements for new season beech logs are expected to be 20% to 30% lower than usual this season. If these lower levels are maintained, it would help to stabilise prices for higher grade German beech logs. German sawmillers are putting pressure on forest owners to concentrate harvesting only on top grades as demand for lower and medium grade beech is extremely weak. However forest owners have been resisting this pressure, noting that good forestry practice dictates the removal of a balanced range of grades.

German hardwood mills struggle

Demand for German hardwood sawn lumber is very sluggish. The domestic market is weak due to slow construction activity, weak underlying economic conditions, and a shift in processing capacity to Eastern Europe. Recent high profile insolvencies in the German wood processing sector have added to the uncertainty. Some European markets, such as the U.K. have increased purchases of higher grade German beech in response to cheaper offers now available, but this has been insufficient to take up the slack from a big decline in sales to China.

French auction sales

Reports from the French state forest administration indicate that sales of standing beech logs during the current round of auction sales have been very slow. Prices offered for French veneer and saw quality logs are around 15% down on last year, and 50% down on prices prevailing before the December 1999 storms. As a result much beech harvesting has been cancelled in France. Early results from the French auction sales indicate that the market for higher grade oak logs has been more stable. The French forest authorities are only marketing a limited volume of high grade oak logs this year, and these volumes seem reasonably well balanced with demand. However efforts by the French forest administration to market a higher proportion of lower grade oak this year may lead to price pressure on these grades. Demand for French sawn lumber is generally slow. In addition to weak export markets, the domestic construction and furniture sectors have been sluggish. Many French mills are reported to be suffering financial difficulties.

The market for Belgian hardwoods continues to feel the after-effects of the beech disease which hit forests in the Walloon re-

gion during 2000 and 2001. Although the disease spread no further during 2002, Belgium continues to suffer from huge excess supply of low grade beech. The disease is estimated to have required the harvesting of around 1.3 million m3 of beech logs over the last 2 years, nearly one fifth of Walloon's entire beech stock, although much of this volume was unsuitable for conversion to lumber. This year, due to excess availability of low grade beech and weak demand, Belgium is expected to harvest only a very small volume of new season logs.

Chinese beech market still slow

Chinese demand for European beech sawn lumber is still very slow, despite continuing rapid growth of underlying wood consumption and reports of relatively low beech stocks in China. The Chinese fashion for beech is clearly on the wane. There has also been a significant switch to imports of beech logs into China where processing costs are considerably lower and as Chinese sawmillers have progressively improved processing efficiency. Reflecting this trend, demand for beech logs has remained more stable in China, although prices paid by importers are well down on previous years. Beech log consumption in China is estimated to be around 600,000 m3 per year.

Until recently, market problems associated with Western European hardwoods were mainly associated with medium and lower grades of beech. However, the problems are now extending to other species and grades. Prices for high grade beech have been showing weakness over recent weeks. There are also concerns that Western European oak may come under pressure. Many beech processors switched to the production of oak sawn lumber as a result of problems in the beech sector. Furthermore, the storms at the end of 1999 contributed to excess availability, particularly of medium and lower grade oak. This has happened at a time when growth in the European hardwood flooring sector, which absorbs significant quantities in these grades, has slowed. There are also concerns about the stave industry. The pace of growth in this sector has been slowing, reducing demand for good quality oak logs. French sawmills also report some weakening in demand for other French hardwood lumber, including cherry and maple.

New marketing initiative

In an effort to boost demand for European hardwoods, processing companies in France, Germany, Belgium and Austria are now operating a joint marketing initiative. This initiative involves advertising and the

introduction of a common set of grading rules for European hardwoods. Members of the initiative are also being asked to make a voluntary commitment not to export logs.

Eastern European hardwoods

Hardwood producers in some Eastern European countries report more buoyant levels of demand. Hardwood lumber production in Poland has been rising this year as the state forest authorities have increased harvesting levels and reduced log prices. Volumes of beech logs exported from Poland to China have declined overall this year, although recent reports indicate the Chinese are now buying reasonable volumes of new season logs. Chinese demand for Polish sawn beech has been reasonably buoyant, notably from flooring manufacturers. There has also been a slight increase in Western European demand for the best quality Polish sawn beech over recent weeks. Western European markets for Polish oak sawn lumber have been steady, assisted by weakening of the zloty against the euro. However conditions are becoming more competitive due to a slowdown in Western European demand and rising availability of oak sawn lumber from Ukraine.

Demand for Croatian and Slovenian sawn oak lumber - renowned for its exceptionally high quality - has remained good in Western Europe. Oak log prices rose significantly during the first auction sales of the new season in Croatia as demand was in excess of limited supply. This may translate into further increases in prices for Croatian oak sawn lumber in coming months.

European sawnwood indicative prices			
	Sept	Oct	Nov
Exchange rates			
Euro/£	1.59	1.59	1.56
Euro/US\$	1.02	1.02	1.01
German beech			
Northern Germany, Euro/m3, C&F, UK Port			
Grade: kiln dried, steamed and square edged.			
1"	780*	780*	760*
2"	840*	840*	820*
<i>*note some significantly lower offers are still available for beech that has been diverted from the Chinese market. These prices are for high grade joinery beech supplied to U.K. specifications in mixed containers</i>			
Bosnian beech			
Euro/m3, Delivered to U.K. yard			
Grade: kiln dried, 25-50mm, steamed and white			
prices are the same at present			
square-edged	725	725	670
waney edged	520	520	480
German oak			
Northern Germany, Euro/m3, C&F, UK Port			
Grade: kiln dried, waney edged prime grade*.			
1"	780	780	780
2"	995	995	995
<i>*waney edged prices provided as there is very little square edged available from Germany or France - French prices are similar to German prices</i>			
Croatian & Slovenian oak			
Northern Italy or Slovenia			
Euro/m3, C&F, UK Port			
Grade: kiln dried and square edged.			
1"	950-1250	950-1250	950-1250
2"	1300-1600	1300-1600	1300-1600

Special report - Illegal Logging

European response

cont. from page 1

term profit. There may be cases when this is true, but the reasons for illegal logging usually go much deeper. Major failures in national regulatory frameworks are usually at the heart of the problem. For example in Russia, rapid privatization of the timber industry during the 1990s combined with a substantial decrease in subsidies for the Russian Forest Service triggered a flurry of illegal timber operations. Similarly, in Indonesia illegal logging has been fueled by over-capacity in the plywood sector, weak enforcement agencies, and limited alternative sources of survival income for local communities. The most devastating form of illegal logging in Indonesia has been driven by companies converting forest into oil-palm plantations.

Capacity building is first priority

These problems are not insurmountable, but finding solutions takes time. The first priority is to develop workable systems of resource regulation, backed by the rule of law

Box 1: EC Action Plan

In February 2002, the European Commission announced its intention to develop an E.U. illegal logging action plan by the end of the year. In September 2002, preliminary details were released at the World Summit on Sustainable Development in Johannesburg. The draft plan includes:

- development of bilateral agreements between the E.U. and wood producing countries to co-operate in tackling the issue of illegal logging.

- E.U. support in co-operating producer countries for mechanisms to identify wood products that are legal; the creation of a "legality standard" and a license for such wood products; chain of custody and tracking of wood products to market; and verification of this process by an independent standards body.

- creation of new EU legislation which will admit from co-operating countries into the EU only wood products covered by a legality license;

- programmes of co-operation and assistance, to be agreed with wood producing countries, to help upgrade legal structures and administrative practices, capacity-building and training for officials, and the award of legality licences.

- the promotion in the EU of the consumption of only legally produced wood and wood products.

Box 2: UK Public Procurement Strategy

The U.K. government commissioned the consultancy firm Environmental Resource Management (ERM) to draft proposals on a new public procurement strategy for timber. This work was completed in November 2002 and the ERM proposals are now being considered by the U.K. government. ERM propose that:

- as a minimum, all wood supplied under public sector contracts shall be derived from legal sources. suppliers will be required to provide independent verification, from an "appropriately qualified" body, that wood is legally obtained.

- all wood supplied will be classified into "legal"; "legal and progressing towards sustainable"; and "legal and sustainable".

and effective enforcement agencies. In many instances it is necessary to undertake a drawn out process of consultation and consensus building in producer countries. Where harvesting is unsustainable, there is a need to develop alternative sources of income. All work, indeed, that is already being carried out by various international agencies, such as ITTO, but which receives far too little recognition.

Too much faith in chain of custody

Unfortunately, the combination of lack of data, over-simplification, and environmentalist pressure has meant that most European initiatives emphasize international trade issues at the expense of capacity-building. Furthermore, there are technical problems associated with the market solutions proposed. The need for independent audits of "chain of custody" is a common theme running throughout the initiatives. Experience from forest certification has shown how challenging the development of enforceable and cost-effective "chain of custody" procedures can be. Even rich well regulated countries with a large area of certified forest, such as Sweden, have considerable difficulty supplying significant volumes of certified final product to market.

The proposed requirements for chain of custody assessment are swimming against the tide of other developments in the forest sector. Globalisation has massively increased the complexity of international trade networks. Western European manufacturers are using less and less primary wood products. Many now act more like assembly plants, buying finished and semi-finished components from the most competitive sources. These sources tend to be those where labour costs are lowest, and may be

- the emphasis will be on progressive improvement. The government will establish quantitative targets to ensure that all wood eventually comes from "legal and sustainable sources".

- the preferred method for suppliers to demonstrate compliance will be independent chain of custody audits backed by third party forest management certificates.

- a set of criteria has been established to assess forest certification and chain of custody auditing schemes. Only forest certificates and wood product labels recognised as meeting the criteria, following assessment by an expert panel established by the U.K. government, will be accepted.

thousands of miles from the forests supplying the wood raw material. More and more wood is being exported to a third country, such as China, for further processing and combination with other products, before arriving in the E.U.

Need for an alternative

It is likely that European authorities, having appreciated the complexities of wood trade flows, will realize the limitations of the "chain of custody" approach. If so, the industry needs to provide credible alternatives. One possibility would be for European governments to encourage the development and adoption of a code of practice on environmental timber procurement by all wood trading and manufacturing companies. To ensure implementation and add credibility, it would be necessary to develop procedures for voluntary independent assessment of

Continued page 11

Box 3: UK-Indonesia Bilateral Agreement

In April 2002 the U.K. government signed a bilateral agreement with the Indonesian government to work jointly to combat the trade in illegally sourced wood products. Amongst other measures, the draft joint Action Plan calls for:

- both governments to support "the development, testing and implementation of systems of verification of legal compliance based on independently verified chain-of-custody tracking systems, in due course to be applied throughout Indonesia."

- the U.K. government "to provide technical and financial assistance to support the design and implementation of legal compliance verification and the accompanying legal and administrative reforms".

Special report - Illegal Logging

European response

cont. from page 10

conformance with the code.

European nations have an important role to play in helping to combat illegal activities in the wood trade. However policy makers need to be steered away from prescriptive measures aimed at tracing every parcel of wood from forest to point of European import. Instead the policy response should be prioritized as follows:

■ first, support research with the aim of establishing the location, scale, nature and

source of the problem;

■ second, support co-operative efforts with producer nations and through international agencies (such as ITTO) to contribute to capacity building in countries where illegal logging has been identified as a significant problem;

■ third, continue to work towards multi-lateral solutions through the FLEG meetings;

■ and fourth, encourage and assist the private sector to develop and promote codes of practice on environmental timber procurement, together with procedures for voluntary independent audit against these codes.

Exchange rates

		One GB pound (£)			One US Dollar (\$)			One Euro		
		27-Sep	26-Oct	29-Nov	27-Sep	26-Oct	29-Nov	27-Sep	26-Oct	29-Nov
Argentina	Peso	5.7827	5.6367	5.6483	3.725	3.6250	3.6300	3.6339	3.5424	3.6110
Australia	Aus. \$	2.854	2.805	2.7717	1.8384	1.8039	1.7813	1.7935	1.7628	1.7719
Bangladesh	Taka	89.8064	89.9539	90.0925	57.85	57.8500	57.9000	56.4356	56.5310	57.5961
Belize	B\$	3.0582	3.0633	3.0653	1.97	1.9700	1.9700	1.9218	1.9251	1.9596
Bolivia	Boliviano	11.4094	11.5102	11.5447	7.3495	7.4023	7.4195	7.1698	7.2335	7.3805
Botswana	Pula	9.782	9.5455	9.0047	6.3012	6.1388	5.7871	6.1471	5.9988	5.7567
Brazil	Real	5.983	5.9135	5.6755	3.854	3.8030	3.6475	3.7598	3.7163	3.6283
Canada	Canadian \$	2.4481	2.4387	2.4376	1.577	1.5683	1.5666	1.5384	1.5326	1.5584
Chile	Peso	1161.74	1143.280	1095.040	748.35	735.252	703.752	730.05	718.488	700.058
China	Yuan	12.8336	12.8707	12.8794	8.2669	8.2772	8.2772	8.0648	8.0685	8.2338
Czech Rep.	Koruna	48.2127	49.1849	48.1855	31.0569	31.6312	30.9876	30.2975	30.9100	30.8050
Denmark	Danish Krone	11.8184	11.8249	11.8157	7.613	7.6047	7.4651	7.4268	7.4313	7.4259
Estonia	Kroon	24.9038	24.8962	24.4661	16.0421	16.0109	15.7237	15.6499	15.6459	15.6412
Euro-zone (1)	Euro	1.5913	1.5912	1.5642	1.0251	1.0233	1.0053	1	1	1
Fr. Africa (2)	CFA Fr.	1043.83	1043.78	1026.06	672.4	671.263	659.421	655.96	655.958	655.960
Ghana	Cedi	12768.5	12855.60	13031.50	8225	8267.5	8374.99	8023.9	8079.0	8331.03
Guyana	Guyanese \$	277.88	278.336	278.524	179	179.000	179.00	174.62	174.919	178.06
Hong Kong	HK\$	12.1082	12.1269	12.1347	7.7997	7.7989	7.7986	7.609	7.6211	7.7577
India	Ruppee	75.0586	75.1974	75.1704	48.35	48.3600	48.3100	47.1678	47.2574	48.0564
Indonesia	Rupiah	13998.8	14367.7	13969.0	9017.51	9240.0	8977.5	8797.04	9029.3	8930.4
Japan	Yen	190.961	192.775	190.633	123.0101	123.975	122.5146	120.003	121.148	121.872
Kenya	K. Shilling	122.717	123.696	124.216	79.0498	79.5498	79.8302	77.117	77.7361	79.4112
Korea South	Won	1906.27	1915.31	1880.82	1227.95	1231.8	1208.75	1197.93	1203.7	1202.41
Liberia	Liberian \$	1.5524	1.555	1.556	1	1	1	0.9755	0.9772	0.9947
Malaysia	Ringgit	5.8991	5.9088	5.9128	3.8	3.8	3.8	3.7071	3.7134	3.7800
Myanmar	Kyat	10.0316	10.0542	9.9984	6.462	6.4659	6.4257	6.304	6.3185	6.3920
New Zealand	NZ\$	3.2999	3.1959	3.1192	2.1257	2.0553	2.0046	2.0737	2.0084	1.9941
Nigeria	Naira	196.92	198.179	200.413	126.85	127.450	128.800	123.75	124.545	128.124
Papua NG	Kina	6.1741	6.9909	6.4051	3.9771	4.4959	4.1164	3.8799	4.3934	4.0948
Philippines	Peso	81.42	82.6067	83.2849	52.45	53.1250	53.5249	51.16	51.9137	53.2440
Poland	Zloty	6.4473	6.3092	6.2596	4.1531	4.0575	4.0229	4.0516	3.9650	4.0018
Romania	Leu	51310.7	51927.6	52231.0	33052.5	33395.0	33567.4	32244.3	32633.6	33391.2
Russia	Rouble	49.2096	49.3786	49.5621	31.699	31.7557	31.8522	30.924	31.0317	31.6850
Singapore	Singapore \$	2.7626	2.7579	2.7484	1.7796	1.7736	1.7663	1.7361	1.7332	1.7571
Siomon Is.	Simn. Is. \$	11.2493	11.7889	11.8147	7.2484	7.5815	7.5930	7.0692	7.4087	7.5531
South Africa	Rand	16.36	15.7107	14.4194	10.5385	10.1037	9.2670	10.2808	9.8733	9.2183
Sweden	Krona	14.4749	14.518	14.1057	9.3242	9.3366	9.0653	9.0962	9.1238	9.0178
Taiwan	\$	54.2176	54.1278	54.1955	34.925	34.8100	34.8300	34.0711	34.0163	34.6472
Tanzania	Shilling	1508.93	1528.52	1534.22	972	983.003	986.001	948.23	960.590	980.826
Thailand	Baht	67.3975	67.5237	67.6783	43.415	43.4250	43.495	42.3553	42.4349	43.2667
Uganda	New Shilling	2823.04	2850.22	2863.04	1818.5	1832.998	1840.00	1774.04	1791.205	1830.34
U.K.	£	1	1	1	0.6442	0.6431	0.6427	0.6284	0.6284	0.6393
U.S.A.	US \$	1.5524	1.555	1.556	1	1	1	0.9755	0.9772	0.9947
Venezuela	Bolivar	2284.36	2229.040	2051.980	1471.5	1433.512	1318.75	1435.52	1400.828	1311.83
Vietnam	Dong	23816.1	23889.5	23936.7	15341.5	15363.5	15383.5	14966.4	15013.2	15302.7
Zimbabwe	Doll	86.0807	86.2221	86.2803	55.45	55.4501	55.4500	54.0943	54.1858	55.1589

(1) Belgium, Finland, France, Germany, Greece, Irish Republic, Italy, Luxembourg, Netherlands, Portugal, Spain. (2) Cameroon, CAR, Congo, Gabon & Cote d'Ivoire

Association:

FEDERATION BELGE DU COMMERCE D'IMPORTATION DE BOIS ASBL

Founded in 1946, the aim of the Belgian Timber Importers Federation is to defend and represent the common interests of its members to the national authorities, the Commission and other institutions and organisations located inside and outside Belgium and/or the E.U..

The Federation's 60 members are subdivided into sections i.e. hardwood, softwood, panel products and agents. The members are involved in the trade in logs, lumber, panel products, mouldings, laminated scantlings and parquets from all sources, notably from the Asian Far East, Central and West Africa, North and Latin America, Scandinavia and the Community of Independent States.

The Federation is participating in workshops relating to, amongst other things, certification, CITES, illegal logging, market reviews, phytosanitary requirements, and customs procedures. It is also actively involved in wood promotion being a co-founder of the Belgian promotion office "ASBL BOIS - VZW HOUT."

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Hardwood Events

Date	Event	Venue	Target audience	Contact
2003				
26 Feb -1 Mar	CEBU X 2003	Cebu City, Philipinnes	Furniture Industry	
25-28 Feb	Woodbuild China Furniteck China	Shanghai, China	Construction, furniture wood and processing	zemg@erols.com
3-7 Mar	Malaysia Furniture Export Exhibition (MAFEX 2003)	KL, Malaysia	Furniture industry	www.muarfurniture.org muarfurn@tm.net.my
4-8 Mar	Malaysian International Furniture Fair	KL, Malaysia	Furniture Industry	info@miff.com.my www.miff.com.my
10-12 Mar	Hardwood Manufacturers Association Meeting	Charleston, S. Carolina USA	U.S. Hardwood Manufacturers	info@hardwood.org
11-15 Mar	Properties and Utilisation of Tropical Woods	FRIM, Kuala Lumpur Malaysia	Wood technology, trade	Forest Research Institute Malaysia ganks@frim.gov.my
26-28 Mar	World of Wood 2003	New Orleans, USA	Timber trade	www.iwpa.org/convention.html T: +1 703 820 6696, F: +1 703 820 8550
12-17 May	34th Session of the International Tropical Timber Organisation	Panama City, Panama	Government, timber trade, NGOs	www.itto.or.jp itto@itto.or.jp
26 May-6 Jun	3rd Session of the United Nations Forum on Forests	Geneva, Switzerland	Government, trade associations, NGOs	unff@un.org www.un.org/esa/sustdev/forests.htm
21-28 Sep	XII World Forestry Congress	Quebec, Canada	Forestry	www.wfc2003.org

Changing direction of African trade

The value of European imports of African tropical logs and sawn lumber was down 19% and 8% respectively during the first half of 2002 compared to the same period last year. Nevertheless, slow European demand did not lead to a fall in prices which have remained generally stable this year. The weak European market was compensated by reasonable Asian demand and by a decline in the availability of African wood. **Page 3**

Slow European consumption of African sawn lumber

European markets for African logs and lumber picked up slightly in October in order to replenish depleted stocks, but underlying consumption is still slow hindering exporters efforts to raise prices. Chinese demand for okoume logs remained good, but there may be a seasonal slowdown as importers seek to avoid arrivals over Chinese New Year. Limited log production in Gabon has contributed to firm prices for okoume logs. **Pages 3-4**

Emerging consensus on tropical forestry

Even the renewed presence of environmental groups at the recent ITTO meeting in Japan failed to generate controversy, an indication of the emerging international consensus on tropical forests. Greater priority is now attached to tackling illegal logging. There is also growing recognition of the need for a phased approach to forest certification in the tropics. **Page 4**

Meranti market finely balanced

Forward prices of Malaysian sawn lumber prices have generally remained stable over recent weeks, balanced between limited supplies and slow demand. Availability may become tighter over coming weeks due to deteriorating weather conditions in Malaysia and the series of holidays in the Far East. There is also little prospect for a rapid upturn in demand. **Page 5**

No end to Chinese boom...

Chinese log and lumber imports were up 57% and 46% respectively during the first 8 months of 2002, driven mainly by rising domestic demand. Meanwhile plywood and veneer imports continue to decline as Chinese domestic processing capacity has increased. **Page 5**

... nor to Japan's woes

Japanese imports of tropical logs and lumber were down 17% and 14% respectively during the first 8 months of this year. A wide range of factors have contributed including weak underlying consumption of Japanese plywood, rising competition from Chinese manufacturers, and falling availability of good quality logs and lumber from the Far East. **Page 6**

Report on Brazilian forestry

ITTO has just published the report of an expert mission looking at progress towards sustainable forest management in Brazil. It highlights the need for radical changes in the Amazonian tropical hardwood sector if it is to become a major player on the international scene. It also suggests that levels of illegal logging have fallen sharply in Brazil over recent years. However the Amazon is now under greater threat from legalised forest clearance for agriculture **Pages 6-7**

Rising concern about green lumber shortage in the U.S.

The U.S. economy continues to look shaky. However American domestic demand for hardwood, particularly lower grades, continues to be buoyed by good residential construction activity. But concerns are rising over tightening availability of American hardwood logs and green lumber, which may signal future shortfalls in kiln lumber supplies. **Page 7**

Competitive U.S. export markets

American hardwood export markets remain intensely competitive, with many exporters citing dull European demand and increased

usage of European hardwoods as a major factor driving competition. However, overall American hardwood export volumes have been rising this year, a trend driven by rising demand in China and SE Asia. **Page 8**

Depression in Western European hardwood market

Market conditions for Western European hardwood lumber are very poor. The beech market continues to be affected by overstocking and poor prices. Even the Western European oak market, which has proved more resilient to the downturn, is showing signs of weakness. A sharp downturn in harvesting of good quality hardwood logs this year may contribute to greater stability at the higher value end of the market. However markets for lower grade Western European hardwood may remain vulnerable. Market conditions for Eastern European suppliers are generally more favourable, particularly for high grade oak from Croatia and Slovenia. **Page 9**

Flawed European approach to illegal logging

European policy makers have been busy drawing up action programs and public procurement policies to tackle illegal logging. Existing draft policies place great emphasis on trade measures, particularly on independent assessment of chain of custody. This response seems to reflect a simplistic view of the illegal logging issue and lack of appreciation of the complexities of the international wood trade. Our Editorial argues that a more appropriate response would be to attach greater priority to capacity building in producer countries where illegal logging is a significant problem. European trading companies should be encouraged to adopt a corporate code of practice on environmental timber procurement.

Lead article: Pages 1, 10-11

Editorial: Page 3