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Contents

Malaysian wood trade.	1/4
Editorial - World Forests 2000	2
African tropical log market	2/3
African tropical sawn lumber market	3/4
Malaysian sawn lumber	5
Teak	5/6
Rubberwood	6
U.S. economy and domestic market	6/7
N. American supply	6
N. American export demand.	7/8
N. American species breakdown	8
Brazilian sawn lumber	9
Peru	9
European beech	9/10
World furniture market	10
Global Forest Resources.	11/12
Focus on UK	11
Hardwood logs and lumber	12/13
Veneer	13
Plywood	13/14
Construction	14
Joinery	14/15
Furniture	15
Profile: MFIC, Malaysia.	15
Hardwood Events	15
News summary	16

Statistics in this issue

■ Peninsular Malaysia wood exports	4
Jan-Sept 2001, volume by destination	
■ Sabah exports	4
Jan-Jun 2001, volume by destination	
■ Sarawak exports	4
Jan-Jun 2001, volume by destination,	
■ Malaysia furniture exports	4
Jan-Jun 2001, value by destination,	
■ U.S. exports	7
Jan-Nov 2001, volume by regional	
destination, logs, lumber, veneer	
■ Global Forest Indicators 2000	11
■ UK imports of hardwood primary	
and secondary wood products	13
Value by source country	
Jan-Sept, 2000 & 2001	

Malaysian downturn

The year 2001 was a bad one for the Malaysian forest industry as it struggled to cope with declining export demand, rising levels of competition on international markets, and problems of log supply in some areas. In the first nine months last year, the Malaysia's timber sector recorded a 19% decrease in exports of timber and timber-based products. The last quarter of the year is unlikely to have been much better as global economic uncertainty intensified after the September 11 terrorist attacks on the US. The Malaysian authorities are now forecasting a drop of 10 to 15 per cent in export earnings from timber products and furniture in 2001 compared to the previous year.

These figures have raised concerns over the possibility of widespread closures in the Malaysian industry during 2002. Such closures would have serious implications for the Malaysian economy as a whole since the timber and furniture industry employs more than 250,000 workers and contributes annually around US\$5.8 billion in revenue to the country.

The extent of the problems in the sector are revealed by the export data. During the first 9 months of 2001, the volume of exports of sawn lumber from Peninsular Malaysia were down nearly 10%. Exports to continental European countries were particularly weak due to over-stocking following excess buying the previous year combined with weakening economic conditions.

If anything, the problems have been more severe in Sabah. During the first six months of 2001, Sabah's log and sawn lumber exports were down 52% and 45% respectively. This reflects both supply problems and weak demand. Log stocks in Sabah were very restricted during 2001 due to serious delays in the issue of logging licenses. At the same time, Sabah's

authorities were seeking to limit log exports and reserve a greater proportion of production for domestic producers. The problems in Sabah's forest industry are expected to continue into 2002, with reports of further cut-backs in production this year. Log exports from Sarawak were also depressed last year. During the first six months of 2001, log exports from the state were down 26% on the previous year. The decline reflected weak demand in Japan from plywood and lumber mills, together with increased competition from other supply sources. The availability of low priced logs from Indonesia contributed to reduced demand for Sarawak logs, particularly in China. In response, shippers in Sarawak were reducing production last year. Demand for Sarawak logs is expected to increase this year following Indonesia's decision to ban log exports.

The rise of Malaysian rubberwood furniture had a major set-back during 2001. Between 1990 and 2000, Malaysian furniture exports increased by around 45% each year. However during the first half of 2001, export value was down nearly 14%. In part the decline reflects economic weakness, particularly in the U.S., but other factors include changes in fashion and increased levels of competition in the mass production end of the furniture market, particularly from China, Vietnam and Indonesia.

In a generally gloomy picture, there are a few bright spots. After a very poor year for Malaysian plywood exports in 2000, there were signs of slight improvement during 2001. This may reflect supply problems in Indonesia which has been offering plywood at extremely low prices over recent years. Also Sarawak managed to increase exports of sawn lumber last year. Amongst sawn lumber markets, the strong recovery in

Continued page 4

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Editorial - World Forests 2000

FAO's newly published Forest Resource Assessment 2000, the most comprehensive survey of the world's forests ever undertaken, contains some important messages for the hardwood sector (see page 11). There is much to be happy about.

The report goes a long way towards rectifying the overblown claims of environmentalists. Contrary to green propaganda, FRA 2000 makes clear that the insatiable appetite of the timber industry is not gobbling up the world's forests.

The report shows that although deforestation is still substantial, the net change in global forest area during the 1990s was lower than in previous decades because of increased expansion of forests, primarily in non tropical regions. Furthermore, while forest area decreased, the volume of timber standing in the world's forests actually increased by 2% during the 1990s.

But the report also suggests that the hardwood industry still has a mountain to climb. It shows that as natural forests have been exploited, the world's timber industry is rapidly becoming more dependent on plantations. It is estimated that forest plantations supply around 35% of global roundwood and this figure is expected to

increase to 44% by 2020.

While plantations have a role to play, they are no substitute for sustainably managed natural forest. Economics dictates that plantations are mainly composed of fast-growing, usually softwood, species. And, as our article on teak (page 5) shows, even where hardwood plantations are established, the quality is usually lower than the natural forest product.

The world is faced with a huge increase in the supply of general-purpose utility grade plantation wood, and a progressive and fairly rapid decline in the availability of high grade hardwood. This creates several challenges for the hardwood sector. First is the need to ensure that policy makers remain committed to sustainable management of natural forests and do not come to rely too heavily on plantations. Second, the hardwood sector needs to continue to develop, with some urgency, markets for a wider range of hardwood species and for "character" grades. And finally, the report emphasises the lunacy of selling good quality natural forest hardwoods as general-purpose utility timber. These hardwoods need to be lifted out of the commodity trade through an expansion in the market for high value decorative timber.

African logs

Ban pushes up ayous prices

The dry season in the tropical supplying regions of Africa north of the equator was delayed by a month this year and, in January, logging operations were just getting underway following the lengthy Christmas slowdown. Overall international demand for African tropical logs remains subdued. Prices for most species have remained reasonably stable, owing to relatively restricted production and continuing good demand from African sawmills.

However **azobe** and **ayous** stand out as exceptions, a fact which reflects the Cameroon authorities decision to ban export of these species in log form. Originally the ban was to be implemented from 1 January 2002, but the deadline has now been extended to 31 March. In the short term, threat of the ban has increased purchases of these species and pushed prices higher. Stocks of **azobe** and **ayous** are said to be low at Douala, so prices may increase even further. According to ITTO, there are rumours that, in fact, a quota system may be imposed rather than an outright ban. Either way, log exports from the port of Douala during 2002 are likely to consist

almost entirely of logs from **Central African Republic** and **Congo (Brazzaville)**.

Operations in **Congo (Brazzaville)** are said to be proceeding as normal this season, despite a dispute between government and the timber industry. The government has produced a report proposing that the industry should direct log exports through Brazzaville and Port Noire rather than via Douala in the Cameroon. However the industry has said that given the current state of Brazzaville-Pointe Noire CFCO railroad, this is not a realistic option. A stand-off has developed between the industry and government which may cause disruption this year.

There is expected to be more logging activity in **Central African Republic** this season, although recent reports from OTAL, the shipping company, suggest that political tension remains high. The CAR government has been embroiled in fierce fighting in the Chad border regions since an attempted coup in May by General Bozize, the sacked CAR army chief of staff.

Activity in the **Democratic Republic of Congo (DRC)** is still very limited. Prospects this year in DRC look better than they have since the start of the civil war in 1998. However there is still political uncertainty

African indicative prices

	Oct	Nov	Jan
Exchange rates			
US\$/£	1.46	1.43	1.41
Euro/£	1.62	1.59	1.64
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	190	190	185
Walnut	190	190	185
Iroko	270	270	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	518	510	510
Sipo	670	670	630
Bibolo	400	400	400
N'Gollon	535	535	535
Afromosia	855	855	na
Iroko	540	540	520
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	518	518	500
Mahogany	420	420	420
Framire	328	328	320
Samba No.1 C&S	235	235	240
Dimension stock			
Azobe	400/	400/	400/
	460	460	460
Dabema	300/	300/	300/
	390	390	390
Gabon			
Euro/m3; FOB			
Grade and size: FAS, width 6"+, length 6'+			
Okoume AD	343	343	330
Okoume KD	381	381	370

and it may take a long time to rebuild the necessary infra-structure.

Reports from **Liberia** this season are far from encouraging. There is fighting in Lofa County in the heart of the major producing region of north west Liberia which has effectively stopped the flow of logs out of Monrovia. However exports are continuing from the south-eastern producing regions via the port of Cape Palmas. The OTC, a large joint Malaysian and Liberian operation, also continues to ship large volumes of logs out of the Port of Buchanan. The scale of this operation seems to be escalating and the rumoured figures for log production, for which we are currently seeking confirmation, are startling. There are also rumours that OTC has just opened a plywood mill with production capacity of 1000 m3/per day.

The major European markets for African logs were subdued during the last quarter of 2001, and have been slow to pick up this year. Demand in Portugal has been well down, a factor which particularly affects

agba logs favoured in this market. Spain is also quiet. Underlying demand for hardwoods in France was weakening during the last quarter of 2001 as importers of African logs adopted a wait-and-see attitude. However there are reports that French buyers are now in the market for **movingui, moabi, douka** and **niangon**. Demand in Germany is currently subdued, with most importers now focusing exclusively on the best quality logs.

Weak demand from the plywood sector has led to slow demand for logs in the Far East. This may be partly compensated in the months ahead by the ban on log exports in Indonesia which may increase demand for alternative African logs. At the end of last year, the Gabon state marketing organisation, SNBG, was offloading older stocks of **okoume** logs to China at relatively low prices. The Japanese Lumber Journal reports very little demand for okoume logs from the Japanese plywood sector.

African sawn lumber Push for higher prices

Although the dry season has now arrived, overall log availability is constrained in much of west and central Africa. Sawmillers throughout Cameroon, Ivory Coast and Ghana are still complaining of high log prices and of subdued and highly competitive export markets. Demand for African sawn lumber is reasonably steady in the UK, but is down in France, central and southern Europe. Buyers throughout Europe are cutting stocks and are not engaging in long term contracts.

Shippers are trying to push through higher sawn lumber prices, but so far with only limited success. Most analysts are predicting that prices for African tropical sawn lumber will generally remain stable during the opening months of this year, perhaps rising later in the year as importers take steps to replace diminished stocks at a time when availability may be constrained. Declining availability of sawn lumber from traditional sources of supply may be partly off-set this year by improved availability from **Congo (Brazzaville)** and **Central African Republic**. Some analysts expect efforts to restrict log exports and increase processing capacity to be extended into these countries during 2002.

■ **Cameroon** – under pressure from the World Bank, logging restrictions continue to intensify. Some analysts suggest that log harvesting this season is expected to be down at least 25% on last year. The ban on

exports of ayous and azobe logs may act to further limit availability of primary redwoods as a portion of Cameroon's sawmilling and kilning capacity is turned over to process these species. Efforts to control illegal extraction are also intensifying. According to a report from the Pan-African news agency (PANA) in early January, the Cameroon Ministry of Environment and Forestry has meted sanctions on some 60 Cameroonian timber companies accused of various offences. The first series of measures were taken against some 40 companies found guilty of fraudulent logging, mostly by operating beyond the authorized limits, as well as felling protected tree species. The offenders were fined between 1.9 and 91m CFA francs (US\$2,600 and US\$125,000). 20 other companies, whose offences were not specified, had their permits suspended.

■ **Ivory Coast** – the authorities have not yet issued logging licenses, which are still being negotiated, and harvesting has been delayed this season. There are reports that roads in the country have deteriorated badly, which is likely to impede extraction this season. Harvesting this year is expected to be well down on previous years due to resource constraints. Availability of primary redwoods is now very constrained, but there is some iroko available. In the past, mills in the Ivory Coast have been able to supplement domestic supplies with imports from Guinea, but at present there is little or no availability from this source. There is over-capacity and mill closures are expected this year.

■ **Ghana** – harvesting and production is only just getting fully underway after Ghana's protracted holiday season. Now that Ghana has reformed the concession system to introduce Timber Utilisation Contracts, supplies are more consistent, if still relatively constrained. Mills are generally pushing for higher prices to accommodate the export levy increases introduced last year. Availability of primary redwoods is now very limited and the trade is heavily focused on wawa, and increasingly on lesser known species and value added products.

■ **Sapele** – demand has been slow to pick up this year. The important Spanish market has been quiet. In the UK, where sapele is now a mainstay of the trade, there was a minor improvement in the forward market for sapele during December and January as importers moved to replenish depleted stocks. However this trend may be short lived, redressing a temporary imbalance in the market, rather than a sustained increase in demand. Prices remain stable, although

Africa

Sawn lumber *cont.*

some analysts forecast that prices may rise later in the year in response to tightening supplies and improving European demand.

■ **Iroko** – prices have been stable to slightly weak. Ireland is still sitting on excess stocks of iroko in some size specifications, particularly squares. There has also been a partial switch away from iroko to sapele in Ireland, and some analysts suggest that framire may also begin to take market share this year. However there is optimism that forward demand in Ireland will be better this year after a dismal year in 2001. Underlying demand at present is not particularly buoyant, partly because of poor weather. Irish importers are generally waiting to see how the market develops before making any commitments. Demand for iroko in Spain has also been slow to pick up this year.

■ **Framire** – demand in the UK has now stabilised after rising fairly rapidly last year as this species from the Ivory Coast filled a niche as a cheap iroko substitute. Prices have weakened slightly over recent weeks.

■ **Wawa** – prices have remained stable and firm, a reflection more of restricted supply than particularly buoyant demand, although there are reports of a few good orders in the UK during January. There is less availability of strips than of randoms. Prices for kiln dried Ghanaian wawa delivered to the yard in the UK are in the region of £215/m³ to £235/m³ depending on specification.

■ **Sipo/utile** – prices on offer vary considerably, with reports that some shippers are offering air dried stock as low as euro 580/m³ (FOB Douala), while other (perhaps more reliable) shippers are offering stock at euro 650/m³. The reasons for the wide range in prices are not immediately apparent since supplies are still reported to be tight and demand is steady, particularly as sipo is now helping to fill the niche recently vacated by Brazilian mahogany.

■ **Okoume** – availability of sawn lumber is likely to improve this year as processing capacity in Gabon is increasing. So far EU markets have not been receptive to okoume sawn lumber, but demand is improving in other regions, for example the Middle East.

■ **Afrormosia** – the European Union has suspended the import of afrormosia from Cameroon following the issue of a report by the Belgian scientific authorities expressing concern about its conservation status. A scientific inquest is now underway to establish the real status of this species, and a final decision on the future of the European trade in this species is expected after 1st March.

Asia

Malaysian downturn *Cont.*

Thailand during 2000 seems to have continued into 2001, while gains were also made in China and Hong Kong. In the furniture sector, Malaysian manufacturers had some success in generating increased levels of sales in Canada.

In an effort to overcome the challenges now facing the forest sector, the Malaysian authorities are encouraging industry to reduce their dependency on traditional markets, to upgrade production facilities and

give greater emphasis to value-added production, to focus on higher quality, to invest in modern furniture design, and to devote more resources to marketing. In an effort to overcome resource constraints in Peninsular Malaysia and Sabah, they are also encouraging private participation in forest plantation development. So far, despite various tax incentives provided by the Government, few private companies have ventured into forest plantation development.

West Malaysian exports (000 m3)

	2001 Jan-Sept	00/01 % Chg
Sawn lumber by species		
Merbau	20.5	-30.8
All Heavy Hardwood	30.6	-22.6
Keruing	47.2	4.1
Redwood	11.0	-20.6
Kempas	25.5	0.0
Kapur	14.2	-2.9
All Medium Hardwood	141.6	2.3
Meranti, Dark Red	85.6	-35.7
Meranti, Red	48.6	-34.7
Ramin	31.3	0.0
All Light Hardwood	491.7	-12.0
Softwood/foreign	5.9	17.3
Total	669.7	-9.7

Sawn lumber by destination

	2001	00/01 % Chg
Total	669.7	-9.7
Netherlands	109.4	-34.5
Thailand	167.2	-0.1
Singapore	91.8	-12.4
Belgium	28.5	-39.0
UAE	26.6	-30.7
Germany	16.0	-48.1
Japan	33.1	-5.7
United Kingdom	15.4	-5.5
Italy	17.2	0.6
China	41.0	163.4
Hong Kong	50.3	373.2
Yemen	8.0	-43.3
Saudi Arabia	8.0	-22.2

Plywood

	2001	00/01 % Chg
Total	167.3	3.7
Singapore	55.1	-15.1
Japan	22.0	-27.2
United Kingdom	24.2	54.0

Mouldings

	2001	00/01 % Chg
Total	122.7	-45.1
Hong Kong	13.7	-80.2
Japan	31.8	0.4
Australia	16.6	-34.3
Taiwan	7.3	-60.0
USA	14.8	-32.9
UK	5.5	8.9

Veneer

	2001	00/01 % Chg
Total	2.4	-19.0
Taiwan	1.1	1258.2
Singapore	201.0	-85.9

All Malaysia furniture exports (US\$ millions)

	2001 Jan-June	00/01 % Chg
Total	465.8	-13.7
USA	149.3	-20.3
Japan	71.2	-6.9
UK	51.6	-5.6
Singapore	32.9	-24.6
Australia	28.7	-28
Canada	14.6	24.7

Sabah exports (000 m3)

	2001 Jan-June	00/01 % Chg
Logs		
Total	186.4	-51.9
Indonesia	125.7	-14.2
Japan	10.7	-87.4
Sawn lumber		
Total	237.4	-45.2
Thailand	50.2	-32.1
Netherlands	23.7	-44.2
Philippines	20.5	-45.6
Japan	23.3	-75.4
Taiwan	21.0	-1.7
South Korea	22.4	-31.5
Hong Kong	16.1	-43.1

Plywood

	2001	00/01 % Chg
Total	480.3	19.1
Japan	187.4	6.5
USA	81.5	56.4
South Korea	84.3	61.7
Hong Kong	23.1	-43.9
Taiwan	43.5	6.9

Mouldings

	2001	00/01 % Chg
Total	66.2	-25.0
Japan	22.5	0.4
Taiwan	18.6	-37.2

Veneer

	2001	00/01 % Chg
Total	86.3	-49.6
China	28.9	-70.8
South Korea	23.5	105.5
Taiwan	13.6	-56.5

Sarawak exports (000 m3)

	2001 Jan-June	00/01 % Chg
Logs		
Total	2172.4	-25.8
Japan	681.9	-32.0
China	433.0	-23.2
Taiwan	318.6	-24.4
India	371.0	-5.8
Hong Kong	191.4	-35.1
South Korea	100.2	-19.4
Thailand	16.9	-72.5

Sawn

	2001	00/01 % Chg
Total	527.7	3.6
Thailand	127.9	36.0
Philippines	97.5	-4.9
Taiwan	67.8	-12.2
China	45.4	10.3

Plywood

	2001	00/01 % Chg
Total	1145.8	12.6
Japan	724.8	26.3
USA	78.5	-29.0
South Korea	75.6	46.5

Veneer

	2001	00/01 % Chg
Total	264.0	-1.6
Philippines	63.0	-3.9
China	48.6	-46.0
Hong Kong	42.4	149.3
South Korea	41.2	1.5

Malaysian sawn lumber Forward supplies run thin

Inventories at sawmills in **Peninsular Malaysia** are reported to be low because of enforcement of logging regulations and the monsoon which is due to run until the end of March. Supply is also very thin in **Sabah** as domestic harvests are now much more restricted and Indonesia is taking steps to limit log exports. Although some species and specifications are still reasonably easy to source, such as **1" kiln dried dark red meranti**, others are becoming scarce. For example, **nemesu** is not so readily available, and there are reports that stocks of shorts and strips in **merbau** are limited. The majority of sawmills in Malaysia are also due to close in February for the annual Chinese New Year celebrations (the first day of the Chinese New Year is February 16).

Overall, Malaysian exporters are keeping a low profile and there are few spot offers around. This is unusual for the time of year since Malaysian shippers are often active and selling cheap just before the Chinese New Year as they try to collect sufficient funds for bonuses. On the evidence available, prices for Malaysian sawn lumber appear now to have reached bottom and to be strengthening, but only slowly.

European demand has been slow to pick up in the new year. Poor weather has meant that the building sector in **the Netherlands** is quiet overall and underlying demand is therefore slow. Many of the large Dutch importers are still over-stocked in **meranti**. Stock levels of some of the smaller Dutch companies are at a more reasonable level. This, coupled with the perception that prices may soon increase, has prompted a slight upturn in buying of **meranti** sawn lumber from Malaysia since the start of the year. Dutch demand for **merbau** is reported to be very weak, with only limited buying of 7/4 x 10 ft. for stairs and 2.1/2 x 5ft and 6ft for doors.

Meranti stock levels in the **UK** are reasonably balanced and UK agents report that there has been a reasonable level of enquiries since the start of the year. However many importers remain reluctant to make significant commitments to the meranti forward market. **Keruing** demand in the UK is weak, partly due to competition from cheap plywood in the truck decking sector.

Low prices and slow demand have meant that carrying stocks of **meranti** in Europe has not been profitable over recent months. Even the large trading companies now report that there is little advantage to be had from

Asian Sawn Lumber Indicative Prices

	Oct	Nov	Jan
Exchange rates:			
M\$/£	5.56	5.42	5.37
US\$/£	1.46	1.43	1.41
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 1/4'			
1"	660	660	670
2"	700	695	710
2.5"	730	720	740
3"	745	740	760
Keruing			
Grade: Standard & Better GMS			
Size: Random or fixed 16'+			
1"-3"	510	500	500
Nemesu			
Kiln dried			
2"		860	875
2.5"		880	890
3"		890	900
Myanmar Teak			
US\$/50 cu ft, FOB Rangoon/Bangkok/Singapore			
Grade: Air dried boards			
Size: Width 6"+ avg 8", Length 6'+ avg 8'			
1"	2850/ 3500	2850/ 3500	2750/ 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>			

bringing in unsold stock of **meranti** and they have been reducing inventory levels. The current strength of the dollar against European currencies is another factor which still deters European importers from building inventory. Any weakening in the dollar exchange rate would undermine the value of existing European stocks.

Sabah Royalty reform proposed

The Sabah state government plans to reform the timber royalty system this year in an effort to secure US\$41 million in revenue from forest resources this year. The State Timber Royalty Committee were due to meet in January to discuss the matter. The current structure of royalty for timber export ranges between RM100 (\$26) and RM600 (\$158) per m3, depending on the species, while the royalty rate of timber for local processing ranges between RM45 (\$12) and RM70 (\$18) per m3. The revenue target implies some increase in these rates. A spokesman for the Royalty Committee has said will it take into account the views of the Timber Association of Sabah, Forestry Department and Natural Resources Department before fixing the new royalty structure.

Teak

The international teak market continues to polarise as consumption and trade patterns change.

Consumption of teak in European countries such as the UK has continued to fall and trade in teak boards is now a speciality business with so many teak products such as flooring and garden furniture being produced in the source countries. It is widely suggested, for example, that trading in teak sawn boards is now a niche market in the UK with only one importer dominating what trade is left. The main use of sawn lumber and much of the veneer is in shipbuilding and luxury boat building, and perhaps a little joinery. Elsewhere in Europe, especially in the Netherlands and Belgium, there are also specialist importers dealing in sawn boards and strips – largely for the same uses. Consumption of teak flooring is still popular but represents a very small percentage of the total hardwood flooring market, which is dominated by temperate species. Accordingly the number of European sales agents operating in the teak sawn lumber market is dwindling.

The U.S. market for teak lumber continues to thrive in much the same application sectors although recently demand has been relatively thin and this may well account for the slight price weakness, despite the reduction in supplies of teak especially from Myanmar. A recent report from Yangon suggested that "Myanmar is running short of teak for export as supply has declined considerably in the past two decades" according to the state-run Myanmar Timber Enterprise (MTE). Production is said to be down from a level of 400,000 tons in the mid 1970s to about 200,000 tons annually since 1998.

The issue of plantation versus natural grown teak is another basis for polarisation, which has been particularly evident at the recent furniture shows in Europe. Most of the garden furniture exhibited has been produced from plantation teak in the country of origin - the vast majority from Indonesia, which is now one of the world's five largest emerging furniture exporting countries. However the quality of plantation teak is said to vary hugely, often as a result of poor, (or even no) plantation management in the early rotation of the trees. Added to this is the view that plantation teak in some countries where teak has been introduced, mainly in Africa, varies in character too much from natural grown native teak to be of interest to European markets, being dry and

Asia

Teak *Cont.*

brittle. Poorly managed plantation teak develops very low yield of clear lumber; and "knotty teak" markets have not emerged. All furniture and flooring manufacturers demand clear, knot-free teak; and the boatbuilding industry will only consider high quality material, given the end value of their final product. So too does the veneer industry which still buys many of the finest logs for applications such as audio cabinets and furniture. There are some signs that teak furniture is gradually creeping from the garden, through the conservatory and into the living room – although designs are very different from the old scan-style furniture of the 1970s.

But India provides the final part in the teak market pattern, taking all the logs of every description, quality from any available source. Long, mis-shapen plantation logs and poor grades of logs from multiple sources are commonplace in India's huge log yards at several ports, and the appetite of the Indian consumer for teak seems insatiable. India has long produced its own native teak, but a vast population and increasing middle class demand far outstrips a supply that is also subject to Government restrictions on harvesting.

Rubberwood

Reduction in export levy

THE Malaysian Government intends to reduce the export quota on sawn rubberwood and reduce the export levy on the timber by half from RM120 (\$32) per m³ to RM60 (\$16) with effect from 1 February 2002. The aim is to enhance sawn rubberwood's competitiveness in the international market. The decision was taken following calls by exporters for the Malaysian government to open up the export trade in sawn rubberwood. During 2001, despite the growth of high stocks of sawn rubberwood at Malaysian mills, only 25% of the export quota of 150,000 cubic metres approved was met by the 60 exporters registered with the Malaysian Timber Industry Board (MTIB). The Malaysian authorities have said they will continue to monitor the situation and may reverse the policy in the event of a shortage in the future. Due to relatively weak demand for Malaysian furniture in 2001, it is estimated that existing stocks of sawn rubberwood in Malaysia may be as high as 350,000 cubic metres. FOB prices for sawn rubberwood currently range between US\$130/m³ and US\$210/m³.

North America

Domestic demand

Recession already over?

Statistical data released at the end of January suggests that America's recession may already be over. The University of Michigan's consumer-sentiment index rose from 88.8 in December to 94.2 in January, it's highest in a year. The rise was faster than analysts had expected and is the survey's fourth consecutive monthly increase since the terrorist attacks in September. The Conference Board's index of leading economic indicators rose by 1.2% in December, it's largest gain in almost six years. The news encouraged Wall Street economists to revise up their growth forecasts. It appears that the US Federal Reserve has, through swift interest rate cuts, saved the US economy from deep recession. On the downside, household and corporate debt looms dangerously large in the United States, an inevitable consequence of a recession which resulted mainly from the bursting of one of the biggest financial bubbles in history. In the fourth quarter of 2001, American companies in all sectors slashed inventories by more than they ever did before. A turnaround in inventories may boost output in the first quarter of 2002. However for a sustained economic recovery, business investment and consumer spending must take over.

Consumer confidence has remained remarkably resilient throughout the recession, but this has meant that household debts have continued to rise as people have borrowed more to sustain their spending. These debts now look horribly stretched. This will limit the usual increase

in borrowing that fuels an economic recovery. It also creates a risk that consumers may eventually have to cut their spending.

Overall the outlook is for economic recovery during 2002, but the heavy debt burden may lead to several years of relatively slow growth.

Resilient construction sector

Performance in some sectors of direct relevance to the wood industry remained reasonably good throughout the downturn. The U.S. Census Bureau reports housing starts for December 2001 were at a seasonally adjusted annual rate of 1,570,000 units, 3.4% down on November 2001, but 2.5% up on December 2000. Building permits, often a indicator for future activity, were at a seasonally adjusted rate of 1,653,000 units in December 2001, 3.6% up on November 2001, and 6.4% up on December 2000. Even with the December decline in total starts, housing construction for all of 2001 rose by 2.2% to an estimated 1,603,000 units, the second highest performance in the last fifteen years.

Good activity in the housing construction sector has fed through into the kitchen cabinet and flooring industries. The Kitchen Cabinet Manufacturers Association *Trend of Business Survey* shows cabinet sales increased 9.5% in December 2001 compared to the same reporting period for 2000. Cabinet sales during 2001 were up 7% on the previous year. According to NOFMA, the Wood Flooring Manufacturers Association, solid hardwood flooring shipments reached an estimated 57,996,000 board feet in December, 19% more than

US hardwood lumber production down 35%

As overall demand for hardwoods has shrunk in the United States, so too has production. The Hardwood Review estimates that U.S. hardwood lumber production during 2001 declined at least 35% or an estimated 5 billion board feet (11.8 million m³) compared to 2000. Mills have quickly reacted to market volatility by regulating production as much as possible. Current information regarding log decks varies widely, as some operations report they are running hand-to-mouth, and others indicate that they are reasonably good. The weather can be an important factor determining levels of logging at this time of year. Conditions at present appear to be reasonably favourable in most regions of the United States. However, this year the size of the log inventories is heavily

dependent upon economic factors, including the amount of perceived risk for the amount of inventory, and most importantly, the ability of the operation to generate sales and cash flow.

At present kiln dried inventories of most species and sizes are adequate to meet demand. However the great emphasis now placed on fast inventory turnover and cash flow has meant that many producers have stopped cutting thicker sizes. This has meant that in some species 6/4 (39 mm) through 10/4 (64mm) lumber is getting harder to find. Any increase in demand could quickly lead to shortages in a wider range of species and sizes. Colder weather will also slow kilning time and increases the likelihood of shortfalls.

North America

Shipments to Mexico slow

Sales and shipments of North American hardwoods to the Mexican market were slowing toward the end of the fourth quarter of 2001 and have yet to show any significant upturn. This trend has impacted heavily on suppliers in the Southern U.S. that rely most heavily on sales to Mexico of lower grade hardwoods, notably red oak. Demand for hardwoods in Mexico is closely tied to economic events in the United States, the major source of demand for Mexican manufactured goods. Mexican manufacturers have been struggling to compete with producers in the Pacific Rim.

December 2000. Manufacturers' shipments of solid hardwood flooring totaled 579,557,000 board feet during 2001, up 3% on the previous year. This was the tenth consecutive year of growth in the US solid hardwood flooring market.

But the gains made in these sectors have to be set against the lost demand for American hardwoods from the domestic furniture sector, almost certain to be permanent. According to a report from ITTO, it is estimated that 50-75 US furniture plants closed in the first six months of 2001 alone. Foreign outsourcing and competition were the primary reasons cited by industry observers for most closures.

Increased furniture imports

Until recently, nearly a quarter of annual US hardwood production (3.4 billion board feet) was consumed by the furniture industry. As manufacturers have either reduced output or shifted production offshore, their utilisation of North American hardwoods has declined correspondingly. Analysts estimate that hardwood shipments to the domestic furniture industry have fallen by as much as 30% in the last two years. While some of this decline is the result of the slower economy, most is related directly to increased imports of finished goods. It is estimated that usage will decline another 20% over the next two years. If this comes to pass, sellers will have seen their market cut in half in a four-year period and will need to find new buyers for over 1.5 billion board feet of lumber.

Reports from the US hardwood industry in all parts of the country continue to stress the intensity of competition, and the emphasis now placed on tight inventory control and maintenance of cash flow. There are reports of increased sales since the start of the year, but these tend to be through established buyer/seller relationships. Sales outside of a core customer base remain

difficult to come by. Inventories have been trimmed throughout the trading chain. Generally speaking, buyers are limiting purchases to specifically what they need and when they need it.

Export demand Europe slow to return

Global markets for American hardwoods are extremely competitive. Although there are reports that inventories of North American hardwoods are relatively low in Europe, few buyers are looking to increase inventories at this time. Various factors are contributing to a "wait and see" approach to buying of North American hardwoods in Europe. First, importers are still having little or no difficulty finding necessary volumes even with short lead times. Second, availability of hardwoods from Central and Eastern Europe is good and quality is better than in previous years. Third, after a brief surge in the value of the euro following the successful issue of notes and coins on January 1st, the European currency fell back again during January. This reflects the emergence of more gloomy economic news from Europe at a time when the US economy has been showing signs of recovery.

Some pick-up in UK demand

In the UK, importers were slow to start buying after the vacation period, but there are reports of a pick-up in demand in the second half of January. In Germany, there were reports of a slight pick up in hardwood demand as importers took steps to replenish stocks after the Christmas vacation, but the trend was short-lived and demand is now subdued. The German economy remains stuck in a rut with most analysts predicting GDP growth of well below 1% this year. In Italy, the furniture sector is expected to grow during 2002, but at a much slower rate than in the last two years. Sales of American tulipwood in Italy have slowed significantly as importers remain cautious and already have adequate inventory. The French furniture industry is quiet which has resulted in slowing sales of American cherry. The Spanish market for white oak has begun the year hesitantly.

Longer term prospects for American hardwoods in Europe remain reasonably good. American hardwoods have a good reputation in the European market and there is still solid demand within specific market sectors. The EU economy will be sluggish this year, but is expected to avoid recession. However, a return to stronger growth in sales of American hardwood is heavily dependent

US exports Jan-Nov 2001

In the eleven months to the end of November 2001, US exports of hardwood lumber were down 11.6% by volume and 15% by value. There was a significant decline in exports to Canada the EU, SE Asia, and Japan. These declines were only partially offset by a 9.4% increase in exports to Greater China, with growth concentrated into mainland China and Hong Kong (sales to Taiwan declined). The volume of US veneer exports also fell last year, but by only 2.7%. A drop in exports to EU, SE Asia and Japan, was compensated by increase in exports to Canada and Greater China. US log exports were on the rise last year, due in part to weak domestic demand in the United States, and the strength of the dollar which means that processing in the United States has been relatively expensive.

Region/ product	Unit	Jan-Nov 2001	% chg 00/01
World			
Hardwood logs	000 m3	1,931	6.3
Hardwood lumber	000 m3	2,435	-11.6
Hardwood veneer	000 m2	262,875	-2.7
Canada			
Hardwood logs	000 m3	1404	8.4
Hardwood lumber	000 m3	851	-12.1
Hardwood veneer	000 m2	84,521	6.8
EU			
Hardwood logs	000 m3	238	-4.8
Hardwood lumber	000 m3	671	-14
Hardwood veneer	000 m2	109,595	-6.3
SE Asia*			
Hardwood logs	000 m3	40	-28.8
Hardwood lumber	000 m3	88	-13.4
Hardwood veneer	000 m2	8,699	-31.8
Greater China*			
Hardwood logs	000 m3	106	64.1
Hardwood lumber	000 m3	407	9.4
Hardwood veneer	000 m2	30,641	15.3
Japan			
Hardwood logs	000 m3	78	-12.1
Hardwood lumber	000 m3	98	-11.3
Hardwood veneer	000 m2	2,006	-41

*SE Asia comprises Indonesia, Malaysia, Philippines, Singapore, Thailand;
Greater China comprises People's Republic of China, Hong Kong, Taiwan

on the euro showing more consistent signs of strength against the dollar.

The world-wide economic slowdown has been a key factor slowing demand in the Southeast Asian and Pacific Rim markets. The economic news from Japan has been consistently bad and the yen is extremely

Continued page 8

North America

weak against the dollar. Shipments of American hardwoods to this destination have continued to be very sluggish. Economic weakness in Japan is having a negative effect on many neighbouring nations such as South Korea, Thailand, Malaysia, and Indonesia. All of these countries, which are key consumers of North American hardwoods, have been hit by the weakness of export demand in both Japan and the United States.

Good underlying demand in China

In the short term, sales to China should slow over the Chinese New Year on February 12. However underlying demand in China and Hong Kong has remained solid and is expected to continue to increase. China's manufacturing base continues to expand, while domestic demand should be boosted by high levels of government spending on infra-structure this year. But China will remain a very challenging market for American hardwoods, as producers in many other parts of the world are also focusing their attention on this market.

Another area of potential growth in American hardwood exports this year is Vietnam. The Vietnamese government has been aggressively seeking foreign investment capital to build furniture factories and other industrial plants over recent years.

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

	Oct	Nov	Jan
\$/£	1.46	1.43	1.41
\$/Euro	0.90	0.90	0.86
Red oak			
1"	1800	1800	1895
1.25"	2030	2000	2000
1.5"	2100	2100	2100
2"	2350	2300	2330
White oak			
1"	1450	1425	1450
1.25"	1765	1700	1650
1.5"	2000	2075	2150
2"	2700	2525	2550
Ash			
1"	1150	1125	1125
2"	1475	1450	1460
Tulipwood			
1"	975	975	1000
1.25"	1025	1015	1040
1.5"	1080	1080	1130
2"	1125	1125	1175
Cherry			
1"	3685	3650	3425
1.25"	3800	3750	3600
1.5"	3950	3900	3800
2"	4175	4150	3900
Hard Maple			
1"	2400	2375	2460
1.25"	2525	2500	2500
1.5"	2750	2775	2750
2"	2850	2925	2850

Species breakdown

■**Ash:** US domestic markets remain weak, particularly due to the downturn in furniture manufacturing. Buyers are limiting activity to established suppliers able to meet additional specifications for colour, texture, lengths, widths, and/or a variety of thicknesses. Efforts have been made to curtail production, which has prevented relentless downward price pressure, but there are still signs of weakness for both green and kiln dried stocks. Overseas demand for high grade ash is dormant in Japan, but there is still interest in ash in the UK. The Chinese have been buying fair volumes of common grade ash.

■**White oak:** Sawmills are actively trying to avoid white oak production since domestic and export markets remain sluggish. Nevertheless there are reports of weakening prices for kiln dried 4/4 FAS during January. Domestic demand for high grades is very weak, although demand for lower grades have been more consistent. European demand continues to be affected by the strength of the dollar and by the rising level of competition from European hardwoods. Buyers in Spain have been slow to come back into the market this year as they have adequate inventories on hand. Demand in the UK was steady during January. Many European buyers are now demanding sorting and highly mixed containers. White oak is however still fashionable in Europe. There are reports of reasonable orders for common grades of white oak in the Far East.

■**Poplar:** production of green lumber in FAS grades is now tightly controlled, which has allowed some firming in green lumber prices. The domestic market for kiln dried FAS material is still competitive, which gives the impression of ample, if not excess, supply. The controlled approach buyers are taking with purchasing adds to the competitive nature of sales. Prices for kiln dried FAS are generally steady. Overseas demand from the important Italian market is sluggish, particularly for 4/4, as importers have adequate inventories. However FAS grades of tulipwood are still selling well in the UK, benefiting from competitive pricing. Over the last 2 years, China has emerged as an important market for tulipwood. Demand for common grades to China and Thailand has been good.

■**Hard maple:** market conditions are very variable, with demand strongly linked to quality. With overall improved availability followed up with "winter-cut" production coming on stream, buyers are becoming more

exacting in specifying colour and tending to focus on established suppliers with proven performance. Both Germany and Italy have sharply reduced their purchases of hard maple. However there are reports of good demand for hard maple in the UK where the species remains fashionable. Canadian buyers have also reduced their orders of US hard maple. Sales of common grades of Appalachian hard maple to Mexico and the Far East have also weakened slightly.

■**Red oak:** Domestic demand, which dominates the market for red oak, is variable depending on grade, thickness, dryness and regional differences. Slower activity for other species has encouraged many mills to increase reliance on red oak production, which has tended to improve availability of both green and kiln dried stock. This has contributed to increased competition for sales on the domestic market and caused some price disruption. However sales of kiln dried 4/4 FAS&1F are described as generally steady, and many industry observers say demand for this commodity is just about keeping pace with production. Overall prices of 4/4 kiln dried are reasonably stable. Considering export markets, US export data to end October suggests that red oak lumber was doing reasonably well in the UK last year. More recent reports indicate red oak shipments to Northern Europe have been steady. Common grades of red oak were selling well to China and South East Asia, but less well to Mexico and Canada. Demand from Saudi Arabia slowed in the last quarter of 2001.

■**Cherry:** domestic demand for common grades of cherry remains weak due to the weakness of the furniture industry. However supply and demand for FAS cherry are closer matched than they are for the common grades, even to the point that selective thicknesses, such as kiln dried 6/4 and 8/4, may not be readily available. European demand for cherry lumber and components has weakened due to uncertainty in the furniture sector and some substitution of alternative species. Demand from Asian buyers has remained more stable.

■**Walnut:** By contrast with other North American hardwoods, activity in domestic markets is robust and overseas demand for steamed walnut remains quite firm. Overseas demand for logs is also strong. Buyer interest in this species has contributed to rising prices.

South America

Brazilian sawn lumber Mahogany still stalled

It is now the wet season in the Amazon region. Most mills are operating with very low log inventories and fresh logs are not expected to arrive before April.

The production, trade and export of Brazilian mahogany continues to be prohibited by IBAMA, the Brazilian environmental agency. Although the trade suspension is still officially temporary, according to some local analysts the prospects of the industry overturning the ruling are not good. Environmentalists have been very active in supporting a total ban on mahogany timber production and trade and have gained widespread public support in Brazil.

IBAMA have said that they would permit trade in certified stock, and it now seems possible that the Brazilian mahogany trade will be entirely restricted to certified wood. IBAMA seem at present to be leaning towards certification through the Forest Stewardship Council as it is the only certification scheme operational in Brazil. Some of the major Brazilian producers are already taking steps to acquire FSC certification, although this may be a drawn out and politically-charged process. There may also be a role here for the forest certification scheme currently being developed through ABNT, Brazil's national standards institution.

Relatively large mahogany stocks

As a result of the trade suspension, some shippers are still sitting on relatively large volumes of mahogany due to be exported under contracts agreed last logging season. No export quota for mahogany has yet been issued for the first six months of 2002. However some producers and exporters have been granted special permission to trade and export small volumes of mahogany following legal appeals. Much of this wood is being shipped to the U.S. with a trickle destined for the United Kingdom. UK

imports of mahogany into the UK this year are unlikely to exceed 2000 m³.

During the past twelve months, mahogany prices increased by almost 10%. Prices are now very high with shippers pushing for even higher prices to cover administrative and court costs. But U.S. buyers are resisting as margins are already tight in the mahogany furniture sector. US\$ prices for Brazilian mahogany are now 42% higher than at the beginning of 1996, particularly remarkable given that the dollar has strengthened considerably against the Brazilian *real* during this period.

Focus shifts to other hardwoods

With the mahogany trade effectively stalled, European traders are focusing more on the opportunities presented by a range of other Brazilian hardwoods. Species like tauari and jatoba are already well known in Europe, the former used extensively in the French joinery sector, the latter for the production of flooring, notably in Spain. Some agents are predicting that shipments of other Brazilian hardwoods to Europe may rise this year. Species like ipe for flooring, marupa for mouldings, and tatajuba, angelim, and massaranduba used for decking, are finding a niche in Europe, often as relatively cheap substitutes for better known African and Asian hardwoods. The weakness of the *real* against the dollar over the last 12 months has tended to strengthen the competitive position of these hardwoods. To take one example, prices for massaranduba decking profiles are at around US\$475/m³ CIF Northern European ports, compared to US\$45/m³ CIF for Malaysian balau decking profiles. However Brazilian shippers have a reputation for being less reliable than Malaysian shippers when it comes to meeting delivery dates and product specifications.

Despite the lengthy vacation period, reports from the Brazilian domestic market suggest that wood demand has continued to

strengthen. Economic confidence in Brazil has improved considerably since October last year, when there were concerns that Argentina's economic collapse would spread contagion throughout South America. Recent reform and austerity measures by the Cardoso regime, coupled with the *real* floating on international currency markets, appear for now to have created a more resilient economy. At the same time, investor worries that the Cardoso regime may be replaced during this election year by the left-wing Worker's party, have subsided. At present tropical hardwood lumber prices are stable in Brazil due both to improved economic prospects during 2002, and the heavy Amazonian rains which have restricted supply.

Peru

Export value increases

Peruvian wood and wood products exports were on the increase during 2001. ITTO reports that the overall value of exports during the first 10 months of 2001 reached US\$68.9 million, up 3.8% compared to the same period the previous year. This was despite the new forestry Law 27308, which forbids the export of rough sawn lumber of mahogany and spanish cedar, the main export species formerly accounting for around two thirds of total exports. While the value of exports of mahogany and cedar sawn lumber fell by 22.5% during the 10 month period, this was compensated by an increase in exports of plywood, parquet flooring and other manufactured wood products mainly for the building sector.

Peru was particularly successful in exploiting rising demand for parquet flooring in China, Taiwan and Hong Kong. During the 10 month period, the value of Peruvian exports of parquet flooring increased more than 30% to US\$3.3 million. Peruvian species used for parquet include quinilla (*Manilkara bidentata*) and ipe (*Tabebuia* sp).

Europe

European beech Early signs of better demand

After a very slow end to 2001, there were signs of a slight pick-up in demand for European beech logs in January. Reports from central Europe suggest that forest owners secured some relatively large contracts for supplies of new season beech in early January. For example, the German trade journal EUWID reports that during

January the Bavarian state forest administration secured a contract for the supply of 60,000 m³ of beech sawing logs in B/C grade for shipment this season. Nevertheless most veneer producers and sawmillers remain cautious. Beech log harvests in central Europe were curtailed during December due to weak demand and have been restricted by poor weather during January. Average auction prices in central Europe for beech logs during December were

15% to 30% lower than the same period the previous year. Private sale prices during January are reported to be around 10% down on the previous year.

Export demand for European beech logs has been weak in the major Asian export markets and is expected to remain so at least until after the Chinese New Year. Import data from China highlights the relative weakness of the nation's beech log market during 2001.

Continued page 10

Europe

Beech cont.

China's Beech log imports January to September reached 554,000 cubic metres, down by 27% compared to the same period in 2000. Chinese Beech imports are expected to be around 730,000 m³ in 2001, representing a decline of 17% over the previous year. Demand for European beech has been falling as Chinese buyers are now using a wider range of species.

Good long term prospects in China

However longer term prospects for sales of beech logs in China remain reasonably good. Although the market for beech logs for interior joinery has fallen in some areas of China, including Beijing and Shanghai, demand in other areas remains good, notably the central and western regions. Fen County in Jiangsu province is currently the largest market for beech logs and processing in China, accounting for annual sales of around 300,000 m³ valued at US\$600 million and 41% of China's imports. Beech logs are imported mainly from France, Germany, Italy, Belgium, Ukraine and Russia. All logs are of medium and low-grade for sawmilling and eventually the manufacture of flooring and other interior joinery products.

Demand for European beech sawn lumber in Europe has remained generally weak, encouraging relatively low levels of production. Stocks of steamed and lower grade sawn beech lumber, which were at high levels throughout 2001, are being slowly worked out. Prices for lower grade beech have yet to show any signs of recovery. However prices quoted to hardwoodmarkets.com for good quality kiln dried steamed beech from Germany show a significant increase since November. This is due to more limited availability of steamed beech lumber in Chinese specifications (short lengths) which was being offered at low prices to UK buyers during the second half of 2001. Availability of good quality edged and clear unsteamed beech sawn lumber is also limited, due to low levels of harvest this year, and prices have been reasonably firm and stable.

Demand for beech sawn lumber from the German furniture, parquetry and stair industries has been very weak, while demand elsewhere in Europe has been subdued. Spanish buyers are raising their quality demands while expecting to pay relatively low prices. Demand for beech in the UK has been more stable. There were also signs of

an upturn in demand for beech sawn lumber in the Far East during the closing weeks of 2001, a trend which continued into January 2002. However prices on offer in China and Hong Kong are well down on previous years. Due to lower processing costs in China, Chinese buyers now prefer to purchase unedged, rather than square edged, beech lumber.

European sawnwood indicative prices

	Oct	Nov	Jan
Exchange rates			
Euro/£	1.62	1.59	1.64
Euro/US\$	1.11	1.12	1.16

German beech

Northern Germany, Euro/m³, C&F, UK Port

Grade: kiln dried, steamed and square edged.

1"	730	730	800
2"	730	730	860

German oak

Northern Germany, Euro/m³, C&F, UK Port

Grade: kiln dried, waney edged prime grade*.

1"	770	770	770
2"	995	995	995

*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"	940	940	950
2"	1450	1450	1450

Furniture

The opening furniture shows of the 2002 in Paris and Cologne highlight major shifts in the structure of the international furniture sector. And, amongst hardwood species, oak comes out a winner.

"The growth of furniture consumption can be measured in fractions of a percent, whereas the expansion of furniture production capacity is growing exponentially." This was the analysis of one Asian producer recently returning from the European furniture shows of this year - in Paris and Cologne. The American furniture industry has been feeling the blast of competition, especially from China in the last year, which has resulted in a severe downturn in North American manufacturing profitability. But other Asian manufacturers themselves have also felt this effect from new capacity in China coupled with super-low labour costs, and looking towards their European markets now also see the rapid growth of eastern European manufacturing as a further threat.

Nobody can yet predict the outcome of these early furniture shows, not forgetting that last years optimism did not translate into

the level of business hoped for. But as ever the hardwood sector was full of new design and trends that have created interest with retail buyers. Many of the Europeans will also visit shows in the Philippines, Singapore and Malaysia in February and March before returning to the all-important Salone del Mobile in Milan in April. Perhaps only then the real prospects for 2002 will become clear.

According to CSIL, the Italian furniture industry commentator, world furniture production is running at US\$ 200 billion, of which 64% is manufactured in seven industrialised countries. But they identify China, Mexico and Poland as accounting for 21% of capacity and growing rapidly. Last year Poland was the number one supplier of furniture to the European Union, and investment in new furniture production continues to arrive. Trade, however, involves 50 main countries around the world, with imports led by the USA, Germany, France, UK, Japan and Canada. The leading export countries are Italy, Canada, Germany, China, the USA, Poland and France. Recent growth in exports, however, has come only from emerging countries - China, Poland, Malaysia, Indonesia and Mexico. CSIL is

suggesting that world market growth will continue in 2002 but at a slower pace. "With world GDP growing by 1.8% and world trade of manufacturing growing by 2.7%, world trade of furniture would be likely to grow by 3%" they say.

A French affair

The first European international furniture show of this year was essentially a French affair with huge representation - 120 exhibitors - from Italy, but few other countries in force at the Salon du Meuble in Paris. The French domestic furniture industry has grown to €9.15 billion in 2001 - the third largest in Europe - but the retail structure has contracted from 14,800 outlets in 1990 to 11,000 today. Exports grew by 48% from 1996 to 2000.

Notable groups of exhibitors were from Belgium and Spain, but there was almost total absence from Asian manufacturers. Usually the show attracts 50,000 visitors to see the new collections of 1,500 suppliers and retailers.

Trends in Paris were relatively hard to discern, but oak rather than beech, dominated the wooden furniture sector both in the traditional and contemporary halls.

Furniture

European and American white oak were widespread and cherry remains popular. However there was less maple on offer and this may be part of the feeling that the "blonde wood" movement is gradually working itself out – although oak finishes are still light-coloured in the contemporary market. Traditional designs are also on the wane which, for technical reasons, is resulting in greater use of veneer rather than solid hardwood. Furniture in tropical species was also not on offer except teak in the garden sector, and then clearly marked for its sustainable (plantation) credentials.

International flavour in Cologne

The German market is the largest European importer with more than double the value of any other country, and so the Cologne show has more international relevance, being targeted by more producers from all over the world. However growth in imports into Germany has recently been slower than in all other EU countries except Portugal. In 2002 there have been some discernable trends in species, including the continued popularity of beech albeit at a reduced level. This may well be due to the efforts of the German beech industry to increase consumption in all grades in an effort to counter its loss of fashion. But, as in Paris, oak also was strongly in evidence in both the contemporary and more traditional designs. Cherry, both American and European, still remains popular for furniture, but may also be in a degree of decline. As expected the use of walnut, also both American and European, continues to gain ground with designers and manufacturers. In fact the second strongest image of the Cologne show was the extent of European hardwood species penetrating the market. This is undoubtedly linked to the shift of furniture manufacturing into Eastern Europe – especially from Germany - and to the efforts of European hardwood manufacturing groups to promote European species, particularly oak and beech.

Rubberwood suffers a reversal

The reduced popularity of rubberwood has raised considerable speculation as to the cause. Its image at the lower end of the market, perhaps linked to shifts in fashion, are widely suggested. But the lack of profitability in both manufacturing and trading may well be nearer the truth and the intense competition in this species from all over Asia is leading some manufacturers to look to higher value temperate species from the USA and Europe as an alternative route to higher market value for their investments.

Special Report - Global Forests

The UN Food and Agriculture Organisation (FAO) has just released the most comprehensive review of the world's forests ever undertake. While the Forest Resource Assessment 2000 (FRA 2000) emphasises the huge challenges still to be faced in the management of the world's forests, it also suggests there are grounds for optimism.

FRA 2000 estimates the world's forest area at 3.9 billion hectares in 2000 comprising 95% natural forest and 5% plantations. 47% of forest area is in the tropics, 33% in the boreal zone, 11% in temperate areas, and 9% in sub tropical areas. This area is in fact 400 million hectares greater than the corresponding global figure reported by FAO in 1995, although the increase is largely due to a change in FAO's definition of "forest". FRA 2000 adopted a threshold of 10% minimum crown cover for all countries. This contrasts with previous FAO assessments for which the 10% threshold was applied to developing countries while a 20% threshold was applied to industrialised countries. The change in definition particularly affected forest area estimates for Australia and the Russian Federation where large areas of forest have between 10 and 20 percent canopy cover. Another factor contributing to the upward revision has been improved information from more recent national inventories which generated higher estimates for forests in some countries.

Deforestation during the 1990s was estimated at 14.6 million hectares per year. This was partly compensated by a worldwide gain in forest cover totalling 5.2 million hectares due to afforestation (planting in areas not previously under forest) and natural forest expansion. Although deforestation is still substantial, the net change during the 1990s was lower than in previous decades because of increased expansion of forests, primarily in non tropical regions.

While forest area decreased during the 1990s, FRA 2000 indicates that the world standing wood volume increased by 2% during this period, largely because of increment in temperate and boreal forests. In the year 2000, the world standing wood volume was 386 billion m³, comprising 29% in South America, 23% in the Russian Federation, 17% in North and Central America, 12% in Africa, 9% in Asia, 7% in Europe, and 3% in Oceania.

Causes of deforestation

FRA 2000 considers the major causes of deforestation. Although population growth is clearly a factor, the direct link between population growth and deforestation is becoming less obvious. This is partly because population growth is concentrated in urban areas and the proportion of world population dependent on subsistence farming is declining rapidly. The study indicates that deforestation is now less associated with the extension of shifting

Global Forest Resources: Indicative figures by region

Item	Unit	World	Africa	Asia	Oceania	Europe & Russia	N & Cen. America	South America
Land area	Million hectares	13,064	2,978	3,085	849	2,260	2,137	1,755
Population	Million 1999	5,978	767	3,634	30	729	478	341
Population change	Annual % (1995-2000)	1.3	2.4	1.4	1.3	0	1.6	1.5
Forest area 2000	Million hectares	3,869	650	548	198	1,039	549	886
Area per capita	Hectares (2000)	0.65	0.85	0.15	6.58	1.43	1.15	2.6
Forest area 1990	Million hectares	3,963	703	551	201	1,030	555	923
Change in area	Annual 000 has (1990-2000)	-9,391	-5,262	-364	-365	881	-570	-3,711
Change in area	Annual % (1990-2000)	-0.22	-0.78	-0.07	-0.18	0.08	-0.1	-0.41
Forest plantation Area	Million hectares (2000)	187	8	116	3	32	18	10
Annual planting rate	000 hectares (1990-2000)	4,458	194	3,500	15	5	234	509
Standing volume	Million m ³ (2000)	386,352	46,472	34,506	10,771	116,448	67,329	110,826
Standing volume	M ³ /ha (2000)	100	72	63	55	112	123	125

Special Report - Global Forests

cont. from page 11

agriculture, and is dominated by direct conversion of forest to commercial agriculture and other land uses. There is also a strong link between deforestation and factors related to land tenure rights.

Status of forest management

FRA 2000 includes data on the status of forest management. FAO's assessment of the situation is fairly optimistic. It is noted that *"in summary the situation as regards forest management has improved in most regions during the period 1990-2000."* As of 2000, 149 countries were involved in nine different criteria and indicator processes designed to establish baseline standards of sustainable forestry and national monitoring of progress. Nearly 90% of forests in industrialised countries were subject to management plans and 78 million hectares were certified in these countries.

In the tropics, at least 123 million hectares of forest, or 6% of the total forest area, are now reportedly subject to management plans. About 11 million hectares of tropical forest were harvested annually between 1990 and 2000, which represents only about 1% of the accessible area. On the downside, FRA 2000 suggests there is little evidence of widespread adoption of low-impact logging or other model harvesting practices in the tropics.

Progress during the 1990s

However, FRA 2000 makes specific reference to progress in tropical forest management since an ITTO report in 1988 which suggested that at that time a maximum of 1 million hectares of forest in 17 of the leading tropical timber producing countries were being managed sustainably for wood production purposes. It notes that, *"judging from the area under management plans and/or certified in the same 17 countries in 2000, a considerably larger area may now be under sustainable forest management for wood production purposes. Currently more than 35 million hectares of forests in these countries are covered by a formal management plan, and 1.7 million hectares have been certified by third parties. A considerably larger area is likely to be eligible for certification or under sustainable management for purposes other than timber production."*

Increased reliance on plantations

The study shows that as natural forests have been exploited, the world's timber industry is rapidly becoming more dependent on plantations. Although accounting for only 5% of global forest

cover, forest plantations were estimated in the year 2000 to supply around 35% of global roundwood. This figure is anticipated to increase to 44% by 2020.

Of the estimated 187 million hectares of plantations worldwide existing in 2000, Asia accounted for 62% of the world total. Pinus (20%) and Eucalyptus (10%) remain the dominant species, but the diversity of species is increasing. Industrial plantations account for 48% of global plantation area, and non-industrial plantations (e.g. for fuel wood) for 26%. The purpose of the remaining 26% is unspecified. China and India are the countries with the largest area of plantation, followed by the Russian Federation, the United States and Japan.

New forest plantations are being established at a rate of 4.5 million hectares per year, with Asia and South America accounting for more new plantations than other regions. About 70% of new plantations, or 3.1 million hectares per year, are considered to be successfully established.

Hardwood plantations

In the hardwood sector however, plantations can only ever provide a partial solution. FRA 2000 notes that the market preference for slow growing hardwood species, which offer special characteristics of strength, natural durability and appearance, has meant only limited attractiveness for commercial investment in plantations of these species. Most investors prefer plantations of faster-growing species for pulpwood or re-constituted panels. Successful establishment of hardwood plantations is therefore heavily dependent on supportive, secure and stable government. There also remains an important role for managed natural tropical forest for quality hardwoods.

Because many hardwood species are difficult to establish due to their ecological requirements or disease or insect susceptibility, focus has been on the easier species to grow. In temperate regions, oak, ash, cherry, walnut, tulipwood, and hard maple predominate. In tropical countries, teak, Indian rosewood, and South American mahogany are the main hardwood plantation species. In 1995, the global areas of these species were 2254000, 626000 and 151000 hectares respectively. More than 90% of teak plantations are in Asia, mainly in Indonesia, India, Thailand, Myanmar, Bangladesh, and Sri Lanka. About 95% of rosewood plantations are in India and Pakistan. The largest mahogany plantations are in Indonesia and Fiji which together make up about 80% of the established area.

Focus on UK

By most accounts, 2001 was a difficult year for the UK hardwood trade. Imports of tropical hardwood declined significantly, while the market for temperate hardwoods has become increasingly crowded. Imports of plywood were at high levels during 2001, but trading conditions were difficult, and by the end of the year there were widespread reports of overstocking. The UK's domestic furniture sector has come under pressure from imports. More positive are signs of good activity in the construction and joinery sectors.

Hardwood logs and lumber

Preliminary estimates are that hardwood sawn lumber imports into the UK should have fallen from around 443,000 m³ in 2000 to 423,000 m³ in 2001. Temperate hardwood sawn lumber imports are expected to have remained static at around 245,000 m³ in 2000 and 2001. Tropical hardwood imports are expected to have fallen from 198,000 m³ to around 178,000 m³. The decline reflects a return to the long term downward trend in UK imports of tropical sawn lumber after a partial recovery during 2000.

Value of trade data indicates that UK imports of Malaysian sawn lumber were well down in the first two quarters of 2001 due to high stocks of meranti that built up in the UK in 2000. However imports of Malaysian sawn lumber began to recover during the third quarter of the year as these stocks were worked out. The value of UK imports of tropical sawn lumber from Cameroon were also well down during the first 3 quarters of 2001 due to supply problems and slowing demand.

US export data for the first nine months of 2001 indicates that volumes to the UK were down only 2.3% compared with the same period the previous year. Our own data indicates a slight increase in the value of US sawn lumber imports into the UK during the Jan-Sept period. The data confirms anecdotal reports from UK traders that consistently reported steady underlying demand for American hardwoods from joiners and manufacturers. Nevertheless, greater economic uncertainty in 2001, led many importers' of American hardwoods to keep stock levels at low levels. Much purchasing has been on a just-in-time basis of mixed container loads.

Competition from European suppliers of hardwood lumber has been less of a factor in the UK than in other European countries. Nevertheless UK traders continue to report

Focus on UK

rising levels of sawn oak imports from Russia, the Ukraine and Poland; sawn beech from Romania; and sawn beech and oak from Italy processed from Balkan logs. Also the widespread availability of beech and oak at competitive prices contributed to increased UK hardwood lumber imports from Western Europe during 2001.

Veneer

The value of tropical and hardwood veneer imports into the UK during the first 9 months of 2001 were down 7% and 20% respectively on the same period the previous year. This may reflect weakness in the UK domestic furniture manufacturing sector during 2001. UK imports of hardwood veneers from Germany and the USA were hit particularly hard. However imports of veneers from South Africa, the leading supplier of tropical veneers to the UK, were on the increase in 2001.

Plywood

Overall imports of plywood into the UK were continuing at high levels during 2001. Preliminary estimates indicate that hardwood plywood imports may have risen from 664,000 m³ in 2000, perhaps to as high as 700,000 m³ in 2001. Softwood plywood imports may have increased from 547,000 m³ in 2000 to over 600,000 m³ in 2001. The high levels of import during 2001 mask a highly competitive trading environment. The UK plywood sector is characterised by oversupply and low prices, notably of Brazilian and Indonesian plywood, and by tight margins. The situation has been made worse by the availability of other panel products such as OSB at low prices. Large quantities of plywood have continued to flow into the UK even though consumption levels are at best moderate.

The rapid increase in production of Brazilian elliotti plywood has had a huge impact on the UK plywood market. UK imports of this product more than doubled between 1999 and 2001, rising from 160,000 m³ to a forecast 350,000 m³. Prices have been so low that elliotti pine plywood is taking UK market share from domestically produced OSB. Prices may drop lower still, given that import duty is to come off Brazilian plywood in January 2002.

On the tropical hardwood plywood side, during the first nine months of 2001, Indonesia maintained the relatively high level of shipments to the UK recorded during the two previous years. UK imports of Indonesian plywood are again expected to reach over 200,000 m³ in 2001. Prices for Indonesian plywood have been extremely weak for the last three years, now standing at around the INDO96 less 30-35. Weak prices reflect slow global demand, overproduction, and the continuing weakness of the Indonesian rupiah.

Although UK imports of Indonesian hardwood plywood remained high during 2001, supply problems and a general lack of good quality logs has led to declining plywood quality and numerous delayed shipments. This provided more opportunities for Brazilian hardwood plywood shippers to take a larger slice of the UK market during 2001. Weakening demand for Brazilian hardwood plywood in other markets, including Brazil's domestic market and the USA, has also encouraged increased shipments to the UK. UK imports of Brazilian hardwood plywood are likely to be close to 200,000 m³ during 2001. While Brazilian hardwood plywood shippers are expanding sales in the UK, their margins are also extremely tight. Their efforts to force up prices in sales to the UK have met with firm resistance from importers. Malaysian shippers of plywood, formerly major suppliers to the UK market, have had supply problems of their own and were unable to compete on price last year.

On the temperate hardwood plywood side, Finnish birch plywood prices fell during 2001 as European demand weakened and as

UK imports Jan-Sept

Value (euro 000s)	2000	2001	% chg
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Tropical Logs & Boules

CAMEROON	3232	2974	-8
MALAYSIA	1000	480	-52
GERMANY	1072	599	-44
INDONESIA	688	73	-89
IVORY COAST	683	802	17
GABON	505	533	6
GHANA	622	392	-37
OTHER	2860	5382	88
TOTAL	10662	11235	5

Beech Logs

FRANCE	3	621	>1000
DENMARK	95	27	-72
ROMANIA	39	98	151
BELGIUM	13	0	-100
POLAND	12	0	-100
OTHER	12	197	1542
TOTAL	174	943	442

Oak Logs

U.S.A.	3254	2304	-29
FRANCE	150	1452	868
CANADA	129	25	-81
ROMANIA	108	22	-80
MALAYSIA	99	0	-100
IRISH REPUBLIC	78	96	23
OTHER	57	383	572
TOTAL	3875	4282	11

Other Hardwood Logs

U.S.A.	8191	5568	-32
LATVIA	2424	2722	12
CANADA	1881	700	-63
ESTONIA	1033	155	-85
RUSSIA	328	36	-89
FRANCE	198	497	151
GERMANY	158	29	-82
OTHER	588	585	-1
TOTAL	14801	10292	-30

Tropical Sawn Lumber

MALAYSIA	30466	22276	-27
CAMEROON	18426	14763	-20
NETHERLANDS	9857	9808	0
IVORY COAST	8434	6776	-20
GHANA	7806	6698	-14
BRAZIL	6770	9001	33
INDONESIA	4892	3444	-30
U.S.A.	3476	1633	-53
BELGIUM	2120	2039	-4
GERMANY	1998	3039	52
OTHER	8667	8828	2
TOTAL	102912	88305	-14

Beech Sawn Lumber

GERMANY	11838	12781	8
DENMARK	1751	1611	-8
FRANCE	878	1862	112
SLOVENIA	694	0	-100
ITALY	417	804	93
ROMANIA	407	229	-44
BELGIUM	277	147	-47
U.S.A.	174	155	-11
IRISH REPUBLIC	138	54	-61
CANADA	60	30	-50
OTHER	284	903	218
TOTAL	16918	18576	10

Oak Sawn Lumber

U.S.A.	38023	39924	5
FRANCE	10754	10014	-7
CANADA	5452	5244	-4
ESTONIA	2488	4546	83
GERMANY	1575	2415	53
NETHERLANDS	1091	1022	-6
BELGIUM	587	866	48
UKRAINE	200	481	141
RUSSIA	182	256	41
LATVIA	198	603	205
OTHER	1052	3286	212
TOTAL	61602	68657	11

Other Hardwood Sawn

U.S.A.	29395	30331	3
LATVIA	24750	25048	1
CANADA	12017	11616	-3
ESTONIA	7513	5313	-29
SWEDEN	2453	1972	-20
FINLAND	1021	961	-6
DENMARK	899	1020	13
FRANCE	749	729	-3
GERMANY	798	840	5
SPAIN	616	849	38
OTHER	1385	2792	102
TOTAL	81596	81471	0

Tropical Veneers

SOUTH AFRICA	4537	4914	8
GERMANY	2185	1256	-43
U.S.A.	1644	1641	0
GHANA	1307	1177	-10
FRANCE	1356	1083	-20
THAILAND	931	1000	7
OTHER	2207	2129	-4
TOTAL	14167	13200	-7

Value (euro 000s)	2000	2001	% chg
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Other Hardwood Veneers

U.S.A.	12003	8605	-28
GERMANY	8825	4918	-44
BELGIUM	3801	3074	-19
ITALY	3311	3274	-1
FRANCE	2548	2278	-11
CANADA	1293	1389	7
OTHER	3222	4443	38
TOTAL	35003	27981	-20

Softwood Veneers

U.S.A.	4119	4761	16
GERMANY	2527	3363	33
PORTUGAL	1717	1847	8
ITALY	691	584	-15
IRISH REPUBLIC	525	459	-13
FRANCE	436	616	41
OTHER	2035	2441	20
TOTAL	12050	14071	17

Tropical Plywood

INDONESIA	59920	75668	26
BRAZIL	30530	44272	45
MALAYSIA	25700	21346	-17
BELGIUM	5002	3346	-33
GUYANA	4776	2291	-52
BURMA	3592	1473	-59
OTHER	14391	17217	20
TOTAL	143911	165613	15

Other Hardwood Plywood

RUSSIA	18155	11414	-37
FINLAND	15986	21505	35
GERMANY	10362	22885	121
LATVIA	6410	5580	-13
LITHUANIA	2829	3829	35
ITALY	2382	1835	-23
OTHER	8887	10009	13
TOTAL	65011	77057	19

Softwood Plywood

BRAZIL	65588	65003	-1
FINLAND	13290	15886	20
CANADA	14360	12208	-15
U.S.A.	10826	7574	-30
FRANCE	9051	11120	23
LATVIA	7694	7999	4
OTHER	36346	40878	12
TOTAL	157155	160668	2

Sleepers

AUSTRALIA	1334	1713	28
GERMANY	735	1108	51
NETHERLANDS	515	1501	191
OTHER	597	2162	262
TOTAL	3564	7128	100

Profiled Wood - Softwood

SWEDEN	9840	10287	5
NETHERLANDS	8114	5424	-33
PORTUGAL	7766	0	-100
FINLAND	5960	9075	52
OTHER	12330	11798	-4
TOTAL	44010	36584	-17

Profiled Wood - Hardwood

CANADA	13077	13205	1
ITALY	14135	15574	10
INDONESIA	11889	8022	-33
MALAYSIA	9400	9744	4
OTHER	36434	39878	9
TOTAL	84935	86423	2

Wood windows and frames

NORWAY	15088	14312	-5
DENMARK	11778	17088	45
SWEDEN	2227	3454	55
U.S.A.	1929	1878	-3
OTHER	4577	4282	-6
TOTAL	35599	41014	15

Wood doors and frames

INDONESIA	34938	30118	-14
SOUTH AFRICA	27372	29175	7
BRAZIL	23132	19444	-16
MALAYSIA	16200	14755	-9
OTHER	69942	77437	11
TOTAL	171584	170929	0

Parquet Panels

BELGIUM	14152	26009	84
SWEDEN	14337	11669	-19
DENMARK	13832	13750	-1
IRISH REPUBLIC	6345	1152	-82
OTHER	26036	33566	29
TOTAL	74702	86146	15

Wooden Furniture

ITALY	292770	357516	22
MALAYSIA	102429	91189	-11
CHINA	100346	119600	19
DENMARK	79656	95640	20
GERMANY	75668	94483	25
BELGIUM	76595	82949	8
INDONESIA	71840	69977	-3
POLAND	60677	82604	36
OTHER	589767	640870	9
TOTAL	1449748	1634828	13

Continued page 14

Focus on UK

Plywood *Cont. from page 13*

competition intensified from new production plants in Latvia and Russia. Finnish producers have been responding by a shift to value-added production and targeted end uses. The import figures suggest that, in terms of value, Finnish producers succeeded in clawing back market share during 2001.

Prospects for the UK plywood market during 2002 are fairly bleak. By the end of January 2002, the market is suffering from oversupply with some of the merchant groups carrying excessive stocks and reports of large quantities of plywood, much of it Far Eastern, backing-up at the Port of Tilbury. Some operators are offering plywood at below replacement cost in an effort to off-load stock.

Construction sector

Prospects in the UK construction sector still look reasonably good. The value of overall construction output in the UK rose consistently by around 6% a year between 1996 and 2000. Construction output is widely expected to continue to rise over the next few years, but at a slower pace. Construction Forecasting & Research suggest that overall

construction output rose by 3.4% in 2001, and forecast rises of 2.4% in 2002 and by 2.8% in 2003.

Housing start data has not been so consistent. House starts in the UK fell from a high of 189,000 in 1997, to 177,400 in 2000. House starts during 2001 are expected to have been marginally less than 2000 at around 177,100. However most analysts expect this trend to be reversed during 2002, with house starts rising to around 179,000. Longer term forecasts suggest that house starts may rise progressively to perhaps 188,300 in 2005.

Underlying the optimism has been the relaxation of interest rates by the Bank of England and fairly optimistic forecasts of GDP growth in 2002. Most GDP growth forecasts for the UK in 2002 vary between 1.7% and 2.3%, a range slightly lower than 2001. Many analysts expect the UK economy to accelerate in the second half of 2002 after a relatively slow start to the year.

Public investment in the built environment has also been increasing since 1999 as the government has indicated its intention to increase spending to maintain and upgrade the nation's infrastructure. Government spending on housing in England rose from

£5.5 billion in 1999/2000 to £6 billion in 2000/01. It is forecast to rise again to £6.5 billion in 2001/02. The impact of increased government spending is apparent from data on the value of new construction orders during the first nine months of 2001. There were big increases in new orders for construction of public-sector schools and colleges (up 50% on the same period in 2000), universities (up 52%), health-sector buildings (up 25%), office buildings (up 50%), and infra-structure (up 13%, mainly roads).

Some significant trends are also apparent in the private sector. In the new-build sector, office construction was a major driver of growth during the second half of the 1990s, with the value of new orders doubling between 1996 and 2000. However the pace of growth slowed during 2001. The value of orders for new office construction during the first 9 months of 2001 were at a similar level to the previous year. Orders for new shop construction declined by 12% between 1998 and 2000 but rebounded during 2001. During the first nine months of 2001, the value of new orders for shop construction was up 32% on the same period the previous year, indicating good prospects for shop-fitting during 2002.

Furthermore, private sector Repair & Maintenance activity, much more significant in the UK in terms of value than new-build, has been growing strongly over recent years and this trend is expected to continue.

Joinery

The UK mass production joinery sector performed well during 2001. At the end of the year, some of the leading door, stair, flooring and window manufacturers were reporting that order and enquiry levels had outstripped those of 2000 and that the forward position was favourable. Various factors, including a joinery skills shortage and a desire to raise quality standards and simplify the on-site construction process, is leading towards increased demand for pre-assembled joinery products such as factory finished and fully glazed window units, doorsets and assembled stairs. Concerted efforts by manufacturers in the sector to develop products of consistent quality and with durability guarantees are contributing to rising sales.

On timber species, attempts to match doors and staircases with increasingly popular hardwood flooring has contributed to a trend towards lighter colours. There is rising demand for doors in oak or ash veneer, and for staircases and balustrades in oak.

Continued page 15

Exchange rates

		One GB pound (£)			One US Dollar (\$)			One Euro		
		30-Nov	4-Jan	1-Feb	30-Nov	4-Jan	1-Feb	30-Nov	4-Jan	1-Feb
Argentina	Peso	3.8503	1.4414	2.8629	2.7	1	2.025	2.4174	0.8947	1.7437
Australia	Aus. \$	2.7419	2.7805	2.7756	1.9227	1.929	1.9633	1.7215	1.7259	1.6905
Bangladesh	Taka	81.2136	82.0878	80.9372	56.95	56.95	57.25	50.9903	50.9533	49.52
Belgium	Belgian Fr.	64.2505	64.9893	66.2337	45.0549	45.0877	46.8497	40.3399	40.3399	40.3399
Belize	B\$	2.8093	2.8396	2.7851	1.97	1.97	1.97	1.7638	1.7626	1.6963
Bolivia	Boliviano	68.3506	9.8657	9.7683	47.93	6.8445	6.9095	42.9142	6.1238	5.9495
Botswana	Pula	9.3573	10.1222	9.6141	6.5617	7.0225	6.8004	5.8751	6.283	5.8555
Brazil	Real	3.6086	3.3325	3.41	2.5305	2.312	2.412	2.2657	2.0686	2.0769
Fr. Africa*	CFA Fr.	1044.76	1056.78	1077.01	732.63	733.16	761.81	655.96	655.96	655.96
Canada	Canadian \$	2.2413	2.3025	2.249	1.5717	1.5974	1.5908	1.4072	1.4292	1.3698
Chile	Peso	979.197	939.361	959.017	686.650	651.700	678.350	614.792	583.076	584.093
China	Yuan	11.8037	11.9302	11.7011	8.2772	8.2768	8.2766	7.411	7.4053	7.1266
Czech Republic	Koruna	52.811	51.4406	52.3846	37.033	35.688	37.0536	33.1575	31.93	31.905
Denmark	Danish Krone	11.8554	11.9883	12.1969	8.3135	8.3171	8.6273	7.4435	7.4413	7.4286
Estonia	Kroon	24.9167	25.1961	25.6915	17.4725	17.4803	18.1726	15.644	15.6396	15.6476
Europe	Euro	1.5927	1.6111	1.6419	1.1169	1.1177	1.1614	1	1	1
Finland	Markka	9.47	9.5788	9.7623	6.6407	6.6455	6.9052	5.9457	5.9457	5.9457
France	Franc	10.4476	10.5678	10.7701	7.3263	7.3316	7.6181	6.5596	6.5596	6.5596
Germany	D-mark	3.1151	3.1509	3.2113	2.1844	2.186	2.2715	1.9558	1.9558	1.9558
Ghana	Cedi	10356.70	10670.00	10550.10	7262.50	7402.50	7462.50	6502.50	6623.04	6425.61
Guyana	Guyanese \$	257.402	260.173	255.182	180.500	180.500	180.500	161.611	161.493	155.240
Hong Kong	HK\$	11.1215	11.2404	11.0269	7.7988	7.7983	7.7998	6.9827	6.9771	6.716
India	Rupee	68.3506	69.5476	68.581	47.93	48.25	48.51	42.9142	43.1693	41.7696
Indonesia	Rupiah	14923.6	15012.2	14597.0	10465.0	10415.0	10325.0	9369.8	9318.3	8890.3
Irish Republic	Punt	1.2544	1.2688	1.2931	0.8796	0.8802	0.9147	0.7876	0.7876	0.7876
Italy	Lira	3083.95	3119.41	3179.14	2162.58	2164.16	2248.73	1936.27	1936.27	1936.27
Japan	Yen	175.575	188.946	189.273	123.12	131.085	133.8	110.236	117.282	115.277
Kenya	K. Shilling	112.587	113.611	111.177	78.95	78.82	78.64	70.688	70.5203	67.713
Korea South	Won	1815.29	1886.36	1863.11	1272.95	1308.70	1317.85	1139.74	1170.89	1134.73
Liberia	Liberian \$	1.4261	1.4414	1.4138	1	1	1	0.8954	0.8947	0.8611
Malaysia	Ringgit	5.419	5.4773	5.3723	3.8	3.8	3.8	3.4023	3.3999	3.272
Myanmar	Kyat	9.6334	9.724	9.7074	6.7553	6.7462	6.8664	6.0484	6.0582	5.8534
Netherlands	Guilder	3.51	3.5503	3.6183	2.4613	2.4631	2.5594	2.2037	2.2037	2.2037
New Zealand	NZ\$	3.4292	3.367	3.3887	2.4047	2.3359	2.3969	2.1531	2.09	2.0639
Nigeria	Naira	171.839	166.842	161.874	120.500	115.750	114.500	107.890	103.562	98.590
Papua NG	Kina	5.5073	5.3897	5.2179	3.862	3.7392	3.6909	3.4578	3.3455	3.178
Philippines	Peso	74.0833	74.4483	72.5961	51.95	51.65	51.35	46.5135	46.213	44.215
Poland	Zloty	5.7756	5.6788	5.9145	4.05	3.9398	4.1836	3.6262	3.525	3.6023
Portugal	Escudo	319.314	322.985	329.170	223.915	224.077	232.834	200.482	200.482	200.482
Romania	Leu	44974.8	46355.4	45395.5	31538.0	32160.0	32110.0	28237.5	28773.6	27648.3
Russia	Rouble	42.696	44.0132	43.4587	29.94	30.535	30.74	26.8068	27.3197	26.4687
Singapore	Singapore \$	2.6113	2.6593	2.5965	1.8312	1.845	1.8366	1.6395	1.6507	1.5814
Solomon Islands	Smm. Is. \$	7.9137	8.1527	8.4152	5.5494	5.6561	5.9524	4.9659	5.0605	5.098
South Africa	Rand	14.6598	17.4193	16.456	10.28	12.085	11.64	9.2042	10.8125	10.0226
Spain	Peseta	265.008	268.055	273.188	185.834	185.969	193.236	166.386	166.386	166.386
Sweden	Krona	15.2365	14.882	15.0825	10.6844	10.3247	10.6684	9.5663	9.2375	9.186
Taiwan	\$	49.1488	50.4346	49.3965	34.465	34.99	34.94	30.8582	31.3056	30.0851
Tanzania	Shilling	1309.11	1323.21	1324.68	918.00	918.00	937.00	821.93	821.34	806.81
Thailand	Baht	62.5893	63.3135	62.3111	43.89	43.925	44.075	39.2969	39.2968	37.9508
Uganda	New Shilling	2454.95	2493.63	2436.60	1721.50	1730.00	1723.50	1541.35	1547.84	1484.02
United Kingdom	£	1.0000	1.0000	1.0000	0.7012	0.6938	0.7073	0.6279	0.6207	0.6091
U.S.A.	US \$	1.4261	1.4414	1.4138	1	1	1	0.8954	0.8947	0.8611
Venezuela	Bolivar	1064.910	1095.820	1083.990	746.755	760.250	766.750	668.607	680.196	660.210
Vietnam	Dong	21486.3	21747.8	21383.0	15067.0	15088.0	15125.0	13490.2	13499.2	13023.0
Zimbabwe	\$	79.0746	79.9257	78.3925	55.45	55.45	55.45	49.6473	49.6113	47.7454

*Cameroon, CAR, Congo, Gabon & Cote d'Ivoire

Focus on UK

Joinery *Cont. from page 14*

After a good year in 2000, the architectural joinery sector remained reasonably active throughout 2001. There were reports of particularly good activity on commercial fit-outs, quality apartments, and shop fitting. However there were signs of a slowdown towards the end of the year as business confidence waned and analysts suggest that activity in this sector may slow slightly during 2002. In terms of species in demand, there has been a preference for "darker" light woods, such as steamed black walnut and steamed beech. Hard maple and cherry also remain popular.

Furniture

Performance in the UK furniture sector during 2001 was mixed. Mounting economic uncertainty meant that furniture sales were slow in the first half of the year. However there was an upturn during the summer as consumers took advantage of cheap promotional offers. Sales slowed again in

September with the end of the summer sales. The CBI monthly poll of retailers, indicates that furniture sales rallied in the run-up to Christmas, with modern styles more popular than traditional designs.

Against this background of patchy sales during 2001, figures for furniture production were mixed. Between January and July 2001, total output of kitchen furniture for home and overseas markets grew 4.6%, but chairs and seats fell 1.4%, office and shop furniture fell 0.8%, and other furniture fell 1.3%.

Prospects for UK furniture demand during 2002 seem reasonably good. Reduced interest rates has increased the disposable incomes of families and so far consumers have remained sufficiently confident to keep borrowing. The resilience of the housing market and of new house building suggest that there will be good demand in the domestic furniture sector during 2002. Although the pace of growth in office development has declined, it remains reasonably high, a factor which should

contribute to good sales of office furniture. Improvements in efficiency and productivity have allowed U.K. manufacturers to increase furniture exports over recent years. Exports of wooden furniture increased by 3% between 1999 and 2000, and the trend towards rising exports continued into 2001. The U.S. is by far the largest export market accounting for around one third of total exports from the UK by value.

However the benefits to UK manufacturers resulting from rising exports and reasonably good domestic furniture consumption are being offset by increased levels of competition at home from imported products. This trend has been driven by increased furniture production in low wage countries, notably China, Malaysia, and Poland and Indonesia, and also by the relative strength of sterling. Furthermore, as furniture demand in other parts of the world has weakened, overseas manufacturers have looked increasingly to the UK as an outlet for their products.

Association Profile - MFIC - Malaysia

The principal objectives of the Malaysian Furniture Industry Council (MFIC) are representing the general interest of the entire furniture industry in Malaysia at the national, regional and international levels. It provides a conducive platform for discussions, consultations, cooperation and coordination with the government and private sectors, regional and international organisations. It is striving and encouraging the overall stability, healthy development and sustainable growth of the furniture industry.

As the leading representative of the furniture manufacturing industry, the MFIC seeks to forge and strengthen a cohesive relationship between the government and the private sector. MFIC presents the views, intentions and opinions of furniture makers to the government and statutory bodies. It also provides ancillary and auxiliary support to both the government and its members; organises technical courses, seminars, conferences, trade missions and exhibitions for the benefits of its members and the industry.

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Hardwood Events

Date	Event	Venue	Target audience	Contact
2002				
8-12 Feb	India Wood & India Furniture Show	Bangalore, India	Woodworking & materials	email: pdaexpo@vsnl.com
4-15 Mar	2nd Session of the UN Forum on Forests	San Jose, Costa Rica	Government	www.un.org/esa/sustdev/forests.htm
5-9 Mar	Malaysian International Furniture Fair	Kuala Lumpur	Furniture Industry	www.miff.com.my email: info@miff.com.my
10-15 Apr	Sasmil	Milan, Italy		www.sasmil.it
17-19 Apr	World of Wood 2002	Palm Springs, USA	Timber Trade	www.iwpawood.org
Apr	8th Brazilian & 2nd Pan-American Forestry Congress	Brasilia, Brazil	Forestry and Timber Trade	sbs@sbs.org.br
25-27 Apr	FSC Forest Products International Conference & Showcase	Atlanta, Georgia, USA	Forestry and Timber Trade	conferencequestions@certifiedwood.org
29-31 May	Carrefour du Bois	Nantes, France and Industry	Timber trade	www.timbershow.com
27 May-1 Jun	32nd Session of the International Tropical Timber Council	Denpasar, Indonesia	Government, trade	Collins Ahadome, ITTO, itto@itto.or.jp
24-25 Oct	AHEC European Convention	Lisbon, Portugal	Timber Trade & Industry	www.ahec-europe.org

African logs: ayous price rise

International demand for African tropical logs remains subdued. Prices for most species have been reasonably stable, owing to relatively restricted production and continuing good demand from African sawmills. However azobe and ayous stand out as exceptions. The Cameroon authorities decision to ban export of these species in log form from 31 March has increased purchases of these species and pushed prices higher. **Page 3**

African sawn: tight margins

Sawmillers throughout Cameroon, Ivory Coast and Ghana are still complaining of high log prices and of subdued and highly competitive export markets. Log harvesting in Cameroon this season is expected to be down at least 25% on last year. Demand for African sawn lumber is reasonably steady in the UK, but is down in France, central and southern Europe. Buyers throughout Europe are cutting stocks and are not engaging in long term contracts. **Page 3/4**

Malaysian downturn

The Malaysian authorities are forecasting a drop of 10 to 15 per cent in export earnings from timber products and furniture in 2001 compared to the previous year, raising concerns over the possibility of widespread closures in the Malaysian industry during 2002. **Pages 1 & 4**

Malaysian prices rise, slowly

European demand for Malaysian sawn lumber has been slow to pick up in the new year. However inventories are reported to be low in Malaysia. Prices for Malaysian sawn lumber appear now to have reached bottom and to be strengthening, but only slowly. **Page 5**

US production down 35%

Mills in the U.S. have quickly reacted to market volatility by regulating production as much as possible. The Hardwood Review estimates that U.S. hardwood lumber production during 2001 declined at least 35% or an estimated 5 billion board feet (11.8 million m³) compared to 2000. **Page 6**

U.S. recession over?

Statistical data released at the end of January suggests that America's recession may already be over. Overall the outlook is for economic recovery in the U.S. during 2002, but the heavy debt burden may lead to several years of relatively slow growth. U.S. performance in sectors of direct relevance to the wood industry, such as house construction and flooring remained reasonably good throughout the downturn. **Page 6 & 7**

US export markets very competitive

Global markets for American hardwoods are extremely competitive. Although there are reports that inventories of North American hardwoods are relatively low in Europe, few buyers are looking to increase inventories at this time. Sales into China are likely to slow in the short term due to Chinese New Year in February, but long term prospects are good in China **Pages 7 & 8**

Certified mahogany only?

The production, trade and export of Brazilian mahogany continues to be prohibited by IBAMA, with only small volumes being shipped under special arrangements following legal appeals. It now seems possible that, in future, the Brazilian mahogany trade will be entirely restricted to certified wood. With the mahogany trade effectively stalled, European traders are focusing more on the opportunities presented by a range of other Brazilian hardwoods. **Page 9**

Some pick-up in beech markets

After a very slow end to the 2001, there were signs of a slight pick-up in demand for European beech logs in January. Stocks of steamed and lower grade sawn beech lumber, which were at high levels throughout 2001, are being slowly worked out. However demand for beech sawn lumber remains subdued throughout much of Europe. Demand in China is also subdued, but long term prospects in China for beech logs and unedged lumber remain reasonably good. **Pages 9 & 10**

Paris and Cologne furniture fairs

The opening furniture shows of the 2002 in Paris and Cologne highlight major shifts in the structure of the international furniture sector. Amongst hardwood species, oak comes out a winner. Meanwhile, rubberwood is losing ground. **Page 10**

World's forest resources

FAO has just released the most comprehensive review of the world's forests ever undertaken. While the Forest Resource Assessment 2000 (FRA 2000) emphasises the huge challenges still to be faced in the management of the world's forests, it also suggests there are grounds for optimism. **Pages 11 and 12, Editorial page 2**

UK: difficult year during 2001

By most accounts, 2001 was a difficult year for the UK hardwood trade. Imports of tropical hardwood declined significantly. Imports of American hardwoods just about held their own, but the market has become more crowded, particularly with rising availability of better quality European hardwoods. Imports of plywood were at high levels during 2001, but trading conditions were difficult, and by the end of the year there were widespread reports of overstocking. The UK's domestic furniture sector continues to come under pressure from imports. More positive are the signs of continuing good activity in the construction and joinery sectors. **Pages 12/13/14/15**

Teak board consumption falls

Consumption of teak in European countries such as the UK has continued to fall and trade in teak boards is now a speciality business with so many teak products such as flooring and garden furniture being produced in the source countries. The U.S. market for teak lumber continues to thrive in various niche sectors, although recently demand has been relatively thin which may account for slight price weakness. **Page 5**