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**Contents**

UK hardwood sawn lumber trade . . . . .	1/10
Editorial - living on another planet . . . . .	2
Letter - certification troubles . . . . .	2
Africa	
Log market report . . . . .	3
Sawn market report . . . . .	3/4
Liberia . . . . .	4
Zimbabwe interests in DRC . . . . .	4
Hardwood marketing . . . . .	4
Asia	
Southsea logs . . . . .	5
Malaysian sawn lumber . . . . .	5/6
Vietnam . . . . .	6
Indonesia . . . . .	6
South America	
Brazil . . . . .	7
Peru . . . . .	7
North America	
Domestic demand . . . . .	8
Export demand . . . . .	7/9
European hardwoods . . . . .	9
Tropical hardwood plywood . . . . .	11

**Statistics in this issue**

■ <b>Peruvian wood products exports</b> . . . . .	7
Jan-Sept 2002, value	
By product & destination	
■ <b>U.K. sawn lumber imports</b> . . . . .	10
2001, 2002 (estimates), volume, value	
By main species type & despatch country	

## UK hardwood trade remains static

**P**reliminary analysis of UK trade data (page 10) indicates that hardwood sawn lumber imports may have reached around 432,000 m3 in 2002, 3% up on the depressed levels of 2001. Temperate hardwood sawn lumber imports were static at around 236,000 m3 in 2002. Tropical hardwood imports recovered slightly during 2002 from the very low levels of 2001, rising from 185,000 m3 to 196,000 m3.

### U.S. hardwood in difficulty

UK trading conditions for American hardwoods were particularly difficult during 2002. Underlying consumption in the UK was significantly down. At the same time, many importers were maintaining low stocks of American hardwood lumber, encouraged by the perception of good availability from U.S. and continental European concentration yards. Even news of tightening green lumber supplies in the United States, and the potential for supply shortages during the winter of 2002/2003, did little to encourage more buying. The trend towards increased purchases on a just-in-time basis of containers of mixed species and thicknesses intensified during 2002. The strong trend for UK importers to buy US hardwoods from concentration yards in continental Europe also continued.

US hardwood lumber export data for the first 9 months of 2002 indicates that volume and value to the UK were down 14% and 18% respectively compared with the same period in 2001. American white oak remains the major American species in the UK, accounting for around 50% of UK imports of American hardwoods. U.S. exports of white oak to the U.K. were down 10% by volume and 16% by value during the first 9 months of 2002. The bigger fall in value suggests some movement to lower grades as a cost-saving device. The volume of U.S. exports to the U.K. of a range of other species of hardwood lum-

ber - including cherry, ash, and maple - registered less severe declines during 2002. U.S. exports to the U.K. of walnut and tulipwood lumber continued to rise during 2002.

The increased availability of relatively cheap offers on European hardwoods was a significant factor affecting the U.K. hardwood market in 2002. There is still a strong fashion for oak in the U.K. but larger volumes now come from France and Germany. Due to overstocking and weak demand in Germany and China, significant volumes of good quality German beech are available to U.K. buyers at low prices. Both German and French sawmills have been seeking to expand sales in the U.K., some now offering square-edged material which is preferred in the U.K. market over the usual western European waney-edged lumber.

Eastern European countries do not feature strongly in the import data. However, imports of sawn lumber from Italy doubled during 2002, much of this comprising square edged oak sawn from Croatian logs. Anecdotal reports suggest that UK imports of oak from a wider range of Eastern European countries are likely to increase during 2003.

### Tropical imports stable

Sales of tropical hardwood lumber in the U.K. were static during 2002. Problems of severe overstocking led to a dramatic fall in U.K. imports of Malaysian dark red meranti during 2001. Imports of this species have now stabilised at the lower level. U.K. demand for African hardwoods was also fairly stable during 2002. Sapele is now the dominant tropical redwood in the U.K. used for a wide range of joinery applications. Increased UK imports from Ivory Coast during 2002 reflect good U.K. demand for framire as a substitute for iroko.

A notable trend in both the tropical and temperate import figures is the increase in vol-

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## **Editorial - on different planets**

The western world is preoccupied with the threat of war in the Gulf. It is "*creating economic uncertainty*". It may "*disrupt oil supplies*". It may contribute in the US and UK to "*huge and growing budget deficits*". It may "*trigger some ghastly terrorist attack on civilian targets.*" These are just a few samples from many thousands of news bulletins covering the escalating risk of conflict. Such reports only serve to highlight how, for most westerners, war is an abstract concept. For all the talk of a terrorist threat, war is still seen as something that happens to somebody else in a distant land.

Contrast this with the situation in Central and West Africa. A report in ATIBT's most recent newsletter states that "*eight of the fourteen member countries of the African Timber Organisation from Sierra Leone to Angola are suffering from worsening conflicts and civil war.*" War in this part of world is very much part of people's daily lives.

The ATIBT newsletter contains a thought provoking article on the Democratic Republic of the Congo by Theodore Trefon, a researcher who has spent many years in the country. He states baldly that 2.5 million people have been killed in the country since the beginning of armed conflicts in 1998. The majority succumbed to a slow death caused by famine and disease. Trefon says that "*the magnitude of the task to reconstruct Congo greatly exceeds the framework of an ordinary Marshall Plan.*" The

fate that tragically befell the DRC now threatens the Ivory Coast.

As this is going on in Africa, two well respected (at least in the west) NGOs issued a report pompously entitled "*A Blueprint to Combat Illegal Logging*" which, as its central theme, calls for "*new legislation to stop illegal timber entering the European Union*". As if this will make all the difference. Other westerners have been conned into believing that the Forest Stewardship Council provides a solution to tropical forest problems. But the FSC has completely failed in the African context. In 1997, FSC stripped a company in Gabon of its certificate, choosing to cave in to green sensibilities over timber extraction in tropical forest, rather than to welcome and support a legitimate effort to improve forest management. It should surprise no-one that many Africans have a healthy skepticism of the motives of westerners' demanding certification.

Timber buyers in the western world cannot ignore the huge problems that exist in some supplying countries. If they do nothing, they may provide succor to predatory companies that install themselves and exploit weak governance in times of conflict.

But let's have no more "blueprints"; no more naive demands for timber certification. There are no easy solutions. A great deal more humility is required; and willingness to listen to and learn from those people who live and work in the African forest.

## **Letter - certification troubles**

We are experiencing a worrying development from our UK hardwood buyers who appear to be under the misapprehension that unless timber being offered is independently certified (most ask for FSC because they don't know any other) then it is not coming from a sustainable source!

We are receiving an increasing number of enquiries from our buyers for sources of independently certified hardwoods, but the plain fact is that in the vast majority of cases we are unable to locate any available supply. This applies both to temperate and tropical supply. Further, on the rare occasion when we do find a relevant supplier, the buyer does not want to pay the price!

There still appears to be a myth amongst UK importers that independent certification comes free of charge, possibly confused by claims by FSC, for example, that they are non profit making organisations. The seemingly free of charge certified softwood supply from Finland may also be another contributing factor.

There is no doubt that hardwood buyers here in the UK want independently certified wood but at no or (too) little extra cost – a contradiction in terms or what?

An example concerns our main supplier of American hardwoods, who was accredited with FSC Chain-of-Custody, at significant cost, in June 2001. This major exporter went on to invest in a considerable volume of FSC Certified hardwood stockholding in the most popular export species and sizes, air dried it and kiln dried it, only to find that nobody, but nobody, had any interest in purchasing any of this stock due to the (modest) higher price of the lumber. Moving on 18 months later, still nobody has purchased a single board of their FSC certified wood and they were ultimately forced to ship it at the normal (lower) market price against contracts not stipulating any certification!

What to do? We seem to be stuck between a rock and a hard place.

**Kevin Ashby, Joint Managing Director  
Lignum International Hardwoods Limited**

## African indicative prices

	Oct	Nov	Jan
<b>Exchange rates</b>			
US\$/£	1.56	1.56	1.64
Euro/£	1.59	1.56	1.53
All prices include agents commission of 5%			
<b>Logs</b>			
<b>Liberia</b>			
US\$/m3, FOB Liberia			
Grade: B+ & better (good UK sawing quality)			
All diameters 60 cm+			
<b>A. mahogany</b>	185	185	195
<b>Walnut</b>	185	185	195
<b>Iroko</b>	240	240	250
<b>Kusia (Opepe)</b>	120	120	130
<b>Sawn lumber</b>			
<b>Cameroon, CAR, Congo (Braz.)</b>			
Euro/m3; FOB			
Grade and size: FAS, air dried, width6"+, length 6'+			
<b>Sapele</b>	515	515	505
<b>Sipo</b>	630	630	630
<b>Bibolo</b>	380	380	380
<b>N'Gollon</b>	535	535	535
<b>Iroko</b>	540	540	580
<b>Cote d'Ivoire</b>			
Euro/m3; FOB Abidjan			
Grade: FAS, air dried			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
<b>Iroko</b>	520	520	550
<b>Mahogany</b>	420	420	430
<b>Framire</b>	320	320	320
<b>Samba No.1 C&amp;S</b>	240	240	240
Dimension stock			
<b>Azobe</b>	420/	420/	420/
	460	460	460
<b>Dabema</b>	300/	300/	300/
	390	390	390
<b>Gabon</b>			
Euro/m3; FOB			
Grade and size: FAS, width 6"+, length 6'+			
<b>Okoume AD</b>	320	320	320
<b>Okoume KD</b>	365	365	365

## African logs

### Slow start to the season

It is the dry season in the African supplying regions north of the equator. Log production is usually in full swing at this time of year. However, overall levels of production are low partly owing to on-going political problems. The scale of these problems is summarised well by ATIBT in recent newsletter: "at this very moment, eight of fourteen member countries of the African Timber Organisation from Sierra Leone to Angola are suffering from conflicts and civil wars." Even where conflicts are less intense, changing forest policies and bureaucratic delays are impacting on logging levels.

### SNBG financial difficulty

In Gabon, the state owned log buying organization SNBG is in financial difficulty and has been unable to pay for the supply of logs by producers. Some of the largest producers curtailed their supply of logs to SNBG until outstanding payments had been made. As a result log supply is restricted

and there are reports of low log decks at the ports. Limited availability of okoume logs from Gabon has led importers, notably in France and China, to look to Congo-Brazzaville as an alternative source of supply. Prices for high grade okoume logs have remained firm. It remains to be seen whether efforts to re-organise SNBG and the appointment of PricewaterhouseCoopers as financial advisors, will do anything to improve the Gabon log supply situation during 2003.

### Taxation in Gabon

Fiscal changes in Gabon imply that availability of logs will remain confined and FOB prices firm. Operating conditions for forest concession holders in Gabon have become increasingly difficult over the last 12 months owing to the rising level of tax imposed by the national government. Under pressure from the IMF and World Bank, the government has implemented a new tax regime designed to squeeze more money from the forestry sector. Under the new regime, forestry operators in Gabon are now required to pay:

- a surface area tax of 1000 FCFA per hectare on all holdings. This tax started to be applied at the end of November for 2002 and caused an outcry amongst operators.

- an export tax of 20% for rough sawn timber, increased during 2002 from the previous rate of 15%.

- a felling tax. This was previously applied to harvested log volume and amounted to 5% of delivery price to the timber yard. However a change in the law meant that from 3 January 2003 the tax is calculated on the basis of the exploitable forest area.

Logging companies in Gabon argue that the changes to the felling tax will have a particularly severe impact on forest operations. One large producer has suggested that the changes introduced in January would absorb 10% of the company's total turnover and require a large increase in production or in sales prices in order to maintain profitability. The forest sector has also expressed concern that the measure, considered too severe, may encourage illegal exploitation.

### Restrictions on Cameroon logging

Production in Cameroon is hampered by new regulations which allow only 2,500 hectares to be logged in any given year. According to the logging firms the measure is not economically viable since the diversity of species in any given area means that only a small proportion is marketable. The change in the fiscal year in Cameroon to run from 1st January instead of 1st June has also created bureaucratic problems and a delay in the issue of logging permits this year.

Log production levels in CAR, Congo-Brazzaville and Liberia are reported by ITTO to be generally low for the time of year, but adequate to meet moderate levels of demand from Europe and China. Prices are generally holding steady. Dollar prices quoted in this journal for Liberian logs are up US\$10/m3 across the board as a reflection of the weakening dollar value.

Underlying European consumption of African logs has remained slow since the beginning of the year, although there are reports that some importers have entered the market in recent weeks in order to rebuild depleted stocks. Much of this purchasing activity has focused on the Central African Republic and Congo-Brazzaville for shipment via Douala in Cameroon.

### Chinese market growth

The Chinese market for African logs is now quiet due to the Chinese New Year vacation period which continues until the middle of February. Longer term trends, notably the strong growth in Chinese consumption of wood products and declining availability of Asian tropical logs, suggest that Chinese demand for African logs will remain firm this year. These trends are also encouraging renewed efforts by Malaysian timber companies to actively seek African concessions, particularly in Equatorial Guinea and Gabon.

## African sawn

### Ivory Coast casts a shadow

The political situation in Ivory Coast continues to dominate discussion of African sawn lumber markets. A peace accord was agreed in early January between the Ivory Coast President, Laurent Gbagbo, and the rebel faction at a meeting hosted by the French government. But within a few days the accord had begun to unravel. First the Ivorian armed forces objected to provisions in the accord which gave two key cabinet portfolios - defence and interior - to the rebel faction. Then the leading political parties - including Gbagbo's governing Popular Front Party (FPI) and several others that had signed the French-brokered deal in Paris - announced that they no longer supported the accord. The politicians' reaction was encouraged by violent anti-French demonstrations in Abidjan following the signing of the accord. Many of Gbagbo's supporters were enraged at the peace settlement which, they believe, favours the insurgents. The anti-French demonstrations prompted the French government to prepare for the mass evacuation of 16,000 French nationals



in the country, including many managers in the timber industry.

The Cote d'Ivoire peace accord may well be a non-starter amid so many objections to the rebels entering the government in any form. The nation remains divided with the rebels controlling territory in the north, while the government holds the south.

## Shortage of iroko and framire

For the timber sector, the immediate effect of the problems in Ivory Coast has been to create an international shortage of iroko and framire sawn lumber. Some mills in the northern part of the country have been closed and ransacked. Other mills are still open and shipments have continued to leave the country, but at much reduced volumes and subject to lengthy delays. Shippers in the country have stated that they will accept supply contracts but can provide no assurance of shipment date. The latest political developments do not inspire confidence that supplies will be readily available.

Underlying resource constraints mean that Ghana is in no position to take up the supply shortfall. Ghana is now unable to supply any primary species in significant volume and there are continuing reports of mill closures. These problems are reflected in local newspaper reports of job losses. Josuah Ansah, general secretary of the Timber and Wood Workers Union suggested at a press conference in Kumasi during January that around 30,000 workers have lost their jobs in the timber sector over recent years. He said that *"a lot of fresh applications from employers are lying on my table threatening redundancies and retrenchments of a lot more workers"*.

## Slight decrease in Ghana exports

According to figures released by the Timber Industry Development Division, Ghana earned around 169 million Euro from the export of 437,000 m<sup>3</sup> of timber and wood products between January and November last year. These figures are marginally down on the same period the previous year when 171 million euro was realised from the export of 438,000 m<sup>3</sup> of timber and wood products. According to the report, reasons for the decline include an increase in export tariffs, the problems of securing log supply, and the general slowdown in global demand. A decline in exports to European destinations was partly offset by more buoyant demand in Asia and the United States. Ceiba is the predominant species exported in various products, followed by wawa. Elsewhere, sawn lumber supplies from

Cameroon remain restricted due to bureaucratic problems which have delayed logging operations this year. However, Congo-Brazzaville and the Central African Republic are overcoming their political problems and availability is beginning to improve. Sawmills in the Congo basin are reporting that orders for most species are reasonably balanced with limited supply. European demand remains slow, which has contributed to some weakening in the FOB price for sapele sawn lumber. However, weak demand for African tropical sawn lumber in Europe is partly offset by Far Eastern buyers that are now purchasing sawn as well as logs.

## Liberia

### Focus for criticism

The Liberian timber industry continues to be a focus for criticism on social and environmental grounds. A local Liberian forest and human rights campaign group, the Save My Future (SAMFU) Foundation, has been particularly critical of what they see as indiscriminate logging activities taking place around the country. At the end of a three day "Forest Peoples Congress" in Monrovia, SAMFU published a resolution claiming that the Government of Liberia has persistently excluded rural people from the decision making process for the granting of forest concessions. The Resolution called for the Government to decentralize this process and to allow participation by rural dwellers. The Resolution said logging companies are granted permits to operate their forest resources without the prior knowledge of local people and in total disregard for local authorities. It suggested logging companies in Liberia are engaged in unsustainable and illegal practices as evidenced by the high waste of valuable timbers. It claimed that the Forestry Development Authority (FDA), an agency of government responsible to monitor the forest industry, has repeatedly shown a high level of indifference to these violations, which pose a serious threat to the forest and the environment. The resolution also called on government to impose a community development tax, on every cubic meter of logs harvested, to be returned to rural communities for self-help development initiatives.

For their part, in a recent article in the ATIBT Newsletter the Liberian Timber Association (LTA) maintains that logging companies in Liberia are involved in extensive infrastructure development (building roads, bridges, schools, hospitals) and providing basic community services. LTA say that the in-

dustry is the largest employer outside of the government and provides an essential source of income in rural areas. The LTA claims that the Liberian Forestry Development Authority maintains *"close quarter monitoring"* of logging activity throughout the country and that *"timber companies are restricted to working within a twenty five year felling cycle, thereby restricting the utilisation of forest resources to a sustained-yield basis."*

## Zimbabwe interests in DRC

Zimbabwean press reports suggest that the Democratic Republic of the Congo (DRC) will part compensate the Zimbabwean government for the role it played in the country's civil war through the issue of forest concessions. The Zimbabwe government claims the war cost it \$100 billion and is demanding a portion of this from the DRC government.

## Hardwood marketing

### [www.sustainablehardwoods.info](http://www.sustainablehardwoods.info)

The American Hardwood Export Council has launched a new website dedicated to the provision of data and information on the sustainability of American hardwood forest resource. The site draws on 70 years of national inventory data to demonstrate that the American hardwood forests are thriving. The site contains up to date information on forestry management, hardwood regeneration and certification. It is a "one-stop-shop" for importers, architects, specifiers, and end users seeking to understand the environmental credentials of American hardwoods.

## Tropical hardwood marketing

With funding from the ITTO, the International Wood Products Association in the United States and the Ghana Forestry Commission are co-ordinating an educational program on tropical forest management and hardwood products. A series of five brochures are being mailed to a select group in the distribution chain. The brochures include: Tropical Forests, Use them Wisely; Making Real Progress in the World's Forests; Sustainable Management Ensures a Future for Tropical Forests; and Wood is an Environmentally Responsible Choice. More: [info@iwpawood.org](mailto:info@iwpawood.org)

## Southsea logs

### Prices stabilise

After significant gains between March and October 2002, prices for South East Asian tropical logs were generally stable at the higher level during the last quarter of 2002, with some signs of marginal weakening in the run up to the Chinese New Year. This latter trend reflected improved log availability at the end of 2002 due to dry weather and good logging conditions in Malaysia and Indonesia. Buying was also slow in some key markets, notably Japan where plywood mills are reported to have ample tropical log inventories.

Lower log production due to the onset of the rainy season in the major South East Asian producing regions and the Chinese New Year holidays may ease the downward trend in prices over coming weeks. A crack-down on illegal logging in Indonesia would, if effective, also tend to feed through into higher log prices. It would reduce the availability of cheap logs on the international market. It would also reduce the ability of Indonesian plywood mills to supply international markets, potentially boosting demand for tropical logs from plywood mills in Malaysia, Japan, and China.

Recent reports indicate that despite the onset of rains, these have been relatively light in the Bintulu and Miri (Eastern) areas of Sarawak, enabling logging to continue and companies in the region to rebuild depleted stocks. However the rains have been heavier in the Sibiu and Kuching (Western) regions of Sarawak and logging has been severely disrupted. In Sabah, recent reports indicate that the weather has remained fine and logging operations are active enabling plywood producers to build some reserve log stocks in advance of the onset of rains.

### China's log imports up 47%

Most reports suggest that demand for tropical logs has continued to be good in China over recent months. According to Chinese customs statistics, between January and November 2002 national log imports reached 22 million m<sup>3</sup> and were valued at US\$1.928 billion, up 47% and 27% respectively on the same period the previous year. China is importing more logs to feed an expanding manufacturing base, while reducing imports of added-value products from higher cost countries. Between January and November 2002, China's plywood imports reached 579,500 m<sup>3</sup>, down 4.8% on the same period in 2001, while veneer imports fell by 41.3%. Demand for tropical logs is rising from Chinese manufacturers of plywood, veneer, and

a wide range of joinery products – including wooden floors, doors, windows, and mouldings. Much of the volume is ultimately destined for use in China where rising levels of income and moves to liberate the property market have stimulated a boom in remodeling and redecoration. Controls on domestic hardwood harvests have intensified so that demand for hardwoods such as elm, lime, oak, birch and ash from north east China now exceeds supply.

### Impact of WTO entry

Meanwhile China's entry into the WTO has encouraged the Chinese government to liberalise the timber trade in China. China has agreed to provide timber trading and retailing rights to foreign companies to be phased in over three years. After that time there will be no geographic or quantitative restriction on the ownership of timber trading and retailing companies. More foreign timber and log suppliers will then participate directly in China's timber trading business. At the same time more Chinese companies will emerge to import logs.

Although price rises for tropical hardwood logs during the course of 2002 encouraged increased substitution by cheaper softwood logs, notably from Russia, for some applications, the likelihood is that Chinese demand for tropical logs will continue to rise.

### Japan's building rules revised

There is speculation in Japan that recent revisions to building regulations may act to slow the long term decline in imports of tropical logs. Stricter controls against the use of formaldehyde in the manufacture of plywood may benefit Japanese manufacturers – who are the major buyers of tropical logs in Japan – at the expense of Chinese, Malaysian and Indonesian exporters. While Japanese manufacturers are well placed to supply plywood in accordance with the new regulations, it remains to be seen whether overseas suppliers, which together have a market share in excess of 50% in Japan, will be able to adjust.

## Malaysian sawn lumber

### Prices dip slightly

As anticipated by some analysts, there was a slight dip in prices for dark red meranti just prior to the Chinese New Year as some Malaysian shippers took steps to generate cash flow. At time of writing, trading is very quiet as Malaysian mills are inactive over the Chinese New Year holiday period which runs for two weeks from 1 February. Most reports suggest that shippers stocks are

### Asian Sawn Lumber Indicative Prices

	Oct	Nov	Jan
Exchange rates:			
M\$/£	5.91	5.91	6.25
US\$/£	1.56	1.56	1.64
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"/8"; Length: 8'+ avg 12'/14'

1"	810	800	790
2"	850	840	830
2.5"	920	920	900
3"	930	930	925

### Keruing

Grade: Standard & Better GMS

Size: Random or fixed 16'+  
1"-3"

### Nemesu

Kiln dried

2"	960	960	960
2.5"	980	980	990
3"	990	990	1000

### Myanmar Teak

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

Grade: Air dried boards  
Size: Width 6"+ avg 8", Length 6'+ avg 8'

1"	3000/ 3250	3000/ 3250	3000 3250
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*Note private-sector prices for Myanmar teak boards vary considerably from one mill to the next. Prices from the cheapest private mills in Myanmar currently start at the lower end of the range. The most expensive mills, many based in Singapore and Bangkok, are selling boards from best quality teak logs at the top end of the range.*

low, particularly in the thicker sizes which are more popular in Europe. As the rainy season is now imminent, most analysts suggest that prices are unlikely to fall further. At present, limited supply is reasonably well balanced with subdued demand.

### Gloomy Dutch market

Demand for meranti and merbau sawn lumber continues to be very slow in the Netherlands, a situation which is unlikely to change in the near future. The Dutch economy is very sluggish and construction activity is subdued. A wait-and-see attitude prevails throughout the tropical wood importing sector. This attitude has been fuelled by the weakening in the dollar-euro exchange rate. In a short period of time, the dollar has dropped by around 7% to 8% against the euro. This has translated into a sharp fall in CNF Rotterdam prices for meranti and merbau sawn lumber of around 40 euro/m<sup>3</sup>. The fall in exchange rates has undermined the value of importers existing stocks on the ground and encouraged them to delay replenishment for as long as possible. The meranti business in the Netherlands looks set to remain just-in-time for many months

as any recovery in demand seems remote. Underlying UK consumption of dark red meranti sawn lumber is described variously as steady to slow, while forward demand is weak. Most importers are now keeping only limited stock holdings of meranti and are focused on just-in-time trading. UK demand for keruing is very weak as little is now being purchased for truck decking.

German forward demand for meranti is reported to be slow. Those German companies that bought meranti stock speculatively during 2002 when prices were rising are now suffering due to slow underlying German consumption and the weakening dollar, which has undermined the value of their existing stock.

### Intense Brazilian competition

European demand for Malaysian bangkarai decking has been falling away over recent months in favour of a variety of Brazilian alternative species. Although some Dutch buyers remain wedded to Malaysian bangkarai, buyers in the U.K. and Belgium have been tempted by prices for comparable Brazilian decking profiles that are up to US\$100/m<sup>3</sup> cheaper.

Falling delivery prices for Malaysian sawn lumber in Europe due to weakening in the dollar-euro exchange rate are being partly offset by rises in freight rates. There was a small increase west-bound brake bulk rates from Asia during February, while the Far Eastern Freight Conference, whose membership includes the major shipping lines, has scheduled a series of container rates during the course of 2003. Rates from Asia to North Europe and the Mediterranean were increased by US\$250/TEU on 1st January 2003 and are due to be increased by a further US\$150/TEU on 1st April 2003 and US\$250/TEU on 1st July.

### Japan's ups and downs

Imports of Malaysian sawn lumber into Japan were impeded throughout much of 2002 due to limited availability and rising prices for the preferred grades – mainly first grade white seraya sourced from Sabah. Japan's imports of "southsea" sawn lumber – primarily Malaysian – reached 672,500 m<sup>3</sup> between January and October 2002, a decline of 10% compared with the same period in 2001. However problems of availability eased in the closing months of 2002. Imports were tending to rise while Japanese consumption remained subdued. The trend towards rising prices for first grade seraya in Japan leveled off at the end of 2002.

## Vietnam: an emerging market for hardwood

Vietnam's hardwood imports are rising, driven by the nation's growing furniture sector and limited domestic wood supply. Vietnam's natural forest is officially estimated at 9.6 million hectares - 33% of the land area - but only 211,000 ha are counted as "concentrated" forest. Environmental concerns have curbed timber output. In 1997 around 300 state-owned forestry companies were shut down. Forest cover declined from 44% of land area in 1943 to 23% in 1984, caused by logging, demand for fuelwood and clearance for agriculture, notably for cash crops such as coffee. Wood production peaked in 1996, and now the government has an ambitious target of replanting 200,000 ha of new forest per year. Planting focuses on eucalyptus and pine species. Log exports were banned in 1992; and for all timber products in 1993 but then lifted in 2001.

Growth in hardwood lumber imports is being driven by rapid development of an export-oriented furniture industry following investment by overseas private companies, dominated by Taiwanese and Japanese, but including some European. They have been drawn by the huge supply of semi skilled labour currently costing \$2 per day or less. Investment is focused in the country's 68 Export Processing Zones (EPZs).

Japan is the largest furniture export market but expectations are that more volume will soon be diverted to USA. Vietnamese plants are generally small but willing to take on short run business that many plants in China are not interested in.

Vietnamese domestic hardwood demand is constrained by low levels of per-capita income. However, tourism is forecast to grow which may create a market for hardwood products in hotels.

Vietnam's political structure is based on one-party rule. However economic reform is slowly eroding the dominance of the communist party. The 2001 constitution builds on the principle of a "private capitalist economy", under which foreign investors were granted ownership rights and given guarantees against nationalisation. Widespread bureaucratic procedures and a lack of transparency in Government, permit significant levels of corruption.

The population is 75% rural and two thirds work in agriculture and forestry. But the urban population and industrial labour force are growing rapidly. The government's economic strategy envisages annual GDP growth of 7.2%. However economic development is hampered by inefficiency and structural problems, with the state owned sector still resisting privatisation.

## Indonesia: plunging exports predicted

Indonesia's wood panel products association APKINDO predicts that the value of the country's wood products exports will plunge 50% this year - from around US\$2 billion to US\$1 billion - due to export restrictions imposed by the government. APKINDO particularly object to a new regulation allowing only registered companies to export. The regulation is designed to eliminate illegal logging and smuggling.

At the same time, the Indonesian government has announced that the licenses of concessionaires that do not meet new requirements for sustainable forest management will be revoked. An initial audit of around 27 concessionaires has revealed that half failed to meet the new requirements. The Ministry of Forestry has announced a schedule of audits covering 296 concessionaires out of a total of 412 by the end of the year. The audits are being carried out by the Independent Verification Institute. Based on the results of the audits, the Government will decide on the appropriate course of action.

These internal measures are designed to go

hand in hand with trade related measures to combat the illegal export of logs from Indonesia. During 2002, the Indonesian government signed bilateral agreements with the governments of China, Malaysia and the U.K. to undertake co-operative measures to combat the illegal log trade. Each government committed to increase the monitoring and control of cross border trade and to improve levels of forest enforcement.

However according to local press reports, forestry community groups in Indonesia are skeptical of the impact of the new measures. These groups suggest that the effectiveness of Indonesian forest enforcement has been weakened in recent years by measures to decentralize the control of forestry operations. Central government now has little control over the issue of logging licenses by cash strapped regional administrations seeking to raise funds.

According to the Indonesian government, around 60 million m<sup>3</sup> of illegal logs are cut each year in Indonesia. The trade in illegal logs is said to cost the Government some USD3.0 billion in lost tax revenues a year.

# South America

## Brazil

### A new dawn?

The year 2002 was a difficult one for the Brazilian economy which was hit by uncertainty, created partly by Argentina's collapse and by the prospect of a new political regime after the October elections. With a new government in place and seemingly maintaining the fiscal discipline of the former regime, the outlook for 2003 looks better. The tumbling *real* during 2002 has boosted the overall level of Brazilian exports. Brazil's trade surplus jumped from \$2.6 billion in 2001 to \$13.1 billion in 2002. Meanwhile President Lula has gained political support for his reform agenda in Congress. The government is preparing legislation for a series of ambitious and controversial reforms, including the unwieldy social security, tax and labour laws, which the government admits could make or break public accounts and Brazil's competitiveness in coming years.

During the first days of January the *real* recovered some of its value and there are signs that inflation is slowing. Brazil's exports are expected to rise again in 2003, with a projected trade surplus of US\$15 billion, although this will depend on the exchange rate, the strength of domestic demand, and external factors.

### Slow domestic demand

Brazilian domestic demand for tropical sawn lumber has been slow over the last 2 months and prices for most products are flat. Some analysts forecast rising prices for Brazilian tropical lumber over coming months in response to improved domestic demand. Rising prices may also be driven by a fall-off in stock levels in the mills as it is now the rainy season in Amazonia. New logs will only arrive at the mills in April.

International demand for tropical sawn lumber remains sluggish. However Brazilian exporters are having some success in expanding market share, benefiting from competitive exchange rates. Exporters are also taking steps to diversify markets, both in terms of the products offered and export destinations. Pre-finished flooring is seen as an area of opportunity, particularly to supply Asian and North American markets. There has been significant investment in flooring manufacturing plants over the last 12 months. Brazilian shippers are also offering decking profiles at very competitive rates to European buyers, taking market share from Malaysian shippers.

The new Brazilian government has appointed Mr. Marcus Barros as the new President of the Brazilian Institute of Environ-

ment and Renewable Natural Resources (IBAMA). Barros was previously Director of the National Institute for Amazon Research (INPA).

### "Big brother" in Amazonia

A major focus of IBAMA's work over the next few years is to develop the so-called "Integrated System to Monitor and Control Forest Products and Resources" (SISPROF). The aim of SISPROF is to reduce illegal logging in Brazil, to monitor permanent protection areas, and to promote sustainable forestry. It involves the development of a comprehensive database and geographical information system that will register information on forest properties; forest projects (including forest management plans, forest conversion plans, and reforestation projects); and the issue of licenses and permits. It will also be linked to the development of a computerized system of "forest origin stamps" designed to control the movement of forest products. SISPROF will be developed to operate within the entire Brazilian territory, but in the initial stages priority is being given to the nine Amazonian states. All information will be held on a centralized Oracle database in Brasilia with the aim of eliminating corrupted data and integrating information from a wide range of government agencies.

The development of SISPROF is linked to increased use of satellites to monitor forestry operations and track the flow of forest products. Four wood producers in the states of Amazonas and Para have been identified to pilot test the new satellite technology. If everything goes as planned, technicians predict that by 2004 all timber companies in Amazonia will be required to install equipment to enable the Brazilian authorities to remotely track their operations.

## Peru

### Emphasis on flooring

During 2002, the value of Peruvian exports of mahogany sawn lumber increased sharply, a response to the ban on the Brazilian mahogany trade which led importers, particularly in the U.S., to turn to Peruvian supplies. However there is also a shift towards exports of value added products from Peru, notably flooring but including doors and furniture components. Like their Brazilian counter-parts, Peruvian exporters have targeted the flooring market in Asia, notably in Hong Kong, China and Taiwan, over the last 12 months. There are also emerging reports of Peruvian exporters seeking to expand markets in southern Europe.

### Peruvian wood product exports January to September

US\$1000	2001	2002
Mahogany sawn lumber	28469	48406
Other sawn	7329	9833
Flooring components	2606	6261
Furniture & components	5163	6277
Softwood plywood	5084	3308
Doors & frames	1341	2163
Hardwood plywood	1397	1022
Veneer	1341	672
Other	8932	6468
<b>Total</b>	<b>61660</b>	<b>84408</b>
United States	34537	52996
Mexico	15346	18168
Venezuela	3280	812
Hong Kong	2043	4945
Dominican Republic	1241	2885
Italy	1050	1198
Puerto Rica	883	348
China	809	808
Others	2471	2248
<b>Total</b>	<b>61660</b>	<b>84408</b>

Source: SIPEC

In part the emphasis on the new products in Peru reflects a desire to shift away from over-reliance on mahogany exports, which is seen now as a high risk business, particularly following listing of *swietenia macrophylla* on CITES Appendix II in November last year. The focus on new products is also leading to increased exploitation of new species in Peru. For example, ITTO's Market News Service notes that over the last three months, harvests of scented *cabre uva* - also known as *balsamo* (*Myroxylum balsamum*) - have been increasing. Several Peruvian timber hardwood flooring companies are now specialising in this species for flooring to supply mainly Asian markets. ITTO suggests that *cabre uva* is now seen as Peru's second most significant species after mahogany, quickly overtaking *quinilla* and *cumaru* which are also used for wood flooring production. Peru's overall wood flooring exports are expected to have exceeded US\$10 million during 2002.

### Heavy rains

The Peruvian rainy season is now in full swing, running between November to March or April. Sawmills near rivers have shut-down and road transportation from some areas has become difficult. However, Peru is a diverse country and some exporters based outside the rain forest zone are able to continue operations year-round.

FOB prices from Peru quoted for FAS kiln dried sawn lumber of *swietenia macrophylla* in early February 2003 stood at US\$1375/m<sup>3</sup>. FOB prices for FAS kiln dried Peruvian cedar stood at US\$745/m<sup>3</sup>. Freight costs from Peru to Northern Europe are around US\$55/m<sup>3</sup>.

# North America

## Domestic demand

### Fragile economy

The US economy remains fragile. Figures published on January 30th showed that America's GDP growth slowed to only 0.7% at an annual rate in the fourth quarter of 2002 as consumer spending stalled. The Conference Board's index of consumer confidence fell in January to its lowest since 1993. Over 2002, America still outpaced Europe and Japan, but it continues to live beyond its means. The excesses it built up during the bubble years of the late 1990s, such as huge public sector and private debts, and enormous excess capacity, still loom large. These imbalances will have to be corrected, which suggests that growth is likely to remain sluggish. Meanwhile, economic uncertainty is being created by the prospect of war in the Gulf. This factor is undermining stockmarkets in the United States and elsewhere. If there is a prolonged war, oil prices would tend to rise, stockmarkets may continue to fall and a deep recession would be possible.

This may be a worst case scenario. The war in Iraq may yet be avoided, or at least short-lived. The more optimistic American economists are confident that the country's rapid productivity growth and reflationary monetary and fiscal policies may ensure a strong recovery in the medium term.

### Housing sector is key

A central factor is the housing market. U.S. housing starts and house prices continue to rise at a brisk pace, boosted by low interest rates. In December new home sales rose by 3.5% to an all time record, while housing starts hit the highest monthly rate for 16 years. A strong housing market is an important factor supporting consumer spending. American households have been encouraged to take out bigger mortgages on their homes and to use the extra money in the high street. But if the housing market proves to be just another bubble, its bursting will surely push the economy into recession. House prices have a bigger wealth effect than stockmarkets as they account for a higher proportion of most household's equity.

But for now, sections of the U.S. hardwood industry are benefiting from the strength of the housing market. According to *NOFMA The Wood Flooring Manufacturers Association*, U.S. strip flooring sales increased by more than 8% during 2002 to 627.5 million board feet, the highest level since 1966. During the first 11 months of 2002, the value of U.S. cabinet shipments were roughly 11%

up on the same period the previous year. Even the U.S. furniture sector, which saw a big decline in capacity and sales during 2000 and 2001, is reporting more stable market conditions. U.S. furniture industry associations now project a slight increase in sales for the period 2002 to 2004, although overall raw material usage by the sector will remain well down on earlier years.

Industrial markets for hardwoods have also remained steady or expanded, with pallets, crossies and truck trailer flooring contributing to good demand for low grade lumber and "heart dimension" products.

### Green lumber shortage

Meanwhile there are reports of shortages of green lumber. Log decks are very mixed throughout the United States. Although there are reports of weather conditions impeding logging in some areas, this is much less of a factor than financial constraints. Cash flow problems meant many mills chose not to build log inventories during 2002. Meanwhile log prices have remained high as many forest owners have decided to defer harvesting until economic conditions improve, while numerous logging operators have gone out of business.

Many suppliers do not have sufficient stocks of green lumber to keep their kilns running. This is leading to shortages of kiln dried lumber and to firming prices for some items. This is particularly true of thicker items as sawmills have been cutting mostly 4/4 lumber.

However, a feeling of uncertainty continues to plague the U.S. hardwood market. Cash flow is a problem for many and operators throughout the chain are still determined to keep inventories lean. Generally margins are tight and profits elusive.

## Export demand

### Mixed results from weak dollar

Since the start of 2003, export demand for American hardwoods has been mixed. If sustained, the recent weakening of the dollar exchange rate against both the euro and the yen may benefit U.S. hardwood exporters in the long term. However, in the short term a sharp fall in the dollar value has the effect of undermining the value of existing importers stocks and can encourage greater caution on the part of overseas buyers. For now, most reports indicate that export markets remain as competitive as ever, particularly for the higher grades.

European demand remains sluggish overall, constrained by slow economic growth and by good availability of European oak.

The threat of war with Iraq and other concerns about the global economy have encouraged widespread adoption of a "wait-and-see" approach to business activity. However there are a few bright spots. Most notable amongst these is Spain. Spain is one of the few European markets where importers are willing to speculate and build stocks in anticipation of future demand. During January there were reports of Spanish importers re-entering the market, notably for white oak. They were encouraged both by weakening in the dollar-euro exchange rate and by reports of possible short-falls in kiln dried availability during the winter months. At the same time, recent reports from the Spanish construction sector have started to look more favourable.

### Southern Europe holds up well

Other Southern European markets for American hardwoods have also held up reasonably well. Despite growing competition from overseas, notably Eastern Europe, Portuguese manufacturers of doors and other joinery products have managed to stay afloat by exploiting their high level of design, technological and marketing expertise. Shipments of American hardwood to Italy were about level last year, with some increased interest in tulipwood and white oak. Italy's economy remained flat last year and the Ital-

### US sawn lumber indicative prices

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

	Oct	Nov	Jan
\$/£	1.55	1.56	1.64
\$/Euro	0.98	0.99	1.07
<b>Red oak</b>			
1"	1880	1880	1900
1.25"	2075	2075	2100
1.5"	2150	2150	2200
2"	2500	2500	2500
<b>White oak</b>			
1"	1450	1450	1550
1.25"	1750	1750	1775
1.5"	2100	2100	2150
2"	2750	2750	2775
<b>Ash</b>			
1"	1050	1050	1200
2"	1560	1560	1550
<b>Tulipwood</b>			
1"	1050	1050	1075
1.25"	1125	1125	1150
1.5"	1150	1150	1175
2"	1225	1225	1225
<b>Cherry</b>			
1"	3425	3425	3500
1.25"	3580	3580	3600
1.5"	3750	3750	3850
2"	4050	4050	4075
<b>Hard Maple</b>			
1"	2350	2350	2300
1.25"	2450	2450	2450
1.5"	2750	2750	2750
2"	2850	2850	2800



# N. America

ian furniture sector was under growing competitive pressure in export markets. But Italy is such a force in the global furniture sector that it continues to absorb significant quantities of hardwood.

## Doldrums in Northern Europe

Market conditions for American hardwood have been less favourable in northern Europe. In Germany, the combined effects of a slowdown in the construction and furniture sectors, and improved availability of hardwood from Eastern Europe, have hit hard sales of American hardwood. In the UK, joinery and furniture manufacturing companies have come under intense pressure from imported goods. Underlying UK consumption of American hardwoods has been very slow over recent weeks. Although stocks of American hardwood are quite low in the UK, few importers have the confidence to build inventories. There is also intense competition for market share between UK importers, mainly on price. Generally speaking price expectations in the UK are low. Demand for American hardwoods in France continues to be sluggish, undermined by weakness in the furniture sector. Not much American hardwood is used in the French construction sector, except for a few large projects.

## Common grades doing well in Asia

In terms of volume, demand for American hardwoods in Asia and the Pacific Rim has remained good, particularly for common grades. However, pricing in these markets tends to be intensely competitive. Asian importers are also less inclined to develop loyalty to any particular species and are more willing to switch to alternatives based on price. At the same time, there is still intense competition in Asia from Central and Eastern European hardwoods.

Chinese purchasing of American hardwoods slowed to some extent in the last quarter of 2002, but there are reports of a pick-up in early 2003. Shipments to Japan have remained slow, undermined by sluggish economic conditions. Many Japanese orders are demanding in terms of colour and size specifications. Korean imports of American hardwood are tending to rise, benefiting from a boom in renovation and redecoration. Vietnam continues to evolve as an important export-oriented manufacturing location and is importing growing volumes of American hardwood lumber.

Canadian demand for American hardwood lumber has been good, particularly for flooring. Canada's housing market is booming with starts up 26% in 2002 compared to the previous year.

# Europe

## European hardwoods

### Depressed log buying

Hardwood log buying was depressed at the autumn 2002 auction sales organised by the French state forest administration - the Office National des Forêts - according to a report in the German journal EUWID. Although hardwood logs with a standing volume of 2.73 million m<sup>3</sup> were offered for sale (compared to 2.27 million m<sup>3</sup> in 2001), only 1.43 million m<sup>3</sup> found a buyer (1.47 million m<sup>3</sup> in 2001). Demand for beech logs was particularly depressed. 52% of all beech logs offered for sale were not sold and average prices for all grades were down 18% compared to the autumn 2001 sales, and down over 50% compared to the 2000 auction sales. Weak sales of beech logs were attributed mainly to continuing depressed demand for beech logs in China.

### Too much lower grade

French oak log sales were also slow, although this was mainly due to the high proportion of lower quality and small dimension logs on offer. European market demand for lower grade hardwood logs of all species is still very weak. The limited volumes of high quality thicker oak logs made available for sale met with good demand.

The French sawmilling sector continues to report sluggish market conditions and problems associated with overstocking - particularly in lower grades. Despite efforts to curtail production, prices are soft. The French construction sector is not active and European parquet demand has slowed. Sales to the French furniture sector remain weak.

### Stave industry soaks up best oak

However demand for good quality oak logs in France, particularly from the stave industry has been good over recent weeks. In the absence of decent harvests from French forests this season, French stave producers have been out in force at the German log auctions. Some reports suggest that French stave producers have pushed up prices for the best quality German oak logs by 25% this year. German sawmillers are complaining that they are being starved of good quality oak logs, and that prices for German sawn oak may have to rise later in the year. But the market is unlikely to be receptive - German domestic hardwood demand remains very depressed.

Many Western European producers continue to struggle under the weight of high stocks in lower grade sawn beech. The market for higher grade sawn beech is better balanced; demand is still slow but supply is also more restricted. There are some reports

### European sawnwood indicative prices

	Oct	Nov	Jan
Exchange rates			
Euro/£	1.59	1.56	1.53
Euro/US\$	1.02	1.01	0.93
<b>German beech</b>			
Northern Germany, Euro/m <sup>3</sup> , C&F, UK Port			
Grade: kiln dried, steamed and square edged.			
1"	780*	760*	730*
2"	840*	820*	780*
<i>*note some significantly lower offers are still available for beech that has been diverted from the Chinese market. These prices are for high grade joinery beech supplied to U.K. specifications in mixed containers</i>			
<b>Bosnian beech</b>			
Euro/m <sup>3</sup> , Delivered to U.K. yard			
Grade: kiln dried, 25-50mm, steamed and white			
prices are the same at present			
square-edged	725	670	670
waney edged	520	480	480
<b>German oak</b>			
Northern Germany, Euro/m <sup>3</sup> , C&F, UK Port			
Grade: kiln dried, waney edged prime grade*			
1"	780	780	780
2"	995	995	995
<i>*waney edged prices provided as there is very little square edged available from Germany or France - French prices are similar to German prices</i>			
<b>Croatian &amp; Slovenian oak</b>			
Northern Italy or Slovenia			
Euro/m <sup>3</sup> , C&F, UK Port			
Grade: kiln dried and square edged.			
1"	950-1250	950-1250	1000-1250
2"	1300-1600	1300-1600	1350-1600

of a seasonal pick up in buying of good quality beech logs and sawn lumber in Spain at the turn of the year. Some German sawmillers also report that there are signs of improving Chinese demand for top grade sawn beech at more reasonable prices. The U.K. market for good quality sawn beech has been sluggish.

### Beech under severe pressure

Despite some positive signs, there is no denying the continuing weakness of the European beech market. As another indication, in January EUWID reports that prices for beech logs at recent auction sales in Austria have come "under severe pressure". As a result Austrian forest owners have significantly reduced harvest volumes. In contrast, demand for Austrian oak logs is reported to be good and prices to be firming. Recent auction sales in Croatia have confirmed that demand for the exceptionally high quality oak available from this source has been good. Prices for oak logs on offer at these sales have been rising over the winter months. Croatia oak sawn lumber prices remain stable to firm.

The U.K.'s small domestic hardwood industry continues to shrink. The Forestry Commission's sawmill survey for 2001 shows that total British hardwood lumber production was 93,000 m<sup>3</sup>, down 8% on the low levels recorded in 2000. Further declines in production were recorded in 2002. Whitmore's Timber Co, one of the UK's largest specialists in British grown hardwood, announced that it would cease hardwood sawmilling.

# Special report - United Kingdom

**Table 1. UK hardwood sawn lumber imports 2001 and 2002 (forecast)**

	Volume (m3)			Value (000 euro)		
	2001	2002 (f)	% Chg	2001	2002 (f)	% Chg
<b>Beech</b>						
GERMANY	27661	30012	9	16170	15742	-3
FRANCE	3840	5067	32	2841	4433	56
DENMARK	4537	2803	-38	2025	1386	-32
ITALY	1362	1842	35	1216	1540	27
SERB. & MONT.	1513	1026	-32	505	329	-35
ROMANIA	593	763	29	260	366	41
BELGIUM	462	567	23	201	276	37
OTHER	1625	1603	-1	1093	1172	7
<b>TOTAL</b>	<b>41594</b>	<b>43684</b>	<b>5</b>	<b>24311</b>	<b>25243</b>	<b>4</b>
<b>Oak</b>						
U.S.A.	64297	58000	-10	50589	45594	-10
FRANCE	17807	21581	21	14203	10841	-24
CANADA	7184	7027	-2	6957	6553	-6
GERMANY	6771	10711	58	3319	4174	26
ITALY	1589	3665	131	1591	3379	112
ROMANIA	5322	3911	-27	1505	1842	22
NETHERLANDS	974	1500	54	1222	1589	30
SLOVAKIA	1413	2654	88	532	1223	130
CHINA	21	453	2058	28	784	2699
UKRAINE	1590	1893	19	661	714	8
BELGIUM	1172	1236	5	1162	672	-42
POLAND	180	371	106	115	235	105
RUSSIA	737	428	-42	333	223	-33
OTHER	2166	2462	14	1189	1218	2
<b>TOTAL</b>	<b>111223</b>	<b>115892</b>	<b>4</b>	<b>83406</b>	<b>79040</b>	<b>-5</b>
<b>Other temperate hardwood</b>						
U.S.A.	48721	42967	-12	39144	37590	-4
CANADA	14274	11319	-21	13934	11405	-18
DENMARK	3119	3450	11	1374	1172	-15
GERMANY	2000	2300	15	1097	989	-10
RUSSIA	6090	6710	10	1014	857	-16
FRANCE	1000	1266	27	923	683	-26
IRISH REPUBLIC	132	1725	1207	62	763	1131
ITALY	444	1334	200	259	668	158
NETHERLANDS	740	1909	158	402	577	44
OTHER	4624	3792	-18	2104	1091	-48
<b>TOTAL</b>	<b>81144</b>	<b>76773</b>	<b>-5</b>	<b>60313</b>	<b>55795</b>	<b>-7</b>
<b>Tropical hardwood</b>						
MALAYSIA	51000	52998	4	30662	29447	-4
CAMEROON	32693	29318	-10	20027	18932	-5
NETHERLANDS	16604	19667	18	12502	15611	25
IVORY COAST	14594	17726	21	8560	10547	23
GHANA	18460	16629	-10	9633	9751	1
BRAZIL	12000	14464	21	9869	8761	-11
GERMANY	6170	11441	85	4537	6458	42
INDONESIA	6168	6231	1	4814	3792	-21
U.S.A.	3403	3884	14	2293	3028	32
BELGIUM	4500	3879	-14	3205	2908	-9
CONGO REPUBLIC	1786	3594	101	1033	2156	109
SINGAPORE	2186	2247	3	1958	1759	-10
IRISH REPUBLIC	1000	1725	73	972	971	0
BURMA	498	488	-2	689	835	21
GUYANA	5543	4124	-26	1200	775	-35
FRANCE	1434	756	-47	1237	751	-39
AUSTRALIA	2933	948	-68	1571	551	-65
SPAIN	301	690	129	186	451	143
ITALY	482	467	-3	392	408	4
OTHER	3358	4598	37	3038	2892	-5
<b>TOTAL</b>	<b>185113</b>	<b>195871</b>	<b>6</b>	<b>118378</b>	<b>120785</b>	<b>2</b>

Note some of the volume data is estimated from weight data (including all beech data since Eurostat failed to provide volume data for this species last year). 2002 data is a forecast by [hardwoodmarkets.com](http://hardwoodmarkets.com) based on analysis of the January to October import data and anecdotal reports of trading activity. Sources: [hardwoodmarkets.com](http://hardwoodmarkets.com), Eurostat

**Table 2. The UK furniture sector. Millions of US\$**

	1995	1996	1997	1998	1999	2000	2001	Ranking*
Production	6036	6411	7126	7370	7578	6875	6685	8
Exports	983	1095	1165	1237	1226	1154	1075	15
Imports	1683	1891	2117	2571	2865	3140	3377	3
Consumption	6736	7207	8077	8704	9217	8862	8986	6

\*Ranking of the UK among 50 countries, last available year. Sources: CSIL, Eurostat

14

umes coming from continental Europe, notably Netherlands and Germany. Fewer UK importers now buy direct and there is more reliance on just-in-time purchases from continental Europe.

## Bouyant construction sector

Slow underlying consumption of hardwood lumber in the UK during 2002 is surprising since economic conditions were not especially unfavourable. The year was a buoyant one for the U.K. construction sector which is enjoying its most sustained period of growth since the late 1980s. The value of overall construction output in the UK has been rising consistently by around 6% a year since 1996. Total output is expected to have increased by 9% during 2002, boosted by strong private sector house building and revived retail construction and by an increase in public sector spending. Growth in overall output is forecast to slow slightly to 7% in 2003 as demand from the private sector weakens, both for housing and commercial projects. Underlying the optimism has been the low level of interest rates in the U.K. and reasonably optimistic forecasts of GDP growth in 2003.

Part of the reason for relatively slow demand for hardwood in construction sector may be a general trend towards cost-cutting, which has resulted in increased use of cheaper softwoods and other substitutes. At the same time there has been an increase in the use of semi-finished and finished components, a rising proportion of which are being imported rather than manufactured in the UK. The use of hardwood sawn lumber in the UK is increasingly restricted to the architectural joinery sector – notably for shopfitting, public buildings, and quality offices – and mainly for renovation rather than new build.

## Furniture sector shrinks

Another reason for continuing sluggish sales of hardwood lumber in the UK can be deduced from furniture sector data. Figures from CSIL, the Italian furniture industry research organisation, indicate that while UK furniture consumption has been rising over the last decade, UK domestic production has declined sharply since 1999. Penetration by imported furniture has risen steeply, while UK manufacturers have struggled to compete overseas. These trends continued strongly during 2002. In the first six months of the year, the value of UK wooden furniture exports fell by 7%, while imports increased by 23%, notably from Italy, China, Germany, Poland and Vietnam.

# Plywood

**Hopes of a sustained increase in tropical hardwood plywood prices due to shortfalls in the supply of Indonesian material have been disappointed.** Prices for Indonesian hardwood plywood rose to around INDO96 less 15-13% in the last quarter to 2002, but in early February 2003 have fallen to INDO96 less 22-25%. Prices for Brazilian hardwood plywood have also weakened considerably, according to some reports by as much as US\$80/per m3 since November 2002.

During the second half of 2002, European importers were encouraged to build stocks of Brazilian hardwood plywood on the promise of a sustained price increase. However European consumption remained static and importers started to ditch material.

Since Indonesian and Brazilian plywood are sold in dollars, a decline in the value of dollar against European currencies over recent months has deepened the price decline in Europe. The value of European importers' existing stocks has been undermined and the forward market has ground to a halt.

Improved availability of hardwood plywood from China priced even lower than Indonesian and Brazilian plywood, is another factor undermining prices. China is now manufacturing tropical hardwood plywood of three types: (1) okoume throughout; (2) "twin" comprising an okoume face and poplar core; and (3) "combi" with various combinations of okoume, other tropical woods, and locally grown poplar. Okoume plywood is being sold primarily into Holland and Italy. Some of the UK's largest plywood importers are also reported to be sourcing larger volumes of Chinese hardwood plywood. Most Malaysian shippers are not now selling in Europe since prices are unattractive. Production in both Brazil and Indonesia is

# Exchange rates

		One GB pound (£)			One US Dollar (\$)			One Euro		
		26-Oct	29-Nov	31-Jan	26-Oct	29-Nov	31-Jan	26-Oct	29-Nov	31-Jan
Argentina	Peso	5.6367	5.6483	5.301	3.6250	3.6300	3.2250	3.5424	3.6110	3.4621
Australia	Aus.\$	2.805	2.7717	2.804	1.8039	1.7813	1.7059	1.7628	1.7719	1.8313
Bangladesh	Taka	89.9539	90.0925	95.6634	57.8500	57.9000	58.2000	56.5310	57.5961	62.4777
Belize	B\$	3.0633	3.0653	3.238	1.9700	1.9700	1.9700	1.9251	1.9596	2.1148
Bolivia	Boliviano	11.5102	11.5447	12.4092	7.4023	7.4195	7.5495	7.2335	7.3805	8.1044
Botswana	Pula	9.5455	9.0047	8.9114	6.1388	5.7871	5.4215	5.9988	5.7567	5.8200
Brazil	Real	5.9135	5.6755	5.8023	3.8030	3.6475	3.5300	3.7163	3.6283	3.7895
Canada	Canadian \$	2.4387	2.4376	2.5175	1.5683	1.5666	1.5316	1.5326	1.5584	1.6442
Chile	Peso	1143.280	1095.040	1208.690	735.252	703.752	735.347	718.488	700.058	789.395
China	Yuan	12.8707	12.8794	13.6048	8.2772	8.2772	8.2769	8.0885	8.2338	8.8653
Czech Republic	Koruna	49.1849	48.1856	48.201	31.6312	30.9676	29.3247	30.9100	30.8050	31.4800
Denmark	Danish Krone	11.8249	11.6157	11.388	7.6047	7.4651	6.9283	7.4313	7.4259	7.4375
Estonia	Kroon	24.8962	24.6661	23.9558	16.0109	15.7237	14.5743	15.6459	15.6412	15.6455
Euro-zone (1)	Euro	1.5912	1.5642	1.5312	1.0233	1.0053	0.9316	1.0000	1.0000	1.0000
Fr. Africa (2)	CFA Fr.	1043.78	1026.06	1004.38	671.263	659.421	611.048	655.958	655.960	655.960
Ghana	Cedi	12855.60	13031.50	13766.00	8267.5	8374.99	8375.00	8079.0	8331.03	8990.57
Guyana	Guyanese \$	278.336	278.524	294.222	179.000	179.000	179.000	174.919	178.06	192.16
Hong Kong	HK\$	12.1269	12.1347	12.8206	7.7989	7.7986	7.7998	7.6211	7.7577	8.3731
India	Rupee	75.1974	75.1704	78.5746	48.3600	48.3100	47.8035	47.2574	48.0564	51.3170
Indonesia	Rupiah	14367.7	13969.0	14579.6	9240.0	8977.5	8870.0	9029.3	8930.4	9521.9
Japan	Yen	192.775	190.633	197.145	123.975	122.5146	119.9397	121.148	121.8716	128.7553
Kenya	K. Shilling	123.696	124.216	127.839	79.5498	79.8302	77.7751	77.7361	79.4112	83.4916
Korea South	Won	1915.31	1880.82	1913.27	1231.8	1208.75	1164.00	1203.7	1202.41	1249.56
Liberia	Liberian \$	1.555	1.556	1.6437	1.0000	1.0000	1.0000	0.9772	0.9947	1.0735
Malaysia	Ringgit	5.9088	5.9128	6.2461	3.8000	3.8000	3.8000	3.7134	3.7800	4.0793
Myanmar	Kyat	10.0542	9.9984	10.2515	6.4659	6.4257	6.2368	6.3185	6.3920	6.6952
New Zealand	NZ\$	3.1959	3.1192	3.0201	2.0553	2.0046	1.6374	2.0084	1.9941	1.9724
Nigeria	Naira	198.179	200.413	210.805	127.450	128.800	128.250	124.545	128.124	137.677
Papua NG	Kina	6.9909	6.4051	6.4592	4.4959	4.1164	3.9297	4.3934	4.0948	4.2185
Philippines	Peso	82.6067	83.2849	88.4722	53.1250	53.5249	53.8250	51.9137	53.2440	57.7811
Poland	Zloty	6.3092	6.2596	6.2856	4.0575	4.0229	3.8241	3.9650	4.0018	4.1051
Romania	Leu	51927.6	52231.0	54439.3	33395.0	33567.4	33119.9	32633.6	33391.2	35554.3
Russia	Rouble	49.3786	49.5621	52.3494	31.7557	31.8522	31.8485	31.0317	31.6850	34.1894
Singapore	Singapore \$	2.7579	2.7484	2.8588	1.7736	1.7663	1.7392	1.7332	1.7571	1.8671
Solomon Is.	Slmn. Is. \$	11.7889	11.8147	12.4902	7.5815	7.5930	7.5988	7.4087	7.5531	8.1573
South Africa	Rand	15.7107	14.4194	14.0269	10.1037	9.2670	8.5337	9.8733	9.2183	9.1610
Sweden	Krona	14.518	14.1057	14.1567	9.3366	9.0653	8.6127	9.1238	9.0178	9.2457
Taiwan	\$	54.1278	54.1955	57.0397	34.8100	34.8300	34.7020	34.0163	34.6472	37.2526
Tanzania	Shilling	1526.52	1534.22	1674.93	983.003	986.001	1018.999	960.590	960.826	1093.896
Thailand	Baht	67.5237	67.6783	70.3011	43.4250	43.495	42.77	42.4349	43.2667	45.9136
Uganda	New Shilling	2850.22	2863.04	3079.47	1832.998	1840.00	1873.50	1791.205	1830.34	2011.20
United Kingdom	£	1.0000	1.0000	1.0000	0.6431	0.6427	0.6084	0.6284	0.6393	0.6531
U.S.A.	US \$	1.555	1.556	1.6437	1.0000	1.0000	1.0000	0.9772	0.9947	1.0735
Venezuela	Bolivar	2229.040	2051.980	3158.780	1433.512	1318.75	1921.75	1400.828	1311.83	2063.00
Vietnam	Dong	23889.5	23936.7	25363.9	15363.5	15383.5	15431.0	15013.2	15302.7	16565.1
Zimbabwe	\$	86.2221	86.2803	90.4036	55.4501	55.4500	55.0000	54.1858	55.1589	59.0425

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

likely to decline over coming months. Brazilian shippers started to reduce production in December in response to slowing overseas sales, and it is now the rainy season in Amazonia which is likely to impact on log supplies. The rainy season is also imminent in the Far East. Long term supplies from the Far East are heavily dependent on the effectiveness of efforts to curtail illegal log extraction in Indonesia. Either way, it is likely to be some months before the European market is back in balance. The French tropical hardwood plywood sector has been struggling in these market con-

ditions. Overall French exports of plywood fell by 10.5% to 91,500 tonnes in the first nine months of 2002.

The Japanese plywood market is in transition. Forward demand for imported hardwood plywood, mainly from Indonesia and Malaysia, is weak. There were heavy arrivals during October and November last year. But this volume is being absorbed only slowly since consumption is sluggish. Meanwhile new building regulations requiring all plywood used in construction to be JAS certified after July 2003, have increased demand for plywood manufactured in Japan.

# Hardwood Events

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

### **African logging constrained**

It is the dry season in the main African supplying regions but overall levels of production are low owing to on-going political problems, changing forest policies and bureaucratic delays. European consumption of African logs is slow. Chinese demand for African logs is good due to rising domestic consumption and declining availability of Asian logs. **Page 3**

### **Ivory Coast deteriorates**

The deteriorating political situation in Ivory Coast has created an international shortage of iroko and framire sawn lumber. Sawn lumber supplies from Cameroon remain restricted due to bureaucratic delays to logging operations. However, Congo-Brazzaville and the Central African Republic are overcoming their political problems and availability is improving. Sawmills in the Congo basin report that orders are reasonably balanced with limited supply. European demand remains slow, which has contributed to some weakening in the FOB price for sapele lumber. However, weak demand in Europe is partly offset by Far Eastern buyers that are now purchasing African lumber as well as logs. **Pages 3-4**

### **Southsea log prices stable**

After significant gains between March and October 2002, prices for South East Asian tropical logs were stable at the higher level during the last quarter of 2002. There were some signs of marginal weakening in prices just prior to the Chinese New Year due to dry weather which improved log availability in Malaysia and Indonesia. There was also slow buying of Asian logs in some key markets, notably Japan where plywood mills have ample tropical log inventories. **Page 5**

### **Meranti market finely balanced**

Prices for dark red meranti sawn lumber dipped just prior to the Chinese New Year as some Malaysian shippers took steps to generate cash flow. However shippers stocks are low, particularly in the thicker sizes. Meranti prices may not fall further as the rainy season is now imminent. Limited meranti supply is balanced with slow demand. **Pages 5-6**

### **Vietnam on the rise**

Vietnam's hardwood imports are rising, driven by the nation's growing furniture sector and limited domestic wood supply. Japanese, Taiwanese and European investors have been drawn to the country by wage levels that are even lower than China's. **Page 6**

### **Indonesian exports may half**

Indonesia's wood panel products association APKINDO predicts that the value of the country's wood products exports will plunge 50% this year - from around US\$2 billion to US\$1 billion - due to export restrictions imposed by the government. **Page 6**

### **Brazil diversifies exports**

Brazilian domestic demand for tropical sawn lumber has been slow over the last 2 months and prices for most products are flat. Although international demand for tropical sawn lumber remains sluggish, Brazilian exporters are having some success in expanding market share, benefiting from competitive exchange rates. Exporters are also taking steps to diversify markets, both in terms of the products offered and export destinations. **Page 7**

### **Peruvian mahogany exports rise**

During 2002, the value of Peruvian exports of mahogany sawn lumber increased sharply, a response to the ban on the Brazilian mahogany trade which led importers, mainly in the U.S., to turn to Peruvian supplies. However there is also a shift towards exports of value added products from Peru, notably flooring but including doors and furniture components. **Page 7**

### **Fragile recovery in the U.S.**

The U.S. economy is fragile, but sections of the hardwood industry are benefiting from the strong housing market - notably flooring and cabinets. Even the furniture sector is more optimistic about the future. However, a feeling of uncertainty plagues the U.S. hardwood market. Cash flow is a problem for many and profits are elusive. Meanwhile there are reports of shortages of green lumber with many operators lacking stock to keep their kilns running. **Page 8**

### **Hot competition for U.S. hardwoods**

Export demand for American hardwoods has been mixed this year. If sustained, the recent weakening of the dollar exchange rate may benefit U.S. hardwood exporters in the long term. However, in the short term a sharp fall in the dollar value has the effect of undermining the value of existing importers stocks and can encourage greater caution on the part of overseas buyers. For now, most reports indicate that export markets remain as competitive as ever, particularly for the higher grades. **Pages 8-9**

### **High grade oak logs in demand**

At recent auction sales in France, Germany, and Austria demand for beech logs has been poor. Sales of low grade oak logs have also been depressed, but good quality oak logs have been selling well, notably to the stave sector. Oak log prices have also been rising in Croatia. European oak lumber prices remain stable to firm. European beech prices are still soft, but there are signs of improving demand for good quality beech lumber in China and Spain. **Page 9**

### **Plywood prices fall..again**

Hopes of a sustained increase in tropical hardwood plywood prices due to shortfalls in the supply of Indonesian material have been disappointed. Prices for Indonesian hardwood plywood rose to around INDO96 less 15-13% in the last quarter to 2002, but in early February 2003 have fallen to INDO96 less 22-25%. Prices for Brazilian hardwood plywood have also weakened considerably. Prices have been undermined by slow global consumption and rising availability of cheap plywood from China. **Page 11**

### **U.K. stasis**

Preliminary analysis of UK trade data indicates that hardwood sawn lumber imports may have reached around 432,000 m<sup>3</sup> in 2002, 3% up on the depressed levels of 2001. Temperate hardwood sawn lumber imports were static at around 236,000 m<sup>3</sup> in 2002. Tropical hardwood imports recovered only slightly during 2002 from the very low levels of 2001, rising from 185,000 m<sup>3</sup> to 196,000 m<sup>3</sup>. **Pages 1, 10**