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The future is in the East

The worldwide furniture sector dominated discussions at the American Hardwood Export Council's 8th Annual South East Asia and Greater China Convention in Ho Chi Minh City in early December. More than 300 representatives from the US, Southeast Asian countries and China had gathered to discuss opportunities for American hardwood in the East Asian market.

The focus on furniture reflects the sector's huge significance as a driver of demand for hardwood lumber and veneer in East Asia. The region as a whole has been an important manufacturer of furniture for the global market for some time, but major shifts in the distribution of manufacturing facilities are now underway.

As the Chinese government has progressively liberalized the economy, China has become an increasingly important supplier of wood furniture to the global market. With more than 50,000 furniture manufacturers employing 50 million workers, the Chinese furniture industry increased exports by 335 percent from 1994 to 2001, replacing Italy as the world's largest furniture exporting country. Low labour costs encouraged inward investment into China by Taiwanese, Japanese, North American and European furniture manufacturers. Growth of the Chinese furniture sector has greatly increased competitive pressure on manufacturers in other countries, not only in the west but also in South East Asia. Furniture manufacturers in Malaysia, Indonesia, the Philippines and Thailand are adapting to this pressure partially by relocation to lower cost locations, and partially by shifting up-market, focusing more on design and better quality products.

AHEC's choice of Ho Chin Minh City as the location for the 8th Annual Conference is highly significant. Vietnam's economic position is unlike that of other South East Asian countries. Compared to Malaysia,

Indonesia, and Thailand, Vietnam has arrived late as a supplier of processed wood products to the international market. The communist regime centered in the Northern Vietnamese city of Hanoi has only recently taken significant steps to liberalise the economy. Overseas investors have been encouraged by tariff concessions and other incentives. Some large Taiwanese furniture manufacturers that took the decision to relocate only recently have chosen Vietnam over China, encouraged particularly by Vietnam's lower wage rates. Other Taiwanese manufacturers that already have a factory in China have established additional factories in Vietnam in order to diversify their supply base.

Convention highlight

A highlight of Convention was a presentation by David Imrie, Director of Furniture Village – a large independent furniture retailer in the UK. Imrie was firmly of the view that the "Future is in the East". Imrie noted that while low labour costs have contributed to the competitiveness of the South East Asian industry, other factors have also been important. Manufacturers in the region are renowned for their "can-do" attitude, their flexible approach and willingness to work precisely to overseas buyer specifications. What these manufacturers often lack, according to Imrie, is a clear understanding of design and fashion trends and of the commercial needs of distributors in the large consumer markets of Europe and North America. In an effort to fill this gap in understanding, Imrie's presentation went on to summarize recent trends in the European furniture sector and to identify commercial factors of particular significance to European distributors.

Imrie highlighted that furniture retail sales in European countries have tended to rise

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Contacts

By email

editor@hardwoodmarkets.com

By mail

Rupert Oliver,
Forest Industries Intelligence Ltd
19 Raikeswood Drive,
Skipton, North Yorkshire
BD23 1NA,
United Kingdom

By telephone and fax

Tel: +44 (0)1756 796992

Fax: +44 (0)1756 796992

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Editorial - population pressure

Just as this journal was going to press, FAO released its latest "State of the World's Forests" (available at <http://www.fao.org/DOCREP/005/Y7581E/y7581e00.htm>). In such a politically charged arena as forestry, this annual publication probably comes closest to the ideal of an independent, objective and comprehensive appraisal of the current global forestry situation.

The report contains some startling facts. By 2050, the global population is expected to increase by about 3 billion to a total of 9 billion. Around 50% of the world's inhabitants, mostly in developing countries are likely to suffer malnutrition and poverty in the next 50 years unless technologies to increase current levels of agricultural productivity are developed in time. FAO note that technological innovations to improve productivity on existing agricultural land should help feed this vast population. However, there will also be intensifying pressure to convert forest lands for food supply and to generate income from commercial cash crops.

The implications for the hardwood industry are profound. The pressure on land resources is such that unless politicians and forest managers

can demonstrate to local communities that managed forests are a viable land use, they will be converted. Since timber is by far the most visible and highest-value forest product, this usually means demonstrating a sound economic return from the sale of timber.

This will be a huge challenge. As things stand, the commercial returns from the sustainable management of natural tropical forest for timber cannot be promising. The market is generally unwilling to pay prices for tropical hardwoods at a level that fully covers their cost of production. Buyers have become too accustomed to sourcing these timbers at prices that reflect unsustainable levels of harvest. Opportunities to raise prices are undermined by intensifying competition in finished goods markets and by substitution trends, both for cheaper softwood and panel products and for non-wood products.

The long term future of tropical forests may well hinge on the success, or otherwise, of marketing strategies designed to lift natural tropical hardwoods out of the low price commodity trade into a much higher value niche market for decorative timber.

Africa

Market summary

Stability masks problems

Prices for African hardwood logs and lumber have remained reasonably stable over recent months. However the stable price situation obscures mounting problems for the African hardwood export trade. Since most African tropical hardwoods are invoiced in euros, the strength of the euro has undermined their price competitiveness. Demand in key European markets remains very weak. Demand in the Middle East and Far East is more buoyant, but there is considerable pressure on suppliers to reduce prices. However rising costs due to increased tax rates and restricted availability of high value logs in many areas prevents African producers from reducing prices. Mills are already operating on razor-thin margins.

Supply region news

■ **Liberia:** the wood trade is still paralysed by UN trade sanctions. These sanctions are expected to remain in place at least until the middle of 2004. A meeting will be held in early February at the UN offices in New York to discuss the international communities role in jump-starting the Liberian economy. The meeting will be chaired by the UN Secretary General, Kofi Annan and the US Secretary of State General Colin Powell. The continued sanctions against Liberia will be a major topic for discussion. It seems likely that

removal of the timber sanctions will be conditional on the Liberian government working closely with the UN and World Bank on development of a new forest policy. Therefore the level of exploitation and export may well remain well down on levels prevailing under the previous regime.

■ **Ivory Coast:** a fragile peace now prevails after the brief but brutal civil war that erupted in September 2002. The ceasefire enforced by French and West African peacekeeping troops has held firm since the beginning of May 2003, despite a rise in tension after the rebels withdrew from government. On 4 December 2003, President Gbagbo agreed in principle with the rebel military commander, Colonel Soumaila Bakayoko, that the long delayed process of rebel disarmament would get under way. At the same time the president pledged that he would implement in full the French-brokered peace agreement signed in January 2003. Meanwhile the French government has announced that French peacekeeping troops will begin to fan out from the front-line between government and rebel forces and to deploy more widely in the rebel-held north of the country. French troops will initially deploy along the main transport routes linking the port of Abidjan to landlocked Burkina Faso and Mali. During last year's conflict, most Western investors withdrew from the Ivory Coast wood products sector. Many sawmills were bought at low prices





by Lebanese companies. Mills with forest concessions in the government-held southern parts of the country have continued to supply timber. Mills dependent on concessions in the northern rebel held part of the country have been deprived of wood.

■ **Ghana:** Log production was very limited in the last quarter of 2003 due to heavy rain and delays in the pre-qualification and allocation of Timber Utilization Contracts (harvesting licenses) and delays in competitive bidding for plantation forest. It is now the dry season, so logging is expected to pick up, but at volumes well down on previous years. Following years of decline, availability of primary species is now very restricted in Ghana. Some Ghanaian mills are even buying supplementary stocks of primary species from Cameroon. At least 50% of Ghana's domestic production now comprises the relatively low value wawa. A significant component of the trade is composed

of numerous tiny sawmills competing for supplies from a declining forest resource base. European buyers now tend to buy only small volumes from the limited number of large trading companies still involved in the Ghanaian trade. Difficulties in log supply, high costs of production, higher export taxes, and growing international competition meant that Ghana's wood product exports fell around 7% in volume terms between January and September 2003 and revenues fell around 12% to Euro 123.8 million.

■ **Cameroon:** while recent production of sapele logs has been in excess of current low levels of demand, higher tax levels and tightening harvesting restrictions have meant that overall availability of hardwood logs is tending to decline in Cameroon. Log production in the last quarter of 2003 was very restricted by heavy rain and as producers awaited issue of felling licenses for the coming season. However by mid Janu-

ary the dry season was well underway and logs were again flowing to the mills. Timber production capacity in the country is now past its peak and is tending to decline. Taxes introduced on the timber industry last year are high and applied at various stages of the wood chain. A fixed tax on concession surface area is applied which is payable irrespective of the production capacity of the forest. In addition taxes are applied on production of forest management plans, on logs extracted from the forest, and on entry of the logs into the sawmill. The fixed tax on concession area seems to have had a disruptive effect on timber markets. In order to pay this tax, mills are forced to continue harvesting irrespective of the level of demand. Since Cameroon forests are relatively rich in sapele, the tax may have contributed to recent over-production and price weakness for this species.

■ **Republic of Congo (Brazzaville):** timber



Species notes

■ **Sapele:** demand remains weak in all the leading European markets, undermined both by slow consumption and the strength of the euro which has improved the competitive position of alternatives, notably Asian meranti. Prices for sapele logs have been falling. European stocks of sapele sawn lumber remain in excess of current levels of limited demand. With the euro strengthening and large producers gearing

up at the start of the logging season, euro prices for sapele are likely to remain weak unless there is a significant upturn in European demand in the first half of 2004.

■ **Iroko/odum:** shippers have been pushing for higher prices due to limited availability and in order to absorb increased costs of production. It remains to be seen whether European importers will be willing to pay. In the second week of January, UK-based agents were reporting a slow start for iroko in 2004. Also some buyers are being encouraged by high iroko prices to look at alternative species including Brazilian tatajuba and African dabema. But it is too early to assess prospects for iroko this year. For kiln dried sawn lumber, much hinges on the Irish market which tends to be quite volatile, swinging rapidly between "feast and famine". Spanish and Portuguese demand for iroko logs and random sawn lumber has remained quiet.

■ **Framire/emeri/idigbo:** the inability of shippers in Ivory Coast to access concession areas in the north of the country has meant that supplies have remained patchy. The U.K. market has remained steady, even showing signs of expansion as use of framire has diversified. In the UK, framire is now used more widely with stain for interior joinery applications as a low cost substitute for sapele.

■ **Wawa:** occasional reports of improved demand in the UK and South Africa emerged during the early weeks of January. Elsewhere demand has remained sluggish. Longer-term, the overall market size for wawa in Western Europe has been shrinking as manufacturers have either relocated or are now importing semi-finished components from low-cost locations in Eastern Europe and Asia. In Germany chenchen is gaining ground as an alternate species for wawa in some applications, particularly as sauna boards. At present supplies are very restricted. Logging in Ghana was well down in the last quarter of 2003 due to

continuing rains and because margins for production were razor-thin or non-existent. It's now dry season in West Africa which holds out some hope of improved supply in the first quarter of 2004, but overall production levels are forecast to remain low.

■ **Ayous:** demand has been weak in Italy, the United States and France. African mills have responded by reducing production.

■ **Khaya:** the vast majority of production is being exported to the United States. U.S. furniture manufacturers continue to absorb consistent volumes despite the strength of the euro which has led to high dollar prices. Demand continues to be boosted as supply of South American mahogany, strongly favoured in the U.S., has become increasingly restricted.

■ **Koto:** small but steady volumes of this Ghanaian/Ivory Coast species are being exported as it has found a niche as a ramin substitute for mouldings.

■ **Niangon:** continuing sanctions against Liberia mean that there is now little or no niangon available to the international market. French and Chinese importers have switched to alternative species, notably sapele from the Congo basin and meranti from South East Asia.

■ **Utile/sipo:** Volumes of offer are limited, so too is market demand. In current market conditions few are willing to pay a premium for the better quality offered over sapele.

■ **Okoume:** Chinese log buyers have been trying to push down export prices for Gabon okoume logs. Faced with limited supplies and rising taxes, shippers have been resistant to the pressure. Okoume log export volumes from Gabon are expected to have fallen dramatically during 2003. In an effort to offset increased costs, okoume lumber mills have been seeking higher prices for their product, but European buyers have been resistant.

African indicative prices

	Sept	Oct	Jan
Exchange rates			
US/£	1.67	1.67	1.79
Euro/£	1.41	1.46	1.45
All prices include agents commission of 5%			
Sawn lumber			
Cameroon, CAR, Congo (Braz.)			
Euro/m3; FOB			
Grade/size: FAS, air dried, width6"+, length 6'+			
Sapele	475	470*	470
Sipo	550	545	600
Bibolo	380	380	380
N'Gollon	535	535	535
Iroko	630	630	630
*sapele price quoted in Oct 2003 was too low and has been corrected			
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	630	630	630
Mahogany	430	430	440
Framire	340	340	340
Samba No.1 C&S	240	240	240
Dimension stock			
Azobe	430/ 490	430/ 490	430/ 490
Dabema	300/ 360	320/ 380	300/ 350
Gabon			
Euro/m3; FOB			
Grade and size: FAS, width 6"+, length 6'+			
Okoume AD	320	320	320

resources are split between the northern region, which is dominated by European concessionaires and which exports product via Douala in Cameroon; and the southern region which is dominated by Chinese and Malaysian concessionaires operating under Presidential decree and which exports product via Pointe Noire. Government sources have stated that production levels in the country are set to increase. However private-sector commentators are more skeptical noting the high levels of taxation combined with excessive bureaucracy which discourages inward investment and hinders forestry operations.

■ **Democratic Republic of Congo (Kinshasa):** with its vast forest resources and gradually improving political situation, this country holds out the greatest potential for increased African tropical hardwood supply in coming years. However, the huge logistical problems of exploiting forests in the country and lack of infra-structure mean that realizing this potential will be a long drawn out process. But a significant start has been made. With support from the European Union, a new road has nearly been completed between Kinshasa and the port of Matadi which is expected to reduce travel time between these two locations from 3 weeks to 1 day. The system of river transportation in the country is once again operational. The United Nations, World Bank, US government and a number of NGOs including WWF are heavily engaged in a process to develop a workable forest policy for the region. If this process is successful, it will be the first time that DRC has developed and implemented a coherent national forest policy. The policy is expected to allocate forests according to function into productive and protective zones and to apply a fiscal program aimed at encouraging sustainable management of concessions. There are reports that WWF has offered private concessionaires financial support for independent certification in return for their agreement to allocate a proportion of concessions for forest protection. It's estimated that in the long-term, the DRC forest resource could support commercial production of around 5 million m³ annually on a sustained yield basis. This compares with a peak annual production during the last 20 years of only 160000 m³ in the mid 1980s. But there are immense challenges to overcome. During the civil war, vast forest areas were effectively abandoned, infra-structure destroyed, and a large part of the population fled to the larger cities. The remaining rural

population returned to a primitive isolated existence detached from the outside world. The process of reconstruction will take many years.

Southern Africa Stability masks problems

South Africa is a significant market for hardwood products. In addition to sourcing a range of hardwoods from the southern African region, such as kiasat and Rhodesian teak, South African importers buy a wide range of temperate and tropical hardwoods from further afield. This was highlighted by a recent series of reports on the South African hardwood trade in the journal *Wood Southern Africa & Timber Times*.

Malaysia has been a major supplier for several years, each year exporting around 60,000 m³ of sawn lumber to South Africa for flooring, furniture, and joinery. American hardwood lumber exports to South Africa are around 17,000 m³ each year. South African manufacturers also buy significant volumes of hardwood veneer.

Large furniture sector

South Africa has a large furniture sector which has undergone a renaissance in the last decade. After years of protectionism, the sector was forced to adjust to global competition in the mid 1990s. Intensive training and investment in infra-structure has boosted productivity. On the supply side South Africa's furniture industry is dominated by a limited number of large producers. On the demand side, several large national chains - including Ellerines, OK Bazaars, Morkels and Joshua Doors Group - take up 80% of domestic furniture sales. South Africa's local furniture market is significant with annual sales of around R4.6 billion (US\$670 million). Furthermore South Africa's renewed access to world markets has created growth opportunities for South African furniture producers, with particular emphasis on distinctive "country styles" in hardwood, reconditioned antiques, and contemporary furniture. The UK, Germany and the US have been major export markets to date, but destinations have been expanding.

In addition to furniture, South Africa has evolved a large door manufacturing sector. In 2002, South Africa overtook Indonesia as the UK's largest overseas supplier of wooden doors.

Despite this evidence of progress, South African wood products traders have faced significant exchange rate problems in recent years. The *rand* tends to be a highly vola-

tile currency because it is widely traded on international exchange markets, and because its value is partly dependent on variable international markets for gold and platinum. At the start of 2000, a dollar bought around 6 rand. By the end of 2001, one dollar bought close to 13 *rand*. Two years on, one dollar is again fetching around 6 *rand*. South African firms spend much time and money guarding against swings in the currency.

Fortunes tied to the rand

The fortunes of the South African furniture sector and associated hardwood market have been closely tied to the *rand*. During 2001 and 2002, South African furniture exports grew strongly as the rand weakened and export prices for finished South African goods became more competitive. South African manufactured products also did well on the domestic market as prices for imported goods rose. But during the same period, the weakening *rand* meant that South African manufacturers were forced to substitute higher value imported hardwoods for cheaper species and lower grade raw material. There was also a partial shift from solid wood to panel products with a veneer face.

Fashion for darker wood

During 2002 and early 2003, a fashion for darker woods began to emerge in the South African furniture. This may be partly explained by the rapid price increase for lighter temperate hardwoods, particularly from the United States, as the rand depreciated. South African furniture manufacturers switched to species such as kiasat and Rhodesian teak from southern Africa and Mozambique, and khaya and sapele from Ivory Coast and the Congo Basin. This trend towards darker species also boosted interest in tulipwood, a relatively low cost American hardwood which can be readily stained to a darker finish. Interest in alder increased as a low cost substitute for cherry.

2003 marks a new phase

The progressive strengthening of the rand during 2003 marked a new phase in the South African hardwood and furniture industries. Some export oriented manufacturers of lower end products went bust last year as they were unable to compete against Chinese and Indonesian manufacturers. And while the fashion towards darker woods has been maintained, problems of supply have been mounting. Most of the favoured species derive from neighboring African countries which greatly increased controls on their hardwood export trade during 2003. Last

Africa

4◀ year, Zimbabwe closed its borders to the export of rough sawn lumber. Efforts to clamp down on illegal logging have reduced availability from Zambia. Mozambique is still exporting product, but has been considering increased border controls for several years. And hopes of increased supply from the Democratic Republic of Congo have been disappointed. Concession rights issued 18 months ago in the southern DRC to a local company in association with an South

African partner were subsequently withdrawn. A number of operators supplying the South African market have relocated to Angola as the political situation has improved there.

As regional hardwood supplies have become more constrained, South African importers are now focusing more on substitutes. Beech is becoming more popular. The strengthening rand and falling demand for beech in other parts of the world have meant that prices have become more competitive.

The weakening dollar has again improved prospects for American hardwood lumber in South Africa. Meanwhile cost cutting efforts by South African manufacturers have meant good demand for veneers. Prospects for lower cost hardwoods such as American soft maple and tulipwood, Russian birch, and various Brazilian species are also improving.

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Asia

Malaysian sawn lumber Dollar rate brings no relief

Low prices and the weakness of the dollar have yet to stimulate European forward demand for Malaysian meranti sawn lumber. Low supplies continue to be matched by extremely low levels of demand.

Stocks of meranti sawn lumber in Malaysia available for forward shipment to Europe are reported to be very low. Wet weather since October has reduced harvest levels throughout the country, while efforts to curtail illegal trade flows have greatly reduced availability of Indonesian logs to Malaysian mills. With European demand so weak, Malaysian shippers have had very little incentive to cut lumber for the European market. More logs are being diverted for plywood manufacture and to produce lumber for other markets. In East Malaysia, a higher proportion of logs are being exported to satisfy strong demand in China and India. Malaysia's domestic saw mills have been struggling to pay the market price for these logs. Most Malaysian sawmills have been operating at well below capacity. With such limited supplies, the onset of the Chinese New Year vacation on 22 January, and lack of available shipping space, lead times for new orders of meranti are now extended. Malaysian shippers have generally been keeping a low profile in Europe. This situation is not expected to change until the onset of the new logging season in April/May.

Weak prices

Despite low levels of supply, FOB prices quoted in dollars for Malaysian dark red meranti (tembaga) weakened during December as some shippers seemed keen to generate cash flow ahead of the Chinese New Year vacation period. Increasing freight rates from Malaysia partially offset the decline in prices to European importers. Nevertheless, with the US\$ so weak against European currencies, C&F prices to Euro-

pean buyers were still down 15% and 20% compared to November.

C&F dollar prices for dark red meranti and seraya in Dutch specifications (3"x5", 3"x7" PHND) seem to have remained reasonably stable, although levels of forward trade are so limited it is difficult to get a feel for price levels. Merbau is hardly offered at all to European buyers.

C&F Europe prices for Malaysian dark red meranti are expected to increase in US\$ terms during the first quarter of 2004 to compensate for the dollar weakness, rising freight rates and in response to limited supply.

C&F Europe prices for balau/bangkarai decking profiles are stable to firm, currently being quoted at around US\$680/m3 to European importers (inclusive of agent's commission).

Netherlands quiet

The important Dutch market for Malaysian sawn timber has remained extremely quiet. The usual increase in activity in the run-up to Christmas failed to materialize, and activity remained slow in the first week of January. The Dutch economy remains very sluggish, consumer sentiment is weak, and end-user order books are poor. Competition for orders remains intense and prices for existing grounded stocks of meranti are under extreme pressure. This trend has been compounded by the weak dollar which has undermined the value of grounded stocks. Average stock levels in some Dutch yards are still too high for the weak market. The prospects for any improvement in forward orders seem remote.

Restricted UK market

The UK forward market for Malaysian meranti is now restricted to a limited number of trading companies and larger importers. Most UK importers now rely on just-in-time purchases from existing landed stocks. Trading companies in the UK report that meranti demand was slow

to pick up in the opening weeks of 2004. Most buying comprised small orders to top-up stock depleted prior to the Christmas vacation. Despite highly competitive pricing compared to African sapele, there has not yet been any concerted move to Malaysian meranti by UK buyers. UK manufacturers seem to have become firmly attached to sapele in recent years and have shown little interest in switching species due to short-term price fluctuations. However if the big price differential between sapele and meranti persists, some manufacturers may be encouraged to rethink this policy.

Signs of improvement in Japan

After some lean years, the Japanese market for "Southsea" sawn lumber showed signs of improvement towards the end of 2003. At the end of December 2003, the *Japan Lumber Journal* reported that supplies were well balanced with Japanese demand. The Japanese industry seemed optimistic that new regulations to prevent "sick-house syndrome" would boost demand for solid tropical hardwood lumber.

Asian Sawn Lumber Indicative Prices

	Oct	Nov	Jan
Exchange rates:			
M\$/£	6.35	6.54	6.83
US\$/£	1.67	1.72	1.79
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"	780	780	770
2"	810	810	800
2.5"	860	860	850
3"	900	900	870
Myanmar Teak			
US\$/50 cu ft, FOB Rangoon/Bangkok/Singapore			
Grade: Air dried boards			
Size: Width 6'+ avg 8", Length 6'+ avg 8'			
1"	3350/ 3600	3350/ 3600	3350/ 3600

North America

Domestic market

Supply more of a concern

An improved domestic economy and rising exports due to the weaker dollar has increased confidence in the underlying strength of the American hardwood market. But supply is now a concern for the American hardwood lumber industry.

Recent news about the U.S. economy has been almost universally good. Third quarter domestic product last year increased at an annualized rate of 8.2%, the fastest pace since 1984. Productivity during the same period increased 9.4%, the fastest growth since 1993. Consumer confidence continues to rise. American housing activity is booming with mortgage rates at 40 year lows. The U.S. Census Bureau reported housing starts for November 2003 at a seasonally adjusted annual rate of 2,070,000 units, that's up 4.5% on October 2003 and up 17.6% on November 2002. Building permits, often a barometer for future activity, reached a seasonally adjusted annual rate of 1,874,000 units in November 2003, down 5.4% on October 2003, but up 6.2% on November 2002. Total starts for 2003 are running close to a 20 year high. Meanwhile sales of existing homes are estimated to reach more than 5.8 million units in 2003, boosting remodeling activity and demand for interior products.

Strong activity

The strength of the housing market is feeding through into strong activity in end-user sectors directly relevant to American hardwoods. There are reports of strong demand for hardwood in the strip flooring industry, particularly common grades of red oak and white oak. Activity in the cabinet industry continued to rise at the end of last year. According to the Kitchen Cabinet Manufacturers Association's "Trend Of Business Survey", U.S. cabinet sales increased 13.4% in November 2003 compared to the same month in 2002. Sales for the full 11 months of 2003 were up 12.4% compared to the same period in 2002.

With most economic pundits predicting that mortgage rates will remain favorable for homeowners through the first half of 2004, the cabinet industry and other hardwood markets tied to housing seem well positioned for continued growth.

Bouyant lower grade markets

Various markets for lower grade hardwood are also reported to be buoyant at present with strong demand for cants, crossties and pallets. The overall level of hardwood demand from the U.S. furniture sector is down on previous years due to the mass exodus

of production to lower cost locations over the last 3 years. Nevertheless, the present level of demand for lower grade material from the remaining furniture plants is such that it is contributing to supply problems.

The Christmas period brought the usual lull in the American hardwood trade, but reports suggest demand picked up well in early January. Hardwood demand is at a level that is equal to or exceeding availability of many key species and grades.

Low log inventories

Mills throughout the United States are reporting that log inventories are low and unlikely to be sufficient to last through the winter. After an extended period during 2001 and 2002 when mills reduced production in response to declining demand, mills constantly struggled to rebuild inventories during 2003 as the market rebounded. Weather conditions throughout much of last year were poor and unpredictable. Logging was frequently disrupted by heavy rain. At the same time logging contractors are no longer widely available. Some mills managed to build inventory during a brief period of improved weather at the end of the fall/autumn but log inventories in many areas are still insufficient to meet demand.

There are reports of improved logging activity in some parts of the United States with the end of the recent Christmas vacation, particularly now that the hunting season is now over. However there are still problem areas. In parts of Ontario, Quebec and into New England, production of the regionally important whitewoods is now being disrupted by unseasonably warm weather. Instead of the ground being hard and frozen, which is good for log extraction, it is soft and waterlogged. However in the Lake States Region, temperatures are lower and logging conditions more favorable. Recent reports suggest that mills in many areas of the United States are now struggling to secure trucks to haul logs.

Spot shortages anticipated

These various factors have raised concerns regarding availability of green lumber during the first half of 2004. And now that drying cycles for lumber are longer in the cold winter months, there's also a risk of spot shortages developing for certain species and grades of kiln dried lumber.

Despite strong demand, supply problems are undermining the profitability of American hardwood lumber mills. Prices for logs and green lumber have continued to rise faster than prices for kiln dried lumber, squeezing margins for kiln dried suppliers.

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
\$/£	1.67	1.72	1.79
\$/Euro	1.14	1.20	1.24
Red oak			
1"	1925	1925	1925
1.25"	2050	2050	2050
1.5"	2150	2150	2150
2"	2500	2500	2500
White oak			
1"	1475	1550	1575
1.25"	1675	1750	1800
1.5"	2175	2300	2275
2"	2675	2750	2725
Ash			
1"	1100	1100	1220
2"	1525	1525	1680
Tulipwood			
1"	1075	1075	1075
1.25"	1125	1125	1150
1.5"	1150	1150	1175
2"	1175	1175	1200
Cherry			
1"	3600	3450	3675
1.25"	3750	3500	3775
1.5"	3850	3600	3875
2"	4100	3950	4025
Hard Maple			
1"	2425	2350	2400
1.25"	2525	2525	2525
1.5"	2725	2700	2725
2"	2850	2850	2850

Export markets

Good and bad news

The bad news is that the volume of U.S. hardwood log, lumber and veneer exports declined during the first 10 months of 2003 (see table). The good news is that exports were up in value terms due to an increase in the unit price of exported product. The value of log and lumber exports were up 6.1% and 2.3% to reach US\$405million and US\$1083 million respectively. Veneer exports were valued at US\$374 million during the 10 month period, exactly the same as the previous year. Increased unit value reflects restricted availability and the efforts of exporters to raise dollar prices as the currency weakened.

October figures an improvement

There was more good news in the last quarter of 2003. For all products - logs, lumber and veneer - the October export figures are an improvement on the September figures. And anecdotal reports suggest that exports continued to improve in the last two months of 2003 as the dollar value fell and as reports of strong economic growth in the U.S. boosted confidence in the global economy. While the overall situation on export markets has been showing signs of improvement, European export markets



North America

64 have remained patchy. Europe's north/south divide continued in the last quarter of the year. Demand in Belgium, France and the Netherlands remained sluggish due to weak national economies. The economy in the UK has been more buoyant, but buying of American hardwoods was well down on previous years. German imports of American hardwood lumber were up during 2003 compared to the previous year. But this is more likely to be the result of efforts by German importers to diversify hardwood sales markets in Eastern Europe than to reflect an improvement in German domestic consumption.

South Europe more buoyant

Export demand was more buoyant in southern European countries during the last quarter of 2003. Italy, Spain and Portugal were buying fair volumes of lumber, particularly white oak. The main obstacle to trade with these countries seems to have been lack of white oak supply rather than limited demand.

While the weakening dollar has improved prospects for American hardwoods in Europe, the overall market has become much more competitive in recent times. American exporters are having difficulty selling random lumber in Europe as manufacturers have become more insistent on fixed width and colour-sorted stock. Because they are more focused on the E.U. market, Eastern European suppliers of white oak have tended to be more responsive to these demands.

China drives demand

In Asia, exports of American hardwood logs and lumber have continued to increase to China. This is a consequence of the weakening dollar, the relocation of export-oriented manufacturing facilities to China, and the growth of China's domestic market. Demand for American hardwood veneers has been falling away as the Chinese market has come to rely more heavily on domestic manufacturers.

Growth of Chinese demand for American logs and lumber has come partly at the expense of exports to other East Asian countries as manufacturers in these countries have struggled to compete. Although there were signs of improving demand for American hardwoods in Hong Kong and Taiwan towards the end of last year, volumes remained well down on previous years. Demand from Malaysian and Indonesian furniture manufacturers, and from Thai picture frame

manufacturers was also quite slow in the last quarter of 2003.

By the end of October 2003, US lumber exports to Japan and South Korea were well down on previous year's figures. However anecdotal reports suggest improving market sentiment in both countries in the closing months of the year in response to the weakening dollar.

Good sales in North America

Canadian flooring and cabinet manufacturers continued to buy good volumes of red oak and yellow birch respectively at the end of last year. Mexican manufacturers were buying good volumes of 4/4 common red oak and hard maple.

U.S. hardwood exports Jan. to Oct. 2002 and 2003			
Logs/lumber - 000s m3, veneer - mill m2			
	2002	2003	% chng
World			
Logs	1928.9	1848.1	-4.2
Lumber	2363.0	2317.2	-1.9
Veneer	266.4	252.5	-5.2
Canada			
Logs	1363.6	1317.9	-3.4
Lumber	822.1	878.9	6.9
Veneer	85.3	83.9	-1.6
EU			
Logs	187.8	190.4	1.4
Italy	62.0	71.0	14.5
Germany	53.7	49.7	-7.4
Lumber	581.8	553.1	-4.9
Spain	150.0	147.2	-1.9
Italy	137.9	143.6	4.1
United Kingdom	89.2	78.2	-12.3
Germany	28.4	34.7	22.2
Veneer	89.9	93.0	3.4
Germany	33.1	38.8	17.2
Spain	24.7	21.6	-12.6
Italy	10.2	11.2	9.8
SE Asia			
Logs	43.3	43.4	0.2
Lumber	110.7	90.9	-17.9
Veneer	9.0	6.8	-24.4
Greater China			
Logs	189.6	163.6	-13.7
China	83.2	91.9	10.5
Hong Kong	84.7	53.2	-37.2
Taiwan	21.7	18.5	-14.7
Lumber	463.3	440.4	-4.9
China	202.3	240.0	18.6
Hong Kong	198.1	144.2	-27.2
Taiwan	62.9	56.2	-10.7
Veneer	45.8	37.0	-19.2
China	23.0	16.0	-30.4
Hong Kong	15.0	14.3	-4.7
Taiwan	7.8	6.7	-14.1
Japan			
Logs	71.3	57.9	-18.8
Lumber	78.9	74.0	-6.2
Veneer	1.8	1.3	-27.8
South Korea			
Logs	34.0	27.5	-19.1
Lumber	33.7	27.6	-18.1
Veneer	8.3	5.8	-30.1
Mexico			
Logs	10.0	15.1	51.0
Lumber	144.0	148.2	2.9
Veneer	9.9	8.8	-11.1
North Africa and Middle East			
Logs	2.8	2.6	-7.1
Lumber	46.2	35.3	-23.6
Veneer	6.5	4.1	-36.9

Europe

European hardwoods

Notable trends

The market for European hardwoods is subject to the following trends:

- there is a continuing decline in the level of Western European sawmilling capacity.
- this has been compensated in recent years by an increase in Eastern European hardwood sawmilling capacity. Western Europe is importing rising volumes of oak sawn lumber from Eastern Europe.

- manufacturing facilities in Eastern Europe have continued to expand, with the result that the internal hardwood trade in Eastern Europe is rising.
- the strong fashion for white oak has continued. This has contributed to good demand for oak logs and lumber in recent months.

- in contrast, demand for beech logs and sawn lumber, both in Europe and the Far East, has remained restricted. At present, Chinese importers are only willing to buy beech if prices are heavily discounted.
- weak beech demand reflects the strength of the euro, sluggish manufacturing activity, notably in Germany, and fashion trends, notably in China.
- beech buyers are generally becoming much more demanding in terms of quality.

- limited demand in traditional markets continues to encourage European beech producers to look for new markets elsewhere, for example in the United States and South Africa.
- weak demand has encouraged relatively low production of beech logs and sawn lumber in western Europe. This has helped provide more stable prices, albeit at historically very low levels.

- weak beech demand is also encouraging a switch to oak sawn lumber production by French and German sawmills. Since oak lumber production requires specialist knowledge, this trend has raised concerns that the oak market may be destabilised by inexperienced producers.
- Croatia's state forest authorities, which manage some of the finest quality oak forests in Europe, report strong demand for their oak logs during 2003. Prices for their oak logs have been rising steadily. During the first 9 months of 2003, Croatia's state forests produced 463,000 m3 of oak logs. During the same period, Croatian oak sawn lumber production reached 173,000 m3, the majority of which was exported. All 2 million hectares of Croatia's state forests are FSC certified. These forests make up 80% of Croatia's total forest area.

Plywood

In many respects prospects are improving for the international hardwood plywood sector. As in the OSB and MDF sectors, plywood manufacturers have been feeling a warm glow from the overall improvement in the global economy. But accurately predicting future prospects has become more difficult as the plywood sector goes through a period of massive change. A wide range of factors will impact on the industry during 2004 including international efforts to clamp down on illegal logging, new quality requirements in Japan and Europe, forest resource constraints, rapid economic growth in China, and shifting exchange rates.

Asian plywood dollar prices rise

In the short term, US dollar prices for Far Eastern plywood have been rising on the back of the weakening dollar, supply constraints, and rising freight rates. The strength of demand for shipping space to and from China has resulted in more limited capacity in other parts of South East Asia, leading to increased freight rates. This trend is expected to continue. The major shipping lines have already announced that west-bound rates from the Far East to Europe will rise at the start of each quarter during 2004. It is currently the wet season throughout the main supply regions in the Far East which will restrain log supply until end April. In the short term, supplies will also be restricted by the Chinese New Year which will mean holiday closures starting 22 January. In early January, prices quoted to European buyers for February shipment of BB/CC grade Indonesian plywood stood at around INDO96 less 13-15%, up from levels of around less 18-19% before the Christmas break. European traders expect US dollar prices for March shipment to be even higher. Since prices are quoted in US dollars, these gains are being offset for European importers by the weakening dollar.

Clampdown on illegal trade

Political efforts to crack down on illegal logging and exports from Indonesia are likely to have an important bearing on plywood supply and demand during 2004. The Indonesian central government faces a huge challenge to bring the problem under control, particularly now that various measures to increase the political autonomy of the Indonesian provinces has reduced their direct control over the allocation and management of forest resources. But this year measures to restrict trade by importing countries – implemented as part of the international Forest Law Enforcement and Govern-

ance (FLEG) process – are likely to increase pressure on Indonesian plywood mills to demonstrate that logs are legally sourced. Last year, two of the UK's largest plywood importers announced they would not import Indonesian plywood until mills could provide independent assurances of legality. The European Commission is currently developing a regulation that will allow the EU to enter into negotiations with timber exporting countries to develop so-called "FLEGT partnership agreements". Under these agreements, the latter will be responsible for issuing "legality licenses" for all timber exported to the EU. Indonesia is expected to be a major target for early establishment of a partnership agreement. Meanwhile, the Japanese Environment Ministry has announced that it is considering developing a similar system for independent certification of origin and documentation of sources for imported products. As a preliminary step the Ministry will undertake an extensive review of wood products sources during 2004 in an effort to establish the extent of Japan's dependence on illegally harvested wood. Japan is by far the largest export market for Indonesian plywood.

Brazil follows Indonesian rise

In recent weeks, Brazilian hardwood plywood mills have been pushing up US\$ prices on the back of the Indonesian gains. There are also factors restricting Brazilian supplies. It is now the rainy season in the Amazonian region, which will limit log supply until May/June. Moreover strong demand for pine plywood, notably from the United States, has encouraged more Brazilian mills to switch from hardwood to softwood plywood production. A long running customs dispute is also delaying shipments of hardwood plywood to Europe from Southern Brazil.

Last year overall exports of Brazilian plywood products were on the rise. In the first ten months of 2003, Brazil's tropical plywood exports reached US\$429.8 million, 4.6% more than in the same period of 2002 (US\$ 410.9 million). During the same period, Brazil exported US\$265.3 million of pine plywood, 63.7% more than in the same period of last year (US\$162.1 million).

CE marking impact

Meanwhile new requirements for compulsory CE marking in Europe, to be introduced from 1 April 2004 are changing the dynamics of the European plywood market, favoring those mills producing higher quality products in conformance with European standards. After that date, under the Euro-

pean Construction Products Directive, plywood supplied for structural applications in the EU will have to conform with EN 13986. Conformance with the standard requires an initial assessment and continuous surveillance of the plywood manufacturers factory production control system by an EC "Notified Body".

Some Indonesian mills are progressing reasonably well to achieve CE Marking before the April deadline. However many others are struggling, particularly as they have their hands full satisfying new JAS quality requirements for the key Japanese market. Prospects for supply of CE-marked Brazilian hardwood plywood improved considerably in November 2003 when the Brazilian Association for Mechanically Processed Timber (ABIMCI) reached an agreement with BM TRADA which will make it possible for the Brazilian PNQM (National Program of Wood Quality) certified companies, currently 14, to CE mark their plywood exports to Europe. The agreement effectively appoints ABIMCI as BM TRADA's subcontractor in Brazil in an arrangement designed to ensure that CE marking is cost-effective. It is expected to save Brazilian companies up to 60% of what they would pay if they were to directly contract an external Notified Body. In addition to manufacturers of pine plywood and door manufacturers, there are said to be 34 tropical plywood companies involved in the PNGM program, although most have yet to fully conform with program requirements.

Opportunities for Malaysians

In recent years Malaysian plywood producers have struggled to compete on price with Indonesian, Brazilian and Chinese producers. Another problem for Malaysian producers in European markets has been the fact that shipments are less frequent and lead times generally longer than from Indonesia and Brazil. However supply problems in Indonesia and the increased emphasis on higher quality legally sourced product may help to revive opportunities for Malaysian hardwood plywood during 2004.

Japan picks up

The Japanese market for imported hardwood plywood picked up during the last quarter of 2003. This reflects both the strengthening yen and continuing market adjustments following Japan's implementation of regulations in July 2003 requiring all plywood used in construction to meet JAS quality requirements. These regulations provided a short-term boost to Japan's domestic plywood manufacturers during the



Plywood

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first three quarters of 2003. Domestic manufacturers had moved early to achieve JAS certification. However by the last quarter to 2003, availability of JAS certified plywood from mills in Indonesia and Malaysia was rising, thereby allowing the imported product to regain market share.

UK importers of hardwood plywood are reasonably optimistic of prospects during 2004. Those trading companies carrying stocks

are benefiting from the weakening dollar value as it has increased the value of existing landed stock.

UK stock situation patchy

Overall the UK stock situation is patchy, so there are expectations that forward orders of hardwood plywood will be reasonably good during the first quarter of 2004. Underlying consumption is also expected to be good, particularly for CE compliant plywood, and is being helped along by higher

prices for substitute materials such as OSB. Meanwhile increased focus on quality may be undermining demand for Chinese plywood in the UK. Much of this product is faced with African okoume and has a core of poplar derived from fast growing plantations in China. Although it has good appearance, the poplar core has proved to be insufficiently stable for many applications. Few Chinese mills are expected to achieve CE marking requirements.

Furniture

At the recent AHEC Convention in Vietnam, David Imrie of UK based retailer "Furniture Village" provided an insight into recent shifts in global furniture markets, with a particular focus on European trends. Imrie highlighted the extent to which mass market furniture production in the United States and throughout much of western Europe is in terminal decline. Import penetration into both areas has been increasing rapidly. East Asia is emerging as the dominant source of furniture supply.

In Europe, furniture industry trends vary widely by country. The UK has emerged as the best developed European market for Far

Major source of furniture imports

Country	2001 Imports \$ Millions	EU	Non EU	Far East	North & Central America
UK	3,377	32%	6%	15%	4%
France	3,297	61%	3%	1%	1%
Germany	5,813	20%	33%	2%	1%
Italy	840	24%	14%	7%	6%
Netherlands	1,471	42%	1%	14%	2%
United States	14,624	9%	1%	36%	32%

Eastern furniture. The fact that 42 UK manufacturers of cabinets have closed or relocated to other countries in the last two years gives some indication of the extent of the shift. The remaining UK domestic manufacturers are now generally either producing low end product relying on foil to reduce costs, or on high value niche and bespoke products.

Contemporary styles most popular

Contemporary furniture styles in lighter colours are by far the most popular in the UK. These styles have tended to favour oak (particularly French and Eastern European), white maple, ash, beech, rubberwood and birch. Rising prices and a trend away from the darker colours have meant that cherry is now only a minor player in the UK furniture market. The "traditional English look" comprising regency and victorian designs in dark mahogany and yew now sell slowly in the UK. However certain "traditional" styles from other parts of the world are fashionable. The "oriental" look is popular – comprising clear lines and sharp contrasts between light woods and darker inlays in mango wood, black walnut and similar species. Similarly, traditional American "shaker" styles in maple and pecan occupy an important niche in the UK.

In Germany there has been a major exodus in furniture manufacturing capacity to lower cost Eastern European countries, notably Poland. Nevertheless, the German furniture industry remains large despite the recession, with a strong emphasis on semi-fitted products. There is a strong fashion for oak in Germany. While beech is less fashionable it

still retains an important part of the market. The Italian market has proved more resistant than other European markets to import penetration. This partly reflects the fragmentation of Italian furniture distribution system – there are no large chains established to import large quantities of finished furniture. Another obstacle to import penetration in Italy is the existence of a large and flexible furniture manufacturing sector in the country with an international reputation for design. This has meant that many Italian consumers have remained loyal to Italian furniture products. Italian manufacturers are adapting to recent changes in the international furniture sector through inward investment to establish "Italian" furniture districts in lower cost countries such as Brazil. Only in Italy is there still much demand for highly decorative traditional styles in darker woods.

The French market is different again with a strong preference for distinctive French gallic styles. Cherry and oak remain strong players in the French market.

Imrie noted that this variation of market tastes in Europe is beginning to break down as international contemporary designs are becoming more acceptable. There is now increased mixing of design traditions

Furniture production and trade Selected countries, million US\$

Country	1995	2001	% chng 95-01
UK			
Consumption	6736	8986	33
Production	6036	6685	11
Imports	1683	3377	101
Exports	983	1076	9
France			
Consumption	9526	8585	-10
Production	8466	7152	-16
Imports	2734	3267	19
Exports	1674	1834	10
Germany			
Consumption	25833	17158	-34
Production	23746	15563	-34
Imports	5918	5813	-2
Exports	3831	4218	10
Italy			
Consumption	9284	10333	11
Production	16704	17572	5
Imports	492	840	71
Exports	21751	13562	-38
Netherlands			
Consumption	2972	2912	-2
Production	1456	1471	1
Imports	7601	6956	-8
Exports	6085	5515	-9
United States			
Consumption	41975	60137	43
Imports	6499	14624	125

Value of furniture imports (\$Millions)

	United States	EU
1995	6,499	12,283
1996	7,309	12,890
1997	8,551	12,466
1998	10,275	14,036
1999	12,604	14,685
2000	14,970	14,702
2001	14,624	14,798

Vietnam

and that an increasing proportion of these sales are supplied by imported furniture. Generally the trend in Europe is towards contemporary and casual styles in lighter colours and away from traditional European designs in darker colours. Temperate hardwoods are favoured over tropical woods for interior furniture, although some tropical woods such as wenge and mango wood occupy an important niche for contrast timbers. Imrie emphasized that Asian furniture manufacturers selling into the European market would do well to study European design influences to gain an edge. Asian manufacturers need to have a dedicated European style product, they cannot run off the back of their styles and production for the American market. American and European quality standards and finishes are very different. For example, US buyers will accept unfinished draw sides and undersides but European buyers will not.

Key commercial needs

Imrie noted that key commercial needs of European furniture distributors are value-for-money, product quality, and good design. East Asian producers have made significant headway in satisfying these needs. However the geographical distance between Asian manufacturers and the European mar-

ket is an obstacle to market growth. For many manufacturers, lead time between orders and delivery is 5 months comprising 120 days production time, 28 days on the water and 7 days to clear customs. This is far too long for European distributors that have no desire to hold stock and that need to adjust quickly to fashion changes. Asian manufacturers that can offer smaller lean production runs, mixed container loads and shorter lead times will gain a competitive edge.

Environmental concerns

Imrie said that environmental concerns are important to European furniture distributors to the extent that more companies are now gathering background information on wood product sources as a defense against negative environmental campaigns. However Imrie noted that the European furniture sector was not particularly interested in environmental product labels. Supply problems have meant only limited uptake of FSC certification in the sector.

Imrie's presentation provided a lead into the presentation by Michael Buckley of Turnstone Communications which promoted the benefits to Asian manufacturers of using American hardwood products. Buckley noted the fashion trend in major export markets favoring temperate hard-

wood species. There are a wide variety of American hardwood species, providing a choice of colours, grains and textures, thereby enhancing manufacturers' ability to respond to fashion trends and develop new designs. This variety also means that American hardwoods can be used for a wide range of applications, including furniture, flooring and interior joinery. American hardwoods are backed by a tried and tested set of grading rules so that there is clear communication between buyers and sellers of the products on offer. American hardwood are technically acceptable and their performance is well understood.

American sustainability

Buckley referred to the sustainability of American hardwoods. Over the last 50 years, the inventory of hardwoods standing in U.S. forests increased by over 90% as harvesting levels remained well below the level of growth. Well over 60% of U.S. hardwood forest area comprises stands that are over 40 years of age. The implication is that American hardwood suppliers can provide manufacturers with a reliable assurance of long term availability. This contributes to the manufacturers own efforts to satisfy customer demands for consistent product quality and delivery, and for assurances of sustainable forestry practice.

Will Vietnam use U.S. hardwoods?

AHEC's choice of Vietnam for their 8th Annual South East Asia Convention reflects the view that the country offers strong potential as an export market for American hardwood products. Perhaps so...but Vietnam has yet to prove a sure bet.

There is no doubt that Vietnam is expanding very rapidly as an export-oriented wood processing centre. Data from the Vietnamese Ministry of Trade indicates that wood products exports increased from US\$135 million in 1998 to US\$337 million in 2001 and US\$430 million in 2002. Exports are expected to have reached around US\$530 million in 2003. In October 2003, there were 2000 wood processing businesses in the country, including more than 300 exporters. According

to the Ho Chi Minh City Artistic Woodcraft Association (HAWA), there continues to be strong inward investment in wood processing capacity in the country.

All this inward investment has come at a time when availability of domestically harvested hardwoods has been falling. Between 1975 and 1999, forest cover in Vietnam reduced from approximately 50% to 25%, with much of the remainder located on isolated mountain tops. Following the end of hostilities in 1975, activities such as land clearance, logging and firewood collection consumed the forest at a devastating pace. More recent official government figures indicate the situation may have improved slightly following implementation of a reforestation program. This program aims to increase Vietnam's forest cover ratio to 43% by the year 2010.

As natural forests dwindled at the end of the twentieth century, so too did the level of commercial hardwood harvest, falling from average annual levels of two million m³ in the 1960-1985 period, to around only 300,000m³ today. Plantations are expected to provide increased log supply in future years, but much of the volume comprises small diameter material destined mainly for

the pulp and paper industry. Plantations will supply only very small volumes of high quality acacia suitable for furniture.

Vietnam has quickly turned from being ►11

The US-Vietnam trade agreement and the WTO

Since the signing of a bilateral trade agreement between the United States and Vietnam in July 2000, the U.S. has become an increasingly important market for Vietnamese manufactured wood products. Vietnamese wood products exports to the U.S. are expected to have generated income of over US\$110 million in 2003 compared to only US\$10 million in 2001.

Vietnam's endorsement of the US trade agreement represented a victory for liberalizing elements within the regime and a defeat for the communist conservatives. Its implementation has locked Vietnam into a broad band of commitments that will strengthen its private sector and the freedom of the Vietnamese to make individual economic decisions. The agreement set Vietnam on a course towards eventual entry into the World Trade Organisation. The Hanoi regime has established a target to achieve WTO entry by 2005.

Asian Furniture Factory Labour Rates US\$ per Hour	
Vietnam	0.20 - 0.40
Indonesia	0.30 - 0.40
China	0.50 - 0.75
Philippines	1.00 - 1.25
Malaysia	1.25 - 1.40
Thailand	1.5
Taiwan	5

Vietnam

Distribution of wood processing in Vietnam

The traditional wood-working industry of Vietnam was highly fragmented, comprising small operations centered mainly on the Central Highlands. This location was favoured partly because of the ready availability of logs from neighboring Cambodia and Laos.

As the economy has liberalized, wood processing facilities have become more widely distributed throughout Vietnam. This distribution is strongly influenced by the differing political attitudes of provincial governments. Some provinces remain highly conservative and suspicious of foreign investment and will continually interfere in operations. Inevitably investment has focused in more liberal areas. The majority of the wood processors are located in Ho Chi Minh City (HCMC), Binh Duong, Dong Nai, Binh Dinh, Da Nang and the central highlands (Dac Lak and Gia Lai) provinces. While garden (outdoor) furniture manufacturers are concentrated more in Binh Dinh, Da Nang and Central Highlands, the indoor furniture makers and wooden interior decoration industries are mainly located in HCMC, Hanoi, Binh Duong, and Dong Nai.

10 ◀ an exporter of raw timber to becoming an exporter of wooden furniture and other wood products mostly produced from imported wood. Initial development of the wood products sector in Vietnam focused heavily on garden furniture. This was due to the regional availability of durable natural hardwoods such as a red balau and teak and the comparably lower levels of design and craftsmanship required.

More recently there has been investment in manufacturing facilities producing higher end interior furniture and joinery products. Vietnamese exports to traditional markets such as Australia, New Zealand, and Japan have increased steadily. In addition, new orders are now being received from the North and South America, Europe, the Middle East, and South Africa.

Vietnamese controls on inward investment and the trade of goods are being progressively relaxed. Foreign owned manufacturing companies may now import logs and sawn lumber duty free if they can demon-

strate that finished products will be re-exported and not sold into the domestic market. In time, these controls are expected to be reduced so that enterprises are able to import and export from Vietnam without restriction.

At present Myanmar, Laos, Indonesia, Malaysia, and New Zealand are the leading wood suppliers to Vietnam. Garden furniture often comprises Myanmar teak, Malaysian keruing, and locally sourced red balau. Laos was formerly the largest supplier of hardwood logs to Vietnam, but government controls on exports of logs and rough sawn has forced Laos suppliers to switch to exports of semi-processed wood products.

Logs sourced illegally from Laos and Cambodia continue to be an important component of hardwood supply to the Vietnamese wood processing sector. In 2002, US embassy officials estimated that at least 250,000 m3 of hardwood logs were imported illegally into the country each year.

Search for new suppliers

Forest resource constraints combined with increased efforts to combat illegal logging and a shift to interior furniture products has meant that Vietnam is now looking to expand its range of raw material suppliers.

American hardwood lumber exporters were quick to identify this opportunity. In 2002 US hardwood exports to Vietnam increased significantly. Nevertheless the Americans' hold on the market remains tenuous. Absolute volumes remain small, and this year there has been a significant fall-off in demand. It seems that Vietnamese manufacturers over-ordered in 2002.

Vietnam offers potential, but this has yet to be realized for the hardwood industry. Vietnam's wood industry is set to grow, this seems certain. But the structure and orientation of this industry is still unclear. Rather than sourcing American hardwood, Vietnamese manufacturers may shift to lower costs raw materials, perhaps particle board with a veneer face, or rubberwood. Softwood lumber suppliers have also targeted the Vietnamese market. In July 2001, a Vietnamese wood trade delegation visited New Zealand to discuss wood supply. Since then radiata pine has made significant headway. The Scandinavian wood industry recently ar-

Persistence of state owned sector in Vietnam

Despite recent privatization measures in Vietnam, a significant number of state owned operations still exist. Under the general holding company of the Vietnam National Forest Products Corporation (VINAFOR), the Ministry of Agriculture and Rural Development (MARD), operates roughly 50 state-owned enterprises (SOEs). These are considerably less efficient than the private operations and despite receiving a disproportionate level of state aid, have generally been less effective in generating wealth and employment. Nevertheless, the Hanoi regime has continued to maintain the facilities for ideological reasons and out of fear of a political backlash.

ranged a furniture design contest with the theme "pine furniture from Vietnam". Canadian suppliers Tembec and Domtar have also been looking at the potential to sell FSC certified softwood to the Vietnamese market.

With these trends developing, Vietnam has yet to prove itself a sure bet for rising sales of American hardwood lumber. Marketing by AHEC and American firms may turn the tide towards American products in Vietnam. But it is also possible that other South East Asian countries – including Malaysia and Thailand – will offer stronger opportunities for hardwood lumber as they are now making a conscious effort to shift to higher value product. The hardwood industry would do well to keep a close eye on the South East Asian trade figures over the next 18 months.

Certification in Vietnam

Environmentalist action targeting the illegal trade between Cambodia, Laos and Vietnam has had an impact on procurement practices in Vietnam. Particularly influential was a report released by Global Witness in 1999 - "Made in Vietnam-Cut in Cambodia" - which targeted the largest garden furniture manufacturers supplying the European market. Combined with pressure from large European DIY chains, this report encouraged a strong shift to FSC certification in the Vietnamese garden furniture sector. Some Vietnamese garden furniture manufacturers have been scouring the world for suitable FSC certified hardwoods, particularly since the removal of the Indonesian teak plantations from the FSC list in October 2001. Jarrah and karri from FSC certified eucalyptus plantations in South Africa has become quite popular amongst these manufacturers.

US hardwood exports to Vietnam

		2001	2002	2002	2003
		Year	Year	Jan-Sep	Jan-Sep
Logs	000s m3	3.0	8.9	7.3	7.4
Lumber	000s m3	8.8	26.5	21.9	14.4
Veneer	mill m2	0.6	1.3	1.0	0.6

Stable euro prices obscure mounting problems in Africa

Prices for African hardwood logs and lumber have remained reasonably stable over recent months. However the stable price situation obscures mounting problems for the African hardwood export trade. Since most African tropical hardwoods are invoiced in euros, the strength of the euro has undermined their price competitiveness. Demand in key European markets remains very weak. Demand in the Middle East and Far East is more buoyant, but there is considerable pressure on suppliers to reduce prices. However rising costs due to increased tax rates and restricted availability of high value logs in many areas prevents African producers from reducing prices. **Pages 2/3**

Slow trade in Malaysian meranti despite low prices

Stocks of meranti sawn lumber in Malaysia available for forward shipment to Europe are very low. Wet weather since October has reduced harvest levels throughout Malaysia, while efforts to curtail illegal trade flows have also reduced availability. Despite limited supply, FOB dollar prices for Malaysian dark red meranti (tembaga) weakened during December as some shippers were keen to generate cash flow ahead of the Chinese New Year vacation. Low prices and the weakness of the dollar have yet to stimulate European forward demand for Malaysian meranti sawn lumber. **Page 5**

Beech market depressed, oak market buoyant.

The strong fashion for European oak has continued. This has contributed to good demand for European oak logs

and lumber in recent months. In contrast, demand for beech logs and sawn lumber, both in Europe and the Far East, has remained restricted. More European mills are switching from European beech to oak production. There are concerns that mills with little experience of the oak business could destabilise the oak market. **Page 7**

Demand for American hardwood improves while supply problems mount

An improved domestic economy and rising exports due to the weaker dollar has increased confidence in the underlying strength of the American hardwood market. But supply is now a concern for the American hardwood lumber industry. Due partly to poor weather last year and problems securing logging contractors, mills throughout the U.S. are reporting that log inventories are low and unlikely to be sufficient to last through the winter. Spot shortages, rising demand and the weak dollar are likely to contribute to firming dollar prices in the months ahead. **Pages 6/7**

Dollar prices for plywood rise, but challenges mount

Prospects have been improving for the international hardwood plywood sector. As in the OSB and MDF sectors, plywood manufacturers have been feeling a warm glow from the overall improvement in the global economy. But a wide range of factors will impact on the industry during 2004 with uncertain effects. These factors include international efforts to clamp down on illegal logging, new quality requirements in Japan and Europe, forest resource constraints, rapid economic growth in China, and shifting exchange rates. **Pages 8/9**

Furniture dominates discussion at AHEC Asian convention

The worldwide furniture sector dominated discussions at the American Hardwood Export Council's 8th Annual South East Asia and Greater China Convention in Ho Chi Minh City in Vietnam in early December. Presentations highlighted the extent to which mass market furniture production in the U.S. and throughout much of western Europe is in terminal decline. Import penetration into both areas has been increasing rapidly. East Asia is emerging as the dominant source of furniture supply. Developing opportunities for sales of hardwood in Vietnam were also discussed.

Conference report: **Pages 1/10**

Prospects in Vietnam: **Pages 10/11**

Furniture market trends: **Page 9**

Shifting fortunes in South Africa

South Africa is a significant market for hardwood products. The country has a large furniture sector which has undergone a renaissance in the last decade. In recent times there has been a strong fashion for darker hardwoods in South Africa - which has tended to favour various African hardwoods such as kiaat and Rhodesian teak from southern Africa and Mozambique, and khaya and sapele from Ivory Coast and the Congo Basin. The strengthening of the rand on international exchange markets meant that some export oriented manufacturers of lower end products went bust during 2003 as they were unable to compete against East Asian manufacturers. Meanwhile problems of supply have been mounting for the fashionable darker woods. **Pages 4/5**