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Eucalyptus arrives as a solid hardwood

The last few months has seen a more serious attempt by Eucalyptus producers to penetrate export markets for solid hardwood. Native to Australia and New Zealand, Eucalyptus is also emerging from elsewhere as a solid wood material.

Australia

Like many other hardwood producers, those in Southeastern Australia are looking to increase exports, particularly to the emerging manufacturing sector of China and South East Asia.

In Australia, old-growth eucalyptus has traditionally been used to make furniture for local use. But young eucalyptus logs from plantations had generally not been used for mass furniture production, partly because the fast-growing species was considered too unstable to work with when the trees are still young. *Eucalyptus nitens* has been widely grown commercially in south-eastern Australia and in Tasmania.

One species with particular potential is Victorian Ash (*E. regnans* and *E. delegatensis*) which may be supplied both as structural timber and as appearance grade. Structural grade is now used in applications such as window lintels and hanging beams and is directed primarily at the domestic market. Appearance grade ash is used widely in Australia for manufacturing products, including window joinery, staircases and furniture. The product benefits from light colour, easy staining, availability in all sizes and thicknesses and it also tends to be easier to work than Tasmanian Oak, which is a market name for eucalypt, and other Australian hardwood species. At present, much of the appearance grade ash is directed to Australia's domestic market, which provides consistent demand and price, with lesser volumes exported to Japan. However some of the largest Australian suppliers have also been targeting re-manufacturers in

South East Asia who previously obtained all or most of their wood supply from tropical native forests, but are now unable to obtain the desired volumes. Australian shippers have also identified growing opportunities in China, and have been sending trial shipments. Last year, China imported only 11,000 m3 of Australian lumber, but given China's growing demand for hardwoods, this figure could increase rapidly.

Tasmanian oak (*E. regnans*, *E. delegatensis* and *E. obliqua*) is another leading Australian hardwood which is sold primarily into flooring and domestic fixture and fittings markets. Most is used domestically, but small volumes are now being exported, primarily to the US, for flooring.

Laos

In Laos, eucalyptus is known as the "Vick's Tree" because Vicks VapoRub, the eucalyptus-based cold medicine, reached the country well before the actual trees were planted in areas left bare by commercial logging and shifting cultivation.

The Financial Times has recently reported on one project that has attracted the support of Ikea at the Burapha furniture factory, 30km outside Vientiane, which began operating its sawmill and factory just over a year ago. However it may have a tough slog ahead to prove that eucalyptus furniture can be commercially viable. "Most eucalyptus plantations are controlled by the pulp industry and operated on very short rotations of five to seven years," says Mr Peter Fodge, Burapha's Swedish director. "They have had no interest in turning it into sawn wood. And the forestry industry is very conservative. They said it couldn't be done." Young eucalyptus logs are hard to handle. Their unique cell structure and fast growth means that they have a tremendous

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Editorial

Smog of war and recession obscures world-changing events

In the midst of international concerns about terrorism and the possibility of a world recession, many issues were buried as 2002 was ushered in. But there are other events which seem certain to make a deep and lasting impression on the world in which we live.

On a macro level, the build-up to the mass introduction of the Euro currency was quite muted and was the least of international concerns – overshadowed by war and political manoeuvring. War, or the avoidance of it, ironically may have been the original driving force that drove European leaders to seek common agreement, manifested in a new universal currency for Europe. In any event this New Year has seen the greatest transfer to a currency system that the world has ever witnessed. As we report on page 10, three hundred million people deserted the coinage of their birth in favour of the Euro, without much of a murmur and apparently with few problems. The effects will be powerful, although as yet not entirely predictable. But the end result must surely be easier travel, trade and trouble-free estimating for manufacturers.

And the introduction of euro-coinage is not just a European affair. It is equally significant for the 14 African countries of the CFA zone in West Africa. The CFA franc, which has profited from fixed parity with the French franc for over 50 years, has been linked to the Euro since January 1st 1999. In the short term, introduction of the new coinage may create problems for the CFA countries. Local business leaders are concerned at how the West African Central Bank (BCEAO), which is responsible for circulating currency to African banks, will cope with the conversion. Even before the change over, the BCEAO was running short of CFA bank notes and there were not enough notes in circulation. In some cases Africans have been forced to return to a barter economy. There are also concerns that a strengthening euro will dampen exports from CFA countries. But in the long term, the Euro should create new opportunities for CFA countries to diversify their exports and increase sales to a wider range of European countries.

As our articles on page 3 suggest, other significant events are unfolding in Central Africa. For the first time in three years there is a reasonable chance of peace in the Democratic Republic of Congo (DRC). DRC seems now to have a more stable and forward thinking regime, and the country may even grow economically during 2002. If so, a major threat to stability of the whole of Central Africa will have been removed.

In another arena entirely, and at least as significant as the final launch of the euro, are the changes underway in China (see page 4). China looks set to change more in 2002 than most other countries do in a decade. The country's entry into the World Trade Organisation will mean that nearly every sector of the Chinese economy will eventually be opened to international competition. At the same time, the entrepreneurial talents of the Chinese will be liberated on the world stage as tariffs on imports from China are progressively removed. In the wood sector, we can expect increasing concentration of processing facilities on the Chinese mainland during 2002, and rising levels of competition for manufacturers in other parts of the world.

At the micro level, and of apparently little interest to very few outside of national delegations, was the formation at the end of the year by the UN/ECE Timber Committee in Geneva of a Team of Specialists on Forests Products Markets, dedicated to improving prospects for the timber industry. Not internationally shattering news you may think - but much more positive for the timber industry than any of the wars on terrorism or other international cooperative efforts that may have been considered necessary in the dying months of 2001.

Please note that due to limited trading in Europe and North America during the Christmas period, and the difficulties of obtaining reliable price information from contacts busy enjoying themselves over the holiday period, we have suspended our price series data and some regional market reports for this issue only. Price series data will be resumed, together with all our usual market reports in the February issue.

Rupert Oliver
Editor

Africa

Congo (DRC) Unlocking the potential

The Democratic Republic of Congo (DRC - formerly Zaire) contains over half of Africa's remaining tropical rainforest. However extensive exploitation for timber has been prevented due to inaccessibility, transport difficulties, and political insecurity. The civil war in DRC, which since its eruption in 1998 has threatened the stability of the whole central African region, has meant that legitimate wood exports have declined to a trickle. Now however there are more positive signs. The UN has deployed a peace keeping force and the economy may start to grow again in 2002. This may open the way for DRC to once again play a more important role in the international timber trade.

The long term potential of DRC as a timber supplier is difficult to measure precisely, but must be considerable. Inventory studies undertaken by SPIAF, the Forestry Department of Zaire, in the late 1980s indicate that the 100 million hectares of forests in the central basin of the country have a standing volume of 200 m³ of timber per hectare and could sustain a yield of 40 million m³ per year. Even if only 10% of this volume was of trees of commercially valuable species in dimensions suitable for industrial use, it would give an annual yield of 4 million m³ of logs, the target adopted in the 1980s for Zaire's timber industry by the nation's Tropical Forestry Action Plan.

Recovery forecast

A panel of experts from the Economist Intelligence Unit (EUI), a leading UK analytical group, has suggested the Democratic Republic of Congo (DRC) may be the world's most "surprising" country during 2002. This prediction is based on the country's rapid turnaround, both politically and economically, during 2001. Only a year ago, DRC was runner-up for EUI's title of the world's worst country to be a citizen. DRC then was at war and the prospects for a UN-backed peace plan were poor under the leadership of Laurent Kabila, who openly obstructed international mediation.

However, Mr Kabila was assassinated during 2001 and replaced as president by his 30 year-old son, Joseph. According to the Economist, the new president has exceeded expectations - dropping at a stroke the objections to deployment of UN forces and accepting most of his obligations under the peace treaty. Although there is still a long and hard road to travel, there is now a reasonable chance of peace in the Congo. At the same time, a range of obtuse

government policies and practices - such as the use of the national central bank as a printing machine to cover government costs - are being addressed. The previous cabinet of "cronies" responsible for the economic mess, have been replaced by a new one of technocrats, many of them expatriate Congolese lured back home by the hope of seeing economic reason prevail. Already the budget has been brought back into surplus, while the central bank has been granted independence and the exchange rate floated. The World Bank and IMF have re-engaged with the new government, while donors scared away by the war are resuming assistance. The Economist predicts that economic growth may resume in DRC for the first time since 1995.

UN action on forests

Meanwhile, the UN is considering steps to help control exploitation of natural resources - including timber, diamonds and gold - in the DRC. Specifically in relation to forests, the UN's International Tropical Timber Organisation is planning to send a mission to the country this year to strengthen forest protection programmes.

More generally, in December 2001 a report was issued to the UN Security Council by a UN Expert Panel set up to consider ways of tackling illegal exploitation of natural resources in the DRC. In its report, the six-member Panel said that the time had come to take decisive action to halt resource exploitation by the warring factions, a practice which had become the means for sustaining the conflict. The Panel stressed the need to formulate a plan of action to rebuild State institutions in the country, recommending that such action be linked to an international conference on peace and development in the region. It also called for a moratorium on the purchase and trade in products such as timber, diamonds and gold originating in areas where foreign troops are present, as well as in territories under the control of rebel groups. At the end of December, the UN Security Council agreed that a reconstituted expert panel should assemble in January 2002 for an additional six-month period to examine in more detail the extraction of natural resources and trade in commodities in the DRC.

Zimbabwe's role in DRC

A controversial issue for the DRC forest sector is a possible role for the Zimbabwean government. In September 2001, we reported on a news story from the Observer, a UK national newspaper, which suggested that the Zimbabwean army and Forestry

Commission would undertake logging operations in a 33 million hectare swathe of the Congo basin. The Observer suggested that rights to the forest had been conceded by the DRC government to representatives of the Zimbabwean president in return for military aid against rebels in the east of the country.

According to a recent report in the journal *InWood International*, the Zimbabwean authorities have responded to the Observer article. They claim the article was part of a British attempt to tarnish the Zimbabwean government's image. As to the facts of the case, the Zimbabwean government claim that a Zimbabwe/DRC ministerial joint commission will be responsible for authorising logging in eight hardwood forest concessions in the DRC, varying in size from 12,000 hectares to 25,000 hectares. The Zimbabwean Forestry Commission has apparently shown interest in exploiting only around 250,000 hectares of hardwood forests in the Kambove concession of Katanga Province, out of the 33 million hectares the Zimbabwean Government has been offered by its DRC counterpart. Any logging will be carried out through SOCEBO, a DRC based company. The Zimbabwean Forestry Commission has apparently not yet entered into any formal agreement with its partner in DRC and is still awaiting a government guarantee to start the project.

Togo

New shipping hub

OT Africa Line, the shipping company, reports that Togo is to become a new shipping hub for West Africa with the construction of a \$100 million container handling facility. The World Bank has announced the deal to build the facility in the capital Lome. The facility at Lome, which has the deepest water of all ports in the West African region, will provide loading and unloading for large container ships which have difficulty entering more restrictive ports such as Port Harcourt, Douala and Banjul. The hub is also expected to reduce congestion in other ports along the coast. Shippers frustrated by delays at West Africa's two major container terminals - Abidjan in Cote d'Ivoire and Lagos in Nigeria - due to dockers' strikes, congestion and political unrest - are already turning to other ports. Lome experienced an increase in traffic of 9% in the first four months of 2001 compared with the same period the previous year. The new Lome facility is expected to be operational by December 2004.

Sabah

More closures on the way

Under the dramatic headline "No timber left in Sabah forests", an article in the Star, a Malaysian national newspaper, in early January suggests that many more of Sabah's logging and timber processing operations may be forced to shut down during 2002. The article quotes Sabah Timber Association Chairman, Datuk Andrew Tham, who suggests that, due to past over-logging, available log supplies from Sabah's forests are now very restricted. He said that 3.5 million m³ of logs were harvested in the state last year, and it is unlikely that the figure will reach 2 million m³ this year.

The projected fall in log extraction this year is linked to the decision by the Sabah government not to renew the annual logging licenses of several firms following their continuing failure to submit forest development plans. These plans were meant to have been implemented since 1999 as part of the sustainable forest management agreement signed in 1997 by the Sabah government and 17 companies which were each allocated forest management units of 100,000 hectares.

Now that Indonesia has banned the export of logs, the only realistic alternative for Sabah's industry is to import logs from Sarawak, which would cost about 20% to 30% more than domestic supplies.

Malaysian sawn lumber Ingredients for price rises

International demand for Malaysian sawn lumber remained subdued throughout the last quarter of 2001. At time of writing, immediately after the Christmas holiday season, market activity for Malaysian hardwoods in Europe has yet to pick up any real momentum and it is difficult to draw any firm conclusions about price movements. However, it does seem that some of the ingredients for price rises are now in place. Tightening regulatory controls meant that many Malaysian mills were struggling to obtain adequate stocks of logs last year. Since many Malaysian mills were supplementing log supplies by importing from Indonesia last year, these problems are expected to worsen during 2002 following the Indonesian log export ban. Some species and sizes, such as nemesu in 2.1/2x3.5 and 2.1/2x6" and wider which is popular in the important Dutch market, are already in short supply. The recent arrival of the monsoon has further slowed log production in Malaysia. Production will also be curtailed for

Market prospects in the Asia during 2002

Hardwood market prospects in Asia during 2002 are uncertain and vary by country. China's influence over wood products markets in Asia has increased rapidly over recent years. Over the next 12 months, China is expected to undergo a further transformation, both politically and economically.

China has just joined the World Trade Organisation which means the country's exporters will gain greater access to world markets. There will also be greater opportunities for inward investment in China. At the same time, almost every sector of the Chinese economy will be opened up to foreign competition. As a result, unemployment in China is expected to rise rapidly, which will hit domestic consumer demand and may create social tension.

To counter-act these tendencies the Chinese government is committed to stimulating economic growth, hoping to achieve a 6% increase in GDP during 2002. The Chinese government will spend about 150 billion yuan (\$18 billion) on infrastructure projects this year. In addition, starting in 2002, the government is planning a massive \$22 billion building and clean up program in Beijing in preparation for the 2008 Olympics. On balance, underlying

domestic demand for hardwoods in China is expected to remain good during 2002.

The outlook is less favourable in other parts of Asia. **Japan's economy** has been in the doldrums now for several years, plumbing new depths in 2001. In December, the yen fell to a three year low against the dollar, and remains at a level that will constrain sales of imported goods, including hardwoods. Most analysts are forecasting that Japan's economy will continue to contract in 2002.

SE Asia may struggle this year

Many of the economies of South East Asia are expected to struggle next year. Part of the problem is that China's growth has been at the expense of neighbouring countries. The furniture industries of Taiwan, Japan, Malaysia, and Indonesia continue to face a major competitive threat, both for their finished products and for inward investment, from the development of production facilities in mainland China. The countries of South East Asia are also heavily dependent on exports, so the timing and strength of any economic recovery in overseas markets, notably the U.S. and Japan, will have major impact on the development of demand during 2002.

around three weeks during the Chinese New Year holiday season starting at the end of January. If there is a significant upturn in demand in early 2002, these factors could quickly translate into price rises.

Dutch market weak

The Dutch market for dark red meranti and merbau remained very subdued at the end of last year. One positive sign was that there were no reports of further dumping by Dutch importers at cut-throat prices during late November and December. Export statistics supplied by Maskayu indicate that during the first 8 months of 2001, Peninsular Malaysia shipped 38% lesser timber to the Netherlands than in the same period last year. Despite this significant fall, Dutch inventories of most sizes and specifications were at reasonable levels at the end of 2002, given current levels of demand, and few importers had an immediate need to replenish. Slow demand in the Netherlands partly reflects the weakness of the building sector. Housing starts have been falling for some time due to increased bureaucracy, lack of skilled labour and lack of land. There is however growing demand for housing in the Netherlands, so government policy is

to boost residential construction. It remains to be seen how effectively this policy may be converted into positive growth in the building sector.

Dutch demand for selangan batu and bangkirai as anti-slip profiles and poles for fencing was subdued at the end of last year. This is unusual since importers tend to book these goods forward before the Christmas vacation so that new material is available for the garden and DIY-sectors when spring arrives. There may still be landed stocks available of these species left over from the last spring season.

Good orders from the UK

By the end of last year, U.K. stocks of Malaysian sawn lumber appeared to be reasonably well balanced. UK agents for Malaysian shippers report that forward orders for Malaysian sawn lumber were good during December as importers took steps to ensure they had sufficient stock on the water in advance of the lengthy Chinese New Year holiday period. U.K. agents are reasonably optimistic about the prospects for Malaysian sawn lumber in the U.K. during 2002. Activity in the construction sector is expected to remain steady and it is also

possible that supply problems in Africa may translate into increased orders for Malaysian lumber. However, due to price volatility a significant number of U.K. buyers have turned away from Malaysian dark red meranti over recent years, instead making a long term commitment to African sapele. Therefore overall U.K. demand for Malaysian meranti is likely to remain down on previous years during 2002.

Demand for Malaysian meranti in Germany, in the doldrums throughout much of 2001, continued to be subdued in the run-up to Christmas, a reflection of continued weakness in the construction sector.

Looking at longer term trends affecting European demand for Malaysian lumber, mergers throughout the importing sector have tended to reduce the overall level of sawn lumber stock holdings in Europe. The European importing sector as a whole tends now to be much more focused on stock control, and intent on pushing the risks associated with holding unsaleable stocks onto their overseas suppliers. Suppliers that are able to provide wood at short notice and that benefit from fast container shipments, will have a strong competitive advantage.

Japanese imports well down

Japanese imports of Malaysian sawn lumber were well down last year. The decline reflects lack of availability of first grade white seraya from Malaysia, a product which is now said to be in short supply in Japan. Between January and October 2001, Japan imported 750,000 m3 of tropical sawn lumber, 8.4% down on the same period in 2000.

Cambodia

All commercial logging halted

Under heavy pressure from international donors, the Cambodian government has ordered that all commercial logging be suspended from 1 January 2002. According to the Cambodian Agriculture Ministry directive, "*Suspension of Forest Concession Logging Activities*", no new logging licenses will be issued until the timber companies gain "*approval of a new forest concession management plan consistent with legislation and technical regulations.*" Government officials have stated that it is not yet clear when the first approvals will be granted. It is also possible that concessionaires will take legal action in an effort to get around the government's ruling.

The suspension follows reports of illegal logging in Cambodia, widespread abuse of forestry regulations, and continuing deforestation. These issues came to a head fol-

lowing severe flooding in 2000, the worst in 70 years. The UN blamed it on deforestation, and estimated that it cost the country US\$156 million. This compares to the total of US\$92 million generated by the forestry sector between 1994 and 2000.

The system of forestry regulation in Cambodia is widely regarded as inadequate. Even the usually conservative Asian Development Bank described the Cambodian forestry sector as a "total system failure" in a 1999 report, and demanded that concessionaires should face termination unless they radically reformed, including the production of social and environmental impact assessments and long-term forest management plans, by 30th September 2001. According to Global Witness, the UK based environmental organisation which since 1999 has been working with the government as the independent monitor of the forestry sector, none of the concessionaires achieved this deadline or achieved the required standards.

Green group's critique

In a statement released during December 2001, Global Witness go on to suggest that "*Foreign logging companies have been plundering Cambodia for years, with the collusion of corrupt officials and politicians, and at the expense of the country and its people. They perform a charade of negotiation whilst at the same time logging as fast as they can.... Illegal logging has been steadily increasing since late 1999 with the majority of cases being committed by the legal concessionaires... In order for this suspension to be meaningful, it is imperative that logging companies that have committed serious contractual breach, particularly with regard to illegal logging, should not be allowed to resume activities. All 17 concessionaires fall under this heading.*" In November 2001, an IMF report noted the progress made by the Cambodian government through the establishment of a national forestry law. However they called on Cambodia to "*accelerate the restructuring of forestry concessions as a condition for completing discussions for the current review of its borrower status.*"

Japan

Imports to fall again in 2002

Forecasts in the Japan Lumber Journal suggest that overall demand for imported wood in Japan will shrink during 2002. House starts, the most important factor affecting wood demand in Japan, are forecast to reach 1.05-1.10 million homes during 2002, down from just under 1.2 million in 2001.

However some imported products should continue to perform reasonably well. New quality requirements in Japan are expected to ensure that demand for kiln dried lumber and engineered wood products in 2002 remains stable. Suppliers of logs and air dried softwood lumber, notably in the U.S., are likely to continue to lose market share.

Trend away from tropical logs

The long term trend away from tropical log imports is expected to continue during 2002 following the recent closure of large domestic plywood mills; the continuing shift towards the use of softwood, notably from Russia, for plywood manufacture; and increased market penetration by imported lauan plywood, notably from Indonesia and Malaysia. Production of tropical lumber in Japan is also declining as Japan's sawmills face increasing problems in obtaining adequate supplies of lauan, and are finding it increasingly difficult to compete with imported sawn lumber. Japanese demand for imported tropical sawn lumber is forecast to increase very slightly during 2002 as it was judged that sales may rise if mills are able to secure adequate supplies of good quality logs

During 2002, a major problem for Japanese importers of logs, both Russian softwood and tropical hardwood, is likely to be growing competition from Chinese importers in the sourcing of supplies. Following Indonesia's log export ban in October 2001, Chinese importers are already buying more tropical logs from Sarawak and Papua New Guinea, both major suppliers to the Japanese market.

Japan Wood Imports		
(1,000 m3)	2001 assumed	2002 forecast
Total	26,349	25,180
Logs	13,563	13,030
Southsea/African	2,487	2,000
For plywood	2,252	1,800
For lumber	235	200
American	4,219	4,200
Russian	5,099	5,000
New Zealand/Chile	1,678	1,750
European	80	80
Lumber	8,112	7,950
American	3,667	3,350
Southsea	891	900
Russian	585	700
New Zealand/Chile	653	700
European	2,316	2,300
Plywood	4,674	4,200

Source: The Japan Lumber Journal and derived from joint studies by the Japanese Lumber Importers' Association, Japanese North American Lumber Conference, Japanese Southsea Lumber Conference, Japanese Russian Wood Products Association and Japanese New Zealand Lumber Sawmillers' Conference

Market prospects in the U.S. during 2002

Prospects for the U.S. economy in 2002 remain as obscure as ever. America could fail to recover, or it could bounce back fairly rapidly. Both outcomes are possible. A long American hangover from the boom years, a waning appetite amongst consumers, rising unemployment, and a prolonged investment slump could conspire to delay an American upturn.

However, leaving aside the possibility of another serious set-back (such as another serious terror attack or a substantial rise in oil prices), most analysts now forecast that the American economy will stage a modest recovery by the middle of next year. The optimists point to the lessons of the past, noting that the average length of American modern recessions is about 11 months – that would mean this recession, which began in March, should be over by February 2002. It would also be unusual if America failed to recover on the back of aggressive interest rates made by the Federal Reserve, the full effects of which should be felt early in the New Year. These cuts, which have brought short term interest rates to below 2% for the first time in 40 years, have totalled 4.5 percentage points, compared with cuts averaging only 1.8% in the past six recessions. There is no reason to believe that these cuts, reflected in lower mortgage rates, will not provide a continued stimulus to the housing sector and to related sectors such as furniture and joinery.

There is also reason to believe that the slowdown in manufacturing and industrial investment, the major cause of last year's recession, may have hit bottom. The data is unclear, but it seems the inventory overhang throughout US industry is being worked off – in the third quarter U.S. inventories was liquidated at the fastest rate since the second world war. So much so in fact, that many retailers ran out of stock early in the Christmas shopping season, which was not as weak as many had predicted. Add to this signs of increased

confidence in the stock market, and declining excess capacity in the technology sector, raises the possibility of at least a modest recovery in U.S. business investment.

Looking at sectors that are particularly important for wood demand, the housing market is holding up well, boosted by cheap mortgages. House sales have rebounded and real construction spending rose in October, the first rise in nine months.

The kitchen cabinet industry to a large extent follows trends in the housing sector and continues to perform well. According to the Kitchen Cabinet Manufacturers Association *Trend of Business Survey*, cabinet sales increased 10.2% in November 2001 compared to the same reporting period for 2000. This was second consecutive double-digit monthly gain reported by participating member firms. Year-to-date cabinet sales for 2001 were up 6.8% in November. The outlook looks reasonably good this year as low interest rates will continue to stimulate the housing market. The U.S. furniture industry has suffered badly under the pressure of declining consumer demand and rising imports. The latest projections from the American Furniture Manufacturers Association (AFMA) suggest that furniture shipments should total around \$22.944 billion in 2001, down 10.3% from \$25.570 billion the previous year. On a positive note, this is slightly better than an earlier AFMA projection because the third quarter actually ended up stronger than expected. Wholesale furniture shipments are expected to increase 3.9% in dollar value in 2002, improving gradually throughout the year with a return to stronger growth in 2003.

Strip flooring sales in the United States have been waning due to rising inventories, but the longer-term outlook is promising as hardwood remains the preferred floor covering among homebuilders.

between supply and demand. Log decks in the southern United States were reported to be at low levels for the time of year in December. Production in parts of this region was disrupted in late November and early December by bouts of heavy rain.

More mixed reports are emerging from the northern United States. Log supplies in the region improved temporarily in late November as dry weather aided logging. Some mills were reporting ample log supplies in December. However others suggested

that log inventories were still at such a low level as to raise concerns over loss of production time.

Log supplies for most Appalachian hardwoods, with the possible exception of cherry, were becoming tighter at the end of 2001.

If sawmills cease production for lengthy periods over the Christmas holiday season, and if sawmills continue to close as many analysts expect, production of lumber, both green and kiln dried, is likely to continue to decline over the winter months. Many analysts are also forecasting that North American hardwood demand may increase in the first half of 2002. If so, the supply of lumber could tighten quite quickly.

Export demand

Mixed results

In the last quarter of 2001, export sales of American hardwoods to Europe remained subdued. After a poor third quarter, demand in Germany and Italy continued weak into the last quarter of the year. Although imports into France seemed to pick up a little in the third quarter of 2001, recent reports suggest that demand slowed again towards the end of the year. Sales to the UK and Belgium were steady in the last quarter of 2001, while there are reports of continuing good demand from Spain.

In the Far East, sales of American hardwoods to China grew during the third quarter of the year, and more recent reports indicate that demand continued to gather momentum during the last quarter. Sales to Japan remained subdued in the last quarter, with only occasional purchases of ash and tulipwood. Economic weakness, combined with the rising competitive threat posed by Chinese manufacturers, contributed to subdued buying of American hardwoods in other parts of Asia.

Species breakdown

■ **Ash** – weak demand both at home and overseas has encouraged a reduction in production, but there are still reports that supply is in excess of demand. Domestic demand in the Appalachian region has been particularly badly affected by the slowdown in the U.S. furniture sector. Overseas demand for higher grades has been reasonably steady in the UK and Northern Europe, particularly for thicker sizes, but slow in Japan. Export demand for common ash to China was reasonably good at the end of last year, although there are reports that hackberry is being used as a substitute.

■ **Hard maple** – seasonal production should

Domestic supply Continuing decline

Lumber production continued to decline in the United States during the last quarter of 2001. Inventory levels, particularly of green lumber, have been falling. Although kiln dried inventories remain reasonably high, it is expected that these will fall more rapidly as the winter progresses. While demand has not been strong, falling production has meant that there is a reasonable balance

North America

increase during the winter months, although with reports of some mills being short of logs, production may fall below normal levels this year. U.S. domestic demand varies considerably by colour and grade, with reports of steady demand for lumber of consistent colour and quality. However buyers have been less willing to accept "in between" standards for colour and remnants left over from the sorting process. European demand for higher grades of hard maple remained relatively weak at the end of 2001, with the possible exception of the U.K. Demand in Germany and Italy has suffered from oversupply of European beech and weakness in the furniture and flooring sectors. Sales of lower grades to the Far East and Mexico were reasonably steady.

■ **Soft maple** – market conditions in the U.S. have been highly variable. Effective marketing of the species is now heavily dependent on a suppliers ability to sort lumber by colour and length. High quality and light-coloured soft maple is selling fairly well, but lower grade markets have been hit by problems in the U.S. furniture industry. Export markets are consuming very little soft maple, with limited volumes going to China, Korea and Mexico.

■ **Red oak** – U.S. domestic demand varies widely by grade, thickness and dryness. Long term relationships between buyer and seller are also a major determinant of demand and pricing. Sales outside existing customer bases have been difficult over recent months. Last year many U.S. mills switched to red oak production as demand for other species waned. Excess production of kiln dried red oak was only partly offset by an overall decline in milling capacity. As a result the U.S. market for red oak has been highly competitive. However in some parts of the U.S., such as the Appalachian region, falling production has meant that availability of green lumber supplies has declined to such an extent that some producers have had problems filling their kilns. Prices for common grades of kiln dried red oak in the U.S. were weakening at the end of last year, partly due to weakening demand from the flooring sector. Prices for higher grade kiln dried lumber have been more stable. Export demand for lower grade American red oak to China have been steady, but sales to Mexico have been weakening.

■ **White oak** – both domestic and international demand has been relatively slow, partly owing to the seasonal slowdown over Christmas. Nevertheless declining production has meant that prices

for most grades have remained reasonably stable over recent weeks. Domestic demand for upper grades has also declined as furniture and dimension plants have curtailed their purchases. There were also reports that demand for common grades by flooring plants was weakening towards the end of last year. Sales of higher grades to European markets slowed during December. Export markets for lower grades were fair, with most orders coming from the Far East.

■ **Tulipwood** – efforts to cut production led to declining availability of green lumber at the end of last year. This coupled with stabilising demand led to a slight rebound in prices for both kiln dried and green lumber. However, the slowing pace of business during the Christmas vacation period both in North America and overseas slowed the upward price momentum, perhaps temporarily. In the run-up to Christmas, overseas markets in Europe and Japan for high grades of tulipwood were slow, although reasonable volumes of lower grades were being purchased by Chinese manufacturers. Demand from Mexico has been slipping.

■ **Cherry** – relatively weak domestic demand for common grades has encouraged mills to refrain from cutting cherry, which impacts equally on supplies of higher and lower grades. By the end of last year, there was a reasonable balance between demand and production of the higher grades of kiln dried cherry and prices have been holding steady. Demand for cherry from almost all European markets was down at the end of last year. However overseas demand for logs was reasonable.

■ **Walnut** – demand and prices for most grades have held firm. Walnut logs and lumber have been moving particularly well to China, but there have also been good orders from Italy and Spain. Buyers are particularly interested in the upper grades. Prices have been firm, tending to rise.

■ **Other species** - overseas demand for American beech, used in a few niche applications in Europe and Asia, has been subdued. Small volumes of American yellow birch are being shipped to a few destinations including Scandinavia and Korea. Overseas sales of hackberry are limited to a small niche, particularly in the Far East. Sales of higher grades of cottonwood from the southern states have been steady to Asian markets, but weak to Italy. Italy is also buying small quantities of sap gum and willow from the southern states.

South America

Brazil

Forest policy changes

With the rainy season now underway in the Brazilian Amazon, attention is turning to longer term aspects of tropical forest management in Brazil. At the end of last season, IBAMA suspended all transport and trade permits for Brazilian mahogany in response to allegations of continuing illegal activity. This was followed in early December by a Decree of the Brazilian government to suspend all mahogany forest management plans in the States of Para, Mato Grosso and Acre. The Brazilian government excluded those mahogany management plans which are in the process of being independently certified as coming from well managed forest operations. In addition, the government made certification mandatory for all management plans which surround Indian lands and conservation areas.

Trade reports suggest that the introduction of these regulations may have been encouraged by an informal agreement reached between the IBAMA President and Greenpeace. The private sector in Brazil is questioning the legal status of a government decision which may have been reached behind closed doors following the intervention of an NGO. They are also questioning whether it is appropriate to introduce a market mechanism like forest certification, which is intended to be voluntary, as part of national forest legislation. These measures, the private sector claims, reflect IBAMA's lack of capacity to monitor and control the activities in the sector.

Extension of national forests

Meanwhile the Brazilian authorities are also taking steps to extend their direct legal ownership and control of forest management over a larger area of Amazonian forest. At present, most Amazonian forest land is technically in the public domain and owned by the community at large. A Brazilian law states that if land in the public domain is occupied and effectively utilised for at least five years, the occupier is given full legal title to the land. Over the years many sawmill owners have taken advantage of this law, claiming private ownership over lands in public domain to secure a long term timber supply.

Under current regulations, all but the smallest private forest estates are required to develop forest management plans

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South America

("Projeto Do Manejo Florestal") which allow a company to extract a fixed volume of each species of timber per year from the area covered under the plan. However, following implementation of Brazil's National Forest Program during 2001, the Government is seeking to increase the area of state-owned forests in the Amazon and to manage these under a concession system. These forests comprise the National Forests which were originally established under the ownership of the Federal government through the 1965 Forest Code and which today cover only around 15 million hectares of the 350 million hectares of Brazil's Amazonian forest. The policy of switching more wood production to the National Forests is currently under public consultation, a process expected to be concluded during 2002.

Concessions unpopular

Previous efforts by IBAMA to involve the private sector in concession and licensing agreements in National Forests have met with only limited success. In the past, they have proved unpopular with the timber companies owing to uncertainties about future government policy and the ready availability of cheaper timber supplies from privately owned forests or from lands cleared for agriculture.

Bolivia

Certified wood makes progress

Bolivia is beginning to claw back some of the ground lost in world markets following the government's controversial commitment to certification by the Forest Stewardship Council (FSC).

The Bolivian government's alignment with the FSC, effectively enshrined in the Forestry Law of 1996, led to very tight restrictions on harvests of the most valuable species, notably mahogany. It also led at the end of the 1990s to a severe decline in the area under concessions from 22 million hectares to only 5.8 million hectares. The number of companies involved in the forest sector also declined from 150 to only 65, while the volume of timber exports from Bolivia fell by 50%. The extra costs of log extraction, the forest taxes and restrictions imposed on Bolivian forest extraction meant a big reduction in the returns to be made from Bolivian timber extraction.

However since then, the Bolivian forest industry has made some progress in developing new markets for its products. According to Pablo Antelo and Cristobal Roda of the Bolivian Forestry Chamber speaking at the recent 1995+ Group event in London, the industry has benefited

particularly from the decision by B&Q, one of Europe's largest DIY retailers, to source FSC certified garden furniture manufactured in Bolivia. Antelo and Roda said that Bolivia now has 1 million hectares, 10 companies, and an annual production of 500,000 m³ certified to FSC standards. By mid 2002, 1.6 million hectares should be certified. Forecasts indicate that by the end of 2004, 59 concessions totalling 4.1 million hectares may be certified in Bolivia.

A major challenge for Bolivian exporters has been to increase market share for lesser known species. Harvests are now concentrated on 4 little known species: 53% is roble ("South American oak"), 20% yesquero ("white mahogany"), 10% cambera (madera granda), and 5% bibosi. In order to overcome western manufacturers resistance to these species, Bolivia is focusing on value added processing and the export of certified semi-finished and finished products. Certified products now account for 55% of Bolivia's furniture exports and 26% of door exports.

Today the Bolivian forest industry employs 90,000 people directly, and 150,000 people indirectly and accounts for 7% of Bolivian GDP. In a very real sense this industry is dependent on markets for certified wood.

Special Report - WWF 1995+ Group Event

UK Government policy on forest certification

A recent event to mark the 10th Anniversary of the 1995+ Group, the WWF "Buyers Group" of companies in the UK committed to sourcing Forest Stewardship Council (FSC) certified wood, highlighted the high level of political support in the UK for forest certification. British Prime Minister Tony Blair and Prince Charles were amongst those issuing public statements of congratulation to the 1995 Plus Group at the event in London during November.

The statement signed by Tony Blair said that he believed the 1995+ Group was an example of a successful partnership between environmental groups and business, that he was "delighted the group has made so much progress" and that the group was "having a positive impact on the forest products trade and the world's forests." Prince Charles' letter highlighted the urgency of the global forest debate and suggested that certification was a "powerful tool" to combat forest problems. It also expressed concern over the "proliferation of schemes". Prince

Charles, who himself owns FSC certified forests, said that the "FSC sets the standards that others must reach."

No unilateral bans on imports

The event also featured a presentation by Michael Meacher, the UK's Minister of Environment, who set out to explain current UK government policy in relation to the forest products trade and certification. He began by referring to widespread reports of illegal logging in several wood supplying countries. However he said that contrary to the demands of certain environmental groups, the UK government was not able to impose unilateral bans on the trade in wood products from these countries. Instead the UK government was playing a leading role in bilateral discussions with exporting countries to find solutions. He noted that a major forest law enforcement conference is to be held in Africa during 2002 as a follow up to a previous event held in Bali, Indonesia, last year.

On forest certification, Meacher said that UK government departments are now seeking to introduce "appropriate procurement policies". But he stressed,

again contrary to the demands of those environmental groups seeking to limit purchases to wood certified by the FSC, that the UK government was "unable to exclude particular forest certification schemes". Instead the UK government would establish its own criteria to measure the credibility of the various certification schemes.

UK forests 40% certified

Meacher turned to the UK's domestic forest sector, noting that 40% of forests are now certified to the UK Wood Assurance Standard (UKWAS). This implied there is still scope to increase certified forest area in the UK. He noted that UK wood output would double over the next 10 years, so that UK wood supply "will increasingly satisfy UK demand for certified wood."

Meacher went on to speak about certain limitations of forest certification, noting that many producers are still not seeking certification because there is "no market demand" in many countries and the costs could be high. He noted that "lack of demand is also an issue in the UK, and we have to face the fact that much wood imported into the UK may come from illegal sources".

Special Report - WWF 1995+ Group Event

WWF Progress Report

The principal aim of the 1995+ Group Event was to give the World Wide Fund for Nature (WWF) an opportunity to demonstrate the progress they have made in promoting certification both in the UK and overseas. Presentations focused on progress by the FSC and the 1995+ Group, and on the business benefits of FSC. There were very few references to the on-going international debate between advocates of different certification schemes.

Francis Sullivan, Director of Programmes at WWF-UK, said that the 1995+ Group now has over 100 members which together account for over 20% of the UK wood trade. Sullivan announced an extremely ambitious target for the UK timber trade – by the end of 2005, 75% of the timber and paper traded in the UK should come from either “credible certified” sources or recycled sources.

Targeted publicity campaigns

In an effort to achieve this target, WWF would undertake a range of targeted publicity and education campaigns. In the paper sector, WWF would focus on magazine and book publishers, newsprint manufacturers, and office suppliers. For timber, WWF would focus particularly on the construction sector, panel products, and tropical timbers. Three audiences would be targeted; government, architects, and construction companies. Sullivan also reported on a recent WWF consumer survey which indicated that 13% of UK consumers now recognise the FSC logo, compared with 7% a few years ago.

Justin Stead, Director of the WWF Global Forest and Trade Network, reported on the current status of the Network which links together the various WWF Buyers Groups and Producers Groups around the world. There are now 16 groups, 12 in Europe, in North America, Brazil, Russia, and Oceania. There is still a big gap in Asia, which WWF hopes soon to fill with the launch of groups in Hong Kong and Japan. Stead emphasised the role of Producers Groups linking organisations with a common commitment to achieve FSC certification, which he said would form an increasingly important part of the Network.

B&Q buys 90% certified wood

Alan Knight, Head of Corporate Social Responsibility at Kingfisher plc and B&Q, spoke about B&Q's experience over the last 10 years. B&Q now derives 70% of its wood supplies from FSC certified sources, 20% from forests certified by the Finnish Forest

Certification Scheme, while 10% comes from sources where there is “work in progress”. This last category includes, for example, companies committed to the Indonesian LEI scheme. Knight said that B&Q would probably always buy some wood products from uncertified sources, arguing that there is a strong case for doing so. It allowed B&Q to continue to exert influence, through their purchasing power, over the environmental practices of suppliers in areas where there are major forest problems.

Knight noted that his remit now covers the whole Kingfisher Group, including the large French retailer, Castorama, which has also made a commitment to FSC. Similar policies are also being extended into Kingfisher's expanding operations in the Far East.

Vision for forest certification

Knight set out a vision for certification over the next 10 years. Certification “must become mainstream”, and companies in all regions must “use their buying power to drive environmental improvement”. He concluded with a very positive message, emphasizing the role that certification can play in developing markets for wood

products. Certification would allow wood to “become the material of choice for sustainability” and “a major threat to products that are unsustainable.”

Architects outline pros and cons of certification

Two architects gave presentations on the advantages presented by forest certification to their profession. Paul Hinkin, Director, Chetwood Associates, spoke about his role in the “Sainsbury Project” involving the construction of a large supermarket on the Greenwich Peninsular in London to act as a showpiece in modern environmentally conscious design. He noted that the use of wood is very uncommon in the construction of supermarkets in the UK, there being a strong preference for steel. This reflected the restricted size of the UK's pre-fabricated wood sector and its inability to deliver in the volumes required. However for this project, more extensive use of wood was seen as a way of boosting the project's environmental credentials. The architects believed wood use would serve to boost

Continued page 10

FSC to give greater role to national initiatives

Heikki Leideker, newly appointed FSC Executive Director, spoke about FSC's recent progress and future plans. There are now 8000 FSC labelled products and 1900 chain of custody certificates in 60 countries. Although FSC has built a strong global network, there remain major challenges. In the summer of 2001, FSC experienced a financial crisis. However the financial position has now stabilised and FSC has secured sufficient funds to operate at least until the third quarter of 2002. A major focus of Leideker's work was to oversee a restructuring process that would put the organisation on a more sustainable financial footing. FSC would aim to provide quality services at a global level. To better achieve this, and also to ensure FSC was more relevant at national level, the organisation would be decentralised and a greater role would be allocated to the FSC National Initiatives. The head office would be relocated from Mexico to Europe, and regional offices would be established in the Americas, Europe, Asia and Africa. FSC would develop a portfolio of services for different clients (retailers, forestry, government etc.). It would apply ISO standards to its own internal procedures to ensure these services are applied

consistently. It would also seek to work more closely with international organisations such as the International Accreditation Forum and the WTO.

During discussions, Leideker was asked to comment specifically on FSC's attitude to other schemes, particularly on its willingness to mutually recognise schemes developed outside the FSC framework. Leideker replied that mutual recognition was not a new issue for FSC since the organisation has been co-operating with non-FSC schemes, notably the LEI scheme in Indonesia, for several years. However he emphasised also that FSC would only collaborate with schemes that require certification to “equivalent” standards and which are as rigorous as FSC. FSC would “not compromise for the sake of collaboration”.

Nevertheless in a response to a question on the particular problems of achieving the high environmental standards demanded by FSC in the tropics, Leideker seemed to suggest that FSC may be willing to compromise. He suggested that FSC may consider developing step-wise certification mechanisms that reward commitment and progressive improvement in forest management in these countries.

WWF Event *cont*

carbon storage, but only if they were specific about the source. Therefore they specified that all wood used must be certified.

Similarly, Andy Couling spoke about the role played by his firm, Feilden Clegg Bradley, during and after the refurbishment of Greenpeace London Offices. This project had made his company aware of their environmental responsibilities. Greenpeace had asked them to specify wood wherever they could on environmental grounds, although they had made it clear that tropical wood would be unacceptable.

Both architects had found extensive use of certified wood challenging. Architects and contractors generally lacked skills in the use and specification of wood, a problem not common to other materials. There was a lack of information on wood for the construction professional. There was also confusion about the reliability and credibility of different certification schemes, which led both architects eventually to specify only FSC. However, the cost premium, availability and delivery times of FSC certified wood had been a significant problem.

Nevertheless, there were signs of improvement. Andy Couling, for example, explained that at a recent public housing project in Cheltenham, England, the company had found a reliable supplier of FSC certified red lauro from Brazil. Although there was little technical information about the use of this wood, they had been happy with the results. Red lauro is also significantly cheaper than the main alternative of western red cedar.

Greens concentrate on illegally sourced timber

Representatives of Greenpeace and Friends of the Earth used the 1995+ Group event to promote their new "campaign demand" that legislation be introduced to make the trade in "illegally sourced wood" a criminal offence in the UK. Tony Juniper, FoE Director, alleged that illegally sourced wood contributes 80% of tropical wood harvested in Brazil, 73% of wood harvested in Gabon, and 73% of wood harvested in Indonesia. He claimed that up to 60% of tropical wood imported into the UK may be illegally sourced. However Michael Meacher, representing the UK government, commented that there would be enormous technical challenges in introducing such legislation, notably in assessing the chain of custody and in providing sufficiently precise definitions of "illegal sources". He felt it was more realistic to work with producer countries.

Europe

€uro-day 1st January 2002

This New Year saw the largest switch of currency the world has ever seen, when all members of the European Union except the UK and Denmark adopted the euro as legal tender in the European Union.

Wim Duisenberg, ECB president, said that the huge task had so far "progressed very smoothly, even beyond our own expectations and hopes." Statistical and anecdotal feedback offered proof that both the initial release of the notes on January 1 and the first two business days of the year had proceeded with few problems as shoppers and retailers took initial confusion in their stride.

Pedro Solbes, European Economic Affairs commissioner, said that "all the available information indicates that the retail sector has also passed successfully to the euro." The most recent statistics available showed more than 60m of the eurozone's 300m citizens already held euro notes, and more than 200m had the coins. "Progressively the situation should be normalised by the end of the second week of January."

(In a public telephone poll conducted by Germany's ARD television channel, more than three quarters of 10,000 callers on the

night of 1st January said they had experienced a trouble-free first business day with the new currency, and there is every indication that the outgoing national currencies will vanish from general use more quickly than had been expected.)

European Commission figures also showed that two-way euro transactions accounted for about a fifth of retail trade in the eurozone by 1 January, albeit with large variations between various countries (from just 3 per cent in Italy to around 50 per cent in France and the Netherlands).

The smooth launch of euro cash has been accompanied by a rally against the US dollar on the foreign exchange markets, where it firmed to above \$0.90, almost a cent and a half above the 2001 finishing price, on the first day of trading. The single currency remained around these levels on the second day after the ECB council kept interest unchanged at 3.25 per cent, as had been widely expected.

Travellers to the eurozone will be able to use old notes in some countries (except Germany) for a short while but basically should only take Euros. This successful launch may encourage Britain and Denmark to consider joining earlier rather than later.

European hardwoods

Log markets subdued

Demand for European hardwood logs in Germany from both the sawing and veneer sector remains subdued. At auction sales prior to the Christmas vacation, log prices were at lower levels than the previous year and many lots remained unsold. Negotiations between forest owners and buyers for longer term supply contracts are also proving to be very tough.

Market conditions are similar in France. Despite low stocks of new-season logs at most French mills, demand for oak and beech logs at auction sales before Christmas was very subdued. Many lots remained unsold and prices for green logs are still well down on levels prevailing before the December 1999 storms.

Good demand for staves

In France, demand for oak logs from the stave industry has remained reasonably buoyant, but production of sawn lumber of both beech and oak has been curtailed in response to high inventories of finished goods. Sales of beech and oak sawn lumber to both the French furniture industry and

parquetry sector have been declining since the middle of 2001. Export markets both in Europe and Asia have also been sluggish. Poor sales have contributed to cash flow problems at many mills.

Chinese demand still sluggish

Demand for Western European beech in China is still sluggish. Although demand for sawing logs is reasonable, demand for veneer logs and sawn lumber is down on previous years. In previous years, Chinese imports of sawn lumber were heavily oriented towards edged goods, but now nearly all stock is imported unedged. Chinese importers tend to buy beech lumber specified as 2" steamed in "door lengths" of 2.1 to 2.3 meters, with the majority used in China for internal joinery applications. Another noticeable trend is that more and more wood is being supplied to the Chinese mainland rather than being directed via Hong Kong.

Steady demand in the U.K.

Demand for European oak and beech in the U.K. has been steady, and prices for the higher grades of lumber favoured in this market have remained reasonably stable.

Europe

However there are occasional reports of some European exporters making cheap offers of steamed beech in "Chinese" specifications in order to off-load excess stock. There are anecdotal reports that more and more U.K. agents and importers are now getting involved in the trade in Eastern European hardwoods.

Birch lumber doing well

There is lively international demand for European birch sawn lumber. Western Europe is now buying good volumes of high quality birch lumber which is being used as a cheap substitute for hard maple. In

previous years, much of the birch lumber was supplied from Scandinavian countries. Finland is still a significant supplier, with much of their production based on Russian logs. However, the Baltic States are now more important suppliers. Estonian saw millers, who also produce birch lumber primarily from Russian logs, have been particularly successful in expanding sales. The UK, for example, is buying Estonian sawn birch for the production of door frames. Birch is also making headway in the Far East. Buyers in China and Taiwan are using birch from Estonia and other parts of North

Eastern Europe as an alternative to tulipwood. Estonia has responded to rising demand with the development of new processing capacity, although log availability has fallen short of demand from the new sawmills and there are reports of shortages.

Although the market for high quality birch lumber is increasing, cutting for the market can be challenging. Only a small proportion of lumber produced, perhaps only 10%, is of high grade. The remainder is lower grade frame stock which may be difficult to off-load.

Western European oak consumption and trade on the rise last year

The apparent consumption and trading of Western European oak increased significantly in the first half of 2001 compared to the same period of 2000. Log exports by EU countries, mainly to other European countries, increased by 25% in value and for sawn lumber by 15% in value. Total log exports for the first six months of 2001 were Euro 37 million, with lumber exports valued at Euro 97 million.

Within these figures there appear to be some significant trends, in particular the growth in log shipments from France (up €2.5 million) and Germany (up €4.6 million). However the growth in German sawn lumber shipments – almost double over the

previous year, up by €9.3million - was the most notable. By contrast French sawn lumber exports fell by 6%. Significant also was the increase in oak sawn lumber exports by Italy, once again accessing logs from its neighbours in former Yugoslavia.

Among the major oak log importing countries from European sources, Spain was number one at €6 million representing an increase of 70% over the previous year. By far the largest oak log exporter within Europe is France, accounting for 50% of the trade in the first half of 2001, with markets as far away as Romania. Austria increased exports, mainly to France, whereas Denmark

and Belgium both reduced oak log exports. However both Netherlands and Belgium imported more sawn lumber than Spain from European sources, reflecting the dependence of their furniture, flooring and joinery industries on European oak. UK was also important in fourth position. These four countries increased their purchases from the previous year and between them consumed 81% of European export shipments. The forests of the Ardennes in Belgium also continued to play a part in European trade supplying both France and Germany with sawn lumber to supplement their positions of relative self-sufficiency.

Western European Oak - Direction of Trade By Value - January to June 2000 and 2001

All Figures millions Euros (1 Euro = US\$0.91 = £0.63) - Source Eurostat/hardwoodmarkets.com

Logs		France		Germany		Austria		Denmark		Belgium		Other EU		Total EU	
Exporters:	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2001
Importers:															
Spain	3.35	3.82	0.10	1.58	0.00	0.00	0.00	0.00	0.01	0.00	0.05	0.57	3.51	5.97	
France			1.88	2.34	0.88	1.81	0.04	0.01	1.14	0.41	0.25	0.40	4.20	4.96	
Belgium	3.59	3.91	0.01	0.05	0.00	0.00	0.00	0.00			0.32	0.09	3.91	4.05	
Sweden	0.00	0.06	0.56	1.16	0.00	0.00	1.94	2.01	0.00	0.00	0.00	0.00	2.50	3.23	
Portugal	2.57	2.39	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.65	0.49	3.22	2.89	
Germany	1.38	1.61			0.85	0.93	0.09	0.01	0.21	0.21	0.14	0.12	2.67	2.88	
U.K.	0.58	2.25	0.05	0.02	0.00	0.00	0.05	0.00	0.11	0.32	0.03	0.05	0.82	2.64	
Other (world)	4.78	4.63	2.04	4.01	0.60	0.53	0.33	0.29	0.86	0.83	0.14	0.06	8.75	10.35	
Total	16.25	18.67	4.63	9.16	2.34	3.27	2.45	2.32	2.32	1.77	1.59	1.77	29.58	36.95	
Sawn lumber		France		Germany		Belgium		Italy		Austria		Other EU		Total EU	
Exporters:	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2001
Importers:															
Netherlands	6.91	6.54	2.34	3.51	4.13	4.45	0.17	0.61	0.02	0.01	0.08	0.00	13.65	15.11	
Belgium	9.23	10.37	0.41	1.91			0.30	0.42	0.02	0.01	0.40	1.30	10.35	14.00	
Spain	5.72	5.30	0.40	3.79	2.27	2.67	0.46	0.76	0.09	0.27	0.02	0.05	8.95	12.85	
U.K.	7.46	7.78	1.10	1.58	1.02	1.39	0.48	0.60	0.00	0.03	0.52	0.67	10.59	12.04	
France			0.47	1.55	4.78	3.50	1.24	1.81	0.37	0.33	0.62	1.94	7.47	9.13	
Germany	5.64	4.04			1.21	0.94	0.78	1.29	1.21	1.74	1.26	0.95	10.09	8.96	
Switzerland	1.79	1.60	1.54	1.49	0.00	0.00	0.23	0.14	0.95	1.03	0.00	0.01	4.52	4.26	
Poland	0.00	0.00	1.36	1.86	0.15	0.05	0.00	0.00	0.00	0.04	0.02	0.09	1.53	2.04	
Portugal	0.92	1.18	0.00	0.00	0.05	0.39	0.00	0.00	0.00	0.00	0.13	0.35	1.10	1.92	
Italy	1.27	0.79	0.08	0.16	0.00	0.08			0.46	0.58	0.00	0.02	1.81	1.64	
Other (world)	5.18	3.75	2.98	4.19	0.87	1.03	0.77	1.04	0.95	1.19	3.27	3.46	27.67	29.76	
Total	44.11	41.35	10.69	20.02	14.47	14.50	4.42	6.67	4.07	5.21	6.33	8.84	84.08	96.58	

Europe

running at low levels ever since the storms of December 1999 which led to a big increase in domestic availability of beech. Suppliers of beech logs and lumber in **Eastern Europe** have had to contend with a major reduction in exports to EU countries over the last two years. This has served to intensify competition in the sale of beech to other export markets, including China, the Middle East, and North Africa.

■ **EU imports of oak have held up much more strongly than beech imports**, reflecting the continuing fashion for oak in joinery and flooring. The U.S. continues to be the major overseas supplier of oak to the EU by a significant margin, despite the strength of the dollar-euro exchange rate, but Eastern European suppliers are narrowing the gap. For example, EU-wide imports of **Ukrainian and Hungarian oak** sawn lumber, which increased by 40% and 37% respectively between 1999 and 2000, rose again by 51% and 31% respectively during the first half of 2001.

■ **the trend towards increased oak log imports from the U.S. continued into the first half of 2001.** This trend is driven by growing demand for custom cutting in the EU, and also by the high dollar-euro exchange rate which leads to higher processing costs in the U.S. compared to the EU.

■ **EU imports of hardwood sawn lumber other than oak and beech fell marginally during the first half of 2001** year on year. The U.S. and **Canada**, able to supply a very wide range of alternative temperate hardwoods, continue to dominate this market segment. US export statistics indicate that during the second half of 2001 demand for American hardwoods weakened further in Germany and Italy, that the rate of growth in sales to Spain slowed, and that sales to the UK remained reasonably stable.

■ **EU hardwood veneer imports, which rose strongly between 1999 and 2000, continued to rise during the first half of 2001.** The rising trend reflected reasonably good growth in the EU furniture sector during this period, linked to the cost benefits of using veneer over solid lumber in a wide variety of applications. EU imports of tropical veneer rose particularly strongly during the first half of 2001, notably from **Ivory Coast** (up 20%), **Ghana** (up 8%), and **Gabon** (up 101%). Increasing veneer imports from the tropics also reflects increased investment in value added processing in these countries, and the weakness of international

hardwood plywood demand, which may have led to some diversion of rotary veneers for export. However anecdotal reports indicate that European demand for veneers weakened during the second half of 2001 in response to a slowdown in the furniture sector and weakness in the German construction sector.

■ **EU imports of tropical hardwood plywood were running at levels similar to 2000 during the first half of 2001.** Trends apparent during 2000 continued in the first half of this year. **Indonesia** continued to lose market share to **Brazil**, a trend which may reflect intensifying supply problems in Indonesia. Weakening demand for Brazilian hardwood plywood in other markets, including Brazil's domestic market and the USA, has encouraged increased shipments of this commodity to the EU. Imports of **Malaysian plywood** into the EU continued to weaken during 2001 as shippers found prices on offer in the EU unattractive, and as Malaysian producers also had to contend with major log supply problems. Current market prospects for tropical hardwood plywood in Europe are uncertain. Although overall levels of EU hardwood plywood imports may have remained reasonably high during the second half of 2001, the European market is characterised by over-stocking, intense competition, low prices and tight margins.

■ **EU imports of other hardwood plywood, which increased by nearly 20% between 1999 and 2000, continued to rise during the first half of 2001.** This trend highlights the rising level of competition in the EU market for **Finnish birch plywood** from new production plants in **Latvia** and **Russia**. To overcome this competition, Finnish producers have been responding by a shift to value-added production and targeted end uses.

■ **One of the most startling trends in the EU hardwood trade data over the last 18 months has been the rapid rise in the level of imports of hardwood "profiles"** (which include mouldings, unassembled blocks, strips and friezes for parquet flooring, and all other wood tongued, grooved, rebated chamfered, V-jointed, beaded, or moulded along any of its sides). EU-wide imports of these products were up 115% in 2000 compared with 1999. During the first half of 2001, imports were again up 18% compared with the first half of 2001. The value of EU imports of hardwood profiles is now well in excess of imports of tropical hardwood logs. Although there has been particularly

significant growth in EU imports of hardwood profiles from **Indonesia, Malaysia, Poland** and **China**, a very wide range of countries are benefiting from the trend.

■ One factor which may be contributing to the rising level of EU imports of hardwood profiles is the **fashion for parquet flooring**. This trend is also reflected in rising EU imports of finished parquet panels. EU imports of parquet panels rose by 26% between 1999 and 2001, and continued to rise during the first half of 2001. Imports from China have shown particularly rapid growth, doubling between 1999 and 2000, and rising again by 13% during the first half of 2001.

■ **the continuing rise in EU imports of wooden furniture** provides vivid confirmation of the rising levels of competition for EU manufacturers and of the global shift in facilities to lower cost locations. Between 1999 and 2000, EU imports of wooden furniture rose 25% by value. This growth trend continued into 2001, although at a slower pace as economic conditions in the EU have cooled. Nevertheless **Poland, Indonesia, Romania, China**, and the **Czech Republic** all registered significant increases in sales to the EU during the first half of the year.

Economic prospects in Europe during 2002

Prospects for hardwood imports into the EU during 2002 will, of course, be influenced by economic growth and the relative strength of European currencies, particularly against the dollar.

Economic growth in Europe disappointed in 2001, at around 1.5%, and things may not look much better in 2002. Germany, Europe's lumbering economic giant, is likely to continue to struggle in 2002, but most analysts suggest that the European economy overall should just about skirt clear of a recession and grow at a similar level to last year. Economic prospects continue to look reasonably favourable in the U.K, Spain, Ireland and Sweden, but less favourable in Germany, France, Italy and Belgium.

Early reports suggest that the huge operation to distribute new euro-notes throughout the 12 euro-zone countries went smoothly. This led some European analysts to predict significant gains for the euro against the dollar this year. But similar forecasts at the beginning of last year went unfulfilled.

Oceania

Papua New Guinea

Logging moratorium ends

Despite howls of protest from the environmental movement, the Prime Minister of Papua New Guinea, Sir Mekere Morauta, announced that the moratorium on new logging licenses and extensions would be lifted from the beginning of December 2001. The moratorium had been introduced by Morauta's government in PNG's Year 2000 budget to provide breathing space for a full review of licensing procedures. The review aimed to assess whether proper procedures were being followed, all logging practices were sustainable, and tribal landowners obtained a fair share of the benefits.

Morauta also announced that four advanced logging projects may be progressed by the Forest Authority to become Forest Management Agreements as long as various remedial actions were undertaken. He said the PNG Cabinet had approved a series of measures to improve

the planning and administration of the forest sector and the procedures for proposed forest projects.

These announcements followed the PNG Cabinet's acceptance of a series of recommendations from the independent Review Team. According to Morauta, the review found that the PNG National Forest Plan and legislation is generally sound, providing an effective planning system for PNG's forest resources. Sir Mekere said that the review had found that "a very small number of projects over the past 10 years had proceeded without having secured proper approvals, but that these occurred without the Forest Authority's participation, and the Authority had resolved most of these discrepancies".

The PNG Cabinet also approved an action plan to resolve problems identified by the Review Team. The plan includes various policy and legislative reforms to be finalised in consultation with stakeholders. The proposed reforms include the possible

separation of policy and implementation functions for forestry; the preparation of a new National Forest Plan; and the establishment of an independent Commissioner to verify proper procedures in the planning of forestry projects. Under the new procedures, a minimum of 10% of the area in Forest Management Agreements would be set aside for forest-conservation purposes.

However the announcement of these measures failed to satisfy the environmental movement. In a press release, the Papua New Guinea Eco-Forestry Forum claims the Cabinet's decision to lift the moratorium was influenced by the government's cash flow problems. Furthermore they claim that none of the recommendations made by the Eco-Forestry Forum and other environmental NGO's for improving forest management in PNG has been incorporated into the government's recommendations. They suggest that "the prime minister has simply allowed logging to resume as before."

Association Profile - EFI - Europe

Members: 134

The European Forest Institute (EFI) is an independent non-governmental organisation conducting European forest research. Its mission is to promote, conduct and co-operate in research of forests, forestry and forest products at the pan-European level; and to make the results of the research known to all interested parties, notably in the areas of policy formulation and implementation, in order to promote the conservation and sustainable managements of forests in Europe. The institute publishes

a 20 page full colour newsletter twice yearly which is free of charge distributed to 4000 individuals and organisations. It also regularly publishes a range of reports and discussion papers, which include forest products markets, available from publications@efi.fi EFI is run by a Board of nine including the Chairman and has a Scientific Advisory Board of ten. Both have members drawn from all over Europe. The Institute maintains close links with European organisations, such as the European Institute for Cultivated Forests

(EIFC), and is an excellent source of forest resource information.

The last EFI annual conference was in Bordeaux and the next will be held in Copenhagen, Denmark in late August.

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Hardwood Events

Date	Event	Venue	Target audience	Contact
2002				
20-23 Jan	Furniture Show	Birmingham, UK	Furniture Industry	
8-12 Feb	India Wood & India Furniture Show	Bangalore, India	Woodworking & materials	email: pdaexpo@vsnl.com
4-15 Mar	2nd Session of the UN Forum on Forests	San Jose, Costa Rica	Government	www.un.org/esa/sustdev/forests.htm
5-9 Mar	Malaysian International Furniture Fair	Kuala Lumpur	Furniture Industry	www.miff.com.my email: info@miff.com.my
10-15 Apr	Sasmil	Milan, Italy		www.sasmil.it
17-19 Apr	World of Wood 2002	Palm Springs, USA	Timber Trade	www.iwpawood.org
Apr	8th Brazilian & 2nd Pan-American Forestry Congress	Brasilia, Brazil	Forestry and Timber Trade	sbs@sbs.org.br
25-27 Apr	FSC Forest Products International Conference & Showcase	Atlanta, Georgia, USA	Forestry and Timber Trade	conferencequestions@certifiedwood.org
29-31 May	Carrefour du Bois	Nantes, France and Industry	Timber trade	www.timbershow.com
27 May-1 Jun	32nd Session of the International Tropical Timber Council	Denpasar, Indonesia	Government, trade	Collins Ahadome, ITTO, itto@itto.or.jp
24-25 Oct	AHEC European Convention	Lisbon, Portugal	Timber Trade & Industry	www.ahec-europe.org

Ingredients for Malaysian price rise

International demand for Malaysian sawn lumber remained subdued throughout the last quarter of 2001. However, it appears that some of the ingredients for price rises are now in place. Tightening regulatory controls meant that many Malaysian mills were struggling to obtain adequate stocks of logs last year. These problems have been compounded by Indonesia's ban on log exports. The recent arrival of the monsoon has further slowed log production, while production will also be curtailed for around three weeks during the Chinese New Year holiday season starting at the end of January. If there is a significant upturn in demand in early 2002, these factors could quickly translate into price rises. **Page 4**

Consensus indicates U.S. recovery

Prospects for the U.S. economy in 2002 remain as obscure as ever. However, leaving aside the possibility of another serious setback (such as another serious terror attack or a substantial rise in oil prices), most analysts now forecast that the American economy will stage a modest recovery by the middle of next year. The U.S. housing sector continues to perform well. **Page 6**

U.S. production continues to fall

If U.S. sawmills cease production for lengthy periods over the Christmas holiday season, and if sawmills continue to close as many analysts expect, production of American lumber, both green and kiln dried, is likely to continue to decline over the winter months. Many analysts are also forecasting that North American hardwood demand may increase in the first half of 2002. If so, the supply of lumber could tighten quite quickly. **Page 6**

€uro launch goes smoothly

This New Year has seen the greatest transfer to a currency system that the world has ever witnessed. Three hundred million people deserted the coinage of their birth in favour of the €uro, without much of a murmur and apparently with few problems. The effects will be powerful, although as yet not entirely predictable. **Page 10 & Editorial Page 2**

Mixed market for European hardwood

Demand for European beech logs and lumber remained subdued at the end of last year. Demand for oak has been better, particularly from the stave sector, but is down on previous years. Demand for higher grade birch lumber from the Baltic States has been rising. **Pages 10 & 11**

EU hardwood imports at high levels during 1st half of 2001

Although there was weakening in EU-wide imports of some hardwood products during the first half of 2001 compared to the previous year, overall levels of trade remained reasonably buoyant. However anecdotal evidence suggests that imports cooled significantly during the second half of 2001. **Pages 12 & 13**

Tony Blair endorses WWF Group

A recent event to mark the 10th Anniversary of the WWF 1995+ Group highlighted the high level of political support in the UK for forest certification. Tony Blair, the British Prime Minister, congratulated the Group on their success. However a UK Minister also declared that the government had no intention of making an exclusive commitment to the FSC. **Pages 8/9/10**

Mahogany harvests suspended

With the rainy season now underway in the Brazilian Amazon, attention is turning to longer term aspects of tropical forest management in Brazil. In early December the Brazilian government suspended all mahogany forest management plans in the States of Para, Mato Grosso and Acre. The Brazilian government is also trying to increase the proportion of tropical lumber supplied from state-owned as opposed to private forests. **Page 7**

Cambodia suspends logging

Under heavy pressure from international donors, the Cambodian government has ordered that all commercial logging be suspended from 1 January 2002. **Page 5**

The transformation of China

Over the next 12 months, China will undergo a major political and economic transformation. China has just joined the WTO which means the country's exporters will gain greater access to world markets and there will also be greater opportunities for inward investment in China. At the same time, almost every sector of the Chinese economy will be opened up to foreign competition. As a result, unemployment in China is expected to rise rapidly, which will hit domestic consumer demand and may create social tension. To counter-act this, the government is committed to heavy spending on infra-structure this year. On balance, underlying Chinese demand for hardwoods is expected to remain good during 2002. **Page 4**

Japan's imports continue to slide

Forecasts suggest that overall demand for imported wood in Japan will shrink by 4.5% during 2002. Imports of tropical logs are expected to fall particularly dramatically. However new quality requirements are expected to ensure that demand for kiln dried lumber and engineered wood products in 2002 remains stable. **Page 5**

Better news from the Congo

The Democratic Republic of Congo contains over half of Africa's remaining tropical rainforest. After three years of civil war, there are signs that the country may be heading towards a brighter future. The UN has deployed a peace keeping force and the economy may start to grow again in 2002. This may open the way for DRC to once again play a more important role in the international timber trade. **Page 3**

PNG lifts logging moratorium

Despite howls of protest from the environmental movement, the government of Papua New Guinea announced that the moratorium on new logging licenses and extensions would be lifted from the beginning of December 2001. **Page 15**