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2002 hardwood trade review

Due to limited trading in Europe and North America during the Christmas period, and the difficulties of obtaining reliable market information from traders busy enjoying themselves over the holiday period, we have suspended our usual market reports for the January issue. Instead, we devote this issue entirely to a review of international hardwood markets during 2002.

Rather than following our usual practice of reviewing markets by region, in this issue we focus on trends at global level impacting on specific hardwood products as follows: temperate and tropical logs and sawn lumber; plywood; veneer; and wood furniture. To complete the picture, we provide an overview of developments in global forest policy and forest certification.

Our review indicates that that the opening years of the 21st century may be seen, in future times, as a significant watershed for the international hardwood trade. Major changes in the structure and direction of the industry are on-going right across the world.

The year 2002 will be remembered by many involved in the Western European and North American hardwood industry as a very difficult year. Hardwood consumption in both regions was down on previous years due to depressed demand in key market sectors of construction and furniture. At the same time producers of hardwood products in the western world came under growing competitive pressure from producers in Eastern Europe and a widening range of developing countries. Rising material and labour costs put a further squeeze on margins. Numerous hardwood sawmills, veneer mills, and furniture plants closed permanently in the western world during 2001 and 2002.

But one man's pain is another's gain. The

year 2002 will be remembered in other parts of the world as a time of expanding opportunities. Nowhere is this more true than in China. The country's entry into the World Trade Organisation has meant that the entrepreneurial talents of the Chinese are being liberated on the world stage. Western countries are progressively reducing tariffs on imports of finished goods from China. Meanwhile, China's economic liberalisation measures are stimulating rapid demand growth at home. The concentration of wood processing facilities in China continued strongly during 2002. Imports of raw logs and sawn lumber continued to increase.

The year 2002 also seems to have been a good year for Eastern Europe. Inward investment boosted hardwood production in this part of the world, while domestic demand is rising as the furniture manufacturing sector has grown. During 2002, the European Union also announced its intention to allow entry of 10 new member countries from Eastern Europe.

Meanwhile major shifts are underway in the sources of hardwood raw material. Large tropical producers like Malaysia, Indonesia, and Cameroon are rapidly scaling back production, partly in response to growing international concern for illegal logging. Falling availability from natural forest has meant that tropical production is becoming more focused on plantations. In the temperate hardwood world, Western European and American harvests are falling while Eastern European production is rising.

Forecasting is difficult at a time of such rapid change, so this year we've been cautious. Our review identifies possible factors to watch out for in 2003, but you can draw your own conclusions.

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Tropical logs

Supply

Availability in international markets of good quality tropical logs was tending to decline during 2002 due to increased controls on exploitation and on exports from several tropical countries. This reflects growing international concern for illegal logging (notably Indonesia and Cambodia); tightening government regulations (notably East Malaysia and Cameroon); continuing efforts by producer countries to add value prior to export (notably Cameroon and Gabon); and the fact that resource limits are now being reached in several countries (notably Indonesia and Sabah). Efforts to enforce the Indonesian log export ban since October 2001 had a significant impact on availability during 2002. Many Far Eastern plywood mills were forced to reduce production during 2002 due to the shortfall in log supply. Gabon is now by far the leading supplier of African tropical logs to international markets. However financial problems at SNBG, the state log marketing organisation, created supply shortfalls from Gabon during 2002. Overseas buyers of okoume logs, Gabon's main export species, made up part of the shortfall through a switch to supplies from Congo-Brazzaville. Supplies from some other African countries, including Liberia and the Central African Republic, were disrupted by political problems during 2002.

Demand

China's domination of the international tropical log market was maintained during 2002, although due to more limited supplies and slower global demand, the pace of increase in imports was considerably slower than in 2001. During the first 6 months of 2002, China's hardwood imports reached 4.2 million m³, only 2% up on the same period in 2001. China's imports of softwood logs more than doubled over this period. Mean-

To watch

- Factors likely to place further limits on availability during 2003 including: efforts to sharply reduce harvesting levels in Indonesia; on-going political problems in several African countries such as Central African Republic and Liberia; and continuing financial problems at SNBG in Gabon.
- The possible re-emergence of Congo-Kinshasa as an important supplier - although this may be a drawn out process.
- Continued decline of Japan and Western Europe as big importers of tropical logs.
- Continued strong log demand from China - but will declining resource availability and rising FOB prices put the brakes on tropi-

EU import trade

Tropical hardwood logs

Jan-Jun, value (000s euros)

	2001	2002	% chng
By exporting nation			
GABON	109921	80203	-27.0
CAMEROON	60740	45006	-25.9
LIBERIA	39624	38478	-2.9
CONGO REPUBLIC	27932	35316	26.4
EQUAT. GUINEA	10647	7157	-32.8
CENT. AFR. REP.	15703	9267	-41.0
CONGO-KINSHASA	7605	5351	-29.6
OTHER	22181	16346	-26.3
TOTAL	294353	237124	-19.4
By importing nation			
FRANCE	98563	80299	-18.5
ITALY	56540	49544	-12.4
PORTUGAL	43667	40036	-8.3
GERMANY	29515	22650	-23.3
SPAIN	25866	17666	-31.7
GREECE	13961	12240	-12.3
OTHER	26241	14689	-44.0
TOTAL	294353	237124	-19.4

Source: Eurostat, hardwoodmarkets.com

while Japanese imports of tropical logs continued to decline in 2002 owing to weak underlying consumption, rising FOB prices and increased competition for limited supplies from China. European demand for tropical hardwood logs was sluggish throughout 2002 with all the major importing countries registering a decline in the level of import. Only Portugal came close to matching the import levels of the previous year.

Price trends

Limited availability led to a sharp increase in FOB prices for Far Eastern hardwood logs during the first half of 2002. However global economic uncertainty and an increase in availability with improved logging conditions meant that FOB prices for Far Eastern logs tended to stabilise during the second half of the year. Prices for valuable African redwood species were generally stable throughout the year, balanced between subdued export demand and limited supply. Supply problems in Gabon and good demand from China's emerging plywood sector led to increases in okoume FOB prices during the second half of 2002.

cal log imports during 2003?

- Possible emergence of stronger log demand from other countries with developing veneering and manufacturing facilities, such as in Eastern Europe and Vietnam.
- Efforts by Malaysian and Indonesian plywood manufacturers to supplement limited domestic log supplies from a range of overseas sources.
- India - an important market for tropical logs. An election looms in 2004, so 2003 may be the last chance for the current liberalist government to implement labour reforms, tariff slashing and privatisation.

Tropical sawn

Supply

Malaysian shippers started the year 2002 with very low stocks of hardwood lumber. Production remained low throughout the year due to rising log costs and slow international demand. Resource constraints meant a particularly sharp fall in Sabah sawn lumber production. Furthermore, availability of sawn lumber from Sumatra, which was being exported to Peninsular Malaysia for kilning and onward shipment to Europe, fell sharply during 2002.

African sawn lumber production was also slow throughout much of 2002. Tightening logging controls and inefficient government bureaucracy meant that many Cameroon mills were starved of logs during the year. Furthermore, despite a big reduction in log exports, there are already signs that sawmilling capacity in Cameroon exceeds long term sustainable supply.

Sawmills in Ghana also suffered severe supply shortfalls during 2002 due to logging restrictions. And by the end of 2002, lumber supplies from Ivory Coast, the other major west African supply country, were coming under pressure with the onset of civil war. Meanwhile inward investment in processing capacity has led to some increased availability of sawn lumber from Gabon and Congo-Brazzaville.

In South America, IBAMA's ban on the trade in Brazilian mahogany remained in place throughout the year. The international mahogany market now relies on the much smaller Peruvian resource. Since the Brazilian cedar trade is intimately linked to the

EU import trade

Tropical hardwood sawn lumber Jan-Jun, value (000s euros)

	2001	2002	% chng
By exporting nation			
MALAYSIA	147340	126501	-14.1
CAMEROON	163753	127754	-22.0
BRAZIL	134144	107999	-19.5
IVORY COAST	99351	102032	2.7
GHANA	38472	32749	-14.9
INDONESIA	20152	16337	-18.9
NIGERIA	8701	3879	-55.4
CONGO-BRAZ.	8768	14013	59.8
BURMA	10280	12219	18.9
SINGAPORE	4735	4514	-4.7
OTHER	50273	57021	13.4
TOTAL	685969	605018	-11.8
By importing nation			
NETHERLANDS	114479	109504	-4.3
ITALY	119507	108084	-9.6
SPAIN	105658	88541	-16.2
FRANCE	116640	82348	-29.4
BELGIUM	77961	57930	-25.7
UK	51134	46813	-8.5
GERMANY	29988	29376	-2.0
PORTUGAL	20583	26258	27.6
GREECE	7468	24780	231.8
OTHER	42551	31384	-26.2
TOTAL	685969	605018	-11.8

Source: Eurostat, hardwoodmarkets.com

mahogany trade, availability of this species was also more restricted during 2002. However a wide range of other Amazonian hardwood species - such as jatoba, tauri and curapixia were readily available to international markets during 2002, particularly as Brazilian domestic demand cooled. Brazilian agricultural resettlement policy has also tended to increase availability of non-mahogany timbers from conversion forest.

Demand

European demand for tropical sawn lumber was subdued throughout 2002, undermined by uncertain economic conditions. The just-in-time purchasing philosophy has become even more entrenched, with few buyers willing to purchase speculative stock. There is increased reliance in Europe on purchases from large international trading companies rather than on direct purchases from exporters. Tropical sawn lumber imports were particularly weak into Italy, Spain, France and Belgium during 2002. Imports were more stable into the UK, Germany and Portugal. Domestic consumption in the Netherlands was very weak during 2002, but imports held up reasonably well as the country has become more important as a staging post for shipments to other parts of Europe.

Despite the economic slowdown in the U.S., overall demand for tropical hardwoods remained reasonably stable there during 2002. However market conditions varied widely by species. U.S. imports of Malaysian lumber were well down during 2002. However demand for South American mahogany was in excess of supply. Limited availability of mahogany led to increased US interest in African khaya, notably from Ghana.

China continued to be the largest national market for tropical sawn lumber during 2002. Demand remained strong during the year, mainly for furniture, interior joinery, and flooring. However shortfalls in supply and rising FOB prices meant that the growth in imports was slower than in previous years. Malaysian suppliers have had a strong presence in the Chinese market, but recent price rises for Malaysian hardwoods have meant their market share is being eroded. This year there has been a big increase in Chinese imports of South American lumber, particularly massaranduba and jatoba for flooring. Tropical sawn lumber imports into Japan were declining last year, falling 14% between January and August 2002 compared to the same period the previous year. Falling Japanese imports were mainly due to a big drop in availability of good quality seraya from Sabah.

U.S. import trade

Hardwood sawn lumber Jan-Sept, volume (000s m3)

	2001	2002	% chng
Canada	758.8	826.5	8.9
Brazil	109.9	95.1	-13.4
Peru	27.4	42.5	55.0
Malaysia	31.0	22.1	-28.9
Ghana	11.7	17.2	47.3
Indonesia	18.4	16.7	-9.6
Chile	8.2	13.3	62.6
Germany	7.9	12.9	63.6
Cote d'Ivoire	14.3	11.0	-23.5
Cameroon	9.4	9.0	-4.8
Ecuador	8.0	8.0	-0.7
Lithuania	6.4	5.3	-17.8
Bolivia	7.1	4.1	-41.8
Other	52.1	49.2	-5.7
World	1070.7	1132.8	5.8

Price trends

After a long period at low levels, C&F (Europe) prices for Malaysian sawn rose quite sharply between April and August 2002 due mainly to supply restrictions and rising freight rates. Malaysian prices were holding steady at the higher level at the end of 2002. FOB prices for African hardwood lumber were generally stable throughout 2002, balanced between subdued demand and low supply. Limited supply and good U.S. demand led to firm FOB prices for South American mahogany during 2002. However export prices for many other Brazilian hardwoods were tending to weaken due to a fall in the exchange value of the Brazilian currency.

To watch

■ Increase in the level of South-South trade as manufacturing plants shift to low cost locations in the developing world.

■ Rising importance of hardwood lumber from plantations and decline in availability of natural forest timbers. This may affect both the size and direction of the lumber trade and the quality of lumber available.

■ Political instability in Ivory Coast. The threat of all-out civil war hangs over the important African supplying nation.

■ Rising levels of sawn lumber production in the Congo basin, notably in Congo-Brazzaville and Gabon.

■ Efforts by Malaysia to tighten regulations and develop a certification framework which eventually meets requirements of FSC

■ Rising political interest in "illegal logging" which has heightened European and U.S. sensitivity to the use of tropical timber.

■ The impact of a change in the Brazilian government on Brazil's economy and domestic wood market, and on forest policy.

Temperate hardwood logs

Supply

European stocks exceed demand

In Western Europe, supplies of low and medium quality beech and oak logs have been in excess of demand ever since the December 1999 storms. Weakness in Chinese demand for beech logs has also contributed to overstocking in beech. Problems of over-supply of lower grades were intensified by the after-effects of the beech disease which hit forests in the Walloon region of Belgium during 2000 and 2001. Supplies of higher grade oak logs in Western Europe have been better balanced with demand. Meanwhile, Western European hardwood sawmillers have become increasingly alarmed at the volumes of new season beech logs being diverted to the Chinese market.

Big fall in beech harvests

In Germany requirements for new season beech are forecast to be 20% to 30% lower than usual during the 2002/2003 winter season. In France, limited demand has led to the cancelation of much beech harvesting. The French forest authorities are only marketing a limited volume of high grade oak logs during the current winter season. However, efforts by the French forest administration to market a higher proportion of lower grade oak this year may lead to price pressure on these grades.

Availability of temperate hardwood log supplies in Eastern Europe was variable during 2002. With the possible exception of Ukraine, Romania is the largest Eastern European producer of hardwood logs - notably beech. Hardwood log harvests in Romania were increasing during 2002, however log exports were banned between February 2001 and May 2002 in response to concerns over the supply to domestic manufacturers. Poland has a significant domestic oak resource, but more and more is now consumed

by the country's expanding wood processing sector. Some of the best quality oak and beech forests in the world are located in Croatia. Anecdotal evidence suggests that international demand for oak from this region has been in excess of supply. Data on the Ukrainian log trade is not readily available, but reports are emerging of more Ukrainian oak logs being exported for processing in other parts of Europe.

North American harvests decline

Temperate hardwood harvest levels in North America were tending to decline during 2002 for a number of reasons. There was unusually wet weather throughout much of the year. Furthermore during a time of weak demand, many American forest owners have simply decided to refrain from harvesting and to await a market upturn. Depressed softwood markets have also driven many loggers out of business. And an increasing number of owners are now managing hardwood forests for non-timber objectives. Disruptions in logging activity prevented many American mills from building adequate log decks prior to winter 2002.

At the same time, domestic mills in North America have had to cope with a rising proportion of logs being exported. Unlike some other hardwood log supplying regions, the U.S. cannot place restrictions on log exports. With 73% of American hardwood forests owned by private individuals, the log export trade is strongly influenced by the Constitution of the USA. Private land rights allow individuals to sell their wood to any buyer, whether domestic or overseas.

Despite short-term shortfalls in supply, long term prospects for temperate hardwood log supply from North America remain good. The hardwood resource of the eastern United States is huge and far from overexploited.

US log exports to China, SE Asia

Jan-Jun, US\$ Million

	2001	2002	% chg
China/HK	26.10	47.00	80%
Indonesia	7.94	10.38	31%
Malaysia	2.97	3.27	10%
Vietnam	0.50	2.06	313%
Thailand	0.56	1.09	96%
Total	38.06	63.79	60%

Demand

Bad year for European exporters

2002 was a very bad year for the Western European hardwood industry. Many domestic sawmills and veneer mills faced closure in response to weak demand and the financial costs associated with carrying excess stocks. Economic problems contributed to a big decline in temperate hardwood consumption in Germany, while other Western European markets have been sluggish and unable to take up the slack.

Generally speaking, the market for lower grade logs has been more adversely affected than the market for higher grades. However by the end of 2002, there were signs of weakness appearing in certain high grade sectors. For example, the pace of growth in the stave industry has been slowing, reducing demand for good quality oak logs.

The Chinese market, which came to dominate the beech export trade during 2000 and 2001, weakened significantly during 2002. Between January and June 2002, the volume of EU beech log exports to China/Hong Kong reached 381,000 m3, down from 425,000 m3 during the same period the previous year. Chinese buyers have become increasingly demanding in terms of both price and quality.

Rising American exports

Over recent years, exports of American hardwood logs have tended to rise. In 2001 the total U.S. hardwood log export amounted to

Western European Beech, Direction of trade, January to June 2001, 2002

Importers:	China		Italy		Sweden		Hong Kong		Spain		Other		Total			
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	% chg	
Exporters																
Germany	1000 m3 mill euro	226.2 74.6	241.3 45.3	38.6 2.9	24.3 1.7	203.8 7.6	233.5 9.9	40.3 16.5	25.6 5.1	0.3 0.1	0.5 0.1	159.7 13.7	130.9 10.9	668.9 115.4	656.1 73.1	-1.9 -36.7
France	1000 m3 mill euro	66.8 12.4	51.6 7.7	38.5 3.8	32.4 3.0	0.0 0.0	0.0 0.0	7.2 3.3	3.0 1.7	44.7 5.4	30.6 4.6	159.9 13.0	124.5 10.6	317.1 37.9	242.2 27.7	-23.6 -26.9
Austria	1000 m3 mill euro	3.4 1.4	9.2 4.1	113.7 8.1	136.4 9.9	0.0 0.0	0.0 0.0	0.0 0.0	1.0 0.4	0.0 0.0	0.0 0.0	10.6 1.7	4.6 0.8	127.8 11.2	151.2 15.1	18.4 35.6
Denmark	1000 m3 mill euro	45.7 10.2	30.3 2.4	0.0 0.0	0.0 0.0	8.9 0.8	0.9 0.1	3.4 1.3	5.4 0.6	0.1 0.0	0.0 0.0	13.4 4.3	11.0 2.7	71.5 16.7	47.6 5.9	-33.4 -64.8
Belgium	1000 m3 mill euro	14.5 3.2	9.4 1.9	10.0 1.3	13.7 1.5	0.0 0.0	0.0 0.0	4.8 1.0	0.1 0.1	3.8 0.8	3.8 0.9	24.3 2.4	9.7 1.5	57.4 8.8	36.6 5.8	-36.2 -33.4
Other EU	1000 m3 mill euro	12.4 3.2	3.1 0.5	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0	0.5 0.3	0.7 0.4	0.5 0.1	0.0 0.0	29.8 1.3	4.6 0.8	43.2 4.9	8.4 1.6	-80.5 -66.4
Total EU	1000 m3 mill euro	369.0 105.0	344.8 61.8	200.8 16.0	206.9 16.1	212.7 8.4	234.4 10.1	56.2 22.5	35.9 8.2	49.4 6.4	34.9 5.7	397.8 36.4	285.4 27.3	1285.9 194.7	1142.2 129.2	-11.2 -33.7

Source: Eurostat, hardwoodmarkets.com

Temperate hardwood sawn

2,093,268 m3 with a value of \$418 million. Since 1997 the annual figures have shown a steady increase, by a total of 36% in value and 43% in volume, indicating some rise in prices and perhaps an increase in grade. This may be explained by much anecdotal evidence suggesting that the percentage of American veneer quality log exports has increased recently. These trends are due partly to log export restrictions elsewhere, and partly a growing demand for American species in world markets.

During 2002, there were clear signs of a major switch in the direction of American hardwood log exports. In the first half of 2002, worldwide shipments of American hardwood logs amounted to \$253,208,000 – up by 3% on the same period in 2001 and volume only rose by less than 1%. However, the worldwide figure masks a big increase in exports to Asia which compensated for a sharp fall in exports to the EU. In Asia, the value of American hardwood log exports to China for the 1st half of this year exceeded the value for the whole of 2001. And in the four leading countries importing in Southeast Asia there was a 40% increase in value from January to June 2002 over the same period last year.

Price trends

Price trends for temperate hardwood logs have been very variable depending on species and grade. Prices for low grades of European beech and oak logs were weakening during 2002. However prices for the highest grades remained reasonably stable. Prices for the best quality oak logs from Croatia were firming at the end of 2002.

Despite a drop in domestic consumption, American hardwood log prices continued to rise throughout 2002. High hardwood log prices in North America are now a major factor contributing to the squeeze on profitability in the sawmilling sector.

To watch

- The potential for a partial switch from tropical to temperate supplies as controls on tropical exports increase while free trade in temperate logs is maintained.
- Big shifts in the global location of veneer, plywood and furniture manufacturing facilities which are changing the direction of the temperate hardwood log trade.
- Efforts by Western European sawmillers to encourage forest owners to agree voluntary commitments to limit log exports.
- Substitution trends in China - American hardwoods are slowly taking share from tropical hardwoods and European beech.

Supply

Overstocking in Western Europe

Despite efforts by producers to curtail production, the market for European beech lumber suffered from overstocking throughout 2002. Availability of low grades remained high due to excess production during the previous two years in the aftermath of the December 1999 storms. Problems of high stocking in all grades of beech were made worse by the slowdown in Chinese and European demand for beech.

Problems in the market for beech sawn lumber began to spill over into other species during 2002. By the end of the year there were concerns over high and rising stocks of Western European oak sawn lumber, particularly lower and medium grades. Many European beech producers switched to the production of oak sawn lumber as a result of problems in the beech sector. Furthermore, the storms at the end of 1999 contributed to excess availability of medium and lower grade oak just at a time when growth of the European hardwood flooring sector, which absorbs significant quantities of these grades, has been slowing. In an effort to boost sales of sawn oak, some Western European producers started offering square edged as well as waney edged stock during 2002.

Rise of Eastern Europe

Meanwhile anecdotal reports indicate that availability of good quality hardwood sawn lumber from Eastern Europe continued to improve during 2002. Hardwood lumber production in Poland, mainly oak, was rising throughout the year while availability of green oak sawn lumber from Ukraine was also increasing. Inward investment has led to improved availability of Croatian oak, which unlike American oak is available sap free. Waney edged lumber has been readily available from Eastern Europe now for some time and has become an important raw material for manufacturers in Germany and Italy. However, Eastern European suppliers are increasingly able to supply square edged stock, which is strongly favoured in the UK.

Improved quality

An increase in the quality and diversity of hardwood lumber products available is allowing Eastern European shippers to expand into a wider range of Western European markets. However, Eastern European shippers are still some way behind their American counterparts in terms of distribution networks. For example, U.K. buyers still have to wait several months for square stock from Eastern Europe.

Low U.S. lumber production

In response to slow market conditions, U.S. hardwood lumber production fell as much as 30% between 1999 and 2001 from around 14.5 billion board feet to 10.5 billion board feet. Production during 2002 did not increase noticeably and few have plans to increase production. At the same time, there has been an unsustainable rise in U.S. kiln drying capacity over recent years. The advent of automated controls has fuelled perception that kiln drying is “easy”, encouraging lumber producers to invest in kilning in an effort to capture more profit from their wood. The rise in kilning capacity has led to reduced availability of green lumber to traditional domestic markets and increased competition in the kiln dried market. At the end of 2002, some American operators were shutting down their kilns until market conditions improve.

► 6

US sawn lumber exports

Jan-Sept, 1000 m3

By destination country

Canada	700	725	4
Mexico	140	124	-12
EU	551	526	-5
Spain	140	135	-3
Italy	126	124	-2
UK	94	82	-14
Belgium	39	30	-25
Portugal	23	28	22
Germany	38	25	-33
Greater China	321	426	33
China	265	369	40
Taiwan	55	57	4
SE Asia	73	100	38
Thailand	36	51	42
Malaysia	19	28	47
Japan	79	74	-7
South Korea	23	31	36

By species

Red oak	423	412	-3
Canada	254	252	-1
China	49	47	-4
Mexico	38	38	-1
Taiwan	13	15	13
White oak	406	421	4
Spain	117	106	-9
Canada	59	68	16
UK	33	30	-11
China	16	21	34
Tulipwood	161	190	18
China	44	71	60
Italy	44	45	2
Mexico	27	26	-5
Japan	13	11	-20
Ash	99	123	24
Canada	27	36	31
China	15	25	68
UK	15	13	-15
Cherry	122	127	3
Canada	57	59	4
China	13	15	19
UK	9	7	-24
Hard maple	263	238	-10
Canada	158	155	-2
China	25	19	-24
Mexico	15	12	-19
UK	10	9	-11

Temperate hardwood sawn

Demand

EU sluggish

Overall EU demand for temperate hardwoods was sluggish during 2002. In addition to slowing consumption at home, Western European manufacturers were under increased pressure from Eastern Europe and Asian manufacturers. High stock levels of European hardwoods and rising availability of Eastern European hardwoods discouraged importers from building stocks of American hardwoods. By the end of the year, there were widespread reports throughout the EU that stock levels of American hardwoods were low and that the market in most countries had switched to just in time. Many importers had adopted a wait-and-see approach during a period of economic uncertainty. The weaker dollar during 2002 failed to give much of an impetus to European buying of American hardwood.

Germany particularly slow

The German market was particularly weak during 2002, undermined by slow activity in the furniture and construction sectors. German domestic hardwood mills were under intense financial pressure during the year and there were several high profile bankruptcies. As many European manufacturers in other parts of the continent rely heavily on exports to Germany, this contributed to market problems elsewhere.

The French sawmilling sector also suffered financial difficulties during 2002. Demand for French hardwood lumber was generally slow. In addition to weak export markets, the domestic construction and furniture sectors were sluggish.

UK and Irish stocks kept low

In the UK and Ireland, economic activity was reasonably steady during 2002, boosted by a strong residential housing sector, rising public investment and good consumer spending. However importers were maintaining low stocks of American hardwood lumber, encouraged by the perception of good availability from U.S. and continental European concentration yards. There were also signs of the emergence of direct competition between eastern European and American suppliers of square edged oak lumber in the UK during the year. In Italy, underlying consumption of temperate hardwoods remained reasonably stable, but there was intense competition between suppliers for sales.

Unlike other European markets, Spain is not just-in-time. Many importers are still speculative buyers of sawn lumber and were carrying relatively high inventories of temper-

ate hardwoods during 2002. Although Spain was more buoyant than other European markets during 2002, there were signs of emerging problems. The construction sector may be overheating. Industrial output is also migrating from Spain, particularly to Eastern Europe. Demand in Portugal was reasonable during 2002, but problems were also becoming apparent here. By the end of 2002, demand was being undermined by an economic slowdown, while competition between American and Eastern European suppliers was intensifying.

American ups and downs

After the economic downturn in 2001, the U.S. economy rebounded in the first quarter of 2002 as companies throughout the economy took steps to rebuild depleted inventories. However the upturn was short lived and economic growth flattened out again in the second quarter. The unveiling of huge corporate frauds in the second quarter rocked the U.S. financial sector and severely weakened stock values. These economic up and downs led to confusion and uncertainty for businesses, investors and consumers alike. More challenges may be ahead for the U.S. economy with the risk of war.

Good activity in some U.S. sectors

But in spite of sluggishness, the U.S. economy outperformed that of most other countries during 2002. Activity in several sectors important to the hardwood trade remained high. Strong residential construction activity during 2002 fed strong growth in demand for wood flooring and cabinets were performing particularly well during the year. Good activity in the strip flooring, crosstie and truck flooring markets created good sales of lower grade lumber. Sales of finished goods held up well in the U.S. during 2002. Although the U.S. furniture industry is still reducing manufacturing operations, the rate of consolidation and shut-downs slowed in 2002. Furthermore, the process of reducing lumber inventories caused by the economic slowdown was more-or-less complete by the end of 2001. Buying of hardwood lumber was generally more consistent during 2002 than the previous year.

Excess stocks of kiln dried in U.S.

Markets for kiln dried hardwood lumber continued to be adversely affected by over stocking during 2002. However concerns over future supplies meant that green lumber markets were becoming progressively more active during the course of the year. Some "traditionally" green lumber buyers

EU import trade Jan-Jun, value (000s euros)

	2001	2002	% chng
Beech sawn lumber			
By exporting nation			
BOSNIA & HERZ.	24775	23778	-4.0
CROATIA	20402	18882	-7.5
POLAND	14948	10489	-29.8
SLOVENIA	12185	12814	5.2
ROMANIA	8121	7354	-9.4
SLOVAKIA	11449	11410	-0.3
SERBIA & MONT.	7826	9388	20.0
HUNGARY	4703	3501	-25.6
SWITZERLAND	4243	3382	-20.3
UKRAINE	5015	4868	-2.9
OTHER	12134	9470	-22.0
TOTAL	125801	115336	-8.3
By importing nation			
ITALY	68274	62812	-8.0
GERMANY	14361	13073	-9.0
AUSTRIA	13365	11780	-11.9
SPAIN	6662	8123	21.9
OTHER	23139	19548	-15.5
TOTAL	125801	115336	-8.3
Oak sawn lumber			
By exporting nation			
U.S.A.	164616	139686	-15.1
CROATIA	24122	21352	-11.5
CANADA	16732	15250	-8.9
UKRAINE	12474	15667	25.6
HUNGARY	11540	11280	-2.3
POLAND	9177	11424	24.5
ROMANIA	8348	11216	34.4
LITHUANIA	5567	5538	-0.5
CZECH REPUBLIC	3620	2801	-22.6
OTHER	18409	20642	12.1
TOTAL	274605	254856	-7.2
By importing nation			
SPAIN	73043	62076	-15.0
ITALY	37530	39148	4.3
UK	36055	32605	-9.6
BELGIUM	22025	19961	-9.4
GERMANY	15651	16385	4.7
SWEDEN	17037	13661	-19.8
GREECE	9522	12072	26.8
FRANCE	14808	11953	-19.3
PORTUGAL	12829	11125	-13.3
OTHER	36105	35870	-0.7
TOTAL	274605	254856	-7.2
Other hardwood sawn lumber			
By exporting nation			
U.S.A.	142280	119974	-15.7
CANADA	64694	49521	-23.5
LATVIA	26032	26676	2.5
HUNGARY	18981	18383	-3.2
CROATIA	12761	11133	-12.8
LITHUANIA	13240	15151	14.4
RUSSIA	11573	8441	-27.1
ESTONIA	9813	9542	-2.8
POLAND	9600	8214	-14.4
ROMANIA	7950	11108	39.7
OTHER	40617	37471	-7.7
TOTAL	357541	315614	-11.7
By importing nation			
ITALY	114828	105314	-8.3
UK	47562	47165	-0.8
GERMANY	51789	43815	-15.4
SPAIN	16190	18221	12.5
AUSTRIA	16789	16100	-4.1
BELGIUM	14602	14702	0.7
FRANCE	21436	14579	-32.0
NETHERLANDS	23662	14507	-38.7
OTHER	50683	41211	-18.7
TOTAL	357541	315614	-11.7

Source: Eurostat, hardwoodmarkets.com

Temperate hardwood sawn

were even purchasing kiln dried stocks to buffer against supply shortfalls. However, despite signs of falling green lumber availability, most reports suggest that there were no indications of panic setting in, or of buyers simply trying to obtain volume. At the end of 2002, intense competition, tight margins and efforts to maintain cash flow, meant that most American hardwood trading companies were still keeping inventories low.

China bouyant

The main news from Asia during 2002 was the strength of demand for hardwood lumber in China. Unlike the rapid development of imports into Korea and Taiwan during the 1980s, which was directed to export-oriented manufacturing industries, much of the growth in China's hardwood lumber imports is directed towards the domestic market, notably for interior decoration.

U.S. exports of temperate hardwood lumber to China were up 40% in the first three quarters of 2002. Chinese manufacturers were buying large volumes of poplar, red oak and white oak, mostly in common grades of lumber. Demand for walnut has been in excess of supply.

Beech under pressure in China

While European beech benefitted strongly from the rise in China's domestic demand during the late 1990s and into 2000, signs that the Chinese fashion for beech may be waning were apparent in 2001 and 2002. Despite rapid growth in China's overall hardwood lumber imports, in the first 6 months of 2002 EU exports of beech sawn lumber to China/Hong Kong were valued at 58 million euros, almost exactly equivalent to the same period the previous year.

Competition for sales in China is very intense as producers from all areas of the globe have identified the potential for long term market growth in China. Chinese importers are becoming very critical of quality and can be very quick to make claims. Chinese importers are also switching progressively to logs to supply expanding domestic veneer and sawing capacity. Demand growth is expected to continue, so too is the level of competition.

Structural changes in Japan

The Japanese market for temperate hardwoods has had to adapt over recent years to major structural changes in the wood sector. Many manufacturers have shifted off-shore to lower cost locations in East Asia, notably China. Japan's imports of hardwood lumber have therefore been declining. In Korea, much of the traditional market for lumber amongst furniture manu-

facturers has also disappeared due to relocation of facilities to China. However, an important residential renovation market has now emerged following government measures to liberalise the housing market.

Vietnam shows promise

Several South East Asian markets were bouyant during 2002. For example, between January and Septmeber American hardwood lumber exports to Vietnam reached 21,863 m3, up from only 6,804 m3 during the same period in 2001. Labour costs in Vietnam are even lower than in China and there are now anecdotal reports of furniture factories closing in China itself to be relocated to Vietnam. American hardwood exports also rose strongly to Thailand, Malaysia, and Indonesia during the first nine months of 2002.

Price trends

Producer prices for all grades of European beech sawn lumber, but particularly the lower grades were tending to weaken during 2002 despite efforts to curtail production. Prices for medium and lower grades of European oak sawn lumber also came under pressure during the year. However prices for good quality oak remained reasonably stable, with some firming in prices for the best Croatian and Bosnian square edged stock.

Despite falling production, lumber prices in the United States were generally falling, or at best holding steady in 2001 and 2002. Due to excess kiln capacity, prices for kiln dried lumber have tended to be weaker than prices for green lumber. By the end of 2002, limited supplies were beginning to feed through into rising prices for green lumber.

To watch

- The shifting location of the furniture sector, which is driving a decline in EU, U.S., Japanese and Taiwanese demand and a rise in Eastern European, Chinese and South East Asian demand
- The apparent revival in interest in wood amongst architects and designers
- The continuing pressure on manufacturers of furniture and joinery products to cut costs could lead to further loss of market share for solid wood.
- The increased marketing efforts by European sawmillers.
- The availability of Eastern European supplies - will American suppliers suffer a permanent loss of market share in Europe?
- The increased demands for chain of custody amongst European policy makers which will come into conflict with free trading principles, particularly of American hardwood suppliers.

Plywood

Supply

Radical changes during 2002

The international hardwood plywood sector saw some radical changes during 2002. The sector began to move out of the high volume-low price rut it entered in the wake of the Asian crises towards higher and more stable prices based on more restricted production. A major factor was a sharp reduction in the availability of logs in Indonesia as government efforts to tighten forestry regulations and reduce illegal logging began to bite.

Falling Indonesian production

Annual production of Indonesian plywood is currently estimated to be in the region of 7 million m3, of which around 6.7 million to 6.8 million m3 are exported. However production and exports are now widely expected to fall sharply over the next few years. During 2002 the Indonesian plywood manufacturers Association, APKINDO, warned that new concession arrangements relating to log sizes could lead to the closure of 75% of plywood companies and the loss of 500,000 jobs. Available log supplies to Indonesian plywood mills could be reduced from 12 million m3 this year to around 6.8 million m3 in 2003.

However, while long term supply prospects seem poor, there were signs of a slight easing of the tight supply situation in the closing weeks of 2002 as logs were more readily available near the end of the Far Eastern logging season.

Problems in Malaysia and Brazil

Neither Malaysian or Brazilian suppliers have been inclined or well placed to fill the gap in supply that opened up as a result of falling Indonesian production during 2002. Malaysian suppliers suffered from a shortfall in log supplies during 2002. In Brazil, the weakness of the real on international exchange markets led to a significant increase in the costs of plywood production. At the same time, Brazil's weak domestic economy meant an increase in demand for out-going containers at a time when the volume of incoming containers had fallen dramatically. Despite some Brazilian plywood mills switching from softwood to hardwood plywood production during the year, these problems meant a sharp increase in shipment times from Brazil.

Expanding Chinese production

China's plywood manufacturing sector continued to expand during 2002, stimulated by privatization and inward investment. Over the last 5 years, plywood enterprises in Tai-



Plywood

wan, Hong Kong and Singapore have been relocating to mainland China to benefit from lower labour costs and the growth in Chinese demand. At the same time, China's fast growing plantations of poplar have begun to supply raw material for plywood manufacture. However the industry is still heavily dependent on log imports and has been importing large volumes of softwood logs from Russia and hardwood logs from Sarawak, Indonesia, Papua New Guinea, Gabon and Liberia. As a result Chinese plywood production has been increasing, imports have been falling, and exports have been rising. Chinese okoume faced plywood is being offered on international markets at relatively low prices. Despite questions raised over quality, Chinese manufacturers reported buoyant export demand for their products during 2002, with sales rising in several markets including U.K., U.S., Spain, Italy, the Netherlands, Greece, Germany and Japan.

Anti dumping measures

Rising availability of Chinese okoume-faced plywood in Europe created consternation amongst domestic manufacturers and encouraged the European plywood manufacturers' association to lobby the European Commission on possible anti-dumping measures.

Rising prices encouraged some European importers to look at the potential for replacing lauan plywood with Russian and Latvian birch plywood during 2002. Finnish birch plywood came under increased competitive pressure from new production plants in Latvia and Russia. Finnish producers have been responding by a shift to value-added production and targeted end uses. Log supplies were generally tightening in the major birch plywood producing countries during 2002.

Supply

Japanese demand slow

International demand for hardwood plywood was sluggish throughout 2002. Demand in the important Japanese market was hit by a slowdown in new house construc-

US imports of hardwood plywood Jan-Sept, value (000s US\$)

	2001	2002	% chng
Indonesia	140338	160622	14.5
Canada	134744	145969	8.3
Malaysia	69271	92603	33.7
Russia	72986	88023	20.6
China	32000	70652	120.8
Brazil	59945	65095	8.6
Other	60877	77018	26.5
Total	570161	699982	22.8

Source: USDA, FAS

EU import trade Jan-Jun, value (000s euros)

	2001	2002	% chng
Tropical plywood			
By exporting nation			
INDONESIA	149136	107284	-28.1
BRAZIL	55239	41354	-25.1
MALAYSIA	21483	16861	-21.5
GABON	5978	8370	40.0
IVORY COAST	6112	4047	-33.8
OTHER	37117	40989	10.4
TOTAL	275065	218905	-20.4
By importing nation			
UK	106571	65382	-38.6
BELGIUM	54848	45798	-16.5
GERMANY	32140	25219	-21.5
NETHERLANDS	21127	24683	16.8
OTHER	60379	57823	-4.2
TOTAL	275065	218905	-20.4

Other Hardwood Plywood

By exporting nation			
RUSSIA	49532	46965	-5.2
LATVIA	26842	24421	-9.0
CZECH REPUBLIC	10299	7568	-26.5
POLAND	9576	11082	15.7
BELARUS	5700	6540	14.7
SLOVAKIA	5273	3411	-35.3
OTHER	37012	40818	10.3
TOTAL	144234	140805	-2.4
By importing nation			
GERMANY	48986	47775	-2.5
ITALY	24574	30723	25.0
UK	19271	15183	-21.2
OTHER	51403	47124	-8.3
TOTAL	144234	140805	-2.4

Source: Eurostat, hardwoodmarkets.com

tion. The Japanese Forestry Agency forecast that total plywood consumption in Japan during 2002 would reach 7.57 million m³, down 0.26 million m³ compared to the previous year. The leading Japanese importers' trade associations estimate that plywood imports into Japan will be around 4.71 million m³ during 2002 and only 4.25 million m³ in 2003. This compares to levels of over 4.90 million m³ during 2000 and 2001.

Slow European imports

Imports of hardwood plywood into Western Europe were also sluggish during 2002. Eurostat data indicates that the value of EU imports of tropical and other hardwood plywood were down by 20% and 2% respectively during the first half of 2002. Slow imports into the EU during this period reflect sluggish economic conditions and limited forward availability. There was also an inventory correction as the large volumes of plywood imported into the EU during 2001 came at a time of relatively low consumption and led to over-stocking.

Rising U.S. imports

In contrast, the United States was importing a higher volume of hardwood plywood during 2002. Imports were up 23% in the first 9 months of the year compared to the previous year, with particularly strong

growth in imports from Indonesia, Malaysia, and China.

Price trends

Prices for Indonesian plywood increased sharply during the second and third quarters of 2002 from levels of INDO96 less 35%-30% to less 15%-10%. The price increase was driven by log shortages in the Far East, but was also encouraged by the weakening of the dollar against the Indonesian rupiah which undermined the earning capacity of Indonesian mills in their local currency. Brazilian plywood prices followed the upward trend during this period. However, by the end of November there were signs that a temporary improvement in log supplies in the Far East, coupled with sluggish demand, had led to a partial weakening in Far Eastern prices to around INDO96 less 17%-15%. Brazilian prices were also sliding at the end of the year in response to some excess stocking in the face of slow international demand and the weakness of the Brazilian currency.

Prices for Chinese okoume-faced plywood have been consistently around 10% to 15% lower than Indonesian prices during the year. Birch plywood prices have tended to rise during 2002 in response to tightening log supplies and rising log prices in the major supplying countries.

To watch

- Government efforts to control illegal logging could severely reduce Indonesian plywood production during 2003.
- Rising availability of cheap Chinese hardwood plywood - will it be sustained if supplies of cheap Indonesian logs decline sharply?
- UK government scrutiny of Indonesian plywood imports is set to increase following implementation of the UK-Indonesia Bilateral Agreement.
- Substitution trends are likely to intensify during 2003, particularly as prices for hardwood plywood are widely forecast to rise in 2003.
- However intensifying efforts by governments and trade associations in some importing nations to improve product quality standards - for example increased requirements for CE marking in the EU - may generate new opportunities for high quality certified plywoods.
- The loss of Brazil's GSP status for exports to Europe during 2003 may on the competitiveness of the Brazilian product in the European market.

Veneer

During 2002, a complex array of factors were driving massive changes in the veneer industry. Some factors are working against the industry, some for it, and some are neutral with regard to overall performance but are contributing to dramatic changes in the structure and geography of the industry.

Negative factors for veneer

■ Sluggish demand for veneer in the European Union, particularly Germany, and North America due both to the economic downturn and restructuring in the furniture and joinery sectors.

■ Furniture and joinery manufacturers' continuing efforts to cut costs and become more adaptable to changing fashions through increased use of artificial decorative surfaces such as LPM, HPL, and paper foils. In Europe this trend has progressed furthest in Northern and

German veneer trade Jan-Jun, volume 000 m3

	2001	2002	% chg
Imports			
Finland	1.0	5.3	450.6
France	4.2	3.9	-7.1
Italy	2.7	3.1	13.6
Austria	2.5	2.0	-21.3
Poland	4.4	6.3	44.2
Sweden	0.3	2.4	608.5
Switzerland	4.7	3.7	-21.3
Czech republic	3.1	3.8	21.4
Europe	35.8	42.3	18.3
Ivory Coast	17.5	11.8	-32.3
Ghana	4.0	4.3	8.0
Africa	23.2	17.6	-24.2
USA	19.7	13.6	-31.2
Canada	1.5	1.2	-15.7
N. America	21.2	14.8	-30.1
Asia	0.1	0.3	107.4
S. America	1.6	0.5	-70.2
Other	0.5	0.2	-49.2
World	82.4	75.8	-8.1

Exports			
Italy	6.9	5.9	-14.4
Poland	4.6	4.6	-0.2
Czech republic	4.3	3.7	-14.0
Hungary	6.0	1.9	-68.6
Romania	1.4	2.3	64.0
Austria	1.8	1.9	3.4
Norway	1.8	1.9	7.9
Netherlands	3.5	2.5	-27.2
UK	2.7	1.7	-36.7
Greece	1.4	2.0	45.0
France	2.2	1.7	-22.0
Denmark	5.1	2.4	-51.9
Belgium	2.5	1.2	-50.7
Europe	57.0	44.6	-21.7
Africa	0.7	0.8	11.0
N. America	2.2	2.3	2.0
China	0.5	1.7	228.7
South Korea	1.2	1.3	6.1
Asia	5.7	7.5	31.2
Other	1.0	1.0	-5.2
World	66.7	56.1	-15.8

Source: BD-Holz

U.S. veneer exports January to September, mill m2

	2001	2002	% chng
World	218	238	9.4
Canada	69	77	11.3
EJ	93	81	-13.2
SE Asia	8	8	9.4
Greater China	23	40	72.3
Japan	2	2	0.6
Mexico	5	9	61.3

Central European countries, but the pressure on suppliers to shift to non-wood alternatives was also rising in southern Europe during 2002.

■ Severe overstocking in Western Europe, particularly beech veneer. This contributed to the decommissioning of 24 slicing machines in central Europe during 2002.

Positive factors for veneer

■ The continued preference for real wood veneer in some countries (for example in southern Europe) and signs of reviving interest in real wood amongst architects, designers and consumers in parts of northern and central Europe. For example, in the UK a major industry marketing effort ("wood for good." campaign) has highlighted the advantages of real wood.

■ Strong growth in demand from certain sectors that rely heavily on veneers, notably flooring.

■ The globalisation of the wood industry, which tends to benefit the sector since veneer can be transported cost-effectively over long distances. Freight rates can be as low as 3% of total hardwood veneer value.

■ Increased environmental concern coupled with constraints on forest harvesting in many parts of the world. The use of veneer over a wood panels substrate is a very efficient use of forest resources.

"Neutral" factors driving change

■ The rapid shift in the location of furniture and joinery manufacturing facilities from high cost locations (notably North America, Western Europe, Japan, and Taiwan) to low cost locations (notably Eastern Europe, China, and South East Asia). This has probably been the major factor undermining the comparative advantage of Germany as a veneer manufacturing centre. High production costs in Germany coupled with weak domestic demand, has led to the relocation of numerous sliced veneer plants to Eastern Europe, notably Poland, the Czech Republic and Hungary, over

the last 2 years.

■ Efforts by tropical developing countries to restrict log exports and increase domestic processing of wood products. This continues to encourage the establishment of rotary and sliced veneer processing plants in some tropical countries.

Trade trends

The impact of these various factors is apparent from the trade data shown on these pages. Germany has been for many years the centre of the international sliced veneer trade, but during 2002 both import and export levels were declining. Imports from Poland and the Czech Republic were rising strongly.

Meanwhile overall EU imports of veneer from tropical countries remained reasonably stable during 2002 despite lower overall consumption - a result of inward investment in processing capacity in the tropics.

Exports of veneer from the United States were tending to rise during 2002, notably to Canada, China and Mexico. However the rate of increase was not sufficient to compensate for loss of veneer markets at home due to the out-migration of U.S. furniture plants.

EU import trade Jan-Jun, value (000s euros)

	2001	2002	% chng
Tropical Veneers			
By exporting nation			
IVORY COAST	30154	25742	-14.6
GHANA	21252	21151	-0.5
CAMEROON	12668	12754	0.7
GABON	14509	21605	48.9
BRAZIL	6894	4770	-30.8
THAILAND	5673	5096	-10.2
OTHER	17709	16503	-6.8
TOTAL	108859	107621	-1.1
By importing nation			
ITALY	36089	36054	-0.1
FRANCE	17359	23491	35.3
SPAIN	17847	16610	-6.9
GERMANY	13025	12709	-2.4
OTHER	24539	18757	-23.6
TOTAL	108859	107621	-1.1

Other hardwood veneers

By exporting nation			
U.S.A.	120227	93853	-21.9
SWITZERLAND	13375	9219	-31.1
CANADA	12389	9070	-26.8
CROATIA	13880	11558	-16.7
SLOVENIA	13954	15751	12.9
HUNGARY	9241	8827	-4.5
OTHER	43922	52063	18.5
TOTAL	226988	200341	-11.7
By importing nation			
GERMANY	85283	67895	-20.4
ITALY	39666	39635	-0.1
SPAIN	33952	35746	5.3
AUSTRIA	13908	14434	3.8
OTHER	54179	42631	-21.3
TOTAL	226988	200341	-11.7

Source: Eurostat, hardwoodmarkets.com

Wood furniture

The global location of furniture manufacturing facilities has been undergoing major change over recent years. International trade in furniture has liberalized, thereby increasing the import component of consumption, and this has created more export opportunities for low cost manufacturing countries.

Furniture manufacturing capacity has been expanding rapidly in Eastern Europe, China, South East Asia and parts of Latin America. All this new capacity has come at time when the pace of growth in global furniture consumption has slowed, leading to intensely competitive market conditions.

World trade peaks in 2000

World trade in wooden household furniture and parts was measured by the International Trade Centre at \$32.1 billion in 2001, compared to \$26.0 billion in 1997 (imports at current values). World trade peaked in 2000 at \$33.0 billion, but then deteriorated along with the slowdown of the major economies. World trade is fairly concentrated, as the top-eight importers accounted for \$24 billion of trade, or 75% of the world total in 2001. The United States was by far the biggest market, with imports just below \$10.7 billion in 2001, followed by Germany (\$3.3 bill.), France (\$2.6 bill.), the UK (\$2.3 bill.) and Japan (\$1.9 bill.).

Pressure on EU manufacturers

Latest EU trade data highlights the pressure on the Western European furniture manufacturing sector. During the first 6 months of 2002, EU imports of wooden furniture increased by nearly 6%, with particularly strong growth in imports from Poland,

EU wood furniture export trade Jan-Jun, value (000s euros)

	2001	2002	% chng
By exporting nation (includes intra EC trade)			
ITALY	2791790	2768068	-0.8
GERMANY	921915	892975	-3.1
DENMARK	761917	735488	-3.5
BELGIUM	568217	547746	-3.6
FRANCE	505171	479060	-5.2
SWEDEN	443638	430198	-3.0
SPAIN	384050	346345	-9.8
UK	348669	324448	-6.9
OTHER EU	644648	669371	3.8
TOTAL	7370015	7193699	-2.4
By importing nation			
WITHIN EU	4652413	4509494	-3.1
GERMANY	1189921	1046598	-12.0
FRANCE	856020	809342	-5.5
UK	671839	791630	17.8
NETHERLANDS	523231	49750	-90.5
OUTSIDE EU	2717602	2684205	-1.2
USA	853548	850290	-0.4
SWITZERLAND	406783	390005	-4.1
TOTAL	7370015	7193699	-2.4

Romania and China. Meanwhile EU exports of wood furniture to non-EU countries declined by 1.2%. Domestic furniture sales were also slow in many European markets during the year, most notably in Germany. But despite rising import penetration, the EU remains a major producer and exporter of furniture. According to the International Trade Centre, in 2001 the European Union was responsible for one half of world furniture output (\$73.6 billion). The EU still hosts the world's leading exporters (Italy and Germany).

Of all Eastern European countries, Poland's furniture sector has seen the most dramatic growth. In the past two decades the industry has been transformed from a focus on low quality, mainly pine, furniture for the domestic and Soviet Russian markets, to an exporter of high quality, often hardwood, furniture.

Impact of imports into the U.S.

The estimated apparent consumption of all furniture (at trade prices) in the USA was \$64.1 billion in 2001. Half of that (\$23 bill.) was made up of domestic factory shipments. However the impact of rising imports has been felt strongly in the United States. Between 1991 and 2001, the dollar value of imported furniture increased by 250%, while the value of domestic shipments increased by only 49%. Total US imports of wooden furniture climbed to \$10.67 billion in 2001, or 79% higher than 1997. Increasingly, the U.S. domestic furniture industry is being forced to concentrate on high-end production and customized service.

Growth in China

China was the major beneficiary of the rise in U.S. imports. China's share of the US imports of wooden furniture and parts went up from 15% to 27% during 1997-2001, and the end is not in sight. Not only has the Chinese furniture industry capitalized on abundant cheap labour, but with recent government measures to liberalise the economy, it has also benefited from significant inward investment by Taiwanese, Japanese, American and European furniture companies. Furniture is now one of the fastest growing export sectors in China. The Chinese figures on all types and materials of furniture give a production level of \$14.5 billion, with net exports of \$3.8 billion and apparent consumption at around \$10.7 billion. Imports are still negligible.

However such is the dynamism of the international furniture sector that, during 2002, there were reports of furniture manufacturers shifting out of China into Vietnam, where costs are even lower.

EU import trade Jan-Jun, value (000s euros)

	2001	2002	% chng
Wooden furniture			
By exporting nation			
POLAND	735116	825928	12.4
INDONESIA	335714	306379	-8.7
ROMANIA	225616	243934	8.1
CHINA	186963	251726	34.6
CZECH REPUBLIC	133045	125392	-5.8
MALAYSIA	109266	115641	5.8
BRAZIL	104237	103889	-0.3
SWITZERLAND	90331	78649	-12.9
OTHER	1099583	1140604	3.7
TOTAL	3019871	3192142	5.7
By importing nation			
GERMANY	1041781	1079186	3.6
UK	561214	672550	19.8
FRANCE	334728	337233	0.7
NETHERLANDS	251212	241367	-3.9
ITALY	152366	161361	5.9
SWEDEN	143242	151558	5.8
DENMARK	133637	135422	1.3
BELGIUM	133875	131517	-1.8
OTHER	266774	281948	5.7
TOTAL	3018829	3192142	5.7

Source: Eurostat, hardwoodmarkets.com

Shifting fashions

The European furniture shows during 2002 highlighted the continuing fashion for white oak both for traditional and contemporary product lines. Popularity of this species has been boosted by European producers marketing efforts which have focused heavily on oak. Cherry and maple have also remained popular throughout Europe. There were some signs of declining interest in beech, although it still holds its own for some products, notably chairs and table. Birch is now widely used in Europe, particularly for furniture sold through large retailing firms like IKEA.

There has been a strong trend in European design towards mixing of materials, for example wood combined with metal, or with plastic in metallic finish. Following on from this theme, different varieties of wood species or light and dark wood finishes were often seen in combination. The European shows indicated that traditional designs were on the wane. This, for technical reasons, is resulting in greater use of veneer rather than solid hardwood.

Tropical woods out of favour

Tropical hardwoods still seem to be out of fashion in the European furniture sector, with the exception of wenge as a contrast wood, and teak. Rubberwood, which made major inroads at the lower end of the market in the late 1990s, seems to have lost some of its appeal. Intense competition in the lower end furniture sector is leading some Asian manufacturers to switch from rubberwood to higher value temperate species from the USA and Europe.

Certification and sustainable forestry

International forest policy debate during 2002 was dominated by the "illegal logging issue".

In part this reflects the "back to basics" strategy of environmental groups like Greenpeace, that have re-oriented campaigns to focus more on illegal logging, particularly in tropical countries. At the same time, political processes have played an important role. The G8 Forest Action Plan agreed in 1998 made specific reference to problems caused by illegal logging and led on to the Forest Law Enforcement and Governance (FLEG) process kick-started in Bali in September 2001. The FLEG process was instrumental in encouraging Indonesia, a country where illegal logging has been endemic, to enter into co-operative agreements to tackle the problem with major trading partners. The first agreement signed with the U.K. government in April 2002 was followed by agreements with China and Malaysia during the summer months.

Timber procurement

Political interest in illegal logging meant that timber procurement policy and practice became a hot issue in timber importing countries during 2002. By the end of 2002, a conflict had emerged between forest industry and green groups on how best to tackle the problem. Drawing on their own inflammatory reports which suggested that illegal trade is endemic throughout the international wood products, environmentalists were pressurising importing governments, particularly in the EU, to implement far-reaching prescriptive measures to monitor and control the timber trade. Industry bodies were pushing for more thorough objective research into the scale and nature of the problem, and emphasising the need to focus on capacity building in producer countries and on multi-lateral solutions.

Independent legal verification

Meanwhile, the focus on illegal logging encouraged interest in procedures to independently verify compliance with forestry laws, rather than certification to full sustainability which is often unrealistic. Independent legal verification formed the cornerstone of the draft joint action plan agreed between the UK and Indonesian governments in 2002. Similarly, at their meeting in November, ITTO published a preliminary report on the prospects for the development of a "phased approach" to forest certification in the tropics. The first phase would be independent verification of legality. As the supply and demand for certified wood

has grown only slowly and sporadically, there is now wider recognition of the limitations of forest certification. During 2002, ITTO published a series of reports on certification drawing attention to the impediments of forest certification in the tropics, and the limitations of certification as a tool to prevent serious forest degradation. ITTO re-emphasised the importance of cross-sectoral approaches to forest problems and the priority that should be attached to poverty alleviation.

Earth Summit

For these reasons, and despite widespread criticism from environmental groups, the Johannesburg World Summit on Sustainable Development (WSSD) may ultimately be good news for tropical forests. Instead of focusing on a few headline-grabbing issues, the summit focused on poverty, considered well-known problems, and sought to find practical ways to solve them. Johannesburg was characterised by a useful emphasis on private sector involvement. Two major forest initiatives were also launched. The U.S. government, with public and private partners, announced the Congo Basin Forest Partnership, while the Japanese government launched the Asia Forest Partnership.

Another potentially significant development at the WSSD was the announcement by Canada and Russia that they both intended to ratify the Kyoto Protocol on climate change before the end of 2002. This gave the Protocol sufficient support to become operational, opening the door to an international carbon credit trading system which may generate significant new financing for plantation establishment.

Prospects for new tropical forestry finance also received a major boost at the end of 2002 when the World Bank finally approved their new forest strategy. In a change from the previous policy, which had only allowed support for totally protected areas in the tropics, sustainable forest management projects in natural tropical forest became eligible for financing. All forest projects receiving Bank support will have to agree an action plan for eventual certification.

PEFC expands rapidly

In terms of forest area and reach, the balance in forest certification schemes shifted away from FSC towards PEFC during 2002. The PEFC Council General Assembly meeting in November saw the acceptance into the PEFC family of eight more national certification schemes. Schemes from Australia, Brazil, Chile, Estonia, Lithuania, Luxem-

bourg, Malaysia, and the Slovak Republic joined the nineteen existing PEFC schemes from Europe and North America. The PEFC Council also endorsed a revised and strengthened set of procedures, providing a better foundation for further expansion. PEFC certified forest area had reached 46.1 million hectares by the end of 2002. There was rapid expansion in the number of PEFC chain of custody certificates issued during 2002. PEFC has now issued over 420 of these certificates, up from only 126 certificates in July 2002. Most of this growth was in Austria, Germany, Finland and France.

SFI leads in North America

In terms of area, The Sustainable Forestry Initiative (SFI) Program has emerged as the leading forest certification scheme in North America. By summer 2002, 149 companies and organisations had complied with SFI requirements and all major forest products companies in the U.S., representing 90% of all industry-owned forests, were committed to the SFI program. 24.3 million hectares of forestland had undergone SFI certification and certification of 10.9 million hectares was pending. SFI announced that the groundwork had been completed for the launch of an on-product labelling program.

Soul searching by FSC

Despite the growth of PEFC and SFI, the Forest Stewardship Council (FSC) remained the leading supplier of certified wood products to international markets during 2002. By the end of the year, FSC had issued nearly 3000 chain of custody certificates and the area of FSC certified forest had increased to over 30 million hectares. Major recent gains were in Croatia, Latvia, Estonia, the U.S., Canada, and New Zealand.

Nevertheless, the emergence of PEFC and the SFI Program, coupled with a lack of sustained finance, encouraged much soul searching within FSC during 2002. FSC have been seeking to adopt a more business like approach. At the FSC General Assembly in November, the pragmatic views of industrial and trading interests came through more forcibly than the ideals of environmental groups. For example FSC agreed motions to increase the representation of economic interests on the FSC Board and to review the percentage-based claims policy in an effort to encourage greater industry participation. However this approach led to an environmentalist backlash, most notably in the form of a wide-ranging critique of the FSC published in November 2002 by the Rainforest Foundation.

Declining tropical log supply

Availability in international markets of good quality tropical logs was tending to decline during 2002 due to increased controls on exploitation and on exports from several tropical countries. This reflects growing international concern for illegal logging; tightening government regulations; continuing efforts by producer countries to add value prior to export; and the fact that resource limits are now being reached in several countries. China's domination of the international tropical log market was maintained during 2002, although due to more limited supplies and slower global demand, the pace of increase in imports was considerably slower than in 2001. Imports of tropical hardwood logs into the EU and Japan continued to decline during 2002. **Page 2**

Restricted availability of tropical sawn lumber

Malaysian shippers started the year 2002 with very low stocks of hardwood lumber. Production remained low throughout the year due to rising log costs and slow international demand. Resource constraints meant a particularly sharp fall in Sabah sawn lumber production. African sawn lumber production was also slow throughout much of 2002 due to restricted log availability and political problems in some countries. In South America, IBAMA's ban on the trade in Brazilian mahogany remained in place throughout the year. However a wide range of other Amazonian hardwood species - such as jatoba, tauri and curapixia - were readily available to international markets during 2002, particularly as Brazilian domestic demand cooled. **Page 3**

Subdued demand for tropical wood

Europe's demand for tropical sawn was subdued during 2002, undermined by uncertain economic conditions. Despite the economic slowdown in the U.S., overall demand for tropical hardwoods remained reasonably stable there during 2002. China continued to be the largest national market for tropical sawn lumber during 2002. Chinese demand remained strong during the year, mainly for furniture, joinery, and flooring. **Page 3**

China absorbs better quality logs

In Western Europe, supplies of low and medium quality beech and oak logs have been in excess of demand ever since the December 1999 storms. Weak Chinese demand added to overstocking in these grades of beech during 2002. Supplies of higher grade beech and oak logs in Western Europe were better balanced with demand. Hardwood harvest levels in North America were tending to decline during 2002. EU imports of American hardwood logs fell during 2002. Sawmillers and veneer manufacturers in Europe and North America have become increasingly concerned about rising levels of export of high quality logs, particularly to China. **Pages 4-5**

European hardwoods overstocked

Despite efforts by producers to curtail production, the market for European beech sawn lumber suffered from overstocking throughout 2002. Problems in the beech market began to spill over into other species during 2002. By the end of the year there were concerns over high and rising stocks of Western European oak sawn lumber, particularly lower and medium grades. Meanwhile anecdotal reports indicate that availability of good quality hardwood sawn lumber from Eastern Europe continued to improve during 2002. **Pages 5-6**

U.S. lumber production remains low

In response to slow market conditions, U.S. hardwood lumber production fell by 30% between 1999 and 2001 from around 14.5 billion board feet to 10.5 billion board feet. Production during 2002 did not increase noticeably and few have plans to increase production. The international market for American hardwood lumber was extremely competitive during 2002. Sales to the EU and Japan were weakening, but sales to China and SE Asia were rising. **Pages 5-6**

Plywood sector transformed

The international hardwood plywood sector saw some radical changes during 2002. The sector began to move out of the high volume-low price rut it entered in the wake

of the Asian crises towards higher and more stable prices based on more restricted production. A major factor was a sharp reduction in the availability of logs in Indonesia as government efforts to tighten forestry regulations and reduce illegal logging began to bite. **Pages 7-8**

Big changes in veneer industry

During 2002, a complex array of factors were driving massive changes in the veneer industry. Twenty four slicing machines were shut down in Central Europe during the year. Key issues were rising material and labour costs in the EU; depressed demand in major market sectors of construction and furniture; and a shift in manufacturing location from Western to Eastern Europe. **Page 9**

Furniture trade liberalised

The global location of furniture manufacturing facilities has been undergoing major change over recent years. International trade in furniture has liberalized, thereby increasing the import component of consumption, and this has created more export opportunities for low cost manufacturing countries. Major beneficiaries of these trends have been China and Poland. **Page 10**

Illegal logging dominates forest policy debate

International forest policy debate during 2002 was dominated by the "illegal logging issue". Political interest in illegal logging meant that timber procurement policy and practice became a hot topic in timber importing countries. The focus on illegal logging encouraged interest in procedures to independently verify compliance with forestry laws, rather than certification to full sustainability which is often unrealistic. The Johannesburg "Earth Summit" had a useful focus on poverty and partnership. The ratification of the Kyoto Protocol and a change in World Bank policy should allow diversion of new funds for forestry. Meanwhile, in terms of forest area, the balance in forest certification schemes has shifted away from FSC towards PEFC. **Page 11**