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## Japan: pain brings change

The economic news from Japan has been universally poor over recent weeks. GDP contracted by 0.8% in the first quarter compared with the previous quarter at an annual rate. Another quarter of negative growth would, according to the standard definition, mean another recession. The contraction occurred despite a further bout of public spending. Retail sales in large stores fell by 3.2% in May, the 37th consecutive monthly fall. Housing starts in April were down 7.2% on the same month of the previous year. Applications for new house building loans remain depressed. Demand for building materials is very slow, aggravated at present by Japan's rainy season. Meanwhile the importing trade is having to struggle against the continuing weakness of the yen which fell again against the dollar in June.

Weak market conditions, coupled with major changes on the supply side, are contributing to a transformation in the structure of Japan's hardwood importing trade. In response to tight supplies, the leading producers of Southsea logs have been trying to push through FOB price increases, but the Japanese market has been unable to absorb these. Japan's plywood manufacturers, a major source of demand for tropical logs, have been progressively switching to lower cost and more widely available softwood logs. Initially the switch was to Russian raw material, but now, in anticipation of

rising prices for Russian larch, manufacturers are trying to replace a part of this material with radiata pine from New Zealand. Meanwhile, the volume of Japan's tropical log imports, which fell 11% during 2000, continued to fall during the first quarter of this year.

Japanese manufacturers of wood products are coming under intense pressure from importers. Indonesian, Malaysian and, more recently, Chinese producers of lumber and plywood have been able to undercut Japanese mills. Japan's plywood imports registered 452,000 cubic meters in April, 17% up on the same month the previous year, and the eighth straight month when the previous year's figures were exceeded. By contrast domestic production of ordinary plywood fell by 6.2% in April, the 12th straight month of decline.

Similar trends are apparent in the furniture sector. The value of Japan's furniture imports shot up 17% during 2000 compared with the previous year to 329 billion yen. The biggest mover was wooden furniture which grew nearly 20% and accounted for about half the total imports. It is also significant that after eight years of domination by Taiwanese exporters, China took over as the number one supplier, mainly from China's new high tech and low cost factories financed by foreign investors. However other ASEAN and European exporters also made

*Continued page 5*

		Volume of Japan Tropical Log Imports (000s m3)						
		Source: Japan Lumber Journal						
		Total Southsea	Sabah	Sarawak	Indonesia	Sol. Is	PNG	Total Africa
1997	Year	5233	57	2824		374	1965	666
1998	Year	3192	130	1976	31	172	877	153
1999	Year	3404	201	2013	59	153	966	202
2000	Year	3034	142	2029	36	79	745	231
2000	1st qtr	779	64	462	8	20	225	67
2001	1st qtr	589	16	399	9	14	149	88

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## Editorial

### Low demand and tightening supply

A quick glance at the economic statistics should be enough to convince even the most optimistic observer that the hardwood industry is in for a bumpy ride during the second half of 2001. America's economic growth seems to have fallen close to zero in the second quarter and this has led to slumping hardwood sales. Hardwood demand in Japan has been subdued now for some considerable time and is likely to remain so. Japan, it appears, has already slipped into another recession. Although the economies of the euro area are still growing, the pace of growth has slowed more sharply than expected. Meanwhile manufacturers of finished hardwood products in all these regions are coming under intense pressure from rising levels of import.

Against this background of slowing demand, it is remarkable that analysts are already predicting hardwood shortages in some parts of the world later in the year. In a recent Editorial, the US journal Weekly Hardwood Review suggests "*all signs point to supply shortages within the next 12 months*". The Editorial claims that "*this year alone curtailments and closures will drop [US] production 24% below 2000 levels, to about 10.7 billion board feet, the lowest level in the past 10 years*". It goes on to note "*the new willingness on the part of [US] sawmill owners to reduce or stop production rather than operate at a loss.*" Weekly Hardwood Review is focused on the United States and their analysis refers primarily to shortfalls for the US domestic industry. But because the US is the world's largest single market, producer and exporter of hardwood sawn lumber, these comments have global relevance.

And reports of falling production are emerging in other major supplying countries. Within the EU, while there are still large stocks of steamed storm-felled beech, production of new-season "white" beech has been much reduced this year following the decision of the French public authorities not to harvest undamaged stems. In the tropics, production trends have been downward for some time. Figures recently released by ITTO show that between 1997 and 2000 production of tropical logs in ITTO producer countries declined from 127 million m<sup>3</sup> in 1997 to 111 million m<sup>3</sup>, while sawn lumber production fell from 36.0 million m<sup>3</sup> to 32.9 million m<sup>3</sup>. Tropical production fell last year despite globally buoyant demand and an expansion in the international hardwood trade.

Anecdotal evidence suggests that production of tropical logs and lumber may have fallen even more dramatically this year. Throughout many of the major tropical exporting countries there are reports that inventory levels are considerably lower than usual for the time of year. In South East Asia, log supplies are restricted and Malaysian millers have curtailed production in response to falling demand. China is now much more dependent on imports as domestic resources have been reduced. In Africa, three of the major producing countries - Cameroon, Ghana and Ivory Coast - are being forced to restrict harvesting as government controls have tightened. Large parts of the Congo basin are still off-limits due to conflict. In South America, while production of many of the lower value species may be in excess of demand this year, there are major restrictions on production of mahogany, the most valuable of all Amazonian hardwoods.

So while the economic data suggests that the second half of 2001 may be characterised by relatively subdued global demand for hardwoods, the production data indicates that this may be matched by relatively low levels of supply. Looking further ahead, many analysts are optimistic that the global economic downturn, while sharp, may be relatively short-lived. Continuing consumer confidence in the US, coupled with interest rate and tax cuts, have raised hopes that the US economy will recover during 2002. This in turn may boost confidence in Europe and Asia. So while many hardwood traders have been affected by slow demand and high inventories in the first half of 2001, market conditions may be reversed by the beginning of next year. There may be shortfalls in supply as demand begins to rise. This would feed through into price adjustments, and may add impetus to the search for alternative sources of hardwood supply. A major beneficiary may be Eastern Europe - one of the few regions of the world where hardwood lumber production has been increasing.

Rupert Oliver  
Editor

# Africa

## Market report

### Heavy rain hits production

Producing regions in West and Central Africa north of the equator are now experiencing heavy rains. As usual at this time of year, many mills are shutting down operations for maintenance work and vacations. European forward demand for African hardwoods is subdued as importers are still working through stocks built up earlier in the year and as the holiday season beckons. Worsening economic conditions in the Far East have led to slower buying there. However there are reports of reasonable forward demand for African hardwoods in the UK during May and June. Although there is talk of lower prices for certain species as demand has weakened, stocks in Africa are restricted for the time of year and many exporters have been unwilling to reduce prices to boost sales.

■ **Sapele:** forward demand from continental European importers slowed during the second quarter of the year following heavy arrivals in the first quarter and mounting economic uncertainty. Wide availability of low priced Malaysian meranti in northern Europe may also be reducing demand for sapele, although some agents argue that meranti and sapele now occupy different market niches and there is less direct competition. With vacations on the horizon, no significant pick-up in demand is now expected until August at the earliest.

### African Sawn Indicative Prices

	Apr	May	Jun
Exchange rates			
Fr./£	10.56	10.88	10.92
<b>Cameroon, CAR, Congo (Braz.)</b>			
Fr. Francs/m <sup>3</sup> , FOB			
Grade and size: FAS, air dried, width 6"+, length 6'+			
<b>Sapele</b>	3450	3400	3500
<b>Sipo</b>	4400	4400	4400
<b>Bibolo</b>	2600	2600	2600
<b>N'Gollon</b>	3500	3500	3500
<b>Afromosia</b>	5600	5600	5600
<b>Iroko</b>	3650	3600	3600
<b>Cote d'Ivoire</b>			
Fr. Francs/m <sup>3</sup> ; FOB Abidjan			
Grade: FAS, air dried			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
<b>Iroko</b>	3450	3450	3450
<b>Mahogany</b>	2750	2750	2750
<b>Framire</b>	2150	2150	2150
<b>Samba No.1 C&amp;S</b>	1540	1540	1540
Dimension stock			
<b>Azobe</b>	2600/	2600/	2600/
	3000	3000	3000
<b>Dabema</b>	1950/	1950/	1950/
	2550	2550	2550
<b>Gabon</b>			
Fr. Francs/m <sup>3</sup> , FOB			
Grade and size: FAS, width 6"+, length 6'+			
<b>Okoume AD</b>	2250	2250	2250
<b>Okoume KD</b>	2500	2500	2500

However European agents report that stocks in Africa are very low for the time of year due to resource constraints in West Africa and the imposition of tighter logging controls in Cameroon. Prices therefore remain firm.

■ **Iroko:** the crucial Irish market still has reasonable stocks after heavy arrivals early this year, and underlying demand has been undermined as economic growth has fallen from the heights of last year. There are stocks of iroko on offer and available for shipment from Ghana and Ivory Coast, but shippers are resisting lower prices.

■ **Wawa:** demand for Ghanaian wawa is good, with the relatively restricted volumes available reported to be oversold. The ongoing dispute between industry and government in Ghana over export duties has meant that contracts are running late. Prices are stable for the time being at around £225-230/m<sup>3</sup> inclusive of agents commission for kiln dried delivered to the yard in the UK. Price rises of perhaps £5 to £10/m<sup>3</sup> are anticipated later in the year due to implementation of the new export duty.

## Country notes

■ **Cameroon:** as usual, many companies' logging allocations ran out by the end of April. New logging quotas officially begin on 1 August. In past years, the authorities have allowed some use of next season's quota during June and July. This year the Cameroon authorities have withheld allocation until the official start of the logging season, so mills are being deprived of logs over the two month period. This factor, added to tighter logging controls and the recent arrival of heavy rain, has meant that supplies in Cameroon are limited for the time of year and contracts are running late.

■ **Ghana:** availability of supply is now very restricted and may remain so. It now seems likely that the extra export duty on lumber and veneers will be imposed, although the rates are undecided. At present there is talk of a 10% duty on lumber, a 3% duty on sliced and rotary veneer, and a 1% duty on mouldings. The duty would be in addition to all existing taxes. The duty on lumber is expected to be implemented retrospectively to apply from mid April. The duty on other products is expected to apply from 1 July.

■ **Gabon:** Export data for the year 2000 indicates that Gabon recovered from the serious problems experienced during the previous year. Log exports were up around 9%, much of this resulting from an increase in exports of okoumé (up over 6%). More

African logs indicative prices			
	Apr	May	June
Exchange rates			
Fr./£	10.56	10.88	10.92
<b>CAR &amp; Congo (Brazzaville)</b>			
Fr. Francs/m <sup>3</sup> ; FOB Douala			
Grade: B+ & better (good UK sawing quality)			
All diameters in cm			
<b>N'gollon</b>			
70+ (20% 60-69)	1500	1500	na
<b>Bosse 60+</b>	1650	1650	na
<b>Ayous 70+</b>	1200	1200	na
<b>Sapele</b>			
80+ (20% 70-79)	1950	1950	na
<b>Sipo</b>			
80+ (20% 70-79)	2500	2500	na
<b>Gabon</b>			
Fr. Francs/m <sup>3</sup> ; FOB Douala			
Grade: B+ & better (good UK sawing quality)			
All diameters in cm			
<b>Acajou</b>			
70+ (20% 60-69)	1200	1200	na
<b>Sipo</b>			
70-79 (10% 60-69)	2100	2100	na
80-99cm	2450	2450	na
<b>Liberia</b>			
US\$/m <sup>3</sup> , FOB Liberia			
Grade: B+ & better (good UK sawing quality)			
All diameters 60 cm+			
<b>A. mahogany</b>	200	200	190
<b>Walnut</b>	200	200	190
<b>Iroko</b>	280	280	270
<b>Kusia (Opepe)</b>	130	130	120

than half of all Gabon's log exports went to Asia, with China now the number one importer. Gabon continues to expand the range of species exported: over 50 were exported last year.

■ **Liberia:** Liberian log prices quoted in dollars have been reduced to reflect the continuing strength of the dollar. A Liberian Forest Development Authority publication is reported as showing a record income of US \$20 million derived from logging in the first half of this year. Liberian officials suggest the real figure may be even higher. Liberia's Minister of Agriculture is quoted by international press agencies as suggesting that logging is now so widespread in Liberia that it is contributing to altered weather patterns and severe flooding which has affected several towns and villages over recent weeks.

■ **Congo Basin:** the International Tropical Timber Council agreed at their 30th Session held in Cameroon in May to send a mission to the five Congo Basin countries to strengthen sustainable forest management and forest protection. The Council also approved projects worth about US\$2 million to support forest management and conservation in Congo Basin countries, with the immediate release of about US\$1 million in funding. The Congo Basin comprises Cameroon, Congo-Brazzaville, Congo-Kumasi, Gabon, and the Central African Republic.

## SE Asian sawn lumber European stocks linger on

Trading conditions for South East Asian lumber producers remain very difficult. Forward demand in Europe is restricted and continues to be hampered by the strength of the dollar against the euro. There also continue to be reports of high stocks in continental Europe, notably in the Netherlands, the leading market for Malaysian dark red meranti and seraya. These stocks were built up during the course of last year when large quantities of wood from the Indonesian island of Sumatra were shipped over to Peninsular Malaysia for kilning and re-export at relatively low prices to Europe.

### Dutch wait for better prices

There are some reports that Dutch importers are holding onto a significant proportion of this stock in the hope that prices on the ground in Europe will rise later this year. A number of leading Dutch importers will be visiting major Malaysian suppliers during the course of the European summer to get a clearer idea of the forward supply situation. There are reports that forward demand in the UK may have picked up a little in recent weeks as stocks have been reduced during the long period when importers were shy of

the forward market. The low prices now being offered for Malaysian meranti compared to those for African sapele, despite the strong dollar, may also have encouraged UK importer interest.

Malaysian shippers of sawn lumber, many of which are now suffering financial difficulties as demand and prices have fallen, are not finding much relief in regional markets. China is progressively shifting towards log imports and beginning to emerge as a competitor in the supply of lumber, while demand for Malaysian lumber in Japan remains very subdued. The *Japan Lumber Journal* notes that, although inventories of South East Asian lumber in Japan are now much reduced, and some items are in scarce supply, there is an increasing tendency to replace these with other species. There are reports of bankruptcies amongst small and medium sized firms supplying tropical lumber to the Japanese construction sector.

### Low production

On the supply side, lumber production in Malaysia is very low this year, and inventories are well down on previous years. At present conditions are very dry in the major producing regions, and this has disrupted river transport of logs. Supplies of all tropical hardwood products from Indonesia are being disrupted by the unstable political situation. Despite low inventories in the Far East, weak demand has meant that prices for dark red meranti and seraya remain depressed.

Due to slow demand, the flow of wood from Sumatra into Peninsular Malaysia is insignificant compared to last year. Malaysian timber exporters are also reported to be pushing for a ban on imports of Indonesian sawn lumber in the hope of preventing prices falling any further.

Sawmills in Sabah have very low logs stocks and lumber production is much curtailed this year. The *Japan Lumber Journal* reports that millers in the state have been discussing possible log imports from Indonesia. However the political situation in Indonesia suggests that obtaining reliable supplies from this region will also be difficult.

### CITES ban trade in ramin

The UN Convention on International Trade in Endangered Species (CITES) has confirmed that as from 9 August ramin will be placed on Appendix III of the Convention with zero quota. This means that the 153 member states of CITES will no longer be able to import Indonesian ramin in any form.

## China

### Log imports up 27%

China's log imports in the first quarter of this year were 27% up on the same period during 2000 reaching 3.56 million cubic metres. Imports of softwood logs (primarily from Russia) grew more strongly than hardwood log imports (primarily from Malaysia, Gabon and PNG). However, imports of sawn lumber and plywood both declined in the first quarter, highlighting the trend towards increased processing within China itself. Sawn lumber imports fell to 759,800 m<sup>3</sup>, down from 789,000 m<sup>3</sup> in the same period last year. China is developing its own plywood manufacturing capacity, a fact reflected in the 11.2% fall in imports of finished plywood during the first quarter.

#### China Wood Products Imports

Source: ITTO

Million m <sup>3</sup>	Jan-Mar 2000	Jan-Mar 2001	% chg
Logs	2.80	3.56	27
Softwood	1.21	1.75	45
Hardwood	1.60	1.81	13
Sawn lumber	0.79	0.76	-4
Plywood	0.22	0.19	-11

### Details of phytosanitary rules

The following details of the phyto-sanitary requirements for log imports into China, effective from 1 July 2001, have been issued by the Government of China:

- Imported logs must bear a phytosanitary certificate issued by the official quarantine authorities of the exporting country.
- The certificate should attest that the logs are free from soils and quarantine pests of concern to China or pests specified in bilateral plant quarantine agreement.
- Imported logs with bark should have gone through effective quarantine treatment in the exporting country and the method, chemical and dosage, duration and temperate of the treatment used in the process should be clearly indicated in the Phytosanitary certificate.
- On the other hand, imported logs free of bark need only be declared in the phytosanitary certificate.
- Failing to comply to these requirements will result in non-entry of imported logs into China.
- Logs entering the Chinese ports will subject to further inspection by the China Inspection and Quarantine (CIQ) authorities.
- Should quarantine pests be discovered, the log importers will be required to conduct

Asian Sawn Lumber Indicative Prices			
	Apr	May	Jun
Exchange rates:			
M\$/£	5.46	5.40	5.34
US\$/£	1.44	1.42	1.41
M\$/US\$	3.80	3.80	3.80
<b>Malaysia</b>			
All prices US\$/ton, C&F UK port			
<b>West Malaysian Dark Red Meranti</b>			
Grade: Select & better GMS; Kiln dried			
Size: Width 6"+ avg 7 7/8"; Length: 8'+ avg 12 1/4'			
1"	715	690	680
2"	735	700	690
2.5"	750	720	710
3"	770	740	730
<b>Keruing</b>			
Grade: Standard & Better GMS			
Size: Random or fixed 16'+			
1"-3"	520	520	520
<b>Kapur</b>			
Grade: Standard & Better GMS			
Size: Width 6"+, avg 7"-8"; Length 16'+			
1"-3" plnd	535	535	535
<b>Myanmar Teak</b>			
US\$/50 cu ft, FOB Rangoon/Bangkok/Singapore			
Grade: Air dried boards			
Size: Width 6"+ avg 8", Length 6'+ avg 8'			
1"	2750/ 3500	2750 3500	2750 3500
<i>Note private-sector prices for Myanmar teak boards vary considerably from one mill to the next. Prices from the cheapest private mills in Myanmar currently start at the lower end of the range. The most expensive mills, many based in Singapore and Bangkok, are selling boards from best quality teak logs at the top end of the range.</i>			

the quarantine treatment under close supervision of CIQ and the costs incurred in this respect will be borne by the importer. If the treatment is not conducted, the logs then will face a return shipment.

■ Customs authorities at each China entry ports have been instructed to enhance supervision on imported logs.

The Chinese authorities have also indicated that the regulations will not discriminate either by species or type of pest. Contrary to requests from supplying countries for China to be more explicit on acceptable treatment measures, the Chinese authorities have said only that they will rely on proven procedures of the exporting country.

In Europe, discussions have been initiated between the European Commission and respective national authorities to harmonise the approach adopted by European countries.

## Indonesia

### Paper industry encroaches on natural hardwood forests

Up until the mid 1990s, the government of Indonesia took steps to make the country the largest producer of hardwood plywood. Now a recent study by Chris Barr for the Center of International Forestry Research (CIFOR) has revealed a new trend in the Indonesian forest sector. Pulp and paper companies are scrambling to obtain access to the remaining large areas of natural forest. The report suggests that a handful of Indonesian conglomerates expanded the

country's pulp and paper mill capacity by 700% since the late 1980s, elevating Indonesia to one of the world's top ten pulp and paper producers.

To encourage inward investment into the sector, the pulp and paper producers had said they would obtain raw material from sustainably managed plantations. However Barr's research suggests that only 8% of wood consumed by the mills comes from plantations. The rest is mixed hardwood from natural forests, a significant proportion from "undocumented" sources.

### Cheap access

The rapid expansion of the pulp and paper industry in Indonesia was fueled by the government's willingness to give companies cheap access to natural forests, and also through the allocation of grants through the country's Reforestation Fund. Barr estimates that 800,000 hectares of natural forest may have been cleared since 1988 to supply Indonesia's pulp mills. During that period, the combined production capacity of these mills increased from 600,000 tonnes to 5 million tonnes.

Pulp producers are now beginning to bring extensive plantations on line, however Barr suggests that the largest mills are unlikely to obtain more than half their fibre supply from plantations until at least 2007. In the meantime, as the mills exhaust available wood supplies near their base in Sumatra, they may look further afield to the forests of Kalimantan and Irian Jaya (Papua) for raw material. *Source: CIFOR News, April 2001*

## Japan *Cont. from page 1*

big gains.

Changes too are apparent in Japan's temperate hardwood trade. During 2000, imports of logs increased partly at the expense of lumber. A larger proportion of temperate hardwoods are also being sourced from China.

Japan's imports of US hardwood logs increased significantly last year, which may be a reflection of the weak yen which encouraged conversion in Japan rather than the US. Imports of hardwood logs from China also shot up by 74% last year, apparently taking market share from Russian suppliers. Imports of Russian hardwood logs, which account for 80% of the total, decreased by 4.1%. Oak dominates Japan's temperate hardwood log imports accounting respectively for 133,000 m<sup>3</sup>, 56,000 m<sup>3</sup> and 16,000 m<sup>3</sup> of Russian, US, and Chinese supply.

During 2000, temperate hardwood lumber imports into Japan fell by 2.1% compared with the previous year. This was due to a significant drop in imports of US hardwood lumber. Imports from both China and Russia increased – again with much of the focus on oak. Japan imported around 34,000 m<sup>3</sup> of oak lumber from China last year. Imports of US temperate hardwood consisted primarily of oak, ash, tulipwood and western red alder.

### Japan Temperate Hardwood Imports

*Source: Japan Lumber Journal*

000s m <sup>3</sup>	1998	1999	2000
<b>Logs</b>			
U.S.	60.6	61.6	67.8
China	26.9	18.9	32.8
Russia	280.6	361.0	346.2
<b>Lumber</b>			
U.S.	114.6	138.4	116.1
China	77.9	102.0	113.8
Russia	0.2	0.9	3.8

## Domestic demand

### Second half rebound?

The Federal Reserve lowered interest rates a further 0.25% to 3.75% on 27 June, continuing one of the most aggressive campaigns of monetary easing on record. Interest rates have now fallen 2.75% since the start of the year. The Fed's decision came at a time when many analysts believe that US business conditions, while not good, do not appear to be getting worse.

Most manufacturers are already in the throws of recession. Industrial output fell 0.8% in May, double what many analysts had been predicting and the eighth straight month of decline. According to the Fed's own "beige" book – an overview of economic conditions throughout the US – virtually every industry is showing weakness.

### Some good news

But there have been glimmers of good news to bolster confidence. The housing sector, which has remained buoyant while other sectors have sunk, is continuing to do well. New house sales were up 0.8% in May, and during the first 5 months of this year Americans bought more houses than during any other similar period on record. Another positive factor, and one which is particularly important for a return to growth, is that consumer confidence has been remarkably resilient, despite high levels of consumer debt and the failing stock market. Consumer confidence rose in June for the second consecutive month.

The economy should also start to benefit later this year when Americans get their first tax-rebate cheques from the Bush administration. With luck, these factors may allow America to climb out of its economic hole during the second half of the year.

### Lacklustre hardwood demand

In the meantime, hardwood demand from US manufacturers has been lacklustre. At time of going to press, US manufacturers were preparing to shut down operations over the 4th of July vacation, with downtime varying from one day to several weeks in some cases. Manufacturing activity had been winding down progressively in the weeks prior to the vacations.

The furniture sector – particularly important for Appalachian hardwoods – is very slow, and there is much debate over the long term repercussions of increasing penetration by overseas suppliers into the US market. The furniture sector is also having to adjust to major restructuring in the retail sector. Several large chain stores have gone out of business leading to financial losses for

# North America

Cont. from page 5

furniture manufacturers. Some manufacturers are now considering longer than usual periods of closure over the summer months.

However demand from strip flooring and cabinet manufacturers has remained reasonably active and is expected to pick up quickly after the holiday period.

Margins are tight and competition amongst hardwood suppliers is intense. Cash flow is a problem for many producers. There are reports that downward pressure on hardwood sawn lumber prices has been easing during June and inventories are better matched to slow demand. However for certain species and grades prices are highly variable.

As inventories of lumber have been reduced, some hardwood suppliers suggest that there may be supply shortfalls if there is a significant pick up in demand during the second half of the year.

## Export markets

### Winding down for the summer

European demand for American hardwoods has been relatively subdued during June, and is expected to wind down further during the summer months. European importers are being cautious, deterred by evidence of economic cooling, notably in Germany, and

### US sawn lumber indicative prices

	Apr	May	Jun
North Appalachian US\$ MBF* CIF- W. Europe			
Grade: KD square edged			
Net measure after kilning			
NOTE US prices are highly variable depending on quality and point of origin. These prices are shown only to highlight trends over time.			
*One cubic meter is equivalent to 423.8 BF or 0.4238 MBF			
\$/£	1.44	1.42	1.41
\$/Euro	0.89	0.86	0.84
<b>Red oak</b>			
1"	1825	1750	1750
1.25"	1925	1850	1850
1.5"	1975	1900	1900
2"	2325	2250	2250
<b>White oak</b>			
1"	1450	1550	1550
1.25"	1600	1650	1650
1.5"	2075	2200	2200
2"	2650	2650	2650
<b>Ash</b>			
1"	1225	1200	1200
2"	1625	1450	1450
<b>Tulipwood</b>			
1"	975	950	950
1.25"	1025	1000	1000
1.5"	1125	1100	1100
2"	1150	1125	1125
<b>Cherry</b>			
1"	3600	3600	3600
1.25"	3700	3700	3700
1.5"	3800	3800	3800
2"	4000	4000	4000
<b>Hard Maple</b>			
1"	2575	2400	2400
1.25"	2725	2550	2550
1.5"	2975	2750	2750
2"	3025	2800	2800

the continuing strength of the dollar against European currencies. Stocks of American hardwood throughout much of Europe, with the possible exception of Spain, are widely reported to be low.

At some point, European importers will have to re-enter the market to replace depleted stocks. This may begin to happen after the summer recess in September. However the rate of purchasing in the Autumn is dependent on many factors all currently uncertain: the direction of the dollar-euro exchange rate; prices and availability of American hardwoods after a period of inventory adjustment in the US and Canada; and the availability of alternatives, notably East European hardwoods.

### Competition from East Europe

EU-wide import data during 2000 indicates that there was growth in Western European imports of sawn lumber from Eastern European countries – notably Poland, Romania, Bosnia, Croatia, Hungary and Ukraine. Import growth from Eastern Europe was from a relatively small base and the overall level of trade was still restricted last year. However anecdotal evidence suggests that competition from Eastern Europe is intensifying this year, with frequent reports that both the availability and quality of Eastern European production are improving and that prices are competitive.

Market conditions for American hardwoods vary between countries in Europe:

■ **Germany:** the economy remains in the doldrums and American hardwood demand is currently slow in both the furniture and construction sectors, with slightly better performance in the flooring sector.

■ **France:** After a buoyant year in 2000, sales have been less brisk this year. The French furniture industry has slowed, a factor which has already led to the demise of several large manufacturers during the course of 2001.

■ **Spain:** Underlying demand remains good, with continued growth in manufacturers interest in white oak, rising demand from red alder, steady demand for hard maple, and slight weakening in demand for cherry. Stock levels began to build up during the first half of the year, and efforts are now being made to reduce these against expectations that the dollar may weaken against the euro later in the year.

■ **UK:** importers continue to buy just-in-time, an attitude encouraged by recent weakening of sterling against the dollar. Supplies of Eastern European hardwoods to the UK have so far been relatively restricted, but there are some reports of increased offers at competitive prices.

■ **Italy:** importers have been buying a fair volume of wood during the second quarter of the year, although well down on last year as many prefer to maintain low stocks. Price competition has been intense.

### Mixed picture in the Far East

Reports from the Far East suggest that buying of American hardwood lumber in Greater China has remained reasonably active, despite reports that some Chinese furniture manufacturers have been forced to reduce production in response to slowing export demand. Demand from Japan, Indonesia, and South Korea has been subdued during the second quarter of the year, but there has been more interest from buyers in Malaysia and Thailand. However these last two markets still absorb only limited volumes.

Overall US export markets remain subdued and highly competitive. Importers are aware of the underlying weakness of the US market and are confident of their ability to shop from one supplier to the next to obtain better prices. In Europe at least, the feeling that the dollar may be overvalued and could weaken later in the year, has provided another incentive to hold back on purchases.

### Species breakdown

■ **Ash:** Domestic demand remains limited both for furniture and cabinet manufacturing. Buying is also slowing due to current holiday schedules. Ash exports to Japan and the UK are only fair for sellers with long term customers, and slow for others. Demand for lower grades has been slow in Mexico, but steady in Asia. American yards have much reduced their inventories of ash, but availability is still sufficient to meet current levels of demand. Buyers are being more demanding on specification for colour, texture, lengths, widths, and/or thickness.

■ **Cherry:** Domestic consumption has been hit by weakness in the furniture sector. Cherry exports to Europe have been slowing, although there are some reports of marginally improved demand in Scandinavia and Belgium. In these markets cherry may have lost some of its fashion appeal as a show wood. However there are some indications of growing interest in China. Mills have responded to current weak demand by severely curtailing production. Prices for FAS&1F grades have remained reasonably steady. Prices for common grades have been more unstable.

■ **Hard maple:** Major efforts have been underway to work down log inventories to manageable levels as the risk of staining has increased in the warmer weather. But

# North America

demand from domestic manufacturers and resale operations is slow, with many planning lengthy shutdowns over the summer season. Companies dealing in green stocks face major problems in processing and offloading supply and therefore green lumber prices, particularly of the lower grades, are still very variable. The market for kiln dried and higher grade hard maple is competitive. However there are indications that downward pressure on prices for these products has eased somewhat in recent weeks as resale operations have reduced inventories to better reflect demand. Shipments of random widths to Europe have been slower, but demand for dimension and strips has been reasonable. Exports of lower grades to China, Korea and Thailand have remained steady.

■**Soft maple:** markets for soft maple are increasingly competitive. Stocks in the US are moving, but only with a considerable effort. Demand from the US furniture sector remains weak, and is expected to slow further during the summer recess. There is now less interest in soft maple as a substitute for cherry. Prices have been sliding.

■**Red oak:** Market conditions vary widely depending upon the region of the US and grade, but most reports suggest highly competitive conditions and soft prices. As demand for other species such as hard maple and cherry has weakened, many American mills and resale operations have shifted the focus of their activity to red oak. This has led to an influx of green and kiln dried lumber just at a time when US and overseas demand was weakening due to problems in the manufacturing sector. Domestic demand has also slowed during the run-up to the Fourth of July holiday. European demand has been subdued in the run-up to the vacation period. Demand in Belgium, the largest European market, has been hit by a downturn in manufacturing. There are hopes that domestic and export business may begin to rebound later in the summer, and efforts are already being made to reduce both green and kiln dried production which may encourage greater price stability. Demand for lower grades from the Far East and Mexico has been reasonably steady.

■**White oak:** market conditions are difficult both within North America and overseas, particularly since the onset of the summer vacation period. This period is usually prolonged in southern European countries which provide a major outlet for white oak. Sales to Spain have slowed as importers seek to reduce inventories. Another major market, Germany, is suffering a bout of

## US export statistics

US export data for the first four months of this year reveals some significant trends.

■US hardwood log exports have risen dramatically to the EU, Japan and Greater China (China, Hong Kong and Taiwan). This may reflect the strength of the dollar against both the yen and the euro, which means that processing logs in the importing country is more economical than importing sawn lumber. In Greater China, the trend reflects several factors including: the strong growth in China's furniture sector; rising investment in new wood processing capacity in China; and a partial switch away from European beech this year.

■Log exports to South East Asia (Indonesia, Malaysia, Philippines, Singapore, and Thailand) have declined, reflecting economic problems in these countries - partly due to the fall in export demand in the US itself - and increased competition from mainland China.

■US exports of hardwood lumber this year are well down on last year's levels: vivid confirmation of the global economic slowdown. Lumber exports to the EU have been particularly weak, as importers have been maintaining low stock levels as the euro has remained weak against the dollar, and as economic uncertainty has mounted, notably in Germany.

■China is the exception on world markets, with US lumber exports to this destination continuing to increase this year.

■US exports of veneer have held up more strongly than lumber exports. The EU has actually marginally increased purchases, a sign perhaps that there is life in the European furniture sector, and also that manufacturers continue to shift to veneers from solid wood as a cost saving measure.

■By contrast, Japan's US hardwood veneer imports have fallen dramatically this

economic illness. Buyers everywhere are restricting purchases to immediate needs. Production has been curtailed, but availability is still sufficient to meet current levels of subdued demand.

■**Tulipwood:** efforts are being made to reduce inventories in the US in response to weak demand and summer slowdown. However supplies are still more than sufficient to satisfy current levels of demand and prices are showing signs of weakness. US producers are concerned about the long term implications of recent closures in the furniture sector on domestic demand,

### US Hardwood Exports

	Jan-Apr 2000	Jan-Apr 2001	% Chng
<b>Hardwood logs (000 m3)</b>			
World	700	875	25
EU	110	133	21.1
Southeast Asia	26	18	-30.2
Greater China	26	36	42.3
Japan	46	57	23.4
<b>Hardwood lumber (000 m3)</b>			
World	1,026	923	-10
EU	315	262	-16.9
Southeast Asia	35	33	-7.2
Greater China	120	130	8.3
Japan	50	43	-14.2
<b>Hardwood veneer (000 m2)</b>			
World	102,271	104,908	2.6
EU	45,648	48,431	6.1
Southeast Asia	4,357	3,251	-25.4
Greater China	8,718	9,986	14.5
Japan	2,174	832	-61.7
<b>Hardwood plywood (000 m3)</b>			
World	54	42	-22.6
EU	2	1	-76.6
Southeast Asia	0	0	-32.6
Greater China	0	0	2100
Japan	1	2	32.1
<b>Hardwood flooring (000 m2)</b>			
World	927	1,013	9.2
EU	91	164	79.3
Southeast Asia	6	9	61
Greater China	7	1	-82.3
Japan	102	48	-53

year, perhaps due to intense competition for Japanese furniture manufacturers from factories in China.

■US exports of hardwood flooring have risen this year, with particularly strong growth in sales to the EU. In part this trend may reflect the growing fashion for wood flooring in parts of Europe, and also weakening of the US domestic market which has led to increased availability of product for export.

■However Greater China, never a major buyer of US flooring, has decreased purchases significantly this year, perhaps due to the development of China's domestic manufacturing sector.

particularly for lower grades. Suppliers are making additional sorts for length, width, and/or color, and to offer a variety of thicknesses and grades in an effort to help generate buyer interest. Export demand for higher grades in Italy remains highly competitive and price sensitive. Sales of lower grades to China and Mexico have also been slower.

■**Walnut:** demand for walnut continues to be good, both in lumber and log form. China is becoming an increasingly important market, and supplies are currently insufficient to meet demand.

















# South America

*Continued from page 14*

later this month.

Exports of Peruvian mahogany have been disrupted this year by uncertainty surrounding new regulations designed to encourage value added processing in Peru and which officially prohibited mahogany sawn lumber exports from 1 January 2001. It is unclear how the government of President Toledo, newly elected in early June, will interpret and seek to implement the regulations. So far this year, it appears exports of mahogany sawn lumber from Peru have been allowed. Data published by the IWPA demonstrates that during the first quarter of this year, Peru maintained its position as the leading supplier of mahogany sawn lumber to the United

States. Small volumes of new season mahogany sawn lumber are also now being exported from Peru to the UK.

The IWPA data indicates some notable changes in the pattern of US mahogany imports this year. Exports from both Peru and Brazil were higher than the same period the previous year. This may be partly due to bureaucratic problems which delayed exports from both countries at the end of last year. Another factor has been the removal of Bolivia as a major player in the market as that country has focused more on exports of FSC-certified lesser-known species. Another trend is the rising value of US mahogany imports, presumably from plantations, in several Central American countries, notably Nicaragua and Panama.

## Brazilian sawn lumber Indicative prices

	Apr	May	Jun
Exchange rates			
\$/£	1.44	1.42	1.41
US\$/m <sup>3</sup> C&F UK Port			
Grade & size: FAS, width 6"+ avg 9-10", length 6'+ avg 10-11', air dried (AD) or kiln dried (KD)			
<b>Mahogany (Swietenia)</b>			
1"-2" AD	1400	1450	1490
2.5"-3" AD	1420	1470	1510
1"-2" KD	1470	1520	1560
2.5"-3" KD	1500	1550	1590
<b>Virola</b>			
1" KD No.1 C&B			
boards	380	380	380
strips	380	380	380
<b>Cedro</b>			
1"-1.5" KD	725	725	725
2" KD	750	750	750
2.5"-3" KD	775	775	775

# Association Profile - ATIBT - International

**Members:** 200 direct members from 33 tropical producer and consumer countries including international and national institutions, research organisations, consultants, companies and trade associations, equipment suppliers and transport companies.

The International Technical Tropical Timber Association – ATIBT – is a non-political and non-governmental organization that has been active in the tropical timber industry since 1951, when it was founded at the request of the FAO and OECD. Having helped to reorganize and rationalize the tropical timber trade in post-war years, ATIBT has moved with the times and now plays an active role handling issues which today affect the tropical timber profession. ATIBT is a source of technical and commercial information for both timber professionals and outsiders. The

organisation provides members with the latest inside information on tropical forest economy, policy and on tropical timber technologies, and will also arrange business contacts. ATIBT has created standards and other tools for the tropical forest industry and timber trade, and has put these into use. These tools include:

- Tropical Timber Atlases for Africa, Asia and Latin America listing over 300 species with their origins, their standard names and their physical and mechanical properties (in 3 languages).

- The ATIBT Grading Rules for round wood and sawn lumber. These are supported by ATIBT's annual training sessions on timber grading.

- A Shipping Guide is in preparation, which will document standards and technical innovations in the transport sector (container shipping, digital bills of lading).

- A twice yearly Newsletter containing

current trade and market information, including export statistics (English and French).

A current priority is to promote sustainable forest management. ATIBT takes an active part in the international dialogue on this issue and carries out practical measures. For example, ATIBT has prepared a manual on sustainable tropical forest management, followed recently by a joint FAO-ATIBT publication on the effects of Road Infrastructure in tropical forests. A practical manual on forestry techniques for forest company managers is in preparation.

### For additional information contact :

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# Hardwood Events

Date	Event	Venue	Target audience	Contact
<b>2001</b>				
24-29 Sept	FIM	Valencia, Spain	Furniture industry	
4-5 Oct	ATIBT 50th Anniversary Forum	FAO Headquarters Rome	Tropical forestry, trade and industry	ATIBT, Paris, Tel: +33 143 42 42 00 Fax: +33 1 43 42 55 22, www.atibt.com
1-3 Oct	Tropical Forestry Research in the New Millennium	Kuala Lumpur, Malaysia	Tropical forestry	www.frim.gov.my
25-26 Oct	American Hardwood Export Council European Convention	Dublin	Timber trade	AHEC London, Tel (+44) 0207 626 4111 Fax, (+44) 0207626 4222
5-10 Nov	Batimat	Paris, France	International building industry	www.batimat.com
6-10 Nov	Maderalia	Valencia, Spain	Suppliers to the furniture industry	
20-24 Nov	The Fifth Plywood and Tropical Timber International Congress and Expo	Belem, Brazil	Timber and plywood trade	contact WR Sao Paulo email: wrsp@uol.com.br

### **Rain in Africa**

The major African producing region are now experiencing heavy rains. As usual at this time of year, many mills are shutting down operations for maintenance work and vacations. European forward demand for African hardwoods is subdued as importers are still working through stocks built up earlier in the year and as the holiday season beckons. Worsening economic conditions in the Far East have led to slower buying there. However there are reports of reasonable forward demand for African hardwoods in the UK. Although there is talk of lower prices for certain species as demand has weakened, stocks in Africa are restricted for the time of year and many exporters have been unwilling to reduce prices to boost sales. **Page 3**

### **Meranti demand still very slow**

Trading conditions for Malaysian lumber producers remain very difficult. Forward demand in Europe is restricted and is hampered by the strength of the dollar against the euro. There are also high stocks in continental Europe, notably in the Netherlands, the leading market for dark red meranti and seraya. Lumber production in Malaysia is very low this year, and inventories are well down on previous years. **Page 4**

### **US - Second half rebound?**

US business conditions, while not good, do not appear to be getting worse. Most manufacturers are already in the throws of recession. But there is some good news. The housing sector continues to do well. Consumer confidence has been resilient. The economy may start to benefit later this year from tax cuts. These factors may allow America to climb out of its economic hole later this year. In the meantime, hardwood demand from US manufacturers has been poor. **Pages 5 & 6**

### **US export demand subdued**

European demand for American hardwoods has been subdued during June, and is expected to wind down further during the

summer months. European importers are being cautious, deterred by evidence of economic cooling, notably in Germany, and the strength of the dollar against European currencies. Buying of American hardwood lumber in Greater China has remained reasonably active, despite some Chinese furniture manufacturers reducing production in response to slowing export demand. Demand for American hardwoods in Japan, Indonesia, and South Korea has been subdued during the second quarter of the year, but there has been more interest from Malaysia and Thailand. **Page 6 & 7**

### **European producers focus on oak**

Western European producers of sawn hardwood continue to meet with poor demand. Stock levels of sawn beech, much of it steamed from storm felled logs, remain high in both France and Germany despite reductions in production. As beech production has been curtailed this year, European sawmills have focused more heavily on oak. Although there has been solid demand for oak from stave, furniture and flooring manufacturers this year, it has been insufficient to soak up the extra volume. **Page 3**

### **Mahogany demand good**

Brazilian mahogany log extraction has been delayed over recent weeks by rain, unusual at this time of year. However some Brazilian exporters have acquired stocks of mahogany and shipments are being made. As last year, the majority is being sent to the US in air dried form and demand is still good. **Pages 14 & 15**

### **Japan's transformation**

Weak market conditions, coupled with major changes on the supply side, are contributing to a transformation in the structure of Japan's hardwood importing trade. Japan's plywood manufacturers, a major source of demand for tropical logs, have been progressively switching to lower cost and more widely available softwood logs. Japanese manufacturers of wood products are coming under intense pressure from importers. Indonesian, Malaysian and, more recently,

Chinese producers of lumber and plywood have been able to undercut Japanese mills. The value of Japan's furniture imports shot up 17% during 2000 compared with the previous year to 329 billion yen. **Pages 1 & 5**

### **Editorial - a forecast**

Economic data suggests that the second half of 2001 may be characterised by relatively subdued global demand for hardwoods. However this may be matched by relatively low levels of supply. Looking further ahead, many analysts are optimistic that the global economic downturn, while sharp, may be relatively short-lived. While many hardwood traders have been afflicted by slow demand and high inventories during the first half of 2001, market conditions may be reversed by the beginning of next year. There may be shortfalls in the supply of many species and grades as demand rises. **Page 3**

### **European hardwood review**

More highlights from our review of 2000:

■UK hardwood importers had a buoyant year during 2000, but conditions this year are less favourable.

■Ireland reduced tropical lumber imports from Ivory Coast and Ghana last year, while imports from Cameroon leapt by 151%. Ireland is now emerging as a significant buyer of American white oak.

■Denmark's hardwood imports rose strongly last year, but this year economic growth has been hit by concerns over the slowdown in neighbouring Germany

■There was strong demand for oak from Sweden's parquet flooring manufacturers during 2000. Construction sector activity in Sweden is forecast to grow more strongly than in any other EU nation this year.

■Finland, although still a minor importer, was a growing market for high quality hardwoods last year

■Greece also bought significantly more hardwoods during 2000. American hardwoods are coming under intense competitive pressure from Eastern Europe.

**Pages 8-13**