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Statistics in this issue

Impact of SARS in China

The Chinese hardwood market has been affected by the SARS outbreak. But there are signs that the economic impact may be short-lived.

In March this year, the Chinese government set a goal of 7% GDP growth for 2003, down from last year's 8%. With SARS (severe acute respiratory syndrome) reported in 24 out of mainland China's 31 provinces and municipalities, Chinese officials now acknowledge that the disease will dent the economy. But many economists believe the 7% target that was once widely regarded as too conservative may actually be close to the mark.

This confident prediction assumes that SARS is brought under control in China by the end of June. World Health Organisation (WHO) officials say it is still too early to say that the disease is under control in the worst affected area, Beijing. But the numbers look encouraging. After two or three weeks during late April and early May when the capital was reporting more than 100 new cases a day, the numbers have fallen to double digits in recent weeks. In Guangdong province, the manufacturing heartland of southern China, where total SARS cases soared into the hundreds in February and March, the number of new cases has fallen away sharply. Shanghai, the financial capital, remains relatively little affected.

Concern about rural outbreak

The Chinese authorities remain concerned about the possibility of a major outbreak in the countryside, where medical facilities are inadequate. Should SARS remain entrenched in the countryside, it could pose risks for manufacturers, many of whom depend on cheap rural labour. But so far only a handful of suspected SARS cases has been reported in factories. And SARS still seems to be mainly occurring in urban areas. Unlike shops, hotels, restaurants and offices in SARS-affected areas, most factories have carried on working as normal.

Fortunately too for China, the economy grew by a vibrant 9.9% during the first quarter of 2003 compared with the same period last year. This was the highest first-quarter growth rate in six years, buoyed by surging foreign direct investment (up 56.7%) and exports (up by 33%). Some economists reckon that without SARS, China could have achieved 9-10% growth this year.

Economic impact not catastrophic

Even in Beijing, so long as SARS is contained within a few weeks the economic impact is unlikely to be catastrophic. Economists reckon that the disease could shave a couple of percentage points off the capital's GDP growth, but this growth may still be as high as 10%. Even if this prediction proves optimistic, Beijing's GDP accounts for only about 3% of the national total.

Nevertheless, the SARS virus has had a significant impact on short term trading patterns. In the most affected regions, the Chinese authorities have placed tight restrictions on travel, and many people have stopped going to work. Construction and joinery activity has slowed, particularly in Beijing. Both sectors tend to rely heavily on migratory workers from rural districts. Some large furniture manufacturers have also had to reduce production due to labour shortages. Consumer spending has declined as people have stayed away from retail outlets and crowded shopping districts.

European and North American hardwood exporters to China report that trade has slowed since the end of April, after a period of rising sales in March and early April. Labour shortages have disrupted the unloading of wood at ports. Furthermore Chinese wood products exports and foreign invest-

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Editorial

What would you like to see in hardwoodmarkets.com?

I am constantly struck by the huge range of issues covered by this journal. This month, which is in no way remarkable, hardwoodmarkets.com includes coverage and comment on subjects as diverse as the SARS virus in China, design trends in the furniture sector, emerging tensions in the Asian furniture sector, conflict in Africa, forestry tax regimes, a new EU Action Plan on illegal logging, eco-labelling, and exchange rate fluctuations. In any other context it would be difficult to find a common thread linking all these themes. But in the hardwood industry, this is normal. It is this diversity and complexity which makes the industry so special. And it makes reporting on the industry particularly rewarding, but also very challenging.

Every month in preparing this journal, there is a strong impression that we are still only scratching the surface. So much more is being left out than it is possible to include. I'm therefore extremely grateful to all those readers that took the time to complete the reader's survey. This will be a great help as we continuously seek to focus content on your needs

A preliminary analysis of this survey suggests that readers particularly value our regular regional market reports, and many would like to see even more statistics. And at present, there also appears to be considerable interest in international forest policy and forest certification.

Readers seem split on whether they prefer to receive information in hard copy or electronically, so we will continue to provide both. However, in order to accomodate the desire for more statistics from some readers, we are considering expanding the statistical content of our website, while focusing the written journal on regular market and news reports.

If you have any views on this strategy, or if you feel there are any glaring omissions from our current content, please send an email to editor@hardwoodmarkets.com

Rupert Oliver

Africa

Supply region news

Political problems affect supply

The monsoon is starting in the major log supplying countries north of the equator: in West Africa, Cameroon, Central African Republic, and the northern regions of Congo-Brazzaville. However, the rainy season is coming to an end south of the equator: in Gabon, the southern Congo basin, and Angola. Almost without exception, significant constraints on log supply are reported in all the major supplying countries.

■**Cameroon** – no changes are reported in the supply situation. Bureaucratic delays, tighter government regulations, and poor weather ensured relatively low levels of log supply during the logging season which is now ending .

■**Central African Republic** – wood production and exports have continued to be disrupted by political events following the coup on 15 March. On coming to power, President Bozize's regime claimed that all forestry fiscal records for the previous 9 months had been lost and demanded that all concessionaires should pay tax for this period immediately. This resulted in the government recovering US$2 million in late April. The government also suspended all companies exploiting the country's natural resources pending a judicial inquiry into their fiscal situation, although some companies without direct connections to the previous regime were granted provisional licences for continued operations. Timber companies belonging to former President Patasse – reckoned to control a third of the nation's forest resources - are having trading licenses and concessions revoked – most recently the Colombe Foret company.

■**Congo-Brazzaville** – new levels of tax have been implemented which producers claim add 20-25 euro/m3 to the FOB price of logs exported from the country. Introduction of the new levy was staunchly resisted by the industry. In recent months some of the largest exporters from the country refrained from exporting wood products for a period of 4-6 weeks in protest. However the government refused to reconsider and the tax levels. Exports have resumed at reduced levels with exporters seeking higher prices to absorb the increase in costs.

■**Congo-Kinshasa** – some European-owned companies are operating in the country again and exporting lumber through Matadi. Although improving, supplies remain restricted and shipments are irregular.

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■**Gabon** – new higher tax levels and continuing financial difficulties of SNBG are expected to restrict levels of harvest during the coming logging season. ITTO reports that three mills in the country may well close because they cannot operate profitably under the new higher tax levels at a time when global demand is weak and the costs of finance in Gabon are very high.

■**Ivory Coast** - the political situation remains very tense, but recent news has continued to be fairly positive. The nation's government of national reconciliation – which brings together the various factions – held it's first cabinet meeting in the rebel-held city of Bouake during May. Meanwhile, the first freight train for eight months left Abidjan carrying cement and fertilizer to the rebel-held north of the country. The train needed a military escort to prevent disruption by groups opposed to appeasement of the rebels. But the fact that rail traffic has resumed between the two halves of the divided country has been interpreted as an important gesture of normalisation. Overall wood supply from Ivory Coast remains very restricted. Many mills in the unstable north and west of the country are not operational. However some mills in less affected regions are operating and have been focused on satisfying the back-log of existing orders.

African indicative prices

	Mar	Apr	May
Exchange rates			
U$/£	1.56	1.60	1.66
Euro/£	1.46	1.39	1.42
All prices include agents commission of 5%			
Sawn lumber			
Cameroon, CAR, Congo (Braz.)			
Euro/m3; FOB			
Grade and size: FAS, air dried, width6"+, length 6'+			
Sapele	505	500	500
Sipo	630	630	630
Bibolo	380	380	380
N'Gollon	535	535	535
Iroko	580	580	580
Cote d'Ivoire			
Euro/m3; FOB Abidjan			
Grade: FAS, air dried			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
Iroko	560	550	560
Mahogany	430	430	430
Framire	380	400	400
Samba No.1 C&S	240	240	240
Dimension stock			
Azobe	420/ 460	430/ 490	430/ 490
Dabema	300/ 390	300/ 360	300/ 360
Gabon			
Euro/m3; FOB			
Grade and size: FAS, width 6"+, length 6'+			
Okoume AD	320	320	320
Okoume KD	365	365	365

Log markets

Awaiting Liberian fall-out

African log prices generally remain steady. The full effects of the removal of Liberia as a significant supplier have yet to be felt. The stand-off continues between African producers and overseas buyers. The former are desperate to raise prices to absorb rising taxes and costs of production. The latter are very resistant to higher prices due to weak market conditions. Many importers in the leading European log buying countries – France, Italy, Portugal, and Germany – indicate that they have sufficient stocks to carry them through the summer months given current sluggish demand. Chinese log buyers are now an important influence in African supply countries, notably Liberia, Congo-Brazzaville, and Gabon. But Chinese log demand has been down since April, due partly to SARS-related economic problems.

Sawn lumber markets

Iroko firm, other species static

FOB prices for iroko sawn lumber remain firm due to limited availability in Ivory Coast and continuing good demand in Ireland. Prices for other species remain fairly static. With the exception of iroko and framire, European stocks of African hardwood sawn lumber are generally viewed as adequate to meet current levels of demand. Until March of this year, Chinese importers had been an increasingly significant presence in the African sawn lumber market, absorbing growing quantities of 2" random length lumber, and diverting supplies from the European market. However, over recent months there are reports that Chinese lumber importers have been less active. Many African sawmills report they are still busy satisfying a backlog of orders, but overall volumes are down and margins are tight.

Changing direction of trade

While overall trade is down, fluctuating political fortunes have led to changes in the direction of trade flows. Buyers are focusing more heavily on the Congo basin as supplies in West Africa have become very restricted. For example, European buyers have turned to Gabon and Cameroon for supplies of good quality sapele and moabi. Italian buyers are in the market for okoume, substituting for samba due to unrest in Cote d'Ivoire. Similarly Irish and UK importers are now looking for iroko from Cameroon and the northern Congo, but available volumes are not sufficient to satisfy current levels of demand.

Liberia

Door slammed shut

Through the adoption of Resolution 1478 (2003) on the 6th of May 2003, the United Nations Security Council decided to extend those sanctions already imposed by Resolution 1343 (2001) to Liberian timber products, beginning on the 7th of July 2003 for a period of 10 months. On the 7th of September 2003 the Security Council intends to consider how best to minimize any humanitarian or socio-economic impacts of these timber sanctions, including the possibility of allowing timber exports to resume in order to fund humanitarian programmes. Imposition of sanctions led to an immediate call by the ATIBT, the European tropical timber association, for the UN Security Council to clarify the exact nature and scope of the embargo (i.e. does it refer to the date at which the wood is cut in the forest, or loading or discharging dates). ATIBT also proposed that a joint UN/UCBD/NGO mission should be undertaken before September 2003 to establish terms under which the embargo may be raised for companies operating in a responsible manner.

Local newspapers report that, with several weeks still remaining before the UN sanctions take effect, Liberian exporters have been rushing to sell as much timber as possible. However rebel forces in the country, keen to stifle a major source of government revenue, have moved rapidly to take control of the nation's timber exporting ports. Greenville and Harper were captured in early May and, by late May, rebel forces were reported to be advancing towards Buchanan, Liberia's second largest town and another major timber export port. The fighting has caused chaos throughout the region, with thousands of displaced people arriving in Monrovia and crossing the border into Ivory Coast to escape the rebel advance.

Meanwhile in early June, Liberia's President Taylor was indicted by a UN-backed Special Court in Sierra Leone for his alleged role in crimes committed during a 10-year civil war in Sierra Leone. Taylor was in Ghana for peace talks with the rebels when the indictment was made. Upon learning that Taylor was traveling to Ghana, the Special Court served a warrant for his arrest on Ghanaian authorities and transmitted the arrest warrant to INTERPOL. The announcement set off mass panic in the Liberian capital, Monrovia, bringing the city to a complete stop. Security was tightened with heavily armed soldiers manning roadblocks.

Malaysian sawn lumber

Limited stocks, low demand

CNF Northern Europe prices throughout the meranti sawn lumber range have been reasonably stable in US dollar terms, with only occasional reports of slight easing in response to slow demand. But for importers in the euro-zone, apparent CNF prices have fallen more sharply due to the strengthening euro-dollar rate.

Malaysian suppliers are keeping a low profile in the European market at present. Limited log supply and low demand has meant that many Malaysian mills have not been cutting significant volumes for the European market and few spontaneous offers are being made. The imposition by the Malaysian authorities of new controls on the import of Indonesian sawn lumber is expected to further reduce available raw material supply to Malaysian mills. Imports into Malaysia of Indonesian large scantlings and squares/flitches above 60 square inch were banned from 1 June. In effect this means that imports of flitches over 7”x8” will no longer be allowed. However most reports suggest that the flow of Indonesian sawn timber into Malaysia was already much reduced this year.

Quiet Dutch market

The Dutch market for meranti and merbau is still quiet. Economic conditions are very unfavorable with no recovery in sight. Unemployment has been growing and consumer confidence is very low. Some potentially good news for the longer term is that a new government was sworn in on May 27 after one of the longest formation periods in recent times. But in the short term, the new government will bring austerity as it has already announced big budget-cuts. Dutch importers carrying meranti/merbau stocks have suffered from the strengthening euro rate as it has devalued existing inventory. This factor, combined with weak demand, has encouraged importers to sell on to end-users at low prices just to gain turnover. With current uncertainty, few importers are encouraged to buy forward.

Slight increase in UK interest

The meranti forward market in the United Kingdom is also slow, despite the weakness of the dollar against the euro which has significantly improved the competitive price position of meranti in relation to African sapele. Underlying meranti consumption in the UK is dull. However trading companies holding stock in the UK report that they have seen some increased interest in meranti amongst importers looking for lumber on a just in time basis.

The German trade journal EUWID reports that underlying consumption of meranti remains slow in Germany and that existing stocks are sufficient to meet current levels of demand. Forward demand for 3” lumber, widely used for window manufacturing, is now slow. However there has been some increased buying of 2” and 2.5” material.

Asian Sawn Lumber Indicative Prices

	Mar	Apr	May
Exchange rates:			
M$/£	5.93	6.09	6.32
U$/£	1.56	1.60	1.66
M$/US$	3.80	3.80	3.80
Malaysia			
All prices US$/ton, C&F UK port, including 5% agents commission			
West Malaysian Dark Red Meranti			
Grade: Select & better GMS; Kiln dried			
Size: Width 6”+ avg 7”/8”; Length: 8’+ avg 12’/14’			
1”	800	800	790
2”	835	835	810
2.5”	910	900	890
3”	940	930	910
Myanmar Teak			
US$/50 cu ft, FOB Rangoon/Bangkok/Singapore			
Grade: Air dried boards			
Size: Width 6”+ avg 8”, Length 6’+ avg 8’			
1”	3200/ 3400	3200/ 3400	3200/ 3400

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.

Chinese log imports

China’s hardwood log imports increased by 27% in the first four months of 2003 to nearly 3.6 million m3. There was a 63% increase in imports from Malaysia, partly reflecting declining availability of illegal logs from Indonesia. Amongst African suppliers, there was a switch away from Gabon and Liberia towards Equatorial Guinea and Congo-Brazzaville. Imports of German beech were down 21%. China has been importing more temperate hardwood logs from Russia this year.

China hardwood log imports January to April, 1000 m3

	2001	2002	2003	% chg
World Total	2,629	2,895	3,676	27
Malaysia	384	510	832	63
PNG	338	371	495	33
Russia	189	273	579	112
Liberia	131	379	241	-36
Myanmar	213	210	363	72
Gabon	461	391	351	-10
Indonesia	344	134	33	-76
Eq. Guinea	135	100	210	110
Congo	2	82	119	45
Germany	143	184	145	-21

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ment have not been entirely immune. Chinese manufacturers have been losing orders because buyers and quality-control inspectors from other countries have been staying away. Supply chains are also being affected by delays as truckers stop at roadblocks erected by local citizens to check those passing through for signs of the disease.

Major effect on Sino-Russian trade

The SARS virus is likely to have a major impact on the huge cross-border wood trade between China and the Russian Far East. In mid May, in an effort to counter spread of the virus, the Russian government decided to close temporarily 31 out of 52 crossing points along the border with China and Mongolia. The main checkpoints would remain open. However, there are reports that the number of people using these checkpoints has already fallen to less than half the previous level. People’s fears of infection and local government measures have severely reduced Russo-Chinese contacts. In advance of the government restrictions, Russian border guards were already letting through only the homeward-bound nationals of each country.

While these measures should not prevent the movement of wood products from Russia to China, there are likely to be severe delays in transit. Furthermore, it seems certain that travel restrictions will disrupt operations in the numerous Chinese joint venture forestry operations that have sprung up in the Russian Far East. Many Chinese operators control wholesale lumber yards in the Russian Far East, which are also likely to be badly affected. Furthermore, if the travel ban remains in force for months, it will become increasingly difficult for Chinese importers to renew old contracts and sign new ones without personal contact.

Chinese imports from Russia

Last year, China is estimated to have imported around 9 million m3 of logs and lumber from Russia, mostly softwood logs. But China also imports some high value decorative hardwoods from the Russian Far East – mainly oak and ash from the maritime province of Primorskiy Krai. Large volumes of Russian birch are also used in the Chinese furniture manufacturing sector.

According to Russian customs, in 2002 Russia exported 950,000 m3 of hardwood logs to China, including 270,000 m3 of birch sawlogs and 150,000 m3 of oak sawlogs. Russia also exported to China 91,000 m3 of sawn lumber, including 40,000 m3 of oak.

Brazil: sharp rise in non-mahogany lumber exports

While Brazil's exports of mahogany sawn lumber have fallen away to zero this year, exports of non-mahogany species have risen sharply. Between 2001 and 2002, the export volumes of non-mahogany species increased by 20%. This year the rate of increase in exports has been even higher, up nearly 40% by volume in the first four months of 2003. Exports of non-mahogany species have doubled to China this year. Chinese importers have been very active in Brazil buying up large quantities of dense close-grained hardwoods for flooring.

Brazilian exports by destination

	Value US$ million					Volume 000s m3				
	2001 Year	2002 Year	2002 Jan -Apr	2003 Jan -Apr	% chg	2001 Year	2002 Year	2002 Jan -Apr	2003 Jan -Apr	% chg
Sawn lumber										
Virola, mahogany, imbuia and balsa wood (HS Code 440724)										
Total	**23.2**	**13.9**	**10.4**	**0.9**	**-91.3**	**43.9**	**29.4**	**19.9**	**2.1**	**-89.6**
United States	17.3	8.9	7.5	0.2	-96.7	34.7	19.2	13.4	1.1	-91.8
Puerto Rico	0.3	0.3	0.0	0.2	309.3	0.3	0.4	0.1	0.2	305.9
South Africa	0.7	0.9	0.3	0.2	-43.8	1.5	2.4	0.7	0.2	-69.4
Netherlands	0.2	0.3	0.3	0.0	-83.2	0.3	0.6	0.4	0.2	-50.5
United Kingdom	3.2	0.4	0.4	0.0	-87.6	4.1	0.7	0.5	0.1	-70.6
Other hardwood (HS Codes 440729 440799)										
Total	**280.2**	**317.9**	**88.3**	**112.5**	**27.5**	**933.6**	**1119.1**	**264.9**	**367.7**	**38.8**
China	34.9	67.3	17.1	29.3	71.9	62.0	155.7	34.4	68.8	99.9
France	41.0	39.0	10.0	17.1	70.8	116.9	109.9	30.7	44.5	44.9
United States	25.9	33.0	8.6	9.8	14.9	101.7	107.6	22.5	24.4	8.3
Spain	30.1	29.0	9.7	9.4	-3.4	101.2	99.1	33.1	33.0	-0.5
Netherlands	20.4	20.4	6.4	7.2	12.4	100.8	69.5	21.6	24.6	13.5
Hong Kong	12.5	18.3	5.3	5.2	-0.8	27.7	126.9	11.7	12.4	6.2
Japan	6.0	6.1	2.1	2.1	0.7	11.7	11.3	3.8	3.7	-2.6
Taiwan	3.5	6.9	1.3	1.4	4.6	7.2	14.5	2.8	3.6	25.9
UK	3.7	4.2	1.4	1.0	-30.0	8.1	9.4	2.8	2.1	-24.0
Belgium	13.3	13.1	3.5	5.8	65.1	39.2	38.9	15.3	18.4	20.0
Portugal	14.7	17.6	5.7	5.3	-6.4	53.1	69.4	18.0	20.4	13.3
Hardwood Continuously Shaped (HS Code 440920)										
Total	**82.3**	**89.5**	**28.4**	**33.3**	**17.3**	**194.0**	**166.4**	**50.5**	**79.5**	**57.5**
United States	37.0	52.7	14.8	19.6	32.3	56.5	71.1	20.5	47.1	129.9
Netherlands	3.3	5.3	2.1	2.5	21.4	8.7	15.4	6.4	7.0	9.2
France	11.0	7.0	4.4	2.4	-45.2	17.8	13.4	8.0	4.3	-46.6
Japan	6.3	4.8	1.9	2.1	8.0	8.4	6.7	2.6	2.8	5.7
China	5.5	4.1	0.5	2.0	295.5	11.9	10.6	1.2	5.4	368.3
Canada	1829.7	3.4	0.6	1.0	71.7	2.0	3.9	0.6	1.2	91.2
Softwood plywood (HS Code 441219)										
Total	**155.8**	**210.7**	**53.5**	**91.2**	**70.5**	**1009.0**	**1706.5**	**429.3**	**745.1**	**73.6**
United States	22.7	47.7	9.7	21.8	125.9	131.7	373.8	54.8	125.2	128.2
Belgium	16.6	23.3	7.5	15.4	107.2	106.1	148.8	48.9	88.1	80.2
United Kingdom	35.2	48.2	8.6	15.0	74.3	233.5	293.3	57.6	129.3	124.6
Germany	25.6	23.6	8.6	12.7	46.9	157.7	148.1	56.9	74.4	30.8
Italy	5.3	5.8	3.1	5.2	69.8	29.5	32.8	17.9	27.2	52.2
Hardwood plywood (HS Code 441213 and 441214)										
Total	**151.5**	**187.0**	**46.0**	**56.4**	**22.7**	**706.3**	**759.0**	**203.4**	**242.6**	**19.3**
United States	37.9	63.1	16.6	19.7	19.0	162.2	276.3	75.6	92.1	21.7
United Kingdom	33.7	50.3	8.9	9.8	9.8	140.4	201.1	44.8	41.5	-7.4
Belgium	6.5	10.1	2.2	4.5	105.0	25.9	38.7	9.1	18.0	97.2

Exchange rate boost

Exports of non-mahogany species may also have been boosted by the weakness of the Brazilian *real* and US dollar on international exchange markets. This has made Brazilian products price competitive this year, particularly in relation to African species. This factor may partly explain the strong recovery in exports of Brazilian hardwood lumber to France during the first four months of this year. The French joinery sector is a significant user of Brazilian tauari and curopixa.

Brazilian non-mahogany species have also been selling well in the United States, mainly for decking and flooring applications. Meanwhile the Spanish market, which uses mainly jatoba for flooring, appears to have been reasonably stable over the last two years.

Rising exports of machined wood

A significant and growing proportion of Brazilian hardwood is exported under HS code 440920. This covers all wood that is "continuously shaped along one or more sides" such as mouldings and strips for parquet flooring. The United States has been an important growth market for these products.

There has been a very sharp increase in Brazilian exports of plywood products, both softwood and hardwood, over the last 18 months. Exports have risen strongly to the United States, Belgium and the United Kingdom. The increase reflects low pricing and importers building stocks in anticipation of supply shortfalls from Indonesia this year. However the rising export has not been matched by consumption. Instead it has fed problems of over-supply and weak pricing in the international plywood market.

Peru

Mahogany exports fall

Peruvian mahogany sawn lumber exports during the first quarter of this year declined marginally from the high levels recorded the previous year. During the quarter, the value of mahogany exports declined 3% from US$12.3 million to US$11.9 million. Exports of non-mahogany species increased 12% from US$2.7 million to US$3.0 million.

Bolivia

Marginal rise in exports

The value of Bolivia's wood products exports increased by 3% between 2001 and 2002 to US$53.7 million. In the late 1990s, Bolivia's wood exports declined sharply after the government placed firm restrictions on mahogany extraction and aligned itself with FSC certification. Since then Bolivia has focused on value added processing and the marketing of lesser known species and certified product. This policy has proved challenging, but an increase in Bolivia's exports of manufactured products last year suggests a degree of success.

Bolivian wood exports

US$ million	2001	2002	% chg
Sawn lumber	25.4	23.1	-9
Manufactured products			
Doors/windows	11.8	13.5	14
Furniture	11.3	13.0	15
Wood components	3.9	4.1	5
Total	27.0	30.6	13
All wood products	52.4	53.7	3

U.S. export markets

Weak dollar raises expectations

In the opening week of June 2003, the euro was trading at around US$1.17, nearly 20% up against the dollar compared with 12 months ago, and the highest level since February 1999. The decline of the dollar on international exchange markets is widely expected to stimulate overseas sales of American hardwood, although traders have yet to report any significant upturn.

Although there are reports that U.S. lumber production increased during April; and May, availability is still below normal for the time of year. Log inventories are reported to be limited in many areas - including New England and Canada, Kentucky, Tennessee and the Deep South. Wet and relatively cold weather during the spring months also hampered kiln drying activity in some areas so that inventories were slow to build. However this should become less of a problem with the arrival of warmer summer weather.

U.S. hardwood exports January to March 2002 and 2003

Logs/lumber - 000s m3, veneer - mill m2

	2002	2003	% chng
World			
Logs	626.3	603.5	-3.6
Lumber	713.2	712.2	-0.1
Veneer	74.7	70.8	-5.2
Canada			
Logs	429.4	419.2	-2.4
Lumber	257.5	268.0	4.1
Veneer	24.1	24.9	3.3
E.U.			
Logs	73.1	68.2	-6.7
Italy	20.4	21.3	4.4
Germany	27.8	23.8	-14.4
Lumber	188.0	169.7	-9.7
Spain	47.5	45.8	-3.6
Italy	44.2	46.1	4.3
U.K.	25.9	22.6	-12.7
Germany	10.1	9.2	-8.9
Veneer	27.4	25.2	-8.0
Germany	10.6	10.4	-1.9
Spain	7.1	5.8	-18.3
Italy	3.0	3.3	10.0
S.E. Asia			
Logs	15.2	17.6	15.8
Lumber	28.4	30.6	7.7
Veneer	2.9	1.7	-41.4
Greater China			
Logs	53.6	50.0	-6.7
Lumber	126.1	137.8	9.3
Veneer	11.2	10.7	-4.5
Japan			
Logs	28.2	26.0	-7.8
Lumber	28.2	24.7	-12.4
Veneer	0.8	0.3	-62.5
South Korea			
Logs	16.0	11.4	-28.8
Lumber	9.6	9.3	-3.1
Veneer	2.0	2.0	0.0
Mexico			
Logs	1.7	3.4	100.0
Lumber	37.1	41.3	11.3
Veneer	2.7	1.8	-33.3
North Africa and Middle East			
Logs	0.8	0.8	0.0
Lumber	14.2	9.0	-36.6
Veneer	1.0	0.7	-30.0

European stocks low

In Europe, stocks of American hardwood lumber are widely regarded as being low. Underlying uncertainty about the European economy, particularly in Germany, continues to put a brake on demand. However export sales to Europe of some American species - such as walnut and cherry - seem to be inhibited as much by tight supply as by weak European demand.

American white oak has lost ground to European oak this year, particularly for flooring in northern and central Europe. However, supplies of the best quality Eastern European oak - while improving - are still irregular and the volumes available not comparable to American white oak. The American product is still preferred for many joinery applications in Europe where consistency of supply and grade is the major concern.

The European veneer market remains very difficult, a reflection of the poor state of the European furniture industry.

The American Hardwood Export Council report that there is an on-going trend amongst European hardwood buyers to move away from purchasing only on price. Buyers are more focused on quality and are looking for consistent grade and presentation. This trend, which applies to both lumber and veneer, reflects a desire to improve yield and the look of finished products. It is all part of European manufacturers' strategy to fend off intensfying competition.

Chinese market more difficult

The Chinese market has been more difficult this year. The SARS virus has impacted on domestic consumption and created serious logistical problems for export-oriented industries. Furthermore Chinese importers have been very resistant to price increases for American hardwoods resulting from tight availability.

First quarter data indicates that U.S. export sales of logs and veneer to Greater China declined this year, while lumber exports continued to climb. But the Greater China data masks important regional variations. U.S. exports of logs, lumber, and veneer to mainland China have continued to climb this year. However exports to Hong Kong have fallen dramatically, due partly to SARS but also reflecting the long term shift in manufacturing capacity to the mainland. Meanwhile, U.S. lumber exports to Taiwan increased during the first three months of 2003, while log exports to Taiwan declined.

US sawn lumber indicative prices

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

	Mar	Apr	May
$/£	1.56	1.60	1.66
$/Euro	**1.07**	**1.15**	**1.17**
Red oak			
1"	1920	1920	1910
1.25"	2090	2090	2050
1.5"	2190	2190	2190
2"	2500	2500	2470
White oak			
1"	1560	1560	1475
1.25"	1770	1770	1700
1.5"	2140	2140	2150
2"	2775	2775	2800
Ash			
1"	1200	1200	1150
2"	1580	1580	1550
Tulipwood			
1"	1070	1070	1040
1.25"	1150	1150	1125
1.5"	1175	1175	1150
2"	1225	1225	1180
Cherry			
1"	3475	3475	3650
1.25"	3625	3625	3750
1.5"	3825	3825	3925
2"	4075	4075	4100
Hard Maple			
1"	2300	2300	2350
1.25"	2400	2400	2450
1.5"	2550	2550	2500
2"	2650	2650	2600

Mixed results in South East Asia

U.S. exports to other parts of south east Asia have been equally mixed this year. Indonesia has been a declining market, a reflection of on-going economic and political problems. Malaysia has also been buying less lumber this year but seems to be importing more logs. Last year Vietnam was a fast growing market for American hardwood lumber, but demand has been more subdued this year. However exports of American hardwood lumber have increased sharply to Thailand and Singapore this year.

The Japanese market continued to contract during the first quarter of 2003, while exports to North Korea fell away from the relatively high levels achieved in 2002.

The Mexican market has been more bouyant this year than last, with better buying both from manufacturers and timber yards.

U.S. exports of hardwood the Middle East

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have been restricted this year despite reports of good hardwood consumption in the region. The war in Iraq has meant that many American exporters have not been travelling to the region.

Canadian trade

Close links with U.S.

Inevitably, Canadian hardwood trade statistics are dominated by cross-border trade with the United States. This level of trade fluctuates from year to year depending upon the interaction of a range of factors including the relative strength of economic activity and exchange rates, and the availability of logs. Furthermore Canadian hardwood lumber exporters are important competitors to US exporters in markets outside North America, particularly in traditional high value markets of Europe and Japan. In these markets, Canadian exporters have acquired a reputation for strict adherence to size and quality specifications. In part, Canadian hardwood lumber exporters are dependent on logs imported from the United States.

High cross border trade last year

During 2002, Canada's cross border trade with the United States in both hardwood logs and lumber continued at a high level. Canadian hardwood imports were underpinned by the strength of the Canadian economy last year - GDP growth was amongst the highest of rich countries. Meanwhile hardwood exports to the United States during 2002 benefitted from: the weakness of the Canadian dollar against the US dollar; steady hardwood consumption in the U.S. residential sector; and problems of log supply in the States.

Levels of cross-border trade this year may decline due to hieghtened economic uncertainty in both the United States and Canada. During 2003, although Canada is still one of the best performing western economies, growth has been hit by the SARS virus and by the recent discovery of a BSE infected cow in northern Alberta - which has undermined confidence in the agricultural sector.

Focus on high value markets

Considering export markets outside North America, during 2002 Canadian lumber exporters saw a contraction in sales to northern Europe, but sales to Spain and Portugal increased. Unlike their U.S. counter-parts, Canadian lumber exporters continued to focus on high value western markets during 2002 and less on the emerging market in China. Although there was a sharp increase in Canadian hardwood log exports to China, overall volumes are still very small.

During 2003, the Canadian dollar has strengthened considerably against the U.S. dollar, undermining the competitive position of Canadian exporters both in the United States and wider world markets.

Most Canadian hardwood imports from outside North America comprise tropical sawn lumber, mainly from Brazil and Peru. Overall volumes are low and a significant proportion comprises mahogany.

Canadian hardwood log and lumber trade

	Value US$ million				Volume 1000 m3			
	2000	2001	2002	% chng	2000	2001	2002	% chng
Exports								
Oak logs								
Total	3.3	1.8	2.7	46	13.0	7.4	7.4	0
China	0.1	0.0	1.1	2698	1.0	0.1	2.4	3908
United States	1.7	1.0	0.9	-7	5.2	3.1	2.6	-16
Other hardwood logs								
Total	53.6	47.1	48.6	3	297.4	285.9	356.2	25
United States	40.6	38.4	36.5	-5	250.5	254.7	319.3	25
Hong Kong	1.5	0.8	2.6	234	2.4	1.2	5.6	386
China	0.5	0.9	2.5	170	1.8	2.2	4.1	89
Oak sawn lumber								
Total	43.5	45.5	46.2	2	70.0	82.1	80.7	-2
United States	11.0	11.4	12.9	13	24.0	27.6	29.4	7
Spain	5.0	6.7	7.0	4	7.9	12.1	13.6	12
United Kingdom	3.5	3.8	3.5	-8	4.7	6.4	4.7	-26
Portugal	1.4	2.2	2.5	18	1.8	3.0	3.6	21
Germany	1.8	2.0	2.2	12	2.8	4.5	3.5	-23
France	4.0	2.4	2.2	-11	5.1	3.1	2.9	-6
Italy	1.6	2.0	1.6	-20	3.3	4.2	3.3	-21
Japan	1.7	1.5	1.4	-7	2.1	1.8	1.6	-12
Other hardwood sawn lumber								
Total	423.9	364.9	361.9	-1	1400.9	1242.1	1353.0	9
United States	254.1	221.9	234.9	6	1184.2	990.0	1095.6	11
Germany	35.2	28.0	23.2	-17	38.8	38.1	46.4	22
United Kingdom	20.0	15.2	13.2	-13	26.8	22.9	56.8	148
Japan	8.8	8.0	8.2	3	11.3	19.2	17.4	-9
Italy	13.3	9.4	7.7	-19	21.9	53.4	13.0	-76
Hong Kong	3.6	6.3	7.4	18	5.9	10.3	18.3	78
Sweden	8.1	10.0	7.3	-27	7.8	11.6	7.4	-36
Spain	7.1	5.4	6.5	22	7.9	6.4	7.0	8
China	2.2	3.4	5.1	50	4.7	6.5	14.8	128
Netherlands	9.0	6.8	4.5	-33	12.1	6.7	4.4	-35
France	9.5	5.7	4.2	-26	11.5	8.5	6.2	-28
Korea, South	2.2	1.9	3.9	105	2.9	2.3	5.1	123
Belgium	3.6	3.4	3.6	6	4.7	5.8	4.5	-22
Imports								
Oak logs								
Total	48.7	43.4	43.2	-1	367.0	329.4	351.0	7
United States	48.7	43.3	43.1	0	366.8	328.8	350.8	7
Other hardwood logs								
Total	127.2	130.9	135.4	3	1619.4	1886.9	2225.6	18
United States	127.0	130.5	134.9	3	1616.0	1883.9	2222.4	18
Oak sawn lumber								
Total	177.1	146.0	154.6	6	470.0	404.7	446.5	10
United States	176.6	145.6	154.0	6	468.9	404.1	444.6	10
Tropical hardwood sawn lumber								
Total	12.2	12.8	13.8	8	34.0	24.6	29.8	21
Brazil	3.6	4.2	2.9	-31	19.5	8.8	7.9	-10
Peru	1.5	1.6	2.3	41	2.5	3.1	5.3	72
Ghana	0.4	0.7	1.4	105	0.9	1.2	2.2	86
Bolivia	0.9	0.9	1.1	21	1.3	1.6	2.2	44
Myanmar	0.4	0.3	0.7	114	0.5	0.5	1.1	121
Other hardwood sawn lumber								
Total	212.7	185.9	197.2	6	677.9	608.3	625.1	3
United States	205.9	180.5	191.6	6	664.9	596.1	611.0	2
Brazil	4.4	2.7	1.8	-35	6.8	5.5	3.9	-29

Trade show review

A review of furniture shows held in Asia and Europe during spring 2003 brings into sharp focus some of the big changes underway in the international furniture industry. With Asian manufacturers becoming increasingly important, the leading furniture shows in Singapore and Malaysia are now competing for position as the world's leading showcase for Asian design. In Europe, a low turnout at Interzum emphasised the depression now prevailing in Germany's furniture sector. The mood in Germany contrasted sharply with the optimism on display at Salone del Mobile in Milan, demonstrating the confidence of the Italian furniture sector despite the rising tide of competition. Meanwhile in Poland, the Meble show demonstrated that Poland is a rising star in the international furniture arena.

Singapore

International Furniture Fair

The International Furniture Fair Singapore (IFFS) 2003 was held on 1-5 March in conjunction with the 20th ASEAN Furniture Show. For many of its 20 years this show has been billed as a Western furniture showcase in the East. Now, IFFS would prefer to be known as the major international fair for regional Asian furniture.

In an effort to achieve this, the show's organisers have been building strategic partnerships with almost every country across the region – with the notable exception of Malaysia. This is partly because of the intense competition that has now arisen between IFFS and the Malaysian International Furniture Fair which has similar ambitions to become the main show of Asian timber. At the same time, many Singaporean manufacturers who traditionally operated across the Malacca strait are now looking to alternative locations. Higher comparative cost – notably for labour – and shortages of rubberwood have encouraged Singapore manufacturers to establish new plants further afield in China, Vietnam and Indonesia. Participation at the show reflected the organisers "Easternisation" efforts. Despite a dramatic fall-off in participation from traditional northern hemisphere exhibitors like Italy, Spain, and Germany, there were over 600 companies displaying product, covering 55000 m2, 22% greater than ever before. There was a big increase in exhibitor numbers from China, Vietnam, Indonesia, and Taiwan, and a record number from Singapore itself despite a sick local retail market. Meanwhile Italian presence was the lowest for years, although there was no shortage of Asian companies with Latin brand names. Timing of the show was fortunate, being held just before the SARS panic. According to the organisers, visitor attendance was "good" considering economic worries. However exhibitors and attending publications felt that the show was 'slow' and that attendance was not as good as previous years.

Much of the furniture on display at the show comprised wood. The less interesting, cheaper designs tended to use rubberwood and pine, and teak was the dominant species in outdoor furniture. There was also a presence of MDF finished to look like solid wood, and melamine wood look-a-likes appeared to be a popular way of attempting to keep costs low. American hardwoods were present in only a small proportion of exhibits, mainly towards the top end of the market and incorporated into furniture designs with more international appeal.

The show played host to the SFIC's Furniture Design Competition, which was sponsored by American Hardwood Export Council (AHEC) this year. Reflecting efforts to promote innovative Asian design, the theme of the competition this year was "Asian Inspiration". Both winners used wood (plywood with mahogany veneer coffee table and an elm chair) in their designs.

Malaysia

International Furniture Fair

The Malaysian International Furniture Fair 2003 held in Kuala Lumpur 4-8 March, covered the same exhibition space (55,000 sqm) as IFFS. The Malaysian Furniture Industry Council are attempting to widen the international appeal of MIFF, with a greater number of ASEAN and international exhibitors, but for 2003 it still had a large focus on their domestic market. There were over 350 exhibitors, a 10% increase on 2002. Contacts attending the show suggest it felt busier than IFFS and registered participants were quite high. Preliminary estimates indicate around 16000 visitors, including 6000 overseas visitors from 122 countries. However general consensus from exhibitors was that business was "slow".

The show was not as sophisticated as IFFS, with one leading European trade journal editor describing it as "cheap and cheerful". There was little up-market contemporary or classical furniture on display. Most products were conservatively designed, solid, well finished and in the mid-price range. There were a very high percentage of office furniture manufacturers offering office furniture solutions. Rubberwood remained dominant, accounting for perhaps 60-70% of wood used in furniture.

Italy

Salone del Mobile

On the eve of the Salone del Mobile in Milan during April there were widespread fears that – at this delicate juncture for the industry – the show would signal a dramatic downturn. Serious pre-show jitters were brought on by the weakness of the furniture sector in several key European countries, by the war in Iraq, and by the SARS virus which was expected to keep many Asians away.

In the event the outcome was positive. The show's organizers reported "excellent" results. There were 2,160 exhibitors covering the Furniture, Interior Decoration and Lighting sectors. Attendance figures were more than satisfactory, media attention was higher than usual and journalists were on hand from 60 different countries. There were bigger crowds than ever before (171,520 trade visi-

Philippines: combining the conventional and bizarre

Reports from the Cebu X furniture show in the Philippines held at the end February suggest it was well worth a visit. Although much smaller than the other Asian furniture shows, CEBU X was notable for its presentation of innovative designs. The show had fewer than 150 exhibitors and occupied just 8000 m2. Nevertheless it's location in Cebu placed it at the very heart of the Philippine furniture sector, and within a 30-minute taxi ride of at least 250 furniture showrooms. More than 1200 foreign buyers spent around US$23 million at the show. That was down 15% on 2002, probably the result of the looming war in Iraq and of recent terrorist activities in nearby Mindanao. North America have traditionally been the biggest buyer of Cebu furniture, but major spenders this year were from the Middle East, particularly Saudi Arabia and Europe. Despite being an island with no remaining natural timber resources, the Philippine industry has established a reputation for flair and innovation among furniture experts. The industry specialises in combining the conventional with the utterly bizarre to make high quality contemporary furniture. Wood is often used, generally in combination with a very wide range of other natural materials including bamboo, rattan, seagrass, shells, stones, leather, hemp, and banana bark.

Source: Inwood International

tors plus 15,039 members of the general public, and 3,263 journalists). Though SARS and the Iraq war may have discouraged some Asian and Middle-Eastern visitors, any cancellations were compensated for by the arrival of large numbers of Russian, Japanese and even British and American buyers.

Many exhibitors claimed the show demonstrated that the slowdown in growth of global demand for Italian furniture may have hit bottom. There was confidence that continuing strong underlying consumer interest in domestic furniture and interior design may drive a rebound. Many exhibitors felt the show re-confirmed the leadership of Italian-made furniture design and practice.

For the hardwood sector, there were strong indictions of a continuing fashion for darker exotic woods used to contrast with lighter tones. Oak remained dominant amongst temperate hardwoods, while wenge was a popular tropical wood.

Germany

Interzum

In contrast to Salone del Mobile, the Interzum fair held in Cologne, Germany for suppliers to the furniture sector was quiet. There were far fewer exhibitors than expected and visitors were down from 62,000 in 2001 to 54,000 this year. The German contingent of exhibitors was small (less than 25% of the total) with most of the major German veneer, flooring and wood processing companies absent. Some of the biggest Western European hardwood lumber producers were amongst those staying away this year. However some big European timber trading companies were exhibiting this year – including the Danish DLH group and tt Timber International of Switzerland. There were also a significant number of French hardwood lumber producers, including Ducerf - the first French mill to be PEFC certified. FSC was in evidence with Swiss-based Precious Woods Ltd, but generally it has to be said that certified wood products were not much a feature of Interzum.

The total number of exhibitors attending reached 1352, down from 1783 in 2001. Exhibitors came from 131 countries, making this probably the most international show for years, albeit without the Asian visitors who had increasingly called at Interzum on route to Ligna. The foreign contingent of exporters was led by Italy with 317; and by the USA with 83, which included by far the largest group of wood producers.

Despite attendance being down, some hardwood exhibitors seemed satisfied with visitor levels and the interest shown in their products. One American hardwood exporter noted that there were “fewer, but more serious, people than usual”.

Despite the absence of many German producers in the solid-wood sector, there was an impressive display of red beech products; and the German Veneer Association provided a base for a number of small and medium-sized German veneer producers and distributors. The non-wood surface producers were also out in force and, as ever, imitating the real thing.

There was an almost total absence of large European flooring manufacturers, suggesting that Interzum has lost out in this sector to other fairs such as Domotex in Hanover. But there were a large number of small specialist flooring producers exhibiting a huge diversity of products. This served to demonstrate the growing range of flooring products in the European market. It was also a vivid reminder of the overcapacity in the European flooring industry that has become evident in the last two years.

Poland

Meble-Drema

Some evidence of the new dynamism of Poland’s furniture industry was apparent at the nation’s leading annual trade show in Poznan in early May. Nearly one thousand exhibitors from about 40 countries took part in the show which is split into four sectors; furniture and accessories (MEBLE), woodworking and machinery (DREMA), office furniture (BIURO), and textiles and interior design (DOMEXPO). MEBLE constitutes the largest sector accounting for over 500 exhibitors and was the primary location for wood exhibitors.

The Meble show highlighted that Polish wood furniture is still heavily dependent on locally derived hardwood products – notably oak, birch and beech. The industry is not yet a major user of imported hardwood. This is due to a combination of factors including limited knowledge, fragmentation of the furniture industry, and the lack of a well developed network of importers in Poland.

There are about 20,000 furniture manufacturers in Poland. Only 370 companies employ more than 50 people and the top 12 manufacturers share 60% of total Polish furniture production. Thanks to foreign investment, notably from Germany, Polish furniture manufacturers have substantially improved productivity, quality and have introduced modern technologies in recent times. Evidence for this was provided by both the wood products on display and the sophistication of the high-tech equipment on offer at the woodworking machinery exhibition DREMA.

World Furniture Trade

US$ 1000 million	*2000*	*2001*	*2002*
Top 10 Exporters			
World exports	73.42	71.77	75.70
Italy	9.85	9.76	10.05
China	7.02	7.56	9.86
Germany	6.42	6.59	6.66
United States	6.54	6.11	5.73
Canada	5.79	5.35	5.45
Mexico	4.02	4.16	4.30
Poland	2.37	2.69	3.09
France	3.13	3.00	3.04
Belgium	2.31	2.31	2.39
Hong Kong	2.78	2.39	2.38
Top 10 Importers			
World imports	75.27	74.14	80.09
United States	23.83	23.23	26.72
Germany	8.54	8.29	8.17
United Kingdom	4.33	4.51	5.62
France	4.57	4.56	4.85
Japan	4.33	4.41	4.36
Canada	3.88	3.60	3.75
Netherlands	3.32	3.25	3.29
Belgium	2.46	2.43	2.44
Hong Kong	2.70	2.34	2.28
Switzerland	1.96	1.94	2.06

But according to AHEC, demand for imported hardwoods from individual Polish end-users is still rarely sufficient to warrant the importation of a 40ft container. And there are few importers keeping a large range and stock of hardwoods available for domestic distribution. Much of the non-domestic wood used in Poland has to be brought in small volumes on trucks through another European country – usually Germany, but also from Denmark, Holland and Belgium.

However this situation is expected to change. The Polish furniture sector is heavily oriented towards exports and has experienced rapid growth in overseas sales over the last 3 years. Around 70% of Polish furniture production is now exported. So imports of a wider range of hardwoods is expected to increase as Poland seeks to satisfy demand for furniture in species that are internationally fashionable, such as cherry and hard maple. And although Polish forests are productive, their output is limited by an outdated saw-milling industry with insufficient drying capacity to meet the new demand for lumber.

Although furniture exports are dominant, Poland’s domestic furniture market also offers potential. There is evidence that this nation of 38 million people is developing a taste for modern, western styles. Domestic demand during 2002 was depressed by a sharp slowdown in residential construction sector. But an acute housing shortage in the country suggests that there will be opportunities in the long term.

Europe

Hardwood logs

Low levels of trade

The market for western European hardwoods is characterised by low production levels matched by equally low levels of demand.

The main hardwood logging season in western Europe ended in early May. Continuing problems in the beech lumber market have led to only limited demand for beech logs this year. The market for oak logs has been more active. Much restricted oak harvests in France encouraged French buyers to turn to log supplies from neighbouring countries, notably Germany. Prices for Western European oak logs were tending to firm during the first four months of this year. Strong demand from French cask producers led to particularly firm prices for the best quality oak logs. German oak log prices rose to such an extent that many German sawmills have had difficulty securing adequate log inventory.

However during May, there were reports of a slowdown in the western European oak log trade. Demand in France began to tail away as cask producers had already built sufficient inventory to maintain production over the summer months. Meanwhile French hardwood sawmills curtailed log purchases in response to falling lumber demand. Many Western European mills are also suffering from financial problems limiting their ability to build log inventory. By the end of May, there were signs that oak log prices were beginning to stabilise.

Hardwood sawn lumber

Difficult trading conditions

Trading conditions for European hardwood lumber mills remain very difficult. Domestic demand in Germany is very subdued. In France, lumber demand has weakened again since April in response to a slowdown in French construction activity and declining confidence in the economy. The strengthening euro has undermined export sales for mills in the euro-zone.

There is little change in the market for European beech lumber, which remains depressed. The Chinese market is very slow at present, undermined both by the strong euro and the SARS virus. Relatively cheap euro prices for beech lumber continue to be offered by both French and German mills. For example, steamed, square-edged, and kiln dried beech is being offered by UK agents at around 700 euro/m3 for 1", and 750 euro/m3 for 2" (C&F UK port, inclusive of agents commission). European mills have been seeking to diversify sales to a wider a range of markets - some are now actively marketing beech in the U.S. for example.

Euro prices for European oak sawn lumber have remained static over recent weeks, balanced between tight supply and slow demand. However in countries outside the euro-zone, the strengthening euro has led to apparent C&F price increases which has undermined demand.

Eastern European influence

Over the last 18 months there has been a significant increase in the number of Eastern European oak suppliers to the western European market. Many are able to offer good quality product, kiln dried, and square edged. However volumes are still restricted. Due to lengthy turnaround times between order and delivery, sourcing Eastern European material usually requires forward planning. Recent anecdotal reports of newly established manufacturing plants in Eastern Europe turning to French and German hardwood mills for lumber supply provides an indication of the continuing obstacles to trade in Eastern European hardwood lumber.

Prices for the best quality Croatian sawn oak lumber remain stable. Inclusive of agents commission, kiln dried, square edged, A quality, Croatian sawn oak delivered to the UK is being offered at around 1250 euro/m3 for 1" and 1500 euro/m3 for 2".

Massive fall in German veneer capacity

According to a survey by the German veneer manufacturers' association, VDF, production capacity in Germany dropped sharply over the last 18 months. Between 2001 and 2002, the number of veneer machines fell from 48 to 39, and now stands at only 34. But VDF suggest there are no plans to shut down more machines this year. The present lull in machine closures partly reflects unexpectedly slow progress in developing new capacity in Eastern Europe. Last year, Germany produced 112.8m m2 of veneer, comprising 96.4m m2 sliced veneer and 16.4 m m2 peeled veneer. These figures are well down on previous years, the largest fall being in beech veneer production.

Environment

Illegal logging

EU publish action plan

The European Commission has published an Action Plan designed to tackle illegal logging which looks set to have far reaching implications for the European hardwood trade. The Plan calls for co-operative agreements with major timber producing countries under which the latter would shoulder responsibility for issuing "legality licenses" for all timber exported to the EU.

The "EU Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT)" sets out a process through which the Commission proposes to address the growing problem of illegal logging and related trade. The Action Plan has several elements:

- **Development co-operation**. The EU intends to help partner countries to build systems to verify timber has been harvested legally; promote transparency of information; and support capacity building for partner country governments and civil society.
- **Trade in timber**. The EU will initiate a longer-term process of dialogue with wood trading countries to extend international collaboration to tackle illegal logging. In the short term, a voluntary licensing scheme is proposed, whereby partner countries issue a permit attesting to the legality of timber exported to the EU. This will require a Council Regulation for implementation. The Commission will also review options for, and the impact of, further measures, including, in the absence of multilateral progress, the feasibility of legislation to control the imports of illegally produced timber into the EU.
- **Public procurement**. Practical information will be provided to guide contracting authorities on how to deal with legality when specifying timber.
- **Private sector initiatives**. Measures are proposed to encourage private sector initiatives for good practice in the forest sector, including the use of voluntary codes of conduct to source only legal timber.
- **Implementation**. To support implementation of the above activities, a co-ordinated EU response is proposed, drawing on the different strengths and capacities of the Commission and EU Member states.

The Action Plan is the EU's response to the so-called "Forest Law Enforcement and Governance (FLEG)" process. The FLEG process evolved from an agreement in 1998 between the G8 group of leading industrial nations to take steps to clamp down on illegal logging and improve forest management globally. Copies of the plan may be obtained from the website www.illegal-logging.info.

Environment

Eco-labelling

Discrimination against wood

Since June 2002, discussions have been progressing quietly behind the scenes at the European Commission on a set of criteria for a new voluntary eco-labeling scheme for furniture. The proposed criteria, which are due to be finalized in the summer, are likely to discriminate against wood.

The criteria include coverage of wood and panel products raw materials, in addition to a range of other materials including plastic, steel, aluminium, foams, fabrics, leather, adhesives, and solvents.

The latest draft criteria include the requirement that 70% of solid wood content, or 30% of wood panel product content, must be independently certified. These rules have been drawn straight from the Forest Stewardship Council (FSC) rulebook and were introduced after lobbying by the FSC and environmental groups.

Efforts by European timber industry organizations to seek a reduction in certified content, more in keeping with what is practically achievable by European furniture manufacturers seem to have been unsuccessful. European industry organizations argued that less than 4% of global forest area is independently certified under any scheme. The difficulties posed by chain of custody mean that, at present, only a small proportion of wood harvested in certified forests makes it's way to market as labeled product. Furthermore, efforts by wood products suppliers and manufacturers to achieve and demonstrate 70% certified wood content are severely hampered by an internal policy decision of the FSC itself not to take part in international efforts to agree a framework for mutual recognition of various different certification schemes.

Nor do the criteria give any credence to the positive environmental benefits of timber, such as it's carbon sequestration role.

The criteria include some obstacles for eco-labeling of non-wood furniture products. Most notably, the label would not be applicable to any furniture containing PVC. And there are requirements for percentage recycled content of steel and aluminium. But overall the criteria for wood seem more demanding than for other products. There are no comparable requirements for traceability or production methods established for steel or aluminium.

In practice, it seems likely that the criteria will result in only limited uptake of the EU eco-label, which is voluntary. With the exception of garden furniture sold via the large DIY retailing establishments, interest in environmental issues has been muted in the European wood furniture manufacturing sector.

Comments or questions on the draft eco-labeling criteria for furniture may be directed to Michele Accardo, EU Commission, DG Environment, michele.accardo@cec.eu.int and copied to Stichting Milieukeur, the Dutch eco-labeling competent body, at milieukeur@milieukeur.nl

Exchange rates

		One GB pound (£)			One US Dollar ($)			One Euro		
		7-Apr	9-May	6-Jun	7-Apr	9-May	6-Jun	7-Apr	9-May	6-Jun
Argentina	Peso	4.5504	4.4145	4.7146	2.9150	2.7550	2.8350	3.1190	3.1651	3.3158
Australia	Aus.$	2.6002	2.4878	2.5164	1.6657	1.5526	1.5132	1.7823	1.7837	1.7698
Bangladesh	Taka	90.8531	93.0966	97.1691	58.1999	58.1000	58.4300	62.2740	66.7483	68.3398
Belize	B$	3.0753	3.1566	3.2761	1.9700	1.9700	1.9700	2.1079	2.2632	2.3041
Bolivia	Boliviano	11.864	12.1927	12.6853	7.6000	7.6093	7.6280	8.1320	8.7419	8.9217
Botswana	Pula	8.0695	7.7241	8.548	5.1693	4.8205	5.1401	5.5311	5.5380	6.0119
Brazil	Real	5.0422	4.6163	4.7778	3.2300	2.8810	2.8730	3.4561	3.3098	3.3603
Canada	Canadian $	2.3015	2.2281	2.2523	1.4743	1.3905	1.3544	1.5775	1.5975	1.5841
Chile	Peso	1125.910	1113.390	1183.970	721.251	694.848	711.949	771.739	798.277	832.695
China	Yuan	12.9208	13.2623	13.7646	8.2770	8.2768	8.2770	8.8564	9.5088	9.6807
Czech Republic	Koruna	46.3719	43.8856	44.5751	29.7055	27.3883	26.8040	31.7850	31.4650	31.3500
Denmark	Danish Krone	10.8348	10.3556	10.5564	6.9407	6.4628	6.3478	7.4266	7.4247	7.4244
Estonia	Kroon	22.8261	21.8236	22.2464	14.6223	13.6197	13.3773	15.6458	15.6471	15.6461
Euro-zone (1)	Euro	1.459	1.3947	1.4219	0.9346	0.8704	0.8550	1.0001	1.0000	1.0000
Fr. Africa (2)	CFA Fr.	956.99	914.89	932.68	613.04	570.97	560.84	655.97	655.97	655.96
Ghana	Cedi	13112.80	13836.30	14418.20	8399.98	8635.00	8670.00	8987.99	9920.33	10140.43
Guyana	Guyanese $	279.428	286.821	297.677	179.000	179.000	179.000	191.530	205.645	209.359
Hong Kong	HK$	12.1753	12.4968	12.9692	7.7994	7.7990	7.7987	8.3454	8.9599	9.1213
India	Rupee	73.9938	75.5989	77.9614	47.4000	47.1800	46.8800	50.7180	54.2028	54.8309
Indonesia	Rupiah	13881.6	13716.1	13595.0	8892.5	8560.0	8175.0	9514.9	9834.1	9561.5
Japan	Yen	187.459	187.819	197.648	120.085	117.215	118.850	128.491	134.662	139.007
Kenya	K. Shilling	118.562	112.004	122.147	75.950	69.900	73.450	81.267	80.304	85.907
Korea South	Won	1963.72	1925.22	1996.02	1257.95	1201.50	1200.25	1346.00	1380.34	1403.82
Liberia	Liberian $	1.5611	1.6023	1.663	1.0000	1.0000	1.0000	1.0700	1.1488	1.1696
Malaysia	Ringgit	5.932	6.0889	6.3194	3.8000	3.8000	3.8000	4.0660	4.3656	4.4445
Myanmar	Kyat	9.6804	9.9365	10.3126	6.2012	6.2012	6.2012	6.6353	7.1243	7.2529
New Zealand	NZ$	2.8826	2.7749	2.8786	1.847	1.732	1.731	1.976	1.990	2.025
Nigeria	Naira	203.405	208.386	218.851	130.300	130.050	131.600	139.421	149.408	153.920
Papua NG	Kina	5.7821	5.7747	5.8872	3.7040	3.6039	3.5401	3.9633	4.1403	4.1405
Philippines	Peso	83.0869	83.843	88.9039	53.2249	52.3250	53.4600	56.9508	60.1136	62.5268
Poland	Zloty	6.3586	6.0301	6.2286	4.0733	3.7633	3.7454	4.3584	4.3235	4.3806
Romania	Leu	53122.5	52308.7	54405.0	34029.9	32645.0	32715.0	36412.1	37504.2	38263.5
Russia	Rouble	48.8238	49.8267	50.8147	31.2762	31.0960	30.5561	33.4656	35.7247	35.7384
Singapore	Singapore $	2.7719	2.7912	2.8745	1.776	1.742	1.729	1.900	2.001	2.022
Solomon Is.	Slmn. Is. $	11.6497	11.8719	12.5078	7.463	7.409	7.521	7.985	8.512	8.797
South Africa	Rand	12.4319	11.575	13.3749	7.9638	7.2238	8.0426	8.5213	8.2990	9.4067
Sweden	Krona	13.4177	12.7926	12.9467	8.5953	7.9836	7.7852	9.1970	9.1720	9.1055
Taiwan	$	54.355	55.6816	57.5897	34.8195	34.7500	34.6300	37.2569	39.9225	40.5033
Tanzania	Shilling	1605.54	1653.63	1721.21	1028.50	1032.00	1035.00	1100.49	1185.62	1210.54
Thailand	Baht	67.2267	68.18	69.2556	43.065	42.55	41.645	46.0796	48.8836	48.708
Uganda	New Shilling	3079.17	3202.30	3326.42	1972.50	1998.50	2000.25	2110.57	2295.98	2339.50
United Kingdom	£	1.0000	1.0000	1.0000	0.6406	0.6241	0.6013	0.6854	0.7170	0.7033
U.S.A	US $	1.5611	1.6023	1.663	1.0000	1.0000	1.0000	1.0700	1.1488	1.1696
Venezuala	Bolivar	2494.560	2560.560	2657.470	1597.999	1598.003	1597.998	1709.861	1835.867	1869.019
Vietnam	Dong	24122.9	24779.5	2541.6	15453.0	15464.5	1528.3	16534.7	17766.4	1787.5
Zimbabwe	$	1286.31	1320.34	1370.31	824.00	824.00	824.00	881.68	946.66	963.75

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

Hardwood Events

Date	Event	Venue	Target audience	Contact
2003				
31 Aug -2 Sept	SPOGA/GAFA Fair	Cologne, Germany	Outdoor furniture & timber products	
21-28 Sep	XII World Forestry Congress	Quebec, Canada	Forestry	www.wfc2003.org
21-24 Oct	Wood-Tech 2003	Brno, Czech Republic	Timber industry	Tel: +420 541 15 32 72 envibrno@bvv.cz
23-24 Oct	AHEC Europe Convention	Hamburg, Germany	Timber industry	www.ahec-europe.org Tel +44 (0) 207 6264111
30-31 Oct	ATIBT Forum	Athens, Greece	Tropical timber industry, forestry	www.atibt.com, email: com@atibt.com
3-8 Nov	BATIMAT Fair	Paris, France	Building material suppliers	www.batimat.com/2003date.htm
12-15 -Nov	MADERALIA Fair	Valencia, Spain	Woodworking and wood supplies	http://maderalia.feriavalencia.com/ index.jsp
1-2 Dec	AHEC Greater China/ SE Asia Convention	Ho Chih Minh City Vietnam	Timber industry	www.ahec.org
2004				
21-23	RACE WOOD 2004	Libreville, Gabon	Central Africa-Europe timber trading sector	www.atibt.com, email: ta@atibt.com

Constraints on African log supply

The monsoon is starting in the major log supplying countries north of the equator but is coming to an end south of the equator. UN sanctions and local political events have effectively slammed the door shut on Liberian log supplies.And almost without exception, significant constraints on log supply are reported in all the other major supplying countries. However weak export demand has meant that prices for African logs have remained static. **Pages 2,3**

African sawn lumber demand slow

FOB prices for iroko sawn lumber remain firm due to limited availability in Ivory Coast. Prices for other African species remain fairly static. With the exception of iroko and framire, European stocks of African hard wood sawn lumber are generally viewed as adequate to meet current levels of demand. Chinese importers have also been less active over recent months. **Page 3**

Exchange rate affects Meranti trade

CNF Europe prices throughout the meranti sawn lumber range have been stable in US dollar terms, with only occasional reports of slight easing in response to slow demand. But for importers in the euro-zone, apparent CNF prices have fallen more sharply due to the strengthening euro-dollar rate. Malaysian suppliers are keeping a low profile in the European market at present due to limited log supply and low demand. **Page 4**

China's log imports jump 27%

China's hardwood log imports increased by 27% in the first four months of 2003 to nearly 3.6 million m3. There was a 63% increase in imports from Malaysia, partly reflecting declining availability of illegal logs from Indonesia. **Page 4**

Brazil's lumber exports rise sharply

Brazil's mahogany exports have fallen away to zero this year, but exports of non-mahogany species have risen sharply. Chinese importers have been very active in Brazil buying up large quantities of dense close-grained hardwoods for flooring. **Page 5**

Rising hope for American hardwood as dollar slides

The decline of the dollar on international exchange markets is widely expected to stimulate overseas sales of American hardwood, although traders have yet to report any significant upturn. In Europe, stocks of American hardwood lumber are widely regarded as being low. Underlying uncertainty about the European economy, particularly in Germany, continues to put a brake on demand. However export sales to Europe of some American species - such as walnut and cherry - seem to be inhibited as much by tight supply as by weak European demand. The Chinese market for U.S. hardwoods has been more difficult this year due partly to the SARS virus. Demand in other parts of Asia has been equally mixed. **Page 6**

Canada focuses on high-value

Canadian trade data indicates that during 2002 cross border trade with the United States in both hardwood logs and lumber continued at a high level. Last year, Canadian hardwood lumber exporters saw a contraction in sales to northern Europe, but sales to Spain and Portugal increased. Unlike their US counterparts, Canadian lumber exporters continued to focus on high value European markets last year. **Page 7**

Furniture show review

A review of furniture shows held in Asia and Europe during spring 2003 highlights some big changes underway in the international furniture industry. With Asian manufacturers becoming increasingly important, the leading furniture shows in Singapore and Malaysia are competing for position as the world's leading showcase for Asian design. In Europe, a low turnout at Interzum emphasised the depression prevailing in Germany. The German mood contrasted sharply with the optimism at Salone del Mobile in Milan, which demonstrated the confidence of the Italian furniture sector despite the rising tide of competition. Meanwhile in Poland, the Meble show highlighted that Poland is a rising star in the international furniture arena. **Pages 8 & 9**

Low European log production matched by low demand

The market for western European hardwood logs is characterised by low production levels matched by low levels of demand. The main hardwood logging season in western Europe ended in early May. Problems in the beech lumber market have led to only limited demand for beech logs this year. The market for oak logs has been more active, although there were signs of cooling demand in May. **Page 10**

Difficult trading conditions for European sawmills

Trading conditions for European hardwood lumber mills remain very difficult. Domestic demand in Germany is very subdued. In France, lumber demand has weakened again since April in response to a slowdown in French construction activity and declining confidence in the economy. The strengthening euro has undermined export sales for mills in the euro-zone. The Chinese market for beech lumber is very slow at present and euro prices remain soft. Euro prices for European oak sawn lumber have remained static over recent weeks, balanced between tight supply and slow demand. **Page 10**

EC publishes illegal logging plan

The European Commission has published an Illegal Logging Action Plan which looks set to have far reaching implications for the European hardwood trade. The Plan calls for co-operative agreements with major timber producing countries under which the latter would shoulder responsibility for issuing "legality licenses" for all timber exported to the EU. **Page 10**

Wood loses out in EC furniture eco-labelling

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