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Volume 17
Number 5
May 2002

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Eastern Europe's potential

Inward investment over the last five years has meant that Eastern Europe is emerging as a more important supplier of temperate hardwoods. This is raising concerns particularly amongst North American and Western European hardwood suppliers who fear that they will lose market share to a rising tide of Eastern European hardwood. For North American suppliers, the threat is heightened by the stubborn weakness of the euro against the dollar, which also tends to put them at a competitive disadvantage. At a time of global economic weakness, Eastern European suppliers seem well placed to take advantage of efforts by many manufacturers to cut costs.

Increased competition from Eastern European hardwood producers has inevitably raised the question of the extent of the Eastern Europe resource and its production capacity. Does the current interest in Eastern European hardwoods represent a short term switch due to currency fluctuations, or a long term shift in the structure and direction of trade?

Eastern Europe on the world stage

The recently published UN-ECE/FAO "Temperate and Boreal Forest Resource Assessment 2000" (TBFRA 2000) throws some light on this issue (see tables page 11). Although the conclusions to be drawn are limited by the inadequacies of the data, TBFRA 2000 allows a rough international comparison of the Eastern European hardwood resource to be made. To simplify analysis, it is convenient to separate the mainly temperate hardwood forest resources of Eastern Europe from the mainly boreal forests of the Russian Federation. Analysis of the data from Eastern Europe indicates that:

- The underlying size of the Eastern

European hardwood resource in terms of forest area and growing stock is comparable to Western Europe. However it is only about a quarter of the size of the U.S. resource in terms of area and a third of the size in terms of growing stock volume.

- On a national level, Romania holds the largest stock of hardwoods of all Eastern European countries, followed by Turkey, and Ukraine. Other countries with fairly significant hardwood forest resources are Yugoslavia, Bulgaria, Hungary, Croatia, Belarus, and Poland.

- Eastern European hardwood forests are supporting growth rates of around 2.6% of growing stock per annum. This rate is significantly higher than the colder climate hardwood forests of Russia and Canada, which support growth rates of around 1.6%, and very similar to the U.S. forests growth rate of around 2.5%. However it is not as high as the growth rate prevailing in the more intensively managed hardwood forests of Western Europe of around 3.2%.

- During the reference period for TBFRA 2000 (most data is for the mid 1990s), Eastern European annual hardwood fellings reached 60 million m³ (overbark), compared to 87 million m³ in Western Europe and 170 million m³ in the United States.

- The overall intensity of exploitation of Eastern European forests during the reference period was very similar to that of Western Europe and North America. In all these regions, annual hardwood fellings were around 55% of net annual increment. This is a crude indicator that harvests in all regions during the reference period are sustainable in the long term.

- In terms of area and growing stock per capita of population, Eastern Europe is reasonably well endowed with hardwood forests compared to Western Europe.

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The independent monthly journal providing market intelligence for the international hardwood trade and industry

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Subscriptions

Within UK £108 p.a

Outside UK £120 p.a. or US\$199 p.a
or Euro 209 p.a. (includes airmail).

Payable in advance.

Cheques denominated in £ sterling,
US\$ or Euros should be made out to

hardwoodmarkets.com Ltd

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ISSN 1471-6186

Consultancy services are also available.

Particular areas of expertise:
Forest Industry Market Intelligence;
Marketing and Promotion;
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International Trade Issues.

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Printed by:
Lamberts Print and Design
Station Road
Settle
North Yorkshire
Tel: 01729 822177

Editorial

Just how valuable are trade shows?

It sometimes seems that the round of international trade shows and exhibitions relating to hardwoods is never ending. No sooner has Salone del Mobile in Milan stopped showing furniture, than the French Carrefour wood industry show in Nantes comes around again – that is, if you can make it back from Timber & Wood in China in time. Or, what about a trip to Sasmil/Xylexpo in between? Recently our Far East correspondent attended six furniture shows in four Asian countries in the space of two weeks! And later in the year there are more shows in Chengdu, China and in Mumbai, India - both potentially huge, or at least hugely influential, marketplaces. Eventually the time taken and the cost of visiting so many international events showing furniture and wood products may

be called into question. What is the value of shows? Meeting the market network and researching the marketplace are obvious answers. Analysing the trends is also a longer-term objective, which may reveal where the fashion for hardwoods is heading. For example, who would have predicted three years ago the recovery of oak markets in Europe?

hardwoodmarkets.com tries to give a balanced commentary on these trends emerging from shows. Perhaps it is time for our readers to comment on the value of the shows themselves and the trends that we report, such as the Milan and Zow reports in this issue (page 9). Visit our website and contact us by clicking on the email at www.hardwoodmarkets.com

Africa

African logs and sawn Still steady

There is little change in the market for African logs and lumber. Prices for most items are stable as the fragile balance between slow demand and tight supplies continues. Buying of logs and sawn lumber in Europe is still subdued, log imports into Japan are very slow, but there are signs that demand in China is picking up. The logging season began slowly in January this year and there are signs that it may end quite early too. Seasonal rains usually arrive in late May or June, but already there are reports of rain disrupting operations in some areas raising the prospect of a further tightening of supply.

China buys more African logs

African tropical log prices remain stable. China is an increasingly important player in the African log market as European demand is very slow. In addition, while China's appetite for logs is rising to feed an expanding processing sector, European buyers are tending to shift more towards imports of lumber or semi-finished components.

In **Cameroon** the forest sector is having to adjust to a new tougher regulatory regime which constrains overall harvesting levels and which has led to the imposition of heavy fines on some companies (see report page 3). Cameroon's proposed ban on exports of logs and **azobe** and **ayous** has been modified into a quota system. Companies are now required to mill at least 50% of their **ayous**

and **azobe** log input. The remaining 50% may be exported in log form. Despite the change to the legislation, demand for logs from Cameroon's domestic sawmills is now so great that few logs are being exported. Many Cameroon sawmills are still having difficulty obtaining adequate stocks of good quality logs and in meeting customer specifications. To supplement domestic log supplies, some mills in Cameroon are now bringing in logs overland from **Central African Republic** and **Congo (Brazzaville)** despite high costs.

Log stocks are low at the export log park in Douala and almost all available logs are sourced from **Congo (Brazzaville)** and **Central African Republic**. Due to high transport costs, only the very best quality logs tend to be exported from these countries.

The French journal *Le Commerce International du Bois* reports that production is proceeding as normal in **Gabon**. Although SNBG recently announced the extension of harvesting licenses over 600,000 hectares in Gabon, activity is increasingly focused on lesser known species and added value processing and away from the export of logs of traditional species such as **okoume** and **ozigo**. Rising demand for logs of these species from East Asia is also tending to reduce availability to European markets.

European lumber demand sluggish

European demand for African sawn lumber has been sluggish since the start of the year. The widespread trend is towards buying for immediate needs only and maintenance of

African indicative prices

	Feb	Mar	Apr
Exchange rates			
US\$/£	1.42	1.43	1.45
Euro/£	1.64	1.62	1.62
All prices include agents commission of 5%			
Logs			
Liberia			
US\$/m3, FOB Liberia			
Grade: B+ & better (good UK sawing quality)			
All diameters 60 cm+			
A. mahogany	185	185	185
Walnut	185	185	185
Iroko	240	240	240
Kusia (Opepe)	120	120	120
Sawn lumber			
Cameroon, CAR, Congo (Braz.)			
Euro/m3; FOB			
Grade and size: FAS, air dried, width 6"+, length 6'+			
Sapele	510	510	510
Sipo	615	615	615
Bibolo	400	400	400
N'Gollon	535	535	535
Iroko	520	520	520
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	500	500	500
Mahogany	420	420	420
Framire	310	310	310
Samba No.1 C&S	240	240	240
Dimension stock			
Azobe	400/	400/	400/
	460	460	460
Dabema	300/	300/	300/
	390	390	390
Gabon			
Euro/m3; FOB			
Grade and size: FAS, width 6"+, length 6'+			
Okoume AD	320	320	320
Okoume KD	365	365	365

low stocks. However Chinese interest in African sawn lumber is said to be increasing, with buyers demonstrating a greater willingness than most Europeans to try a wide variety of species.

Prices for most species of African sawn lumber remain stable with supplies said to be adequate but not excessive. African mills are generally pushing for higher prices but these are still being resisted by European importers.

Although mills report that they have adequate stocks of air dried **sapele** to meet current levels of subdued demand and are now taking orders for June/July shipment, agents report that shipments are being delayed which may indicate underlying supply problems. Forward demand for **sapele** is still slow in Spain and the UK. Many importers of **sapele** in the UK now prefer to buy kiln dried stocks from the continent rather than air dried direct from Africa. Shippers are keeping **sapele** prices stable as overall supplies are down this year and there are expectations that demand will

pick up later in the year. Rising prices for **Malaysian meranti** may also keep **sapele** prices firm.

Framire/idigbo continues to sell well in the UK as a general purpose and low priced utility timber.

Wawa sales are steady to Europe and South Africa and rising into the Far East. Demand for **wawa** may have been boosted amongst moulding manufacturers due to limited availability of **Asian ramin** which now commands high prices, particularly in China.

Iroko prices have held steady during April after weakening early this year, although demand remains sluggish. The Irish market is not yet fully in balance - importers are still well stocked while underlying demand has been slower this year. The Spanish market for **iroko** is also quiet.

Although regarded as a possible mahogany substitute, demand for **sipo** has yet to show any real strength and prices have remained stable. **Khaya** is out of favour in the German market which has led to some price weakness over recent months.

Bilinga/opepe is selling in Germany and the Netherlands in FAS fixed sizes and prices have been firming. **Movingui/ayan** is selling to French buyers, although prices are down on last year. **Paduak** prices have remained firm. **Okoume** lumber prices are now stable after weakening in the opening months of the year.

Outlook: firming tendency

Prices for African logs and lumber may edge higher over the next few months. Availability is likely to become tighter as the rainy

season begins to bite in many parts of West Africa during May and June. At the same time buying usually picks up in Europe during the early summer period. Recent rises in East Asian tropical log and lumber prices due to low availability may also boost demand and prices for African tropical lumber.

DRC operational again

One of the larger foreign owned mills in the Congo Democratic Republic (DRC) is again operational and exporting lumber out of Matadi port, although volumes are well down on previous years. It is ironic, given the size of DRC's domestic forest resources, that due to continuing unrest the mill in question is having to source logs from over the border in Congo (Brazzaville).

Meanwhile there is little evidence that the joint Congolese-Zimbabwean operations in southern Congo, the subject of much recent negative publicity, have had much of an impact on the mainstream trade. African Hardwood Marketing Ltd., the London-based sales arm for the operation claims that output amounts to 11,000 m3 of tropical hardwood logs and sawn lumber per month, shipping from Dar es Salaam. However it is not clear how real this volume is, while the hardwoods on offer seem to comprise mainly secondary species.

Political and economic conditions in DRC remain difficult but are improving slowly. There are now UN peacekeeping troops in DRC, but sporadic fighting has continued. A UN peace process is currently underway.

Cameroon determined to crackdown on illegal logging

Details of the Cameroon crackdown on concessions are beginning to emerge. According to a report by Mimini Esno, President of the National Working Group on Sustainable Forest Management and Certification in Cameroon, the Government of Cameroon has pledged to take wide-ranging actions to reduce illegal logging including: publicising in the media the names of the companies practicing illegal logging; enforcement of fines; and the suspension or cancellation of licences.

Late last year, the Minister of Environment and Forests requested an audit of existing concession agreements. In January 2002 it was announced that 40 logging companies were violating the forestry legislation with the intention of maximising profit and minimising payments to government from forest operations. These companies were

required to pay fines totalling 600 million CFA francs (about US\$820 000) and their agreements are likely to be suspended or cancelled. A further four multinational companies were found to have exported sawn timber of afrormosia without the required CITES documentation. The companies were fined a total of 20 million CFA and banned from exporting afrormosia for six to twelve months. Previously, in March 2001, some 18 companies had their concession agreements suspended for violating the terms of their agreements. Therefore in ten months, action has been taken against 62 companies found guilty of illegal forest exploitation in Cameroon. The hope is that these kinds of actions, if maintained and strengthened, will help to reduce illegal forestry activities in Cameroon. *Source ITTO*

Malaysian sawn lumber Volatility re-emerges

The market for dark red meranti is very unstable with reports of rapid price increases emerging from the middle of April. The immediate reasons are obvious - a severe lack of supply in Malaysia combined with efforts by European buyers to obtain available stocks. However the foundations of instability were laid over two years ago.

Foundations of instability

At the end of 1999, the timber yards in Peninsular Malaysia were full of dark red meranti (DRM). This comprised both local DRM-Tembaga and Indonesian DRM which had been shipped over from Indonesia by West Malaysian speculators for drying, grading and re-export. In the first quarter of 2000 the forward prices began to weaken for a number of reasons including: widespread availability of cheaper illegally extracted Indonesian stock; Malaysian shippers wanting to generate cash to pay for Chinese New Year bonuses; and slowing seasonal demand in Europe.

In April/May 2000, there was a particularly sharp drop in the value of the euro against the dollar which created a severe lack of confidence in the European market. This, combined with relatively high stocks in Europe, meant that European importers simply stopped buying at a time when Malaysian exporters were also carrying extremely high stocks. A UK agent explains what happened next:

"From the middle of 2000, Malaysian exporters dropped the price of DRM in a desperate effort to generate cash flow. As the export price was being forced down, the East Malaysian saw millers (who supply the exporters) found themselves squeezed between having to pay the usual high prices for DRM logs and being unable to sell their lumber to the exporters at a profit. So many sawmillers just kept busy on other species and a general lack of DRM lumber in the supply chain developed.

"Many exporters suffered big losses as the DRM export price fell 22% between June 2000 and June 2001. Then in July 2001 the price started to edge up as there was renewed European buying for Autumn arrival and importers stocks, particularly of 2" to 3", were low. But along came September 11th and knocked the whole thing back. Prices weakened for the limited volumes available and almost nothing was shipped in October last year. Prices in December last year weakened further as

KL exporters finally emptied their yards of DRM to generate January invoices ahead of Chinese New Year.

"So, after this years Chinese New Year, the exporters and sawmillers eventually returned and, in March, the Germans - and to a lesser extent the Italians - started buying the thicker sizes (mainly 3"). European trading companies have also been buying what they can for shipment over the course of the next 3-4 months. But there is now no 3" and very little 2" and 2.5" available. So since early March, the sawmillers have been cutting 2" to 3" for the exporters, who have been offering this for May/June shipment. The forward price has gone up in the past 5-7 weeks by 12-15% and shows no sign of stopping.

"Meanwhile the bad side of the trade has re-emerged. Sawmillers are insisting on renegotiation of contracts with exporters on volumes bought only a few weeks before. They are also insisting on cash up front and exporters are finding deliveries arriving with higher than normal levels of low grade which they are unable to return to the sawmills for fear of getting no more deliveries. Nor are they in a position to offload this to other markets since demand

for low grade material is still very weak. "In recent weeks there have been reports of exporters telling their overseas customers that they must pay more to ensure shipment of recently placed contracts and that recent freight rate increases are being passed on to buyers."

Although these comments relate mainly to Peninsular Malaysia, supply conditions are equally poor in Sabah. Due to a severe log shortage only a few sawmillers are operating in Sabah. One European agent recently returning from Sabah notes that lumber stocks are "incredibly short" and forward prices are rising rapidly.

Europeans slow to pay new prices

It remains to be seen how willing European buyers will be to pay the new prices. At present underlying demand in the Netherlands, the largest European market, is still very slow. Joinery manufacturers continue to buy for immediate needs only despite the upward trend in prices. Underlying confidence in the Dutch economy is weak, consumer spending is down and the building sector is struggling under the combined impact of labour shortages, strikes, and excess bureaucracy. The Dutch stock position for meranti in the common sizes such as 3x5" and 4x5" is still considered to be on the high side given the level of demand, although stocks in special sizes such as 2.5"x6" are said to be too low. Despite the news of tightening supplies in the Far East, in late March there continued to be reports of Dutch importers dumping stock at prices below cost in an effort to generate cash flow.

U.K. importers still uncertain

Over recent years the number of U.K. importers that buy direct from Malaysia has declined and many now source meranti indirectly from the larger stockists in the UK and on the continent. The recent increase in prices and comparatively low stocks has generated a little more interest amongst the limited number of importers still committed to the meranti forward market. But there is still a reluctance to make significant forward commitments for fear that the price rises will not be sustained.

One factor which may be deter European importers from following the meranti market upwards is the price and availability of alternative species, notably sapele. If prices continue to rise at current rates, demand for meranti will tend to be eroded as importers switch to the African species. However supplies of sapele are also more limited this

Asian Sawn Lumber Indicative Prices

	Feb	Mar	Apr
Exchange rates:			
M\$/£	5.39	5.42	5.53
US\$/£	1.42	1.43	1.45
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"	695	695	720
2"	735	735	780
2.5"	755	760	820
3"	775	780	840

Keruing

Grade: Standard & Better GMS

Size: Random or fixed 16'+

1"-3"	500	515	515
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Nemesu

Kiln dried

2"	875	880	880
2.5"	890	900	900
3"	900	910	920

Myanmar Teak

US\$/50 cu ft, FOB Rangoon/Bangkok/Singapore

Grade: Air dried boards

Size: Width 6"+ avg 8", Length 6'+ avg 8'

1"	2750/ 3250	2750/ 3250	2750/ 3250
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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.

year, raising the prospect of parallel increases in meranti and sapele prices during the course of 2002.

The exchange rate between the US\$ and the Euro remained relatively stable during April, hovering around 0.88 to 0.89 and has therefore had little impact on European importers calculations. Freight rate changes have been more significant over recent weeks. Due to container freight increases the prices for hardwoods from Peninsular Malaysia shipped to Western Europe increased during the early part of April by around US\$ 15 per ton.

Demand sluggish in the Far East

Market conditions for Malaysian sawn lumber continue to be difficult in the Far East. Imports of Southsea lumber into the Japanese market remained low in January reaching only 64,000 m³. The main factor has been the continuous short-fall in the supply of suitable logs to mills in Sabah and Indonesia, the main sources. As there seems little prospect of this situation changing in the near future, Japanese importers of tropical sawn lumber are concerned that their market will be lost to alternative products. Although demand for timber is expanding in China, the country prefers to buy logs for its own production of plywood and sawn lumber, therefore limiting Malaysian imports to lower-end wood products.

Asian logs and plywood Supplies still very tight

There has yet to be any easing in the tight supply situation surrounding South East Asian logs. In Sarawak, the major producing region, drier conditions in February gave way to intermittent rain in March. Harvesting was constrained and stocks of logs at the ports remain limited. In Sabah there are now long-term constraints on harvesting imposed by the state authorities and log supplies are very restricted. Mills throughout Eastern Malaysia are suffering from raw material shortages, which has placed further limits on the availability of logs for export and contributed to firming FOB prices. The recent revision to Sabah's royalty structure, which tended to increase opportunities for export of smaller diameter logs, has yet to lead to any increase in exports.

China dominant

China now dominates the market for South East Asian logs and future trends are largely dependent on the extent and direction of Chinese demand. Most analysts are forecasting rising demand for tropical logs in China this year as harvests of China's native broadleaved forests are reduced and demand from China's domestic wood processing industry continues to rise.

Problems in Indonesia

The rainy season in Indonesia is now al-

most over and logging operations are ongoing in many areas. However the Indonesian wood industry continues to be hampered by labour disputes.

A row is also developing between the central and local government over the control of logging operations. Indonesia's central government is now making far reaching commitments to reduce overall levels of harvest. At a recent meeting in London, the Indonesian Forest Minister M. Prakosa indicated his government's intention to progressively reduce official harvests, suggesting a long term target of only 6.5 million m³, down from current levels of over 25 million m³. As a step towards achieving this, the central government has been trying to retake control over allocation of harvesting rights to small-scale loggers. Control of these rights had previously been transferred to regional governments who are now resisting the move. A protracted dispute could disrupt harvesting operations this year.

Log export ban extended

The Indonesian government announced in March 2002 that the log export ban implemented in October 2001 for six months would be extended, setting no new time limit.

Indonesian plywood exports are gradually improving as export demand has begun to pick up. Indonesian hardwood plywood mills have now established a base price below which they are no longer willing to do business and there are signs that prices are beginning to rise from their current depths. Plywood prices had dropped to as low as INDO96 less 35%, but reports during April are that prices were nearer INDO96 less 31% and still tending to firm. APKINDO is hoping to bolster this trend by encouraging member companies to co-operate more closely in controlling the availability of supplies to different markets.

APKINDO highlights illegal logging

In a recent statement, APKINDO has highlighted the problems caused by illegal logging to the Indonesian plywood sector. They suggest that significant volumes of illegally felled logs continue to be smuggled out of Indonesia to China and Malaysia, where mills are able to produce cheaper plywood without having to pay forest taxes. APKINDO suggest that about one third of the 115 plywood mills in Indonesia have been forced to close, partly because of increased pressure of plywood imports which now take up as much as 60% of Indonesia's domestic market.

The Japanese plywood market remains very

China's plywood industry transformed

China's plywood industry has been transformed over recent years due to privatization and inward investment, the development of plantation reserves of fast growing timber species, notably poplar, and the rapid development of domestic demand.

For a period during the 1990s, growing demand for plywood in China created opportunities for Indonesian and Malaysian manufacturers. At this time China's domestic industry suffered from low investment and declining availability of large diameter hardwood timbers from China's forests. In order to continue operations, these mills were forced to import large quantities of tropical logs. Imported plywood was also offered at low prices and smuggling was common practice to avoid China's import tariffs. However over the last 5 years, plywood enterprises in Taiwan, Hong Kong and Singapore have been relocating to mainland China to benefit from lower labour costs and the growth in Chinese

demand. At the same time, China's fast growing plantations have begun to supply raw material for plywood manufacture.

As a result Chinese plywood production has been increasing, imports have been falling, and exports have been rising. By 2000, China was producing around 10 million m³ of plywood. Chinese customs statistics indicate that imports peaked at 2.23 million m³ in 1993 and then declined to 651,000 m³ in 2001. Meanwhile plywood exports increased to 967,000 m³ in 2001, exceeding imports for the first time. In 2001 exports were destined for South Korea (206,000 m³), Hong Kong (169,000 m³), Japan (121,000 m³) USA (92,000 m³) and Taiwan (85,000 m³). Due to low labour costs, prices for Chinese plywood are now very competitive. Quality has been a problem but is improving owing to the widespread introduction of modern equipment and the rapid development of an adhesive industry in China. *Source: ITTO*

Continued page 6

Asian logs/plywood *cont.*

weak, due to the long term slump in construction activity, with domestic prices continuing to fall. Japanese manufacturers are being forced to further reduce output and some are considering suspending operations. Japan's imports of plywood in February reached 349,000 m³, down 16.9% on the previous month and down 12% on the same month in 2001, partly due to falling production in Indonesia and partly due to weak demand. Supplies of plywood to the Japanese market have therefore been falling, but are still in excess of demand.

In addition to weak demand and competition from overseas manufacturers, Japanese plywood mills are having to contend with rising raw material costs due to the increase in FOB prices and the weak yen. Log stocks are very low in the mill yards and most buying is for immediate needs only. To reduce average log costs, mills are also buying a higher proportion of small diameter logs, notably of meranti. Many mills are delaying purchases until log production gets fully underway when the Asian rainy season finally ends.

Trading conditions for Japan's tropical lumber mills are no better, with talk that the future of this sector may be at stake. Availability of suitable logs from Sabah, traditionally the major source for this sector, has more or less dried up.

UK-Indonesia to work jointly on illegal logging

The Indonesian government has signed a memorandum of understanding (MoU) with the United Kingdom designed to help curb widespread illegal logging in Indonesia. The MoU was signed by Forestry Ministers Prakosa and Meacher from Indonesia and the U.K. respectively in London on 18 April. Under the agreement, the two countries are committed to "*working together to reduce, and eventually eliminate, illegal logging and the international trade in illegally logged timber and wood products between the Parties, by rapid development and implementation of the necessary regulatory and policy reforms.*" In particular, the two countries agree to cooperate in the development and implementation of a verification system to detect and identify the legality of logs and wood products. The U.K. government is to provide technical and financial assistance to Indonesia. The Indonesian Minister expressed his desire to work towards the development of similar agreements with other countries.

Malaysian oak causes a stir

According to a number of reports, the recent attempt by the Malaysian Government to re-launch rubberwood as "Malaysian oak" has drawn quite strong reactions from several European countries and the United States.

"Malaysian oak stirs a global storm" was the headline in the Timber Trades Journal of the UK on 6th April. Apparently several government-funded organisations, headed by the Ministry of Primary Industries are attempting to persuade furniture buyers that "Malaysian OAK has already carved a name for itself in the furniture industry." Whether the government intends to continue this campaign is not now clear. One reporter from a recent workshop meeting of ITTO quoted Malaysia's Certification Board personnel as saying that the campaign is dead, but that has not stopped continuing protests from European and American oak producers. It all started with the launch of a new brochure, at the Malaysian International Furniture Fair in March, promoting the benefits of "Malaysian oak" – otherwise known as rubber-wood or *Hevea brasiliensis*. Issued by six organisations under the auspices of the Ministry of Primary Industries, including the Malaysian Timber Council and the Forest Research Institute, the brochure claims that Malaysian oak is "comparable with American white oak". Questioned about such a claim by hardwoodmarkets.com at the launch, Dr Mohd. Dahlan Jantan, Director of Forest Products Technology Division of the Forest Research Institute stated "it is only a marketing publication". Asked to justify the

comparison, he cited colour and density, which may surprise many real oak (*Quercus*) producers around the world. The average weight of white oak is published as 769 kg/m³ (Source AHEC) whereas rubber-wood is 654 kg/m³ (Source MTC).

Such re-naming of one species, to exploit the reputation of another, is not unknown. Past examples are Tasmanian oak, which is a eucalypt, and Chilean cherry otherwise known as lenga. However, critics of this campaign by Malaysia complain that the use of the name oak for rubber-wood serves only to confuse consumers. It is understood that letters of protest making this point have been sent from the French and German hardwood industries as well as the American Hardwood Export Council, on behalf of the United States.

The view in the market is also somewhat negative. "It does not fool furniture professionals, for there seem to be few genuine similarities with American white oak" said one industry observer. One Australian buyer admitted to using the term oak already, and one UK furniture retail buyer said they might do so. A Norwegian furniture buyer said, "This is a joke" but admitted that it could fool some of the millions of consumers that don't know that oak does not grow in Malaysia. The real issue that may arise is one of misrepresentation and the trade descriptions laws in many countries could cause legal actions to be taken if "misleading" information is used by product distributors. This would do little good to the reputation of hardwoods in the consumer marketplace.

Brighter prospects for Asian furniture

In 2001, furniture exports from the ASEAN region were down by 15% due to slow economic growth in the U.S. and Japan. However closing reports from the recent round of furniture fairs in Malaysia, Singapore, Thailand and the Philippines suggest this year will be better. In 2001, the ASEAN furniture fairs generated sales of US\$2.4 billion, and this figure is expected to be up 15% during 2002. Exit poles at the furniture fairs carried out by International Furniture Research Group (IFRG) indicate an optimistic outlook for this year. However there is serious concern over a price war now being waged between manufacturers which has meant that furniture importers are able to pick up bargains easily.

Research by IFRG in 2001 indicates that nearly 60% of furniture manufactured in the ASEAN region is wood based, 15% is panel based, 7% metal based, and 18% wicker and rattan based. IFRG note that these figures indicate that wood is the mainstay of the region's furniture industry, but also that innovative mixed-material construction is still lacking in the region. IFRG also note that ASEAN manufacturers tend to focus on the production of established designs, using alternative raw materials, with the intention of competing solely on price. IFRG suggest this strategy will not sustain the industry in the long term and recommend a shift towards original design manufacturing.

North America

Economy

Greenspan confident

In mid April, the Chairmen of the Federal Reserve, Alan Greenspan, reassured Congress that the U.S. economy is improving, and said that - since inflation is being contained - there is no immediate need to raise interest rates. The American economy now looks set to grow by an annualised 4% in the first half of this year. Business inventories fell in February for the thirteenth straight month, a trend which in March served to boost factory output by 0.8%, the largest monthly gain in two years. The Commerce Department reported a modest increase in retail sales during March.

Resilient consumers

The downturn has been much less severe than many expected. In part this has been due to productivity growth, which has been much stronger than in previous downturns. But probably more important has been the resilience of the American consumer. During 2001, America's corporate sector suffered its deepest recession since the 1930s with a massive fall in profits and capital spending. Yet, despite rising unemployment and lower share prices, consumers continued to spend. The Fed's efforts to cut interest rates played a large part in maintaining consumer confidence, both directly by reducing the costs of borrowing, and also indirectly by boosting the housing market. As falling share prices made some American households feel poorer, rising house prices made many more feel richer. Over the past year, average house prices have risen by 9%, their fastest ever in real terms.

Rebuilding inventory

Most of the rebound in the first half of this year will come from companies rebuilding inventory. If the recovery is to be sustained, capital investment and consumer spending will need to take over. Although investment seems to have bottomed, a strong rebound seems unlikely due to the heavy corporate debt burden and ample excess capacity. House prices are unlikely to continue to rise at current rates, and many American families are carrying a heavy debt burden. These factors may well squeeze future consumer spending. This need not tip America back into recession, but it does suggest only a weak recovery over the next two years. But for the time being, some business sectors of significance to the hardwood industry are benefiting from the strong housing market and the resilience of American consumers. Housing starts,

although wobbling slightly in March, remain very strong. The *U. S. Census Bureau* reports housing starts for March 2002 were at a seasonally adjusted annual rate of 1,646,000 units, down 7.8% on February 2002, but up 3.4% on March 2002. The monthly report from NOFMA, the Wood Flooring Manufacturers Association, estimates that solid hardwood flooring shipments reached 55,179,000 board feet in March 2002, 5% up on the same reporting period last year. Shipments during the first 3 months of 2002 are up 13.5% on the same period in 2001.

Furniture industry looking better

Even American furniture manufacturers, that suffered last year from the double blow of slowing domestic demand and a huge increase in competition from imports, are forecasting better times ahead. The American Furniture Manufacturers' Association (AFMA) report that last year industry shipments of residential furniture declined more than 10% to \$22.963 billion. However AFMA say that manufacturers sales were stronger than anticipated during the opening months of this year. They now forecast a partial recovery this year, with

shipments rising 4.3% to \$23.943 billion. The recovery is expected to be even stronger in 2003, with an increase of 5.2% to \$25.192 billion. Wood furniture shipments are expected to increase 5% this year to \$11.410 billion, and 6.2% next year to \$12.122 billion.

Domestic market

Concern over log supplies

Log supplies and continuing stumpage prices remain a concern for many sawmillers in the United States. In the southern USA, log decks are reported to be highly variable, as wet weather and limited demand for hardwood pulpwood have combined to significantly limit logging activity. Reports from northern regions also indicate that log decks are varied, although most sawmills report they have adequate log inventories to meet current levels of demand.

The fall in green lumber production last year has meant that many companies in the U.S. have been unable to bring in sufficient volumes to keep their kilns running at peak output. Therefore overall stocks of kiln dried lumber have been declining.

Continued page 8

Why have American log prices remained high?

One of the remarkable things about the recession in the U.S. hardwood industry has been the continuing strength of log prices, which has added to the squeeze on profitability in the sawmilling sector. In a recent paper*, Dr William G. Luppold of the USDA Forest Service comments on this phenomenon. While noting that the reasons are complex, Luppold emphasises two contributing factors.

First he notes that over recent years many mills have invested in capacity aimed at the production of grade lumber rather than industrial products (pallet stock and crossties) which are seen as less profitable. This focus has meant that demand for higher grade logs has increased relative to lower grade logs. Because mills are now more efficient and their production costs are lower, and due to the competitive nature of the hardwood market, mills have been willing to pay higher prices for the better logs. Second, Luppold notes that most owners of hardwood stumpage are individuals who have the luxury of not having to sell their timber during periods of low demand. Therefore short-term falls in lumber prices do not necessarily filter

through into falls in stumpage prices. Previous high prices cause forest owners to hold out until the price rises again.

Hardwood lumber production

Luppold also comments on the extent of the decline in U.S. hardwood lumber production during the recent downturn. He notes that the extent of the decline depends on who you talk to and the part of the market they are referring to. Some firms in the Appalachian region, hit particularly hard by the downturn in the furniture sector, feel that production has dropped 25% or more, while reports from other regions are not quite as dismal. Luppold believes that total Eastern production may have decreased by 15% between 1999 and 2001, or 1.8 billion board feet. That's equivalent to 360 sawmills with annual production levels of 5 million board feet shutting down. If these projections hold true, it would be the largest volume decline in hardwood lumber production since the 1979 to 1981 period.

**A copy of Dr Luppold's paper is available at the Hardwood Market Report website: www.hmr.com*

North America

Domestic market *cont.*

Although hardwood lumber markets in North America are not booming, reasonable volumes are being shifted and there are signs of improved demand in some sectors for certain species and grades. For example, the distribution yards and wood component suppliers that supply furniture manufacturers and cabinet manufacturers have been a busier. This coupled with tightening inventories has meant that in some instances prices have firmed slightly. However margins remain tight throughout the trading chain, competition is intense for many species and grades, and maintaining cash flow is often a higher priority than profits or losses on individual loads of lumber.

Export demand Very challenging

Although there are reports that the export business in hardwood lumber is improving, overseas demand remains subdued overall. Exports have been constrained by the continuing high dollar value compared to other currencies, by the rising level of competition, particularly from Eastern Europe, and by economic uncertainty in major buying countries. Most overseas buyers continue to buy little and often,

encouraged by the perception that supplies are still readily available, and the ordering of mixed container loads is now common practice, particularly in Europe.

European economies sluggish

Economic growth in Europe remains sluggish, which is hampering sales of American hardwood. Western European furniture manufacturers are also having to contend with rising levels of import of finished goods from both Eastern Europe and the Far East.

U.S. export data for the month of January 2002 indicates that several European countries started the year slowly, with imports well down in the UK (-19%), Belgium (-37%), and Germany (-34%) compared to the previous year. However the data was more positive for the two largest importing countries. U.S. exports of hardwood lumber to Spain during January 2002 were up 24% on the same month the previous year. Overall exports to Italy were stable, although there was a 30% fall in tulipwood exports compensated by a rise in imports of other American species.

Tulipwood a big hit in China

In Asia, demand for American hardwoods in China continues to grow. Imports of U.S. hardwood lumber during January 2002 were up 5% on the same month the previous year. Lumber imports of hard maple, cherry, red oak and ash were down, white oak lumber imports were stable, but imports of tulipwood lumber, mainly common grades, were rising strongly. Demand in Japan has been hampered this year by the startling weakness of the yen, depressed economic conditions, and the flight of manufacturing facilities to the South. U.S. exports to Japan in January were down 10% on the same month the previous year. From a very small base, U.S. hardwood lumber export volumes to Vietnam increased three-fold in January 2002 compared to the same month the previous year. Demand for American lumber has been slow this year in Korea, Thailand and Taiwan, but has picked up a little in Malaysia and Indonesia.

■**CHERRY:** restricted demand for lower grade cherry lumber has led many mills to reduce production of all grades. Stocks of higher grade green lumber are short and prices have been rising. Domestic demand for high grade kiln dried cherry is steady, although not particularly robust. Reduced production has limited the growth of kiln dried inventory and kept prices stable. There are some reports that European imports of cherry lumber have picked up a little. Overseas sales of cherry veneer logs have slowed with the end of the season.

■**HARD MAPLE:** the early onset of spring weather conditions has heightened concerns regarding stain, although most mills are well on their way to sawing out the remaining winter-cut hard maple logs. The need to avoid stain is heightened in the highly competitive market conditions that prevail today placing an even greater premium on good colour and quality. Prices are highly variable depending on grade and long-standing buyer-seller relationships play a key role in determining prices and quantities shipped. However good seasonal availability has meant that there are signs of price weakness for some grades of kiln dried hard maple. European demand for higher grades of hard maple is only fair, with some reports of a slight improvement in German orders. Sales to Mexico and the Far East have been steady.

■**SOFT MAPLE:** domestic demand for higher grades of colour selected stock has been reasonable, while demand for common grades is restricted. Demand is particularly slow in the Appalachian region due to lost capacity in the furniture sector. The downturn in domestic demand has been countered to some extent by reduced production. Demand in Mexico and China has been reasonable, but demand in other export markets is still somewhat limited.

■**RED OAK:** the domestic market remains competitive due partly to sawmills switching to this species as demand for others has slowed. Market conditions vary by grade and thickness, but most reports suggest that underlying buying has been reasonably stable, with some signs of a slight pick-up for certain items in some sectors. The domestic strip flooring market has been absorbing good quantities of lower grade green 4/4 lumber which has reduced the incentive for mills to produce thicker stocks or to kiln dry lower grades for resale without first having good orders. There are reports of a pick up in demand for kiln dried 4/4 and 5/4 FAS in the southern states over recent weeks which is keeping prices in that region

US sawn lumber indicative prices

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

	Feb	Mar	Apr
\$/£	1.42	1.43	1.45
\$/Euro	0.87	0.88	0.90
Red oak			
1"	1895	1835	1780
1.25"	2000	2000	1970
1.5"	2100	2035	2000
2"	2330	2300	2400
White oak			
1"	1450	1500	1475
1.25"	1650	1725	1625
1.5"	2150	2035	2050
2"	2550	2650	2650
Ash			
1"	1050	1160	1050
2"	1350	1530	1500
Tulipwood			
1"	1050	1050	1050
1.25"	1100	1100	1100
1.5"	1200	1175	1150
2"	1225	1200	1175
Cherry			
1"	3425	3460	3480
1.25"	3600	3600	3520
1.5"	3800	3770	3700
2"	3900	4025	3950
Hard Maple			
1"	2400	2500	2400
1.25"	2500	2660	2500
1.5"	2750	2850	2700
2"	2850	2980	2850

Species notes

■**ASH:** domestic demand is still limited. Supply is still in excess of demand despite efforts to restrict production and prices are mixed. Domestic activity is mainly restricted to long-term buyers. Export demand for FAS grades is slow in Europe. There are reports of some small niche demand for FAS grades developing in the Middle East. Sales of common grades to Asia are slow to steady.

North America

firm. European demand for higher grades of kiln dried red oak has been slow. Sales of common grades to the Far East and to Mexico have been fair to good.

■**WHITE OAK:** export sales continue to be hampered by the strength of the dollar and rising levels of competition from European oak. While sales of common grades to both Asia and Europe have held up reasonably well, sales of FAS grades to Europe have been slow this year. In the U.S., secondary manufacturers are buying steady volumes of kiln dried white oak in common grades, and strip flooring manufacturers have been

buying green white oak in common grades (although they prefer red oak). However domestic demand for other grades and from other sectors is generally weak. Production has been restricted to compensate for slow demand, which has helped to put a floor under prices for green lumber. Nevertheless, pricing for kiln dried lumber, particularly FAS, is still mixed.

■**TULIPWOOD:** Domestic demand for upper grades, particularly for the 4/4 thickness, has picked up over recent weeks. At the same time mills have continued to restrict poplar production as much as

possible. Prices for kiln dried lumber are now stable to firm. After a weak start to the year, there are reports that demand for FAS grades began to improve in Italy during March, although the market is still competitive on price. Demand for FAS grades in other export markets is steady. Demand for common grades in China has been good.

■**WALNUT:** Domestic demand is steady at a high level and there are reports of shortages which have kept prices firm. Export demand for FAS grades of walnut remains good, particularly from China. Export demand for common grades is steady.

Europe

Milan furniture show

Oak dominant

Over 1,900 exhibitors filled more than 20 halls at this year's Milan International Furniture Fair, the majority of which were Italian producers. The European furniture industry is experiencing difficult times with increased competition from Asian and Chinese producers. Italy has clearly felt the impact with a reported down turn in orders in the second half of 2001 after a bumper year in 2000. According to the president of Federlegno-Arredo, Italian furniture exports to the EU in 2001 were hit harder than non-EU markets.

In terms of wood trends, **oak** was very dominant and particularly evident in light, natural, or limed finishes, which are still very much in fashion. Those designers looking for contrast or an alternative to light colours are turning to American **walnut** - although the African hardwood **wenge** was still in evidence. There were also some products employing very dark, almost artificial looking stains, on lighter species such as oak, allowing the wood grain to show through. **Cherry** was still present but not dominant as in previous years. However, with influential designers such as the world famous architect Renzo Piano unveiling a new range of American **cherry** bedroom and dining furniture, cherry is unlikely to disappear in the foreseeable future.

Boost for ash

One hardwood species that has failed in recent years to get recognition at the quality end of modern furniture design is **ash**. It was therefore interesting to see one manufacturer show a brand new American ash range designed by Mark Anderson. By creating a colour finish similar to **chestnut** the designer hopes to revive interest in **ash** and the new range has been so well received

it is already destined for production and widespread distribution within the Italian domestic market.

Beech, the mainstay of woodworking industries all across Europe, was not in evidence at all amongst the higher fashion end of Italian kitchen and furniture manufacturing. In the traditional and reproduction sector, which shows mainly **mahogany** and **walnut** finishes the staining of lighter coloured hardwoods is common, including US species such as **red alder** and **tulipwood**.

Chunky solid designs

Another trend of note was the continued abundance of angular and linear "box like" designs with deep thick table tops and chunky square table and chair legs, all aimed at creating a solid quality feel to the products. However, very few were solid wood with manufacturers favouring instead veneer wrapping solid cores. Overall, there was a lot of evidence that the transfer from solid wood components to veneer composites is maintaining its momentum. Figures supplied by Federlegno-Arredo indicate that in 2001 Italian wood industry turnover increased by 1.7% and furniture industry turnover increased by 2.9%. However the overall increase was due to good results obtained during the first 9 months of the year. Sales dropped significantly during the last quarter of 2001 and continued slow during the opening months of this year. However Federlegno-Arredo are forecasting improvements in demand during the second half of 2002 in response to several factors including a revival in U.S. demand; an increase in demand from oil producing nations (including OPEC countries and Russia) on the back of rising oil prices; and the rising standard of living in China.

Zow Fair, Germany

Boost for depressed industry

The eighth Zow show for suppliers to the furniture industry was held during February in Bad Salfuzen, a centre for the German furniture industry. The show attracted 580 exhibitors from 25 countries, notably Germans and Italians. There were 12,300 visitors, an increase of 28% over the previous year, dominated by Germans but also including Dutch, Scandinavians, British, French and Belgian.

The trend towards mixing of materials was clearly in evidence at the show, for example wood combined with metal, or with plastic in metallic finish. Following on from this theme, different varieties of wood species or light and dark wood finishes were often seen in combination. There was also much use of very straight wood-grain striping.

Lighter woods continued to dominate in decorative surfaces, with predominant hardwood species including **maple, birch, ash, pear,** and oak. **Oak** was seen as an up and coming finish, alongside some darker woods including **teak. Wenge** and **walnut** were both prominent as contrast woods.

Following the show, the German Furniture Industry Association (VDM) predicted that light colours will continue to be in vogue in the German furniture sector during 2002. Wood varieties expected to do well include **beech, cherry, white oak, alder** and **birch**, with colours ranging from beige to clear brown and reddish tones. Most darker woods are expected to be less in demand, although species like **walnut, teak,** and **wenge** should be able to maintain their market position.

The success of the Zow show will be a boost for an industry currently in a slump. According to a report from VDH, turnover in the German furniture industry fell 1.6% during 2001 to 22.3 billion euro.

Europe

European hardwoods

Trading remains difficult

■ **French logs:** the beech logging season is now over. Availability of fresh logs, both of beech and oak, is extremely limited due to harvesting restrictions imposed last season to allow mills to work through stocks that built up following the storms of December 1999. Shortage of logs in France has forced French stave producers and sawmillers to turn to alternative suppliers, notably in Germany.

■ **French sawn lumber:** trading conditions for French mills are very difficult. Overall demand from the French building and furniture sectors is slow. Mills are still labouring to off-load high inventories of lower grade beech lumber to an unreceptive market. Lumber production has been curtailed in response to low availability of new logs and slow sales. Export demand for French beech is slow and coming under intense competitive pressure from alternative German and Eastern European suppliers. Markets for French oak sawn lumber have been more stable

■ **German logs:** logging operations are now largely over with the end of the winter season. Overall hardwood harvesting volumes last season were relatively low, down 15% to 20%, due to weak demand at the end of 2001 and poor weather conditions early in 2002. Forest owners are now focused on supplying existing forward contracts. Chinese interest in German beech veneer logs has tended to decline over recent months. However Chinese enquiries

for high quality German beech saw logs have been increasing. German log exports to mainland China are tending to increase, while exports to Hong Kong are tending to decrease. Demand for German oak logs in sawing and parquetry grades has been steady and prices stable. There has been good demand for stave grades from French stave producers.

■ **German sawn lumber:** overall demand for German hardwood lumber remains subdued and no significant upturn is expected in the near future. In response to slow demand mills have been reducing production. Many mills are suffering cash flow difficulties and there may be bankruptcies in the industry later in the year. Demand for sawn lumber in the German building and furniture sectors remains very weak. Demand for beech sawn lumber in China is well down on previous years, but German exporters anticipate some improvement in Chinese demand during the course of the year. Export demand for German beech lumber has also slowed in some European markets including Spain and Italy. Demand for German beech lumber is reasonable in the UK.

There are reports that one large German producer has been dumping high grade beech lumber at relatively low prices in the UK in an effort to offload excess stocks resulting from loss of market share in the northern European market and continuing slow demand in China. Prices on offer by this company in the UK are reported to be below 700 euro/m³ for 1" kiln dried square-edged material. However other shippers are not willing to compete at this level and are keeping prices steady.

Demand for German oak sawn lumber has remained more stable than for beech. Some German millers are now cutting square edged oak in response to demand, but main production is still wane edged.

■ **Croatian oak:** European demand for Croatian oak is good and prices remain firm. The product, which is sawn from Croatian logs in Italian mills, is available square edged. Croatian forests are renowned for producing oak of uniform colour with straight grain. However volumes are restricted by the small size of the Croatian forest resource and there is now a lot of competition for the available log supplies. To supplement their oak log supplies, some Italian mills are now buying French oak logs for sawing and re-export to other parts of Europe.

European sawnwood indicative prices			
	Feb	Mar	Apr
Exchange rates			
Euro/£	1.64	1.62	1.62
Euro/US\$	1.16	1.14	1.11
German beech			
Northern Germany, Euro/m ³ , C&F, UK Port			
Grade: kiln dried, steamed and square edged.			
1"	800	800	800
2"	860	860	860
German oak			
Northern Germany, Euro/m ³ , C&F, UK Port			
Grade: kiln dried, wane edged prime grade*.			
1"	770	770	770
2"	995	995	995
*wane edged prices provided as there is very little square edged available from Germany or France - French prices are similar to German prices			
Croatian oak			
Northern Italy, Euro/m ³ , C&F, UK Port			
Grade: kiln dried and square edged.			
1"	970	970	970
2"	1500	1500	970

Forest resource

East Europe cont.

However, the net annual increment of Eastern European hardwood forests per capita of population is lower than Western Europe, perhaps due to less intensive management and/or less favourable climatic conditions.

■ On a per capita basis, the United States hardwood forests provide around three times the area, growing stock and increment of Eastern Europe's hardwood forests.

Russia's influence

The data from Russia contained in TBFR 2000 needs particularly careful interpretation because it includes a lot of low quality and small diameter hardwood typical of boreal forest regions. Russian inventory data indicates that boreal birch and aspen make up as much as 83% of Russia's hardwood growing stock. So although Russia's hardwood resource is very large in terms of area and growing stock, rates of growth are relatively slow and the volume of good quality saw logs is relatively low. In the year 2000, official Russian data indicates that hardwood log production of all species and grades reached only 10 million m³. Exports of hardwood logs amounted to no more than 200,000 m³, and exports of sawn lumber were around 400,000 m³.

Other than birch, the Russian Federation's resources of commercially valuable hardwoods are dominated by Russian oak in the western region of the country and Mongolian oak in the far east of the country. The most accessible European resources have been heavily exploited in the past. At present there is heavy exploitation of the Mongolian oak resource to supply burgeoning demand in China. Recent reports suggest that current levels of harvesting of these resource are unlikely to be sustainable in the long term. For example, a comprehensive survey of Russian forest exploitation carried out by the World Resources Institute published in April 2002 suggests that

"The most biodiversity rich and productive forest landscapes of southern Siberia, the Russian Far East, and of European Russia are the most transformed. These areas are steadily diminishing due to continued extensive "development" of natural resources. The situation is most serious concerning temperate broadleaved and mixed conifer broadleaved forests. Such forests are practically extinct in European Russia.... Almost all of the unique, far eastern broadleaved and mixed conifer

Continued page 11

Forest resource

broadleaved forests have been affected by industrial logging during the last decade."

Diversity of species composition

The data available indicates that on an international comparative basis, the Eastern European forest resource is fairly restricted in terms of overall size and volume. It is also important to draw a distinction between the species composition of European and Asian forest resources and North American resources. The former are heavily dominated by two major species, oak and beech which can be supplied in commercial volumes. By contrast, the North American hardwood forest resources are capable of supplying over 20 hardwood species in commercial volumes

Low domestic consumption

To explain the recent expansion in Eastern European hardwood lumber exports, you need to look at the consumption side of the equation. At present domestic consumption of hardwoods throughout much of Eastern Europe is very low (Table 3), a situation which has allowed a significant proportion of hardwoods to be diverted to higher value export markets.

It remains to be seen how long this situation will continue. Since many Eastern European countries are now developing manufacturing facilities to supply not only domestic markets, but also an expanding export business in semi-finished components and finished products, hardwood consumption in these countries may well rise relatively quickly. Pent-up domestic demand for wood in Eastern Europe could well restrict the availability of wood for export in the long term. For Eastern European countries to approach the per capita hardwood lumber consumption of Western Europe, let alone the United States, would require additional annual import or production of 2.2 million m³ of lumber, an increase of around 46% on currently prevailing levels.

U.S. market maturity

This situation contrasts strongly with that in the United States where the domestic market for hardwood lumber is already very mature. In some sectors, such as furniture, U.S. domestic demand is actually declining as American manufacturers have come under increased pressure from imported finished goods, notably from East Asia. As a result, the U.S. is likely to divert a rising proportion of its hardwood production to export markets.

This brief analysis suggests that, in the long

Continued page 12

1. Temperate and boreal forest area and growing stock

Country	Population millions	Area million has		Growingstock million m ³		
		Land	All Forest	Hardwood Forest	All Forest	Hardwood Forest
Albania	3.1	2.8	0.9	0.5	74	57
Belarus	10.3	20.3	6.0	1.3	969	287
Bosnia & Herz	3.7	5.1	1.3	0.8	125	55
Bulgaria	8.3	10.9	3.1	2.0	401	239
Croatia	4.5	5.6	1.7	1.4	338	291
Czech republic	10.3	7.7	2.6	0.3	668	108
Estonia	1.4	4.2	1.9	0.4	307	113
Hungary	10.1	9.1	1.7	1.3	295	250
Latvia	2.4	6.2	2.4	0.5	409	167
Lithuania	3.7	6.3	1.7	0.6	314	128
Poland	38.7	30.4	8.3	1.3	1771	368
Romania	22.5	22.9	5.6	3.9	1341	815
Slovakia	5.4	4.8	1.7	0.8	445	232
Slovenia	2.0	2.0	1.0	0.4	292	147
Turkey	62.9	76.7	8.6	3.1	1187	411
Ukraine	50.9	57.9	6.0	2.8	1110	500
Yugoslavia	10.6	10.1	2.4	2.0	288	234
Eastern Europe	250.8	283.1	57.0	23.6	10334	4402
Russian Federation	147.4	1637.7	525.2	42.0	60922	16281
Western Europe	387.5	356.4	103.3	28.1	14449	4980
Canada	30.6	921.5	125.9	28.1	17355	4582
USA	274.0	915.9	198.1	89.5	27035	12161
Australasia	22.5	788.0	18.3	14.8	1015	521

2. Temperate and boreal forest net annual increment (NAI) and fellings

Country	Net Annual Increment million m ³		Fellings million m ³		Fellings/NAI %	
	All Forest	Hardwood Forest	All Forest	Hardwood Forest	All Forest	Hardwood Forest
Albania	0.9	0.7	0.7	0.6	76	85
Belarus	24.6	8.5	9.5	3.1	38	36
Bosnia & Herz	3.5	2.5	1.2	0.8	34	32
Bulgaria	10.2	5.2	4.9	3.1	47	59
Croatia	7.1	6.5	4.6	3.9	64	60
Czech republic	20.4	3.3	16.2	1.4	80	42
Estonia	7.1	3.1	4.0	1.8	56	59
Hungary	9.9	8.4	5.9	5.1	59	61
Latvia	11.1	4.6	6.6	3.0	59	64
Lithuania	8.5	3.2	5.2	1.8	62	57
Poland	39.4	6.4	30.5	7.3	77	115
Romania	31.9	20.7	15.0	10.0	47	48
Slovakia	12.3	6.5	7.1	2.9	58	45
Slovenia	6.1	3.2	2.3	0.8	38	25
Turkey	32.5	12.9	17.4	7.5	53	59
Ukraine	21.3	8.0	8.5	4.0	40	50
Yugoslavia	6.1	5.2	3.1	2.6	50	49
Eastern Europe	253.0	108.9	142.6	59.6	56	55
Russian Federation	742.0	278.0	125.5	36.2	17	13
Western Europe	489.8	157.8	318.3	86.8	65	55
Canada	227.5	69.2	230.0	40.0	101	58
USA	694.0	308.0	523.0	170.0	75	55
Australasia	68.3	24.4	42.3	11.3	62	46

3. Annual average hardwood lumber consumption 1995-2000

	Production	Imports	Exports	Consumption	
	000 m ³	000 m ³	000 m ³	Total 000 m ³	Per capita m ³ /1000
Eastern Europe	6685	610	2471	4824	24
Western Europe	7950	7159	2150	12960	34
Russian Federation	3549	17	308	3258	22
U.S.A.	31686	1142	2765	30063	110
Canada	1015	1011	1109	917	30
Australia	1439	128	41	1527	68

Sources: UN/ECE TBFA 2000, FAO FORIS Database

Forest resource

Eastern Europe *Cont.*

term, underlying resource trends will give American hardwood suppliers a competitive edge in the international market for hardwood lumber. Eastern European suppliers cannot match the American's ability to supply a diversity of hardwood species. They may also have difficulty, in the long term, matching the American's ability to supply high and sustained volumes

of good quality hardwood lumber of consistent grade.

However, the knowledge of long term advantage may be little comfort to American exporters now feeling the heat from increasingly vigorous Eastern European competitors. There is likely to be a protracted period when the intensity of competition increases as Eastern European suppliers develop more efficient processing

capacity and distribution networks, and as they seek to develop lucrative overseas sales at a time when domestic consumption is still low. In the meantime, the American industry will have to work hard to cut costs, to maintain their lead in efficient distribution, and to exploit their ability to supply a wide range of species. And of course, they would also benefit from a weakening in the dollar-euro exchange rate.

Natural hardwood forests prove to be a good investment

Private ownership of U.S. forest lands has traditionally been dominated by small non-industrial owners and large industrial, often paper, producers. However a new breed of owner is making inroads and beginning to have an impact on the way U.S. forests are managed. The new owners are institutional investors such as pension funds and insurance companies. They research and buy forests in the same way a mutual fund manager acquires stocks.

U.S. hardwood forest lands are seen as a particularly good investment because they combine solid rates of natural growth with an ability to supply some of the finest quality hardwood lumber in the world. U.S. hardwood forests are also characterised by natural bio-diversity which tends to reduce risk whether natural (from pests and disease), economic (due to slumps in demand for particular products), or political (such as boycotts on the trade in wood from unsustainable sources).

Specialist management

On-the-ground management for the investor owners is carried out by specialist companies like Fountain Forestry Inc, now responsible for around 300,000 acres of north eastern U.S. forest properties. The ideas behind hardwood forest investment are explained by Bruce Jacobs, President of Fountain Forestry:

"The prime determinant of forestland market value is timber value. Hardwood timber value increases partly due to physical growth which, in North Eastern USA, adds 2-3% in volume every year. However professional management techniques can ensure that economic value grows significantly faster than physical volume. Selective thinning can

be used to channel growth into more valuable tree species. Foresters can also exploit so-called 'ingrowth' - the dramatic step-wise increase in sale value of a good quality tree as it grows into the next product class. Professional forest management will encourage the trees to work through these classes, from pulp (less than 6in to 7in in diameter) to the various grades of saw logs (over 11in in diameter), through to the veneer grades (close to 16 in diameter)."

Bruce Jacobs notes that investors in hardwood forests are likely to benefit from long term rises in hardwood lumber prices. Hardwood lumber prices in the United States have consistently exceeded inflation for nearly 200 years. Global forecasts of future shortfalls in supplies of high quality decorative hardwoods suggest that this rising trend should continue. According to Jacobs, the combined result of these components produces real timber value growth of 7-9% and real investment returns of 5-7%.

Haven in difficult times

Recent events have, if anything, increased interest in hardwood timberland investment. Bruce Jacobs notes that turbulence in other parts of the economy has served to highlight the benefits of long term investment in hardwood timberland. While the shaky global economy and volatile stock markets have played havoc with many investment portfolios, timberland has looked increasingly good. The value of U.S. timberland is not only holding its own during the economic downturn, but continues to perform well. While depressed pulpwood and low grade sawlog markets have limited cutting opportunities, and cash flow has been a problem, the value of the trees left standing on the stump is doing just fine. The economic slowdown has also highlighted the importance of quality.

Jacobs notes that high-grade sawlog prices have remained stable at reasonably high levels in the U.S. despite the soft economy. Prices for high-end desirable species have even risen slightly. However demand and prices for lower end sawlogs in less desirable species and for pulpwood have fallen. It seems that in most instances, quality sawlogs will sell at good prices regardless of the general economy.

Changes in the woods

While hardwood timberlands are bringing about good returns for the investor-owners, the new owners are also bringing about changes in the woods. On the downside, the big institutional investors tend to have no ties to local mills, no personal connection to the land and no employees in the communities. On the other hand, the new owners are contributing to improvements in forest management. Turnover in ownership is relatively slow amongst institutional investors and they tend to take a long term view. Observers in the U.S. estimate that the institutions will hold on to a tract for an average of 20 to 30 years. The emphasis on high quality hardwood has meant that the new owners are less inclined than the large paper companies to focus on plantation management to grow softwood fibre fast and instead encourage management of natural forests. Public image and the views of stockholders also motivates the institutional owners to pay attention to stewardship and has contributed to rising interest in forest certification.

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Forest resource

Plantations

Some issues, and progress

“Future increases in demand for wood are predicted to be met largely by forest plantations. Proper planning and management are needed to ensure that there are no associated environmental and social impacts.”

This is one conclusion from the recent FAO publication *State of the World's Forests 2001*. The statement above embodies several critical issues. The fact that demand for wood will be met is in itself important, but from where the demand will be met is the essence of this report. It concludes that “there are an estimated 3,870 million hectares of forest of which almost 95% are natural forests and 5% are forest plantations.” FAO also suggest that in 2000 plantations supplied 35% of round log production, a figure forecast to rise to 44% by 2020. Asia already accounts for 62% of the total.

Pine and eucalyptus represent the two dominant species and much of this increasing resource is mainly softwood and some hardwood plantation destined for pulp for paper – producing homogenous colour-consistent raw material, which is a major advantage for paper producers. However the proportion of hardwood plantations is significant and increasingly these may be destined for solid hardwood markets.

Not all plantations are green

Plantations do provide fast-grown and often sustainable hardwoods, which can conform to new criteria for sustainable management, but eventually they may not be perceived as green as in the past. For example, some observers have been surprised at the extent to which environmentalists have regarded rubber-wood as acceptable due to its plantation source. Admittedly rubberwood is a recovery material from spent latex-producing trees, nonetheless rubber-wood plantations are based on a monoculture system, which lack almost any bio-diversity – one of the key criteria for most certification programmes. Furthermore rubber needs regular chemical treatment to destroy vegetative competition in its early rotation. These kind of factors may well be behind the reference to environmental impacts in the FAO statement quoted above. If such objections can be overcome for plantations of other species, their potential significance for solid wood production could increase, although there is currently very little availability of high value decorative species

for solid wood products yet.

High quality hardwood plantations

The idea of planting high quality hardwoods is not entirely new. The French have always planted oak and beech and still do so. In the United States, where the natural regeneration of hardwoods is the norm, high value black walnut has been cloned and planted for years. However the length of time needed for results and adjustment to such programmes, with such slow growing species, is long. Indonesia is today harvesting mature plantation teak, and subsequently there have been plantation establishments as far apart as Ghana and Panama although it may be decades before much is harvested there. Throughout Europe and Asia plantations of poplar have been managed, often integrated into agriculture, for plywood, food boxes and chopsticks. But now increasingly in South America and around the world one or two of the eucalypts are being developed for saw quality logs (hardwoodmarkets January 2002 issue). The issue here is the simple fact that such plantations are mere pockets of resource and are a drop in the ocean as far as satisfying the global demand for hardwoods is concerned.

Certainly there are new incentives for plantation establishment, but these are often in countries severely lacking in natural forest resources. The FAO report notes the Philippines, Mexico and China as three main examples that have taken specific measures in this respect. Whereas in Chile, Indonesia, Myanmar and South Africa the policy is to augment existing or depleting natural forests. New Zealand, Thailand and the Philippines have also subsequently withdrawn their natural hardwood forests from timber production as a conservation strategy. And most of these countries have sufficient land for further establishment.

Commercial hardwood production

In terms of commercial volume production of hardwoods for solid wood products there are large plantations of species already established such as the acacias, used for garden furniture in Hungary, and those being grown successfully in Malaysia for interior furniture production. IKEA has been marketing acacia furniture for some time and last year at the Posnan show in Poland acacia furniture and flooring were both on offer. But despite the predictions of the FAO report, the likelihood is that most solid hardwoods will always come from a vast range of species grown in natural forests, managed on a sustainable basis.

Brazil

Hardwood Industry

Prospects improving in 2002

Production of all solid wood products is expected to increase in Brazil during 2002 due to the forecast rebound in the Brazilian economy, according to a new report from the U.S. Foreign Agricultural Service. The Brazilian forest products sector is likely to benefit from growth in two major areas: stronger growth in the construction sector, and higher exports of lumber, plywood, and furniture.

The Brazilian government has announced a new line of home financing for the middle class of nearly US\$1 billion, which should improve demand for wood by the construction sector in 2002. The devaluation of the Brazilian currency is also improving exports of Brazilian hardwood lumber which became more competitive in the world market. The rising trend in Brazilian furniture exports to markets in Europe and in the United States is also expected to continue in 2002.

Tropical lumber production to rise

In response to rising demand, production of tropical hardwood logs is expected to increase slightly in 2002 from 28.27 million m³ to 28.84 million m³, while tropical hardwood lumber production is forecast to increase from 14.8 million m³ to 15.3 million m³. Brazilian tropical hardwood lumber exports are expected to increase from 950,000 m³ to 1,045,000 m³, rising from 6.4% to 6.8% of total production.

The lumber industry in Brazil is composed of nearly 10,000 companies, mostly small and medium scale companies. Over the past 5 years, the lumber industry has gone through structural changes, increasing its competitiveness, technology, and investment. Lumber in Brazil is distributed to the following end use sectors: retail (36%), construction (21%), furniture (16%), industry in general (15%), and all others (12%). The wood originating from planted forests has increased its share of total lumber produced from 25% in the early 1990's to approximately 30% in 2001.

Plywood rebound

Total production of plywood (both hardwood and softwood) is expected to rebound in 2002, following a slowdown in 2001. Based on interviews with industry sources, the report suggests that around 40% of wood raw material used for the manufacture plywood in Brazil now comprises softwood (pine from southern Brazil) and 60% hardwood. The plywood industry in Brazil con-

Continued page 14

Brazil

Hardwood industry *cont.*

sists of nearly 300 companies with total installed production capacity of 2.3 million m³. The top 40 companies account for around 60% of capacity. Outlets for plywood manufactured in Brazil are as follows: furniture (45%), construction (34%), packaging (17%), all others (4%). Trade sources expect an improvement in export prices of Brazilian plywood during 2002 and higher demand from the domestic market, mostly from the furniture sector.

Major forestry issues

The report notes that two issues are now affecting the Brazilian forest sector. First, a revision to the Brazilian National Forest Code is being considered which would reduce the forest protection required on each individual farm in the Amazon from the current level of 80% to 50%, reversing an earlier amendment made in 1996. Second, the National Forest Plan, created by Presidential Decree in 2000, is being implemented. Principle objectives of the plan are to expand the planted and managed forest base in Brazil; implement sustainable forestry; and prevent deforestation and forest fires. Total investments allocated for these program ar-

cas are estimated to amount to US\$1.5 billion over the 3 year-period 2001-2003.

A specific target under the plan is to increase the area of National Forests, managed under the direct control of the Federal government, from 15 million hectares to 25 million hectares by 2003 and 65 million hectares by 2010. At present only a small area of these forests is managed for timber on an experimental basis. The aim is to create a much larger area of state forests managed under concession arrangements on a sustainable basis and to reduce extraction from privately owned forests. The plan aims to ensure that 20 million hectares of National Forests have been designated for sustainable timber production by 2010 and that 10% of the future demand for logs is supplied from these forests.

Other targets under the plan are: to improve logging efficiency by 50% by 2003; increase Brazil's share of the world tropical wood market from 4 to 10 percent by 2010; and to increase exports of high-value wood products (including furniture products) by 30 percent by 2010.

The area of certified forest in Brazil is expected to double during 2002 from current levels of around 1 million hectares.

Brazilian mahogany Brazilian President discredits nation's legal system

The entire legal status of the Brazilian mahogany trade has been undermined by the Brazilian President who, in a speech on April 9th, agreed with Greenpeace that much of the wood is derived from illegal sources. While claiming a "victory" for his government in their efforts to control the mahogany trade, the President's statement is more remarkable for effectively discrediting Brazil's entire legal and regulatory framework - over which he presides - which allowed the exports to take place. There follows a translation of the text of the President's address (320A, Mahogany, April 9th 2002):

"I have come here today to reaffirm and give my personal pledge on the resolve of the Federal Government to maintain the prohibition against the exploitation of one of our most noble trees, the mahogany. Mahogany constitutes one of the richest of our timbers but unfortunately it is a target for the greed of the timber merchants and is threatened with extinction.

"When I proclaim that the Government will do everything within its power to protect mahogany, I am giving a guarantee that its extraction, exploitation, shipping and commercialisation continue to be forbidden. Last year, we adopted robust measures to protect the mahogany and guarantee the expansion of the crop. The wood may be used provided that there is compliance with the reforestation programme of IBAMA (Brazilian Environmental Institute).

"Despite various restrictions that IBAMA has imposed in recent years to prevent the cutting of mahogany in prohibited areas, the guidelines have been ignored. Unscrupulous loggers have felled trees in illegal areas and transported them to other zones where their handling is permitted. During this dispute, loggers managed to gain legal authorisations that conflicted with the national interest in preserving mahogany.

"However, owing to the vigilance of its inspectors, and aided by State Governments, Prefectures and NGOs, IBAMA managed to discover shipments which were reaching ports in Pará and Paraná [states] by trucks. Once the timber reached those ports, naturally the timber merchants hoped to gain access to international markets where mahogany is

Exchange rates

		One GB pound (£)			One US Dollar (\$)			One Euro		
		1-Mar	25-Mar	26-Apr	1-Mar	25-Mar	26-Apr	1-Mar	25-Mar	26-Apr
Argentina	Peso	3.106	3.9304	4.647	2.19	2.755	3.195	1.8958	2.422	2.8712
Australia	Aus. \$	2.7399	2.6787	2.6761	1.9318	1.8776	1.8399	1.6723	1.6508	1.6535
Bangladesh	Taka	81.1977	81.6758	83.2673	57.25	57.25	57.25	49.5585	50.3343	51.4478
Belgium	Euro	1.6384	1.6227	1.6185	1.1552	1.1374	1.1128	1	1	1
Belize	B\$	2.7941	2.8105	2.8653	1.97	1.97	1.97	1.7053	1.732	1.7703
Bolivia	Boliviano	9.8998	9.9866	10.2692	6.98	7	7.0605	6.0423	6.1544	6.3449
Botswana	Pula	9.5702	9.7416	9.4079	6.7476	6.8283	6.4683	5.8411	6.0034	5.8128
Brazil	Real	3.3366	3.3641	3.4325	2.3525	2.358	2.36	2.0365	2.0732	2.1208
Fr. Africa*	CFA Fr.	1074.74	1064.40	1061.66	757.76	746.08	729.94	655.96	655.96	655.96
Canada	Canadian \$	2.262	2.2494	2.2724	1.5949	1.5767	1.5624	1.3806	1.3862	1.404
Chile	Peso	948.488	954.928	948.083	668.750	669.350	651.850	578.904	588.493	585.785
China	Yuan	11.7387	11.8084	12.039	8.2766	8.277	8.2773	7.1647	7.2772	7.4384
Czech Republic	Koruna	51.6349	50.4772	49.0239	36.4062	35.3816	33.7061	31.515	31.1075	30.29
Denmark	Danish Krone	12.1753	12.0636	1.6185	8.5844	8.4559	1.1128	7.4311	7.4344	1
Estonia	Kroon	25.6431	25.3979	25.3197	18.0802	17.8025	17.4084	15.6512	15.652	15.6441
Europe	Euro	1.6384	1.6227	1.6185	1.1552	1.1374	1.1128	1	1	1
Finland	Euro	1.6384	1.6227	1.6185	1.1552	1.1374	1.1128	1	1	1
France	Euro	1.6384	1.6227	1.6185	1.1552	1.1374	1.1128	1	1	1
Germany	Euro	1.6384	1.6227	1.6185	1.1552	1.1374	1.1128	1	1	1
Ghana	Cedi	10796.80	10949.60	11555.60	7612.50	7675.00	7945.00	6589.78	6747.88	7139.80
Guyana	Guyanese \$	256.003	257.510	262.528	180.500	180.500	180.500	156.250	158.696	162.206
Hong Kong	HK\$	11.0621	11.1272	11.3439	7.7996	7.7996	7.7995	6.7517	6.8574	7.009
India	Rupee	69.0854	69.5492	71.1808	48.71	48.75	48.94	42.1658	42.861	43.98
Indonesia	Rupiah	14324.8	14016.8	13533.7	10100.0	9825.0	9305.0	8743.1	8638.1	8361.9
Irish Republic	Euro	1.6384	1.6227	1.6185	1.1552	1.1374	1.1128	1	1	1
Italy	Euro	1.6384	1.6227	1.6185	1.1552	1.1374	1.1128	1	1	1
Japan	Yen	188.932	189.588	186.199	133.21	132.89	128.02	115.313	116.837	115.045
Kenya	K. Shilling	110.769	111.457	113.884	78.1	78.125	78.3	67.6073	68.76	70.3644
Korea South	Won	1877.76	1895.23	1887.37	1323.95	1328.45	1297.65	1146.08	1167.97	1166.33
Liberia	Liberian \$	1.4183	1.4267	1.4545	1	1	1	0.8657	0.8792	0.8987
Malaysia	Ringgit	5.3896	5.4213	5.5269	3.8	3.8	3.8	3.2895	3.341	3.4149
Myanmar	Kyat	9.6774	9.694	9.7822	6.8232	6.7949	6.7257	5.9065	5.9653	6.0973
Netherlands	Euro	1.6384	1.6227	1.6185	1.1552	1.1374	1.1128	1	1	1
New Zealand	NZ\$	3.3558	3.2409	3.2346	2.366	2.2717	2.224	2.0482	1.9973	1.9986
Nigeria	Naira	168.281	165.634	169.371	118.650	116.100	116.450	102.710	102.075	104.648
Papua NG	Kina	5.1213	5.2079	5.3981	3.6109	3.6504	3.7114	3.1258	3.2095	3.3353
Philippines	Peso	72.4397	72.9233	73.9661	51.075	51.115	50.855	44.2131	44.9404	45.7009
Poland	Zloty	5.9681	5.8625	5.8113	4.2079	4.1093	3.9956	3.6426	3.6129	3.5906
Portugal	Euro	1.6384	1.6227	1.6185	1.1552	1.1374	1.1128	1	1	1
Romania	Leu	46235.2	47079.5	48542.3	32599.0	33000.0	33375.0	28219.3	29013.6	29992.4
Russia	Rouble	44.006	44.8862	45.3716	31.0273	31.1823	31.195	26.8587	27.4155	28.0334
Singapore	Singapore \$	2.5973	2.6148	2.623	1.8313	1.8328	1.8035	1.5852	1.6114	1.6207
Solomon Islands	Smm. Is. \$	8.6907	8.8612	9.3354	6.1275	6.2112	6.4185	5.288	5.4541	5.7496
South Africa	Rand	16.0587	16.3709	15.588	11.3225	11.475	10.7175	9.8013	10.0889	9.6313
Spain	Euro	1.6384	1.6227	1.6185	1.1552	1.1374	1.1128	1	1	1
Sweden	Krona	14.8974	14.6233	14.9136	10.5037	10.2501	10.2537	9.0925	9.0119	9.2145
Taiwan	\$	49.7895	49.9899	50.5625	35.105	35.04	34.764	30.3887	30.8072	31.2407
Tanzania	Shilling	1370.08	1389.56	1406.45	966.00	974.00	967.00	836.22	856.34	869.00
Thailand	Baht	61.9372	61.9024	62.8614	43.67	43.39	43.22	37.803	38.1485	38.8397
Uganda	New Shilling	2503.30	2533.02	2614.37	1765.00	1775.50	1779.50	1527.87	1561.02	1615.32
United Kingdom	£	1.0000	1.0000	1.0000	0.7051	0.7009	0.6875	0.6104	0.6163	0.6179
U.S.A.	US \$	1.4183	1.4267	1.4545	1	1	1	0.8657	0.8792	0.8987
Venezuela	Bolivar	1419.200	1270.610	1222.470	1000.640	890.625	840.505	866.200	783.038	755.200
Vietnam	Dong	21474.5	21642.3	22140.4	15141.0	15170.0	15222.5	13106.8	13337.5	13679.7
Zimbabwe	\$	78.6448	79.1079	80.6494	55.45	55.45	55.45	48.0004	48.7518	49.8303

*Cameroon, CAR, Congo, Gabon & Cote d'Ivoire

Brazil

sold at prices comparable to gold.

"It is true that the bulk of that cargo reached its destination, but the Brazilian Government sought the help of governments overseas and gained another victory. When those countries learned that the origin of the mahogany was unlawful, they began to seize the wood. The USA alone confiscated mahogany with a value of 10 million dollars. The International Press has also come to our assistance. An American television network announced that we had finally put an end to the illegal extraction of mahogany.

I shall continue to count on the backing of governments, Prefect and civil society so that Brazil can learn to respect itself and so that the country gains the respect and support of other countries by preserving the noble species that are found in our forests, such as mahogany."

Inconsistency on the part of the Brazilian authorities has inevitably created confusion in major export markets. Mahogany consuming countries, including the U.S. and EU have been preventing the unloading of mahogany until such time as the authenticity

of legal documentation from Brazil has been checked.

Following intense lobbying by ENGOs, the European Commission has weighed in with a set of guidelines advising EU states not to allow imports of Brazilian mahogany without ensuring that the timber was felled legally. In the March 26 memo addressed to member states, the European Commission said it was aware of problems relating to the arrival of cargoes of Brazilian mahogany. "These originated in Brazil and have arrived in several member states. They are accompanied by export permits whose legality has become a matter of dispute," the memo read.

Doubts raised over CITES permits

Although all the shipments concerned are covered by CITES export permits, the Commission said the Brazilian government had told it that these permits had only been granted under pressure from local Brazilian courts. The memo noted that a number of local judicial decisions allowing certain Brazilian companies to export timber had been reversed on appeal. In light of this, the memo read, "the European Commission advises

member states not to accept export permits for specimens of Swietenia Macrophylla from Brazil until further notice without first obtaining from the Brazilian authorities a statement that those specimens were legally acquired."

Detention at EU ports

The memo led to the detention of various shipments of mahogany into Germany and the Netherlands. In the UK, Greenpeace continue to pursue an injunction from the courts to prevent entry of mahogany shipments into the UK until there has been a judicial review of the legal status of the trade. Greenpeace lost the initial court case but have been granted permission to appeal, the case to be heard between 30-31st May 2002. Meanwhile, in a development which appears related to the mahogany trade, the president of the Brazilian Institute of the Environmental and Natural Renewable Resources (IBAMA), Hamilton Casara, is set to resign. Casara has had to face criticism from all sides: from the industry for banning the trade, and from green groups for failing to stop 40,000 cubic meters of mahogany being exported after the ban. *Source: TTF*

Association Profile - APKINDO - Indonesia

Number of Member Companies: 116

The Indonesian wood panel association (APKINDO) claims to represent the world's largest tropical hardwood plywood export industry. According to their website, the association seeks to maintain Indonesia's leadership role in the global wood panel market by guiding its members to create increased value and reinforce the trust that purchasers worldwide should have in the value of Indonesia's products. APKINDO

works to control export prices among its members and recently has come out strongly against the problems of illegal logging in Indonesia. The association works internationally with other trade associations and maintains ties with organisations such as IHPA in the USA.

A Directory of members is available on the website, www.apkindo.com.

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Hardwood Events

Date	Event	Venue	Target audience	Contact
2002				
6-10 May	Poznan show	Poznan, Poland	Furniture and wood industries	www.mtp-com.pl
21-25 May	Sasmil	Milan, Italy	Woodworking	www.sasmil.it
21-24 May	Forestry, Timber and Wood China/ Int. Building & Construction Fair	Shanghai, China	Timber trade and Industry	wesexpo@stn.sh.cn
29-31 May	Carrefour du Bois	Nantes, France	Timber trade and Industry	www.timbershow.com
13-18 May	32nd Session of the International Tropical Timber Council	Bali, Indonesia	Government, trade	CollinsAhadome, ITTO, itto@itto.or.jp
12-13 Jun	AHEC SE Asia Convention	Shanghai, China	Timber Trade & Industry	www.ahec.org
22-25 Aug	International Woodworking, Mach. & Supply Fair	Atlanta, Georgia	Woodworking, timber trade and industry	www.iwfw2002.com info@iwfatlanta.com
24-25 Sept	Malaysian Timber Marketing Convention	Kuala Lumpur, Malaysia	Timber trade and industry	mtmc@mtc.com.my www.mtc.com.my
24-25 Oct	AHEC European Convention	Lisbon, Portugal	Timber Trade &	www.ahec-europe.org
20-22 Nov	1st Int. Congress of the Solid Wood Products Industry	Belem, Para, Brazil	Timber trade and industry	wrs@wrsaopaulo.com.br www.wrsaopaula.com.br

African market stable....

Prices for African logs and lumber are stable as the fragile balance between subdued demand and tight supplies continues. Prospects are that prices will edge higher over the next few months. Availability is likely to become tighter as the rainy season sets in. At the same time buying usually picks up in Europe during the early summer period. Recent rises in East Asian tropical log and lumber prices due to low availability may also boost demand and prices for African tropical lumber. **Page 2/3**

....Meranti market unstable

The market for Malaysian meranti is very unstable with reports of rapid price increases emerging from the middle of April. The immediate reasons are a severe lack of supply combined with efforts by European buyers to obtain available stocks. **Page 4/5**

Asian log supplies very tight

Supplies for South East Asian logs are still tight. Intermittent rain has disrupted logging in Sarawak, government controls have reduced harvesting in Sabah, and the Indonesian logging sector is hampered by labour and political disputes. Indonesia has also announced that it will extend the log export ban indefinitely. South East Asian log exporters continue to push for higher prices. In Japan, tropical log demand remains very weak, but there are forecasts of rising demand in China. **Page 5/6**

Asian furniture fairs

Closing reports from the recent round of furniture fairs in Malaysia, Singapore, Thailand and the Philippines suggest this year will be a better one for the ASEAN furniture industry. In 2001, the ASEAN furniture fairs generated sales of US\$2.4 billion, and this figure is expected to be up 15% during 2002. However there is serious concern over the price war now being waged between manufacturers **Page 6**

U.S. trading still challenging

The U.S. downturn has been less severe than expected, but the rebound may be subdued. Some sectors of the U.S. hardwood industry, notably flooring, continue to benefit from strong home starts. Prospects in the U.S. furniture sector look better in 2002 after a terrible year in 2001. Reasonable volumes of hardwood lumber are being shifted in the U.S., but trading conditions are still difficult. High stumpage prices and intense competition for orders are keeping margins tight. **Page 7/8**

U.S. export markets subdued

Although there are signs that the American export business in hardwood lumber is slowly improving, overseas demand remains subdued overall. Exports have been constrained by the continuing high dollar value, by the rising level of competition, notably from Eastern Europe, and by economic uncertainty in buying countries. **Page 8**

Beech market still difficult

Harvesting of good quality new season beech logs was restricted during the winter logging season in Western Europe. European beech sawn lumber markets are still challenging, characterised by high stocks and slow demand. Chinese demand for beech is still well down on previous years, but there are signs of improvement. Demand for good quality European oak lumber has been more stable. **Page 10**

Brazilian bounce

Production of solid wood products is expected to increase in Brazil during 2002 due to the forecast rebound in the Brazilian economy. The Brazilian forest products sector is likely to benefit from stronger growth in the domestic construction sector, and from higher exports of lumber, plywood, and furniture. **Page 13/14**

President undermines mahogany

The entire legal status of the Brazilian mahogany trade, not to mention Brazil's regulatory framework, has been undermined

by the Brazilian President who, in a speech on April 9th, agreed with Greenpeace that much of the wood derived from illegal sources. **Page 14/15**

Indonesia-UK joint agreement

The Indonesian government has signed a memorandum of understanding (MoU) with the United Kingdom designed to help curb widespread illegal logging in Indonesia. Indonesia also expressed a desire to establish similar agreements with other countries and announced ambitious targets to reduce the level of logging. **Page 12/13**

America's competitive edge

Analysis of forest resource trends indicates that, in the long term, American hardwood suppliers will have a competitive edge over Eastern European and Russian suppliers in international hardwood markets. However, there is likely to be a protracted period when the intensity of competition in temperate hardwood markets increases as Eastern European suppliers develop more efficient processing capacity and distribution networks, and as they seek to develop lucrative overseas sales at a time when domestic consumption is still low. **Page 1/10/11**

Investing in hardwood forests

Institutional investors are becoming more interested in American natural hardwood forests, encouraged by solid rates of natural growth and the ability of these forests to supply some of the finest quality hardwood lumber in the world. The new owners are bringing about changes in the way the forests are managed, particularly by increasing the focus on high quality production. **Page 12**

Oak much in evidence

Oak was much in evidence at the recent furniture shows in Italy and Germany, particularly in light, natural, or limed finishes. Designers looking for contrast or an alternative to light colours were turning to American walnut and African wenge. **Page 9**