

<http://www.hardwoodmarkets.com>

**Volume 16**  
**Number 10**  
**October 2001**

## Contents

U.S. hardwood exports down 10% . . . . .	1
Editorial - maintaining choice . . . . .	2
African hardwoods. . . . .	2/3/4
Cameroon . . . . .	3
Ghana . . . . .	4
Congo (Brazzaville . . . . .	4
S. American sawn lumber . . . . .	4/5
Brazilian forest certification . . . . .	4
Brazilian sawn lumber . . . . .	5
Amazonian forest policy . . . . .	5
Malaysian sawn lumber . . . . .	6
SE Asian logs . . . . .	6
Asian economies . . . . .	6/7
Japan's temperate hardwood imports . . . . .	7
European hardwoods . . . . .	7
Poland . . . . .	8
N. American economy . . . . .	8
N. American hardwood production . . . . .	8/10
N. American domestic demand . . . . .	10
N. American hardwood export markets. . . . .	10
N. American hardwood species notes. . . . .	11
Tropical plywood . . . . .	11
Chain of custody . . . . .	12/13
Certification - mutual recognition . . . . .	13
Certification - record of achievement . . . . .	14
Tackling forest crime . . . . .	15
Profile: Q-WEB - Canada . . . . .	15
Hardwood Events . . . . .	15
News summary . . . . .	16

## Statistics in this issue

■ <b>Congo (Brazzaville) wood exports</b> . . . . .	4
Volume by product and point of export	
Years 1997 to 2000	
■ <b>US hardwood exports</b> . . . . .	9
Lumber by destination	
Lumber by species and destination	
Logs by destination	
Veneers by destination	
Jan-Jun 2000 & 2001	

## U.S. hardwood exports down 10%

**A**merican hardwoods were struggling on world markets during the first half of this year due both to the continuing strength of the dollar and weakening global economic prospects. Overall exports of hardwood lumber were down 13.3% by value and 10.5% by volume during the first half of 2001 compared with the same period the previous year. A number of trends are apparent from the export data:

■ The slowdown in the U.S. itself has contributed to a big decline in U.S. lumber exports to neighbouring North American countries. Export volumes to Canada and Mexico were down 11% and 18% respectively.

■ In Europe, U.S. hardwood lumber export volumes were well down compared to the previous year in Italy (-19.8%), Germany (-32.6%), and France (-32.3%). Various factors contributed to this trend including the weakness of the euro during the first of the year, increasing competition from European hardwoods (particularly in Italy), and slowing economic growth (particularly Germany).

■ Export volumes of hardwood lumber declined to a lesser extent to the UK (-8.5%) and Belgium-Lux (-4.5%). Spain was the only market recording a significant increase (up 5%).

■ In Asia, there was a significant increase (+37.5%) in U.S. hardwood lumber exports to Hong Kong, while exports to China remained reasonably steady. Exports to Japan were well down (-16%) in response to weak economic conditions and a shift in manufacturing facilities to lower cost countries, notably China. Exports to Taiwan were subdued (down 25%) for the same reason.

■ Red oak maintained its position as the leading export species during the first half

of this year, although much of this volume remains in North America. Sales to Canada and Mexico were well down between January and June this year, but red oak's performance in several overseas markets improved substantially. Sales to Hong Kong were up 44% by volume, while sales to the United Kingdom more than doubled. Red oak is a prime species for flooring and, as one of the U.S. most abundant species, it has also been the object of promotion by the American Hardwood Export Council.

■ White oak retained its position as the leading species exported to regions outside North America during the first half of the year, although volumes were down 13% compared to the same period in 2000. White oak sales to Spain remained buoyant, but there was a significant (-27%) fall in exports to Canada.

■ Maple is another popular export species. Although sales were down in Canada and Mexico during the first half of this year, purchases in China and Hong Kong were on the rise.

■ The highly competitive nature of the Italian market for tulipwood this year is reflected in the figures. U.S. exports of tulipwood sawn lumber to Italy were down 25% during the first half of the year.

■ There is strong confirmation of the rising popularity of American black walnut, a species often used by designers to create contrast in joinery and furniture as well as flooring. Exports of walnut lumber were up 60% during the first half of the year, with very strong growth in exports to Canada, Hong Kong and Italy. The panel trade also reports an increase in the use of walnut veneered products, notably in the UK.

**US hardwood export statistics are published on page 9**

hardwoodmarkets.com

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

### Contacts

#### By email

rjwoliver@email.msn.com

#### By mail

Rupert Oliver,  
hardwoodmarkets.com Ltd,  
19 Raikeswood Drive,  
Skipton, North Yorkshire  
BD23 1NA,  
United Kingdom

#### By telephone and fax

Tel: +44 (0)1756 796992

Fax: +44 (0)1756 796992

### 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**

©2001 hardwoodmarkets.com Ltd  
All rights reserved

ISSN 1471-6186

### Consultancy services are also available.

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

**Contact Rupert Oliver at the address given above for details.**

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

## Editorial

### “Open Markets” are about “Choice”

Customers should be free to choose the products that they want. This is the foundation of the free market system and well understood by the manufacturers and traders alike. And equally important is the notion that we - for we are all customers - should choose our products from sustainable resources. That's true for hardwoods, and in fact gives timber the edge in future for construction and furniture against many less environmentally friendly products that are not sustainable.

So much is written about the need for certification of sustainability as the hardwood industry increasingly seeks to satisfy the demands of its customers and environmental lobbyists. The Forest Stewardship Council has made enormous effort and progress towards developing an acceptable set of standards and a credible certification scheme. So have other organisations, which have the same laudable objectives but which adopt a different approach to some of the practical problems, such as chain of custody (an issue covered in depth on page 12)

Field research, largely anecdotal but nonetheless valid, is beginning to show that manufacturers too want choice. They want to be able to offer to their customers the usual wide range of wood species and grades available - and they want to assure them that they buy in a responsible manner. They want to be able to declare a policy of

buying only from sustainably managed sources recognised by credible certification schemes, rather than trying to provide labels for everything - processed or semi-processed - that they offer for sale. They recognise that you cannot label everything at every stage. So they are declaring their desire for choice and they are showing their irritation at attempts towards certification monopoly.

As we report on page 13, there is growing international appreciation of the fact that one integrated single certification scheme to be applied globally using a common standard and a common trademark is not an appropriate arrangement for the forest sector. At the same time it is important that forest certification schemes and labels do not proliferate to such an extent that they create market confusion.

It is these concerns that are driving efforts by the wood industry to develop an international framework for mutual recognition of national forest certification schemes as an alternative to the FSC. The end result of this process may well be two distinct global frameworks for forest certification that compete for market share. This could be the ideal outcome, serving both to maintain choice and to minimise confusion.

Rupert Oliver  
Editor

## Africa

### African sawn lumber Maintaining a fragile balance

Despite rising uncertainty, African tropical sawn lumber markets have so far maintained their fragile balance. Prices for most species and grades of the major commercially traded species remain stable. Although there was some increase in European buying activity after the summer vacation period, there has been no opening of the floodgates and forward demand has remained constrained. Even before the events in the United States on 11 September, there was uncertainty over the prospects for European economies, with Germany showing distinct signs of weakness. This mood of uncertainty has intensified after the terrorist attacks. It seems many European buyers have adopted a wait and see attitude and are relying where possible on “just in time” purchases from the bigger Continental importing companies. Nevertheless supplies are still restricted from the

major producing regions north of the equator, with shipments coming through only slowly due to lingering rain and intensifying government controls on forest management.

■ **Sapele:** stocks from Cameroon are booked reasonably well forward. Orders are now being taken for November/December shipment for air dried and December/January for kiln dried. Sapele is now considerably more expensive than Asian meranti - a price gap which has widened further due to the falling dollar-euro exchange rate. Nevertheless prices for sapele are holding steady which seems to imply that meranti - formerly a leading competitor to sapele in north Europe - may now largely occupy a separate market niche.

■ **Iroko:** European demand continues to be slow. Buying in the UK is very subdued, with UK agents reporting that some West African shippers are unable to shift available

## African indicative prices

	July	Aug	Sept
Exchange rates			
US\$/£	1.43	1.45	1.47
Fr.F/£	10.73	10.39	10.59

### Logs

#### Liberia

US\$/m3, FOB Liberia

Grade: B+ & better (good UK sawing quality)

All diameters 60 cm+

A. mahogany	190	190	190
Walnut	190	190	190
Iroko	270	270	270
Kusia (Opepe)	120	120	120

### Sawn lumber

#### Cameroon, CAR, Congo (Braz.)

Fr. Francs/m3, FOB

Grade and size: FAS, air dried, width 6"+, length 6'+

Sapele	3500	3500	3500
Sipo	4400	4400	4400
Bibolo	2600	2600	2600
N'Gollon	3500	3500	3500
Afrosmosia	5600	5600	5600
Iroko	3600	3550	3550

#### Cote d'Ivoire

Fr. Francs/m3, FOB Abidjan

Grade: FAS, air dried

Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"

Iroko	3400	3400	3400
Mahogany	2750	2750	2750
Framire	2150	2150	2150
Samba No.1 C&S	1540	1540	1540

#### Dimension stock

Azobe	2600/ 3000	2600/ 3000	2600/ 3000
Dabema	1950/ 2550	1950/ 2550	1950/ 2550

#### Gabon

Fr. Francs/m3, FOB

Grade and size: FAS, width 6"+, length 6'+

Okoume AD	2250	2250	2250
Okoume KD	2500	2500	2500

stocks. Forward orders from the key Irish market have slowed to a crawl this year due to heavy arrivals under delayed contracts in the first quarter. The scale of over-stocking in Ireland is reflected by import data. One trader suggests that last year Ireland imported 35,000 m3 of iroko lumber from Ivory Coast, Cameroon and Ghana. However preliminary and unconfirmed data suggests that in the first half of this year, Ireland may have imported in the region of 29,000 m3, this during a period when demand on the ground was weakening. Although forward prices for iroko sawn lumber have remained stable, heavy over-stocking has meant that prices on the ground in Ireland have softened.

■ **Framire:** A fairly buoyant market for framire from the Ivory Coast developed in the UK last year as a cheap substitute for iroko. However there are some reports of high stocks in the UK and slowing demand during the second half of this year.

■ **Sipo:** There are some suggestions that

prices have dipped from the heights they reached earlier this year – but availability and purchasing activity are so low that it is difficult to assess the real market price.

■ **Wawa:** Demand is steady to good. Supplies are being affected by recent heavy rains in Ghana which has meant September shipments have been lower than expected, but shipments in October are expected to be reasonable.

■ **Other species:** Prices for okoume lumber have weakened marginally due to ready availability. There are reports of strong demand for bilinga and azobe lumber

## African log markets

### Demand weakens in Asia

Log markets vary depending on region of supply. Prices for logs of okoume and ozigo from Gabon have been soft over recent weeks due to weakening demand for peeler logs in the Far East and the build-up of stocks during the recent dry season. The rainy season is now starting in Gabon, which should reduce output of okoume and ozigo and may encourage greater price stability. Log prices in Cameroon's domestic market are stable due to persistent rain, which has reduced production, and because of good demand from the milling sector.

Log production in Congo (Brazzaville) and Equatorial Guinea has risen this season. This is extra production is destined mainly for the international market, and so partly compensates for the big decrease in log exports from Cameroon following the log export bans implemented in 1999.

Prices for logs of iroko, doussie, and azobe remain firm. However prices for padouk and bubinga are weakening due to slowing demand in the Far East.

## Cameroon

### Tightening logging controls

Further details of the current program in Cameroon to tighten logging controls and improve forest monitoring are emerging. In July the terms of reference were released for the appointment of Global Witness, a UK-based NGO, as an independent "Monitor of Infractions against Forestry Regulations" in Cameroon. The initial contract covers a 6 month "transition period."

The terms of reference summarise the current forest policy situation in Cameroon. It is noted that the Government of Cameroon has made commendable efforts to improve national forestry management. The most important being the development and the adoption of an up-to-date legal and

regulatory framework for the management of forestry resources. The most important elements of this legal and regulatory framework are the 1994 law and its implementation texts.

The creation of a new forestry Ministry – MINEF - has improved the institutional framework. Recently, the Government has created the Forest Enhancement Revenue Program (PSRF) in order to improve tax collection from logging activities. MINEF is also implementing an Emergency Action Plan (PAU) which aims at improving monitoring and cleaning up of logging permits with the assistance and monitoring of the donor community.

Much has been achieved to improve the transparency of harvesting permits. More effective procedures have been introduced for the development, approval and follow-up assessment of forest management plans. These procedures include implementation of a Computer Forest Information System (SIGIF) and the presence of an independent observer during the Inter-ministerial Commission's allocation sessions.

### Massive boost to tax revenues

This improvement of transparency has already translated into a significant increase in tax revenues from forestry activity. The amount of area tax for concessions and "ventes de coupe" doubled and increased ten fold respectively during the 2000/01 awards. 50% of these revenues are earmarked for the rural development of councils and neighbouring communities to use for rural development.

Forest management rules are becoming clearer and stronger and it is becoming more difficult for logging companies to conceal infractions.

Nevertheless, major challenges remain. The private sector still enjoys a significant ability to circumvent the rules, as illustrated by, for example, the rapid growth of sales of logs by auction. And the practical steps taken to date have so far had only a limited impact in the field. Management plans have not yet been applied and there is still limited capacity to effectively monitor forestry operations. And without better enforcement, the increase in area taxes may encourage some operators to log outside of the boundaries of the title that they were allocated.

With the assistance of international partners, the Cameroon government is now carrying out an institutional review of the forestry sector. A major aim will be to further

*Continued page 4*

# Africa

## Cameroon *Cont. from page 3*

develop institutional capacity and improve enforcement.

Global Witness, as Independent Monitor, will contribute to this aim by ensuring the objectivity and transparency of control operations carried out by MINEF. It will work closely with MINEF officials and undertake a wide range of activities. Specifically, it will observe and have access to all the details of MINEF control procedures and missions. It will also prepare a monthly report which will be made available to the public.

## Ghana

### 10% export levy on kiln dried

The Ghanaian authorities have now confirmed that an export levy of 15% and 10% will be imposed on air dried and kiln dried lumber respectively. However there will be no levy imposed on exports of veneer, plywood and other further processed products. Although Ghanaian shippers have been trying to push up prices to accommodate the levy, the market has not been receptive. The levy is expected to speed the transfer of Ghanaian production away from lumber to value added products. This transition will not be painless, inevitably leading to more closures in the Ghanaian milling sector.

### Mim Revitalised

Naja David, the largest wood processing group in Ghana, purchased the assets of the Mim Timber Company earlier this year from the Ghanaian government for an undisclosed figure. Over the last 6 months it has undertaken work to rehabilitate plant and machinery and to recruit staff at Mim which is now operating under the name of Ayum Forest Products. The deal is said to have revitalised the town of Mim.

## Congo (Brazzaville)

### Slow recovery

Congo emerged from a civil war in 2000 which, while only marginally affecting log production in the country's isolated north, devastated forest and industrial production in the south. Log production in the south, exported via Pointe Noire, is gradually improving, although still falling short of the volumes prevailing in 1997. Plywood production has yet to commence following the plunder of the Socobois plant in Dolisie during the conflict.

Log and sawn lumber production in the north, exported overland to the Cameroon port of Douala, increased between 1997 and 2000 as forestry operations became opera-

Exports from Congo (Brazzaville)					
000s m <sup>3</sup> - Source ATIBT/Congo Timber					
	1997	1998	1999	2000	Var % 99/00
<b>Via Pointe-Noire</b>					
Logs	194.8	139.2	60.7	87.3	44
Sawntimber	13.1	13.2	10.2	6.2	-39
Veneer	41.7	48.3	16.5	8.0	-52
Plywood	2.6	1.1	0.0	0.0	0
<b>Via Douala</b>					
Logs	62.7	133.7	150.7	195.5	30
Sawntimber	24.8	45.6	51.6	57.3	11
<b>Via Kinshasa</b>					
Logs	0.0	0.0	0.0	11.0	na
<b>Total Congo</b>					
Logs	257.4	273.0	211.4	293.8	39
Sawntimber	37.9	58.8	61.9	63.5	3
Veneer	41.7	48.3	16.5	8.0	-52
Plywood	2.6	1.1	0.0	0.0	0

tional. International demand for Congo (Brazzaville) logs has been boosted by Cameroon's log export ban. At present the large concessions in the north of the country are being improved and the first management plans should be finalised during 2002. A small part of Congo (Brazzaville)'s production adjacent to the Oubangui river is exported by river to Kinshasa and shipped via the port of Matadi.

## South Africa

### Eucalyptus hardwood demand forecast to surge

According to an article in Wood SA & Timber Times, global demand for environmentally-certified Eucalyptus saligna from South African plantations is expected to expand rapidly over the coming year. The article draws on a study carried out by consultants Crickmay, Erasmus & Associates and Louis Heyl & Associates of South Africa, Jaakko Poyry of Finland, and Flynn and Shield of the U.S. The study shows that the prospective requirement for additional E. saligna worldwide is enormous. From a global viewpoint, E. saligna could benefit from consumer preferences for a sustainably grown, FSC-certified product and from investors' preferences for the integrated management of a hardwood solid wood resource with a hardwood pulp resource, much favoured in pulp and paper-making. However another article in Wood SA & Timber Times suggests that South African furniture manufacturers making the leap into using E. saligna as an alternative hardwood are finding sawmillers falling short on supply. Although E. saligna has seen its popularity surge, sawmills are not geared to cash in on the growing demand for furniture-grade clears and may lose market share as manufacturers will have to look for alternatives.

# South America

## Two forest certification schemes for Brazil

Brazil is now developing two systems of forest certification, one linked to the Forest Stewardship Council, and another linked closely to the International Standards Organisation (ISO) certification framework. In September, a number of environmental, social and economic groups joined together to create the Brazilian Forest Stewardship Council. The FSC has been present in Brazil for five years, but until now it was promoted by a working group coordinated by WWF Brazil. According to Dr. Walter Suiter, executive secretary of the working group, the creation of an independent organization was necessary in order to intensify the promotion of FSC certification in Brazil. The governor of the state of Amapá (Northeast Amazon), João Alberto Capiberibe, was among the individuals who have signed their affiliation to the FSC. FSC national standards for Amazon upland forest were also approved. To date there are 70 companies in Brazil that have obtained FSC certification for the sale of timber.

### Alternative national framework

Meanwhile, Brazil is taking strides to develop an alternative national certification framework. The Brazilian Certification System (SBC) is being developed through the Brazilian Association for Technical Standards (ABNT: Associação Brasileira de Normas Técnicas). SBC has evolved out of CERFLOR, an earlier voluntary program for forest certification in Brazil. The SBC standardization process started on March 29 of this year, with the creation of a Temporary Special Study Committee - CEET - that is made up of representatives of all stakeholders: producers, consumers, research institutions, government organizations, and NGO's. The Certification Director of ABNT, Frederico Cabral, comments that "*The committee is working at a fast pace and is now discussing the basic text developed by ABNT Technical Committee on Certification.*" A complementary document is also being prepared for the assessment of the chain of custody in Brazil. A Forest Technical Subcommittee was also established in April within ABNT to define rules for accrediting independent certifiers in Brazil. ABNT is looking to enhance international marketing opportunities for the scheme by supporting the development of mutual recognition procedures which draw on the ISO certification framework.

# South America

## Brazilian sawn lumber

**Prices for mahogany this season have been firm, a reflection of a fall in overall production throughout South America, good orders from the United States, and the high cost of extraction in Brazil.**

Brazilian extraction costs have risen due to strict harvesting regulations imposed by IBAMA, and domestic economic factors such as the high rate of inflation in Brazil and the weakness of the *real* this year. The imposition of tight controls on mahogany logging by IBAMA has resulted in a major reduction in the number of operators dealing in Brazilian mahogany. The smaller operators have been forced out and there are now effectively only four large mahogany processors in Brazil.

The mahogany season started late this year, with little or no availability of air dried sawn lumber from Belem before August. However a recent visitor to Brazil reports that there are now good stocks of air dried mahogany on the ground, although much of this volume is destined for shipment to the United States under large contracts signed earlier this year.

### Export quota problems

Shipments out of Brazil continue to be hindered by problems over the allocation of export quotas. The mahogany quota for the second half of this year was set at only 10,000m<sup>3</sup>. Exporters are lobbying for an increase to 30,000 m<sup>3</sup> in line with the first half allocation, but so far without success. Nevertheless shipments of air dried mahogany are now leaving Brazil for the United States.

So far this year, only a small volume of new season kiln dried Brazilian mahogany lumber has been shipped to the UK from southern

ports. However reasonable shipments of kiln dried to the UK under existing contracts are expected from Belem during October. There are also stocks on offer for new forward contracts to UK buyers, although quota problems imply that importers may have to be patient. UK agents suggest that the tightening regulatory environment in Brazil means that future availability is uncertain and therefore recommend that importers take steps now to cover their stocks of mahogany. Some UK importers have been discouraged from entering the forward market for mahogany because it ties up a lot of capital. There are also reports of some UK importers selling existing mahogany stocks at below replacement cost, a practice which has tended to discourage forward buying.

Prices for cedar have softened slightly due to good availability and restricted demand. Virola is also readily available at stable prices.

Tauri, a non durable but easily workable joinery wood used extensively in France (which takes upwards of 80,000 m<sup>3</sup> a year), is readily available at stable prices. Prices quoted for white tauri in normal lumber specifications shipped to European ports stand at around US\$470 (kiln dried C&F including agent's commission). Longer lengths and stair tread dimensions are available at slightly higher prices.

### Potential for secondaries

With supply problems for commercial red hardwoods emerging in the Far East and Africa, there may be scope to expand export markets for other Brazilian species. Two species which may have potential are andiroba and cera jeira. Andiroba (carapa guianensis) is already well known as a red species resembling mahogany. Although less attractive in appearance than mahogany, it is competitively priced (kiln dried C&F UK port at US\$480-500) and easier to kiln than many other secondary species. Cera jeira is similar in appearance to iroko and already used extensively for joinery in Brazil. Drying techniques for the species have been improved over recent years. Kiln dried lumber is available C&F to European ports at US\$600-610 for 1" to 2" and US\$ 680-700 for 2.5"-3".

### Uncertainty at home

Domestic markets for Brazilian sawn lumber are looking uncertain. The economy, which was growing strongly at the start of the year, has undergone a transformation. Industrial production has fallen each month since March, suggesting the country is

already in recession. The IMF recently cut their previous forecast for Brazil in half, indicating that GDP would grow by only 2.2% this year. Meanwhile the value of the *real*, Brazil's currency, has weakened 31% against the dollar this year as confidence has declined. Apart from a domestic energy crisis, the Brazilian economy has been hit by external events including economic weakness in neighbouring Argentina and investors flight to safer assets after September 11<sup>th</sup>.

Consumers have yet to feel the full effects of the slow-down. Real wages have fallen only slightly and unemployment has yet to rise. Indeed the domestic market for lumber has picked up over recent weeks, a surprise to many companies. This may be a result of low inventories in the furniture industry combined with increased demand for furniture and other timber products which is normal at this time of the year. But with industrial output falling, loans becoming scarcer and the cost of living in Brazil set to rise, the prospects for domestic consumption in Brazil look shaky.

## Amazonia

### New forest code

A joint commission of the Brazilian Congress has approved a measure, sponsored by rural lobby groups, that may lead to a reduction in restrictions on the use of Amazonian forest land for productive purposes. The bill, which must be approved by both houses of Congress to become law, would modify the government's current policy of requiring owners of land in the Amazon to preserve 80% of their property as forest. The proposed forest code would enable landowners to use at least 50% of their holdings for productive purposes following approval of a "zoning study".

The draft code would also remove a long-standing provision obligating landowners to replant deforested areas along riverbanks, and allow them to replace some virgin forest with commercially attractive species like eucalyptus.

Environmental groups have united in their opposition to the proposed legislation. President Cardoso is also reported to oppose the changes, and succeeded in thwarting an effort to pass a similar bill in May. But his government's coalition in Congress is now weaker, and may become more divided ahead of presidential elections next year and as economic problems have mounted. (Source: *New York Times*)

Brazilian sawn lumber Indicative prices			
	Jul	Aug	Sept
Exchange rates			
\$/£	1.43	1.45	1.47
US\$/m <sup>3</sup> C&F UK Port			
Grade & size: FAS, width 6"+ avg 9-10", length 6'+ avg 10-11', air dried (AD) or kiln dried (KD)			
<b>Mahogany (Swietenia)</b>			
1"-2" AD	1520	1550	1520
2.5"-3" AD	1540	1570	1540
1"-2" KD	1620	1650	1620
2.5"-3" KD	1640	1670	1640
<b>Virola</b>			
1" KD No.1 C&B			
boards	380	380	380
strips	380	380	380
<b>Cedro</b>			
2" KD	750	750	725
2.5"-3" KD	775	775	725

## Malaysian sawn lumber Shippers look for higher prices

Export demand for Malaysian sawn lumber remains subdued, but shippers are pushing up forward prices in the face of restricted supplies and razor-thin margins. For European importers, these price increases have been compensated by weakening in the value of the dollar against European currencies.

Sawn lumber supplies are restricted from all the major supply sources in South East Asia this year. Production in Sabah this year is at low levels, due partly to increased control over logging licenses, and availability of sawn lumber from this region is described by one UK agent as "patchy and slow." In Peninsular Malaysia, logging levels and sawn lumber production have been much curtailed in response to weak global demand and unfavourable weather conditions. Availability of Indonesian Meranti traded via West Malaysian exporters through Port Kelang is also well down on last year, due to weak global demand and greater diversion of Indonesian logs to export markets, notably in China.

### Exchange rate volatility

The recent volatility of exchange rates is creating uncertainty in the Malaysian sawn lumber trade. The value of dollar against the euro declined substantially and fairly abruptly during the summer, falling from 0.84 cents to the euro in early July to 0.92 cents by the end of September. This effectively reduced the price of Malaysian hardwoods to European importers. This may have improved the competitive position of Malaysian hardwoods against other species, but will have been bad news for those importers carrying stocks from earlier purchases at a high US dollar rate.

Exchange rates have also been a major source of uncertainty for Indonesian lumber exporters. The change in government in Indonesia during the summer led to a rapid increase in rupiah/dollar exchange rate, from over 11000/dollar in early July to 8695/dollar by the end of August. There was therefore growing pressure on Indonesian shippers to cover exchange rate losses by pushing up dollar prices. However this pressure has subsided to some extent as the rupiah again slipped to stand at around 9650/dollar in the last week of September.

### Dutch demand rises and then falls

Meanwhile European forward demand for meranti remains weak. Forward demand in the Netherlands, the leading market for meranti/merbau was quiet in June and July

during the vacation period. In an effort to generate sales during the quiet period, and also due to the weakening dollar rate, some Dutch traders started to severely discount prices. In August and early September there were reports that Dutch importers were again re-entering the forward market, as there was a growing perception that stocks in the bulk-size 3"x5" were at an acceptable level. However more recent reports, in the immediate aftermath of the terrorist attacks in the U.S. on 11th September, suggest that forward demand has again tailed off.

### Demand consistently quiet

Elsewhere in Europe, demand for Malaysian lumber has been consistently quiet. The high stocks of dark red meranti that built up in the UK earlier in the year have been whittled away, aided by price discounting, but buyers are still extremely cautious and continue to rely on just-in-time purchases. Underlying demand for keruing in the UK is weak due to low levels of activity in the truck market. The keruing market has also been disrupted in the UK following the recent bankruptcy of a trading company said to be holding sizable stocks of keruing. The Belgian market for Malaysian sawn lumber remains quiet with reports that it still carries a lot of stock.

The Japanese market for South East Asian lumber has been weak all year. Between January and June this year, Japan imported 453,000 m3 of Southsea lumber, down 9.1% on the previous year.

### Ramin still available

Despite the new CITES controls banning exports of ramin from Indonesia, prices for ramin lumber are reported to be holding steady and the species can still be purchased from Malaysian shippers. An Indonesian company, PT Diamond Raya, and its subsidiary PT Uniseraya, are also exempt from the ban for ramin harvested from their FSC certified forest concessions in Sumatra. Diamond Raya plans to harvest 48,000 m3 of ramin logs this year which will be converted by Uniseraya.

## Southsea logs

### Shippers look for higher prices

In Sarawak, the major producing region for Southsea logs, production has been scaled down substantially in an effort to bring stocks more in line with weak demand. This has led to greater stability in Southsea FOB log prices over recent weeks. An increase in orders from China has also contributed to greater stability in FOB prices.

However, in Japan demand remains very

## Asian Sawn Lumber Indicative Prices

	Jul	Aug	Sept
Exchange rates:			
M\$/£	5.43	5.50	5.58
US\$/£	1.43	1.45	1.47
M\$/US\$	3.80	3.80	3.80

### Malaysia

All prices US\$/ton, C&F UK port

#### West Malaysian Dark Red Meranti

Grade: Select & better GMS; Kiln dried

Size: Width 6"+ avg 7"/8"; Length: 8'+ avg 12'/14'

1"	665	680	700
2"	680	690	710
2.5"	700	710	730
3"	720	730	760

#### Keruing

Grade: Standard & Better GMS

Size: Random or fixed 16'+

1"-3"	520	520	520
-------	-----	-----	-----

#### Kapur

Grade: Standard & Better GMS

Size: Width 6"+, avg 7"-8"; Length 16'+

1"-3" plnd	535	535	535
------------	-----	-----	-----

#### Myanmar Teak

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

Grade: Air dried boards

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

1"	2850/	2850/	2850
	3500	3500	3500

*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.*

subdued. Recent reports from the Tokyo Chapter of Japan Southsea Lumber Conference indicate that yen prices paid for Southsea logs in Japan continue to soften. Between January and June 2001, arrivals of Southsea logs into Japan reached 1,055,000 m3, down 33% on the same period the previous year. Although stocks of Southsea logs in Japan have fallen considerably this year, demand is so weak that importers have shown little concern about availability of supplies.

## Asian economies

### Hold tight and hope

Asian economies were suffering even before the events of 11<sup>th</sup> September in the United States. Japan's economy has been subdued for most of the last decade, and was headed for a recession this year. Export-led growth in South East Asia was under threat from slowing global demand for manufactured products. Economic growth in China has remained strong, boosted by rising domestic incomes and by foreign direct investment. But even this is a mixed blessing; the rising strength of China is regarded with alarm by China's neighbours. Japan, Taiwan and South Korea fear a hollowing out of their industries as factories move to low-cost

# Asia

China. Meanwhile the countries of South East Asia worry about the diversion of inward investment to China.

## Aftermath of 11th September

With rich countries economies sent spinning in the aftermath of the terrorist atrocities in the United States, the emerging economies of Asia can do little but hold tight and hope. The damage done to the world economy is still uncertain. But it is certain that economies everywhere will be affected in one way or another, whether this be through falling exports, rising oil prices, or more jittery visitors and investors. Weak export demand is a particularly big threat to the Asian region. America's slowdown began with a steep drop in technology investment which was already hurting Asia's export driven economies. Singapore, South Korea, Malaysia and the Philippines were all severely affected. Now the region's tourist industry is likely to be hit as fewer people take to the air.

The outlook for oil prices is still murky. Several gulf states have promised to release oil reserves to prevent a supply squeeze, while prices may also be held in check by weaker demand, particularly from the aviation industry. But the initial upturn in oil prices following the shock events of 11 September will have been a cause for concern throughout South East Asia.

## Attitudes to Muslim countries

Another uncertainty is the attitude of investors and official creditors to Muslim countries, notably Indonesia which is the world's most populous. On September 19<sup>th</sup>, Indonesia's president Megawati Sukarnoputri, was in Washington on a trip scheduled before the attacks. Despite pressure from Islamists at home, Megawati offered support to America. That might help her to reschedule debts with official creditors. It remains to be seen what stance foreign investors will take.

## Japan grim

As seems usual these days, the economic news emanating from Japan is fairly grim. Japan's GDP fell at an annual rate of 3.2% in the second quarter, while consumer confidence in August was at its most depressed ever. The consumer sentiment index, which rises above 100 when more consumers expect a worsening economy over the coming year, went up 16 points to 148. This is the highest level of consumer worry since the survey began in 1977. Total housing starts in the first half of the year were 560,591 units, 6.1% less than the same period last year. In July there was a brief

glimmer of light as housing starts hit 103,135 units, a slight rise of 1.4% over the same month the previous year. But the outlook for housing starts in the second half does not look good and the official forecast of 1.2 million units now seems unlikely.

## China likely to remain strong

China's economic growth is likely to remain strong despite the global downturn and weakening export markets. According to the Economist Intelligence Unit (EIU): "*The export crash will be mitigated by sustained domestic demand growth. Real annual GDP growth will slow from 7.9% in 2000 to 7.2% in 2001. In 2002 recovery to 5.8% growth in the volume of goods and services exports will enable GDP growth to edge up to 7.5%.*" The EIU also hints that government spending will remain strong. It is noted that "*Government spokespersons have become much more forthright about the need to counter collapsing export growth with measures explicitly designed to promote exports, and domestic consumption and investment. Restraining the budget deficit will consequently be given a lower priority.*" Another boost to China's economy will be provided by the nation's accession to the World Trade Organisation (WTO). To little fanfare, on September 15<sup>th</sup> the WTO agreed on the terms of China's entry. A few days later the terms for Taiwanese accession were also settled. WTO ministers still need to rubber-stamp the package, a move anticipated before early next year.

# Japan

## Temperate hardwoods falter

Japan's imports of temperate hardwoods have been running at low levels this year. Between January and June 2001, Japan's imports of temperate hardwood logs from North America, China and Russia reached 308,700 m3, down 1.7% on the same period the previous year. Russian hardwood log imports remained stable compared with the previous year at 223,000 m3, while American log imports declined only 0.9% to 59,100 m3. However there was a 17.7% drop in imports of Chinese logs to 25,100 m3, a reflection of resource constraints and growing domestic demand in China.

Japan's imports of temperate hardwood lumber between January and June hit 111,000 m3, down 17.7% on the same period the previous year. Imports from the U.S. were down 19.8% at 50,700 m3; imports from China were down 18.6% at 50,000 m3; and imports from Canada declined 10.5% to 7,800 m3.

# Europe

## European hardwoods

### Beech market weak

Continental European suppliers of steamed beech sawn lumber continue to report high stocks, weak demand and pressure on prices. Sales are particularly weak in Germany and in China, the leading export market. Some mills are still cutting storm-felled logs which have been stored in irrigated yards. Demand and prices for sawn lumber of unsteamed "white" beech, for higher grades of oak, and for other species are more stable.

In anticipation of continuing market weakness, mills are generally contracting for lower volumes of new season beech logs than last year. A limited number of log sale contracts between the German state forest authorities and large buyers were agreed in late August at prices little changed from last year's levels. However many German mills are now calling for a significant reduction in beech log prices.

German demand for European beech lumber is slow. Buying by the furniture industry is very subdued, while stair manufacturing has been hit by weakness in the construction sector. However sales of oak friezes to the parquetry sector have been more stable.

Stocks of beech logs and sawn lumber in China have been reduced over recent months. Although there are still reports of over-supply in lower grades, enquiries for green logs in sawing and veneer qualities have been on the rise. Chinese enquiries for higher grade beech lumber and boules have also been on the rise, although price expectations are low and quality specifications high. Rising exports of green

**Continued page 8**

European sawnwood indicative prices			
	Jul	Aug	Sept
Exchange rates			
DM/£	3.20	3.10	3.16
DM/US\$	2.24	2.14	2.15
Euro/£	1.64	1.58	1.61
Euro/US\$	1.15	1.10	1.10
<b>German beech</b>			
Northern Germany, DM/m3, C&F, UK Port			
Grade: kiln dried, steamed and square edged.			
1"	1425	1425	1425
2"	1525	1425	1425
<b>German oak</b>			
Northern Germany, DM/m3, C&F, UK Port			
Grade: kiln dried, waney edged prime grade*.			
1"	1505	1505	1505
2"	1945	1945	1945
*waney edged prices provided as there is very little square edged available from Germany or France - French prices are similar to German prices			
<b>Croatian oak</b>			
Northern Italy, Euro/m3, C&F, UK Port			
Grade: kiln dried and square edged.			
1"	920	920	920
2"	1400	1400	1400



# Europe

## Hardwoods *Cont. from page 7*

sawing logs to China also suggest that China's domestic production will increasingly compete with imported lumber. Demand for sawn beech lumber in Spain has been subdued due to relatively high stock levels and rising uncertainty over market prospects. Italian buyers have switched increasingly to Eastern European sources of supply, notably the Balkans.

## Poland

### Slow year for hardwood exports

Poland's forests consist of 80% pine and 20% hardwood. Oak is the major species of hardwood, and there are good quality stands in the western region of Poznan and Eastern region of Bialystok. There are also good quality stands of beech in the Szczecin region.

Data provided by Poland's statistical office and reported by EUWID, indicates that Polish production of sawn hardwood last year totalled 570,000 m<sup>3</sup>, compared with 581,000 m<sup>3</sup> in 1999. Last year Poland exported 241,000 m<sup>3</sup> of sawn hardwood, compared with 276,000 m<sup>3</sup> in 1999. Italy was the largest importer accounting for 70,000 m<sup>3</sup> (down from 89,000 m<sup>3</sup> in 1999), followed by Germany (down from 64,000 m<sup>3</sup>). Poland is also a significant importer of sawn hardwood. Last year imports totalled 115,000 m<sup>3</sup>, with major supplying countries Slovakia (28,000 m<sup>3</sup> in 2000), Ukraine (26,000 m<sup>3</sup>) and Germany (21,000 m<sup>3</sup>).

Poland's sales of sawn hardwood this year have been impaired to some extent by the strength of the zloty against the euro - although the zloty eased slightly during the summer. So far this year exports of Polish oak sawn lumber have continued at similar levels to last year. Polish oak remains popular with European importers, although there have been problems over delayed shipments. The Polish oak trade has been challenging this year as log prices have risen while sawn lumber prices have remained static. The Polish beech trade has been under even greater pressure, with exports of sawn lumber to Western Europe down 20% during the first 6 months of 2001. This situation reflects high beech stocks in Western Europe.

Polish producers also face problems on domestic markets. The economy is stuttering. Polish GDP grew by a meagre 0.9% in the year to the second quarter, the slowest in over a decade. Construction, once one of the country's strongest industries, contracted in August by a record 14%.

# North America

## Economy

### Fed steps in to boost growth

It seems positively callous in the wake of the terrorist attacks on the United States to talk about its economic impact. But as Americans and others touched by the atrocities now return to their working lives, the bad economic news can no longer be ignored. Immediately after the attacks, the Federal Reserve led the world's central banks in a co-ordinated move to lower interest rates around the globe as a pre-emptive strike against the anticipated downturn in business confidence. But financial markets in the U.S., as elsewhere in the world, were not much impressed and stock prices fell sharply.

The *Economist* points out that the terrorist attacks will not themselves have such dire economic consequences. The trouble is that they have occurred at such a critical time for the American and world economy. The University of Michigan survey of consumer confidence, undertaken just prior to September 11<sup>th</sup> but published afterwards, showed American consumer confidence at its lowest level for eight years. Meanwhile investment and profits in American businesses have been falling, while industrial production fell by 0.8% in August, the 11<sup>th</sup> consecutive monthly drop.

The events of September 11<sup>th</sup> have made

these weaknesses more acute. Declining stock values, news of layoffs in the aviation sector, and general uncertainty imply that consumer confidence may slip further.

### Recession may be short-lived

Nevertheless, conventional wisdom is that the recession will be short-lived with a strong v-shaped rebound by the middle of next year. This forecast is based on the assumption that the horrific events of September 11<sup>th</sup> will remain a one-off, so that confidence can be rebuilt. There is also the widespread expectation that the economy will receive a big boost from the recent series of interest rate and tax cuts.

And further economic stimuli are expected. The government is well placed to pump liquidity into the economy since, after a very lengthy period of strong growth, public finances are healthy. Immediate steps to loosen up the economy were taken in the aftermath of September 11<sup>th</sup>. The Federal Reserve pumped an unprecedented \$100 billion into the economy within a week of the attacks, while Congress coughed up \$40 billion for the costs of recovering from and responding to the terrorist attacks. The amount involved is greater than that needed for this year's much publicised tax cuts, and most analysts regard it only as a down payment. And American lawmakers are now talking about further tax cuts to boost investment and spending, for example reductions in the rate of capital-gains tax.

These measures may help to stave off a deep recession in the near term. Longer term more profound economic effects may result from the protracted war against terrorism, from heightened security measures that will raise business costs and reduce productivity, and from a potential slowdown in global integration.

## Production

### Severe cut-back

American loggers have responded to slowing demand with a severe cut-back in production, and declining supply has kept log prices relatively high. There has been a decline in the number of loggers and the sector is also suffering from a general lack of funds to carry out logging operations. Logging has also been affected by poor weather conditions in some areas.

Hardwood lumber production has been curtailed and is suspected overall to be down between 20% and 30% this year compared to last. As demand for lumber has fallen, margins in the milling sector have

### US sawn lumber indicative prices

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

	Jul	Aug	Sept
\$/£	1.43	1.45	1.47
\$/Euro	0.87	0.91	0.92
<b>Red oak</b>			
1"	1850	1850	1800
1.25"	1950	1950	2000
1.5"	2100	2100	2070
2"	2300	2300	2325
<b>White oak</b>			
1"	1500	1550	1575
1.25"	1600	1650	1700
1.5"	2150	2250	2000
2"	2600	2700	2650
<b>Ash</b>			
1"	1200	1200	1050
2"	1500	1475	1475
<b>Tulipwood</b>			
1"	950	975	975
1.25"	1000	1000	1000
1.5"	1100	1075	1025
2"	1125	1125	1195
<b>Cherry</b>			
1"	3620	3620	3620
1.25"	3725	3725	3725
1.5"	3875	3875	3875
2"	4100	4100	4100
<b>Hard Maple</b>			
1"	2350	2375	2350
1.25"	2525	2550	2575
1.5"	2725	2750	2775
2"	2800	2875	2850

*Continued page 10*



# US hardwood exports

## Hardwood lumber

	2000	2001	% chng
	Jan-Jun	Jan-Jun	
<b>Value (\$ million F.A.S.)</b>			
Canada	213.4	185.0	-13.3
Spain	51.4	49.8	-3.2
United Kingdom	50.3	48.0	-4.7
Italy	59.7	46.5	-22.0
Hong Kong	33.1	41.6	25.8
Mexico	44.2	35.0	-20.8
Japan	37.8	33.0	-12.8
China	28.5	26.4	-7.4
Germany	31.1	21.8	-29.8
Belgium-Lux	19.5	18.0	-7.8
Taiwan	19.5	13.4	-31.3
France	16.1	12.1	-24.9
South Korea	14.9	10.5	-29.7
Thailand	10.3	9.4	-8.6
Portugal	11.6	9.1	-21.8
Sweden	9.1	8.9	-2.3
Saudi Arabia	9.0	8.9	-1.8
Netherlands	15.0	8.7	-41.9
Denmark	7.7	7.7	0.7
Ireland	9.1	7.1	-22.3
Malaysia	7.0	6.1	-12.7
South Africa	7.2	4.8	-32.9
Greece	5.0	3.9	-21.8
Norway	3.5	3.9	10.7
Indonesia	7.0	3.7	-46.9
All others	32.3	30.1	-6.8
<b>Total exports</b>	<b>753.4</b>	<b>653.3</b>	<b>-13.3</b>

## Volume (000s cubic meters)

Canada	549.5	489.2	-11.0
Hong Kong	77.2	106.1	37.5
Mexico	116.9	96.1	-17.8
Spain	90.5	95.3	5.3
Italy	112.0	89.8	-19.8
China	67.4	65.1	-3.4
United Kingdom	68.8	63.0	-8.5
Japan	68.9	57.9	-15.9
Taiwan	48.3	36.3	-24.9
Germany	43.7	29.4	-32.6
Belgium-Lux	29.7	28.3	-4.7
Thailand	22.6	24.3	7.5
France	26.3	17.8	-32.3
Portugal	19.3	16.6	-13.9
South Korea	24.9	15.6	-37.4
Saudi Arabia	13.8	12.7	-8.1
Malaysia	11.7	12.3	5.9
Netherlands	19.3	12.2	-37.0
Sweden	11.6	11.7	0.7
Ireland	12.1	9.3	-23.1
Denmark	10.8	9.2	-14.3
South Africa	11.8	8.6	-27.2
Indonesia	12.6	8.4	-33.9
Greece	7.7	5.9	-22.5
Norway	5.0	5.0	0.2
All others	52.1	46.7	-10.3
<b>Total exports</b>	<b>1534.5</b>	<b>1373.0</b>	<b>-10.5</b>

Source: USDA FAS

## Volume of hardwood lumber by species (000s cubic meters)

	2000	2001	% chng
	Jan-Jun	Jan-Jun	
<b>Ash</b>			
Canada	24.2	20.1	-16.9
United Kingdom	11.6	10.5	-8.9
Hong Kong	7.0	7.5	6.5
Japan	7.5	7.0	-6.4
Thailand	2.6	2.2	-15.8
UAE	2.1	1.8	-14.5
Italy	3.1	1.5	-51.2
Taiwan	2.5	1.4	-45.0
All Others	18.4	15.9	-13.3
<b>World</b>	<b>79.0</b>	<b>67.9</b>	<b>-14.0</b>

### Tulipwood

Italy	43.6	32.7	-25.0
Hong Kong	20.5	22.8	11.4
Mexico	24.9	19.3	-22.4
Japan	10.7	9.3	-13.1
United Kingdom	4.8	4.3	-8.6
Thailand	3.1	3.5	11.6
China	3.7	3.5	-6.7
All Others	17.1	14.8	-13.5
<b>World</b>	<b>128.4</b>	<b>110.2</b>	<b>-14.1</b>

### Cherry

Canada	43.9	38.8	-11.6
Hong Kong	5.6	9.2	64.6
Italy	7.4	7.2	-2.3
United Kingdom	7.7	6.4	-15.9
France	3.6	3.3	-8.7
Belgium-Lux	1.7	3.0	75.7
Spain	3.8	2.5	-33.2
Portugal	1.9	1.9	0.3
China	1.0	1.8	77.6
Netherlands	2.6	1.5	-42.6
Denmark	2.1	1.2	-45.0
All Others	16.2	13.1	-19.1
<b>World</b>	<b>97.4</b>	<b>89.9</b>	<b>-7.7</b>

### Maple

Canada	128.8	112.1	-12.9
Mexico	12.8	12.9	1.2
Hong Kong	9.2	11.4	23.9
China	6.8	8.9	31.1
United Kingdom	7.8	5.9	-24.1
South Korea	6.4	4.9	-23.5
Japan	8.4	4.7	-43.7
Taiwan	6.4	4.5	-30.2
Germany	11.1	4.3	-61.2
Thailand	3.2	3.5	9.2
Italy	6.0	3.5	-41.6
All Others	31.0	22.6	-27.1
<b>World</b>	<b>238.0</b>	<b>199.4</b>	<b>-16.2</b>

### Walnut

Canada	5.9	9.5	60.5
Hong Kong	0.7	4.9	636.1
Italy	2.6	4.1	58.7
Taiwan	2.3	1.4	-37.5
Japan	1.1	1.3	19.1
China	0.4	1.3	194.1
All Others	4.3	5.2	19.9
<b>World</b>	<b>17.3</b>	<b>27.7</b>	<b>60.1</b>

Source: USDA FAS

## White Oak

	2000	2001	% chng
	Jan-Jun	Jan-Jun	
Spain	73.8	77.5	5.1
Canada	50.4	36.7	-27.1
United Kingdom	26.2	22.0	-16.0
Belgium-Lux	15.0	14.3	-4.3
Japan	16.3	12.7	-21.8
Portugal	11.4	10.1	-11.2
Italy	13.8	9.2	-33.9
Hong Kong	5.9	8.5	45.8
Germany	11.9	7.8	-34.8
Sweden	6.3	7.1	13.7
Mexico	5.0	6.3	25.3
France	5.6	5.3	-5.0
Netherlands	6.1	5.1	-16.5
All Others	64.0	48.8	-23.7
<b>World</b>	<b>311.8</b>	<b>271.7</b>	<b>-12.9</b>

## Red Oak

Canada	194.8	179.6	-7.8
Mexico	38.0	24.1	-36.5
Hong Kong	14.0	20.1	43.5
China	12.1	12.3	1.5
United Kingdom	3.9	9.3	137.3
Saudi Arabia	10.0	8.8	-12.1
Taiwan	13.4	7.6	-43.6
Belgium-Lux	5.8	4.5	-21.1
All Others	30.6	26.1	-14.7
<b>World</b>	<b>322.6</b>	<b>292.5</b>	<b>-9.3</b>

## Western Red Alder

China	21.4	26.7	24.9
Italy	16.1	13.9	-13.6
Taiwan	12.2	12.1	-1.4
Mexico	11.8	9.4	-20.3
Germany	13.4	8.9	-33.3
Hong Kong	5.5	8.2	49.7
Japan	5.3	3.9	-27.1
Belgium-Lux	3.1	3.8	22.2
Spain	2.8	3.7	33.0
Thailand	1.7	3.4	96.8
France	2.6	0.9	-66.4
All Others	8.9	10.0	12.5
<b>World</b>	<b>104.7</b>	<b>104.8</b>	<b>0.1</b>

## Beech

Canada	4.9	2.1	-57.1
Thailand	1.1	0.0	-95.8
All Others	3.2	1.2	-60.4
<b>Total</b>	<b>9.1</b>	<b>3.4</b>	<b>-62.8</b>

## Birch

Canada	14.1	17.4	23.8
Mexico	1.1	2.4	122.4
All Others	1.6	1.5	-2.4
<b>World</b>	<b>16.7</b>	<b>21.3</b>	<b>27.7</b>

## Hickory and Pecan

Mexico	1.9	8.0	325.8
Canada	1.8	2.2	28.0
All Others	4.1	3.2	-21.3
<b>World</b>	<b>7.7</b>	<b>13.5</b>	<b>73.9</b>

Source: USDA FAS

## Hardwood logs

	Value \$ thousand F.A.S.			Volume (cubic meters)		
	2000	2001	% chng	2000	2001	% chng
	Jan-Jun	Jan-Jun		Jan-Jun	Jan-Jun	
Canada	85.0	92.9	9.3	656.5	795.3	21.1
Germany	24.6	25.5	4.0	59.8	62.3	4.2
Japan	18.9	22.6	19.2	54.9	65.4	19.2
Italy	19.6	17.5	-10.9	60.7	58.8	-3.1
China	5.5	16.8	207.8	14.4	30.0	108.1
Hong Kong	6.5	9.4	44.0	13.8	17.2	24.8
South Korea	8.9	8.7	-1.9	25.2	18.5	-26.7
Spain	7.0	8.0	13.6	15.9	13.9	-13.0
Indonesia	9.8	7.9	-19.7	27.9	16.1	-42.3
Taiwan	5.9	6.7	12.8	12.9	11.4	-11.3
All Others	25.8	30.7	18.7	62.8	73.6	17.1
<b>Total Exports</b>	<b>217.5</b>	<b>246.6</b>	<b>13.4</b>	<b>1004.9</b>	<b>1162.5</b>	<b>15.7</b>

Source: USDA FAS

## Hardwood veneers

	Value \$ thousand F.A.S.		
	2000	2001	% chng
	Jan-Jun	Jan-Jun	
Canada	63.8	63.5	-0.5
Germany	36.8	33.9	-7.9
Spain	24.3	24.0	-1.2
Italy	8.9	12.6	41.7
Hong Kong	10.1	8.7	-13.7
United Kingdom	7.2	7.8	9.6
Belgium-Lux	7.1	6.6	-7.0
China	3.4	5.3	53.3
Taiwan	4.8	4.2	-12.5
Mexico	4.6	4.0	-12.9
All Others	45.9	37.7	-17.7
<b>Total Exports</b>	<b>216.7</b>	<b>208.3</b>	<b>-3.9</b>

Source: USDA FAS

# North America

become very tight. Lumber prices are simply not covering the cost of production. Many smaller sawmills have gone bust, while others responded by shutting down temporarily for a long period over the summer months. There has been much emphasis on inventory control, and log decks are extremely low. Mills throughout the hardwood producing regions are expressing concern that they may run out of logs over the autumn and winter. Domestic demand

## Domestic demand

### Green lumber markets stabilise

While conditions vary greatly by region, species and grade, there are signs that in some areas of North America, availability of green lumber is now more closely matched to demand. However, the US domestic market for kiln dried hardwood remains highly competitive, with most operators concentrating on purchases for short-term needs only and on established sources of supply. There is still a perception that supplies of several key kiln dried species and grades are readily available. As a result kiln dried prices are still highly variable, and there are bargains to be had.

Nevertheless, some companies are looking beyond the current status of kiln dried availability and recognize that falling log and green lumber production will begin to show up in kiln dried supplies. Kilning schedules will also begin to extend during the winter months, adding an extra constraint to supplies. These factors are beginning to underpin the market and are likely to contribute to greater price stability.

### Crises in US furniture sector

Markets for Appalachian hardwoods have been badly affected by weakness in the US furniture sector which has come under intense pressure from low cost imports. The scale of the crises in the US furniture sector was highlighted in a recent report from the *Weekly Hardwood Review*. In the first six months of 2001, the Review estimates that 50 to 75 US furniture plants closed. It goes on to report "according to the US Department of Labor, there were 98 instances of mass layoffs (50+ employees) in the furniture industry from January through April 2001. In total, 10,205 jobs were lost. Foreign outsourcing and competition were the primary reasons cited by industry observers for most closures. Until recently, nearly one quarter of annual US hardwood production (3.4 billion BF) was consumed by the furniture industry. As manufacturers

*have either reduced output or shifted production offshore, their utilization of North American hardwoods has correspondingly declined. AKTRIN analysts estimate that hardwood shipments to the domestic furniture industry have fallen by as much as 30% in the last two years. While some of this decline is the result of the slower economy, most is directly related to increased imports of finished goods. Within the next two years it is estimated that usage will be down another 20%. In other words, in a five-year period, domestic hardwood usage in the furniture industry may be cut in half."*

While the U.S. domestic furniture sector has suffered a major loss of market share, overall sales of furniture in the U.S. have held up reasonably well this year. The most recent data indicates that U.S. retail sales by the furniture groups during the first half of the year hit US\$43.69 billion, down only 0.2% on the previous year. More recently the *Weekly Hardwood Review* reports that furniture stores across the country reported strong Labor Day sales.

### Construction sector performing well

The U.S. construction sector has performed well this year. The latest data for housing starts and building permits, to end July 2001, indicates that this trend was continuing during the summer. Total private housing starts in the United States in July were up 0.8% on the previous month and 15.1% up on the same month in 2000. Total building permits in July were down 9.3% on the previous month, but up 6.9% on the same month in 2000. Housing starts between January and July reached 962,700 units, up 2.3% on the same period the previous year. Building permits during the seven month period reached 958,300 units, up 3.3%. Continuing good activity in the construction sector has contributed to steady demand for strip flooring in the United States and reasonable activity in the kitchen cabinet sector.

## Export markets

### Europe below expectations

There has been some pick up in demand for American hardwoods in several European countries since the summer vacation, but sales have generally fallen short of shippers expectations. European buyers have continued to purchase in relatively small volumes, often mixed container-loads, and are watching inventory levels carefully. However prospects for American hardwoods in Europe have been given a significant boost over recent months by the weakening of the dollar against the euro,

which has improved their competitive position against European hardwoods. At end September the dollar/euro rate stood at 0.93 compared to 0.84 in early July. But the improved competitive position of US hardwoods may be partly off-set by slowing economic conditions.

Although there have been reports of relatively high stocks in Spain, it remains one of Europe's more buoyant markets. There is reasonably steady demand in the United Kingdom, although the emphasis on just-in-time purchasing is now well entrenched and competition for orders is intense. Italian importers have also been placing orders for tulipwood, white oak, and cherry, although many exporters have found price expectations in Italy too low. Amongst smaller markets, Scandinavia and Ireland continue to perform reasonably well. German purchasing has remained very cautious despite falling stocks over recent months as the German economy continues to perform badly and construction sector activity is subdued.

There are reports of American dimension producers losing orders in Europe as manufacturers are buying larger volumes of components from South East Asia.

### Asia generally gloomy

In Asia, China/Hong Kong remains the leading light in a generally gloomy market. Demand there has remained reasonably steady while sales have slowed elsewhere. Buying in Japan remains weak due to the nation's economic weakness. Japanese furniture manufacturers are also coming under severe pressure from low cost producers particularly in China. Only well established exporters to Japan are securing decent sales.

In Korea, demand for American hardwoods is very slow. The recession continues in housing construction, furniture and interior sectors, and importers have become extremely price focused. Korea's economic slowdown has also encouraged the substitution of panel products laminated by veneer in place of lumber.

In Taiwan, markets for U.S. hardwoods have been undermined by economic uncertainties and by a shift in furniture manufacturing facilities to mainland China. However a recent report from the U.S. Foreign Agriculture Service highlights that new opportunities for American hardwoods are arising due to the Taiwanese penchant for parquet flooring, hardwood furniture, and decorative wood, linked to growing demand for quality leisure products and services.

# North America

In Thailand, there is steady demand for American hardwoods, particularly tulipwood and cottonwood for picture frame manufacture.

## Species notes

■**Ash**: domestic demand remains weak for most species and grades, although there are reports of reasonable demand for some grades of southern ash from distributors and cabinet, picture frame and millwork manufacturers. Demand for ash in the Appalachian and northern regions is very weak, and efforts are being made to avoid ash in sawing. Prices for FAS material in Europe and Asia remain soft. The Japanese market is very slow. However FAS grades continue to perform well on the UK and Irish markets.

■**Tulipwood**: although demand for kiln dried material in the United States is not much improved, concerns are beginning to emerge over the availability of green lumber. Green lumber prices are rising from the extreme lows they reached in the summer. As a result prices for FAS kiln dried on offer to European importers, while still weak, appear to have stabilised. Exporters suggest that kiln dried prices are below cost-recovery levels and will need to rise over the coming months. UK demand for FAS kiln dried stock is reasonably steady. The important Italian market remains fiercely competitive and price conscious.

■**White oak**: domestic markets for kiln dried material are still slow and highly competitive, but there are reports that exporters have acquired fair orders after the summer vacation period. Prices for FAS kiln dried offered to European importers are now more stable. There are some suggestions that forward availability may become difficult later in the year, partly due to long processing time and partly because U.S. producers have sought to avoid this species. US domestic demand for lower grades from truck flooring plants is very restricted, but strip flooring plants are still buying reasonable amounts.

■**Red oak**: kiln dried material is still readily available and prices are highly variable. However there are signs of declining availability of green lumber in some areas, which has led to steps by some resale operations to ensure inventories are adequate. This is serving to put a floor under kiln lumber prices. There is still good domestic demand for lower grade lumber from the strip flooring market, and fair demand from moulding and cabinet manufacturers.

■**Hard maple**: domestic demand for kiln dried lumber is generally sluggish, although market conditions vary considerably by region. Prices tend to be firmer from mills in close proximity to the Northern U.S. and Canada since they tend to have more options for sales than producers further south. Quality is also an important determinant of sales performance at this time year, with many buyers focusing on trusted suppliers in an effort to reduce the risk of stain. Future price movements are very hard to predict, since demand trends are uncertain and much will hinge on the level of logging during the coming winter season. However it is probable that logging will be well down on previous years. Prices for kiln dried FAS on offer to European importers are holding steady at present. U.S. flooring plants are still buying good volumes of lower grade hard maple.

■**Cherry**: market conditions for this species are little changed from last month. Prices for FAS grades have stabilised as supplies are constrained and demand is reasonable. Supplies of thicker stocks are reported to be tight. Domestic demand for the lower grade cherry remains subdued.

■**Walnut**: International markets for FAS walnut are strong, with 4/4 and 8/4 reported to be selling the best. Demand is less strong for lower grades. FAS prices quoted to European importers remain firm.

# Plywood

## Tropical plywood Indonesian shippers push for price rises

International markets for tropical hardwood plywood remain slow. Indonesian producers continue to suffer from poor demand in Europe, North America and Asia.

But a combination of factors have encouraged Indonesian shippers to try to push up prices. Production will inevitably be hit by the onset of the monsoon, usually in November. Indonesian plywood manufacturers have also been alarmed at the rising tide of log exports, particularly to China, which has contributed to raw material shortages. Meanwhile the exchange value of rupiah against the dollar recovered rapidly during July and August following installation of the new Indonesian president, putting pressure on Indonesian suppliers to push up dollar prices for new contracts from the beginning of September.

European agents report that prices for BB/CC grade Indonesian plywood remain weak at around the INDO96 less 26% level, al-

# Plywood

though there is much variation. Those smaller Indonesian mills with a reputation for producing traditional BB/CC grade material for European buyers may be looking for higher prices. But lower offers may be had from some of the larger mills that have lost markets in Japan and the United States. Weakening of the dollar rate against European currencies has acted to lower prices to European importers.

## European markets difficult

Market conditions for tropical hardwood plywood in Europe are very difficult. In the UK there is intense competition, margins are extremely tight, and shipments have been erratic making it difficult to match supply with demand. Lengthy periods of low availability have been followed by several large shipments in quick succession to more than satisfy the UK market's needs. At present, availability is not expected to be a significant problem for UK buyers, with new arrivals anticipated in the near future. The UK market for plywood is very price conscious, with regular reports of buyers compromising on quality in an effort to cut costs.

Demand for imported plywood in Germany is very slow and no significant improvement is expected in the near future, a reflection of continuing difficulties in the construction sector. In Germany there is a trend towards substitution between plywood grades, with the continuing growth in imports from Eastern Europe being a notable trend.

Most Malaysian plywood producers are focusing their attention on the supply of mill-run plywood grades to the Far East, having little incentive to select the BB/CC grades preferred by European buyers at the price levels currently prevailing in Europe. Price levels in Europe are also unattractive to Brazilian manufacturers, but with demand weakening in the United States and the Caribbean, they have no option but to compete in an effort to maintain cash flow. Brazilian mills are quoting prices to European buyers at around K14 less 20%.

Market demand for tropical hardwood plywood in Japan remains very weak. Japanese domestic production from imported hardwood logs is being progressively reduced. There have been several large-scale closures of lauan plywood manufacturing plants, while many other plants are shifting to softwood plywood manufacture. Imports of Indonesian and Malaysian plywood are also being reduced. As a result there is a better balance between supply and demand in Japan. Price levels, which had been falling, may now have stabilised at a low level.

# Special report - Chain of custody

## Forest certification's remaining obstacle

Much has been written about the potential of forest products certification both as a tool to encourage sustainable forest management and to improve market access for hardwood products. The theory is simple; a reliable system to certify that a particular wood product comes from a well managed forest would serve to overcome prejudices about the links between wood products and deforestation. At the same time, demand for forest certification would encourage forest owners to improve management practices.

So much for the theory. The practice is proving to be rather more complicated. Despite endless conferences over the last decade, and the promotional efforts of the likes of the Forest Stewardship Council (FSC), AF&PA's Sustainable Forestry Initiative (SFI), and Pan European Forest Certification Scheme (PEFC), the total area of certified forest still amounts to less than 2.5% of world forest area.

### Lack of consensus

Limited uptake of forest certification partly reflects the difficulties of establishing a broad consensus over what constitutes good forestry practice on the ground. There has been much discussion, often heated, between forest owners and environmentalists over the definition of "sustainable forest management" and the reliability of different certification schemes. But this is only part of the problem. Another major obstacle is to track and certify each link in the supply chain – the "chain of custody" – so that customers can be assured that the wood used in a product, or a specified proportion of it, derives from a certified forest. A recent paper published in the *Journal of the Institute of Wood Science* (Winter 2000) gives an insight into the scale of the problem. The paper, jointly authored by Buckley and Ansell, considers two interlinked case studies of wood supply chains: the first a large sawmilling company in Pennsylvania; and the second a furniture manufacturing plant in the Vende, the centre of woodworking in France.

The first case study illustrates the problems of chain of custody for wood processing plants buying raw material from numerous small private forest owners, a situation which is typical throughout the Eastern United States, as it is in Western Europe. The Pennsylvania company buys logs in several main species, including oak to feed a sawmill and a dimension plant (producing

cut-to-size and laminated lumber). The company does not own or control forest, as is the case for most US hardwood sawmills. The company depends on local log suppliers within a 25-100 mile radius from which transport costs are lower, and accordingly buys from about 800 small private forest owners. The sawmill also buys sawn lumber from 40 other smaller sawmills to augment its own production of 94,000m<sup>3</sup> to 118,000 m<sup>3</sup> per annum. It can safely be assumed that these smaller sawmills in turn may buy from at least 1,000 out of the 500,000 private forest owners in the state.

### Problem of "gatewood"

The sawmill also buys some "gatewood" logs, a common practice in the USA. These are logs offered at the gate of a sawmill by independent logging contractors from one or more forests that may not be identified to the buyer. The independent loggers are a major target of the Sustainable Forest Initiative - participating organisations are required to support certificated logger schemes to promote good practice amongst non-industrial forest owners - but this does not necessarily lead to the certification of forest lands.

At present, less than 1% of private forest owners in Pennsylvania are formally certified for sustainable forestry. The mill is not located near to the federal Allegheny National Forest, nor to the State forest resources, which are now fully FSC certified. In any case, no large mill could rely on certified state logs, since the tender (sealed bid) system of purchasing creates too much uncertainty with continuity of supply. The State forests also fail to meet the species mix or transport cost requirements if the mill is to remain competitive.

### Difficult to segregate logs

Even if certified logs were available, it would be technically difficult and prohibitively expensive to alter mill operations to ensure separation of certified and uncertified raw material, either by physical segregation or by batch processing of certified and uncertified material at different times. The sawmill and dimension plant production flow involves 104 sort combinations on the green (pre-drying) sawmill grading line alone. Production involves sorting by species, grade, length, width and thickness on an accumulation basis until a bundle quantity is collected. Thus one bundle may gradually accumulate from numerous shifts using many different parcels of logs. There is additional sorting on the dry grading line to deal with degraded material after kilning.

Without widespread availability of certified logs, to achieve certification this mill would have to run dual stocks and duplicate production and plant facilities.

### CoC swims against globalisation

The second case study of a furniture manufacturer in the Vende region of France, illustrates how requirements for chain of custody certification may be swimming against the tide of other, apparently unstoppable developments in the forest sector. Globalisation has massively increased the complexity of international trade networks as national wood industries have focused on different aspects of wood processing to exploit comparative advantages. Like many in the European furniture sector, the manufacturer studied by Buckley and Ansell now acts more like an assembly plant, buying finished and semi-finished components from the most competitive sources. Globalisation has also greatly increased competitive pressures, placing an even greater premium on pricing and quality of final product.

### Dependence on imports

The French Vende is not a significant hardwood producing area and is therefore dependent on imports. The manufacturer had no sawmill capability and thus was unable to buy certified logs. The company is a major buyer of American oak sawn lumber and pre-sized dimension due to consistent availability and grading, and of American oak veneer and edge-lipping to match the sawn lumber. Numerous intermediaries were involved in the trading chain for American oak sawn lumber, including a European importer in France or Belgium; sometimes also an importer/exporter in Canada; a concentration yard in the United States; the American saw miller; not to mention the huge numbers of private forest owners supplying logs to the mill. The veneer trade flow is equally complicated involving at least two, more often three intermediaries. For example, veneer cut in Canada from American logs was often exported to Germany, and then re-exported to Spain for processing into reels for edge lipping before being exported to France. Certification in the veneer sector presents unique challenges because producers need to individually select logs from a very wide range of forest sources to ensure quality. Advocates of forest certification tend to dismiss these problems, pointing to evidence that systems of chain of custody are already working effectively, for example under the FSC scheme. There are instances

## Special report - Chain of custody

where forest products can be certified and tracked relatively easily. For example, when large volumes of wood raw material are derived from large tracts of forest under single ownership, and where production is focused on a limited range of relatively simple products. In these circumstances, organisations can benefit from economies of scale, and relatively simple trading chains. However, in many sectors of the wood industry such conditions are the exception rather than the rule.

### CoC introduced into other sectors

It is also true that chain of custody systems are now being widely introduced into other industries. For example, as food fears have mounted, food companies and farmers are finding the means and motive to track and certify each link in the chain of supply, from farm to table. As in the forest sector, retailers are requiring that their food suppliers comply with new rigorous production processes. A growing number of companies have emerged to help farmers track their crops. New swipe card systems are being used to automatically store information relating, for example, to the types of chemicals or seeds used.

But in many ways, the reasons for the success of chain of custody in agriculture are absent from the forest sector. Food companies and farmers are assured of a price premium for food products from "pure" or "organic" sources. This reflects the very immediate concerns of consumers about personal health. There is no equivalent driver of demand in the wood sector since worries about sustainable forest management are just too far removed from the average consumer. It therefore comes as no surprise that studies in the forest sector have indicated little willingness on the part of consumers or retailers to pay extra for certified products. And unlike forest products, a significant proportion of food products are sold directly to the public by large retailing companies. Much of the demand for certified products has been generated by retailers' procurement policies. By contrast, most wood products are destined for use on a building site where environmental concerns are still well down the list of customer expectations.

These difficulties have led many in the wood industry to conclude that efforts to implement chain of custody certification may be a waste of time. But perhaps this view is too short-sighted. Few would argue that wood products markets have been damaged by the public's perception that

wood use is associated with forest destruction. Nor would many debate the efficiency and marketing impact of on-product labels.

### But CoC becoming more accessible

Technical developments are also beginning to make chain of custody procedures more accessible. None of the major certification schemes now require physical segregation of uncertified and certified material, and all allow verification based on some form of accounting of raw material and product flows. The FSC has introduced procedures allowing products containing only a proportion of certified material to bear labels with percentage-based claims. SFI is developing procedures to allow labelling of wood products based on a minimum percentage threshold of certified wood input. To accommodate mills that need to accumulate logs of different sizes and grades over a lengthy period of time, SFI's procedures allow calculation of certified content on the basis of a full calendar year's consumption. And due to the growing complexity of wood trade flows, SFI will recognise equivalent certification standards in other countries. The PEFC scheme also allows participating national schemes to develop a wide variety of chain of custody procedures best suited to local conditions.

### Crucial to increase certified supply

But in the end, the crucial ingredient for the long term success of product labelling will be a substantial increase in certified raw material supply. If certification on the ground expands sufficiently rapidly so that the majority of primary wood products within a region are certified, then the process of separating uncertified from certified raw material is simplified. Mills would be able to maintain throughput of certified logs without the need for big operational changes.

The key to the success of forest certification and product labelling will be flexibility. To ensure a sufficient throughput of certified wood raw material, there must be flexibility over the unit to be certified, including scope for group and regional certification. To accommodate globalisation of supply chains, certification schemes need to work together to develop procedures for mutual recognition, both of forest certification and chain of custody systems. And there must remain scope for innovative solutions to the problem of chain of custody. If these conditions are not met, then forest products certification will fail. The economics of the supply chain will see to that.

## Certification

### Mutual recognition gathers momentum

#### A report on the EC/EFI stakeholder Meeting in Brussels, 6/7 September

The momentum behind efforts to develop an international framework for mutual recognition of forest certification schemes seems to be gathering pace. However environmental groups that are keen to ensure the Forest Stewardship Council (FSC) maintains a monopoly in the market place for certified forest products are resisting these efforts.

Over the last 12 months, a series of stakeholder meetings have been held in an effort to build an international consensus on the issue of forest certification. The most recent meeting was held in Brussels during early September and organised jointly by the European Forestry Institute (EFI) and Indufor Oy, a Finnish consultancy group. The meeting was convened with the support of the European Commission who wanted "to further examine the scope and options for using forest certification and possible validation or endorsement of certification schemes as an effective and efficient policy tool for promoting globally sustainable forest management". It included presentations by representatives of the World Trade Organisation, the International Forest Industry Roundtable (IFIR), the World Wide Fund for Nature, the UK Forestry Commission, and the EFI.

#### Industry promote MR framework

Industry and forest owners continued to push the case for mutual recognition at the meeting. The representative of IFIR, a network of leading forest industry trade associations, gave a presentation outlining the possible components of an international institutional framework for mutual recognition that could link together the wide range of national forest certification schemes now being developed around the world. However the limited number of environmentalists present (who all boycotted the second day of the two-day conference) continued to argue against rapid moves in this direction.

The Director of the Dutch Keurhout scheme, a framework for assessing certification schemes in exporting countries and marketing these under a single product label in the Netherlands - used the meeting to advocate extension of their scheme at a European level. This approach gained the support of some members of the EC's

*Continued page 14*

# Certification

## Mutual recognition *Cont.*

Environment Directorate, but was questioned by representatives of exporting nations who suggested expansion of Keurhout could only ever be a partial solution. It may for example lead to different importing regions seeking to impose varying standards on exporters. It also failed to adequately take account of the growing complexity and globalisation of the timber trade which heightened the need for a global solution.

### Clear need for MR framework

By the end of the second day, the moderator was able to conclude that "A clear need was identified by the participants for an institutional arrangement to validate/evaluate forest certification schemes" and that "such a validation/evaluation system, applying agreed minimum requirements for forest certification schemes, should preferably be managed by an appropriate independent international body (existing or new) involving the participation of all stakeholder groups. The establishment of multilateral arrangements between existing certification schemes, possibly through a multilateral facilitating body,

was also seen as a potentially useful option." However the significance of this "consensus" is lessened by the absence from the meeting of environmentalists and major market representatives.

There was also general acceptance at the meeting that there should continue to be competition between certification frameworks. The Moderator concluded that "one integrated single scheme to be applied globally using a common standard and a common label/trademark was not generally supported as an appropriate arrangement to cater for all situations."

The most likely outcome therefore seems to be two competing international frameworks. The FSC, heavily backed by environmentalists, is likely to continue to dominate the market for certified wood products in the DIY retailer sector. Meanwhile an alternative system of mutual recognition linking together and marketing various national forest certification schemes under a single international trademark, could evolve to provide a credible marketing tool for the industry in other market sectors - including construction and furniture.

## New study reviews impact of certification

The London-based International Institute for Environment and Development (IIED) have published a study on forest certification. The study, which is notable for being disinterested, suggests that certification's record of achievement is mixed.

IIED argue that forest certification, where it is applied, has encouraged a shift towards more scientifically rigorous models of forest management. However the economics of forest certification remain dubious. IIED note that, in the case of community forestry, forest certification has tended to increase the administrative costs of forestry without necessarily increasing community incomes. As a result, much certification to date has been driven by subsidies from external donors. This in itself can be damaging since the provision of subsidies can undermine sustainable commercial decision-making by community enterprises.

Forest certification's impact on wood supply chains has also been restricted. While making major inroads into the DIY sector, forest certification has yet to have an impact on other much larger sectors, notably construction. Therefore forest certification has not been particularly effective in bringing market forces to bear on the problem of sustainable forest management.

### Indirect benefits more significant

But this is not to suggest that forest certification has been a failure. IIED go on to argue that other indirect, often unforeseen, benefits of forest certification are beginning to emerge. For example forest certification is now making a major contribution to the development of international and national forest policy. It is helping to resolve conflicts through new processes of dialogue and negotiation with other stakeholders. There is also potential to use forest certification as a regulatory tool, effectively 'privatising' law enforcement and encouraging self-regulation as a complement to law enforcement.

There are other commercial benefits of forest certification not directly related to the marketing of forest products. Forest certification may help to lever finance from investors and other external bodies for forestry activities. It is also an essential requirement if the industry is to benefit from new novel sources of funding, such as carbon storage. Forest certification should also contribute to a reduction in insurance premiums by dealing transparently with risk.

### Exchange rates

		One GB pound (£)			One US Dollar (\$)			One Euro		
		20-Jul	24-Aug	29-Sep	20-Jul	24-Aug	29-Sep	20-Jul	24-Aug	29-Sep
Argentina	Peso	1.4276	1.4448	1.4695	0.9996	0.9989	0.9999	0.8725	0.912	0.9106
Australia	Aus. \$	2.8221	2.7296	2.9781	1.9759	1.8871	2.0263	1.7247	1.723	1.8454
Bangladesh	Taka	82.3387	83.385	83.6995	57.65	57.65	56.95	50.3199	52.6345	51.8645
Belgium	Belgian Fr.	66.0085	63.9076	65.1011	46.2163	44.1839	44.2955	40.3399	40.3399	40.3399
Belize	BS	2.8137	2.8494	2.91	1.97	1.97	1.98	1.7195	1.7986	1.7941
Bolivia	Boliviano	9.485	9.6981	9.911	6.641	47.12	6.7435	5.7966	43.0206	6.1413
Botswana	Pula	8.1966	8.3151	8.8112	5.7389	5.7488	5.9952	5.0092	5.2487	5.4599
Brazil	Real	3.5271	3.6934	3.9249	2.4695	2.5535	2.6705	2.1555	2.3314	2.432
Fr. Africa*	CFA Fr.	1073.35	1039.19	1058.60	751.52	718.47	720.28	655.96	655.96	655.96
Canada	Canadian \$	2.2042	2.228	2.3217	1.5433	1.5404	1.5797	1.347	1.4064	1.4386
Chile	Peso	948.001	958.602	1021.960	663.750	662.750	695.350	579.354	605.091	633.255
China	Yuan	11.8214	11.9723	12.1645	8.2768	8.2773	8.2768	7.2244	7.5572	7.5377
Czech Republic	Koruna	55.4585	54.2638	54.7244	38.8297	37.5165	37.2351	33.9925	34.2525	33.91
Denmark	Danish Krone	12.1865	11.7937	12.001	8.5325	8.1539	8.165	7.4476	7.4445	7.4359
Estonia	Kroon	25.594	24.7838	25.255	17.9198	17.1348	17.1838	15.6413	15.6441	15.6493
Europe	Euro	1.6363	1.5843	1.6138	1.1457	1.0953	1.0981	1	1	1
Finland	Markka	9.7991	9.4194	9.5953	6.8119	6.5123	6.5288	5.9457	5.9457	5.9457
France	Franc	10.7335	10.3919	10.586	7.5152	7.1847	7.2028	6.5596	6.5596	6.5596
Germany	D-mark	3.2004	3.0985	3.1564	2.2408	2.1422	2.1476	1.9558	1.9558	1.9558
Ghana	Cedi	10461.90	10414.10	10581.90	7325.00	7200.00	7200.00	6393.66	6573.63	6557.06
Guyana	Guyanese \$	257.799	261.075	264.546	180.500	180.500	180.000	157.549	164.797	164.381
Hong Kong	HK\$	11.1401	11.2617	11.4629	7.7998	7.7998	7.7995	6.8081	7.1213	7.1031
India	Ruppee	67.2992	68.1544	70.3252	47.12	47.12	47.85	41.1287	43.0206	43.577
Indonesia	Rupiah	15910.7	12576.4	14267.1	11140.0	8695.0	9707.5	9723.6	7938.5	8840.6
Irish Republic	Punt	1.2867	1.2477	1.271	0.9023	0.8626	0.8648	0.7876	0.7876	0.7876
Italy	Lira	3168.33	3067.49	3124.78	2218.33	2120.78	2126.13	1936.27	1936.27	1936.27
Japan	Yen	175.818	173.568	175.085	123.1	120	119.13	107.448	109.56	108.492
Kenya	K. Shilling	112.696	114.013	116.261	78.905	78.825	79.105	68.8723	71.9673	72.041
Korea South	Won	1864.87	1854.28	1924.57	1305.70	1262.00	1309.50	1139.68	1170.47	1192.56
Liberia	Liberian \$	1.4283	1.4464	1.4697	1	1	1	0.8729	0.913	0.9107
Malaysia	Ringgit	5.4724	5.4963	5.5849	3.8	3.8	3.8	3.3168	3.4693	3.4607
Myanmar	Kyat	9.641	9.5894	9.709	6.7502	6.6298	6.6061	5.9953	6.1149	6.5909
Netherlands	Guilder	3.609	3.4912	3.5564	2.5248	2.4137	2.4198	2.2037	2.2037	2.2037
New Zealand	NZ\$	3.4989	3.2989	3.6129	2.4498	2.2808	2.4582	2.1266	2.0824	2.2387
Nigeria	Naira	160.150	163.096	165.577	112.130	112.760	112.660	9.9783	102.950	101.600
Papua NG	Kina	4.7933	4.7938	5.2128	3.3561	3.3172	3.5468	2.9783	3.0286	3.2301
Philippines	Peso	75.9829	73.8388	75.4692	53.2	51.05	51.35	46.4357	46.6087	46.7645
Poland	Zloty	6.0302	6.1156	6.2118	4.2221	4.2282	4.2266	3.6853	3.8603	3.8492
Portugal	Escudo	328.050	317.609	325.541	2924.687	219.586	220.141	200.82	200.482	200.48
Romania	Leu	4205.5	4314.09	4290.8	2924.55	2983.0	30485.0	25707.6	27236.6	27752.7
Russia	Rouble	41.8235	42.4923	43.3106	29.253	29.378	29.469	25.5597	26.8221	26.8374
Singapore	Singapore \$	2.6039	2.5257	2.596	1.8232	1.7483	1.7664	1.5914	1.5962	1.6086
Solomon Islands	Slnm. Is. \$	7.6093	7.5285	7.9745	5.3277	5.3619	5.4259	4.6503	4.8954	4.9414
South Africa	Rand	11.8037	12.0992	13.2387	8.2645	8.8241	9.0078	7.2136	7.6373	8.2034
Spain	Peseta	272.259	263.593	268.516	190.624	182.241	182.701	166.386	166.386	166.386
Sweden	Krona	15.189	14.8565	15.6786	10.6347	10.7112	10.6679	9.2825	9.3778	9.7153
Taiwan	\$	49.174	50.0744	50.7194	34.95	34.62	34.51	30.5061	31.6081	31.4283
Tanzania	Shilling	1272.57	1290.19	1312.08	891.00	892.00	892.75	777.71	814.40	813.03
Thailand	Baht	65.4139	64.1913	65.3723	45.8	44.38	44.48	39.9765	40.519	40.508
Uganda	New Shilling	2470.87	2545.67	2582.26	1730.00	1760.00	1757.00	1510.04	1606.89	1600.10
United Kingdom	£	1	1	1	0.7002	0.6914	0.6804	0.6111	0.6312	0.6197
U.S.A.	US \$	1.4283	1.4464	1.4697	1	1	1	0.8729	0.913	0.9107
Venezuela	Bolivar	1032.630	1061.660	1091.840	723.005	734.000	742.900	631.075	670.142	676.559
Vietnam	Dong	21296.6	21674.3	22049.0	14911.0	14985.0	15003.0	13015.1	13681.3	13663.2
Zimbabwe	\$	79.1965	80.3476	81.495	55.45	55.55	55.45	48.3997	50.7173	50.4985

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

# Special report - Forest law enforcement

## A potentially critical meeting in the fight against illegal logging took place on the Indonesian Island of Bali in September.

The Forest Law Enforcement and Governance (FLEG) Conference was attended by forest ministers from countries throughout East Asia, including leading wood producing nations like Indonesia and Malaysia. Also attending as observers were representatives of a number of African and Latin American countries as well as G-8 and European Union countries, together with nongovernmental organizations and the private sector.

The Conference set out to exchange views on illegal logging, disseminate technical knowledge and foster strong political support at all levels. Press reports indicate that the Conference was notable for the high degree of consensus reached by the various parties and by the extent of the commitment expressed in the resulting Ministerial Declaration.

The Declaration states that participating countries recognise that illegal logging is a major problem that must be addressed. They also recognise that the problem has many

complex social, economic, cultural and political causes and that all countries, exporting and importing, have a responsibility in combating forest crime. The participating countries therefore declared that they will take "immediate action" to intensify national efforts, and to strengthen bilateral, regional and multilateral collaboration to address violations of forest law and forest crime. Participating countries stated their commitment to national efforts and to strengthening international collaboration to address illegal logging; and to the creation of a regional task force on forest law enforcement and governance to advance the Declaration's objectives. The Declaration includes an Annex outlining in some detail actions that will be undertaken.

### Even environmentalists impressed

Even environmental groups were impressed by the level of commitment implied by the Declaration. According to press reports following the meeting, Nigel Sizer of The Nature Conservancy said the declaration "far surpasses what NGOs expected". Dave Currey, Environmental Investigation Agency, congratulated participants and the

Indonesian Government for their courage in addressing these issues, and said he was encouraged by the language used in the Declaration, particularly a commitment to improve cooperation between consumer and producer countries.

The political will to tackle illegal logging implied by the Ministerial Commitment seems, in part, to have been driven by the timing of the event, which took place in the two days immediately following the terrorist attacks on the United States. Several speakers at the Conference emphasised that the tragedy in the U.S. reinforced the importance of discussions at the Conference and the need for the international community to work together. Mark Baird, Country Director of the World Bank in Indonesia emphasised that without respect for law and community rights, efforts to promote development, reduce poverty and prevent environmental destruction cannot succeed. Patrick Cronin, Assistant Administrator for Policy and Program Coordination, USAID, said that that "if we can stand together against terrorism, we can stand together against forest crime."

## Association Profile - Q-WEB - Canada

**Members:** include exporters of hardwood and softwood lumber/components, hardwood flooring, wooden building materials, and pre-manufactured housing. The Q-WEB website lists 27 suppliers of hardwood lumber and components and 16 suppliers of hardwood flooring.

The Quebec Wood Export Bureau (Q-WEB) is a non-profit promotional and technical organization established to stimulate the export of Quebec value-added wood products to overseas markets. Activities include overseas promotion and market analysis; conveyance of this information to

members and provision of ongoing export assistance to members; organization of missions to overseas markets together with member producers and making arrangements for overseas buyers to visit Quebec manufacturers; production and distribution of multilingual technical, environmental and promotional material on the Quebec wood industry; participation in several international wood and building products trade fairs each year in cooperation with the Provincial and Federal Governments; and involvement in commercial policy issues in order to secure

and access overseas markets.

The head office is in Sainte Foy, Quebec, and there are overseas offices in the UK, Germany, Japan, China, and India.

Hardwood Division Manager  
Quebec Wood Export Bureau  
979, avenue de Bourgogne, Bureau 540  
Sainte-Foy (Québec) G1W 2L4  
CANADA  
Tel: 1 (418) 650-6385  
Fax: 1 (418) 650-9011  
info@quebecwoodexport.com  
website: www.Quebecwoodexport.com

## Hardwood Events

Date	Event	Venue	Target audience	Contact
<b>2001</b>				
25-26 Oct	American Hardwood Export Council European Convention	Dublin	Timber trade	AHEC London, Tel (+44) 0207 626 4111 Fax, (+44) 0207626 4222
29 Oct-3 Nov	31st Session of the International Tropical Timber Council	Yokohama, Japan	Government, trade	Collins Ahadome, ITTO, itto@itto.or.jp
5-10 Nov	Batimat	Paris, France	International building industry	www.batimat.com
6-10 Nov	Maderalia	Valencia, Spain	Suppliers to the furniture industry	
20-24 Nov	The Fifth Plywood and Tropical Timber International Congress and Expo	Belem, Brazil	Timber and plywood trade	contact WR Sao Paulo email: wrsp@uol.com.br
<b>2002</b>				
27 May-1 June	32nd Session of the International Tropical Timber Council	Denpasar, Indonesia	Government, trade	Collins Ahadome, ITTO, itto@itto.or.jp



### **U.S. economic uncertainty**

The terrorist attacks in New York and Washington on September 11th have added to the economic uncertainty in the United States. Nevertheless conventional wisdom is that the recession will be short-lived with a strong v-shaped rebound by the middle of next year. It is hoped that moves by the the Federal Reserve and U.S. Congress to pump billions of dollars of extra liquidity into the U.S. economy will stave off a more severe downturn in the short-term. More profound longer term economic effects may result from the protracted war against terrorism. **Page 8**

### **American lumber production falls**

American hardwood lumber production has been curtailed and is suspected overall to be down between 20% and 30% this year compared to last. There are signs that in some areas of North America availability of green lumber is now more closely matched to demand. Expectations that this will feed through into lower kiln dried availability later in the year has contributed to greater price stability. **Pages 10 & 11**

### **U.S. hardwood exports struggle**

American hardwoods were struggling on world markets during the first half of this year due both to the continuing strength of the dollar and weakening global economic prospects. Overall exports of hardwood lumber were down 13.3% by value and 10.5% by volume between January and June this year compared with the same period in 2000. **Page 1**

### **Difficult times for European beech**

Continental European suppliers of beech sawn lumber continue to report high stocks, weak demand and pressure on prices. Sales are particularly weak in Germany. In China, enquiries for sawing and veneer quality beech logs have increased, but price expectations are low and quality specifications high. Demand and prices for higher grades of European oak and for other European species are more stable. **Page 7**

### **Weakening of Asian demand for African peeler logs**

Prices for logs of okoume and ozigo from Gabon have been weak over recent weeks due to slowing demand for peeler logs in the Far East and the build-up of stocks during the recent dry season. Log production in Congo (Brazzaville) and Equatorial Guinea is increasing this year, partly compensating for a reduction in production and exports from the Cameroon. Prices for logs of iroko, doussie, and azobe remain firm. However prices for padouk and bubinga are weakening due to slowing demand in the Far East. **Page 3**

### **African sawn lumber market maintains fragile balance**

Despite rising uncertainty, African tropical sawn lumber markets have so far maintained their fragile balance. Prices for most species and grades of the major commercially traded species remain stable. Although there was some increase in European buying activity after the summer vacation period, demand has remained constrained. Supplies are still restricted from the major producing regions north of the equator, with shipments coming through only slowly due to lingering rain and intensifying government controls on forest management. **Pages 2-3**

### **Malaysia looks for higher prices**

Although there was a slight upturn in European forward demand for Malaysian sawn lumber during the summer, helped by strengthening in the euro-dollar exchange rate, demand weakened again in September. However shippers are pushing up forward prices in the face of restricted supplies and razor-thin margins. **Page 5**

### **Mahogany now available**

The imposition of tight controls on logging has resulted in a major reduction in the number of operators dealing in Brazilian mahogany. The mahogany season started late this year, with little or no availability of air dried sawn lumber from Belem before August. However there are now good stocks

of air dried mahogany on the ground, with much of the volume destined for shipment to the United States under large contracts signed earlier this year. Shipments continue to be delayed by problems over export quotas. Prices remain firm and stable. **Page 5**

### **Tropical plywood market weak**

Markets for tropical hardwood plywood remain slow throughout Europe, North America and Asia. Prices for BB/CC grade Indonesian plywood remain weak at around the INDO96 less 26%. However Indonesian shippers are now seeking to push through price increases in response to concerns over log supply and weakening in the dollar exchange rate. **Page 11**

### **Governments make far reaching commitment to tackle illegal logging**

A potentially critical meeting in the fight against illegal logging took place in Indonesia during September. Forest ministers from countries throughout East Asia, including leading wood producing and buying nations, agreed to work much more closely together to tackle forest crime. Even environmental groups were impressed by the level of commitment implied by the Ministerial Declaration. **Page 15**

### **Growing pressure for mutual recognition**

The forest industry's determination to ensure that forest certification does not limit choice in the market place is driving efforts to develop an international framework for mutual recognition of national forest certification schemes. These efforts may well lead to the evolution of two distinct global frameworks for forest certification that compete for market share. This could be an ideal outcome, serving both to maintain choice and to minimise confusion in relation to forest certification.

**Editorial - Page 2,**

**Chain of custody - Page 13**

**International meeting on MR - Page 14**

**Mixed record of certification - Page 15**