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## Crises in the veneer industry

The European veneer industry comes into focus in September as the German veneer industry's association (VDF) meets in Berlin for its "European veneer convention", which will be held against a background of veneer mill closures in Europe. This has been described as the greatest crisis in European veneer production for a decade following the closure of more than 20 slicing machines, which have been shut down in central Europe. At the same time production capacity is tending to rise in Eastern Europe.

Two years ago, international demand for sliced veneers was bouyant, benefiting from steady growth in Europe, especially in the South, improvements in the furniture industry and the gradual recovery of Asian markets. However market demand began to slip in Autumn 2000, a trend which gained momentum during 2001.

Many of the recent problems in the sector may ultimately be traced back to Germany which lies at the heart of the European veneer industry, dominating production, trade and consumption. Demand for veneers from the German furniture sector, which accounts for over 40% of German veneer demand, has been very weak. Demand from the German door, panel and interiors sectors has been hit by Germany's weak construction sector. German veneer producers have been struggling to bring supply back in line with demand. Although many producers started to restrict production during the first six months of 2001, they were unable to avoid a rapid build up of excess stocks, particularly in beech. Since then trading conditions have become progressively more difficult. Recent reports from Germany indicate that ten lines have been closed by Danzer, and three companies have filed for bankruptcy.

Weakness in the German veneer sector has compounded market difficulties elsewhere.

Export markets have become more competitive as Germany has failed to soak up sufficient volume and German producers have been looking for outlets overseas. Producers in the United States, Italy and several Eastern European countries have faced an increasingly competitive trading environment and have been struggling to maintain levels of export sales.

Shipments of sliced veneer from the USA to the European Union, in which the USA has such a strong position as a high volume supplier, were down 21% in value from \$84 million to \$67 million in the first five months of 2002. In Germany alone, American white oak veneer exports were down by \$2 million (31%) and cherry by \$3.6 million (50%).

While German production capacity has been falling, capacity has been rising in Eastern Europe. The huge capital required both for production facilities and material stock has meant that this production transfer has of necessity been driven by Western European and North American companies.

Hungary has already developed significant foreign owned veneer production capacity and saw significant export growth in the later 1990s. Poland also has large capacity known mainly for relatively low grade and dependence on foreign buyers such as IKEA. Last year several new slicing plants were commissioned in Romania. There is also small Austrian-owned capacity in Slovenia for custom cutting. Danzer has built a sizeable plant in Riga to produce birch veneer for the likes of IKEA. In January this year, production commenced at the new Danzer Bohemia-Dyharna mill 30 km north of Prague, which will cut mainly European beech logs. When complete, the annual turnover of the Prague veneer mill is expected to exceed EURO30 million. And in another development, most of the produc-

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## Editorial - veneer as visionary

The sliced veneer industry is pivotal to the hardwood sector as a whole, since it influences the price and availability of the highest quality logs in many species. And because of the sensitivity of sliced veneer demand to shifts in fashion, and the huge capital investments required, veneer producers have to keep a particularly close eye on market trends. For these reasons, it is often said that trends in the veneer sector are a good barometer of likely changes in the hardwood sector as a whole.

For evidence of this, look no further than our two headlined stories this month. On the front page, we chart the progress of the international veneer industry which, after a boom lasting until the middle of 2000, went into decline from autumn of that year. The second story, a summary of the UNECE Review of recent trends in the temperate hardwood sawn lumber trade, charts a similar

market progression but with the turnaround in demand only becoming apparent in the second quarter of 2001.

The UNECE Review goes on to highlight the problems of forecasting likely trends in the hardwood lumber industry for the rest of 2002. The signals are very mixed. Opinions are divided as to whether the United States economy is going to suffer a "double dip". The European economy seems to be drifting. The growth of the Eastern European and Chinese wood manufacturing sector is having far-reaching and sometimes unpredictable consequences.

Given the apparent predictive power of the veneer industry, perhaps we should all be monitoring discussions at VDF's annual "European Veneer Convention" in Berlin on 13 September with particular interest.

Rupert Oliver, Editor

## Letters

Your editorial – "Damned lies and statistics" – in the August 2002 issue of *hardwoodmarkets.com* touched on a very true and unfortunate situation regarding the unreliability of some statistics used by various parties to justify their own predetermined conclusions. The WWF Report – "Timber Footprint of the G8 and China" – mentioned in your editorial is a very good example of this.

In the report, Malaysia was quoted to have a 35% illegal logging rate. Environmental groups have used this same figure in various other reports. However, most of these reports do not explain how this figure is derived. As far as we can deduce, the first mention of this figure was in the book *Bad Harvest* by Dudley, Jeanrenaud, Sullivan published by Earthscan/WWF in 1995. The source quoted for the 35% figure was a paper entitled "Illegal Tropical Timber Trade – Asia Pacific" (Callister) published in 1992! I am amazed that a figure first calculated in 1992 is still being quoted by WWF in a 2002 report, a time lapse of 10 years. Surely any reasonable person would agree that in 10 years a lot could change, especially in such a dynamic field as forestry. In the past 10 years there have been vast improvements in forest law enforcement and progress towards sustainable forest management in Malaysia. I wonder if this small point crossed the minds of the authors of the latest WWF report. I have written to WWF International in July this year to seek some clarification as to how they derived the figure of 35% for Malaysia but have yet to obtain any reply.

Two reports prepared by WWF-Malaysia and The World Bank and published in March 2001 gave a very different situation with regard to illegal logging in Malaysia. In the report "Overview of Forest Law Enforcement in Peninsular Malaysia" (by Rusli Mohd. and Amat Ramsa Yaman) it was noted that the average number of forest crimes dropped from 223 for the period 1987-1993 to about 28 for the period 1994-1999. Furthermore, in a separate report "Overview of Forest Law Enforcement in East Malaysia" (Jay Blakeney) it was concluded that "the level of illegal logging (Sabah and Sarawak) is small (in the order of 1% or less) compared to the legal wood products trade. Therefore these reports, sponsored by the World Bank and the WWF, indicate very strongly that the figure of 35% is grossly outdated and inaccurate.

I hope that the WWF and other environmental groups will endeavour to obtain a more updated source for their forestry data for any new reports. It would be very unfair if NGOs continue to use outdated figures to indicate illegal logging in tropical producing countries and do not take into account the progress that have been made by many countries in managing their forest resources. While trying to prove their own point, WWF and other environmental groups also have a responsibility to be fair, impartial, and objective in their findings and conclusions and to reflect the true situation on the ground.

S.K. Tham, Director,  
Malaysian Timber Council, London

## African indicative prices

	May	Jun	Aug
<b>Exchange rates</b>			
US\$/£	1.46	1.52	1.55
Euro/£	1.57	1.54	1.58
All prices include agents commission of 5%			
<b>Logs</b>			
<b>Liberia</b>			
US\$/m3, FOB Liberia			
Grade: B+ & better (good UK sawing quality)			
All diameters 60 cm+			
<b>A. mahogany</b>	185	185	185
<b>Walnut</b>	185	185	185
<b>Iroko</b>	240	240	240
<b>Kusia (Opepe)</b>	120	120	120
<b>Sawn lumber</b>			
<b>Cameroon, CAR, Congo (Braz.)</b>			
Euro/m3; FOB			
Grade and size: FAS, air dried, width 6"+, length 6'+			
<b>Sapele</b>	515	520	520
<b>Sipo</b>	620	620	640
<b>Bibolo</b>	400	400	400
<b>N'Gollon</b>	535	535	535
<b>Iroko</b>	520	520	530
<b>Cote d'Ivoire</b>			
Euro/m3; FOB Abidjan			
Grade: FAS, air dried			
Size: width 6"+ avg 9"-10"; length 6'+ avg 10'-11', thickness 1"-2"			
<b>Iroko</b>	510	510	515
<b>Mahogany</b>	420	420	420
<b>Framire</b>	310	310	315
<b>Samba No.1 C&amp;S</b>	240	240	240
<b>Dimension stock</b>			
<b>Azobe</b>	400/	400/	400/
	460	460	460
<b>Dabema</b>	300/	300/	300/
	390	390	390
<b>Gabon</b>			
Euro/m3; FOB			
Grade and size: FAS, width 6"+, length 6'+			
<b>Okoume AD</b>	320	320	320
<b>Okoume KD</b>	365	365	365

## African logs Prices hold firm

African log production in regions north of the equator is being disrupted by heavy rains. The rainy season usually continues well into September in **Liberia**, **Ghana** and **Ivory Coast**, and into October in **Cameroon** and the **northern Congo**. It also takes a while for many mills to become fully operational again after the lengthy European summer vacation period.

Despite slow buying in Europe, African log prices have held firm over the summer months. Log supplies in Africa are tight and international prices have been boosted by Indonesia's introduction of a permanent log export ban. **China** is also playing an important role in maintaining African log prices. According to ITTO, exports of African hardwood logs to **China** have risen 10% in volume terms over the past two months and are expected to continue to rise.

**Cameroon** log supply is now heavily regulated and many sawmills which lack their

own concessions are closing. The TTJ reports that 30 **Cameroon** sawmills are currently up for sale.

**Gabon** is also tightly controlling log extraction in an effort to prevent overstocking and maintain consistent pricing. The rains have also started in **Gabon** some 30 days earlier than normal, which may further disrupt supplies.

### Slow production in the Congo

Despite confident government predictions of rising log extraction in **Congo (Brazzaville)** this year, most reports suggest that log availability from this source is still relatively confined. Production levels in **Congo (Brazzaville)** during 2002 are not expected to greatly exceed last year's levels of 700,000 m3. Due to the high costs of overland transport from **Congo (Brazzaville)** to the port of Douala in the Cameroon, log exports from the country are restricted mainly to commercially valuable redwoods such as **sapele** and **sipo**.

**Liberia's** log extraction is currently very slow due to the rains. The French journal, *Commerce International du Bois*, suggests there is growing competition for log supplies from **Liberia**, for example from **Greece** and **Turkey** both of which have increased log purchases from the country this year.

Recent reports emanating from **Liberia** suggest the security situation is deteriorating in the north of the country. The U.S. Committee for Refugees (USCR), following a recent site visit to **Liberia** and neighbouring countries notes that "*Tense residents and relief workers are convinced that Monrovia, the capital, is on the brink of worse violence in coming weeks and months.*"

## African sawn lumber European demand still slow

Overall European demand for African hardwood sawn lumber during the summer months has been slow, even for the time of year, due to continuing economic uncertainty. However there are reports of increased interest in African sawn lumber in Far Eastern markets. Forward availability is also restricted by limited log supplies in most countries. Production over the summer has been disrupted by heavy rain and the vacation period. Limited supply has meant long lead times on contracts, with some northern European agents suggesting that larger orders taken for sapele sawn lumber at the end of August may not be shipped before the end of the year. However other agents suggest they can still offer stock for Octo-

ber/November shipment.

Prices for African sawn lumber have been generally stable over the summer months, with some firming in price for several species including **iroko**, **sipo**, and **framire**. Prices are fairly consistent throughout the major supply regions.

Forward demand for African sawn lumber in the **U.K.** picked up a little in the last week of September after a slow summer. However **U.K.** agents report there is currently little or no speculative purchasing of large stocks. Instead importers are generally buying only to supply existing orders and fill gaps in inventory. Furthermore most **U.K.** buyers are now looking for kiln dried stocks, increasingly from intermediate suppliers on the European continent, and the forward market is heavily concentrated in the hands of a few larger importers. The **U.K.** market has also become increasingly focused on just a few species. **Sapele** is very dominant, while **framire** is now firmly established as a cheaper alternative to **iroko**. **U.K.** demand for **framire** is reported to have been quite good over the summer months, contributing to a slight rise in FOB prices.

### Spain quiet

**Spain's** market for African sawn lumber has been quiet over the summer months. There are reports that Spanish stocks of **sapele** sawn lumber are relatively high and that local prices have been falling. Prices for **obeche** and **ayous** have also been falling on the Spanish market. Hardwood lumber sales to the Spanish furniture sector have been declining, but sales to the joinery sector remain good.

**Ireland's** market for African sawn lumber is now better balanced with demand. Irish importers are buying steady volumes of kiln dried **iroko** and **sapele** sawn lumber. Demand for **iroko** in continental European markets, including the **Netherlands** and **Belgium** remains subdued, but there are reports of reasonable demand in **Spain**. Limited availability has contributed to a slight increase in **iroko** FOB prices over the summer months.

European agents representing shippers in **Ghana** report reasonably steady orders for **wawa** at stable prices, with consistent buying in the **U.K.** and **South Africa** and growing interest from **China**. However margins in the **wawa** business are very tight.

**Gabon okoume** sawn lumber prices have remained stable over the summer months. ITTO reports that European interest in the product has been rising and that **Gabon** mills orders books are fairly full.

## Malaysian sawn lumber Prices difficult to judge

Price levels for **Malaysian dark red meranti** are difficult to judge as significant volumes of wood on old contracts agreed at lower prices by some of the larger European trading companies in early summer are only now being shipped. Some European companies are now offering meranti on the ground in Europe at levels reflecting these lower prices rather than at replacement prices. Restricted supplies and rising log costs have encouraged Malaysian shippers to raise forward prices over the summer months, although underlying demand from European importers has remained subdued. Prices quoted in the table are for October/November shipment.

Supply and demand for **Malaysian dark red meranti** in Germany is reasonably well balanced. German importers' stocks are sufficient to meet current levels of demand and further shipments are already on their way. However limited forward availability has meant that FOB prices for **tembaga** in German sizes (for example 3"x7" and wider) have been firm.

**Meranti** stocks in the Netherlands are now

better balanced with demand, but underlying market conditions remain weak. Forward availability of typical Dutch items such as **bukit 3"x5"** in PHND is very tight, encouraging sawmills in Peninsular Malaysia to raise prices despite lack of demand.

In the U.K. there is very little interest in the **dark red meranti** forward market. Stocks are quite low, but new shipments are expected to arrive soon. U.K. importers are tending to buy on a just-in-time basis, there is much cross-trading and many are relying on small orders of mixed loads from the continent. U.K market prospects for the second half of the year are uncertain, but few expect a significant upturn in demand.

International demand for **keruing** lumber is slow. However C&F prices for **keruing** have risen slightly and may yet go higher due to higher log costs. In the absence of lumber demand, **keruing** logs tend to be diverted for plywood manufacture.

There are some reports of a slight pick up in demand for **jelutong** from the Italian moulding industry during August.

There is now very little **ramin** available for shipment. Indonesia's efforts to enforce a trade ban following listing of the species on CITES Appendix III appear to have been effective.

C&F prices for **balau decking** increased sharply during August due to top rising log costs in Sarawak. Prices for **balau decking** profiles now stand at around US\$620-630/m<sup>3</sup> C&F UK port.

A rise in freight rates contributed to increased C&F prices for Asian hardwoods during the summer months. Between June and August the rate for a 40ft GP box from Port Kelang to Rotterdam increased from around US\$1050 to close to US\$1500. Further increases during September are expected. Availability of containers for European shipment from Port Kelang is now limited mainly due to enormous demand for containers from mainland China

## Teak Market distortions

Despite slow international demand for teak, export prices for teak boards from Myanmar have tended to rise over recent months. In part price rises reflect tightening teak log supplies following recent measures by the Myanmar government to prevent illegal logging. A significant volume of teak log supply is also currently being diverted by the Myanmar authorities to supply a big contract from the Iraqi government.

Another reason for rising prices has been

## China Wood Products Imports January to June - 000s m<sup>3</sup>

	2001	2002	% chg
Logs	7992	12190	53
Softwood	3872	7976	106
Hardwood	4120	4214	2
Sawn lumber	1807	2520	39
Softwood	290	566	95
Hardwood	1517	1954	29
Plywood	399	285	-29
Veneer	210	110	-48

### Leading supply sources during 2002:

**Logs:** Russia (7,544,000 m<sup>3</sup>), Malaysia (837,000 m<sup>3</sup>), New Zealand (673,000 m<sup>3</sup>), Gabon (578,000 m<sup>3</sup>), Papua New Guinea (531,000 m<sup>3</sup>), Liberia (453,000 m<sup>3</sup>), Myanmar (343,000 m<sup>3</sup>), Germany (283,000 m<sup>3</sup>), Equatorial Guinea (174,000 m<sup>3</sup>) and Indonesia (147,000 m<sup>3</sup>).

**Sawn lumber:** Indonesia (598,000 m<sup>3</sup>), United States (287,000 m<sup>3</sup>), Russia (281,000 m<sup>3</sup>), Thailand (262,700 m<sup>3</sup>), and Malaysia (253,000 m<sup>3</sup>).

**Plywood:** Indonesia (204,000 m<sup>3</sup>) and Malaysia (48,000 m<sup>3</sup>).

**Veneer:** Malaysia (58,000 m<sup>3</sup>), Cambodia (29,000 m<sup>3</sup>), Papua New Guinea (8,000 m<sup>3</sup>), Indonesia (4,000 m<sup>3</sup>) and U.S.A. (3,000 m<sup>3</sup>).

market distortions caused by Myanmar's system of export quotas. Under this system, Myanmar shippers are allowed to export only 50% of their product as lumber with the rest exported as value added products. Some of the leading Myanmar shippers have used up their quotas and, in order to continue exporting lumber, are purchasing unused quotas from other companies on the black market, thereby increasing costs.

Another impact of the quota system has been to deter shipments of teak in small sizes and lower grades from Myanmar. As the quota is based on tonnage rather than value, shippers have been seeking to maximise returns on their quota by exporting only the high value boards.

The Myanmar government is also trying to impose a minimum FOB price for air dried teak boards of US\$3000/50 cu. ft. Although exporters have been looking for ways to circumvent this requirement, it has tended to increase price offers from Myanmar.

## Asian log supply Increased logging activity

There are reports of increased logging activity in parts of Malaysia and Indonesia over recent weeks, but overall harvest levels are well down on previous years. Supply shortages coupled with the export ban on Indonesian logs have contributed to continuing increases in Asian hardwood log prices.

In East Kalimantan, increased log harvests have allowed some restocking of depleted

### Asian Sawn Lumber Indicative Prices

Exchange rates:	May	Jun	Aug
M\$/£	5.55	5.79	5.88
U\$/£	1.46	1.52	1.55
M\$/US\$	3.80	3.80	3.80

#### Malaysia

All prices US\$/ton, C&F UK port, including 5% agents commission

#### West Malaysian Dark Red Meranti

Grade: Select & better GMS; Kiln dried  
Size: Width 6"+ avg 7"/8"; Length: 8'+ avg 12'/14'

1"	720	750	800
2"	790	800	850
2.5"	825	850	910
3"	845	870	925

#### Keruing

Grade: Standard & Better GMS  
Size: Random or fixed 16'+

1"-3"	515	515	520
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#### Nemesu

Kiln dried

2"	880	930	960
2.5"	900	940	980
3"	920	970	990

#### Myanmar Teak

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

Grade: Air dried boards

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

1"	2750/ 3250	2750/ 3250	3000/ 3250
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*Note private-sector prices for Myanmar teak boards vary considerably from one mill to the next. Prices from the cheapest private mills in Myanmar currently start at the lower end of the range. The most expensive mills, many based in Singapore and Bangkok, are selling boards from best quality teak logs at the top end of the range.*

# Asia

inventories, but in West Kalimantan log supplies are so short that even the largest plywood mills have had to reduce production.

Weather conditions in Sabah have improved and log production has been rising over recent weeks. However there is still only limited availability of good quality logs for export. In Sarawak, log availability has also improved following the issue of new logging quotas in mid July. But Chinese buyers have been very active, soaking up much of the Sarawak's export log supply.

## China

***China's imports of logs and lumber have been rising strongly during 2002. Underlying wood consumption in China is forecast to continue to increase, but there are signs that the import trade is overheating.***

According to the latest Customs data, China imported 12.19 million cubic metres of logs valued at US\$1.06 billion during the first six months of the year, up 52.5% in volume terms and up 20.4% in value terms compared to the same period last year. China's sawn lumber imports reached 2.52 million m<sup>3</sup> worth US\$ 550 million during the first half of 2002, up 39% and 22% respectively over the same period last year.

However the volume of China's plywood and veneer imports fell by 29% and 48% respectively during the first half of 2002 due to the continued expansion of China's domestic production capacity.

China's demand for timber is expected to continue to rise in the second half of the year, mainly due to increased construction activity boosted by various high profile infra-structure projects. These include a project to divert water from the south of China to the north, the development of the Qinghai-Tibet Railway, and the start of building projects for the 2008 Olympic Games. Meanwhile, the private real estate industry is growing rapidly, stimulating demand for imported high quality hardwood. ITTO estimates that the total value of timber consumed in China's decorative sector alone could be RMB 300 billion this year.

Despite these figures, there are big risks for exporters looking to extend markets in China. This was highlighted by Bill Lu, the Chinese representative of a New Zealand forest products company, in an article in Inwood International Magazine. Mr Lu notes that China is "fast becoming a commercial graveyard for greedy and poorly prepared timber exporters." He thinks the market in China has been "overhyped." Many overseas suppliers have been trying

# Europe

## Sales of high quality German logs down 10%

The volume of high quality logs offered for sale in Germany during the 2001/2002 winter season reached 117,000 m<sup>3</sup>, down 10% on the previous year according to a wide ranging survey of log sales events in Germany by the European trade journal EUWID. The lower volumes made available for sale reflected weak demand from the European sawmilling and veneering sector and reduced interest from Chinese importers. Other highlights from the survey include:

- a decline in the overall number of sales events from 82 to 76 due to reduced buyer interest.
- an overall decline in attendance at sales events and a preference amongst buyers to focus on a fewer larger events offering high grade hardwood.
- an increased focus on high grade hardwood rather than softwood logs. During the last season, 94% of log volume on offer comprised hardwood compared to 90% the previous year.
- a reduction in the numbers of auction sales due to high cost and organisational difficulty. Most organisers now prefer to invite tenders.
- a big shift away from beech in favour of other hardwood species. Only 34% of sales volume comprised beech, down from 43% the previous year. Oak was the leading species, contributing 44%, up from 37% the previous year.

to push up prices and sell more logs and lumber in China, but the market cannot absorb the big inventory.

Mr Lu says that "from north to south, from coastal cities to borders, most of the ports have a high inventory of logs...logs imported in early January were not sold for several months, and splits and damage occurred in many logs exposed in the open air because of lack of immediate treatment or sale....There is now a real danger of oversupply, followed by periods of scarcity, a situation that will play havoc with price structures and market development." Mr Lu emphasises that there are good long term prospects in China, but that exporters need to do their market research and pay more attention to customers needs.

## UK-Indonesia Action Plan

A series of meetings was held in August in London to discuss actions to follow up the Memorandum of Understanding signed between the U.K. and Indonesia commit-

ting the two countries to co-operative efforts to help curb the trade in illegally sourced wood products. At the multi-stakeholder meetings, Indonesian government officials outlined a range of measures undertaken since signing the MoU including an internal review of the Ministry of Forestry; the issue of 3 draft ministerial decrees to provide a legal framework for independent third party assessment of Indonesian forestry operations; and the commissioning of a study into 'what is legal'. Indonesian officials said initial action in support of the MoU would focus on the 100 largest wood supplying companies in Indonesia, which together account for around 80% of total commercial production. These companies would be asked to prepare plans for the implementation of independent, third party procedures to demonstrate legal compliance. To follow up the the MoU with the U.K., the Indonesian government has now signed similar agreements with the Malaysian and Chinese governments.

Cherry volumes doubled, and there was a significant increase the the volume of ash and maple for sale.

- despite reduced sale volumes, prices for beech logs slumped, with the average down 21% to Euro213/m<sup>3</sup>.
- by contrast oak prices improved around 10% to Euro277 and cherry prices were equivalent to the previous year at around Euro249/m<sup>3</sup>.
- supplies of ash were in excess of demand and average prices fell 15% to Euro123/m<sup>3</sup>.

EUWID concludes by suggesting that the volume of German log sales during the 2002/2003 are likely to remain at the subdued levels of the previous season due to continuing difficulties in the European sawmilling and veneering sectors. As veneer production facilities are shifting progressively from Germany to Eastern Europe, demand for veneer logs from several Eastern European countries, notably the Czech Republic, is expected to increase. However this is unlikely to compensate for the loss of German demand. The Chinese market for beech logs also continues to be beset with problems, particularly Chinese importers' numerous complaints relating to quality. Overall demand for beech logs may be down again, although demand for oak and other hardwoods is expected to remain more stable.

# North America

## U.S. domestic demand Recovery looking shaky

In recent weeks the economic recovery in the United States has begun to look shaky. In mid August, the Federal Reserve left its key interest rate unchanged at 1.75% and said that the balance of risks is now tilted towards "economic weakness" rather than inflationary strength. GDP growth in the second quarter slowed to an annual rate of only 1.1%. In July the purchasing managers indices of activity in manufacturing and services fell sharply. Consumer confidence has taken a knock from the recent series of financial scandals and associated slide in share values.

The uncertain economic outlook has contributed to an air of caution in the U.S. hardwood trade. Many companies are keeping inventory levels tight and focusing on maintaining cash flow. Nevertheless, there is still optimism about market prospects in the Fall. This is mainly because of the continuing strength of the housing sector, both new build and remodeling. The U.S. Census Bureau reports housing starts for July 2002 were at a seasonally adjusted annual rate of 1,649,000 units, down 2.7% on June 2002 and down 0.9% on July 2001. But building permits were unchanged from the high levels of June and up a full 6% on July 2001

### US sawn lumber indicative prices

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

	May	Jun	Aug
\$/£	1.46	1.52	1.55
\$/Euro	0.93	0.99	0.98
<b>Red oak</b>			
1"	1825	1825	1880
1.25"	2000	2000	2060
1.5"	2025	2025	2100
2"	2475	2475	2500
<b>White oak</b>			
1"	1525	1525	1420
1.25"	1690	1690	1690
1.5"	2060	2060	2060
2"	2725	2725	2725
<b>Ash</b>			
1"	1100	1100	1100
2"	1525	1525	1560
<b>Tulipwood</b>			
1"	1100	1125	1100
1.25"	1170	1170	1150
1.5"	1150	1175	1175
2"	1190	1210	1200
<b>Cherry</b>			
1"	3580	3580	3660
1.25"	3600	3600	3720
1.5"	3775	3775	3870
2"	4075	4075	4175
<b>Hard Maple</b>			
1"	2400	2400	2370
1.25"	2500	2500	2470
1.5"	2650	2650	2630
2"	2875	2875	2840

suggesting that activity may remain high. Although commercial construction activity is still slow in the United States, the residential construction sector has been sufficiently strong to generate good demand for flooring, cabinets, millwork and stairs. NOFMA: The Wood Flooring Manufacturers Association, reports that solid wood flooring shipments for July 2002 reached 45,512,000 board feet, 11% up on July last year and the highest total for any July on record since the re-emergence of this market. During the first 7 months of 2002, 356,863,000 board feet were shipped; up 10.1% on the same period last year.

### Rising cabinet sales

According to the Kitchen Cabinet Manufacturers Association "Trend of Business" Survey, cabinet sales increased 10.8% in June 2002 compared to June 2001. Most kitchen cabinet plants have adequate lumber inventories and no buying-surge is expected over the next couple of months. Red oak seems to gain favor among cabinet makers while hard maple is losing market share.

Many dimension lumber and wood component manufacturers are reporting reasonable levels of sales, benefiting particularly from the increased dependence on dimension blanks by cabinet and flooring manufacturers.

Even the U.S. furniture sector is showing signs of greater stability. The latest report released by the American Furniture Manufacturers Association suggests that manufacturers sales of household wood furniture rose 3% in the second quarter of 2002, bringing the year-to-date figure to around the same level as the previous year. Sales of upholstery furniture were even stronger, rising by 12.4% compared to last year. This data provides grounds for optimism, but needs to be put into perspective. Recent rationalization and off-shore relocation of the U.S. furniture sector has meant that the overall level of hardwood consumption is now down on earlier years.

## Hardwood supply Inventories tending to fall

Due to weather related restrictions on production, and voluntary cut-backs in the face of slow demand, American hardwood lumber inventories have been tightening and are lower than normal for this time of year. This has helped to put a floor under prices for many items. The anticipated rise in demand during the fall may lead to further short-falls in supply. At the same time, many

sawmills lack working capital to maintain sufficient log stocks and are not well placed to increase production in the event of a turnaround in demand.

### Variable log decks

Log decks vary considerably, but most reports suggest overall they are quite low. Some mills in the north report that inventories are only just sufficient to keep running. Others report that they have more than desired at present. In the South, the long period of rainy weather, which affected mainly Mississippi and Alabama, has come to an end and normal logging has resumed. However kiln-dried lumber production is still low and inventories are below normal for this time of year. Log and lumber inventories are also reported to be quite low in the Appalachian region, and are coming under greater pressure as northern buyers have been looking to the region to supplement their own supplies.

Nevertheless supply issues have not yet reached a point of urgency in the United States. In fact, many hardwood lumber suppliers report that maintaining sales requires consistent effort.

## U.S. export demand

### Rise in export volume

Overall U.S. export volumes of logs, lumber and veneer increased marginally during the first half of 2002 compared to the same period the previous year. Strong growth in the Chinese and South East Asian markets compensated for declining demand in the EU, Japan and Mexico.

Significantly, while lumber export volume increased by 5.6%, export value was down 1.2%, a reflection both of the shift away from higher value EU and Japanese markets towards lower value Asian markets, and also some substitution of higher for lower grades as a cost-saving device.

### Cautious optimism

There are reasons to be cautiously optimistic about prospects during the second half of the year. The weaker dollar may improve the competitive position of American hardwood lumber. There are also anecdotal reports that July shipments were better than expected. August shipments slowed during the summer vacation period, but more overseas buyers are visiting the U.S. in September and October. Some exporters report that advanced orders for fall shipment are higher than usual. Buyers have also been looking for prompt shipment early in September, indicating that import-

# North America

ers stocks are quite low. On the other hand, the rising tide of competition from alternative species, notably European hardwoods, is unlikely to abate. Stronger indications of demand prospects in the fall should become clearer by mid September as business settles after the European holiday period.

## Spain flat

The volume of American hardwood lumber exported to **Spain** during the first six months of 2002 was equivalent to the previous year, but export value was down around 4%. Spanish importers have been quite slow to sign new contracts for American hardwoods for fall shipment, with some buyers judging that the dollar may have further to fall against the euro, thereby eroding forward prices. Nevertheless, some U.S. exporters report reasonable orders from **Spain** for September and October shipment.

Exports of American hardwood lumber to the **U.K** during the first half of 2002 reached only 55,000 m3 valued at US\$39 million, down 13% and 19% respectively. Stocks are not high and there is some optimism that demand may pick up during the second half. Exports of American hardwood lumber to **Italy** during the 6 month period held up better than most other EU markets, reaching 90,000 m3 valued at US\$45 million, equivalent

to the previous year. However competition in this market remains intense, Exports of American hardwood lumber to **Germany** were down a massive 40% by volume and 45% by value during the first half of the year, at only 18,000 m3 and US\$12 million respectively. Demand remains very sluggish due to slow economic conditions, intense pressure from European hardwood suppliers, and a big shift in manufacturing capacity to Eastern Europe.

American hardwood exports to **Belgium** and the **Netherlands** were also down significantly during the first half of 2002, while exports to **France** were flat. Demand for American cherry has been weak in France this year. **Ireland** has been a more buoyant market this year, with imports rising 26% to 11,750 m3 in the first half of 2002. Ireland continues to buy reasonable volumes of white oak, red oak and cherry.

## Strong growth in China

The global shift in manufacturing facilities is creating greater demand for American hardwoods in the Far East. Exports of American hardwood to **Greater China** rose strongly during the first six months of 2002. Log exports are rising more strongly than lumber exports as Chinese domestic processing capacity is being expanded. Export growth has occurred both into **mainland China** and **Hong Kong**, with traders in the latter continuing to play an important role in distributing and marketing wood to the rest of the country. By contrast, exports to **Taiwan** have struggled to maintain levels of previous years.

Importers in **China** continued to buy good volumes of lumber during the summer months, particularly tulipwood, white oak and ash. However American hardwoods have been losing out to substitutes – for example rubberwood has been replacing common grades of red oak for furniture. Chinese buyers have also been showing greater interest in American secondary species, such as cottonwood and hackberry.

The largest markets for American hardwoods in South East Asia during 2002 have been **Thailand** (mainly lumber) and **Indonesia** (mainly logs). Exports to both destinations have grown strongly this year, with particularly good demand for tulipwood. American hardwood lumber exports to **Malaysia** have also been rising during 2002, with the flooring industry buying good volumes of red oak and white oak. The most rapid market development has been in **Vietnam**. During the first six months of 2001, U.S. exports to Vietnam rose from only 3,500 m3 to nearly 15,000 m3.

## Species notes

**RED OAK:** Domestic demand is steady overall with sales and shipments keeping pace with production. Lumber inventories in some areas have been falling. Prices are stable. However there is some variation by size and grade. Domestic demand for thicker stock is more limited than for thinner stock leading some suppliers to offer kiln dried 6/4 and 8/4 at concessionary prices. However mills are now very reluctant to cut anything other than the standard 4/4 size unless orders are already in hand. The Far East is buying reasonable volumes of common grades of red oak, particularly for flooring. Chinese demand has cooled a bit, partly due to substitution by tulipwood. Demand from Mexico is slow. European demand has been sluggish, with a particularly sharp fall in sales to Belgium.

**WHITE OAK:** Interest in high grade white oak was quite high in Spain and Portugal just prior to the summer vacation, and some shippers report reasonable order books to these destinations for September/October shipment. U.K. demand has been down, partly due to increased competition from European oak. Far eastern flooring plants have been buying reasonable volumes of common grades. Domestic demand for lower grades is steady to firm for crossties, truck and strip flooring. Domestic demand for upper grades is sluggish. Production cut-backs have helped to stabilise prices.

**POPLAR:** domestic demand is steady for all grades, with pressure to increase prices for kiln dried lumber as mills have limited production. Some reports suggest a minor improvement in export demand for FAS grades to Italy and Japan. Shipments of common grades to China are good, with lesser volumes destined for other South East Asian countries.

**ASH:** there are signs of slight improvements in domestic and export demand, particularly in common grades, but buyers still tend to require detailed quality and size specifications. Far Eastern furniture and stair manufacturers have been buying more 4/4 and 5/4 common grade material. There are some reports that Japanese demand for higher grade ash has improved slightly.

**HARD MAPLE:** At this time of year handling procedures can have a big impact on colour. To reduce the risk of stain, log harvesting has been reduced to a minimum and mills are dedicating resources to the rapid conversion of those logs still available. Buyers are very sensitive to quality. However demand and prices for most grades of lumber are holding steady, with some reports of improved demand for lower grade hard maple from the flooring and crosstie sectors. Chinese demand for common grades of hard maple, mostly destined for cabinet doors and furniture, has been steady. South east Asian flooring plants have also been consuming reasonable volumes of common grades. European orders of high grade hard maple have been slow. Demand in Mexico is off.

**CHERRY:** Buying is strongly influenced by product quality and service and is heavily focused on established suppliers in the central Appalachian region. Demand from these mills is closely matched to supply and prices quoted are generally steady, with reports of firming in some grades. However in other less favoured regions, mills continue to report slow sales. Mills without an established customer base are tending to avoid cherry production.

**WALNUT:** Domestic and export demand, notably to China, remains strong.

## U.S. hardwood exports January to June

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

	2001	2002	% chng
<b>World</b>			
Logs	1162.5	1176.6	1.2
Lumber	1373.0	1449.5	5.6
Veneer	156.1	164.2	5.1
<b>Canada</b>			
Logs	795.3	775.4	-2.5
Lumber	489.2	496.0	1.4
Veneer	49.2	54.8	11.3
<b>EU</b>			
Logs	176.7	142.0	-19.6
Lumber	392.2	373.0	-4.9
Veneer	70.6	57.5	-18.6
<b>SE Asia</b>			
Logs	26.4	32.0	21.2
Lumber	48.2	63.9	32.5
Veneer	4.8	5.9	23.2
<b>Greater China</b>			
Logs	58.7	123.4	110.3
Lumber	207.5	284.9	37.3
Veneer	14.9	25.9	73.4
<b>Japan</b>			
Logs	65.4	56.7	-13.3
Lumber	57.9	53.6	-7.4
Veneer	1.3	1.4	9.7
<b>Mexico</b>			
Logs	3.6	4.3	18.8
Lumber	96.1	79.8	-17.0
Veneer	3.3	5.6	68.4

# S. America

## Market notes

### Mahogany supply shortages

■ The ban on the mahogany trade implemented by the Brazilian government last year has created severe supply problems. A few new mahogany shipments from Central America, Peru and Bolivia have done little to offset a shortage of mahogany in the USA. In August, U.S. mahogany importers were disappointed by a U.S. court decision to deny their request for the immediate release of around 1800 m<sup>3</sup> of mahogany impounded at U.S. ports. The shortage of South American mahogany has kept prices firm in the U.S., a trend now spilling over into African substitute species.

■ The IWPA reports that Brazilian President Cardoso is likely to sign a decree authorizing the auction of timber seized by IBAMA in recent operations in Amazonia. Between September 2001 and July 2002 around 80,000 m<sup>3</sup> of timber were seized in Amazonia, including 50,000 m<sup>3</sup> of mahogany.

■ The shortfall caused by the lack of Brazilian supplies has encouraged Peruvian timber exporters to increase mahogany FOB prices. Peruvian exporters report that U.S. and Central American importers are continuing to buy despite the price rise, although many more are now looking for lower priced alternatives.

■ With the exception of mahogany, tropical log supply in Brazil is normal for the time of year with regular arrivals at the mills. Mills are building up stocks to see them through the next rainy season due to start around November.

■ The Brazilian domestic wood market remains weak due to the slow economy and uncertainty over the October presidential elections.

■ Recent devaluation of the real has meant a fall in US dollar prices for Brazilian hardwoods which may help to boost exports.

■ Peruvian exporters are reporting strong growth in sales of hardwood flooring to Asian destinations. The value of Peruvian hardwood flooring exports to Asian destinations increased from US\$1.7 million in 2000 to US\$3.1 million in 2001. Local analysts are forecasting that Peruvian flooring exports could rise by 100% this year.

■ Peruvian exporting companies are increasingly focusing marketing activities on the Chinese, Hong Kong and Taiwanese markets. Many are installing kilns to satisfy growing export demand for flooring and other manufactured wood products.

# Temperate hardwood review

## Reversal of fortune

*To follow-up last month's review of the tropical hardwood trade, this month we review the temperate hardwood trade. Data and summary information is drawn from the newly released UN ECE Timber Committee Forest Products Annual Review 2000-2001\*.*

**The year 2000 was a vintage year for the temperate hardwood trade, characterised by record levels of production, trade and consumption. However the market suffered a reversal beginning in the second quarter of 2001 and intensifying throughout last year.** Overall market conditions during 2001 were unstable, with many users unwilling to continue to accept the levels of prices that had been achieved earlier. Buyers were consistently cautious, operating increasingly "Just in Time" and keeping stock levels to a minimum wherever possible. Currency markets were also nervous at the sustained high level of the U.S. dollar against European currencies. The catastrophic events of 11 September 2001 served merely to accentuate reduced demand in UNECE markets that were already fragile.

The question now is whether the downward market cycle that began last year is terminating in 2002 or not. Certainly lower production and stocks, especially in some dry specification of key species, appears to be setting the bottom of the price cycle with some mid-year indications of firming prices.

### Year of mixed signals

However the UN-ECE Review emphasises that 2002 is a year of mixed signals for hardwood consumption both on the North American continent and across Europe, in which the dynamics of supply and demand are changing and the prospects for the future unclear. Central and Eastern Europe has taken an increasingly significant role as a supplier mainly at the expense of United States hardwood suppliers. The growth in Asian furniture manufacturing and wood processing is having far-reaching and sometimes unpredictable consequences. Currency fluctuations – particularly in the euro-dollar rate – continue to have an unsettling effect on trade. Furthermore environmental issues, mainly surrounding certification, have received increased press attention and all hardwoods – whether tropical or temperate – may well become in-

creasingly embroiled in the issue of legality. After rising to above 50 million m<sup>3</sup> in 2000, total sawn hardwood production in the UNECE region declined during 2001, led by 6.5% drop in U.S. production. The United States is by far the largest producer of hardwood sawn hardwood in the UNECE region accounting for 56.9% in 2001. Adjusted data shows that 1999 was the peak production year in the United States rather than 2000 as suggested by the data presented last year. United States hardwood production is very sensitive to the domestic market for furniture and construction for interiors, and also to profitability of sawmills. U.S.' economic conditions over the last two years have resulted in mill closures and shift reductions that have reduced overall production.

### European production stable

Overall sawn hardwood production in Western Europe remained stable during 2001. German production declined significantly, partly due to the resolution of the 1999 windstorms oversupply. However French production increased slightly due partly to residual conversion of storm felled logs and also successful promotion of oak which has helped increase consumption of this species.

In the longer term there has been a significant shift in hardwood lumber production from Western to Eastern Europe due to increased inward investment. Between 1998 and 2001, sawmill production increased significantly in some Eastern European countries. During this period Romania's production has expanded by 67%, while in Latvia increased use of birch by IKEA and others has pushed production up by 61%. However production of sawn hardwoods in CIS has continued to show a declining trend, down by 1.5% in 2001, with the greatest reduction in the Russian Federation.

### Overall exports levels fall

Exports for the UNECE region were down by 5% in 2001 compared to 2000, largely accounted for by the United States (down 9%) and the European Union (down 13%). Exports of U.S. hardwoods came under pressure in 2001 due to the strength of the dollar and growing competitive pressure from Eastern Europe. European exporters of beech suffered from a sudden reduction in Chinese

*\*The UN-ECE review is available in full from . It covers the entire UN-ECE region comprising Western and Eastern Europe, the Confederation of Independent States (CIS), and North America. It also includes a chapter on tropical hardwood markets prepared by ITTO.*



# Temperate hardwood review

demand for beech. In China, beech was replaced by a wide range of imported sawn hardwood from many countries including some Russian hardwood in log form.

Sawn hardwood lumber exports from Eastern European countries fell during 2001, but to a lesser extent than from Western Europe and North America. However exports of sawn hardwood from CIS reached a recent record high in 2001, rising to 829,000 m<sup>3</sup> – up from 603,000 in 2000.

## Overall imports on the wane

UNECE region imports of hardwood sawn lumber in 2001 were down by 6%. Apparent consumption in the UNECE region fell from its 2000 peak of nearly 53 million m<sup>3</sup>. This was mainly due to a big fall in U.S., Italian and German consumption during the year. In part falling imports and consumption in these countries reflect more fragile domestic economies during 2001. Another factor has been the relocation of furniture manufacturing industries from North America and Western Europe to lower cost locations, notably in Asia and Eastern Europe.

A few regional and niche markets in the UNECE region remained reasonably strong during 2001 despite the evidence of overall decline. In the EU hardwood flooring market, which has grown consistently over recent years, overall consumption was down only slightly (-1.3%) during 2001 and remained strong in France and Spain. The European market for oak barrel staves also remained strong during 2001.

## Eastern European imports rise

Central and Eastern European countries imports and consumption of sawn hardwood are tending to increase – although trends are variable. For example, French beech and oak are now being shipped to Romania for processing and re-export. There is also a growing trade in Eastern Europe in species that are not native, such as black walnut and black cherry, to satisfy overseas furniture markets demanding certain product ranges, natural colours and designs. There is also a huge trade in hardwood material shipped by EU investors – mainly German – into eastern European plants for furniture and other products for re-export. The most significant example of this is Poland accounting for 21% of the Eastern Europe's hardwood lumber imports.

The CIS is a relatively insignificant import region, although there is an upward trend, with imports now double the level of four years ago – albeit from a small base.

## Hardwood lumber production, import and export in the UNECE region

	1998	1999	2000	2001	Change 00/01 Volume %	
<b>Production (000s m3)</b>						
<b>EU/EFTA</b>	<b>7 496</b>	<b>7 863</b>	<b>7 782</b>	<b>7 783</b>	<b>1</b>	<b>0</b>
of which:						
France	3 023	2 979	2 968	3 030	62	2.1
Germany	1 165	1 559	1 320	1 287	-33	-2.5
Italy	900	900	900	900	0	0
Spain	741	741	872	872	0	0
Portugal	370	350	407	423	16	3.9
<b>Other Europe</b>	<b>5 836</b>	<b>6 455</b>	<b>7 868</b>	<b>7 730</b>	<b>-139</b>	<b>-1.8</b>
of which:						
Turkey	1 889	2 020	2 710	2 645	-65	-2.4
Romania	744	973	1 319	1 254	-65	-4.9
Poland	782	788	730	700	-30	-4.1
Latvia	400	593	580	645	65	11.2
Croatia	522	519	519	519	0	0
<b>CIS</b>	<b>4 813</b>	<b>3 349</b>	<b>4 619</b>	<b>4 550</b>	<b>-69</b>	<b>-1.5</b>
of which:						
Russian Federation	3 970	2 465	2 540	2 500	-40	-1.6
<b>North America</b>	<b>31 070</b>	<b>31 323</b>	<b>31 015</b>	<b>29 008</b>	<b>-2 007</b>	<b>-6.5</b>
Canada	1 027	1 051	1 083	1 023	-60	-5.6
United States	30 043	30 272	29 932	27 985	-1 947	-6.5
<b>Exports (000s m3)</b>						
<b>EU/EFTA</b>	<b>1 822</b>	<b>2 519</b>	<b>2 491</b>	<b>2 163</b>	<b>-328</b>	<b>-13.2</b>
of which:						
France	552	719	661	585	-76	-11.5
Germany	446	494	616	555	-61	-9.9
Belgium	...	397	347	276	-71	-20.4
Austria	110	243	261	202	-59	-22.8
Italy	125	161	167	147	-20	-12
Netherlands	137	145	114	114	0	0.3
<b>OTHER EUROPE</b>	<b>2 466</b>	<b>2 921</b>	<b>3 250</b>	<b>2 946</b>	<b>-304</b>	<b>-9.4</b>
of which:						
Romania	333	423	646	498	-148	-22.9
Latvia	316	372	442	494	51	11.6
Poland	297	308	315	234	-81	-25.7
Lithuania	170	202	204	229	25	12.2
<b>CIS</b>	<b>328</b>	<b>757</b>	<b>603</b>	<b>829</b>	<b>226</b>	<b>37.5</b>
of which:						
Russian Federation	249	303	391	631	240	61.4
<b>NORTH AMERICA</b>	<b>3 680</b>	<b>4 129</b>	<b>4 395</b>	<b>3 892</b>	<b>-503</b>	<b>-11.4</b>
Canada	1 178	1 339	1 445	1 257	-188	-13
United States	2 502	2 790	2 950	2 635	-315	-10.7
<b>Imports (000s m3)</b>						
<b>EU/EFTA</b>	<b>7 743</b>	<b>8 142</b>	<b>8 407</b>	<b>7 947</b>	<b>-460</b>	<b>-5.5</b>
of which:						
Italy	2 021	2 054	2 076	1 837	-239	-11.5
Spain	1 259	1 201	1 323	1 323	0	0
Netherlands	605	687	748	748	0	0
United Kingdom	479	504	655	696	41	6.2
Germany	775	809	822	695	-127	-15.5
France	600	720	659	659	0	0
<b>OTHER EUROPE</b>	<b>497</b>	<b>778</b>	<b>922</b>	<b>899</b>	<b>-23</b>	<b>-2.5</b>
of which:						
Poland	94	133	160	206	46	28.8
Slovenia	90	120	143	122	-22	-15
Israel	23	102	121	121	0	0
Czech Republic	89	91	117	110	-7	-6
Turkey	78	100	77	38	-39	-50.6
<b>CIS</b>	<b>112</b>	<b>113</b>	<b>204</b>	<b>220</b>	<b>16</b>	<b>7.9</b>
of which:						
Russian Federation	26	7	17	5	-12	-70.6
<b>NORTH AMERICA</b>	<b>2 249</b>	<b>2 580</b>	<b>2 864</b>	<b>2 462</b>	<b>-402</b>	<b>-14</b>
Canada	954	1 084	1 182	1 038	-144	-12.2
United States	1 295	1 496	1 682	1 424	-258	-15.3

# Special report - EU veneer trade 2001

## EU exports

The EU is a major exporter of hardwood veneer to world markets. Germany is the by far the largest exporting nation, followed by France and Italy. German companies also play a leading role in the international veneer trade outside the EU, for example owning extensive manufacturing facilities in North America, Africa and Eastern Europe. Although EU veneer exports comprise mainly temperate hardwood veneers manufactured from European and North American logs, the EU is also a significant exporter of tropical hardwood veneer.

International markets for veneer were sluggish last year and competition was intensifying. Overall the value of EU exports of temperate hardwood veneer to non-EU destinations declined by 2.5% during 2001, compounding problems of weak markets at home. German exports fell 2.5%, while French exports fell even more dramatically, by nearly 13%, although this last decline may partly reflect market adjustments following the December 1999 storms.

Italian and Spanish producers managed to increase export sales during 2001. Austria's veneer exports also rose strongly during 2001 indicating good demand for specialised

custom cutting of veneers for which Austria has become renowned.

The U.S. is the EU's leading export destination for both temperate and tropical hardwood veneers. Despite problems in the U.S. furniture sector, exports to the U.S. continued to rise last year. Exports to Romania and Poland are also increasing as furniture manufacturing expands in these countries. Further afield, EU veneer exports to South Korea have been boosted by the growth of engineered parquet flooring production in that country.

## EU imports

Germany is the EU's largest importer of temperate hardwood veneers by a big margin, followed by Italy and Spain. Oversupply linked to weak demand

from Germany's furniture sector and door manufacturing sectors led to a 13% fall in the value of German imports during 2001. Italian and Spanish imports of temperate hardwood veneer also declined last year but to a lesser extent. There was strong growth in Austrian imports of temperate hardwood veneer during 2001.

By far the EU's largest external supplier of temperate hardwood veneer is the United States. During 2001, the value of U.S. veneer shipments to the EU fell dramatically due to the strength of the dollar, weak underlying European demand, and increased competitive pressure from European suppliers. The value of EU temperate hardwood veneer imports from several Eastern European countries increased during 2001, notably Croatia and Slovenia.

Italy is Europe's largest importer of tropical veneer, followed by France and Spain. Tropical hardwood veneer imports into these countries increased last year, a trend related to increased restrictions on log exports and investment in new processing facilities in several tropical countries. However Germany's imports of tropical hardwood veneer actually declined last year, again highlighting the extent of market contraction in that country.

Ivory Coast consolidated its position as the EU's largest supplier of tropical veneer during 2001, and Ghana also succeeded in extending sales in the EU last year. Exports of veneer from Gabon rose rapidly during 2001.

A significant proportion tropical hardwood veneer imported in the EU comprises rotary veneer destined for the plywood sector rather than sliced veneer for furniture and other high-end products.

### EU imports by destination country Includes intra EU trade Value (million euro)

	2000	2001	% chg
<b>Temperate hardwood veneer</b>			
GERMANY	232.5	202.4	-13.0
ITALY	146.7	138.7	-5.5
SPAIN	92.7	89.9	-3.0
AUSTRIA	44.6	67.3	51.0
DENMARK	39.3	39.9	1.6
SWEDEN	38.7	37.6	-2.8
U.K.	46.4	36.3	-21.7
FRANCE	37.8	34.2	-9.4
BELGIUM	33.3	27.3	-18.2
PORTUGAL	27.1	24.8	-8.4
OTHER	31.4	30.2	-3.8
<b>EU TOTAL</b>	<b>770.6</b>	<b>728.7</b>	<b>-5.4</b>

	2000	2001	% chg
<b>Tropical hardwood veneer</b>			
ITALY	73.0	80.7	10.5
FRANCE	33.0	45.2	37.0
SPAIN	32.8	38.5	17.5
GERMANY	36.3	32.2	-11.2
U.K.	18.2	17.3	-5.1
OTHER	56.9	57.4	0.9
<b>EU TOTAL</b>	<b>250.2</b>	<b>271.3</b>	<b>8.5</b>

### By country of origin and excluding intra EU trade Value (million euro)

	2000	2001	% chg
<b>Temperate hardwood veneer</b>			
U.S.A.	237.8	199.4	-16.1
SWITZERLAND	31.2	22.9	-26.6
CANADA	26.9	20.6	-23.2
CROATIA	21.7	23.1	6.8
SLOVENIA	21.4	25.2	17.7
HUNGARY	19.4	17.6	-9.4
OTHER	76.3	85.3	11.7
<b>TOTAL</b>	<b>434.6</b>	<b>394.1</b>	<b>-9.3</b>

	2000	2001	% chg
<b>Tropical hardwood veneer</b>			
IVORY COAST	53.2	59.0	11.0
GHANA	39.0	41.6	6.7
CAMEROON	23.2	23.3	0.6
GABON	18.3	31.6	72.9
BRAZIL	12.5	11.6	-7.3
THAILAND	9.6	10.2	6.0
OTHER	31.2	35.0	12.1
<b>TOTAL</b>	<b>186.9</b>	<b>212.3</b>	<b>13.6</b>

### EU Veneer Exports

#### By exporting country and including intra-EU trade Value - million euro

	2000	2001	% chg
<b>Temperate hardwood veneer</b>			
GERMANY	263.5	256.8	-2.5
FRANCE	93.5	81.7	-12.7
ITALY	67.6	69.3	2.5
AUSTRIA	50.2	57.1	13.7
SPAIN	29.8	32.9	10.3
BELGIUM	39.4	32.8	-16.8
FINLAND	17.8	19.5	9.8
U.K.	15.5	11.8	-23.5
OTHER	20.8	21.5	3.2
<b>EU TOTAL</b>	<b>598.1</b>	<b>583.3</b>	<b>-2.5</b>

	2000	2001	% chg
<b>Tropical hardwood veneer</b>			
GERMANY	30.3	32.1	5.7
FRANCE	16.3	20.5	25.4
SPAIN	18.4	17.0	-7.9
ITALY	14.7	15.9	8.4
BELGIUM	8.9	10.0	11.9
NETHERLANDS	10.3	7.8	-24.0
OTHER	15.6	19.8	26.9
<b>EU TOTAL</b>	<b>114.6</b>	<b>123.1</b>	<b>7.4</b>

#### By destination country and excluding intra-EU trade Value - million euro

	2000	2001	% chg
<b>Temperate hardwood veneer</b>			
U.S.A.	29.4	32.3	10.1
ROMANIA	14.7	19.0	29.0
POLAND	15.5	17.6	13.8
CZECH REPUBLIC	16.0	15.5	-3.4
SWITZERLAND	12.0	12.0	-0.1
SOUTH KOREA	7.8	11.5	47.8
SLOVAKIA	8.5	11.2	31.0
HUNGARY	12.1	10.2	-15.9
SLOVENIA	10.0	10.0	-0.3
HONG KONG	12.6	8.8	-29.8
NORWAY	9.5	7.2	-23.6
ISRAEL	8.4	7.0	-16.5
CANADA	10.2	6.7	-34.9
CHINA	5.5	4.8	-12.0
JAPAN	5.8	3.6	-38.2
UAE	2.3	3.6	58.6
SOUTH AFRICA	4.3	3.3	-24.7
OTHER	39.4	39.0	-1.0
<b>TOTAL</b>	<b>224.1</b>	<b>223.4</b>	<b>-0.3</b>

	2000	2001	% chg
<b>Tropical hardwood veneer</b>			
U.S.A.	14.8	15.2	2.5
RUSSIA	1.5	2.8	84.4
LIBYA	0.0	2.5	-
EGYPT	3.3	2.3	-30.1
HONG KONG	3.6	2.0	-43.2
CANADA	2.1	1.9	-7.9
OTHER	19.5	21.8	11.8
<b>TOTAL</b>	<b>44.8</b>	<b>48.4</b>	<b>11.1</b>

# Focus on veneer

Continued from page 1

tion facilities of the insolvent Germany company Janson Furnierwerke GmbH are also to be installed in the Czech Republic.

While current market conditions are weak, there are reasons to be optimistic about longer term prospects for veneers. The relatively low cost of ocean freight and inland transportation for veneer ensures it has a global market. The cost benefits of veneer have driven a discernable global shift in production towards veneer and away from lumber use. The use of veneer, although threat-

ened by substitute non-wood foils and laminates, has been assisted by the technical improvement of substrate panels such as MDF. Real veneer use in furniture, doors and panelling, which lost market share to substitutes in the 80s and 90s, has shown some signs of recovery over more recent years as high quality markets demand real wood, and as "wrap around" moulding technology for wood veneer has developed. The growth of engineered parquet flooring markets has also provided a new market for sliced veneer consumption.

## Exchange rates

		One GB pound (£)			One US Dollar (\$)			One Euro		
		28-Jun	2-Aug	30-Aug	28-Jun	2-Aug	30-Aug	28-Jun	2-Aug	30-Aug
Argentina	Peso	5.8999	5.6973	5.6075	3.87	3.63	3.625	3.8221	3.579	3.5551
Australia	Aus.\$	2.7153	2.92	2.8082	1.7814	1.8605	1.8154	1.7593	1.8328	1.7804
Bangladesh	Taka	87.5683	90.1678	89.4882	57.45	57.45	57.85	56.7377	56.5941	56.7336
Belize	B\$	3.0028	3.0919	3.0474	1.97	1.97	1.97	1.9456	1.9406	1.932
Bolivia	Boliviano	10.9289	11.3624	11.2924	7.17	7.2395	7.3	7.0811	7.1317	7.1591
Botswana	Pula	9.41.77	9.6644	9.7106	6.1786	6.1576	6.2775	6.102	6.0659	6.1563
Brazil	Real	4.3449	4.7085	4.6933	2.8505	3	3.034	2.8152	2.9554	2.9755
Canada	Canadian \$	2.3183	2.4957	2.4132	1.5209	1.5901	1.56	1.502	1.5664	1.5299
Chile	Peso	1049.830	1094.180	1099.070	688.750	697.150	710.500	680.210	686.763	696.787
China	Yuan	12.6164	12.9905	12.8034	8.2771	8.2768	8.2769	8.1745	8.1535	8.1171
Czech Republic	Koruna	45.0824	48.5341	47.8803	29.5768	30.9233	30.9524	29.21	30.4625	30.355
Denmark	Danish Krone	11.4653	11.8367	11.7122	7.5219	7.5417	7.5715	7.4287	7.4294	7.4253
Estonia	Kroon	24.155	24.9289	24.704	15.8471	15.8833	15.97	15.6506	15.6467	15.6618
Euro-zone (1)	Euro	1.5434	1.5933	1.5774	1.0126	1.0151	1.0197	1	1	1
Fr. Africa (2)	CFA Fr.	1012.40	1045.10	1034.67	664.20	665.88	668.87	655.96	655.96	655.96
Ghana	Cedi	12075.90	12687.10	12839.30	7922.50	8083.50	8300.00	7824.28	7963.08	8139.83
Guyana	Guyanese \$	275.127	283.295	279.216	180.500	180.500	180.500	178.262	177.811	177.016
Hong Kong	HK\$	11.8891	12.2421	12.0658	7.8	7.8	7.8	7.7032	7.6837	7.6494
India	Rupee	74.4749	76.3248	74.9783	48.86	48.63	48.47	48.2542	47.9054	47.5346
Indonesia	Rupiah	13280.8	14243.2	13697.8	87.13.0	9075.0	8855.0	8605.0	8939.8	8684.1
Japan	Yen	182.697	187.273	183.408	119.86	119.32	118.585	118.374	117.542	116.277
Kenya	K. Shilling	120.042	123.206	121.934	78.755	78.5	78.825	77.7785	77.3304	77.3037
Korea South	Won	1833.67	1858.92	1859.30	1203.00	1184.40	1201.95	1188.08	1166.75	1178.75
Liberia	Liberian \$	1.5243	1.5695	1.5469	1	1	1	0.9876	0.9851	0.9807
Malaysia	Ringgit	5.7922	5.9641	5.8782	3.8	3.8	3.8	3.7529	3.7434	3.7267
Myanmar	Kyat	9.9293	10.0365	9.892	6.5142	6.3947	6.3947	6.4334	6.2994	6.2713
New Zealand	NZ\$	3.1383	3.3943	3.3085	2.0589	2.1626	2.1388	2.0334	2.1304	2.0976
Nigeria	Naira	182.682	207.723	196.843	119.850	132.350	127.250	118.364	130.378	124.794
Papua NG	Kina	6.0622	6.2174	6.1892	3.9772	3.9614	4.001	3.9279	3.9024	3.9238
Philippines	Peso	76.7079	80.5076	80.199	50.325	51.295	51.845	49.701	50.5308	50.8444
Poland	Zloty	6.1844	6.5833	6.396	4.0574	4.1945	4.1347	4.007	4.132	4.0549
Romania	Leu	50997.6	51707.2	51380.3	33457.5	32945.0	33215.0	33042.6	32454.1	32574.0
Russia	Rouble	48.0444	49.5883	48.8933	31.52	31.5823	31.6073	31.1292	31.1117	30.9973
Singapore	Singapore \$	2.693	2.7514	2.7069	1.7668	1.765	1.7499	1.7448	1.7269	1.7161
Solomon Is.	Solmn. Is. \$	10.8257	11.6173	11.5441	7.1023	7.4019	7.4627	7.0142	7.2862	7.3187
South Africa	Rand	15.715	16.0619	16.2603	10.31	10.2338	10.5115	10.1822	10.0813	10.3087
Sweden	Krona	14.0086	15.0322	14.5215	9.1905	9.5777	9.3874	9.0765	9.435	9.2063
Taiwan	\$	50.9252	52.9079	52.9736	33.41	33.71	34.245	32.9958	33.2077	33.5841
Tanzania	Shilling	1431.27	1503.58	1498.95	939.00	958.00	969.00	927.36	943.73	950.30
Thailand	Baht	63.3021	66.1073	65.2638	41.53	42.12	42.19	41.0151	41.4924	41.3758
Uganda	New Shilling	2736.79	2832.95	2795.25	1795.50	1805.00	1807.00	1773.24	1778.11	1772.13
United Kingdom	£	1.0000	1.0000	1.0000	0.6561	0.6371	0.6465	0.6480	0.6277	0.6340
U.S.A	US \$	1.5243	1.5695	1.5469	1	1	1	0.9876	0.9851	0.9807
Venezuela	Bolivar	2050.890	2111.760	2183.840	1345.510	1345.500	1411.750	1328.830	1325.450	1384.500
Vietnam	Dong	23279.1	24049.4	23714.0	15272.5	15323.0	15330.0	15083.1	15094.7	15034.1
Zimbabwe	\$	84.5198	87.0288	85.7757	55.45	55.45	55.45	54.7625	54.6239	54.38

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

# Association: VDF, Germany

Members: 14 Veneer Companies

The Vereinigung Deutscher Furnierwerke (VDF) is the representative trade association of the German Veneer Manufacturers industry. VDF's main objectives and activities include:

- lobbying for veneer in the public and political arena;
- cooperation with various bodies of the German timber sector including Holzwirtschaftsrat (German Timber Council), ARGE-Holz and Holzabsatzfond;
- gathering and evaluation of statistical data for the veneer industry;
- publication of a regular newsletter for members.

VDF is also engaged in a joint marketing initiative - Initiative Furnier und Natur (IFN) - with the Gesamtverband Deutscher Holzhandel (GD-Holz - German Timber Trade Federation) and company members. IFN objectives include veneer promotion, advertising, the organisation of a convention and regular meetings for the German and European veneer sector.

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 Website (IFN): www.furnier.de

## Hardwood Events

Date	Event	Venue	Target audience	Contact
<b>2002</b>				
13 Sep	European Veneer Convention	Berlin	Veneer industry	VDF, schardt@furnier.de
24-25 Sept	Malaysian Timber Marketing Convention	Kuala Lumpur, Malaysia	Timber trade and industry	mtmc@mtc.com.my www.mtc.com.my
24-25 Oct	AHEC European Convention	Lisbon, Portugal	Timber trade	www.ahec-europe.org
4-9 Nov	33rd Session of the International Tropical Timber Council	Yokohama, Japan	Government, trade	Collins Ahadome, ITTO, itto@itto.or.jp
3-15 Nov	CITES, 12th Conference of the Parties	Santiago, Chile	Government, trade associations, NGO	CITES Secretariat, Geneva cites@unep.ch, www.cites.org
20-22 Nov	1st Int. Congress of the Solid Wood Products Industry	Belem, Para, Brazil	Timber trade and industry	wrsp@wrsaopaulo.com.br www.wrsaopaula.com.br
<b>2003</b>				
11-15 Mar	Properties and Utilisation of Tropical Woods	FRIM, Kuala Lumpur Malaysia	Wood technology, trade	Forest Research Institute Malaysia ganks@frim.gov.my
26-28 Mar	World of Wood 2003	New Orleans, USA	Timber trade	www.iwpa.org/convention.html T: +1 703 820 6696, F: +1 703 820 8550
26 May-6 Jun	3rd Session of the United Nations Forum on Forests	Geneva, Switzerland	Government, trade associations, NGOs	unff@un.org www.un.org/esa/sustdev/forests.htm

### **African log prices hold firm**

Despite slow buying in Europe, African log prices have held firm over the summer months. Log supplies in Africa are tight and international prices have been boosted by Indonesia's introduction of a permanent log export ban. China is also playing an important role in maintaining African log prices. According to ITTO, exports of African hardwood logs to China have risen 10% in volume terms over the past two months and are expected to continue to rise. **Page 3**

### **African sawn availability tight**

European demand for African hardwood sawn lumber during the summer months has been slow, even for the time of year, due to continuing economic uncertainty. However there has been increased interest in African sawn lumber in Far Eastern markets. Forward availability is restricted with long lead times on contracts. Prices have been generally stable with some firming in price for several species including iroko, sipo, and framire. **Page 3**

### **Meranti prices rising again**

Restricted supplies and rising log costs have encouraged Malaysian shippers to continue to raise forward prices over the summer months, although underlying demand from European importers has remained subdued. Meranti is currently being shipped out of Malaysia on contracts agreed at lower prices several months ago and some European trading companies are now offering meranti on the ground in Europe at levels reflecting these lower prices rather than at replacement prices. **Page 4**

### **Teak board prices on the up**

Despite slow international demand for teak, export prices for teak boards from Myanmar have tended to rise over recent months. Various factors have contributed including efforts to crack-down on illegal logging and market distortions caused by the Myanmar export quota system. **Page 4**

### **S.E. Asian logging activity increases**

There are reports of increased logging activity in parts of Malaysia and Indonesia over recent weeks, but overall harvest levels are well down on previous years. Supply shortages coupled with the export ban on Indonesian logs have contributed to continuing increases in Asian hardwood log prices. **Page 4**

### **Strong rise in China's imports**

China's imports of logs and lumber have been rising strongly during 2002. Underlying wood consumption in China is forecast to continue to increase, but there are signs of overheating in the import trade. **Page 5**

### **German logging levels fall**

The volume of high quality logs offered for sale in Germany during the 2001/2002 winter season reached 117,000 m<sup>3</sup>, down 10% on the previous year. The lower volumes reflected weak demand from the European sawmilling and veneering sector and reduced interest from Chinese importers. Volumes offered for sale in the next winter season are likely to remain at the same subdued levels. **Page 5**

### **U.S. recovery looks shaky**

In recent weeks the economic recovery in the United States has begun to look shaky. The uncertain economic outlook has contributed to an air of caution in the U.S. hardwood trade. Many companies are keeping inventory levels tight and focusing on maintaining cash flow. Nevertheless, there is still optimism about market prospects in the fall mainly because of the continuing strength of the housing sector. **Page 6**

### **U.S. hardwood inventories fall**

Due to weather related restrictions on production, and voluntary cut-backs in the face of slow demand, American hardwood lumber inventories have been tightening and are lower than normal for this time of year. **Page 6**

### **U.S. export volumes increase**

Overall U.S. export volumes of logs, lumber and veneer increased marginally during the first half of 2002 compared to the same period the previous year. Strong growth in the Chinese and South East Asian markets compensated for declining demand in the EU, Japan and Mexico. However overall export value declined slightly. **Page 6/7**

### **Mahogany supply problems**

The ban on the mahogany trade implemented by the Brazilian government last year has created severe supply problems. In August, U.S. mahogany importers were disappointed by a U.S. court decision to deny their request for the immediate release of around 1800 m<sup>3</sup> of mahogany impounded at U.S. ports. The shortage of South American mahogany has kept prices firm in the U.S. Brazilian President Cardoso is likely to sign a decree authorizing the auction of timber seized by IBAMA in recent operations in Amazonia. **Page 8**

### **Temperate hardwood reversal**

The annual UN-ECE Review of the temperate hardwood trade highlights that after a vintage year in 2000 the market suffered a reversal beginning in the second quarter of 2001 and intensifying throughout last year. The review notes that 2002 is a year of mixed signals for hardwood consumption both on the North American continent and across Europe, in which the dynamics of supply and demand are changing and the prospects for the future unclear. **Page 8/9**

### **Veneer in focus**

The European veneer industry comes into focus in September as the German veneer industry's association (VDF) meets in Berlin for its "European veneer convention", which will be held against a background of widespread veneer mill closures in Western Europe. At the same time veneer production capacity is tending to rise in Eastern Europe. **Page 1/11. Editorial page 2**