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## Forest certification falls short

**Certified forest area has risen sharply in recent years. But there are significant obstacles to overcome if forest certification is to realise its full potential.**

The forest certification movement can point to some successes over recent years. World area of certified forest has expanded seven-fold in less than four years, from little more than 20 million hectares at the start of 2000 to around 150 million hectares today. The Forest Stewardship Council (FSC) led expansion of certified forest area during the 1990s. But the recent more rapid growth has been due to the development of non-FSC schemes such as the Pan European Forest Certification (PEFC) scheme and American Sustainable Forestry Initiative (SFI) Program. The emergence of these schemes has brought a whole new constituency of forest owners, industry, government and other interests into the forest certification movement. Many people who only four years ago were opposed to the concept of forest certification are now ardent supporters.

As the area of certified forest has expanded, so too has the potential supply of certified forest products. A new report released by the UN ECE Timber Committee in Geneva estimates this potential supply at almost 300 million m<sup>3</sup> annually worldwide. This is close to the annual industrial roundwood consumption of Europe (excluding the Russian Federation).

### Unrealised potential

But the important phrase here is "potential supply". So far only a tiny fraction of wood supplied from certified forests is traded as certified product. Indeed supplies are so limited that even the most committed purchasing companies often struggle to obtain sufficient volume of certified product.

So what is going on? There seem to be at least four obstacles to increased supply of

labeled product:

- the technical challenges and costs associated with chain of custody verification.
- the mismatch between available supply and demand for labeled products. In particular, certified products mainly derive from temperate and boreal regions while market concern tends to focus on tropical hardwood products.
- demand for labeled products remains highly concentrated within the retailing sectors of a limited number of western countries – notably the United States, United Kingdom, Germany, and the Netherlands. There are plenty of people willing to pay lip service to forest certification outside these sectors and countries. But in practice, it seems few buyers will actively discriminate in favor of certified forest products.
- resistance to the concept of mutual recognition, particularly amongst environmental groups.

### Overcoming the obstacles

Efforts are being made to overcome these obstacles, with varying degrees of success. Chain of custody has often seemed the most intractable problem (hardwoodmarkets.com, October 2001). But recent developments suggest it may not be insurmountable. At a meeting in May 2003, the FSC endorsed a new approach to chain of custody referred to as the input-output system. Under this system the company measures the proportion of its raw material which is FSC-certified (the 'input'), and is then permitted to label the equivalent proportion of its production as FSC-certified (the 'output'). This is a more flexible approach than that previously adopted by FSC, which had required all labeled solid wood products to contain over 70% certified material. So the switch in policy has potential to improve availability

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### **Contacts**

#### **By email**

editor@hardwoodmarkets.com

#### **By mail**

Rupert Oliver,  
Forest Industries Intelligence 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

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## **Editorial - the end of the tunnel?**

Suddenly there seem to be many more positive stories circulating about global economic prospects. Recent optimism has focused on the U.S. where GDP growth was stronger than expected in the second quarter. But there are encouraging signs elsewhere. The SARS panic in China ended more swiftly than many expected. Even in Japan, depressed now for the better part of a decade, economists are forecasting a return to growth this year. Growth in the euro-zone is expected to be near zero this year, but many economists seem more confident about 2004.

Rising economic growth usually feeds through into greater hardwood demand. If so, it will come at an interesting time for the trade. There has been a significant reduction in hardwood processing

capacity in western Europe and North America in the last three years. This is only partly compensated by increased capacity in Eastern Europe. So supplies of temperate hardwood lumber are likely to remain quite tight. Forecasts of supply trends in the tropics are less reliable - but long-term forest resource limits and increased regulatory control imply that supply volumes are unlikely ever to return to levels prevailing in the 1990s.

Increased demand and tighter global supply may promise a period of rising prices for hardwood products. A welcome relief to a trade which in recent times has suffered severely from overcapacity and ever tightening margins.

Rupert Oliver, Editor

## **Africa**

### **Market report**

#### **Low log production**

The monsoon is underway in the main log supplying countries north of the equator: Ghana, Ivory Coast, Cameroon, Liberia, CAR and the northern parts of Congo (Brazzaville) and Congo (Kinshasa). Many mills in this region have shut down to undertake maintenance. It is now the dry season in production regions south of the equator: in southern Congo and Gabon. Overall log production levels are very low, hindered both by the weather and by political events. Low production is matched by sluggish demand at this time of year, particularly due to the vacation period in Europe. At present log prices are stable.

#### **Liberian sanctions**

The war and UN trade ban have meant that no logs are currently available from Liberia. Now that President Taylor has been removed from office, there are widespread expectations that the UN will remove the trade ban. A UN internal report highlighting the damage caused to the Liberian economy resulting from the ban may encourage the UN to lift the sanctions. The report suggests the ban is likely to deprive the country's government of US \$13 million a year - equivalent to 18 percent of its total revenue. The ban would lead to the loss of 5,000 to 8,000 jobs in Liberia, inflicting further hardship on the country's civilian population. However, the report notes that logging activities had ground to a halt since April in any case as a result of advances by rebel forces. No decision on the lifting of sanctions had been taken by early September. Even if the ban is withdrawn, it seems

unlikely that there will be any rapid resumption of trade. There was widespread looting and destruction of production facilities and machinery during the civil unrest. Much rebuilding will be required and investors are unlikely to return until there are clearer signs of political stability.

#### **Improving security in Ivory Coast**

Another UN report indicates that security has been improving in Ivory Coast. However there are some "negative trends" in the West African country which threaten to undermine the peace process. The first quarterly report on the UN Mission in Cote d'Ivoire (MINUCI), says that all fighting between the government and the rebels who control the north of the country has stopped since the signing of the latest ceasefire agreement on 3 May. Topping the list of positive achievements during the peace process identified in the report is the formation of a government of national unity in March. This government is due to organise fresh elections in 2005. But the report also highlights that the security situation continues to be threatened by the activities of unofficial armed groups on both sides. And progress towards disarming the rebels and restoring government administration to the rebel-held north of the country has been slower than anticipated. In fact there are disturbing signs that both sides in the now dormant conflict are rearming. The report states that the continued partitioning of the country, 11 months after rebels seized control of the north, is "perpetuating a climate of uncertainty." This in turn is reinforcing "fears about possible new hostilities".



For the timber industry in Ivory Coast, there are signs of a return to more stable conditions. Supplies are unpredictable, but shipment volumes have been rising gradually and exporters have been making more offers. Availability from individual mills is heavily dependent on whether their concessions are located in government or rebel controlled territory.

## Falling production in CAR

According to ITTO, production in Central African Republic (CAR) has fallen dramatically this year as producers are protesting against an increase in 'Surface tax' from CFA 5 to CFA 600 per hectare imposed as part of an IMF package. Only 3 companies are operating in CAR on a scale large enough to export. The IMF-inspired rise in taxes in CAR follows similar moves in several other supplying countries this year, including Gabon and Congo (Brazzaville).

Meanwhile production has been rising slowly in Congo (Kinshasa), but it is a long drawn out process to rehabilitate infrastructure devastated by civil war.

Log production in Gabon is hampered by financial problems at SNBG, the state-controlled organisation that controls exports of okoume logs. In an effort to resolve these problems, SNBG is pushing for an increase in okoume log prices, but is hampered by weak international demand.

Heavy rain is impeding logging activity in Cameroon. Furthermore forest resource limits and tighter regulations mean that log production in the country is in long term decline. Of all major African tropical supplying countries, only Congo (Brazzaville) is expanding log production at present. Government officials are predicting that log production in Congo (Brazzaville) will increase from 890,000 m3 in 2002, to over 2 million m3 by 2006. A rising proportion of log exports from this country are derived from the southern part of the country and are destined for the Far East, notably okoume supplied to China.

## Weak demand for sapele and sipo

In the African sawn lumber market, there is clear division between the entandrophragmas (sapele, sipo, utile) and other species. Demand for the former is currently weak and prices have been slipping. Few analysts expect market conditions to improve for the entandrophragmas before the end of the year. In response, many African mills have switched production to species for which there is better demand, including iroko, ayous, tali and azobe.

## Species notes

### Low consumption

■ **Sapele** – European stocks of sapele sawn lumber are widely regarded as more than adequate to meet demand. African shippers are also offering stocks for immediate shipment. Prices on the ground in Europe and FOB prices have been sliding over recent months. Without a significant, and unexpected, increase in European demand, sapele prices are likely to remain "soft" at least until the end of 2003. In response to weak demand, some sawmills have shifted production away from sapele in favour of other species. This should slowly bring the sapele market back into balance. On the positive side for sapele, European contacts suggest that cheap prices for Malaysian meranti lumber over the last 12 months have not led to any significant shift away from sapele amongst manufacturers.

■ **Iroko** – There were occasional reports of a slight easing in the very tight supply situation for iroko sawn lumber during August, but this may simply reflect a short-term slowdown in purchasing activity in the U.K. and Ireland during the vacation period. More offers also seem to be coming through from Cameroon and Ivory Coast. But in the case of the latter, there is still great uncertainty over shipment times. Prices for this species remain firm. With continuing reports of widespread shortages in the main European markets, importers have generally been willing to pay the higher prices.

■ **Framire/emeri/idigbo** – more offers are now

being made from mills in Ivory Coast, although supplies remain inconsistent. Prices have fallen from the peak prices being offered in spring at a time when supply was very restricted. These earlier prices seem to have been highly speculative and it is unlikely that much business was carried out at the highest levels offered. Framire is not a high value species and tends to be substituted when prices reach a certain level. Nevertheless prices remain reasonably firm and there are reports of shortages in thicker sizes in the U.K., the main export market.

■ **Khaya** – availability remains restricted. With continuing problems in supply of South American mahogany, the U.S. continues to absorb most of the khaya made available to the international market. Although U.S. manufacturers have focused on cost-cutting this year, good prices continue to be paid for high quality khaya sawn lumber.

■ **Wawa sawn lumber** – market demand in Europe was fair during the summer months and there have been steady orders from South African buyers. Although there are some reports of increased enquiries for wawa sawn lumber in the Far East, the species has yet to make any real impact on this market. Availability from Ghana is highly inconsistent. Some shippers are offering for immediate shipment while others take several months with no set pattern. Underlying this inconsistency is significant overcapacity and problems of log supply in Ghana. Overall prices have remained reasonably steady, although many shippers continue to push for higher prices.

■ **Koto** – demand remains reasonably steady as the species is now being used as a substitute for ramin in more durable applications. Stock is once again being offered from Ivory Coast, although supplies from there are inconsistent.

■ **Okoume** - SNBG in Gabon is pushing for higher log prices, although these efforts are undermined by continuing weakness in the international hardwood plywood market and rising availability of okoume logs from southern Congo (Brazzaville). Sales of okoume sawn lumber are improving. Italian buyers have been buying KD sawn okoume from Gabon as a replacement for ayous and are reporting that end users are satisfied.

■ **Sipo/utile** - demand is very slow. Very few European buyers now seem interested in paying premium prices for the better quality offered by this species over sapele.

■ **Ayous logs** - Italian mills have slowed purchasing of ayous logs out of Douala in Cameroon in response to declining demand for processed products, notably in the U.S., and partial substitution of ayous lumber for okoume lumber. Cameroon export volumes of ayous logs are now restricted by quota until the end of the year. A larger proportion of ayous logs shipped out of Douala are now destined for China and other parts of Asia.

## African indicative prices

	May	Jun	Aug
Exchange rates			
US\$/£	1.66	1.67	1.58
Euro/£	1.42	1.45	1.44
All prices include agents commission of 5%			
<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>	500	490	480
<b>Sipo</b>	630	615	560
<b>Bibolo</b>	380	380	380
<b>N'Gollon</b>	535	535	535
<b>Iroko</b>	580	620	630
<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>	560	610	630
<b>Mahogany</b>	430	430	430
<b>Framire</b>	400	380	340
<b>Samba No.1 C&amp;S</b>	240	240	240
Dimension stock			
<b>Azobe</b>	430/	430/	430/
	490	490	490
<b>Dabema</b>	300/	300/	300/
	360	360	360
<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

## Asian logs and plywood Varying prices trends

The main logging season in the Far East runs from end March through to November. Overall logging levels this year are down on previous years due to increased government regulation, efforts to eradicate illegal logging, and constraints on forest resources. Price trends vary widely by species. Relatively restricted supply combined with solid demand from several countries – including India and China – has ensured firm prices for logs of hard heavy species such as kapur, keruing and selangan batu. In contrast, there are reports of weakening prices for Sarawak meranti logs in response to slowing demand, notably from the Japanese plywood sector. Weak prices for Sarawak meranti logs has also undermined demand and prices for taun, the alternative plywood species from Papua New Guinea.

### New regulations create uncertainty in Japan

There is a great deal of uncertainty in the Japanese market for logs and plywood caused by the introduction of new quality regulations following revision of the Building Standard Law (BSL) in July. There are signs that the new laws will strongly favour products certified to JAS quality standards. In the short term, the new regulations boosted sales of hardwood plywood and lumber produced in Japan's domestic mills from imported logs. This trend provided a stimulus for Japan's tropical log imports during the opening months of 2003. Japan's total imports during the first five months of the year reached 756,440 m<sup>3</sup>, 10% up on the same period the previous year (table 1). But it remains to be seen whether the competitive advantage to Japan's domestic mills will be maintained in the long term. Plywood mills in exporting countries are responding to the new measures and are seeking JAS

**Table 1:**  
Japan tropical log imports  
000s m<sup>3</sup>

	2002 Year	2002 Jan-May	2003 Jan-May
<b>Southsea logs</b>			
Southsea logs	1982	647	703
Sabah	126	17	59
Sarawak	1389	492	435
Indonesia	0	0	0
Solomon Islands	55	19	14
PNG	413	119	196
African logs	111	41	53
Total	2093	687	756

Source: Japan Lumber Journal

certification. The Japan Lumber Journal reports that the JAS certifying meetings on June 30 and July 16 deliberated on 14 Indonesian plywood mills expected to be certified to the JAS standards by early August. And Japanese buyers have

already been placing orders for JAS items from these mills on the assumption that they will acquire certification. So there is every possibility that Japanese imports of finished plywood will rise again as more overseas mills achieve JAS certification.

This uncertainty has contributed to a slowdown in Japanese tropical log imports since May. During the summer months, it seems many Japanese log importers adopted a wait-and-see approach. Log purchasing by Japanese mills and import levels appear to have slowed for the time being. There are also reports that availability of the best quality logs has generally declined since the start of the year, which may also have discouraged Japanese log buying. As demand has slowed, Japanese buyers have also been putting pressure on overseas log suppliers to reduce prices. However suppliers have been resisting this pressure, suggesting that existing prices are already close to breakeven point.

### Chinese market remains buoyant

There are signs that the Chinese market for tropical hardwood logs has remained buoyant this year, despite economic problems associated with the SARS virus and declining export sales. While the rate of growth of China's overall log imports has been less dramatic than the previous year, there has been a strong shift in emphasis during 2003 towards increased imports of hardwood logs (table 2). Much of this growth can be attributed to a sharp rise in imports from tropical supplying countries, notably Malaysia, Papua New Guinea, and Myanmar (table 3). Amongst African countries, anecdotal reports suggest there has been a shift away from Gabon logs in favour of supplies from Congo-Brazzaville this year. The strong rise in hardwood log imports reflects various factors including: increased controls on domestic log harvests – which particularly impacted on domestic supplies of decorative hardwoods; strong growth in China's domestic demand for interior joinery products; and the continuing expansion of China's wood processing sector, notably furni-

**Table 2: China Wood Products Imports  
January to June - 000s m<sup>3</sup>**

	2001	2002	2003	% change
Logs	7992	12190	12850	5
Softwood	3872	7976	7420	-7
Hardwood	4120	4214	5400	28
Sawn lumber	1807	2520	2750	9
Softwood	290	566	704	24
Hardwood	1517	1954	2046	5
Plywood	399	285	430	51

ture, flooring, and plywood.

While much of the wood entering China is absorbed by the domestic market, China is also becoming an increasingly dominant exporter of wood products, particularly furniture and plywood. In the first half of 2003, China's exports of wooden furniture were valued at US\$1.205 billion, 22% up on the same period the previous year. Plywood exports reached just over 1 million m<sup>3</sup> during the six month period and were valued at US\$240 million, up 51% and 52% respectively on the same period in 2002. Sawn lumber exports also increased sharply, reaching 236,000 m<sup>3</sup> valued at US\$110 million, up 25.5% and 34.7% respectively on the same period the previous year.

### Indonesian log supplies improve

Indonesia remains a significant area of uncertainty when reviewing the Far Eastern log and plywood market. With a high proportion of logs derived from illegal sources, and on-going efforts to crack down on this trade, it is very difficult to assess likely lev-

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

	2002	2003	% chg
<b>Logs by major supply country</b>			
Russia	7544	7201	-5
Malaysia	837	1203	44
New Zealand	673	931	38
PNG	531	745	40
Myanmar	343	524	53
Other	2262	2246	-1
Total	12190	12850	5

### Sawn lumber by main supply country

Indonesia	598	523	-13
USA	287	332	16
Thailand	262	331	26
Russia	281	311	11
Malaysia	253	220	-13
Other	839	1033	23
Total	2520	2750	9

### Plywood by main supply country

Indonesia	204	294	44
Malaysia	48	70	46
Other	33	66	100
Total	285	430	51



els of log supply this year. Recent trade reports suggest that log supplies in Indonesia have improved during the course of the year and that most Indonesian plywood mills now have sufficient inventories to satisfy current levels of demand. These reports suggest that increased controls on logging operations have served to decrease overall log availability in Indonesia. However this is compensated for domestic mills by a reduction in log exports. Indonesian plywood mills have also reduced production levels until such time as they achieve JAS certification.

Many analysts expect current efforts to crackdown on illegal logging in Indonesia to reduce the overall level of logs available to mills in the future. But these predictions have been made before while Indonesian mills have continued to churn out significant volumes of plywood at very low prices. Prices today are still being quoted to Euro-

pean buyers INDO96 less 26/27, perhaps even lower for larger orders.

In truth, it is a huge challenge to reign in illegal harvests in Indonesia requiring nothing short of a complete overhaul of the regulatory and judiciary framework within the country. Local press reports show that the central government has not lacked determination, but in reality they have been powerless to bring about meaningful change.

### Indonesian enforcement efforts

One press report quotes figures from the Indonesian Centre for Environmental Law, an NGO, which indicate that the central government spent Rp 5.4 trillion (US\$635 million) on operations to counter illegal logging in 2001. While this led to 1,031 illegal logging activities being apprehended during 2001, none of the cases actually made it to court. In the same year, police stopped their investigation into six major illegal logging cases. In 2002, 971 illegal logging cases

were uncovered, but again none went to court. And in the 2003 operations, the Indonesian army and police have so far uncovered only 15 cases of illegal logging, with only one case going to court. The Indonesian Centre for Environmental Law concludes that "The operations against illegal logging activities have only provided a minimum deterrent for illegal loggers so far". They suggest that the operations have been ineffective because a number of soldiers and police officers, as well as foundations and firms belonging to the army or police, are actively engaged in illegal logging activities.

It remains to be seen whether the bilateral agreements the Indonesian government is now signing with the major overseas countries importing Indonesian product (Japan, China, and the European Union) will be any more effective in reducing levels of illegal harvest.

## Malaysian sawn lumber European demand sluggish

European forward demand for Malaysian sawn lumber has remained sluggish over the summer, a trend only partly due to the traditional seasonal slowdown. Economic uncertainty has meant that European importers have been reluctant to buy forward. Malaysian shippers have significantly reduced production volumes for the European market this year, contributing to reasonably stable FOB prices. However some European contacts report that shippers have become more willing to bargain on price as the logging season has progressed.

### Exchange rate issues

The strength of the euro against the US dollar in the first half of 2003 meant that meranti prices were competitive in Europe against African alternatives such as sapele. However most contacts suggest that this failed to stimulate much new business for the Malaysian species in the main northern European markets (Netherlands, Germany, U.K., Belgium). Nowadays there seems to be less direct competition between meranti and sapele in these countries, with each species occupying a different market niche. Manufacturers that have become accustomed to the quality, look and consistent prices of sapele have been reluctant to switch to meranti to achieve a short-term price advantage.

More recently, meranti's price advantage has been eroded over the summer months as the value of the euro has again weakened

against the dollar. Sapele prices have also tended to weaken on the ground in Europe as stocks are ample to meet current levels of demand.

### Rising freight rates

During the summer months, rising freight rates have also tended to push up CIF prices for Malaysian sawn lumber in Europe. On 1 July, rates for a 40ft container on the Port Kelang to Rotterdam route increased from US\$1950 to US\$2150. This translated into a rise of around US\$8/ton on the CIF price. Immediately after this rise, the main

shipping lines announced that a further increase of US\$300 per 40ft container would apply to all cargos heading westbound from Asia to Europe with effect from 1st October 2003.

Freight increases to the UK will be even greater. With effect from 1st October, an extra surcharge of US\$150 per 40ft container will apply to cargo to this destination. Increased freight rates reflect a shortage of containers from Malaysia. More containers are now being diverted to China, Taiwan and Hong Kong to satisfy increased requirements for shipments of electronic goods to Europe in advance of the usual Christmas rush. Container freight rates have risen to such an extent that some European wood buyers are now switching back to brake bulk shipments.

### Dull Dutch market

Due to depressed economic conditions, the Dutch market for Malaysian sawn lumber remains dull. Meranti consumption in the Netherlands, which has been depressed all year, slowed further in mid June and has remained at low levels ever since. Sales prices on the ground remain weak. However there are occasional reports of importers entering the forward market during August, particularly for meranti-bukit, to replace depleted inventory. But forward orders for merbau are still non-existent.

Despite slow demand, the CIF Rotterdam price for meranti (both bukit and seraya) in major Dutch sizes has increased marginally during the last three months. This is mainly

### Asian Sawn Lumber Indicative Prices

	May	June	Aug
Exchange rates:			
M\$/£	6.32	6.34	6.01
US\$/£	1.66	1.67	1.58
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"	790	790	800
2"	810	810	820
2.5"	890	880	880
3"	920	930	910

#### Myanmar Teak

US\$/50 cu ft, FOB Rangoon/Bangkok/Singapore  
Grade: Air dried boards  
Size: Width 6"+ avg 8", Length 6'+ avg 8'

1"	3200/ 3400	3200/ 3400	3200/ 3400
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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

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down to continued increases in freight rates. Weak demand has meant that CIF prices for merbau have tended to weaken.

## No rise in UK forward orders

In the UK there were some signs of a pick up in forward orders for meranti-tembaga just prior to the summer vacation period to fill gaps in inventory. However forward demand slackened again during August. The indications are that existing stocks on the ground are adequate to meet current levels of sluggish demand. CIF prices for meranti-tembaga in the UK have remained variable, depending partly on how desperate the shipper is to generate cash flow, and on shipping factors. For example one UK agent noted that prices for meranti shipped through Felixstowe are now noticeably higher than prices for meranti shipped

through Southampton.

Forward demand for Malaysian sawn lumber has been very slow in both Germany and Belgium during the summer months.

Prospects for Malaysian sawn lumber in Japan have improved slightly this year. Japanese imports of southsea lumber during the first five months of 2003 reached 53,000 m<sup>3</sup>, 13.0% up on the same period the previous year. The Japan Lumber Journal suggests this rise in demand is a direct result of new building regulations introduced in July 1 requiring use of products with low formaldehyde emissions. This has tended to favour solid tropical lumber over panel products.

However, in China there are indications that importers have made a significant switch away from Malaysian sawn lumber in favour of logs. China imported 220,000 m<sup>3</sup> of sawn lumber from Malaysia during the first 6 months of 2003, down 13% on the same pe-

riod the previous year. This contrasts with a 44% increase in China's imports of Malaysian logs, from 837,000 m<sup>3</sup> to 1.2 million m<sup>3</sup>.

## Teak

### Trade restrictions

From 28 August 2003, the United States banned imports of Burmese teak under the Burmese Freedom and Democracy Act. At a meeting scheduled for September 2003, the European Commission is discussing the possibility of equivalent E.U. trade sanctions to be imposed against Burma.

Meanwhile, in a separate development, during August there were reports that the Burmese authorities were preventing shipments of teak sawn lumber in a move said to be due to efforts to control illegal logging. However log exports were continuing.

# North America

## Domestic demand

### Trickle of good news

The trickle of good news about the U.S. economy continues. The Conference Board's index of leading economic indicators increased for the fourth consecutive month during August. U.S. GDP grew 3.1% in the second quarter of 2003. Some economists are now predicting even stronger growth in the third and second quarters. American consumers appear willing to endorse this forecast. After falling in July, consumer confidence rebounded in August. According to the Conference Board's measure, it increased from 77.0 in July to 81.3 in August. The Board's index of future expectations also rose sharply during August, indicating that consumers are counting on quick economic improvement.

### Housing sector remains strong

America's housing market remains strong. In July, sales of existing homes soared to a record level, boosted by low interest rates. At its meeting in August, the Federal Reserve left its interest rates unchanged at 1%. Still concerned about low inflation, it said that rates would remain low for a "considerable period".

Domestic demand for hardwood lumber remains robust. Market concerns are more on the supply side than the demand side. At this time of year it is normal for U.S. hardwood mills to have built up large lumber inventories. But this year has been far from normal. Frequent and often heavy rainfall in many parts of the country during the early months of the year inhibited logging activ-

ity. Log shortages meant that many mills were forced to shut down periodically, reducing green lumber availability. Wet weather also inhibited the air drying process and required longer schedules for the kiln drying. Therefore kiln dried inventories have been slow to build.

### Unresolved supply problems

There were expectations that these lumber supply problems would be resolved during summer. Improved weather usually promotes logging activity and reduces drying times. But weather conditions remained very poor throughout most of the eastern United States during the early summer months. The National Oceanic and Atmospheric Administration reports that the weather for the three-month period from May through July was the wettest on record for Alabama, Tennessee, Virginia and Ohio; and the second wettest on record for Georgia, South Carolina, West Virginia and Indiana. While the weather did improve in most areas during the last weeks of August, sawmills continue to operate with minimal log supplies. Unless current conditions change soon and change dramatically, it seems likely that many mills will lose production time in the fall and winter months. The signs are that the gradual increase in American hardwood lumber prices recorded during the first half of 2003 will continue during the second half of the year.

NOFMA: The Wood Flooring Manufacturers Association reports that demand for wood flooring remains as high as ever. Solid wood flooring shipments for July 2003

reached 47,156,000 board feet, which is 3.6% up on the same month last year. Total wood flooring shipments during the first 7 months of 2003 are now slightly less than 1% below levels recorded during the same period last year. According to NOFMA, the marginal decline in overall shipments this year is entirely due to supply problems. Solid wood flooring continues to appeal strongly to U.S. consumers and underlying demand is growing. The industry continues to soak up large volumes of common grade hardwood lumber, notably of oak.

### Good orders for cabinets

The strong housing market has meant that orders for kitchen cabinets continue to be good. Manufacturers are having to adjust to increased demand for just-in-time deliveries by carrying large inventories of finished products. Hard Maple remains popular for kitchen cabinet manufacture, while interest in cherry, red oak and hickory is on the rise.

American furniture sales also improved slightly in August and some analysts predict a slightly improved furniture market for the balance of the year. However competition from overseas manufacturers is as intense as ever. There are reports of more closures of U.S. furniture plants. In response, an organization called "American Furniture Manufacturers for Legal Trade" now plans to petition the World Trade Organisation, alleging that China is in breach of WTO anti-dumping rules. Reports suggest the organization represents over 50% of U.S. wooden bedroom furniture manufacturing capacity.

# North America

## Export demand

### Declining this year

US exports of hardwood - including logs, lumber and veneer - have continued to decline this year. During the first half of 2003, exports fell to all the major export markets, with the significant exceptions of Canada and Mexico. This decline has occurred despite the relative weakness of the U.S. dollar on foreign exchange markets. It reflects various factors including: economic weakness in Europe; SARS related economic problems in China and other parts of South East Asia; rising competition, notably from European hardwoods; cost-cutting efforts by manufacturers in all areas, which has led to discrimination against higher value solid hardwoods; and the combined impact of U.S. supply constraints and rising domestic demand which has kept U.S. hardwood prices relatively high.

It is notable that the decline in U.S. export volumes has been much more marked than the decline in U.S. export values. This is partly due to a progressive rise in American hardwood lumber prices this year.

### Exports to E.U. down 11%

Overall exports of American hardwood lumber to the E.U. fell by 11% during the first half of 2003. Exports to the U.K. fell by over 16%, a trend which seems to reflect a significant slowdown in commercial joinery and refurbishment activity, together with efforts by manufacturers to cut costs. Cost cutting by manufacturers also seems to have been a major factor behind the decline in exports to Spain. Italy has been a more stable market for American hardwoods this year. Export volumes to Germany recovered slightly from the very low levels last year, but there was a significant fall in the unit-value of exports to this destination.

### Loss of European market share

The decline in American hardwood exports to Europe comes at a time when underlying European consumption of wood products has been increasing - so it effectively reflects a loss in market share for American producers. This is a fact highlighted in a recent report by the American Hardwood Export Council (AHEC) which considers prospects for U.S. hardwood lumber and dimension products in the European market. The full report is available only to AHEC members, but even the brief summary provided to hardwoodmarkets.com contains useful insights. The report shows that the loss in US hardwood market share in Europe has coincided with a big rise in share for Eastern European suppliers over the last

5 years. Direct supplies of hardwood lumber from East European suppliers now account for perhaps 20% of the E.U. hardwood lumber market. This compares with 43% E.U.

domestic production, 20% direct supplies from the tropics, 11% intra-E.U. temperate hardwood trade, 5% direct supplies from the U.S., and 1% direct supplies from Canada.



## U.S. hardwood exports - January to June 2002 and 2003

Volume: Logs/lumber - 000s m3, veneer - mill m2; Value: US\$ million

	Volume			Value		
	2002	2003	% chg	2002	2003	% chg
<b>World</b>						
Logs	1176.6	1132.1	-3.8	253.2	258.7	2.2
Lumber	1449.5	1400.9	-3.4	645.6	645.0	-0.1
Veneer	164.2	153.6	-6.5	211.5	209.2	-1.1
<b>Canada</b>						
Logs	775.4	764.4	-1.4	86.4	96.7	11.9
Lumber	496.0	534.4	7.7	183.3	213.1	16.2
Veneer	54.8	50.9	-7.0	69.8	72.8	4.3
<b>EU</b>						
Logs	142.0	135.1	-4.8	59.5	62.8	5.5
Italy	51.0	56.1	10.0	15.1	15.7	3.9
Germany	40.5	35.5	-12.4	22.4	24.2	7.9
Lumber	373.0	331.2	-11.2	216.0	202.5	-6.3
Spain	95.7	83.0	-13.3	47.7	46.0	-3.4
Italy	90.9	94.2	3.6	45.2	49.8	10.2
United Kingdom	54.7	45.7	-16.4	38.8	33.7	-13.3
Germany	17.7	20.8	17.8	11.9	11.8	-0.2
Veneer	57.5	56.9	-1.0	78.0	81.2	4.0
Germany	22.2	22.9	3.0	25.9	28.2	8.7
Spain	15.1	13.7	-9.0	21.6	20.2	-6.3
Italy	6.4	7.2	13.5	11.9	13.6	14.9
<b>SE Asia</b>						
Logs	32.0	31.2	-2.7	14.9	13.6	-8.4
Lumber	63.9	60.1	-6.0	27.8	26.0	-6.5
Veneer	5.9	3.8	-36.6	8.4	5.9	-29.4
<b>Greater China</b>						
Logs	123.4	105.5	-14.5	55.4	47.3	-14.6
China	52.0	61.8	18.8	24.1	26.3	9.4
Hong Kong	54.6	30.8	-43.6	22.9	14.3	-37.6
Taiwan	16.7	12.9	-22.8	8.4	6.7	-20.7
Lumber	284.9	262.4	-7.9	105.0	94.6	-9.9
China	122.7	141.6	15.4	42.4	49.2	16.2
Hong Kong	126.0	86.9	-31.1	48.5	33.4	-31.2
Taiwan	36.1	33.9	-6.1	14.1	12.0	-14.8
Veneer	25.9	23.5	-9.1	30.2	27.0	-10.3
China	12.8	10.2	-20.0	14.6	11.8	-19.3
Hong Kong	8.1	8.9	10.2	9.9	10.1	2.1
Taiwan	5.0	4.4	-12.4	5.7	5.2	-9.0
<b>Japan</b>						
Logs	56.7	48.2	-14.9	16.2	14.6	-9.9
Lumber	53.6	48.8	-8.9	25.7	27.3	6.4
Veneer	1.4	0.8	-40.8	1.6	1.2	-24.9
<b>South Korea</b>						
Logs	24.6	22.1	-10.2	11.1	9.6	-13.3
Lumber	20.4	16.9	-17.1	12.5	9.8	-21.5
Veneer	4.8	3.5	-27.8	6.5	4.0	-39.6
<b>Mexico</b>						
Logs	4.3	7.0	62.7	1.9	2.9	50.8
Lumber	79.8	92.2	15.5	28.5	37.3	30.8
Veneer	5.6	4.7	-16.5	7.0	5.7	-18.8
<b>North Africa and the Middle East</b>						
Logs	1.6	1.5	-9.9	0.9	1.0	13.9
Lumber	29.3	18.9	-35.4	20.3	13.5	-33.6
Veneer	3.0	2.1	-32.4	2.7	2.1	-21.1

# North America

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Unlike American hardwoods, Europe's direct imports of tropical hardwood lumber also increased during the last 5 years, although they too lost market share to East European suppliers.

## Permanent loss of export sales?

The AHEC report suggests that the loss of American hardwood volume and share in the European market in the past five years is unlikely to be reversed in 2003 and 2004. On the positive side, the report indicates that the U.S. enjoys the highest average pricing for imported lumber in Europe and that these dollar prices have edged higher in recent years. This suggests that U.S. lumber

has been losing ground in the lower to average quality sector of the market.

Considering short-term trends, by end August there were signs that European demand was beginning to pick up again after the usual summer slow down. Orders from Italy and Spain were slowly improving, with most reports suggesting that stocks on the ground in these countries are relatively low. Although a small market, demand from Greece has been good this year, perhaps buoyed by construction activity in advance of next year's Athens Olympics. Demand in northern Europe is more mixed. U.K. contacts suggest that American hardwood lumber consumption remains very slow. As a

result stocks on the ground are still quite high, despite the low levels of imports during the first half of 2003, and forward orders are slow. The U.K. market is strongly characterised by just-in-time purchasing this year. The German market continued slow over the summer months.

## Slowing pace of growth in China

Over recent years, a decline in European markets for lower to average quality American hardwood has been partially compensated by a rise in Asian demand. In part this reflects global trends in the furniture sector, notably the relocation of export-oriented industries away from high cost locations in

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## Species notes

■**ASH:** Market conditions for higher grades have been variable. However domestic and export demand for common grades has been steady. Limited supplies have kept prices for these grades firm. There were some signs of slowing Chinese demand for ash during the summer. Some reports suggest that there was a pick up in buying of common grades in some other Far Eastern markets and of higher grades in Italy and the U.K. during this period. Recent reports from the U.K. indicate stocks are quite high, so this momentum may not be maintained.

■**BIRCH:** domestic demand in excess of supply so very little volume is being made available for export.

■**CHERRY:** there is good domestic demand for common grades of cherry originating from the favoured Penn-York region. Demand from other regions and for higher grades has been more variable. Manufacturers efforts to cut costs - both in the U.S. and export markets - has resulted in greater substitution of high grade cherry for lower priced species. Exports of FAS/IF cherry have declined this year. However China has been buying reasonable volumes of common grade cherry.

■**HARD MAPLE:** market conditions vary widely depending on grade, thickness and colour specification. At this time of year when there is a high risk of stain, buyers of hard maple are strongly influenced by the suppliers reputation for handling quality. Domestic markets for common grades of hard maple remain firm. However domestic demand for higher grade maple has been less consistent. On export markets, common grades are generally moving more readily than FAS grade.

■**SOFT MAPLE:** Domestic demand has been good as cost-cutting manufacturers have recognised this species' price advan-

tages. Soft maple is being used in the U.S. as a substitute for cherry. Domestic demand is putting pressure on supply, leading to rising prices. There are some reports of increased interest in soft maple amongst Mexican and Asian manufacturers, but export volumes remain very low.

■**RED OAK:** domestic demand for most grades of red oak remains firm. In many areas demand for 4/4 in the common grades is in excess of supply and prices have been rising over the summer months. Demand for kiln dried FAS&IF red oak may be less robust, but most reports suggest orders are stable. Canada and Mexico have also been buying good quantities of red oak. Demand for common grades of red oak is off in China, but this is partly compensated by improved demand from several other East Asian countries. Red oak demand in Europe is now very restricted.

■**WHITE OAK:** domestic demand is now good from a variety of sectors, particularly for lower grades. Strip flooring, truck trailer and crosstie markets are all vying for material. Overseas markets - which continue to absorb a significant proportion of higher grade white oak - have been more varied. There were reports of improved European orders just before the summer vacation period to fill gaps in inventory, but current economic uncertainty in Europe may mean this trend is not sustained. European oak is now a more important competitor in this market. Prices for white oak have tended to firm over the summer months, a trend encouraged by restricted U.S. production this year.

■**TULIPWOOD:** domestic demand for lower grades is good. U.S. sales of higher grades are steady. Although Mexico has been buying steadily, most other export markets weakened significantly over the summer months. China has been absorbing

lower volumes of the common grades while sales of FAS&IF to Europe have fallen. U.S. demand has not compensated for the decline in export sales and prices have tended to weaken over recent months.

■**WALNUT:** domestic demand for walnut lumber continues to be good. Although the export market has cooled since the first quarter of the year, most reports suggest overseas orders are still healthy.

## 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
\$/£	1.66	1.67	1.58
\$/Euro	1.17	1.15	1.10
<b>Red oak</b>			
1"	1910	1910	1950
1.25"	2050	2050	2070
1.5"	2190	2190	2250
2"	2470	2470	2700
<b>White oak</b>			
1"	1475	1475	1500
1.25"	1700	1700	1750
1.5"	2150	2150	2150
2"	2800	2800	2800
<b>Ash</b>			
1"	1150	1150	1100
2"	1550	1550	1500
<b>Tulipwood</b>			
1"	1040	1040	1040
1.25"	1125	1125	1080
1.5"	1150	1150	1100
2"	1180	1180	1120
<b>Cherry</b>			
1"	3650	3650	3650
1.25"	3750	3750	3750
1.5"	3925	3925	3850
2"	4100	4100	3900
<b>Hard Maple</b>			
1"	2350	2350	2300
1.25"	2450	2450	2450
1.5"	2500	2500	2550
2"	2600	2600	2770



# North America



the west, to low cost locations in Asia. Strong growth in Chinese domestic hardwood demand has been another contributing factor. But the pace of growth in Asian demand has slowed significantly this year. Although U.S. exporters managed to increase shipments of hardwood products to

mainland China during the opening half of 2003, this failed to compensate for a sharp decline in exports to Hong Kong and Taiwan. American hardwood exports to South East Asia, Japan, and South Korea have also weakened this year. In part this year's slowdown in American hardwood lumber sales to Asia reflects the short-term eco-

nomic problems associated with SARS. But longer term factors have also played a role, notably rising competition from alternative hardwoods from Europe and parts of the tropics. The Asian market has become intensely competitive, and manufacturers are often quick to substitute species on the basis of price.

## Forest certification



of FSC certified product.

It also seems possible that, in time, developments in information technology will help overcome problems of chain of custody. For example, so called "smart tags" are increasingly used to track goods and components in other sectors. These tags contain a single serial number which is unique, identifying the exact product or component on which it is stuck. Detailed information about the product – such as where it originated from – is stored in a computer elsewhere to be looked up as needed via the internet. In the past, the costs of such systems have been prohibitively high for the average timber trading company, but prices are now falling sharply.

### Phased approach for the tropics

There has also been progress in tackling the second obstacle. There is growing recognition of the potential for a "phased approach" to forest certification in the developing world which may increase access to certified tropical hardwoods. This approach acknowledges that tropical producers often lack resources to fulfill high environmental standards. But efforts towards achievement of these standards should be rewarded through increased market access. Certification schemes based on this approach are beginning to make some headway. The Malaysian Timber Certification Council is already operating on a pilot basis. And the African Timber Organisation is working on the development of a Pan African Forest Certification Scheme which would extend the phased approach to a large number of African tropical supplying countries.

The third obstacle to increased supply of certified product - lack of widespread demand - is an oversimplification of a more complex problem. Few would argue that there is, in fact, great demand from most sections of the forest products industry for accurate and readily defensible information on forestry practices. But this has to be provided at reasonable cost. Existing certification services have failed to satisfy this demand. FSC's determination to keep mainstream environmental groups on board has

meant that their forestry standards are often set at a level only achievable by large rich western producers and publicly subsidized forest estates. While these standards may be very "green", they have yet to prove economically sustainable. In contrast, schemes like PEFC and the SFI Program seem to offer economic sustainability, but continue to be criticized by the large environmental groups for being insufficiently "green". So there is a Catch-22 situation. In the end, this situation can only be resolved by the certification schemes coming together and talking about co-operation.

Which leads on to the fourth and perhaps most significant obstacle to increased supply of certified forest products. There is no mutual recognition between the leading schemes: PEFC, FSC and SFI. Each scheme has devised its own procedures and standards not only for forest certification but also for chain of custody verification. Any timber trading company seeking chain of custody certification is faced with a dilemma. Should they undergo several audits and meet several different standards for chain of custody and then supply a variety of labels? This would be expensive and hugely complicated. Or should the company seek to comply with only one system in the hope that it will provide sufficient throughput to meet labeling requirements? This may well require the company to place unacceptable restrictions on timber sources, thereby increasing raw material costs.

### Prospects for mutual recognition

At present the prospects for the certification schemes reaching agreement on mutual recognition seem slim. At the FSC General Assembly in November last year, environmentalists forced through a motion requiring the FSC Board to seek approval by formal vote of the FSC membership prior to engagement in any process designed to lead to mutual recognition. Although mutual recognition is not entirely off the FSC agenda, this decision means it will be a big battle just to get discussions started.

Without mutual recognition, it is probable that labeling of finished products for direct consumption by the general public will re-

main of only minor importance. Forest certification's main role would be for business-to-business communication. Large timber consuming companies and specifiers would have to make their own assessments of the virtues of each scheme. To profit from their efforts to discriminate in favour of timber from certified forests, timber companies would have to rely heavily on market recognition for membership of WWF Buyers Groups, or of industry programs like the UK Timber Trade Federation's Environmental Timber Purchasing Policy. The larger retailer groups may be encouraged to drop their support for a single forest certification brand, and instead market wood under their own corporate brand.

### Only hope for a political settlement

This future seems likely, but there are some that have not yet given up all hope of the largest forest certification schemes working together. Despite FSC reluctance to discuss mutual recognition, dialogue has been continuing between the various forest certification schemes. Efforts are now being made to build consensus around an alternative framework for co-operation between the schemes. Development of this framework, referred to as the Legitimacy Threshold Model (LTM), has been led by the World Business Council for Sustainable Development (WBCSD). The framework has the backing of some of the world's largest forest products companies and has been developed through contacts with a wide range of interests. The World Wide Fund for Nature have already taken a positive interest.

In order to secure this interest, the LTM model includes an important concession to the environmental community. It effectively endorses the view that FSC is the "gold standard" against which all other certification schemes may be judged. In return, it seeks acknowledgement from FSC and the green movement that other schemes meeting certain minimum threshold forestry and procedural standards have a right to exist and are playing a legitimate role. While the underlying assumptions of the LTM model are open to dispute, at present it provides the only hope for a political settlement.

# Europe

## Hardwood logs

### Early market indications

The Western European beech log market is expected to be subdued during the winter logging season. In early September, German forest owners and buyers had begun talks about log sales in the coming season. However few agreements had been reached concerning prices and volumes.

The low beech log harvest in western Europe last year has meant that most saw and veneer mills have only limited log stocks at present. In an analysis of German hardwood log auctions last season, the German trade journal EUWID estimates that beech harvests in the country last year reached only 11,000 m<sup>3</sup>, down from 34,000 m<sup>3</sup> the previous year. Harvests of good quality beech in France have also been kept at very low levels ever since the storms of December 1999 toppled large volumes of mature beech. Reports of low stocks have fueled forest owners' expectations that western European mills may contract for reasonable beech log volumes during the autumn months. Some German forest owners have also been encouraged to talk about minor increases in beech log prices this year. However the continuing weakness of the European beech lumber and veneer market suggest that overall log sales are unlikely to be spectacular. Many western European sawmillers are skeptical of the ability of German forest owners to force through price rises.

### China of critical importance

Developments in the Chinese market will be of critical importance. Most analysts do not expect a significant upturn in Chinese demand during the second half of this year. China imported reasonable volumes of beech logs, primarily from Germany, during the opening quarter of 2003. Despite the slowdown in Chinese imports during the second quarter of the year due to economic problems associated with the SARS virus, Chinese beech stocks are still regarded as quite high. Chinese demand for beech has also come under pressure from a wide range of alternative hardwood species. And the relative strength of the euro against the dollar this year has undermined sales of European beech in China. By early September, there was still little sign of the Chinese beech market coming back to life.

As last year, indications from the oak log market appear more favourable. Demand from cask manufacturers, which was very buoyant last season, is expected to remain steady. Demand from German sawmillers is expected to be at least as good as last year.

There also seems to be a reasonable level of enquiries for oak parquetry grades, notably from Scandinavian companies. Early signals from the French forest authorities are that, as last year, standing oak log sales may be dominated by lower quality material. If so, there may be a repeat of last year when large numbers of French buyers participated in the German auction sales to source better quality material.

In Eastern Europe, Croatian log prices are widely expected to rise as more Western European buyers have come to appreciate the quality of oak supplied from this source.

In Poland, the State Forest Administration has reduced prices for oak and beech logs this year. Polish hardwood log imports from Ukraine and Belarus have fallen as a result.

## Hardwood lumber

### Trickle of good news

The beech sawn lumber market remains depressed. Suppliers in both Eastern and Western Europe continue to report slow sales. A reduction in production over the last 18 months has meant that stocks in many areas are lower than the same time last year and better balanced with demand. However prices are still weak.

Information published by the Centre Etudes de L'Economie du Bois (CEEB) in Paris indicates that prices for French waney-edged beech boards in B1 quality continued to fall between April 2003 and July 2003. However a slight rise in prices for B2 quality waney edged boards during the same period is perhaps an indication of improved stability in the beech market.

UK contacts report demand for A-quality sawn beech is slow and that prices have yet to show any signs of recovery. Indeed one agent noted that they have been forced to reduce their prices in recent months in an effort to attract business. Beech A-quality square-edged lumber is now being offered in the UK at around 690 euro/m<sup>3</sup> for 25 mm through to 38 mm and 700 euro/m<sup>3</sup> for 50 mm (both steamed and unsteamed, kiln dried, delivered to the UK, inclusive of agents commission). The equivalent price for waney-edged beech boards stands at around 590 euros/m<sup>3</sup>. Demand is so sluggish that this price is being offered for all sizes 25 mm through to 50 mm.

Reports from Romania, the leading Eastern European supplier of sawn beech, indicate that beech stocks are high. Romanian shippers do not expect a rapid recovery in the European market in beech lumber. An increasing number of Romanian beech exporters have switched from sales of rough sawn

lumber in favour of wood components for the furniture and interior joinery sector. However beech component sales have also been slow this year due to underlying weakness in the European furniture sector.

### Oak outperforms beech

The market for European oak continues to outperform the market for beech. Oak remains a fashionable species in Europe. There are reports of solid demand for European oak from the flooring sector. Also French exports of sawn oak during 2003 have been better than last year with some new markets emerging. For example China has started to buy more significant volumes of French sawn oak this year.

However competition in the European oak market has been increasing. The number of suppliers in Eastern Europe offering oak to buyers in the EU has risen sharply. This is associated with the recent growth in investment in wood industries in several countries including Poland, the Czech Republic, Romania and the former Yugoslavia. In an effort to bolster sales and broaden markets, traditional suppliers in France and Germany now also offer square edged boards. These suppliers previously only supplied waney edged boards. European buyers are now offered a wider range of European oak lumber products from a wider range of sources. Rising competition in the European sawn oak market, combined with generally sluggish end-using markets in western Europe, have contributed to slight weakness in French oak lumber prices over the summer months. CEEB's price index suggests that prices for oak boules, after remaining stable between July 2002 and April 2003, fell marginally between April 2003 and July 2003. However prices for higher grades of edged sawn oak have continued stable.

### Eastern European lumber

Romanian saw mills report that demand for sawn oak has been firm both on export and domestic markets. Much Romanian sawn oak is now supplied to China and Italy. There has been good demand for Romanian oak from the flooring sector in Central Europe. Romanian oak supplies are fairly restricted and prices have been rising in response to good demand. Due to a continuing shortage of kilning capacity, prices for Romanian kiln dried oak have been particularly firm.

The weakness of the zloty against the euro and a fall in oak log prices has improved the competitive position of Polish mills this year. Polish producers report good demand for oak sawn lumber from the Western European flooring sector, but slow demand from the furniture components sector.



### **African log prices stable**

Overall log production levels in Africa are very low, hindered both by monsoon weather north of the equator and by political events. Low production is matched by sluggish demand at this time of year, particularly due to the vacation period in Europe. Log prices remain stable. **Page 2-3**

### **Division in African sawn market**

There is clear division in the African sawn lumber market, between entandrophragmas (sapele, sipo, utile) and other species. Demand for the former is currently weak and prices have been slipping. Few analysts expect market conditions to improve for the entandrophragmas before the end of the year. In response, many African mills have switched production to species for which there is better demand, including iroko, ayous, tali and azobe. **Page 3**

### **Asian log market variable**

The main logging season in the Far East runs from end March through to November. Overall logging levels this year are down on previous years due to increased government regulation, efforts to eradicate illegal logging, and constraints on forest resources. Price trends vary widely by species. Restricted supply combined with solid demand from several countries – including India and China – has ensured firm prices for logs of heavy species such as kapur, keruing and selangan batu. But there are reports of weakening prices for Sarawak meranti logs in response to slowing demand, notably from the Japanese plywood sector. **Page 4-5**

### **Chinese log market buoyant**

There are signs that the Chinese market for tropical hardwood logs has remained buoyant this year, despite economic problems associated with the SARS virus and declining export sales. While the rate of growth of China's overall log imports has been less dramatic than the previous year, there has been a strong shift in emphasis during 2003 towards increased imports of tropical hardwood logs. **Page 5**

### **Indonesian plywood prices weak**

Many analysts expect current efforts to crackdown on illegal logging in Indonesia to reduce the overall level of logs available to mills in the future. But these predictions have been made before while Indonesian mills have continued to churn out significant volumes of plywood at very low prices. Prices today are still being quoted to European buyers INDO96 less 26/27, perhaps even lower for larger orders. **Page 5**

### **Mixed fortunes for Malaysian sawn**

European forward demand for Malaysian sawn lumber has remained sluggish over the summer, a trend only partly due to the usual seasonal slowdown. Economic uncertainty has meant that European importers have been reluctant to buy forward. Malaysian shippers have significantly reduced production volumes for the European market this year, contributing to reasonably stable FOB prices. However rising freight rates have led to increased CIF prices in Europe. Prospects for Malaysian sawn lumber in Japan have improved slightly this year due to new building regulations introduced in July requiring use of products with low formaldehyde emissions. This has tended to favour solid tropical lumber over panel products. However, in China there are indications that importers have made a significant switch away from Malaysian sawn lumber in favour of logs. **Pages 5-6**

### **Supply side concerns in the U.S.**

As the trickle of good news about the U.S. economy has continued, domestic sales of American hardwood lumber have remained robust. Although the furniture sector continues to come under intense pressure from overseas competitors, the housing sector is strong. This has fed through into good demand for flooring and cabinets. Manufacturers efforts to cut-costs have led to generally stronger demand for lower grades than for higher grades. However, the main concerns in United States are on the supply side rather than the demand side. Poor weather earlier in the year has contributed to tight supplies all round. **Pages 7-8**

### **Slow American hardwood exports**

US exports of hardwood - including logs, lumber and veneer - have continued to decline this year. During the first half of 2003, exports fell to all the major export markets, with the significant exceptions of Canada and Mexico. This decline occurred despite the relative weakness of the U.S. dollar on foreign exchange markets. It reflects various factors including: economic weakness in Europe; SARS related economic problems in China and other parts of South East Asia; rising competition, notably from European hardwoods; cost-cutting efforts by manufacturers in all areas, which has led to discrimination against higher value solid hardwoods; and the combined impact of U.S. supply constraints and rising domestic demand which has kept U.S. hardwood prices relatively high. **Pages 7-9**

### **Beech market remains subdued**

The Western European beech log market is expected to be subdued during the winter logging season. The low beech log harvest in western Europe last year has meant that most saw and veneer mills have only limited log stocks at present. But the continuing weakness of the European beech lumber and veneer market suggest that overall log sales are unlikely to be spectacular. And most analysts do not expect a significant upturn in Chinese beech demand during the second half of this year. The market for European oak continues to outperform the market for beech. However increased investment in processing capacity in Eastern Europe has meant that competition in this sector has been rising. European oak producers are looking for new market outlets. For example, European oak exports to China are now rising. **Page 10**

### **Forest certification falls short**

World area of certified forest has expanded seven-fold in less than four years, from around 20 million hectares at the start of 2000 to 150 million hectares today. Yet only a tiny proportion of wood from certified forests is marketed as labelled product. What is going on? **Pages 1 & 9**