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Malaysia's mixed fortunes

Malaysia saw a significant decline in the volume of primary wood products during the first nine months of 1998. Sabah and Sarawak, which rely to a greater extent on failing Asian markets, were hit more heavily than Peninsular Malaysia. Log and sawn exports were hit particularly hard, down 16.7% and 13.9% respectively between January and September compared with the same period in 1997. However, due to firm demand particularly from China at the end of the year, log exports increased in the last quarter of 1998.

The decline in exports of primary wood products was also partly compensated by Malaysia's efforts to promote manufactured products, notably MDF and furniture. The figures will provide some comfort to the Malaysian government who, through their Second Industrial Master Plan (1996-2000), are promoting the further development of wood based industries. However the increase in exports, measured in ringgit, should not be overplayed since the Malaysian currency devalued appreciably between 1997 and 1998. This means the dollar value of exported furniture will not have increased to the same extent. Between January and September 1998, Malaysia exported furniture to the value

MALAYSIAN FURNITURE EXPORTS JANUARY TO SEPTEMBER 1998		
	Value M\$ Million	% Chg 97-98
USA	937.2	42.4
Singapore	198.1	12.7
United Kingdom	142.8	107.7
Australia	120.6	56.4
UAE	64.7	108.1
Canada	62.9	65.8
Taiwan	50.4	23.0
Others	748.1	-
World	2324.8	34.6

Source: Malaysian Timber Industry Board

of 2,324 million ringgit, a 34% increase over the same period the previous year. Furniture exports go primarily to North America and Europe and have therefore been less affected by the Asian economic crises.

MDF capacity in Malaysia is increasing with the development of a US\$1 billion MDF mill in Peninsular Malaysia through a Chinese joint venture. Sarawak has announced that it will build its first MDF mill through a joint venture linking the Sarawak Timber Development Corporation with Japanese and local investors.

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MALAYSIAN FOREST PRODUCTS EXPORTS JANUARY TO SEPTEMBER 1998 000s m3								
	Pen. Malaysia		Sabah		Sarawak		All Malaysia	
	Vol.	% Chg 97-98	Vol.	% Chg 97-98	Vol.	% Chg 97-98	Vol.	% Chg 97-98
Logs	-	-	294	46.7	3,682	-19.5	3,976	-16.7
Sawn timber	589	-16	563	-16	831	-10.7	1,984	-13.9
Plywood	181	-19.4	937	-18.5	1,574	19.3	2,692	-0.5
Veneer	3	121	113	-17.5	395	-10.5	511	-11.9
Mouldings	140	-11	158	-24.5	n.a	n.a	n.a	n.a
Dressed timber	85	0.3	n.a	n.a	n.a	n.a	85	0.3
Chipboard/MDF	695	n.a	-	-	-	-	695	n.a
Total	1,693	0.5	2,065	-13.1	6,482	-10.8	9,943	7

Source: Malaysian Timber Industry Board

Shrinking Japan

Import data for 1998 provides graphic confirmation of the collapse of Japanese markets for forest products. All products and most countries of supply have been affected. Japan's major Southeast log suppliers, Sarawak and PNG, saw a substantial fall in log exports to Japan. Sabah's log exports to Japan actually increased, but this does not reflect a positive development in trade. Due to weak demand for plywood in the Far East, Sabah has been forced to export a much higher proportion of its logs. Exports of logs from Africa have been hit particularly hard by Japan's weak market, falling by 77%. Plywood imports, which are dominated by Indonesian and Malaysian supplies, are also down by 27.3%. Problems of tight supply, shipping and political difficulties meant that Indonesian plywood suppliers lost market share.

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STATISTICS IN THIS ISSUE	
<u>U.K. IMPORTS</u>	
logs, sawn, plywood, veneers	
sleepers, blockboard	
Outside E.C.	December & Year 1998, 1997
Intra E.C.	December & Year 1998, 1997
<u>MALAYSIA EXPORTS</u>	
forest products & furniture	January to September 1998
<u>PENINSULAR MALAYSIA EXPORTS</u>	
sawn	Year 1998
<u>SABAH EXPORTS</u>	
logs	Year 1998
sawn, veneers, plywood	January to September 1998
<u>SARAWAK EXPORTS</u>	
Logs, sawn, veneers, plywood	January to September 1998
<u>JAPAN IMPORTS</u>	
selected products	Year 1998
<u>CHINA</u>	
logs and converted timber	Year 1998

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Japan - Continued**Housing Starts**

Housing starts are a strong indicator of economic performance and likely wood consumption in Japan. According to Japan's Ministry of Construction, every drop in housing starts of 100,000 units results in a loss of 1.6 trillion yen for the housing industry, a 3.3 trillion yen drop in production of housing related

JAPAN IMPORTS OF SELECTED PRODUCTS YEAR 1998		
	Volume 000 m3	% Chg 97-98
SE Asian Logs	3190	-39.0
o.w Sarawak	1975	-30.0
PNG	876	-55.4
Sabah	129	125.0
African Logs	152	-77.0
N. American Logs	4668	-16.9
Russian Logs	4491	-22.0
N. American Lumber	4033	-35.0
Plywood	3872	-27.3
o.w Indonesia	2327	-27.8
Malaysia	1220	-21.3

Source: Pacific Rim Market Report, ITTO

industries, and a loss of 230,000 jobs. Furthermore, a Bank of Japan study reports that each new home bought a Japanese family results in purchases of durable household goods and services within the first year of occupancy valued at about 2 million yen per household. Housing starts in Japan are currently at cripplingly low levels. February housing starts were 86,581 units, representing a 9.4% decline

from the same month a year ago. This is the 26th straight month of decline.

Government measures

More recently, there are indications that a turnaround in housing starts may be on its way following a number of far-reaching government measures to stimulate demand. These include: i) major tax deductions on the payment of mortgage interest. A bill launching this measure is being considered during the current session of the Japanese Parliament.

ii) state subsidised long term mortgage loans through the Government Housing Loan Corporation, currently at 2.2%. In the longer term, these will be restrained in the range 2.4-2.5%. The introduction of these loans led to a considerable increase in GHLC applications for new home loans at the end of December.

iii) a range of government infrastructure programmes providing direct state support for construction. For example the Strategic Living Floor Space Doubling Program, funded from the state's central budget, aims to maximise public and private sector housing investment to increase living floor space from existing levels of 30 square meters to an average of 40 square meters.

Most analysts believe that these measures will stimulate growth in housing starts and forest products imports during 1999. However growth will not be spectacular. The Forestry Agency projects a slight recovery in housing starts from 1.19 million units in 1998 to 1.261 million units in 1999. Demand for forest products in 1999 is projected to be 4.2% more than 1998, with lumber consumption up by 10.3%, and plywood consumption increasing by 8.1%.

Brazilian bounce

Brazil's economy is recovering after the currency crises that began in January this year, but the country still needs to push through major economic and structural reform. There has been a

turn around in the country's currency market. In early March the *real* was trading at R\$2.20 to the US dollar, a devaluation of 45%, and Brazilians feared that the country would soon be hit by run away inflation. However, one month later the *real* has recovered to R\$1.70 to the US\$ while fears of inflation have subsided and domestic shares have risen sharply. Some economists now believe that the *real* is so strong it will deter exports.

The immediate reason for the turn-around has been an inflow of short term foreign capital attracted by Brazil's high interest rates. Underlying the inflow of foreign capital is investor confidence that Brazil's underlying economic position is relatively strong. Unlike the Asian economies during last year's crises, where a collapse in the banking sector led to a deepening depression, Brazil has a robust banking sector. Also, unlike Asia, there was no excessive corporate borrowing or real estate boom in the run up to the Brazilian financial crises. In Asia bank loans were valued at up to 80% of GDP in some countries, compared with only 20% in Brazil. Brazilian companies' long experience of boom and bust has taught them the value of conservative financing. But perhaps the most important factor explaining Brazil's recovery has been the government's achievement in keeping inflation down. High interest rates have served to squeeze demand and prevent suppliers raising prices.

In the longer term, low interest rates are clearly critical to reduce the debt burden and ensure a return to growth in Brazil. This in turn requires long term solutions to the country's high budget and current account deficits. The government appears to be making progress in this direction. It has forced through a series of tax increases and spending cuts and implementing reforms to ensure better control of future finances. These reforms include a shake up of the country's tax system; an overhaul of political parties; new cuts in pensions; and a law to introduce fines for officials that overspend beyond their budget. Nevertheless, keeping a tight control on spending will remain a challenge throughout 1999 in the face of political pressure during a severe recession.

Source: London Financial Times

PNG renews log monitoring contract

In a move designed to deter fraud in the timber sector, Papua New Guinea's government has agreed to renew their contract with SGS allowing the swiss-based company to continue monitoring log exports. The new contract will run until December 1999. The decision overturns an earlier decision by the National Forest Board not to renew when existing government funding for the contract ended in March 1999.

The National Forest Board's change of heart came after National Forest Authority (NFA) officials warned that termination of the SGS contract, following on the heels of the recent lowering of tax rates on log exports, would serve to encourage malpractice in the industry. To pay for the SGS monitoring service, expected to cost US\$1.5 million in 1999, the Ministry for Forests is imposing a fixed levy of around US\$1 per cubic meter on all logs exported from PNG.

SGS was initially contracted in late 1994 by the PNG government to provide inspection, testing and verification of log exports and species declaration following claims of massive under

pricing and malpractices by logging operators. According to a report in the PNG Independent *"the monitoring activities of SGS made an immediate impact on the industry, and confirmed that malpractices in the export logging industry had been rampant. Over the years this has changed and the company now finds what it calls "errors and omissions" by operators rather than under-pricing of logs and misdeclarations"*. The contract has cost US\$6.7 million over the past 4 years, with US\$4 million donated by the European Union.

SGS claim that their monitoring activities have generated US\$15 million foreign exchange earnings, which otherwise would have been lost. In an interview with the the PNG Independent, the SGS general manager said that NFA were in no position to take over the SGS operation. SGS employ 80 staff and have extended monitoring and reporting equipment. NFA forestry officials claim that the US\$7.6 million provided for their activities during 1999 is barely sufficient to maintain monitoring of existing forestry operations.

US veneer merger

The US two largest hardwood veneer producers' associations have merged. The newly formed HPVA unites the Fine Hardwood Veneer Association and the Hardwood Plywood and Veneer Association. The new association has around 200 members and accounts for 95% of US veneer production and 90% of hardwood board production Source EUWID.

INDICATIVE PRICES

Latest indicative prices available at time when preparing this report. All prices include agent's commission. Prices are subject to continuous variation and may vary in relation to volumes purchased, specification, port of shipment and quality of a particular shippers production. Specifications are given as a guide - in practice the details vary.

Logs

	Feb	Mar	Apr
Ex Cameroon Fr.F/m3 FOB Douala LM			
N°GOLLON			
70cm+20% 60/69	1350	1400	1400
BOSSE 60cm+	1550	1550	1550
AYOUS 70cm+	1000	1000	1000
BIBOLO 60cm+	1375	1350	1350
SAPELE			
80cm+20% 70/79	1650	1650	1650
SIPO			
80cm+20% 70/79	1900	1900	1900
IROKO			
80cm+20% 70/79	1650	1650	1650
Ex Gabon Fr.F/m3 FOB Owendo LM			
ACAJOU			
70cm+20% 60/69	1175	1200	1200
DIBETOU 60cm+	1175	1175	1175
DOUKA			
70cm+15% 60/69	1150	1100	1100
SIPO			
70-79cm10%/60/69	1700	1700	1700
80-99cm	1900	1900	1900
Ex Ghana DM/m3 FOB Takoradi			
FAS (includes notional agent's commission of 5%)			
6"+ avg 9" C/£	3805	3914	3932
6' + avg 9' DM/£	2.85	2.95	2.98
A.MAHOGANY AD	740	740	740
A.MAHOGANY KD	895	895	895
EMERI AD	760	760	760
UTILE KD	1150	1150	1150
ODUM AD	950	950	925
ODUM KD	1110	1110	1085
SAPELE KD	900	900	900
EDINAM AD	590	590	590
EDINAM KD	770	770	770
WALNUT AD	705	705	705
NIANGON AD	895	895	895
DANTA AD	680	680	680
DANTA KD	945	945	945
WAWA AD	430	430	430
WAWA KD	500	500	500
MAKORE AD	790	790	790
MAKORE KD	960	960	960
Ex Cameroon Fr.F/m3 FOB			
FAS width 6"+, length 6'+			
SAPELE	2600	2600	2600
SIPO	3680	3700	3700
BIBILO	2750	2700	2700
N°GOLLON	3200	3200	3200
AFRORMOSIA	3650	3800	3800
IROKO	3300	3300	3275
Ex Gabon FR.F/m3 FOB			
FAS width 6"+, length 6'+			
OKOUME AD	1900	1950	1950
Ex Zaire Fr.F/m3 FOB			
FAS width 6"+, length 6'+			
SAPELE	2550	2550	2550
SIPO	3500	3500	3500
MAHOGANY	2950	2950	2950
AFRORMOSIA	3550	3700	3700
IROKO	3200	3200	3200
Ex Cote d'Ivoire Fr.F/m3			
Fr.F/£	9.53	9.91	9.98
FOB Abidjan FAS			
6"+ avg 9"-10"			
6'+ avg 10'-11'			
1"-2"			
IROKO	3275	3275	3250
SIPO	3550	3550	3550
MAHOGANY	2650	2650	2650
FRAMIRE	2000	2000	2000
SAMBA No.1 C&S	1525	1525	1525
AZOBE dim. stock	2100/	2100/	2100/
	2700	2700	2700
OPEPE dim. stock	1850/	1850/	1850/
	2450	2450	2450
Ex Malaysia US\$/ton, C&F UK port			
M\$/£	6.09	6.15	6.12
US/£	1.60	1.62	1.61
M\$/US\$	3.80	3.80	3.80
(Rates given for M\$ are official rates)			
DARK RED MERANTI (KILN DRIED)			
Select & better GMS			
width 6"+ avg 7"/8"			
length 8'+ avg 12'/14'			
1-2" KD	770	795	810
2.5" KD	795	810	840
3" KD	825	850	870
KERUING			
Standard & Better GMS			
1"-3"			
width: random or fixed			
length 16'+	490	495	505
KAPUR			
Standard & Better GMS			
1"-3" plnd			
width 6"+ avg 7"-8"			
length 16'+	500	500	510
TEAK (Official price list basis)			
FEQ/equivalent			
Boards: 6"+ avg 8", 6'+ avg 8'			
Shorts: 6"+, 3'/5.5' avg 4'			
Ex. Burma US\$ per ton of 50cu.ft.			
FOB Yangon (Rangoon)			
Boards 1" 8"x 8'	3890	3890	3890
Boards 1" 8"x 8'	2670	2670	2670
Teak from Singapore and Hong Kong nearer S\$3500 for 1" Boards, 1.5" US\$3550, 2" 3750, and US\$3850 for 2.5".			
Ex Brazil US\$/m3 C&F			
FAS US\$/£	1.60	1.62	1.61
6"+ avg 9-10"			
6'+ avg 10-11'			
MAHOGANY (Swietenia)			
1"-2" AD	1100	1100	1120
2.5"-3" AD	1120	1120	1140
1"-2" KD	1190	1190	1210
2.5"-3" KD	1210	1210	1230
VIROLA			
1" KD No.1 C&B			
boards	400	400	400
strips	370	370	370
CEDRO			
1"-1.5" KD	720	720	720
2" KD	720	720	720
2.5"-3" KD	750	750	750

Hardwood Markets

Highlights

- Shortages in the Far East
- Signs of emerging Asian demand
- Brazilian export figures
- Sapele market on the turn
- Congo ban lifted
- Strong dollar pressurises US hardwoods

Asian Hardwoods

Throughout much of the Far East the weather is still hampering logging and stocks are reported to be critically low. Supplies are difficult to come by. Prices for DRM are now rapidly closing with those of Sapele, raising the prospect of European buyers returning to the African redwood. Agents are reporting very little DRM or Seraya available to UK buyers on a forward basis.

In Peninsular Malaysia, some mills have limited volumes of wood available but are unwilling to open contracts with UK buyers. They are able to obtain better prices by supplying DRM 7" and wider to the German market. Agents are speculating that the first available shipments in two months time may be at prices as high as US\$900/ton for 2" kiln dried DRM from Peninsular Malaysia. However, while prices are clearly firming rapidly, price estimates are very uncertain in the current environment. Log prices to the West Malaysian mills are rising every two to three days. Shippers are unwilling to quote until logs have actually been delivered to the mills and they are sure of the price.

In both Sarawak and Sabah supplies are reported to be extremely tight due to poor weather conditions. In Sabah, these problems are compounded by continuing delays in logging due to the Forestry Department's efforts to introduce a new felling system. Since January, Sabah has allowed the import of logs, particularly from Indonesia, in an effort to alleviate supply problems. Import volumes have been negligible however due to political instability and poor weather conditions in neighbouring Kalimantan. Sabah mills are also having difficulty matching current international log prices.

PNG continues to suffer from unstable weather conditions and log production is slow. Log prices are being pushed up to follow Sarawak prices. Tightening supplies have arisen just as demand is beginning to show signs of improvement in the Far East. Low stocks and measures to stimulate housing are expected to boost demand in Japan. China is still buying. Thailand is set to implement a large fiscal stimulus package and is predicting a return to (slow) economic growth in 1999. Korea's construction sector is still painfully slow, but economic fundamentals are improving.

Complaints from Indonesia's wood processing industries about the scarcity of logs in domestic markets continue. However the Indonesian Ministry of Industry and Trade has ruled out

HARDWOOD MARKETS *Cont.*

any imminent plans to reimpose restrictions on log exports. During the 1998/99 fiscal year which ended 31 March, the Indonesian government granted licenses to allow the export of 862,000 m3 of logs. However ITTO's *Market News Service* reports that exports during the first 10 months of the fiscal year were only 115,000 m3, 13 % of the total export quota.

The World Bank has stressed that Indonesia will not see much recovery in confidence or economic activity ahead of the country's elections in June. The World Bank also notes that, while the elections are essential to the future of the crises-hit country, they will be no panacea. International currency markets will probably take several months after the elections to assess their implications for political stability and economic recovery.

South American Hardwoods

The mahogany and cedar season in South America, which runs from August to March, has come to a close and no new supplies will emerge for 4 months. The rainy season is at its height. Of species typically exported to the UK, only the swamp wood virola is available.

Between July and December 1999, total mahogany exports from Brazil amounted to around 30,000 m3 including 13,000 m3 from the State of Para (Belem); 12,000 m3 from Parana; 2,000 m3 from Mato Grosso; 2,000 m3 from Sao Paulo; and 1,000 m3 from Rondonia. UK customs data indicates that total UK imports of Brazilian sawnwood of all species during 1998 amounted to slightly less than 13,000m3. Agents estimates of mahogany imports into the UK during the year vary from around 4500 m3 up to 8000 m3. Either way, volumes are a shadow of their former self. Exports during 1999 are forecast to be even lower, with one agent predicting mahogany imports as low as 3000 m3. Other than mahogany, during 1998 the UK imported around equal volumes of Virola and Cedar with smaller volumes of "other species".

According to ITTO's *Market News Service*, Brazilian exporters are reporting that demand for sawn timber on the international market is at last improving. Asian buyers are showing greater interest, with a growing level of requests for price quotations, spurred on by continuing tight supplies in the major Asian producing regions and the first glimmerings of an improvement in underlying demand. Nevertheless volumes traded remain low. Supplies of all species, including Lesser Known Species typically bought by Asian importers, remain low. So far the Philippines and Thailand are reported to be involved in the trade, while Korea has not yet participated.

Expectations that Brazil's currency devaluation in January would lead to a fall in price levels on international markets have not been realised. Gains made from the cheaper real have been off-set by rising production costs, increased shipping costs and exporters desire to remain competitive in relation to other producing

countries.

Internally, Brazil's timber industry is going through an uncertain period. At one point last month, IBAMA suspended all permits for transport of forest products which meant that no logs could be delivered to the mills. No explanation for the move was forthcoming and many mills began running out of logs. The move was rescinded less than a week later following a meeting between IBAMA and the private sector who stressed the disastrous economic consequences of the move.

The *real's* rollercoaster ride - devaluation in January, recovery in March - has led to price distortions and contributed to uncertainty within Brazil's domestic market. Devaluation led to significant increases in *real* prices for logs and sawnwood on the domestic market, although the overall result was a price reduction in dollar terms.

More recently, ITTO's *Market News Service* reports that Brazil's crippled domestic market for timber products improved during early April.

African Hardwoods

Prices for Sapele continue to bump along bottom, but agents are reporting signs that the market is on the turn. As prices for DRM and Seraya from the Far East have firmed, Sapele is now more competitively placed and should start to benefit from Asia's problems of tightening supply. One agent notes that Dutch buyers have come back into the market for Sapele for the first time in two years. Spanish importers are buying Sapele but, as ever, are keen on price and generally unwilling to accept increases. There are reports of firm demand for Sapele from Portugal. Sapele inventories in the UK are high and demand in the forward market remains relatively slow.

Other African redwoods are now less fashionable and are not price competitive with Sapele, although one agent suggests there is still a small market in the UK for utile.

Suppliers in the Ivory Coast have questioned last month's report in *Tropical Timbers* that the country is planning to ban the export of air dried lumber later in the year. No official announcement to this effect has been made in the Ivory Coast. *Tropical Timbers* will continue to monitor the situation.

Many iroko producers have come to rely heavily on the Irish market. For some time big trading companies have been landing unsold stocks of the species into Ireland. Until recently demand was sufficiently firm for these to be shifted easily. However, during March a number of long awaited shipments arrived simultaneously which led to short-term market saturation. Some importers chose to sell at a loss rather than leave material waiting on the quay. However, by the end of April reports were emerging that iroko stocks in Ireland were not as high as many had believed. One agent suggests that much of the import has been soaked up by one major customer not dealing with the rest of the trade. Importers in Ireland are now more concerned about shortages, although some are still trying

USA TEMPERATE HARDWOODS
INDICATIVE PRICES
(North Appalachian)
US\$ CIF UK MBM KD square edged
net measure after kilning

	Feb	Mar	Apr
\$/£	1.60	1.62	1.61
RED OAK			
1"	1770	1770	1750
1.25"	1875	1875	1855
1.5"	1980	1980	1960
2"	2325	2325	2305
WHITE OAK			
1"	1600	1500	1580
1.25"	1700	1650	1680
1.5"	2085	2050	2065
2"	2605	2550	2580
ASH			
1"	1175	1150	1200
2"	1500	1475	1525
TULIPWOOD			
1"	1080	1050	1050
1.25"	1105	1085	1085
1.5"	1160	1130	1130
2"	1190	1160	1160
CHERRY			
1"	3100	3050	3130
1.25"	3155	3155	3160
1.5"	3285	3285	3300
2"	3490	3490	3500
HARD MAPLE			
1"	2210	2150	2150
1.25"	2285	2285	2285
1.5"	2425	2425	2425
2"	2635	2635	2635

to talk prices down.

Demand for wawa is beginning to pick up after a long period of stagnation. Middle Eastern and South African buyers are showing greater interest in the species.

Exports from Ghana during 1999 are showing an improvement over last years levels. ITTO's *Market News Service* notes that Ghana earned US\$15.48 million from the export of 39,361 m3 of timber and wood products in March 1999, which is a 7.5% increase in value and an 11% increase in volume over the same month last year. Both value and volume of exports have increased by around 11% for the January to March period compared to last year.

Congo (Brazzaville) is once again suffering from internal conflict which will tend to disrupt supplies from the central Africa region.

The Government of the Democratic Republic of the Congo (formerly Zaire) lifted its three-month ban on wood exports in mid April. The government also announced the establishment of a commission comprising representatives from interested ministries and the wood industry to work out reform of the country's wood sector.

US Hardwoods

US domestic markets are very busy, with the pace of enquiries and orders picking up since the beginning of the year. *Hardwood Review Export* reported in mid April that distribution yards in most areas are busy. However competition is tough as there is a lot of lumber available for sale which is keeping prices on

HARDWOOD MARKETS *Cont.*

the domestic market level. The furniture show at High Point is reported to have been a success. US export markets present a contrast, as prices for US products have been hit by intense competition and continuing slow demand in many countries. European exports of beech logs to China are competing directly with US exports. East European countries are shifting increasing volumes to Germany, Italy and Spain, leading to direct competition with North American white oak. In some cases US producers are able to obtain better prices for hardwood lumber on domestic markets. However US mills that have developed links in export markets are not in a position to jump in and out at will and remain committed to overseas customers.

Two major issues are affecting US exports to Europe. The first is the continuing rise of the US\$ against European currencies which is adding pressure to an already competitive market. The second issue, closely related the first, is increasing competition from European hardwoods. This is becoming more pronounced as the Euro protects euro-zone importers against currency risk, while quality and efficiency continue to improve in Eastern Europe.

However, more positive for US hardwood producers is the view expressed by *AHEC* that "nowhere in Europe are American hardwood stocks reported to be too high, while importers in most markets are reasonably active". *AHEC* also note that one short-term impact of the strengthening US dollar is that it has allowed importers to re-value their stocks, providing an opportunity for some importers to sell wood bought at the top of the market.

US hardwood shipments to the UK, where interest rates are higher and the currency firmer, are steady but unspectacular.

White oak demand in Spain and Portugal is good and volumes continue steady. However sales of White oak in Germany are coming under pressure from European oak. Germany is also suffering from economic difficulties and the weakness of the euro.

European markets for both Cherry and Hard maple remain bullish and prices are firm. Hard Maple supplies are tight, particularly for the thicker sizes.

There are some reports that market for Ash both domestically in the US and in export markets is at last beginning to firm. Demand for ash in Japan is also showing signs of life.

US hardwood shipments to Asia are improving, but prices offered are low. China is buying Red oak, White oak and Hard Maple. Japanese markets for US hardwoods, other than Ash, remain sluggish.

US White oak dimension producers are reported to have large export file orders.

UK and European Markets

In the UK, reports of intense competition continue. Most agents, with some notable exceptions, are pessimistic. Business is erratic and margins within both the agent and importer sector are tight. There are simply too many sellers chasing too few buyers. Agents are increasingly seeking to diversify business into markets outside the UK. Importers continue to

Movement in plywood markets**Plywood supplies are tight due to difficulties of log supply in many areas.**

While the weather has improved in the Far East, political developments now constrain logging. Indonesia's approaching elections on 4 June are likely to be particularly disruptive. Many Chinese mill owners, a major target of rioting mobs during past periods of political unrest, are making plans to leave Indonesia in the run-up to the elections. This is likely to lead to a slow down in Indonesian production during June and July. At present the Indonesian industry is operating at only 60% of its capacity. Against the background of continuing tight supply, Indonesian producers are being particularly bullish over pricing. Prices are now being quoted at between INDO96 less 6 to 10 for Indonesian BB/CC grade.

Log supplies in East Malaysia also remain tight, with one major Sabah producer noting they are unable to quote prices due to lack of supply. Reasons cited include the continuing efforts of the Sabah Forestry Department to implement a new system of felling coups and Sabah mills' inability to pay prices now asked on international log markets.

Log prices in the Far East are firming rapidly in response to continuing log demand from China, and more recently from Japan. Log inquiries from Japanese plywood mills are reported to be active due to declining log inventories.

Brazilian plywood exporters are becoming more active as the country emerges from the rainy season. Brazil's economic problems are creating uncertainty. Following January's devaluation, the *real* has bounced back tending to weaken the relative competitive position of Brazilian exporters. On the other hand, the threat of rapid inflation in Brazil has subsided and the Brazilian government has begun to implement much needed structural reform. Nevertheless a deep and lengthy recession in Brazil seems inevitable this year. With weak domestic markets, Brazilian producers will be particularly keen to develop exports. In a repeat of the shipping problems that afflicted Far Eastern exporters during the Asian financial crises, Brazilian shippers are having difficulty obtaining outgoing container space.

With rising prices and difficulties of supply elsewhere, Ghanaian plywood shippers are reporting an increased level of activity after a lengthy period of very restricted demand. Shippers to the UK note that supplies are now booked up for several months and new orders will not be shipped until July.

Changes on the demand side of the plywood equation are becoming apparent. Demand and

prices for plywood on the UK domestic market are at last beginning to firm up. Importers that have been off-loading stocks at below replacement cost for some time, now indicate that holes are likely to appear in stocks by June and July. UK importers, while still hesitant, are at last following in the footsteps of European importers and showing signs of returning to the forward market. There is also increased acceptance of the new higher prices now on offer.

In the Far East, Japan is buying steadily, but volumes remain low. *ITTO's Market News Service* notes that "currently plywood stocks are extremely low so that the prices could soar when demand picks up." However the long-awaited upturn in demand has so far failed to materialise and Japanese buyers have been slow to accept rising prices.

EUWID reports that 13 Japanese plywood mills shut down for good during 1998, accounting for 400,000 m³ and 30% of the country's capacity.

Korea is buying limited volumes of plywood, but demand is "unspectacular" and has dropped since the end of last year. Korea's overall economic performance is improving this year. Industrial output during January was 15% higher than the previous year, and had risen for three consecutive months. Most of the leading indices have moved upwards since December. Nevertheless most analysts note that the return to growth will be a long hard slog given high unemployment and sluggish domestic consumption.

ITTO's Market News Service notes that Korean unemployment in February hit a rate of 8.7 percent which is the highest level in 33 years with 1.79 million people out of work. Construction has slowed again during 1999 after showing signs of improvement at the end of 1998. Construction permits in January recorded only 576,257 sq.m in the housing sector and 1,292,732 sq.m in non-housing sector which was sharply down again by 45% compared to December of last year and is the lowest recorded in the past several years. The downturn has seriously undermined Korea's log and plywood markets. After increasing operations in December, Korean plywood mills reduced production to 3.5 or 4 days a week during February and March. Log imports also fell substantially from 96,325 m³ in December 98 to 77,256 Cu.m in February 1999.

In China, markets and prices for imported plywood are stable, having quietened down after a busy opening to 1998. High production costs in China have meant that imported plywood is more competitive than domestic production.

cut prices to maintain market share. A number of contacts expressed the opinion that the situation can't continue for another 12 months and that "something will have to give". Confidence in the EU economy has suffered from the collapse of the EU Commission, following allegations of widespread corruption

and inefficiency, and the weakness of the German economy which is shrinking at the fastest rate for six years. However, there are also reasons to be optimistic, including an inflation rate that is at its lowest level in recent memory and an interest rate that continues to fall.

MALAYSIA *Continued from page 1*

PENINSULAR MALAYSIA SAWNWOOD EXPORTS YEAR 1998		
000s m3	Volume	% Chg 97-98
Netherlands	175.2	11.8
Singapore	129.2	83.4
Thailand	126.4	52.6
Belgium	66.6	13.1
UAE	60.4	44.4
Japan	39.9	-28
Hong Kong	32.1	256
United Kingdom	30.2	47.1
Germany	27.5	-13.4
Yemen	23.5	169.7
Italy	22.9	53.7
Saudi Arabia	10.3	18.8
Others	84.5	-
World	828.8	-7.2

Source: Malaysian Timber Industry Board

Peninsular Malaysia

Full year figures indicate that Peninsular Malaysia's sawnwood exports declined by 7.2% during 1998. The fall was due to a reduction in imports by major Asian buyers, notably Thailand. However competitive pricing for Malaysian sawnwood led to an increase in imports from Europe and the Middle East. The Netherlands increased its imports by 11.8%. Dutch demand for Peninsular Malaysian sawnwood has continued strong into 1999. Purchases by Belgium and the UK also increased, as importers shifted away from African and South American supplies in favour of more competitively priced Asian species. Germany's imports declined however,

SABAH - LOG EXPORTS YEAR 1998					
000s m3	Red Seraya	Ker- uing	White Seraya	Others	Total
China	24.2	1.0	14.4	113.9	153.4
Japan	31.5	20.3	19.9	60.8	132.5
Korea	3.4	42.5	1.6	6.7	54.1
Taiwan	2.8	0.7	0.6	30.5	34.7
India	-	1.5	-	10.8	12.3
Vietnam	-	-	-	1.6	1.6
P. Malaysia	2.6	-	1.4	4.1	8.0
Total	64.4	66.0	37.8	228.5	396.7

Innoprise Market News Scan

SABAH - SAWNWOOD EXPORTS JANUARY - SEPTEMBER 1998		
000s m3	Volume	% Chg 97-98
Japan	114.2	-36.1
Thailand	71.2	-40.2
Netherlands	62.1	24.8
Philippines	46.1	9.8
Hong Kong	42.5	66.5
Taiwan	37.8	0.2
South Korea	33.4	-64.0
South Africa	25.4	8.1
France	23.8	77.0
United Kingdom	23.4	7.8
Others	83.7	-
Total	563.5	-16.0

Source: Malaysian Timber Industry Board

due primarily to poor economic performance and severe competition. Despite Malaysia's competitive position, Germany continued to import larger volumes from Africa during 1998. Competitive pricing of Peninsular Malaysian sawnwood led to a significant expansion of exports to the Middle East in 1998. This reverses a trend away from Malaysian timbers by Middle Eastern buyers during 1996 and 1997 following stiff competition from other supplying countries. The 44% increase in sawnwood exports to United Arab Emirates is particularly notable.

Sabah

1998 was an extremely difficult year for Sabah's forest products industry. Sabah has a higher degree of dependency than Peninsular Malaysia on volatile Asian markets. Producers saw the price of their products plummet in early 1998. At the same time they were subject to a credit squeeze, higher interest rates and increased production costs. The structure of the industry is having to adjust to tightening log supplies and changes in government regulations towards forests and the timber trade.

Sabah undertook a major reform of the forest royalties system during April 1998. Royalties payable at point of export were replaced by a system requiring payment at point of harvest with the aim of increasing the domestic price of logs and encouraging more efficient log utilisation. This measure, combined with the government's decision in November 1996 to again allow the export of logs, meant that many domestic mills could not match international log prices and were starved of supplies. Many mills were forced to close during 1998. To some extent this "rationalisation" was overdue. At the beginning of the year, Sabah had installed capacity of around 12 million m3 per annum while the state's forests are capable of supplying only around 6 million m3.

While domestic mills suffered severe log shortages, a growing proportion of Sabah's log production went to overseas buyers, notably in China and Japan. Sabah's export trade in logs accelerated rapidly throughout 1998. Between January and June, Sabah exported an average of 10,000 m3 of logs per month. However, in the last quarter of the year, an average 77,000 m3 of logs were exported each month.

Sabah's sawnwood and plywood exports declined during 1998 as markets in the Far East weakened. However due to more competitive pricing, a number of European countries, notably the Netherlands and France, increased their purchases of Sabah sawnwood. Although still not a major buyer, the UK significantly increased its purchase of plywood from Sabah. This reflects the unreliability of Indonesian supply during 1998.

Sarawak

Sarawak's earnings from forest products exports were badly hit last year, falling from US\$1.59 billion in 1997 to only 1.32 billion in 1998. Log production was only 11.3 million m3 against a target production of 16.5 million m3 and 1997 levels of 16.8 million m3. The most recently available export data reveals the continuing heavy dependence of Sarawak on log exports

to Asian buyers. During the first nine months of 1998, Sarawak exported 3.7 million m3 of logs, 19% down on the same period in 1997. Major buyers were Japan, Taiwan and India. Sarawak's plywood exports increased significantly during the first nine months of 1998, despite weakening Asian markets. Market penetration into Hong Kong, China and the US increased appreciably. Plywood exporters in Sarawak benefited from competitive pricing following devaluation of the ringgit. Sarawak also proved a more reliable source of plywood than trouble-prone Indonesia. Sarawak exported 151,000 m3 of veneers to China during the first nine months of 1998, 17% up on 1997.

SABAH- PLYWOOD EXPORTS JANUARY - SEPTEMBER 1998		
	Volume	% Chg 97-98
Hong Kong	230	37.3
China	219	-17.6
Japan	203	-27.5
Taiwan	85	-9.9
United States	39	-34.6
United Kingdom	29	258.4
Others	56	-
Total	861	-15.4

Source: Malaysian Timber Industry Board

SARAWAK LOGS AND SAWN EXPORTS JANUARY - SEPTEMBER 1998				
000s m3	LOGS		SAWN	
	Vol.	% Chg 97-98	Vol.	% Chg 97-98
China	387.7	47.4	55.1	68.6
Hong Kong	258.6	-21.8	29.6	-20.2
India	552.4	10.4	-	-
Italy	-	-	13.1	-4.8
Japan	1551	-25.3	32.9	-44.8
North Yemen	-	-	54	130.7
Philippines	1	-97.9	115.4	-11.7
Saudi Arabia	-	-	14.5	-13.5
Singapore	1.5	-0.2	93.2	-19.9
South Africa	-	-	22.2	62
South Korea	115.6	-59.4	36.3	-49
Taiwan	720.8	-15.5	167	63.9
Thailand	71.9	-61.1	96.2	-58.7
UAE	0.5	-91	24.4	38
Others	20.9	-	101.7	-
Total	3681.9	-19.5	831.2	-10.7

Source: Malaysian Timber Industry Board

SARAWAK PLYWOOD AND VENEER EXPORTS JANUARY - SEPTEMBER 1998				
000s m3	PLYWOOD		VENEER	
	Vol.	% Chg 97-98	Vol.	% Chg 97-98
China	128.5	20.8	151.7	16.7
Hong Kong	287	183.9	46.3	-7.4
Japan	654.5	-9.6	32.4	-11.9
Philippines	-	-	39.6	-42.4
Singapore	55.4	-36.2	-	-
South Korea	21.1	-76.5	25.2	-54.4
Taiwan	57.3	128.8	91.9	-4.4
United Kingdom	69.2	328.8	-	-
USA	194.9	217.4	-	-
Others	106.2	-	7.8	-
Total	1574.1	19.3	394.9	-10.5

Source: Malaysian Timber Industry Board

Cameroon gears up for log ban

Cameroon's processing sector is gearing up in anticipation of the log export ban due to come into force on 30 June 1999.

At the ATIBT Forum in Paris during December 1998, J.C. Carret of CERNA (Centre d'économie industrielle - Ecole des Mines de Paris) provided an overview of the scale and nature of the investments that have taken place in the Cameroon forest sector since January 1994 when the government first proposed the ban.

By the end of 1999, nominal annual capacity for timber processing in Cameroon will be 2.5 million m³ of logs, which is 1.4 million m³ more than in 1994. Cameroon currently produces around 2.9 million cubic metres of logs per year. Between the beginning of 1994 and end of 1998, 30 billion FCFA had been invested in the construction of 28 new factories and the buying up of a further 9 factories. Inward investment into the processing sector has come from three categories of company:

10 foreign, primarily Italian, companies without a traditional presence in Cameroon. Some of these companies had previously settled in the Ivory Coast and are now shifting processing capacity in response to tightening supplies. Cameroon offers extensive forest resources capable of supplying many of the same species as the Ivory Coast. West African species are very popular with Italian flooring manufacturers. Due to the threat of a log export ban, Italian companies have also shifted processing capacity out of Italy into the Cameroon. This move was partly stimulated by devaluation of the FCFA in 1994 which led to a relative reduction in raw material and workforce costs in the Cameroon. To reduce the risks of inward investment into Cameroon, some Italian companies have concluded partnership agreements with other processing and logging firms with an ex-

isting presence in the country. More recently in January 1999, a Chinese firm, Jilin Industry Corp, announced its intention to invest six billion FCFA in four processing units with a total capacity of 600,000 m³.

11 Cameroonian logging companies moving downstream. The threat of a logging ban and reform of forestry taxes has encouraged companies previously involved only in logging operations to invest in processing capacity. Timber concessions are now exclusively granted to companies that have invested in processing capacity. Since 1994 logging companies have been required to process 70% of their logs locally. Failure to comply with this requirement leads to severe tax penalties in the form of a phased surcharge on log exports. These measures have encouraged logging companies to move downstream. There has also been growing disillusionment with the problems of price volatility afflicting the international log trade, particularly following the collapse of Asian markets in 1997. Manufactured product markets, principally in Europe, have tended to be more stable.

10 foreign companies that already had a processing presence in Cameroon including Wijma, Alpi, Torbey, Dreyer, Thanry, and Rougier-Dassi. These companies account for the largest share of inward investment into the sector since 1994. Traditionally, many of these companies have also been involved in log extraction and manage their own concessions. The threat of a log ban and reform of forestry taxes has increased the risks to their traditional investments and lowered the return on the management of forest concessions, encouraging further development of their processing capacity. These companies have also sought to increase margins in the processing sector by raising raw material yields and work productivity.

Pacific shipping scrutinised by US regulators

A report in the Journal of Commerce notes that shipping lines handling US imports from Asia are working together to force through a large rate increase,

despite coming under intense scrutiny from US anti-trust regulators. The Trans-Pacific Stabilisation Agreement (TSA) is a discussion group whose members control over 90% of the cargo shipped between Asia and the US. In early April it agreed to go ahead with rate increases of 40% or more for the contracting year starting May 1. Rate increases of US\$900 per 40 foot container to US West Coast ports, US\$1000 to inland destinations, and an additional US\$300 peak season surcharge are proposed. The increases reflect robust US imports from Asia with vessels operating close to capacity despite the peak season for holiday shipments still being a few months away.

The resolve of every major shipping company to work in lockstep has raised concerns among

US shippers and the Federal Maritime Commission (FMC) over the legal implications for competitive trade. Historically, under US legislation, shipping lines have been immune from anti-trust legislation. This immunity was reconfirmed in the new US Ocean Shipping Reform Act, designed to deregulate the US shipping industry, passed at the end of 1998 and due to come into effect in May.

However, in response to the price rises, the FMC has produced a report suggesting that "competition has been all but eliminated in the east bound trans-Pacific trades". US shipper representatives are now saying they will ask Congress to revisit the ocean reform law.

TSA representatives point out that they only issue voluntary guidelines on price to their members and are unable to enforce rates. Veteran shippers note that carriers are simply taking advantage of a strong market, and when the supply and demand situation changes their cohesiveness will weaken.

Deforestation

The European Commission is running a project to monitor tropical deforestation "hot spots" The aim of the TREES project (Tropical Ecosystem Environment Observations by Satellites), is to provide data to inform the policy debate on tropical deforestation. An international consultation of experts in the field was carried out to produce three continental "hot spot" maps identifying the main deforestation areas. The evidence on which areas were designated is subjective, based on the personal experiences of the participants. However, it provides an insight into areas of high risk and reasons for deforestation. A summary of the results, extracted from European Tropical Forest Research Network News, follows.

Southeast Asia: the situation is described as "worrisome" because current and near future hot spots cover the majority of forest remnants of the continent. The extensive forest resources of NE India are under intensive exploitation for timber and conversion to agriculture. Unsustainable logging affects many parts of Burma and Cambodia. The impact of shifting cultivation on Burma's forest resources is also on the increase. Laos has little forest left in the North and the Southern forest cover is threatened by over-logging. Forest conversion is taking place on a large scale in Central Vietnam and forest fragments in the North are being eroded. The situation in Sumatra is described as "particularly striking"; forests have virtually disappeared under the pressure of agriculture and plantations along a wide central north-south belt. A similar situation is developing in Kalimantan. The report concludes that "No reversal of such trends is likely to emerge in the near future".

Central Africa: deforestation is "limited to a few areas". Deforestation in the Cameroon and Gabon is mainly associated with over-logging and the supply of fuel wood to major urban centres of the region. The Eastern forest areas of Congo (Brazzaville) are "ripe for a major push in deforestation (ie. through logging and conversion to pastures)". However the situation in the Congo Basin is relatively quiet in terms of deforestation. Large scale logging and significant agricultural expansion are not expected to take place in the near future. Any acceleration of swidden agriculture is more likely to take place at the expense of secondary rather than primary forest.

South and Central America: Agricultural expansion and new settlements are the main causes of deforestation on this continent. The South American tropical rain forest is being exploited along a large belt extending from the eastern to the southern portions of the Amazon basin. Large areas of deforestation are also found on the Peruvian and Ecuadorian lower foot hills of the Andes. Inside the Amazon basin, pockets of deforestation are associated with settlements and roads. Deforestation is on the increase in coastal regions of Colombia, Ecuador, and Guyana. In Central America, the forest remnants are highly fragmented and are being progressively reduced.

Keurhout momentum

Sales outlets in Holland for Keurhout certified wood are increasing rapidly.

Keurhout is the Dutch industry and government scheme which markets timber derived from a range of credible national and FSC certification schemes under a single trademark. Members of Keurhout now include around 140 companies and other concerns in the Dutch timber trade and processing sector. Keurhout timber products are available at around 260 sales outlets. Twenty leading timber traders in the Netherlands, including the four largest, have reached an agreement with Keurhout to ensure all their imported timber is eventually hallmarked. Supplies of Keurhout certified wood to Holland have received a major boost following verification of the Swedish supplier, AssiDoman, by an independent Panel of Experts of the Keurhout Foundation. The Panel agreed that AssiDoman's FSC certification also met the requirements for Keurhout labelling. Assidoman is now able to market timber in Holland under both the FSC label and Keurhout Trademark. Assidoman was encouraged to seek Keurhout trademarking by 2 large Dutch importers, Houtgroep Eecen Nederland NV and Stihho, who are keen to satisfy growing demand for the trademark in the Dutch building sector.

Mozambique emerges

In early April, Mozambique's parliament began discussion of a government-introduced bill on forestry and wildlife.

The bill aims to update the country's forestry legislation, much of which dates from the colonial period. According to government sources, Mozambique has 62 million hectares of forest, covering 78% of land area, of which 19 million hectares has 'noteworthy potential for timber exploitation.' The government estimates that the country could produce 500,000 cubic metres of wood per year on a sustainable basis. Mozambique's forests also provide an extensive environmental and wildlife resource. The new bill places great emphasis on 'ecological sustainability,' including tackling problems of deforestation, threats to wildlife, water pollution, and the uncontrolled use of resources. Another key aspect of the bill would be community involvement in resource management. It envisages the creation of Local Councils for Resource Management, including representatives of the state, local communities and private business, tasked with promoting the sustainable use of forests and wildlife. The state may delegate many aspects of management, including reforestation, to local communities. The bill is also concerned with promoting value added production of forest products within Mozambique. Under the bill, no foreign company would be granted a licence to exploit Mozambican forest produce without a guarantee that the produce will be processed on Mozambican soil.

BOLIVIA *Continued from page 1*

come, on lesser-known hardwoods.

The impact of the Law on Bolivia's forest sector has been profound. Despite good intentions, the effects have not all been beneficial. This was a point made by Christobal Roda of CIMAL, a Bolivian conglomerate involved in the forestry sector, during the FSC Seminar. He noted that since the introduction of the new law two years ago, the area under concessions has decreased from 22 million hectares to only 5.8 million hectares. The number of companies involved in the forest sector has declined from 150 to only 65. The volume of timber exports from Bolivia has declined by 50%. The extra costs of log extraction, the forest taxes and restrictions imposed on Bolivian forest extraction have meant a huge reduction in the returns to be made from Bolivian timber extraction. Mr Roda said that at one time his company considered withdrawing from the forest sector altogether.

Nor has the sudden drop in forest concession area provided a guarantee of their long term survival. Ironically the risks to Bolivia's forests may have increased. Mr Roda explains: "*forestry companies are the only legal presence that can guarantee the continued existence of natural forest in a region. In most cases, when a forestry company pulls back its presence, the forest is quickly invaded and converted to non forest uses, generally to cattle pastures or agriculture.*" In Bolivia, this threat has become particularly pronounced over recent years with the collapse of the country's mining industry. A flood of out-of-work immigrants from Bolivia's mining regions is moving into the lowland forest areas and converting extensive tracts previously under forest concession for alternative use. While forestry is seen as an unprofitable use of land, cattle ranching is still regarded locally as an "honorable" profession, increasing the pressure to convert. Bolivia's public authorities lack the resources to control forest incursions.

At the FSC seminar, Carlos Albrecht, CEO of Amazonian Sustainable Enterprises in Bolivia, explained the industry's strategy to overcome these difficulties. He noted that under current regulatory and market conditions, Bolivian for-

estry is simply "not economically viable". The aim is to improve the economic returns of managing Bolivian forests by ensuring greater utilisation of Lesser Known Species and by capturing high value western markets through FSC certification. Mr Albrecht noted that traditionally the Bolivian trade has depended on three species; mahogany, cedar and Bolivian oak. However recent studies suggest that 22 species have properties that make them suitable for commercial application. The Bolivian private sector, through the Bolivian National Chamber of Forestry, has initiated a programme for testing and marketing these species. Certification is also proceeding apace and so far 380,000 hectares have been endorsed by FSC accredited certifiers. Mr Albrecht noted that a total of 2 million hectares of forest should be certified within 2 years. With the help of Swedish expertise, the Bolivian industry has established a new marketing organisation, *Bolivian Wood*, which will be active in Europe and the United States.

While the Bolivian government's commitment to sustainable practices is praiseworthy, the situation in Bolivia illustrates the dangers of seeking to impose, almost overnight, unrealistically high environmental standards on the forest sector. If forestry loses its economic viability, the pressure to convert to other "more profitable" land uses intensifies. As Mr Albrecht points out, the situation hasn't been helped by the forest policy of the world's largest donor - the World Bank. For environmental reasons, the World Bank avoids all investment in tropical forestry. However, the Bank will subsidise agricultural operations, such as soya production, which may make conversion even more attractive.

In the meantime, Bolivia's private sector is left with the difficult task of making forestry pay by extending markets for certified products and Lesser Known Species in Europe and North America. Given the damage already done by environmentalists to the reputation of tropical timbers amongst western consumers, to place the future of Bolivia's forest resources in the hands of these same consumers is a high risk strategy. For the sake of the nation's forests, we can only hope that *Bolivian Wood* is successful.

Indonesia redistributes forest assets

The Indonesian government continues its efforts to redistribute forest assets away from large corporations towards smaller concerns and to improve the social impacts of forest management.

In early April, Indonesia's Forestry Minister Muslimin announced that the government would impose progressive taxes on forestry companies holding large areas of forest. The decision will affect the holders of rights on more than 3.5 million hectares of forest. The Forestry Ministry will be responsible for calculating the scale of charges. Companies are expected to give up their large scale forest holdings in response to the move. In the areas

released the government plans to give small-scale firms and cooperatives of local people licences to become forestry operators. Conglomerates currently hold most of Indonesia's 51.5 million forestry concessions. The Forestry Minister suggested that "there is a lot of corruption in the forestry license system" and that investigations are continuing. The Indonesian government also intends to levy a tax on timber companies of two dollars per cubic metre of wood to finance education in areas where they operate. Indonesia cuts around 23 million cubic metres of wood per year, so total income is estimated at around \$46 million a year. An independent institution is to be established to supervise the funds.

China "no plans" to increase imports

The Chinese government claims that, despite its massive forest protection programme, it has "no plans" to increase wood imports and that the problems of wood supply will be solved "internally". However, recent trends suggest that China will remain a land of opportunity for hardwood exporters. Recent reports from China suggest the country is facing severe timber shortages this year due to the forest protection campaign. To prevent continuing degradation of China's remaining natural forest cover, the government is committed to reducing timber cutting by 12 million m³ this year and 22 million m³/year by 2003.

However, in a Xinhua news service report Chinese government officials are quoted as saying that "China has no plans to increase timber imports substantially and will restrict imports to unusual species and large diameter logs." Kou Wenzheng, the director of the State Forestry Administration's Forest Resources Department, has said China will satisfy domestic demand mainly "by planting fast-growing, high-yield species of trees and by developing substitutes." He suggests the cut in production will not lead to large increases in timber imports because 14% of China's 46 million hectares of fast growth high yielding plantations will mature over the next 5 years. He also emphasises that China is investing heavily in the development of wood substitutes and in raising efficiency. New methods of manufacturing fibre boards out of bamboo and sugarcane are being used in southern China. The central government plans to offer preferential tax treatment to efficient processing mills with the aim of saving 2 million m³ of commercial timber annually.

Nevertheless, for the hardwood trade, there are reasons to be sceptical about Kou Wenzheng's claims. Chinese statistics are notoriously unreliable and the accuracy of statements on the current status of China's plantations are open to doubt. Furthermore, given Kou Wenzheng's emphasis on the development "fast growing plantations", his remarks seem more relevant to softwood than to hardwood imports.

Products from fast growing plantations will not satisfy China's demands for peeling logs from the country's 20 large plywood factories, which have a total annual production capacity of about

2 million m³. Nor will they supply veneers to the rapidly developing furniture sector. China now has more than 20,000 furniture manufacturing factories servicing expanding domestic and export markets, particularly in the US. It is estimated by Chinese analysts that in the next ten years China's furniture industry will develop at an annual growth rate of 10%.

Other developments in China suggest that prospects for the imported hardwood trade will, if anything, improve over the next few years. In mid 1998, China's government announced that it would privatise home ownership. A housing programme has been introduced to encourage families to buy homes and apartments. An estimated 200-300 million urban Chinese families will be affected by the new ruling. In Shanghai alone, there are plans to build 50 million square meters of housing by 2000 and to renovate another 15 million square meters creating demand not only for new construction but also for joinery and furniture. Furthermore import tariffs on logs and lumber have been eliminated, and reduced from 30% to 15% on plywood. Regulations controlling timber imports by the private sector have also been eliminated, opening the door for many more companies to become actively involved.

Recent trends confirm the gathering momentum of hardwood demand. There are reports of Chinese buyers scouring West Africa for logs, including okoume, padouk, and kevazingo. Restrictions in log exports, tight log supplies and rising prices in the Far East have encouraged a shift away from Malaysian logs towards Africa. Much of this trade is conducted through timber agents based in Switzerland, France, the UK and Hong Kong, although there is a growing trend towards direct sales. Some Chinese importers have also forged close links with the big Malaysian logging companies that have invested in Gabon, Cameroon, Equatorial Guinea and Congo since the mid nineties. China is now the major market for many European beech suppliers in France, Germany, Denmark, Romania and the former Yugoslavia. Chinese importers have spent several years importing and identifying the correct peeling species and they are becoming more selective quality wise. US hardwoods are also gaining in popularity, due partly to the aggressive marketing by the American Hardwood Export Council which has an Asian office based in Hong Kong. US hardwood species are being used for flooring, furniture and decorative products.

Brazzaville's war

A new civil war has erupted in Congo (Brazzaville) just 18 months after the last one. Apart from causing untold misery for thousands of refugees, the war will add to the existing severe problems of timber supply from the central African region.

The war revolves around a quarrel between Denis Sassou-Nguesso, the current president, and Pascal Lissoura, the president he ousted in 1997. Forces loyal to Pascal Lissoura have launched a series of offences against government troops. The fighting has emptied tracts of the countryside forcing 250,000 people to flee their homes, out of a population of only 2.5 million. Brazzaville has been attacked twice by the rebels leaving the southern suburbs deserted. A decisive victory from either side seems unlikely at present.

The fighting directly affects the southern part of the country, which accounts for one third of the country's timber production. It is also disrupting supplies from the North. The country's main supply route, the railway line between Brazzaville and the port of Pointe Noire has been disrupted for the last 7 months due to severe logistical problems. Traffic has now been halted by the fighting. Nearly 30,000 tonnes of logs from northern Congo are currently stranded at Brazzaville railway station awaiting transportation to Pointe-Noire.

During 1998, around 75% of the timber produced in the north of the country was diverted to the Cameroon for shipment from Douala, despite a 30% increase in costs, due to difficulties of transport to Pointe Noire. Sources in Brazzaville now claim that the 500 km route to Douala in Cameroon is also hindered by road damage caused by the severe weight of traffic, including convoys of lorries carrying between 30 and 38 tonnes of logs. The war and transport difficulties severely undermine recent government forecasts of log production exceeding 600,000 m³ during 1999.

Congo lifts ban

Congo's president Laurent Kabila has agreed to lift the three-month old ban on wood exports. The ban was implemented on 7 January following government claims that the Congo timber industry was involved in "massive fraud at the expense of the state treasury". This fraud was said to include irregularities in the setting up of timber companies, as well as the exploitation and marketing of timber without the state's involvement. After imposing the ban President Kabila ordered all stocks of wood to be requisitioned in early February. Contacts within the trade say that much of the wood was subsequently sold on the international market. On lifting the ban, the government announced that it would establish a commission of interested ministry and industry representatives to look at ways of reforming the sector. Critics of the ban noted that it led only to a reduction in already low levels of government revenue.

CHINA TIMBER IMPORTS

	1998	1997	% Change	1998	1997	% Change
	Volume	Volume		Value	Value	
	Mill. m ³	Mill. m ³		Mill. US\$	Mill. US\$	
Logs	4.82	4.46	8.1	599	677	-11.5
"Converted timber"	1.68	1.33	26.5	347	268	29.5

Source: Pacific Rim Market Report, China Monthly Exports and Imports

Bolivia's dilemma

Bolivia featured heavily at the recent FSC Symposium and Trade Fair organised by the WWF in Mainz during April. Bolivia introduced a new forest law in 1996 with the aim of encouraging sustainable practices. While well meaning, the law may have increased pressures on Bolivia's forests.

Prior to 1996, concerns were being expressed in Bolivia over corrupt and inefficient practices in the system of forest concession allocation. Influential individuals were able to obtain logging rights over extensive areas without effective regulation or enforceable requirements to implement management plans. Concession holders had concentrated on the unplanned extraction of a limited number of high value species, notably mahogany (*swietenia macrophylla* known locally as *mara*) for sale primarily to the United States. The system was inefficient and the returns that accrued to the nation from forest management were very low. On the other hand, according to a high profile ITTO Mission to Bolivia in 1996 "because logging has hitherto been carried out at low intensity and on relatively flat areas, the extraction of timber has not so far led to significant degradation in forest structure or damage to forest soils."

With a view to implementing a more effective regulatory forestry framework, the Bolivian government passed the Forestry Law in 1996. On paper, the new law is a model of its kind, setting out a detailed and logical framework for the sustainable management of Bolivia's forests. For the first time, the Law seeks to divide Bolivia's forestry estate into different land use categories for soil and water protection, permanent timber production, and strict nature reserves. It establishes a comprehensive framework for the allocation, regulation and pricing of concessions. The Law provides for the establishment of an "institutional framework" charged with the responsibility of implementing the government's commitment to sustainable forestry. Forestry concession holders now have to carry out full inventories; draw up 25 year plans; work to a 25 year felling cycle; carefully calculate yield; and draw up annual log plans identifying each tree to be felled. Strict restrictions have been placed on the exploitation of the most valuable species and companies are required to rely, for much of their in-

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SHARE PRICES FOR SOME U.K. COMPANIES

	52 Week High	52 Week Low	15 Dec	29 Jan	26 Feb	29 Mar	29 Apr
J. Latham	203.5	141.5	141.5	143.5	146.5	141.5	156.5
Meyer International	449.5	244	360.0	338.5	339.0	399.5	449.5
Travis Perkins	652.5	360	383.5	360.0	423.5	522.5	652.5
Barratt Devs.	360.0	155.5	231.5	223.5	262.0	296.5	360.0
John Laing	397.5	233.5	270.0	233.5	256.0	296.5	318.5
Alfred McAlpine	230.0	106.5	132.0	151.5	160.5	171.0	230.0
J. Mowlem	153.0	77.5	94.5	106.0	115.0	118.0	153.0
George Wimpey	161.5	91.5	112.0	104.5	133.0	153.5	161.5
Cornwell Parker	182.5	66.5	66.5	94.5	85.0	85.0	117.5

EXCHANGE RATES FOR ONE POUND STERLING

		29 Jan	26 Feb	29 Mar	29 Apr
Australia	Aus.\$	2.6149	2.5800	2.5536	2.4440
Bangladesh	Taka	79.5938	77.6971	78.4617	78.1103
Belgium	Belgian Fr.	58.3546	58.8700	60.9258	61.3745
Belize	B\$	3.2856	3.2040	3.2372	3.2227
Bolivia	Boliviano	9.3147	68.3654	9.2746	9.2169
Botswana	Pula	7.4826	7.4460	7.5973	7.4411
Brazil	Real	3.3842	3.3242	2.8528	2.6837
Fr. Africa*	CFA Fr.	948.890	957.27	990.70	998.0
Chile	Peso	803.575	804.204	786.396	784.324
China	Yuan	13.5988	13.2630	13.4015	13.3410
Denmark	Danish Krone	10.7594	10.8496	11.2255	11.3067
Europe	Euro	1.4465	1.4592	1.5104	1.5214
France	Franc	9.4889	9.5727	9.9070	9.98
Germany	D-mark	2.8293	2.8543	2.9539	2.9757
Ghana	Cedi	3868.80	3804.76	3913.78	3932.50
Guyana	Guyanese \$	257.919	259.491	260.092	273.284
Hong Kong	HK\$	12.7297	12.4119	12.5429	12.4883
India	Rupee	69.8273	68.3654	68.6286	68.9699
Indonesia	Rupiah	14703.09	14157.69	14365.09	13172.81
Irish Republic	Punt	1.1393	1.1494	1.1895	1.1983
Italy	Lira	2800.95	2825.69	2924.37	2945.91
Japan	Yen	191.025	190.077	193.762	191.952
Kenya	K. Shilling	101.53	102.13	105.05	109.33
Korea South	Won	1930.29	1960.05	1982.95	1894.14
Malaysia	Ringgit	6.2427	6.0876	6.1507	6.1231
Myanmar	Kyat	10.2703	10.0152	10.1190	10.0737
Netherlands	Guilder	3.1879	3.2160	3.3283	3.3528
Nigeria	Naira	143.417	139.374	150.530	150.983
Philippines	Peso	63.248	62.398	62.801	61.271
Portugal	Escudo	290.012	292.573	302.790	305.02
Singapore	Singapore \$	2.7801	2.7587	2.8050	2.7337
South Africa	Rand	9.9476	9.9244	10.0839	9.7648
Spain	Peseta	240.689	242.815	251.295	253.145
Taiwan	\$	53.0871	52.9942	53.6809	52.6783
Tanzania	Shilling	1117.12	1108.99	1121.09	1139.23
Thailand	Baht	60.7015	59.7867	60.8999	60.2242
Uganda	New Shilling	2262.14	2202.75	2248.24	2449.26
U.S.A	US \$	1.6428	1.6020	1.6186	1.6114
Venezuela	Bolivar	943.378	920.550	943.441	952.316
Vietnam	Dong	22802.1	22255.0	22499.4	22411.46
Zimbabwe	\$	64.4800	61.3567	61.8306	61.4892

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

SUBSCRIPTIONS

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