

TROPICAL TIMBERS

an independent publication providing market information

Tropical forestry

A long history of sustainability

Contrary to prevailing politically correct attitudes, there is plenty of knowledge and experience, gathered earlier this century, to demonstrate that sustainable natural forest management is both environmentally possible and economically feasible. The key is to concentrate on low intensity, low risk, and low investment operations, based on a long felling cycle and the supply of small volumes of quality tropical hardwoods. The modern vogue towards Reduced Impact Logging is re-inventing principles of good tropical forestry practiced extensively prior to the 1960s. These themes were introduced in a paper presented by Prof. E.F. Bruenig* at a meeting at Oxford University. Bruenig suggests that a century of progress prior to the 1960s towards sustainable tropical forest management is well recorded. By the end of that period elaborate, but practical, logging and management codes, manuals and plans were readily available (for example in India, Indonesia, Uganda, Myanmar, and Malaysia). The problems now associated with tropical forest management resulted from a move away from planned Selection Silviculture Management systems towards exploitative Selective Logging from the 1960s onwards. During these years, strong political support for forestry faded. Politicians and economists questioned the relevance for developing countries of keeping forests standing, arguing for liquidation and re-investment of the proceeds in the country.

Far from helping to prevent this process, western environmentalism in the 1980s contributed to the problem. Environmentalists came up with the unhelpful notion that tropical hardwood boycotts would slow the plunder. Their campaigns were based on a romanticised emotional response rather than a recognition of real problems. They only blurred the distinction between exploitative Selective Logging and regulated Selection Silviculture. The public has been misled the public into believing that tropical forests are too fragile to be managed for timber. In fact, rainforests are "robust, elastic, and resilient, exactly because of their...diversity. Contrary to common belief tropical rainforest ecosystems are, as a result, easy to manage with common sense and an eco-system compatible attitude."

Natural tropical forest management should focus on the production of limited volumes of high quality hardwood, for which continued and increasing demand seems assured. Other timber grades, "lesser known species", and non wood forest products will play only a supplementary role, particularly if they are having to compete with similar products from plantations. "Nature mimicking eco-system management in some form of Selection Management System has the greatest chance to be the 'least wrong' [approach to tropical forest management] ecologically, economically and socially."

* Professor Bruenig is former Chair of World Forestry at Hamburg University, Germany, and author of "Conservation and Management of Tropical Rainforests: An Integrated Approach to Sustainability".

So what is the answer? Bruenig suggests that "the transition from timber mining to sustainable management in tropical forests will certainly need more than the decade set by ITTO Target 2000." In European forestry, this evolution took more than a millennium. Only 3 tropical countries seem set on the road to sustainability. Implementation of sustainability requires a complete reshaping of moral behaviour. It also depends on public support. Systems and ownership structures that involve local people directly in forestry management, like those that evolved over centuries in European countries, are essential. Through consultation, tropical countries need to develop national and regional goals for forest management. With political and public support and adequate resources, state forest services can deliver sustainable management.

ITTO Consumers 9
Russia 10
Papua New Guinea 10
Japan 11
Forest Convention 11
B&Q 11
Mergers 11
Indonesian fires 12/10

ITTO Consumers 9
Russia 10
Papua New Guinea 10
Japan 11
Forest Convention 11
B&Q 11
Mergers 11
Indonesian fires 12/10

ITTO Consumers 9
Russia 10
Papua New Guinea 10
Japan 11
Forest Convention 11
B&Q 11
Mergers 11
Indonesian fires 12/10

Volume 14
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Contents

Tropical Forestry.	1/2
Editorial Comment	2
Life after Logging report	2
Asian Hardwoods.	3/4
African Hardwoods	4
South American Hardwoods.	4
North American Hardwoods.	5
Plywood Markets	5/6
South American Forests	7
UK and European Hardwood Demand	8
Scotland Domestic Production	8
South American Economy	8
Malaysian Rubberwood	8
ITTO Consumers	9
Russia	10
Papua New Guinea	10
Japan	11
Forest Convention.	11
B&Q	11
Mergers	11
Indonesian fires	12/10

Statistics in this issue

UK hardwood imports	6/7
Outside and inside E.C March 1999/1998	
ITTO Consumers.	9
Tropical hardwood imports 1996-1998	
Temperate hardwood imports 1996-1998	

Editorial Comment

Greens move forward, but down the wrong track

This month's Tropical Timbers covers a new report by international environmental organizations. *Life After Logging* examines the impacts of commercial logging in tropical rainforests. The report, a revised edition of a report issued by Friends of the Earth in 1992, illustrates how environmentalists ideas concerning tropical forest management have evolved. There are some positive signs. There is less reliance on the emotional arguments of the early 1990s. Their arguments are more sophisticated and deserve to be taken seriously. The gap is narrowing between environmentalists and those industrialists seeking to promote sustainable practices. Differences of opinion are now less of substance and more of emphasis.

Few would argue with the environmentalists contention that the industry needs to shoulder its share of the responsibility for poor forest management in the tropics. Environmentalists seem, at last, to be acknowledging that logging and the timber trade can play a role in promoting sustainability. No reference to consumer boycotts on tropical timber products is made in the report. A more reasonable, although imperfect, approach based on independent certification is advocated. There is greater recognition of the complexities of the issues facing the tropical timber trade.

Nevertheless, there are aspects of the environmentalists' approach to tropical forests which remain highly questionable.

First, their views still reflect an unwillingness to move away from unrealistic idealism towards the more difficult search for practical solutions. While they do not deny outright a role for commercial forestry in the tropics, the environmental demands for tropical forest management set out in the report are prohibitively high. The report implies, for example, that timber extraction in the tropics should be backed by thorough social and environmental impact procedures and a reliable independent certification scheme. It is argued that tropical logging should observe the "precautionary principle", which in effect means that no logging should be carried out without full and

prior knowledge of the susceptibility of tropical forest ecosystems to logging. In practice, it would be difficult for many forest managers even in the developed world to comply with such standards.

Second, many of the conclusions of the report are debateable on technical grounds. For example, it is implied that sustainable forest management may not be possible in primary tropical forest. Backed by a lifetimes experience in tropical forestry, Professor Bruenig comes to a strikingly different conclusion (see page 1). He argues that managing primary tropical forest for timber is not only feasible, but should be central role to the development of tropical forest policy.

Third, *Life After Logging* is open to the charge of hypocrisy. The authors are quick to condemn the efforts of others to promote sustainability (e.g. ITTO Objective 2000), but slow to accept the weaknesses of their own position. An example is when they note that "the debate about the role of the timber industry appears often to have been conducted in a poorly informed way." Environmentalists have played an important role in raising issues, but they have rarely improved the quality of the debate. By focusing on emotional single issue campaigns - "tropical deforestation", "clearfelling", "bushmeat" - they have reinforced public perceptions that tropical forestry problems and solutions are simple. In concentrating only on "commercial logging", *Life After Logging* is itself an example of this process of oversimplification.

The fourth and perhaps most serious charge, is that the report uses pseudo-science to "prove" the environmentalists' position. *Life After Logging* looks like science, but is in fact a political tract. It starts with a cherished notion, that commercial logging is the biggest threat to tropical forests, and then looks for facts to prop up the theory. It does not set out to look at data objectively.

Life After Logging does little to aid understanding of the issues surrounding tropical deforestation. But it has tremendous power to mislead.

A large part of the report is devoted to selectively summarising recent research work to demonstrate that "commercial logging" in tropical forests is environmentally damaging. Individual chapters deal at length with the impact of logging on forest structure and regeneration, wildlife habitat, and the physical functions of the forest. A major focus is to highlight that logging's immediate impacts are in many ways less significant than its secondary impacts, including the construction of roads allowing access to the forest by shifting agriculturalists and wildlife poachers.

The report is more positive about new techniques of Reduced Impact Logging. With careful planning and operational practices, RIL can be used "to avoid some of the worst direct impacts of conventional uncontrolled logging on forest ecosystems and the economics appear to compare favourably with conventional logging". However, it is argued that RIL does not equate to sustainable forestry, the systems evolved so far do not tackle the secondary impact of logging (such as creating access to forests), and that RIL will not alone bring about the conservation of tropical forests. The authors conclude that "the absence of evidence for the successful commercial practice of sustainable forest management anywhere in the moist tropics must call into question the very possibility of such management".

Unlike other sections of the report, it's handling of social and economic impacts of commercial logging is brief. It is acknowledged that the "report says little about people". Most of the section concentrates on gathering together reports of negative impacts of logging on indigenous and other forest dwelling people. Largely on the basis of one research report (Reid, Gullison and Rice, Can Sustainable Management Save Tropical Forests?, Scientific American, April 1997) the authors conclude that "economic fundamentals for sustainable natural tropical forest management are not encouraging". The report concedes that "not all impacts are perceived as being negative". It provides one example. In 1996 an IUCN report concluded Bantu and Pygmy groups in the area of the CIB logging concession in North Congo view CIB with enthusiasm because it has opened up the area with roads, provided employment opportunities, health care and education.

The report ends with a series of policy recommendations. It does not deny a role for commercial forestry in the tropics, even in primary forest, but advocates strict adherence to the "precautionary" principle. It suggests that secondary forests should be accorded a greater role than primary forests for the production of timber and other forest products. It restates the environmentalists support for independent certification. It calls for "greater emphasis on conservation initiatives" and a vigorous clampdown on corrupt and illegal practices in the tropical timber trade. It also questions the validity of existing international policy which is characterised as too reliant on "the promotion of supposedly sustainable large scale commercial management of forests". It also questions the value of partnerships with the large scale private sector logging concerns, which, the environmentalists, claim will "simply repeat, under a different guise, the false promises of Sustainable Forest Management Projects made in the 1970s".

Environmental Campaigns

NGOs set out policy on tropical forests

Environmental groups have issued a new report which they claim provides "proof" that logging threatens the survival of species, destroys forest communities, damages local environments, and "exacerbates the dangerous climate change crises". The report "Life after Logging" is a collaborative effort between Friends of the Earth, Greenpeace, the Rainforest Foundation and the Environmental Defence Fund. It is a revised edition of a report issued in 1992 by Friends of the Earth in 1992. According to the authors, it draws on the "significant increase in understanding of impacts of logging that has taken place in intervening years". The report is described as "timely" because, over the last 7 years, there have been important changes in the forestry

policy situation, notably the development of global and regional principles and criteria for sustainable forest management; and the introduction of certification schemes. These schemes have provided opportunities for the objective assessment of forest managers' environmental performance. It is also 10 years since publication of ITTO's seminal work "No Timber Without Trees". This reviewed forestry practice in the tropics at the end of the 1980s and established that few areas were sustainably managed at that time. The report dismisses ITTO Objective 2000 as "one of the most significant failures of the last decade" having achieved "virtually nothing in terms of putting the tropical timber industry on to a sustainable basis".

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

	June	July	Aug
Ex Cameroon Fr.F/m3 FOB Douala LM			
N°GOLLON			
70cm+20% 60/69	1450	1450	1450
BOSSE 60cm+	1550	1550	1550
AYOUS 70cm+	1000	1000	1000
BIBOLO 60cm+	1350	1350	1350
SAPELE			
80cm+20% 70/79	1550	1550	1550
SIPO			
80cm+20% 70/79	1950	1950	1950
IROKO			
80cm+20% 70/79	1650	1650	1650
Ex Gabon Fr.F/m3 FOB Owendo LM			
ACAJOU			
70cm+20% 60/69	1200	1300	1300
DIBETOU 60cm+	1175	1175	1175
DOUKA			
70cm+15% 60/69	1150	1150	1150
SIPO			
70-79cm 10%/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/£	4030	4126	4184
6'+ avg 9' DM/£	2.99	2.92	2.97
A.MAHOGANY AD	740	740	740
A.MAHOGANY KD	895	895	895
EMERI AD	760	760	760
UTILE KD	1150	1150	1450
ODUM AD	925	925	1090
ODUM KD	1085	1085	1250
SAPELE KD	900	900	1070
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	450
WAWA KD	500	500	520
MAKORE AD	790	790	790
MAKORE KD	960	960	960
Ex Cameroon Fr.F/m3 FOB			
FAS width 6"+, length 6"+			
SAPELE	2650	2700	2750
SIPO	3750	3850	3850
BIBILO	2750	2800	2800
N°GOLLON	3200	3200	3200
AFRORMOSIA	3800	3800	3800
IROKO	3375	3375	3375
Ex Gabon FR.F/m3 FOB			
FAS width 6"+, length 6"+			
OKOUME AD	2000	2000	2000
Ex Zaire Fr.F/m3 FOB			
FAS width 6"+, length 6"+			
SAPELE	2600	2800	2800
SIPO	3550	3700	3700
MAHOGANY	2950	2500	2500
AFRORMOSIA	3700	3800	3800
IROKO	3300	3400	3400
Ex Cote d'Ivoire Fr.F/m3			
Fr.F/£	10.02	9.80	9.97
FOB Abidjan FAS			
6"+ avg 9"-10"			
6'+ avg 10'-11'			
1"-2"			
IROKO	3350	3350	3375
MAHOGANY	2750	2750	2750
FRAMIRE	2000	2000	2000
SAMBA No.1 C&S	1525	1525	1525
AZOBE dim. stock	2200/	2200/	2200/
	2800	2800	2800
OPEPE dim. stock	1950/	1950/	1950
	2550	2550	2550
Ex Malaysia US\$/ton, C&F UK port			
M\$/£	6.00	6.04	6.03
US/£	1.58	1.59	1.59
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	870	895	900
2.5" KD	900	920	950
3" KD	980	990	990
KERUING			
Standard & Better GMS			
1"-3"			
width: random or fixed			
length 16'+	540	550	550
KAPUR			
Standard & Better GMS			
1"-3" plnd			
width 6"+ avg 7"-8"			
length 16'+	545	555	555
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\$/£	1.58	1.59	1.59
6"+ avg 9-10"			
6'+ avg 10-11'			
MAHOGANY (Swietenia)			
1"-2" AD	1120	1150	1150
2.5"-3" AD	1140	1160	1160
1"-2" KD	1210	1220	1220
2.5"-3" KD	1230	1240	1250
VIROLA			
1" KD No.1 C&B			
boards	400	380	380
strips	370	360	360
CEDRO			
1"-1.5" KD	720	700	700
2" KD	720	720	720
2.5"-3" KD	750	750	750

Hardwood Market Highlights

- Tropical prices expected to increase
- China's hardwood glut
- South Korean demand sluggish
- Japanese market improving
- Near record production in the US....
-can't keep up with booming demand
- Optimism over European recovery

Asian Hardwoods
Firming price
trend continues

Although nearing the end of the usual dry season in South East Asia, the supply situation remains relatively tight and prices continue their firming trend. Poor weather has lingered on in some parts of the region, with recent press reports of floods in China, South Korea, Thailand, Vietnam and the Philippines. Even where conditions are drier, in Indonesia and East Malaysia efforts to reform forest concession systems and concerted anti-corruption campaigns have slowed logging. Although logs are now flowing more freely in Peninsular Malaysia, production there is being reduced as the country strives to achieve sustainability and negotiates the development of a credible forest management certification programme.

Nevertheless supplies of DRM/Seraya are not as scarce as they were earlier in the year. Some agents report that wood is available for fairly quick shipment as long as buyers are prepared to pay the asking price.

Asian demand for hardwoods is gradually improving as local economies recover more rapidly than many analysts expected. Despite a recent dip in the value of the Indonesian rupiah in response to political worries, Far Eastern currencies have generally stabilised. There is optimism that the upward price trend will continue throughout 1999.

Despite rising prices, most agents report there is still a lot of interest in Asian hardwoods amongst European buyers. While some European buyers have shifted from DRM/Seraya to African Sapele as Asian prices have risen, many are attracted to the Asian species by the availability of kiln dried material. Most African Sapele brought into Europe has to be kiln dried on arrival. The large Far Eastern mills are also generally better placed than African mills to supply European demands for special sizes.

The increase in export royalties in Sabah on high quality logs from 100 RM/m3 to 150 RM/m3 from 1 July is having repercussions. The Timber Association of Sabah estimates that the move may result in a 50% drop in export volume and significant fall in export earnings. The move, however, should benefit local manufacturers' by increasing log availability on the domestic market. Domestic log prices in Sabah are expected to fall. Log exports from Sabah

Asian Hardwoods *Cont.*

amounted to around 400,000 m³ between January and June this year.

Recent data released by ITTO's Market News Service suggests that Southsea log imports in Japan declined in June. Log imports during the month were around 267,000 m³, 66,000 less than the previous month and the lowest monthly arrivals during 1999. The fall is explained by a slowdown in Japan's plywood market and log supply difficulties in the major source countries; Sabah, Sarawak, PNG and the Solomons.

While economic conditions in Korea are improving, the timber sector remains sluggish. Korea's overall industrial production index reached 75.2 in May, the fourth consecutive monthly increase, but the index for the timber sector was only 47.2, the lowest amongst all industries. The crises at Daewoo, one of the country's largest conglomerates, is also undermining confidence and growth. Demand for hardwood logs from South Korea's plywood sector is weak. Nevertheless, GDP growth in South Korea is higher than many analysts

expected, with some projections for 1999 suggesting 7.5% growth. Foreign investment has poured into the country since the beginning of the year. Permits for new construction increased 45% in April over March to reach their highest levels since January 1998. This has raised hopes that demand for timber in Korea should rise later in the year.

One of the most significant features of Asian hardwood markets during 1999 has been growth in China's demand for logs and sawnwood. Log imports into China in the first five months of 1999 were 2.64 million m³, 71.5% greater than the same period in 1998. Sawnwood imports were up 72% over last year. However, overzealous purchasing has led recently to glut and declining prices on China's domestic markets. China's imports include the traditional species of US Douglas Fir, Canadian sawnwood and Malaysian Lauan. Demand now also extends to African okoume; a number of South American species (e.g. aguai, planchonella); maple and oak from the US; European beech; and ash from Russia.

African Hardwoods

Tight supply and strengthening demand

The overall picture for African hardwoods is one of generally tight supply and slow, but improving demand. Heavy rains in many parts of West Africa are slowing production. Agents are predicting that supplies will tighten further during the second half of 1999 while demand in both Europe and the Far East is expected to pick up. The combined effect should be sustained increases in prices across the board.

Sapele prices continue to firm slowly, following in the wake of rising prices for competing Asian hardwoods. Rising prices and supply shortages in Asia have encouraged some European DRM/Seraya buyers, most notably in Holland, to look again at African Sapele. On the supply side, only limited volumes of Sapele are available. Uncertainty has been created by regulatory changes in Cameroon. Having implemented new controls on the export of logs, there are reports that the Cameroon authorities are now restructuring the forest royalty system. This move will impact on log prices to Cameroon mills. Production in Cameroon is limited as suppliers take time to digest the changes. Making valid predictions about the overall impact of these measures is difficult. However shippers are being very bullish over price and agents are predicting further firming of the Sapele price in the Autumn.

UK agents report that fears of shortages later in the year have led to much greater interest in the forward market for Sapele during August. Some Cameroon shippers have sold Sapele for shipment well into the fourth quarter at prices of around FF2650 FOB.

Iroko prices are also edging upwards responding to tight supplies and reasonably firm demand from the UK and Ireland. Demand in Ireland has improved since the spring, but has not reached the dizzy heights of last year.

Some agents report improving demand for Ghanaian wawa amongst buyers in the UK and the Far East. China has been buying significant quantities of the species for some time for mouldings and picture frames. More recently Malaysia and Japan have returned to the market. Wawa prices are firming.

Prices for other species from Ghana are also firm as a result of the recent increase in forest royalties. There are reports that electricity costs in Ghana have increased substantially over recent months. Although trade volumes have picked up slightly, both supply and demand for many Ghanaian species are at low levels and trading conditions remain difficult for many producers. Resource constraints and limited log sizes mean that Ghana's ability to supply suitable sizes and specifications of many species is now limited.

In response to increasing problems of wood supply, several European companies based in the Ivory Coast are looking to alternative sources in Equatorial Guinea and Liberia. The Ivory Coast's Syndicat des Producteurs Industriels (SIB) estimates that production of converted wood products now amounts to no more than 1 million m³ per year, around 45% comprising sawnwood, and the remainder further processed products including veneers, panels and flooring. Within the next year, the French company Thanry, the German Danzer, and the Dutch Wijmann, are expected to start operations in logging concessions in Equatorial Guinea. Interest in Liberia is also increasing. French log imports from Liberia in the first four months of 1999 amounted to 20,654 m³, up from only 1451 m³ during the same period last year.

Asian buyers are returning in growing strength to the African log market, increasing their purchases of okoume and ozigo from Gabon, and

South American Hardwoods

Mahogany prices expected to rise

The Brazilian mahogany market is now almost exclusively the domain of the United States, which imports around 90% of the total production of the species. Demand from the US is reported as continuing very firm while supplies are restricted. Further price increases are expected. Unlike previous years, when the UK took much of the highest grade of material, the US now buys significant quantities of FAS. Much of the volume is shipping dry to avoid the high costs of kilning in Brazil. Brazilian suppliers of mahogany are increasingly working together to overcome problems of financing logging operations due to high interest rates and the recent devaluation of the *real*. This trend towards increased co-operation amongst former competitors is also encouraged by IBAMA's efforts to cut down on authorised concessions.

UK imports of the species have fallen from around 50,000 m³ per year in the early 1990s, to around 6000 m³ last year. This year analysts expect UK imports to be only 2,000 to 4,000 m³. Price has undoubtedly been a major factor in the decline. While Asian and African prices fell in the wake of the Asian crises, the mahogany price stayed firm due to the relative strength of the Brazilian currency last year, high extraction costs, and a very buoyant market for the species in the United States. Environmental pressures have been a contributory factor, severely damaging the image of the species in the UK.

Cedro has taken over as the "major" Brazilian export species to the UK, but volumes are fairly insignificant. While the differential between cedar and meranti has narrowed over recent months, cedro prices are still too high to generate much interest. Supplies of both cedro and virola are described as being "relatively plentiful" and prices stable.

The major markets for other secondary species of Brazilian hardwood are Spain, France and the Caribbean. ITTO's Market News Service reports that tropical hardwood log supplies have generally improved with the end of the rains. The improved competitive position of Brazilian exporters following currency devaluation has stimulated export demand for Brazil's tropical hardwood products. Recessionary forces however have resulted in a weak domestic market. Prices for most species remain stable.

tali and other peeler species from Cameroon. Mixed reports are emerging of the political situation in the Congo (formerly Zaire). In early August, Ugandan and Rwandan troops, backing rival rebel groups in Congo, fought a three day battle in Kisangani, Congo's third city. Some 50 people were killed. The prospects for peace in the country however improved later in the month when all three rebel factions in the civil war agreed to sign a peace agreement.

North American Hardwoods

Production falls short of record demand

The US economic "miracle", in the form of continuous growth for the last 101 months, still confounds the analysts. The US economy grew by a huge 6% in the last quarter of 1998, and continued to expand at a slightly lower rate of 4.5% to end June this year. Consumer spending was up at an annualised rate of 6.7% in the first quarter of 1999, the largest increase since the autumn of 1986. There is high employment, rising incomes, continuing stockmarket growth and relatively low interest rates. Despite these trends, inflation still seems to be under control. The US Federal Reserve, fearing that inflation may become a problem, have been raising base rates since September 1998 when they reached a record low. Most recently rates have been increased by 0.25% on June 30 and by a further 0.25% to 5.25% on August 24. Rising mortgage costs have taken some of the heat out of the housing market, with housing starts falling 5.6% in June to the lowest level in over a year. Nevertheless, 5.5 million existing homes were sold in June, near record levels.

Economic concerns in the United States, where they exist, focus on the problems of obtaining skilled labour, mushrooming corporate and consumer debt, and doubts about the underlying sustainability of stockmarket gains. As the Economist points out "spending cannot increase faster than income forever". But while it does, the US hardwood industry is "making hay while the sun is shining".

Building material prices are now at record levels. The buoyant housing market has fed through into firm demand for wood based household goods including flooring, kitchens, and furniture. US citizens bought record levels of furniture and bedding valued at US\$57.9 billion in 1998. Demand looks like it may be even stronger this year, with furniture and bedding valued at over US\$ 30 billion sold during the first 6 months. Analysts are forecasting demand of around US\$61.7 billion for the year as a whole. Despite continuing high production during the summer months, firm domestic demand has meant that both green and kiln dried inventories have continued to decline. Tight supplies are particularly affecting Cherry and Hard Maple, with inventories of both species well below normal for the time of year. Buyers for these species are placing orders well into the autumn in order to guarantee supplies. Analysts are predicting that supplies of more significant export items could also be affected later in the year, particularly if demand picks up or there is heavy rain in the autumn and a severe winter. Recent trends suggest that demand for US products in major export markets should continue to firm during the second half of 1999. Many analysts are now predicting that the US dollar will weaken against both the Euro and the yen, providing a boost to US hardwood exports. Improvements in Japan's economy suggest increasing demand from Japanese buyers who have traditionally been willing to pay high prices for good

quality US hardwoods. Orders from manufacturers in South Korea, Taiwan and China are all reported to be picking up. European markets have been slow over recent months, due to comparative weakness in the euro and underlying economy. However signs of improving economic conditions in the core markets of Germany, United Kingdom and Italy bode well for the rest of 1999. There are reports that US hardwood exports to Europe during the summer are better than expected for the time of year and that many shippers have already booked production in key export items through the autumn. There are reports of manufacturers becoming concerned over the quality of US hardwoods supplied to the UK market. UK agents comment that there is little doubt that the quality of imported US hardwoods has progressively declined over the last 2 years. This seems to reflect less changes in the underlying quality of the US timber resource and more the unwillingness of UK importers to pay the full price for true FAS grades. UK importers willingness to pay these prices now tends to be lower than Far Eastern and other European buyers. CIF (UK port) prices for US hardwoods quoted in Tropical Timbers are actually lower than the full FAS price, but reflect the maximum that most UK importers are willing to pay. Most US producers are unwilling to ship true FAS grades at these prices. Looking at particular species, demand for Cherry and Hard maple continues to firm. Supplies are tight and some speciality thicknesses for higher grades of Hard maple are oversold. Both species are very fashionable amongst shopfitters, joinery and furniture manufacturers. Demand for Ash in both the Far East and Europe has picked up, with the thicker sizes selling particularly well. Prices to the European market are firming.

Production of red oak is at its highest during the summer months, but firm domestic demand has already led to shortages in the thicker sizes. Export demand for the species, notably from Mexico, is high. US manufacturers' demand for lower grades of red oak is improving. Prices to the European market are firming.

White oak markets, which are more dependent than red oak on export demand, are more mixed. Sales to Northern Europe have been slow over the summer, but demand from Southern Europe has remained relatively firm. Expectations are that demand will pick up from Europe in the Autumn. Demand for lower grades of the species, which have been slow in many areas of the US, is now improving with increased orders from US flooring plants and exporters. Increasing numbers of European buyers are asking for fixed widths and lengths.

Sales of Tulipwood are improving and prices firming. There are reports that demand from China and Thailand is being boosted as Tulipwood replaces rubberwood which is in short supply. FAS grades of Tulipwood are reported to be in relatively limited supply.

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

	June	July	Aug
S/£	1.58	1.59	1.59
RED OAK			
1"	1775	1740	1760
1.25"	1940	1920	1930
1.5"	2090	2065	2075
2"	2400	2400	2400
WHITE OAK			
1"	1575	1545	1580
1.25"	1780	1745	1780
1.5"	2170	2125	2100
2"	2655	2625	2600
ASH			
1"	1175	1150	1175
2"	1580	1550	1575
TULIPWOOD			
1"	1060	1075	1075
1.25"	1090	1085	1090
1.5"	1135	1135	1145
2"	1165	1155	1165
CHERRY			
1"	3160	3105	3275
1.25"	3225	3160	3350
1.5"	3335	3370	3525
2"	3570	3500	3675
HARD MAPLE			
1"	2155	2270	2350
1.25"	2200	2250	2450
1.5"	2425	2600	2625
2"	2635	2800	2775

Plywood

Demand patchy

Indonesian plywood prices have weakened slightly over the last month due to a fall in the rupiah/dollar exchange rate and marginal improvements in the Indonesian log supply situation during the current dry season. Log supplies for plywood production in Indonesia are limited, but supply still exceeds demand. Prices are being quoted at around INDO96 less 12.

The UK market has been relatively quiet over the summer months. Importers bought fairly well earlier in the year and stocks are at reasonable levels. UK agents are optimistic that demand may pick up significantly in the autumn with economic improvements and signs of growth in the construction sector. The UK market is characterised by intense competition, implying that while sales may increase later in the year, margins will be tight.

Brazil is not yet selling significant quantities of hardwood ply to Europe. Production, particularly in the tropical North, is restricted by the high costs of finance due to high interest rates. Relative weakness of the real, which fell to nearly 2 to the US dollar in late August, also makes imports of essential raw materials expensive. Recession in Brazil has meant that domestic demand is weak. In response to high production costs, many Brazilian producers have switched to exporting veneers rather than converting into plywood. Brazilian softwood ply exporters are doing better due to firm US demand.

Continued page 6

UK and European Hardwood Demand

Growing optimism as economy improves

Economic prospects in the UK are looking more healthy. The Deputy Governor of the Bank of England, in a rare show of exuberance, has said that "growth with low inflation is likely to be with us for some time." The Chancellor, Gordon Brown, is thinking of increasing the Treasury's estimate of Britain's long term growth rate from 2.25% to 2.5%. The source of this optimism is the speed with which GDP growth has recovered since the winter. GDP growth was virtually flat during the last quarter of 1998 and first quarter of 1999. However the economy grew by 0.5% in the second quarter. The speed of recovery has led many analysts, who only a few months ago were predicting recession, to forecast increased interest rates within a few months. At present inflation seems to be under control and there is wage restraint, despite the lowest levels of unemployment since the early 1980s. Signs of economic recovery are boosting confidence in the UK hardwood market. Most UK agents are reporting that business has picked up during July and August in defiance of the usual summer lull. Interest in the forward market, almost non-existent during April and May, is now improving. The positive trend is across the board, affecting all species. Where importers do have doubts, they focus on the reliability of the upward trend in DRM and Seraya prices. Having held off from the forward market during the spring, most importers stocks are now low. Many agents are optimistic that improvements in the UK's underlying economy will filter through into increased hardwood demand during the autumn months. They suggest that, against the background of generally tight supplies, those buyers moving early to replenish depleted stocks will benefit later in the year.

Large trading companies selling into Europe, with the resources to ship and kiln unsold stock and to provide a range of finished and semi finished products, are reporting relatively high levels of activity. These companies are beneficiaries of the existing trend amongst importers to carry relatively low stocks, relying on Just-In-Time purchasing when necessary. Large US hardwood exporters are also seeking to exploit the trend towards JIT through the establishment of large warehouses for unsold stock at major ports. These warehouses are reported to be relatively full at present, while US hardwood stocks of the European trade and processing industry are relatively low.

A stronger euro and improving national economies are raising confidence that hardwood demand in Germany and Italy, relatively weak during the first half of 1999, will strengthen in the second half. In June, Germany's Building Intelligence Journal suggested that after 6 years of recession in the German construction industry there are finally signs of recovery. A key forecasting organization, IFO, has raised its forecast for growth in West German commercial construction from +1.3% to 2.7% for 1999 and from +3% to +5% for 2000. Despite healthy signs of economic growth, and

an active construction sector, trading conditions are still difficult for French tropical hardwood importers. Over the first four months of 1999, imports of all tropical logs were down 9%, with logs of okoume down 43%. Tropical sawnwood imports were also down by 3%. Sawnwood imports from Asia have been badly hit, standing at only 19,100 m³ in the four months to April, down 66% on last year. The French Importers Federation, FFBTA, report in their July/August bulletin that France's tropical hardwood market remains weak. Importers are finding that profits are being squeezed as tropical wood prices in France are being slow to pick up despite significant increases in FOB prices.

Looking to the future, market prospects in Europe are looking more healthy as the euro-zone economy appears to be on the mend. Unemployment is drifting down, inflation and interest rates are at historical lows, the much maligned euro has picked up, and business confidence is rebounding in France, Germany and Italy. Manufacturing orders are improving. The recovery is at least partly due to the euro's decline in the first half of 1999, which served to improve European manufacturers export position. European exports have been boosted further by the strengthening world economy. Companies have at last run down stocks built up when growth was slow last year. They are now manufacturing more in response to improved orders. Europe's half point cut in interest rates in April has encouraged spending.

The challenge now for Europe's economy is to turn a cyclical bounce into sustained growth. To achieve this, there is a need to make a dent in Europe's unemployment rate, now standing at 10% of the total workforce. Fundamental reform of the job market is crucial. The signs on this score are not all encouraging. Both Germany and France are introducing rules that will increase the costs of employment. Germany is imposing new social security payments and increasing the tax burden on second jobs. France is cutting the working week to 35 hours. This measure, although designed to create work by encouraging sharing, may discourage firms from employing people in the first place. Other signs are more promising. Most European governments, even those of the left, are now less hostile to deregulation. The euro is encouraging mergers and restructuring throughout Europe, which should in turn raise efficiency.

Scottish production to double in 15 years

Timber production in Scotland is set to double from current levels of around 4 million tonnes a year, to between 8 and 10 million tonnes within the next 15 years. Trees being harvested today were planted shortly after the second world war under government plans to reduce imports. Within the next few years, large tracts of forest planted in the 1960s and 1970s will come on stream for the first time.

South American Economy Continental recession

Just six months ago, in the wake of the disorderly devaluation of the *real*, it looked as if Brazil's economy was on the verge of collapse. However, since then Brazil's economy has notched up two successive quarters of growth, while inflation is still under control. Expectations are that inflation will end the year within the official target range of 6-10%. Yet Brazil's economy is still far from secure. For the second successive year, overall growth will be very subdued. Living standards are falling. President Cardoso is trying to stick to the austerity measures which markets and his deal with the IMF demands.

Shock waves from Brazil's devaluation have been felt elsewhere in South America. From Argentina to Colombia, much of the continent is in its deepest recession since the early 1980s. For example, according to the Economist, Uruguay's GDP is expected to shrink by 2.5% this year, Paraguay's by 3%, Honduras' by 3.8% and Ecuador's by 5.1%. While Paraguay's and Uruguay's recessions are an outcome of Brazilian collapse, Ecuador's economic woes are deep rooted in years of mismanagement. These problems have been compounded by El Nino related storm damage. Ecuador is now on the brink of defaulting on its huge debts and is seeking IMF support. Neighboring Peru is looking more healthy, already being in the IMF's care and slowly recovering from an earlier downturn. Honduras is still grappling with the after effects of the devastating Hurricane Mitch. Central America is performing much better. Indeed countries of the Caribbean region have been absorbing significant quantities of South American wood. Costa Rica, the most stable country in Central America is prospering. Nicaragua is expected to notch up the fastest growth in Central America this year and the next, with GDP growth of 4.5% in 1999 and 6% in 2000.

Rubberwood Firm Chinese demand

ITTO's Market News Service reports on the ongoing debate in Malaysia over the export of rubberwood. Producers of sawn rubberwood are lobbying the Malaysian government to grant further export quotas for the species. However domestic manufacturers of rubberwood furniture, concerned about shortages of raw material, are resisting the proposals.

Export demand for Malaysian rubberwood is high amongst Chinese furniture manufacturers. China is having difficulty obtaining sufficient volumes of the species and importers are offering high prices. Rubberwood production in Malaysia has increased during the dry season and supplies are readily available. Producers complain that they are being forced to sell their supplies to domestic manufacturers at internationally low prices.

Meanwhile, Malaysia's rubberwood furniture manufacturers also report firm demand for their product. They are keen to ensure raw material supplies are readily available at comparatively low prices. This should give them an edge over their main competitors in China, Thailand, Indonesia and Vietnam.

ITTO Consumers

In 1998, the volume of tropical hardwood logs imported by ITTO's consumer countries was 16% less than the previous year. Tropical sawnwood, plywood and veneer imports were also down by 8%, 13% and 7% respectively. A significant gain in tropical hardwood imports by European countries failed to counter-act considerable market losses in Japan and South Korea. Japan's imports of tropical hardwood logs, sawn and plywood fell by 36%, 37% and 21% respectively over the previous year. South Korea's imports of logs fell by 15%, while imports of both sawn and plywood collapsed to only half the previous year's level.

Highly competitive pricing and vigorous efforts by tropical producers to make up lost ground in Asia by developing European markets, led to a 15% and 13% increase in European tropical log and sawn exports respectively during 1998. The biggest buyers were France, Portugal, Spain and Italy. To some extent tropical imports made inroads into the markets for temperate hardwoods. Temperate hardwood imports into Italy, Portugal and France showed a decline during 1998.

Europe's plywood imports showed substantial growth during 1998, imports of tropical plywood increasing by 7% and of temperate plywood by 15% over the previous year. Imports of tropical plywood into Belgium showed a particularly significant gain of 69%.

Overall, European imports of veneer remained fairly flat compared to the previous year, with a 6% fall in tropical veneer imports being compensated by an increase in imports from temperate sources. Italy, with its large furniture manufacturing sector, maintained her commanding position as Europe's largest importer of veneer.

The ITTO data confirms the vigour of the US market during 1998, with log imports increasing by 29%. These are primarily of temperate origin, a large proportion likely to be arriving from Canada. US imports of tropical sawn rose by 7%, while imports of temperate sawn rose by 17%. The continuing strength of US furniture sector is reflected in the country's rising veneer imports.

ITTO's data for the UK suggests a significant shift towards temperate hardwoods during 1999, with tropical hardwood imports falling by 7% and temperate hardwood imports increasing by 9%. UK import data for 1998 presented in Tropical Timbers (No.4, 1999) confirms that tropical hardwood imports fell during 1998. However, the evidence for increased imports of temperate hardwoods is less convincing. UK customs data for 1998 categorised large volumes of low value sawn timber from Latvia and Estonia under the heading "hardwood", much of which is more likely to be softwood. If imports from Latvia and Estonia are taken out of the equation, total UK temperate hardwood imports show a significant decline during 1998.

Data taken from the International Tropical Timber Organisation 1998 Annual Review, now available on the Internet: www.ITTO.or.jp

	Tropical Hardwood Imports				Temperate Hardwood Imports			
	1996	1997	1998	% Chng 97/98	1996	1997	1998	% Change 97/98
Logs								
Austria	1	1	1	0	746	1109	1149	4
Belgium/Lux	76	88	101	15	51	47	34	-28
Denmark	2	4	4	0	398	196	96	-51
Finland	2	0	0	0	168	174	183	5
France	800	739	901	22	451	658	633	-4
Germany	116	80	80	0	100	220	220	0
Italy	250	230	270	17	1580	2121	1940	-9
Netherlands	98	96	95	-1	149	151	155	3
Portugal	357	310	358	15	77	148	100	-32
Spain	219	257	283	10	381	1286	1393	8
U.K.	12	12	12	0	13	13	13	0
Other	78	86	90	5	291	221	200	-10
Europe	2011	1903	2195	15	4405	6344	6116	-4
Canada	0	0	1	0	1044	1550	1199	-23
China	1000	2852	2800	-2	1632	688	300	-56
Japan	6172	5893	3792	-36	513	552	553	0
Rep. of Korea	1211	1060	900	-15	166	251	300	20
Taiwan	1573	1600	1550	-3	63	90	50	-44
U.S.A.	1	2	2	0	323	726	933	29
Other	13	13	15	15	2	4	3	-25
Total	11981	13323	11255	-16	8148	10205	9454	-7
Sawn								
Austria	7	9	5	-44	174	195	165	-15
Belgium/Lux	183	192	277	44	276	251	304	21
Denmark	16	24	15	-38	39	135	125	-7
France	218	276	303	10	257	263	280	6
Germany	157	189	200	6	381	470	500	6
Ireland	27	28	35	25	14	25	35	40
Italy	151	160	200	25	1273	1290	1300	1
Netherlands	395	330	400	21	188	252	185	-27
Portugal	37	39	38	-3	95	113	106	-6
Spain	309	368	426	16	411	60	39	-35
U.K.	280	300	280	-7	295	311	340	9
Other	45	44	44	0	397	382	381	0
Europe	1825	1959	2223	13	3800	3747	3760	0
Canada	15	12	10	-17	913	1012	915	-10
China	501	661	650	-2	277	464	499	8
Japan	1202	1265	793	-37	752	525	292	-44
Rep. of Korea	504	391	200	-49	247	247	150	-39
Taiwan	477	450	450	0	264	228	230	1
U.S.A.	251	256	273	7	638	809	945	17
Other	103	94	106	13	288	330	313	-5
Total	4878	5088	4705	-8	7179	7362	7104	-4
Plywood								
Austria	11	16	15	-6	50	50	65	30
Belgium/Lux	157	187	316	69	-1	28	30	7
Denmark	40	58	40	-31	61	48	65	35
France	127	106	108	2	81	127	151	19
Germany	196	209	200	-4	453	191	220	15
Ireland	7	8	10	25	5	4	5	25
Italy	95	95	100	5	105	105	120	14
Netherlands	212	175	175	0	46	59	60	2
Spain	2	3	2	-33	19	21	27	29
Sweden	8	5	5	0	64	70	80	14
U.K.	450	460	450	-2	82	70	80	14
Other	12	12	12	0	66	89	91	2
Europe	1317	1334	1433	7	1031	862	994	15
Canada	96	96	90	-6	129	124	130	5
China	1800	1369	1300	-5	450	81	160	98
Japan	4859	4860	3840	-21	33	72	-113	-257
Rep. of Korea	991	895	450	-50	83	73	50	-32
Taiwan	762	363	360	-1	0	417	410	-2
U.S.A.	1038	945	1089	15	752	832	862	4
Other	142	155	155	0	25	26	33	27
Total	11005	10017	8717	-13	2503	2487	2526	2
Veneer								
Austria	2	2	1	-50	15	12	11	-8
Belgium/Lux	22	22	35	59	21	20	25	25
Denmark	4	15	4	-73	9	2	13	550
France	22	32	35	9	30	13	20	54
Germany	60	66	60	-9	20	14	10	-29
Italy	170	160	150	-6	10	10	20	100
Netherlands	13	15	15	0	11	5	5	0
Norway	0	1	1	0	9	9	9	0
Portugal	2	3	3	0	3	5	3	-40
Spain	19	30	20	-33	29	1	10	900
Sweden	3	3	3	0	7	12	12	0
U.K.	9	10	10	0	28	26	20	-23
Other	6	3	3	0	15	25	27	8
Europe	332	362	340	-6	207	154	185	20
Canada	4	5	5	0	62	78	85	9
China	250	417	400	-4	76	27	30	11
Japan	109	94	61	-35	32	33	31	-6
Rep. of Korea	49	263	250	-5	24	84	250	198
Taiwan	155	160	150	-6	17	27	40	48
U.S.A.	14	17	18	6	180	177	190	7
Other	7	15	10	-33	7	8	16	100
Total	920	1333	1234	-7	605	588	827	41

Forest Fires *cont. from p 12*

these framework conditions would be required to ensure long term control of forest fires. Following the forest fires of 1997, a wide range of initiatives were introduced to reduce risks of future fires. The Indonesian government strengthened the Forest and Land Fire Control Centres and Fire Brigades. The National Forest and Land Fire Control Committee was given new responsibilities to monitor hot spots appearing on satellite imagery, carry out surveillance on the ground, and co-ordinate fire responses. The number of ongoing forest fire prevention projects has increased from 4 at the onset of the 1997 fires, to 35 today. These have focused on identifying causes and addressing different aspects of the actions required (such as capacity building). At the regional level, initiatives have been taken to address the problem of trans-boundary haze pollution, including the establishment of a Haze Technical Task Force. There is talk of developing new "Integrated Forest Fire Management" (IFFM) techniques, which involve coordination of a wide range of pre-fire planning and prevention techniques (such as fire breaks, weather monitoring etc), with fire suppression methods

Russian Federation

Struggling with the free market

The Russian Federation's forest sector has been in a state of decline throughout much of the 1990s. Following the collapse of the USSR in August 1991, the Russian authorities embarked on a process of trade liberalisation and privatisation. Under the Soviet system, firms in the forest sector were accustomed to having materials supplied and markets guaranteed by the state. Managers in the sector have since struggled to adjust to free market conditions. Inward investment to the sector was low for many years prior to the collapse of the Soviet Union. Political and economic uncertainty has continued to inhibit investment during more recent years. Furthermore, because ownership rights are still not clearly defined in Russia, owners of timber operations are reluctant to invest in the processing sector. As a result the state of equipment and machinery has deteriorated since 1990.

In 1998, output of hardwood logs was 18 million m³, 8% below 1997 levels. Output of softwood logs was around 55 million m³, down 5% on the previous year. Production of softwood and hardwood lumber combined was 16.5 million m³, down 9 percent.

Russia's forest product industry is in a critical financial state. According to the Ministry of Economics, the sector lost about 4 billion roubles during the first 11 months of 1998. Some 70% of all enterprises reported losses. Debts and wage arrears plague the industry. Although 95 percent of the medium and large enterprises have been incorporated into joint stock holding companies, the industry has not improved its production efficiency because of weak management. Most firms cover the financial gap by demanding 50% down payment to finance

(including fire detection and fire crew organisation), and post fire rehabilitation. IFFM also recognises the traditional use of fire by local people and seeks to involve local communities in fire management.

Despite all this discussion and activity, international agencies complain that positive measures on the ground are being implemented too slowly. These complaints came to the fore in July in Paris during meetings of the Consultative Group on Indonesia, which co-ordinates donors' activities in the country. Despite their worries about the environment, the donors pledged aid of US\$5.9 billion to Indonesia this year. However they will meet the government again in September to talk specifically about forest management.

An article in the Economist suggests that the donors complaints may eventually spur Indonesia into more vigorous action to curb forest fires, but not during the current dry season. Choosing a President in November now occupies Indonesia. Meanwhile the government is trying to maintain confidence in its patchy economic reforms, fighting a separatist rebellion in Aceh, and preparing for a vote on self-government in East Timor on August 30.

production, with the remaining 50% due upon completion of the project. There are therefore no stocks of processed wood available in the Russian market. Lack of operating capital and badly worn equipment, are expected to further erode forest production throughout 1999. Total output of forest products in Russia is expected to decline a further 4% this year.

There is no single department responsible for forestry development in Russia. Today, the Department of Forestry is the branch within the Ministry of Economy which tries to coordinate the forestry sector. It is developing plans and programs for the industry, but so far has not been effective in restructuring the sector.

The financial crisis led to a severe reduction in the domestic consumption of timber and timber products in 1998. Construction of wood houses dropped by 51% compared to the previous year, while the manufacture of windows and doors decreased by about 10 and 8% respectively. In 1999, total domestic consumption of softwood and hardwood logs is forecast to fall by 5%.

With domestic markets so weak, Russian firms are focusing on more profitable export markets. The rouble devaluation has improved Russia's competitive position on international markets and increased foreign contracts for timber production. However, Russian producers lack the resources to import logging and processing equipment and output of forest products will remain limited.

Russian producers, who export mainly roundwood, have a narrow market focus. Japan and Finland accounted for 70% of all Russian exports of timber and forest products in 1998. Much of the remaining volume was taken up by Sweden and China.

Papua New Guinea Export taxes reinstated

The new Papua New Guinea government of Prime Minister Sir Mekere Morauta has moved swiftly to reinstate the government's log export taxes. In an effort to stimulate log exports in the wake of the Asian crises, his predecessor had reduced taxes to 0% for all logs, and portions of the value of logs, under K130, in July 1998. Taxes prevailing before July 1998 were reinstated in a mini budget announced in early August. Industry sources estimate that, under current prices, reintroduction of the old tax regime increases taxes on logs from around 26% to 38% of their FOB value. The move has been welcomed by environmentalists concerned that low taxes tend to encourage exploitative logging while undermining state income for effective regulation. The PNG industry argues that the reinstated tax will undermine the revival in log exports, threaten foreign exchange earnings, and lead to job losses.

Industry sources quoted in the PNG press suggest that, with the new tax, exporters will lose US\$4 -US\$10 per m³. They argue that this on top of increased production costs due to the weakness of the kina and government hikes in VAT will be enough to render large sectors of the forest industry unprofitable, resulting in mass closure. A spokesman for the Forest Industries Association suggests that an "initial survey of members of the Association revealed that operations will now close and up to 90 per cent of PNG's log exports will be lost." The President of PNG Forest Industries Association suggests that the reintroduction of the old tax regime would result in the loss of K600 million foreign currency earnings per year.

Industry sources argue that when the full range of benefits to the state and resource owners are taken into account (including export taxes, VAT, royalties, other levies and infrastructure developments) they amount to over 56% of FOB value. The Forest Industries Association spokesman claims that "collapse of the industry would have a disastrous impact on the rural economy of PNG and for landowners within forest concession areas." He suggests that, as the Government has failed to provide services and infrastructure in the rural areas, these functions have been assumed by the forest industry. He also suggests that forest landowners, who currently receive something in the order of K15 million per year from the industry, will lose this income.

However PNG Government sources suggest that fears of an industry collapse are exaggerated, and that increased log prices on international markets are sufficient to justify reinstatement of the taxes. Local environmental activists argue that last years tax reductions served only to allow foreign logging companies to make windfall profits and did little to benefit local communities.

Japan Imports expected to increase

Japan's Lumber Importers Association (JLIA) has released its forecasts for Japanese wood products imports this year. The forecast total import of logs, lumber and plywood of 28.34 million m³ is 3 million (18.8%) higher than 1998. The anticipated increase this year is due to low levels of imports last year (down 30% on 1997 levels). Imports in 1998 were insufficient to meet underlying demand and led to severely depleted stocks at the start of 1999. JLIA estimate that housing starts this year in Japan will be 1.3 million units, up 8.5% on 1998 levels. Following devaluation of the rouble, JLIA is expecting significant increases in imports of Russian softwood logs for plywood manufacture. Log imports from New Zealand are expected to decline by 11%. North American softwood log imports were low in the first half of 1999 but are expected to recover in the second half of the year. Log imports from Asia/Pacific regions are expected to recover after dropping to extremely low levels in 1998. Plywood imports are forecast at around 2.8 million m³ from Indonesia and 1.7 million m³ from Malaysia.

Japan's economy is improving, but significant signs of weakness remain. Deflationary pressures are being tackled for the time being through large scale government stimulus measures. Japanese manufacturers are benefiting from improved demand elsewhere in Asia. Housing investment has strengthened, spurred on by government incentive schemes and low interest rates. On the downside, unemployment hit 4.9% in June, a record for Japan. Wage levels and private capital investment are falling. The recovery of the yen is threatening to undermine the competitive position of Japan's manufacturers. Currently budgeted government spending will be exhausted later in 1999. Many analysts are concerned that Japan's economy remains vulnerable to a sharp downturn.

Forest Convention New Initiative

Costa Rica and Canada have embarked on a joint initiative to promote development of a legally binding Forest Convention. Their initiative is being implemented in 3 stages. The first revolved around an expert meeting in San Jose, Costa Rica, to discuss the general issues involved in formulating an International Forest Convention. The second stage, now underway, involves a series of regional and sub-regional meetings to discuss how a Convention would address regional concerns. The first of these meetings was held in Kuala Lumpur in August. Topics included technical and financial support for sustainable forest management and forestry's contribution to the economy. The third stage will involve submission of a report on the outcome of the regional meetings to the Inter-governmental Forum on Forests (IFF) for

discussion at a meeting in Canada later this year. The fate of any proposed Forest Convention hinges on the outcome of the UN's Commission on Sustainable Development meeting in New York in April 2000. Their decision will be based on the report from the IFF. The major obstacle is continuing resistance from the United States.

Forest Certification B&Q accept Finnish scheme

B&Q, the UK's largest DIY retailer and an ardent commercial advocate of the Forest Stewardship Council (FSC), reports that it is on course to achieve its target of 100% certified forest products by the end of the year. To achieve the target, B&Q are relying heavily on rapid FSC certification of the UK forest estate. They are also accepting wood certified under the Finnish national certification which has been developed outside the FSC umbrella.

B&Q's "Position Paper" of 30 July notes that 9.5% of its range of 14700 wood-based products is FSC certified. A further 56% of their product range is "on track" to be certified by 31 December 1999. Under this category are included all of their UK sources. B&Q are confident that the recent launch of the United Kingdom Woodland Assurance Scheme (UKWAS) will deliver large volumes of wood to the required certification standard within the next 4 months. Of the remaining 34.5% of their products, they are confident that 14% "can be ob-

tained from certified sources within the deadline although more activity is required"; and 19.5% come from Finland. 1% are products for which it will be difficult to achieve certification, and will be discontinued.

In accepting Finland's national certification scheme, B&Q note that "*Finland is a very significant source for us. Whilst reviewing the historical context of our policy we must not forget that other than one very isolated example, B&Q has never been criticised for buying wood from Finland. We have also been encouraged by the determination of the Finnish industry to create a scheme that meets our needs.*" While encouraged by the efforts of some other national certification schemes, for example the Indonesian LEI scheme, to work towards mutual recognition with FSC, they note that "at this stage the only other scheme we are prepared to accept is the Finnish scheme. However "*we are currently reviewing the Indonesian and Norwegian scheme and a review of all other schemes should be completed by January 31 2000.*" They imply that the Pan European Scheme is unlikely to meet their requirements because mutual recognition with FSC is unlikely.

They argue against the development of certification schemes as competitors to FSC. However, they also suggest that forest management certification should be separated from the product labelling. Their "ideal model" is for national schemes operating throughout the world to take responsibility for forest management certification. These should all be recognised by a global umbrella scheme which takes care of the "chain of custody" and awards the product label.

Mergers

Tomorrow's corporate giants

A major feature of the international forest products trade has been the trend towards consolidation, mergers and larger scale operations. The degree of concentration in the timber industry may still be much less pronounced than in other sectors, due to a starting position characterised by a high degree of fragmentation, large numbers of medium sized companies, and natural limits to the availability of raw material supplies. But the trend is apparent nevertheless, driven less by the urge to benefit from economies of scale on the supply side, and more by the increasing demands of markets.

Examples of recent large scale consolidation in the forest products sector include the merger of Enso's, Stora's and Schweighofer's sawmilling activities in Europe; in the European wood based panels sector, the acquisition by the Spanish Tafisa of a majority stake in Glunz AG; in North America, the acquisition on 21 June of Canada-based MacMillan Bloedel by US-based Weyerhaeuser.

There are a number of reasons for the growing trend towards consolidation. Intense competition between firms, coupled with falling prices for many wood based products, notably pulp and paper, is eating into corporate profits. This has meant rotten returns for shareholders and led

investors to move out of wood products shares. As in other sectors, the exceptions tend to be a few large focused firms that investors see as likely consolidators.

Wood products companies are also under pressure from their customers. As big buyers globalise, they tend to push their suppliers to squeeze costs and to go global themselves. Some mergers (for example in Belgium the takeover of Tivapan by Unilin) have involved vertical concentration, linking panel production or sawmilling with further processing operations. At the same time, markets are becoming more efficient. The timber trade has, of course, been a global business for centuries. But protectionism and lack of information have tended to shelter weaker firms. This is becoming less and less possible. Privatisation and market liberalisation in Asia and Latin America have released low priced producers onto the global market. In Europe, introduction of the euro is tending to increase competition, intensifying confrontation across borders between firms previously dealing only with national rivals. In the future, electronic trading of forest products may be expected to intensify the trend towards consolidation. The more perfect the market, the greater the pressure to keep prices and costs down.

Indonesia

On fire again

Forest fires in Indonesia are again in the news, with some reports even suggesting that the problems this year may be worse than in 1997 when fires affected around 6 to 10 million hectares. Official figures suggest that 800,000 has of forest, including primary and secondary forest and plantations, were destroyed in 1997 with an economic loss of about US\$4 billion. In addition to implying a major loss of forest resources, smog from the fires represents a significant threat to human health and to the important tourist industry. Smog is disrupting air traffic and shipping in the region.

Newspaper reports from Indonesia suggest that smoke from forest and plantation fires began to darken the skies over parts of Riau in Sumatra when the dry season began in July. Forestry officials now suggest that this year's fires in Kalimantan are spreading rapidly and the situation there could soon be worse than in Sumatra. Fires have also been reported in Sarawak. The fires are forecast to last at least until the end of the dry season in October.

While Indonesian officials have occasionally been tempted to blame the forest fires on natural phenomena, specifically the EL Nino weather phenomenon which leads to prolonged drought, the real causes of forest fires in Indonesia are more complex. According to a summary of an ITTO meeting of experts held in December 1998 to discuss forest fires in the region: *"El Nino by itself is not a sufficient cause of forest fire....major fires have taken place in Indonesia due to a much more complex interaction of human-induced conditions, which, among others, include availability of dry fuel load (caused by wasteful logging, land clearing), providing the material to feed the conflagration and an ignition source. The forest fire scene in Indonesia is characterised by conditions emanating from negligence and linked both to subsistence and commercial activities. They are among others: large scale logging, leaving a high per-centage of residues in the forest, which in drought years become highly combustible; land clearing practices of plantation companies and small holders using fires to dispose of clearfelled materials; careless use of fires by graziers, non wood forest products collectors, campers and others; intentional fires for staking land claims; or for other reasons"*.

The ITTO experts went on to stress that the risk of fire was increased by other constraints, notably weaknesses in legislation and enforcement, lack of funds, human resources and technical knowledge. Fundamental changes in

Continued page 10

SHARE PRICES FOR SOME U.K. COMPANIES

	52 Week High	52 Week Low	29 Apr	28 May	22 June	27 July	31 Aug
J. Latham	201.5	141.5	156.5	173.5	181.5	178.5	186.5
Meyer International	487.5	244	449.5	461.5	431.0	418.5	450.0
Travis Perkins	758.0	350	652.5	665.0	709.0	755.0	758.5
Barratt Devs.	397.5	155.5	360.0	321.5	375.0	343.5	324.0
John Laing	396.5	230.5	318.5	320.0	319.5	335.0	339.0
Alfred McAlpine	253.5	106.5	230.0	218.0	211.5	221.0	253.5
J. Mowlem	154.5	90.0	153.0	144.0	145.0	136.0	140.5
George Wimpey	182.5	90.5	161.5	159.0	157.5	153.0	152.0
Cornwell Parker	155.0	52.5	117.5	101.5	110.0	96.5	92.5

EXCHANGE RATES FOR ONE POUND STERLING

		28 May	29 June	27 July	30 August
Australia	Aus.\$	2.4508	2.4090	2.4682	2.5144
Bangladesh	Taka	77.7165	76.6204	78.6135	78.5789
Belgium	Belgian Fr.	61.8187	3.1596	60.2859	61.2947
Belize	B\$	3.2048	3.1596	3.1763	3.1749
Bolivia	Boliviano	9.1978	9.0839	9.2113	9.3184
Botswana	Pula	7.5746	7.3241	7.3833	7.3324
Brazil	Real	2.7802	2.7868	2.8841	3.1091
Fr. Africa*	CFA Fr.	1005.22	1002.45	980.30	996.70
Chile	Peso	790.865	818.258	817.659	820.553
China	Yuan	13.2656	13.0785	13.1451	13.1395
Denmark	Danish Krone	11.3862	11.3556	11.1248	11.2954
Europe	Euro	1.5325	1.5283	1.4945	1.5195
France	Franc	10.0522	10.0245	9.8030	9.9670
Germany	D-mark	2.9972	2.9890	2.9229	2.9718
Ghana	Cedi	4014.01	4030.08	4126.03	4183.73
Guyana	Guyanese \$	256.384	273.305	274.750	274.629
Hong Kong	HK\$	12.4258	12.2563	12.3265	12.3264
India	Rupee	68.7750	68.5081	68.7828	69.0422
Indonesia	Rupiah	13039.55	10553.07	11117.06	12302.75
Irish Republic	Punt	1.2069	1.2036	1.1770	1.1967
Italy	Lira	2967.23	2959.05	2893.66	2942.07
Japan	Yen	193.602	191.116	184.885	176.413
Kenya	K. Shilling	112.97	115.21	117.44	119.38
Korea South	Won	1900.20	1828.22	1910.54	1879.86
Malaysia	Ringgit	6.0891	6.0033	6.0350	6.0323
Myanmar	Kyat	10.0177	9.8764	9.9287	9.9243
Netherlands	Guilder	3.3771	3.3678	3.2934	3.3485
Nigeria	Naira	155.457	159.063	160.133	156.682
Philippines	Peso	60.971	59.9535	60.8262	63.1012
Portugal	Escudo	307.228	306.381	299.61	304.62
Singapore	Singapore \$	2.7637	2.6901	2.6793	2.6792
South Africa	Rand	9.9950	9.5366	9.7293	9.6668
Spain	Peseta	254.977	254.275	248.66	252.816
Taiwan	\$	52.4706	51.0197	51.2417	50.5563
Tanzania	Shilling	1129.69	1145.36	1278.47	1261.23
Thailand	Baht	59.5212	58.2236	59.1983	60.8391
Uganda	New Shilling	2299.45	2294.66	2318.70	2329.59
U.S.A	US \$	1.6024	1.5798	1.5882	1.5875
Venezuala	Bolivar	958.836	956.577	973.695	983.584
Vietnam	Dong	22297.40	22005.04	22153.11	22163.98
Zimbabwe	\$	61.1316	59.9535	60.9057	60.7201

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

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