

TROPICAL TIMBERS

an independent publication providing market information

Indonesia

Plywood gives way to paper

Recent research by the World Bank highlights that during the Asian crisis Indonesia's pulp and paper sector overtook the plywood sector as the leading contributor to Indonesia's forestry export earnings.

If this change is to last, and there is every indication that it will, it will have major implications for the Indonesia forest sector. This is the conclusion of research undertaken by Chris Barr at the World Bank under the title "Banking on Sustainability: A Critical Assessment of the World Bank's Structural Adjustment Reforms in Indonesia's Timber Sector."

Together, the plywood and pulp and paper sub-sectors account for approximately 90% of total annual export revenues in Indonesia's forestry sector. Since 1987, Indonesia has been the world's leading exporter of tropical plywood. However plywood export volumes have declined consistently since reaching a high of 9.8 million m³ in 1992. It is estimated that in 1999, only around 7.5 million m³ will be exported. The value of plywood exports has fallen from US\$4.5 billion in 1993, to US\$3.9 billion in 1997 immediately prior to the economic crises, to only an estimated US\$2.2 billion this year. The country's pulp and paper industry has taken a radically different course. Paper and pulp production has increased from virtually nil in the early 1980s, to reach an estimated 13 million tonnes and 6 million tonnes respectively in 1999. The value of pulp and paper products exports increased from only US\$2.1 billion as recently as 1997, to an estimated US\$5 billion in 1999. There are various reasons for the changing focus of Indonesian industry. Some commentators suggest that Asia's recent economic turmoil is the major reason for the downturn in the fortunes of the plywood sector. For example, Kristiyono Fajari, director of the Association of Indonesian Wood Panel Producers (APKINDO), notes that plywood exports in the period 1997-99 declined due to collapsing demand in Asia, notably Japan, South Korea and Taiwan, and due to competition from low-cost producers in-

cluding China and Brazil. He also apportions part of the blame to the government's decision to reduce log and lumber export taxes, and the recent revocation of various timber concession licenses obtained by corrupt means. Both measures have restricted log supplies to the plywood industry.

However, this can only be part of the reason for plywood's progressive decline. As Barr points out, plywood production has been declining since the mid 1990s, well before the onset of the Asian crisis. The underlying problem has been, and continues to be, the severe over-exploitation of Indonesia's forest resources. Annual log consumption (53 million cubic meters in 1996) now greatly exceeds legal log production from officially sanctioned sources (25 million cubic meters in 1996). 28 million cubic meters annually are coming from illegal sources. The volume of timber coming from Indonesia's production forests has declined from 24 million cubic meters in 1990 to 16 million cubic meters in 1998. This decline in supply reflects past over-exploitation. The decline is also reflected in a major reduction in concession numbers, from a high of 652 in the early 1990s to only 389 in 1998. The shortfall of timber from concessions in production forests has been made up by increasing the extraction of timber from conversion forests. This trend is clearly unsustainable.

While Indonesia's natural forests have come under increasing pressure, the Indonesian paper industry has expanded. Indonesia is well adapted to paper production. Climatic conditions allow rapid growth of plantations for pulp. Indonesian government statistics suggest that in the period 1990 to 1999, around 2.5 million hectares of industrial plantations have been established at a rate of 250,000 hectares per year. Some analysts speculate that there may be a direct link between the decline of the plywood sector, and Indonesia's booming paper industry. The degraded forest resources left behind from exploitative plywood and sawn timber production may now be more readily converted to pulp and paper.

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Another factor encouraging paper production in the country is that there are Indonesian industrialists who made a fortune in the Suharto era with sufficient capital to invest in paper manufacturing. Many of these industrialists have existing marketing channels to meet growing paper demand in other Asian countries.

As Barr points out, the progressive change in emphasis from plywood to paper manufacture in Indonesia should have a major impact on the direction of Indonesian forest policy: "From the mid-1980s through the mid-1990s, the timber industry was structured to channel the bulk of the forestry sector's rents to plywood producers, particularly those that controlled the export of Indonesian wood panels through

APKINDO's marketing cartel. Over the last several years, however, exceedingly large sums of investment capital have been pumped into the nation's rapidly growing pulp and paper industry. Although the investment costs in pulp and paper are exponentially higher than they are in plywood - so too is the value added per unit of wood - and, therefore, the potential profits. In this way, the primary locus of rent capture in Indonesia's forestry sector is rapidly shifting toward pulp and paper."

This article draws heavily from a paper by W.D. Sunderline at the Centre of International Forestry Research (CIFOR): "The Effects of Economic Crises and Political Change on the Indonesian Forest Sector 1997-99". It is available on-line at the CIFOR website.

Greens target Indonesian paper

Friends of the Earth and Indonesian campaigners have targetted UK-based insurance companies, Norwich Union and Legal & General, over their investments in the paper sector. The campaign revolves around the two companies' investments in UPM-Kymmene, which operates a pulp mill in Riau, Sumatra in a joint venture with Asia Pacific Resources International (APRIL). The Riau pulp mill is the world's largest single-line chemical pulp mill, with a capacity of 750,000

tons a year. There are plans to increase capacity to two million tons per year. APRIL operates two concessions totalling 286,950 hectares. They comprise logged-over rainforest which will eventually be replaced by acacia plantations. Friends of the Earth suggest that "replacing natural stands with monoculture plantations is one of the greatest current threats to forest ecosystems worldwide and a major cause of social dislocation and local conflict."

Brazil considers new Forestry Code

Discussions are underway within the Brazilian government over the introduction of a new Forestry Code. According to the Environmental News Service, the new Code would reduce environmental controls governing forest management. The new Code would:

- * allow economic exploitation of forests in permanently protected areas.
- * permit conversion of native forests into agricultural land on some properties without the need of a license from the environmental authorities.
- * no longer require the maintenance of reserves of native forests in properties up to 20 has.
- * allow the inclusion of reforestation with eucalyptus and pines, amongst other species, in

the computation of legal reserves in small rural properties in the Amazon rainforest and in the Brazilian savanna areas. Currently only native forests count for that purpose.

These measures have been proposed following lobbying by the National Council for Agriculture, which represents Brazilian farmers.

A special Congressional Commission set up to consider the new Forestry Code has tried to pass the bill twice since November 23, but failed due to resistance from environmental groups. Environmentalists claim the Commission is overly dominated by rural representatives, and that the proposal for the Forestry Code was drawn up without adequate consultation. They claim the new Code would encourage deforestation.

Indonesia's forest debts

Indonesian bank officials are scrambling to restructure the US\$632 million debt owed by companies controlled by Bob Hasan, a close associate of former president Suharto. Paper firm PT Kiani Kertas is the largest single borrower in Hasan's group with a debt of nearly US\$344 million. Other debtors include: PT Kalimantan Plywood Industries (with debts of US\$41.2 million); PT Essam Timber (US\$13.9 million) and PT Jati Maluku Timber (US\$2.1 million). The Indonesian Bank Restructuring Agency officials have said they hope to finish the debt restructuring by next June, but comment it is difficult negotiating with foreign creditors and changing governments.

Russian recovery

According to Russia's Deputy Economics Minister Boris Maslii, preliminary figures for the first 9 months of 1999 indicate the nation's forest industry is recovering. He suggests that the sector posted growth for nearly all key indicators. Production of commercial timber rose for the first time in three years. More than 1,200 logging companies delivered 60 million cubic meters of round timber to sawmills in the nine months, 10.4% more than in the same period last year. More than 80 of the country's 100 pulp-and-paper mills increased production and became profitable. Output rose 30.2% to 1.1 million tonnes of cardboard, and 14.8% to 974,700 cubic meters for plywood.

Protected Areas Under Threat

Research by the International Union for the Conservation of Nature (IUCN) suggests that a significant proportion of protected areas are under threat in 10 key forested countries. The survey was commissioned by the World Bank/WWF Alliance and covered China, PNG, Russia, Tanzania, Gabon, Mexico, Vietnam, Indonesia, Brazil and Peru.

The survey categorised protected areas on the basis of "threats" to their long-term status. It suggested that only 1% of forest protected areas were regarded as secure in the long term. A further 1% were so badly degraded that they had lost the values for which protection was given. Some 22% were suffering various levels of degradation and 60% were currently safe but faced possible future threats. The remaining 16% had not been categorised.

The survey also assessed the current management status of protected forest areas. It suggested that less than a quarter (0 to 24%) were considered to be "well-managed with a good infrastructure", while between 17% to 69% had no management.

In IUCN's own words "These figures give grounds for both alarm and hope. There are clearly many protected areas without adequate management and this is in some cases leading to degradation. However, a very small proportion were thought to have been ruined and many under-managed protected areas have retained many of their values, suggesting that protection status alone is providing some security."

New World Bank target

In response to IUCN's findings, the World Bank/WWF Alliance adopted a new target for protected forest areas. The target calls for 50 million hectares of existing but threatened forest protected area to be secured under effective management by the year 2005. The target is in addition to existing targets:

*50 million hectares of new forest protected areas by 2005.

*200 million hectares of the world's production forests under independently certified sustainable management by 2005.

The measures taken to implement these targets are outlined in the World Bank/WWF Alliance's first annual report released in December. The report claims that the Alliance is working world-wide to improve forestry practice. For example, it notes that in Vietnam it helped mobilize more than \$1 million private investment from the Tropical Forest Fund, an association of furniture buyers committed to sustainable forestry. In Georgia, the Alliance encouraged the passage of a new forestry code that should promote better forest management. The Alliance claims to have encouraged the governments of Brazil, Peru and six nations of the Congo Basin to commit to actions that once realized, will help the Alliance meet two-thirds of its target for new protected areas.

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

	Oct	Nov	Dec
Ex CAR, Congo (Braz) Fr.F/m3 FOB Douala LM			
N°GOLLON			
70cm+20% 60/69	1550	1550	1550
BOSSE 60cm+	1650	1650	1650
AYOUS 70cm+	1100	1150	1150
SAPELE			
80cm+20% 70/79	1650	1950	1950
SIPO			
80cm+20% 70/79	2050	2450	2450
<i>Note logs of Iroko and Bibolo are no longer available via Douala.</i>			
Ex Gabon Fr.F/m3 FOB Owendo LM			
ACAJOU			
70cm+20% 60/69	1450	1475	1475
DOUKA			
70cm+15% 60/69	1250	1350	1350
SIPO			
70-79cm 10% 60/69	1800	1950	1950
80-99cm	2000	2200	2200

Liberian log prices, including Lovoa, Khaya, Bosse, Framire and Iroko, will be available in the New Year

Sawn Timber

Ex Ghana DM/m3 FOB Takoradi			
FAS (includes notional agent's commission of 5%)			
6"+ avg 9" C/£	4764	5452	5608
6"+ avg 9" DM/£	3.05	3.12	3.12
A.MAHOGANY AD	1050	1050	1050
A.MAHOGANY KD	1200	1200	1200
EMERI AD	760	760	760
UTILE KD	1500	1500	1500
ODUM AD	na	na	na
ODUM KD	1250	1250	1275
SAPELE KD	1070	1100	1125
EDINAM AD	590	590	600
EDINAM KD	770	770	780
WALNUT AD	705	705	800
NIANGON AD	895	895	925
DANTA AD	710	710	730
DANTA KD	975	975	1000
WAWA AD	500	500	510
WAWA KD	575	575	585
MAKORE AD	925	925	940
MAKORE KD	1090	1090	1110

Ex Douala - Cameroon, CAR, Congo (Brazzaville)			
Fr.F/m3 FOB FAS width 6"+, length 6'+			
SAPELE	2950	3200	3200
SIPO	3900	4200	4200
BIBOLO	2650	2750	2750
N°GOLLON	3200	3200	3200
AFRORMOSIA	4000	5500	5500
IROKO	3375	3500	3500

Ex Gabon FR.F/m3 FOB			
FAS width 6"+, length 6'+			
OKOUME AD	2000	2000	2000

Ex Congo (formerly Zaire) Fr.F/m3 FOB			
FAS width 6"+, length 6'+			
SAPELE	na	na	na
SIPO	na	na	na
MAHOGANY	na	na	na
AFRORMOSIA	na	na	na
IROKO	na	na	na

	Oct	Nov	Dec
Ex Cote d'Ivoire Fr.F/m3			
Fr.F/£	10.24	10.45	10.46
FOB Abidjan FAS			
6"+ avg 9"-10"			
6'+ avg 10'-11'			
1"-2"			
IROKO	3375	3400	3400
MAHOGANY	2750	2750	2750
FRAMIRE	2000	2000	2000
SAMBA No.1 C&S	1525	1525	1525
AZOBE dim. stock	2300/	2500/	2500
	2800	2900	2900
OPEPE dim. stock	1950/	2100/	2100
	2550	2600	2600
DABEMA dim. stock	1950/	1950/	1950
	2550	2550	2550

Ex Malaysia US\$/ton, C&F UK port			
M\$/£	6.24	6.13	6.11
US/£	1.64	1.60	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	920	920	920
2.5" KD	950	950	950
3" KD	990	990	990

KERUING			
Standard & Better GMS			
1"-3"			
width: random or fixed			
length 16'+	550	550	550
KAPUR			
Standard & Better GMS			
1"-3" plnd			
width 6"+ avg 7"-8"			
length 16'+	555	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\$/£	1.64	1.60	1.61
6"+ avg 9-10"			
6'+ avg 10-11'			
MAHOGANY (Swietenia)			
1"-2" AD	1175	1225	1225
2.5"-3" AD	1185	1235	1235
1"-2" KD	1245	1295	1295
2.5"-3" KD	1275	1325	1325
VIROLA			
1" KD No.1 C&B			
boards	380	380	380
strips	360	360	360
CEDRO			
1"-1.5" KD	700	700	700
2" KD	720	720	720
2.5"-3" KD	750	750	750

Hardwood Market Highlights

- Meranti price gains forecast
- "Acute" African supply situation
- Tightening US supply
- leads to record prices
- European oak prices up 8% on last year
- European beech prices up only 3%
- as China becomes more choosy

Asian Hardwoods
Further price gains forecast

Prices for Malaysian Meranti/Seraya lumber remain stable for the time being, but most contacts are forecasting a return to the rising trend in the New Year. Tightening supplies over the coming months should contribute to firming prices. The monsoon is now well underway in Malaysia, while the Far Eastern holiday season is imminent. The Moslem Ramadan celebrations occur in January, to be followed quickly by Chinese New Year in early February.

In December, European representatives of Malaysian shippers report that buyers are still able, with effort, to pick up most sizes and grades required. However, all contacts forecast that supplies will tighten significantly in the New Year. As usual at this time of year, the UK and European markets for Malaysian sawn timber are quiet, as few importers are willing to book forward in the run up to the European vacations.

Considering prospects in Europe during 2000, Asian redwoods remain competitive on price, despite the recent price gains. With supplies now so tight elsewhere in the tropics, notably West Africa, alternative options for European importers are now very restricted. Both factors suggest that Malaysian hardwoods will maintain a strong position in European markets over the next 12 months, irrespective of further price rises. Views on the underlying strength of European demand for tropical hardwoods in early 2000 are mixed. One agent commented that demand is usually weak during the European winter season, and that the market is unlikely to pick up until Spring. However most contacts were more optimistic, suggesting that improving economic conditions should contribute to healthy purchasing in the New Year. Representatives of Sabah shippers are particularly upbeat, commenting that European demand for Seraya lumber is expected to continue "very firm".

Turning to the Asian log market, prices continue rise, primarily due to wet weather conditions in Sarawak which are restricting logging activity. However the weakness in Asian plywood prices has undermined log demand in Japan and South Korea.

Supplies of logs from PNG are beginning to

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Asian Hardwoods *Cont.*

improve as the rains have abated. However orders for PNG logs are slow as prices are higher than other sources.

News from major markets in the region:

* Japanese Southsea log importers have been reluctant to pay rising FOB prices over recent months due to the depressed state of the domestic plywood industry. However signs that the plywood industry has hit bottom has raised hopes that the price increases may now be made to stick. The Bank of Japan's tankan survey gave mixed messages about a Japanese recovery: business recovery has slightly improved, but capital spending by big companies is waning.

* South Korea's economic growth has gone into overdrive, raising fears of over-heating. The economy grew by 12.3% in the 3rd quarter of 1999 compared with the same period last year.

In October 1999, industrial production increased by more than 30%. Interest rates are expected to be raised to dampen down rates of growth. However growth in the construction sector continues to lag behind growth in other sectors. Korea's hardwood log market remains dull despite very low stocks.

* Between January and October this year, China's imports of logs and sawnwood reached 10.12 million m³, twice that of the same period last year. China's furniture exports during the same period were valued at US\$2.13 billion, a 24% increase over the same period in 1998. Domestic timber production in China during the first 6 months of 1999 reached 22.5 million m³, a marginal increase (0.04 percent) over the same period last year. However, in the 12 provinces where the National Forest Protection Programme has been implemented, tim-

ber production was 24% down on last year.

* Malaysia's economy is improving rapidly, registering 8.1% growth during the third quarter of 1999, the highest rate since the start of the Asian economic crises. Malaysian GDP contracted by 7.5% in 1998 and by 13% in the first quarter of 1999, before seeing a return to growth in the second quarter of this year. Some economists now predict double digit growth during the final quarter of the year. Growth is reported to have a broad base, being common to all sectors except mining. Manufacturing grew by 19.5% compared to 3.5% in the previous quarter in response to strong demand in export markets and a recovery in domestic consumption.

European Hardwoods

Significant increases in oak prices

The German trade journal EUWID indicates that after 102 auction sales in France, beech prices this year are around 3% higher (average for all grades) than last year, while oak prices are around 8% higher. There continues to be lively demand for French beech from China. Thicker sizes and stocks of lighter tinted oak from the eastern regions of France are particularly in demand. There has been very strong demand for French oak, particularly for barrel stave grades. Rising prices for US oak coupled with firm French domestic demand has also led to rising prices for milling grades of French oak. During 1999, overall demand for European beech from China has been equivalent to last year, but price targets have been around 10% lower. China is well-stocked in sawn beech and buyers are much more focused on purchasing only the best grades. Chinese importers are now unwilling to pay significantly higher prices for quality beech than Spanish importers.

Spanish importers' inventories of beech are at very low levels and demand has increased over recent weeks. Spanish importers are increasingly sourcing their beech from Germany as their traditional French suppliers have focused increasingly on the Chinese market. However the beech trade between Germany and Spain has been disrupted due to a shortage of freight space. Lack of availability of quality beech has meant that Spanish importers have been willing to accept price increases and are also buying larger volumes of B/C grades. European beech exporters are confident that Spanish demand will remain firm into the New Year. Spain's economy continues to perform well. The Economist "Poll of Forecasters" in December predicts Spanish GDP growth of 3.7% during 1999 and 3.8% in 2000, up from 3.6% and 3.7% respectively forecast in the November poll.

German demand for European hardwoods has been languishing for some time. The hardwood market has been hit by the weak national economy, high unemployment and slow consumer spending, and low competitiveness in the manufacturing sector, including furniture. How-

ever, recent data has raised hopes that the national economy may be coming out of recession. Third quarter GDP grew by 0.7% and unemployment fell by 29,000 in November, to 10.4%. Industrial output rose by 1.7% in October compared with the previous month. The President of ZDB, Germany's leading association for the construction sector, has suggested investment in construction should increase next year for the first time in 6 years.

The Italian market for European hardwoods has been very competitive this year. Italian importers have increasingly covered their demand for beech from low cost suppliers in Eastern Europe, notably Slovenia, Croatia and Bosnia.

The latest research data indicates that Italian furniture production is increasing. According to research organisation CSIL, the value of Italian furniture production in 1999 should be around 2.0% than in 1998. Furniture production is expected to rise by around 3% annually over the next two years. Italian furniture consumption is also recovering. Consumption in 1999 should be 3.7% higher than the previous year. Consumption is expected to grow by around 4.0% in both 2000 and 2001. Italian furniture imports are rising rapidly, increasing at an annual rate of 20% since 1997, a trend which is expected to continue. Italian furniture exports are expected to grow modestly (by 1.3%) in 1999, and by 3% and 4% respectively in 2000 and 2001.

The UK felling season for quality hardwood is now underway. The UK's small domestic hardwood sector is feeling the heat from the strong pound which has led to significant pressure from more competitively priced imports, notably beech and oak from Eastern Europe. UK hardwood producers' margins are also being hit by rising transport costs resulting from UK government policy to increase fuel and road taxes for environmental reasons. However the very limited volumes of high grade British grown oak produced continue to find a market. There is also growing demand for "rustic" oak flooring in the UK.

South American Hardwoods Brazilian Amazon exports only 14%

According to a report from Friends of the Earth, 86% of all timber from the Brazilian Amazon is now consumed domestically, while only 14% is exported. The report is based on sawmills covering both legal and illegal felling. Much of the wood is used in the Brazilian furniture and construction industries. Friends of the Earth representative Roberto Smeraldi notes that "*The idea that by changing consumption patterns in Europe, you will change production patterns in the Amazon is not necessarily true*".

High prices for Brazilian mahogany reflect the limited volumes extracted this year and continuing interest in the species from US importers. Agents report that at least one UK importer recently purchased limited volumes of the species at the new prices - suggesting there may still be a few manufacturers willing to pay a premium for the particular quality attributes of the species. However prices for Brazilian mahogany are now prohibitively high for the mainstream UK trade.

Asian markets for Brazilian tropical sawn, notably Korea and Thailand, continue to improve, although exports remain small.

As is usual at this time of year, Brazilian domestic demand has slowed since mid November. However *real* prices have remained stable. Tropical sawnwood supplies to Brazil's domestic markets remain steady despite the onset of the northern rainy season.

After a very poor start to the year, Brazil's economy now looks more healthy. The *real* is slowly strengthening against the dollar; the government has a fiscal surplus; and the impact of this year's devaluation on inflation, while significant, has been smaller than anticipated. Interest rates, although still high at 19%, are considerably lower than rates of 49% registered at the height of the economic crises. Some analysts expect interest rates to be cut further during December in response to falling inflation. Brazil's economy has contracted by only 0.3% over the last 12 months, and some analysts are projecting GDP growth rate of 4% in 2000.

North American Hardwoods

Supply squeeze leads to record prices

The US domestic market continues as buoyant as ever. There has been a slowdown in house sales in the second half of 1999, but they remain strong in historical terms. US consumer confidence is high, despite rising levels of debt. America's current account deficit hit a new high in the third quarter of US\$89.95 billion, just over US\$9 billion greater than the revised second quarter total. Retail sales showed evidence of firm demand in November, beating forecasts to leap 0.9% after rising only 0.3% in October. However, inflation is still at bay; the consumer price index for November rose just 0.1%.

Overall export demand for US hardwoods has been strengthening in the last quarter of 1999. In Europe, the strongest growth derives from Mediterranean and Nordic countries. White oak sales to the major Spanish and Portuguese markets are improving. Italy is buying again after a long period of stagnation, while the strong French economy is now feeding through into greater US hardwood purchases. The UK market is steady, although many buyers are unwilling to accept new higher prices.

In the Far East, US hardwood shipments are much improved to South Korea, where the economy is showing distinct signs of recovery. China and Hong Kong continue to buy steadily, with particularly good demand for Tulipwood, Red oak and Ash. However US Hard maple is coming under pressure from European beech, which is more competitively priced and readily available. Although Japan's economy is still wobbly, purchases of ash are increasing.

On the supply side, Hardwood Review Export reports that log supplies improved slightly towards the end of November, but inventories of

most species and grades remain very low for the time of year. The development of the supply situation over the winter will hinge heavily on the weather. At this time of year, logging tends to be hindered by muddy conditions brought on by a combination of fluctuating temperature and rain. Tight supplies and rising demand is pushing up prices, in some cases to record levels. The weakness of the euro against the dollar has contributed to some resistance to higher prices amongst European importers. However, there is growing recognition in export markets of the unusually tight supply situation this year, and most agents expect the recent price gains to stick. Considering individual species:

* overseas demand for ash continues to improve, with rising shipments to Northern Europe and Japan. US demand for furniture is good. Recent price gains also reflect limited supplies.

* the market for Hard maple is buoyant and prices are very firm. Supplies are tight, with many shippers turning away business due to lack of lumber. High prices have meant the species is losing market share to European beech in export markets, notably in China.

* tulipwood demand is strong domestically and supplies are tight, particularly for FAS, a situation which restricts sales to export markets. Prices are firming. Supplies of 4/4 are particularly restricted.

* demand for white oak is still slow in Germany and the UK, but is improving in southern Europe. White oak dimension stock is performing well. Supplies have tightened over recent weeks. Prices are more stable than other US hardwoods, but firming slowly.

* European demand for thicker sizes of red oak

USA TEMPERATE HARDWOODS INDICATIVE PRICES (North Appalachian) US\$ CIF UK MBM KD square edged net measure after kilning			
	Oct	Nov	Dec
\$/£	1.64	1.60	1.61
RED OAK			
1"	1760	1800c	1900
1.25"	1930	2000c	2100
1.5"	2250	2300c	2360
2"	2650	2750c	2800
WHITE OAK			
1"	1580	1580	1625
1.25"	1750	1750	1750
1.5"	2200	2200	2300
2"	2600	2600	2800
ASH			
1"	1250	1300c	1360
2"	1675	1750c	1800
TULIPWOOD			
1"	1125	1250	1275
1.25"	1140	1200	1295
1.5"	1200	1240	1310
2"	1215	1300	1350
CHERRY			
1"	3400	3450	3580
1.25"	3500	3500	3600
1.5"	3600	3700	3800
2"	3800	3900	4000
HARD MAPLE			
1"	2500	2600c	2700
1.25"	2550	2650c	2750
1.5"	2750	2800c	2900
2"	2850	3000c	3150

NB. November price quotes marked "c" were too high and have been corrected

is improving. FAS material is increasingly scarce. Prices are heavily affected by the large domestic market for the species, which remains strong. Prices continue to firm.

* Cherry orders from Europe remain strong. Supplies are very limited, and prices very firm.

* as prices for other US species have increased, US shippers report growing interest in walnut in a number of export markets.

African Hardwoods

Supply situation "more acute by the day"

The supply situation in West Africa is described by one agent as "becoming more acute by the day." Problems of supply extend to nearly all species. Sapele sawnwood from the Cameroon is more or less booked out for the next 4 months. Sipo is in very short supply. Ireland is having difficulty obtaining fixed lengths of Iroko from the Ivory Coast. Ghana's supplies of redwood are very restricted. Prices are very variable, depending on the remaining stocks of specific shippers, but are generally firming. The immediate constraint is the rainy season, which has been particularly heavy and prolonged. Added to this are longer-term factors of political turmoil, which have disrupted supplies from the Congo basin, and increasing resource and regulatory constraints in Ghana and the Ivory Coast. Agents comment that importers still awaiting delayed Cameroon contracts agreed at lower prices during summer 1999, may find that few will be honoured. Agents are reporting there is no Sapele lumber available for January shipment, and that availability for February/March shipment is very restricted. Most shippers are

now taking orders for April shipment.

Importers are naturally wary of paying high prices for wood they will not see for 5 months. Nevertheless agents report a pick up in demand for African timbers during December both in Europe, notably in Spain, and in the Far East. In part this reflects a growing realisation amongst importers that there may be shortages of wood next year.

At time of writing, the UK market was winding down for the Christmas vacation. However, UK stocks of African wood are low, which suggests demand may pick up early in the New Year. If so, this would add a new impetus to the price rises in the face of very limited supplies.

The French Timber Importers Federation (FFBTA) suggests that France is reasonably well stocked with African hardwoods, many importers having bought forward earlier in the year in anticipation of rising demand.

The problems faced by Irish importers in obtaining fixed length iroko from the Ivory Coast have become increasingly pronounced over recent weeks. The limited number of shippers still

able to supply the species are now taking on contracts for random lengths only. One agent notes that "*the Irish are now definitely wanting to move to an alternative wood*". Sapele from Cameroon would be the natural choice, but existing limited supplies of this species suggest there is little prospect of Irish importers satisfying their needs from there - at least in the short term. Agents suggest Irish importers may buy random lengths of iroko as a last resort, but only when convinced that supplies of fixed length have dried up.

FFBTA report that Cote d'Ivoire is due to take a decision on proposed ban on the export of air dried lumber in mid 2000. FFBTA suggest the measures will "probably" be implemented, and note that shippers have been investing in kilning capacity in anticipation of the ban.

Export permits issued in Ghana between January-November totalled US\$159.2 million for 396,357 m³ of wood products Volume and value increased by 4.5% and 2.1% respectively compared with the same period in 1998.

UK HARDWOOD IMPORTS

UK market commentary December 1999

Agents' reports of UK demand during December are mixed. Most note that demand has slowed as the Christmas vacation period approaches. However a few report that importers are buying more strongly than usual for the time of year. Importers are asking to be invoiced in January so that orders appear on next year's books. The UK seems to be running on limited hardwood inventories, and continued purchasing in late December reflects concerns over anticipated supply shortages in the New Year.

Agents are mostly forecasting improved trading conditions in the UK during 2000. Underlying economic conditions are favourable. The December *Economist Poll of Forecasters* indicates GDP growth of 1.8% in 1999, up from 1.7% forecasted in November. The Poll predicts growth of 3.1% in 2000. House prices are now rising at an annualised rate of 10.8%, the highest rate since the 1980s. Consumer spending increased 0.5% during the 3rd quarter of 1999. Particular growth was recorded in retail sales linked with the booming house market: furniture, floor coverings, household durables and DIY. The furniture industry is expected to be more buoyant next year. Business Strategies, an independent analysts' firm, are forecasting a reversal this year of the 1998 decline in spending on furniture, and 4% growth in 2000. The UK's Construction Industries' Directorate now expect construction output growth to reach 1.5% in 1999 and to accelerate to 3.5% per annum during 2000 and 2001. Particular areas of growth are expected to be: new office construction and refurbishment particularly in the South East; and rising private house construction, repair and maintenance activity in response to the booming house market.

Against this background, Oxford Economic Forecasting predict that output in the wood and wood products sector should grow annually by 1.9% between 2000 and 2003. This compares with an annual contraction of 1.2% in 1998 and 1999.

The progressive rise in interest rates since September to current levels of 5.5% has meant sterling has strengthened. Barclays predict that sterling should remain strong against other currencies at least until Spring. A strong and stable currency should be a boon to importers.

The big problem for hardwood importers during 2000 will be supply. Unusually, strengthening global demand is coinciding with supply shortages in all the major supply regions. This combination has raised concern over price volatility in the New Year. The prevailing market situation may also add impetus to the search for alternative species and supply sources during 2000.

HARDWOOD LOGS AND SAWN FROM OUTSIDE THE EU *Note 2* (cubic metres)

Country	Species	LOGS				SAWN				TOTAL			
		Aug 99	Aug 98	Cum 99	Cum 98	Aug 99	Aug 98	Cum 99	Cum 98	Aug 99	Aug 98	Cum 99	Cum 98
BOLIVIA							35		482		35		482
BRAZIL						533	578	9265	8951	533	578	9265	8951
BURMA				42	30		70	146	147		70	146	147
CAMEROON		1649	3028	17692	23586	1134	2678	11311	13718	2783	5706	29003	37304
CONGO				292	239			1182	139			1474	378
GABON		54	215	2464	3557			194	128	54	215	2658	3685
GAMBIA								275				275	
GHANA						1434	1968	14835	18161	1434	1968	14835	18161
GUINEA						61		813		61		813	
GUYANA				15		105	20	753	4913	105	20	768	4913
INDONESIA		60	29	134	157	514	521	3865	2505	574	550	3999	2662
IVORY COAST						798	1174	7266	11071	798	1174	7266	11071
LIBERIA			105		345						105		345
MALAYSIA		98	247	2337	1867	3898	6412	36555	38915	3996	6659	38892	40782
NIGERIA			32	410	625		40	88	282		72	498	907
PAPUA N.G.					87	56	31	418	221	56	31	418	308
PERU				50		202	35	404	84	202	35	454	84
PHILIPPINES		35		35		167	46	506	440	202	46	541	440
SINGAPORE				95	130	366	226	1531	1526	366	226	1626	1656
TANZANIA				14	10			212	148			226	158
THAILAND						65	30	95	218	65	30	95	218
ZAIRE									322				322
OTHER					208		22	310	179		22	310	387
TROPICAL		1896	3656	23580	30841	9333	13886	90024	102550	11229	17542	113604	133391
AUSTRALIA		34	4	75	84	17	25	87	325	51	29	162	409
CANADA		376	350	2445	1817	2642	1788	21600	14218	3018	2138	24045	16035
of which	Oak			24		656	360	3571	3917	656	360	3595	3917
of which	Poplar					162	29	329	302	162	29	329	302
of which	Walnut					72	55	396	406	72	55	396	406
CZECH REP.				60	34	35		68	8	35		128	42
ESTONIA		653	307	6388	9250	571	533	6771	1051	1224	840	13159	10301
of which	Birch	653	307	6388	9250					653	307	6388	9250
of which	Oak					571	533	6771	1051	571	533	6771	1051
LATVIA		417	349	2819	1893	298	453	1489	1015	715	802	4308	2908
of which	Birch	417	349	2819	1893					417	349	2819	1893
of which	Oak						86	298	86		86	298	86
of which	Poplar					298	367	1191	929	298	367	1191	929
LIECHENSTEIN								265				265	0
LITHUANIA		34		63	207	76		441	403	110		504	610
NORWAY				125	172			281	674			406	846
POLAND			84	244	831	24	49	258	135	24	133	502	966
ROMANIA			133	775	433	28	75	390	545	28	208	1165	978
of which	Beech		133	733	433	28	75	357	545	28	208	1090	978
RUSSIA		65	44	1363	1807	48	219	2896	1750	113	263	4259	3557
of which	Birch	65	44	1078	480					65	44	1078	480
of which	Oak				103		65	824	216		65	824	319
S. AFRICA		46		173	99		59	221	331	46	59	394	430
SLOVAKIA				33		94	26	146	326	94	26	179	326
UKRAINE				18					256			18	256
of which	Oak								256				256
USA		993	1211	10599	9796	8658	8694	64239	78530	9651	9905	74838	88326
of which	Beech					96	57	359	164	96	57	359	164
of which	Oak					4501	4274	32799	40935	4501	4274	32799	40935
of which	Poplar	14		84	39	1269	751	6665	5740	1283	751	6749	5779
of which	Walnut					91	67	550	839	91	67	550	839
OTHER		23		164	30	8		433	500	31		597	530
TEMPERATE		2641	2482	25344	26453	12499	11921	99585	100067	15140	14403	124929	126520
AFRICA		1749	3380	21078	28642	3427	5919	36440	44300	5176	9299	57518	72942
ASIA		193	276	2643	2271	5074	7336	43596	44099	5267	7612	46239	46370
AUSTR/PACIFIC		34	4	108	84	17	25	87	341	51	29	195	425
E. EUROPE		1104	873	10433	12678	1126	1136	9696	3871	2230	2009	20129	16549
N. AMERICA		1369	1561	13044	11613	11300	10504	85839	92781	12669	12065	98883	104394
RUSSIA		65	44	1363	1807	48	219	2896	1750	113	263	4259	3557
S. AMERICA		23		130	27	840	668	10509	14686	863	668	10639	14713
W. EUROPE				125	172			546	789			671	961
TOTAL		4537	6138	48924	57294	21832	25807	189609	202617	26369	31945	238533	259911

SLEEPERS FROM OUTSIDE THE EU (cubic metres)

	Aug 99	Aug 98	Cum 99	Cum 98
AUSTRALIA	665	390	6103	4847
GUYANA	71		882	
NIGERIA	108		371	
RUSSIA		65		50
SLOVAKIA	80		276	4
OTHER			119	51
TOTAL	924	390	7816	4952

SLEEPERS FROM INSIDE THE EU *Note 3* (cubic metres)

	Aug 99	Aug 98	Cum 99	Cum 98
BELGIUM	110	18	355	88
FRANCE	363	484	1725	3358
GERMANY	535		2995	2959
NETHERLANDS	410	3	2220	746
SWEDEN			590	70
OTHER	254	83	411	820
EU TOTAL	1672	588	8296	8041

France

Liberia makes an entry

French tropical logs and sawn imports between January and July 1999 were down 4% and 6% respectively compared with the previous year. Log imports from the traditional sources of Cameroon, Gabon and Congo (Brazzaville) were particularly affected, declining 20%, 15% and 50% respectively. Cameroon log exports were officially banned from 1 July. Log exports from Gabon were disrupted in early 1999 by the dispute between forestry operators and SNBG, which holds a monopoly over okoume and ozigo exports to European markets. Gabon also increased log export taxes to encourage domestic processing. Political and transport difficulties disrupted supplies from Congo (Brazzaville). French importers have made up some of the tropical log shortfall through a significant increase in imports from Liberia.

Brazil continues to be the major source of tropi-

cal sawn to the French market, with import volumes equivalent to last year. Although devaluation of the *real* in January tended to improve the competitive position of Brazilian hardwoods in export markets, the difficult economic climate in Brazil restricted production. French imports of Malaysian sawn timber were down 46% on the previous year. This may reflect progressive increases in Malaysian lumber prices from February onwards. Sawnwood imports from Ghana were also down, due to resource constraints and uncompetitive pricing. By contrast, sawn imports from Cameroon were up 38%.

French imports of temperate hardwood sawnwood were marginally up (5%) on last year. However imports from the United States were down 15%, a reflection of the weak euro vis a vis the dollar, limited availability and firm pricing of US hardwoods this year.

Plywood Price weakness fed by illegal logging

Indonesian shippers continue to set the agenda for the hardwood ply trade. With prices continuing to bump along at INDO96 less 18 to 22 for BB/CC grade, producers in Malaysia and Brazil remain uncompetitive. Malaysian shippers have cut back production and are now focusing on specialist markets for decorative plywood and concrete formboard. Brazilian shippers have been struggling with rising raw material costs. Continuing slow appreciation of the *real* has also eroded Brazilian producers' competitiveness on export markets.

The underlying weakness in plywood prices reflects excessive production, notably in Indonesia, in the face of patchy demand. As ever, the future direction of price development remains uncertain, with much hinging on events in Indonesia.

Trends on the supply side tend to point to tightening supplies and rising prices. The monsoon in the Far East is now well underway. The lengthy Far Eastern holiday season encompassing Ramadan and Chinese New Year in January and early February is imminent. Log prices in the Far East are rising, which should feed through into rising plywood prices. The central question is whether Indonesian mills have sufficient logs to see them through the rainy season. Many of the mills will have used part of their stock in the difficult period prior to the Indonesian elections.

On the other hand, recent reports suggest that in the political vacuum created by Suharto's demise, and in the run up to this year's elections, illegal logging has been rife throughout Indonesia. For example, the Indonesia-UK Tropical Forest Management Programme, in a report entitled "Illegal Logging in Indonesia", suggest official data indicates that Indonesia consumed more than 78m cubic metres of domestically-sourced logs in 1998, despite the fact the official supply was only about 21m. Such reports imply unusually large volumes of cheap logs available to the mills.

The demand side is also far from clear-cut. Optimists point to improving economic conditions both in Asia and Europe, which should contribute to rising demand next year.

So far improving business confidence has been slow to filter through to the plywood market. In the major Japanese market, plywood imports have declined markedly during the second half of 1999 in response to over-stocking earlier in the year. Although inventories are now at more manageable levels, there are still no signs of significant price gains. The Japanese trade reports that underlying demand is still limited, partly due to seasonal slowness in December. The availability of cheap supplies from Indonesia continues to undermine Japan's domestic plywood production.

On balance, most analysts forecast gradually firming prices in the New Year. But the jury is still out.

French Hardwood Imports: January to July

m3 - Source: FFBTA-FFIBN

	Logs		Sawn		Total	
	1999	1998	1999	1998	1999	1998
South America	202		84915	84083	85117	84083
Ecuador			470	185	470	185
Brazil	202		84445	83898	84647	83898
Africa	442875	497063	78976	80315	521851	577378
Liberia	44772	3375	163		44935	3375
Ivory Coast	236	99	21839	23136	22075	23235
Ghana		142	20093	27510	20093	27652
Nigeria			182	430	182	430
Cameroon	114228	141595	26960	19520	141188	161115
CAR	4061	6442	91	111	4152	6553
Gabon	258010	304768	2056	1998	260066	306766
Congo	21368	40642	7592	7610	28960	48252
Asia	838	1303	27010	52547	27848	53850
Myanmar	742	1173	320	7146	1062	8319
Indonesia			3062	2497	3062	2497
Malaysia	96	130	23088	42843	23184	42973
Singapore			503	61	503	61
Philippines			37		37	
Other tropical	56868	46779	25258	13923	82126	60702
Total Tropical	500783	521750	216159	230868	716942	752618
Europe	218973	341748	22297	32504	241270	374252
North America	9212	30766	42168	49414	51380	80180
USA	9212	26525	32972	38134	42184	64659
Canada		4241	9196	11280	9196	15521
Other temperate*	114291	34592	47270	24780	161561	59372
Total Temperate	342476	407106	111735	106698	454211	513804
TOTAL	843259	928856	327894	337566	1171153	1266422

* Hungary, Austria, Yugoslavia

Malaysian furniture

Malaysia is stepping up furniture promotion in Europe. Fourteen of the country's leading furniture manufacturers will be exhibiting on a joint stand at the "Cologne International Furniture Fair" in Germany 17 to 23 January 2000. Most Malaysian furniture is of wood, notably rubberwood, balau, and nyatoh.

Forest policy publication

London based IIED have produced a book synthesising a 3-year initiative "Policy that works for forests and people". The book includes analysis of international forest policy initiatives and market tools like certification. More: Tel +44 171 3882117, Fax: +44 171388 2826, www.iied.org/ptw

Japan's timber imports Declining tropical imports

Last year's big news from Japan was the collapse of the nation's economy, both a cause and effect of the Asian crises, and the resultant sharp fall in wood imports and consumption. This article puts these events into long-term perspective, by considering how Japanese imports have evolved during the 1990s.

Japanese consumption of many wood products, notably from the tropics, has been falling over the last decade. Japanese domestic log production has declined from around 30 million m³ in 1989 to 21 million m³ today, a reduction of 30% in 10 years. Import statistics (see table below) indicate that Japan has not compensated by purchasing more wood from abroad. Overall timber imports remained relatively stable during the period 1990 to 1997, at around 40 million m³.

The stasis in Japanese wood demand during the 1990s to some extent mirrors the nation's economic performance, which has been sluggish since 1992. Changing consumer preferences in Japan are partly to blame, with an increasing trend away from traditional wooden building methods to "modern" concrete and steel construction. Improved construction methods have also reduced consumption of building materials and extended the period for rehabilitation of Japanese wooden housing.

There have also been major changes in the composition of wood imports during the 1990s. Between 1990 and 1997, tropical log imports declined rapidly, from over 11 million m³ to only 5.8 million. The principle reason was increasing constraints in Asian log supply, and declining markets for domestically produced plywood in the face of stiff competition from Indonesian and Malaysian mills. This trend is reflected in the significant increase in tropical plywood imports between 1990 and 1997, from 2.8 million m³ to 4.8 million m³.

Contrary to some expectations, Japan's tropical log imports were not replaced by non-tropical log imports, which saw a significant decline from 15.9 million to 11.7 million m³ between 1990 and 1997. However strong increases were apparent in Japanese imports of non-tropical plywood, sawnwood and other panels, indicating clearly that the Japanese market was replacing tropical timbers for tem-

perate products well before the Asian crises. In 1998, the Asian crises contributed to a 30% reduction in the overall level of timber imports into Japan. A total reduction equivalent to around 10 million m³ in a single year. Falling demand affected wood products across the board, both tropical and temperate. Non-tropical logs and tropical plywood imports were the least affected, although both still registered a decline of over 20%.

New recovery phase

This year, the Japanese wood products sector has entered a new phase of recovery. ITTO data indicates that, in the first half of 1999, Japanese log imports reached 8.66 million m³, up 11% on last year, while lumber imports, at 4.8 million m³ were 30% higher.

There have been winners and losers during this year's revival. Russia's market share has in-

Japan imports - Jan-Aug 99 - 000s m ³				
Source: Pacific Rim Wood Market Report				
	Total	%	Total	%
	Volume	Chng	Consumption	Chge
North American				
Logs	3,191	8.2	3,289	1.9
Lumber	2,968	16	3,030	9.5
Russian				
Logs	4,080	36.4	3,649	12.9
Lumber	295	37.2	295	37.2
Southsea				
Logs	2,375	10.2	2,337	-8.5
Lumber	573	10.0	573	10.0

creased substantially, with Russian log imports rising by 36% in the year to August. The strength of Russian logs in the Japanese market reflects the weakness of the rouble following devaluation in 1998. High softwood log imports this year also reflect the very low inventories in Japan at the end of 1998. Japanese imports of European lumber have also made significant gains, rising to over 1 million m³, during the first 6 months of 1999.

Meanwhile, tropical log and lumber imports have increased slightly over last year, by around 10%, but have lost market share to non tropical products. The relatively slow pick up in tropical hardwood imports reflects increasing use of softwood logs by Japanese manufacturers, and the high FOB prices asked by Asian shippers.

A number of factors contributed to a strong recovery in plywood imports during the first half

of 1999 including:

* importers' belief that government stimulus measures for the construction sector would lead to rapidly expanding demand in the second half of 1999

* the continuing availability of cheap supplies from other Asian countries, notably Indonesia

* the fall in domestic plywood capacity, resulting from permanent closure of several large mills during the Asian crises

At the end of 1999, considerable uncertainty continues to surround the development of Japan's wood market. Indications are not universally positive. Despite massive government stimulus packages, government data suggests that real GDP contracted by 1% during the third quarter of this year from the previous three months. Housing starts for the first nine months of 1999 to September were only 1.1% higher than the same period last year. In October, housing starts were actually 0.6% less than the same month the previous year. The implication is that government initiatives may be running out of steam.

The disappointing results of government stimulus measures in the construction sector, have created problems for wood products importers. For example, the plywood sector has been characterised by overstocking and glut in the second half of 1999. Overall, Japan's plywood imports this year are projected to be only around 10% higher than in 1998.

Nevertheless, most analysts still believe that Japan's underlying economy is improving - albeit slowly. The *Economist* "Poll of Forecasters" in December predicts GDP growth of 1% during 1999 and 1.1% in 2000.

Business sentiment improving

The Bank of Japan's latest 'tankan' survey, published in mid December, adds weight to the view that that business conditions are steadily improving. The quarterly survey measures business "sentiment" using a wide range of factors ranging from sales prospects to labour market conditions. For the first time in 10 years, the survey revealed a fourth consecutive improvement in sentiment amongst Japanese businesses. The survey indicated that corporate profitability continues to improve due to rising demand and cost savings. This in turn is expected to have a positive impact on stock prices, helping to increase the 'wealth effect' produced by a rising stock market.

On the other hand, the survey highlighted that the recovery is still not self sustaining and is overly dependent on government stimulus. On 9 December, the Japanese cabinet approved their latest package, amounting to a massive 18 trillion yen. This level of expenditure puts a huge strain on public finances.

Meanwhile Japanese consumer preferences for wood products are evolving. Demand for glulam is increasing rapidly in response to new house quality assurance laws. Japanese imports of glulam for the first 9 month of this year totalled 194,000 m³, 82% more than the same period of last year. Domestic structural laminated lumber mills are also boosting production.

Japan - wood products imports 1990 to 1998 - 000s m³

Source: International Tropical Timber Organisation

Year	Tropical logs	Non-tropical logs	Tropical plywood	Non-tropical plywood	Tropical sawnwood	Non-tropical sawnwood	Other wood panels
1990	11321	15895	2810	100	1375	7815	822
1991	10402	15320	2941	105	1013	7792	968
1992	10990	15258	2882	121	1248	7710	1021
1993	8324	14661	3864	551	1805	8821	1103
1994	7494	14891	3777	297	1283	9434	1550
1995	6536	15408	4068	369	1342	10465	1599
1996	6172	15165	4859	523	1202	11078	1615
1997	5893	14514	4860	561	1265	11326	1685
1998	3792	11744	3840	332	793	7016	1021

Eastern Europe

Land of opportunity?

Ten years have elapsed since the collapse of the Soviet Union released Eastern European countries from the grip of communist rule. In the first half-decade after the Soviet collapse, Eastern Europe's forest products industry went into severe decline. However, the continent's fortunes are now reviving, with major implications for the international hardwood trade.

For most Eastern European countries, the trauma of transition in the first post communist decade has been acute. There has been economic recession, inequality, corruption, and in some areas, ethnic mayhem. There was a massive drop in GDP throughout Eastern Europe over the first half-decade after 1989, hitting bottom in the mid-1990s. Eastern Europe's forest sector is passing through a rapid transformation. In most countries, the new authorities quickly decided the vertically integrated "Forest Enterprises" were ill suited to the market economy. The Enterprises - which in the Soviet era combined the roles of timber harvester, processor and distributor - have been divided up and privatised. The structure of forest ownership is also changing rapidly. Under the Soviet system, all forest lands were either in the hands of the state authorities, or managed by worker co-operatives. Throughout Eastern Europe, co-operatives have been dismantled, and a significant proportion of forest lands returned to the families of their original pre-1945 owners.

The immediate impact of these reforms was to bring about a significant decline in wood production, by around 30 to 40% throughout Eastern Europe between 1989 and 1993. The newly established state forestry authorities are having to build from scratch new systems for regulating large numbers of private owners. In the processing sector, the newly privatised enterprises have faced huge problems. They could no longer

rely on the government to prop up prices and markets. Lack of inward investment during the Soviet era, meant that processing plant was wholly inadequate by modern standards. Recession throughout Eastern Europe in the early 1990s led to a collapse in domestic demand. Many plants went out of production.

However, rising prosperity in parts of Eastern Europe, coupled with determined efforts to reform, have meant improved prospects for the continent's wood sector. Several Eastern European countries, including Poland, Slovakia, Slovenia and Hungary, have experienced solid economic growth since 1996. When Russia crashed last year, these economies proved surprisingly immune, illustrating the extent to which they have broken bonds with their eastern neighbour.

Increased foreign investment

With increasing economic growth and signs of greater political stability, overseas companies have been encouraged to invest in Eastern Europe's wood processing sector. Foreign investors - notably from Germany, Sweden, the Netherlands, and Italy - have been attracted by the quality of the forest resource and relatively low labour costs of Eastern European countries. They have also recognised the latent potential of a market which (excluding Russia's Confederation of Independent States), boasts a population of 130 million, 33% that of Western Europe's. There are an increasing number of joint ventures producing to western standards. For example:

* Poland was one of the first countries to attract inward foreign investment. In 1998 alone, US\$30.5 billion of foreign financing flowed into the country's wood sector. Foreign investment this year is expected to be US\$10 billion greater.

* In the two years prior to March 1999, around US\$5.5 billion of foreign money flowed into the Romanian wood products sector. Foreign firms were actively purchasing privatised state com-

panies, and also invested directly in new manufacturing capacity. The list of foreign investors was led by Dutch companies (1021 firms investing a total of US\$591 million), followed by Germany and the United States. Investments have been in various sectors including furniture manufacture, logging, sawnwood and other timber products. One of the most ambitious project to date was the construction in 1998 of a large integrated hardwood processing plant by the United States Tenneco Group to supply sawn timber, veneers, and gluelam boards.

* Several major Swedish companies, including IKEA and Tetra Pack, have been established in Eastern Europe for some time. More recently, Swedish forest industry companies, including Assi-Doman, Duni, Korsnas and SCA have all established production facilities. In all there are about 20 Swedish owned plants in Eastern Europe.

To date, these developments have not had a marked impact on overall levels of hardwood production in Eastern Europe. Saw and veneer log production throughout the region increased by only 5% between 1995 and 1998, to just over 12 million m³. However there were significant shifts in the location of production during this period, with production increasing significantly in Croatia, Poland and Lithuania, while declining in Hungary and Romania. Hardwood lumber exports from Eastern Europe also increased by over 50% between 1995 and 1998, from 1.7 million m³ to 2.6 million m³. The trend towards increasing hardwood lumber exports affected a wide range of Eastern European countries, notably Latvia, Lithuania, Poland, Romania and Slovakia.

New Eastern European hardwood mills are seeking particularly to exploit growing export demand for beech in the Far East. Romania, Bosnia and Serbia are now selling quality beech, both logs and sawn timber, to China. Italy's large hardwood market is also becoming increasingly dependent on beech supplied from Slovenia, Croatia and Bosnia.

Difficult export markets

Despite recent economic improvements, Eastern Europe remains a difficult market for exporters outside the region. Eastern European countries remain only insignificant importers of hardwood lumber, with total imports throughout the region amounting to only 500,000 m³ in 1998, only 6% of the equivalent figure for Western Europe. Lack of hardwood imports reflects the extensive domestic forest resources of most East European countries; together with the comparatively limited wealth of most inhabitants, and the underdeveloped nature of manufacturing industry. Furthermore, prospective suppliers to Eastern Europe will find that the continent is bereft of effective trade organisations that can assist identification of potential buyers. Individual companies may well struggle to make headway in the short term. However this has not prevented some of the more forward thinking companies from other sections of the wood trade building a presence in Eastern Europe. For example the Swedish company SCA

Eastern European Economic Indicators and Forest Cover

All data 1998, except forest area (1995)

	Land area 000s has	Popu- lation millions	GNP US\$ billions	GNP/ capita US\$	GDP growth %	Forest Area 000s has	Forest cover % land area	Forest/ capita has
Albania	2740	3.4	2.7	810	8	1046	38	0.3
Bosnia	5100	3.5	na	na	na	2710	53	0.8
Bulgaria	11055	8.2	10.1	1230	3.5	3240	29	0.4
Croatia	5592	4.6	20.7	4520	2.7	1825	33	0.4
Czech Republic	7728	10.3	51.9	5040	-2.3	2630	34	0.3
Hungary	9234	10.1	45.6	4510	5.1	1719	19	0.2
Poland	30442	38.7	150.9	3900	4.8	8732	29	0.2
Macedonia	2543	2	2.6	1290	2.9	988	39	0.5
Romania	23034	22.5	31.3	1390	-7.5	6246	27	0.3
Slovakia	4808	5.4	20	3700	4.4	1989	41	0.4
Slovenia	2012	2	19.4	9760	3.9	1077	54	0.6
Yugoslavia	10200	10.6	na	na	na	1769	17	0.2
Estonia	4227	1.4	4.9	3390	4	2011	48	1.3
Latvia	6205	2.4	5.9	2420	3.4	2882	46	1.1
Lithuania	6480	3.7	9	2440	5.1	1976	30	0.5
East Europe	131400	128.8	375	2993	na	40840	31	0.3
West Europe	357943	386	9025	23381	na	112017	31	0.3

Eastern Europe Cont. from page 10

has 19 sales offices distributed throughout Latvia, Poland, Romania, Slovakia, Slovenia, Czech Republic, Hungary and Russia.

It would be a mistake to underestimate the challenges faced by Eastern Europe. But with 10 Eastern European countries now being considered for entry into the EU, their future impact on international wood markets can no longer be ignored.

Eastern Europe's Hardwood Trade

000s m3 Source: UN/FAO

1995 1996 1997 1998

Hardwood Saw/Veneer log production

Albania	40	40	40	40
Bosnia & Herz.	40	40	40	40
Bulgaria	428	420	407	407
Croatia	1,025	1,141	1,369	1,540
Czech Republic	347	420	540	740
Estonia	452	477	123	136
Hungary	1,213	1,084	1,045	1,024
Latvia	1,900	960	1,284	1,712
Lithuania	340	460	860	1,070
Macedonia	100	102	102	102
Poland	1,643	1,768	1,850	2,099
Romania	2,300	1,628	1,579	1,454
Slovakia	684	611	714	763
Slovenia	241	238	309	265
Yugoslavia	750	750	750	750
Other	0	20	20	20
East Europe	11,503	10,159	11,032	12,162
West Europe	20,295	19,210	18,866	20,718

Hardwood lumber production

Bosnia & Herz.	20	20	20	20
Bulgaria	67	67	67	67
Croatia	478	484	505	522
Czech Republic	270	305	293	320
Estonia	35	40	45	36
Hungary	147	183	207	195
Latvia	350	104	150	400
Lithuania	75	100	120	250
Macedonia	32	32	27	21
Poland	1,050	780	900	840
Romania	900	769	746	744
Slovakia	219	203	266	420
Slovenia	167	161	143	129
Yugoslavia	240	240	240	240
Other	3	7	8	8
East Europe	4,053	3,495	3,737	4,212
West Europe	8,239	7,959	7,601	7,802

Hardwood lumber imports

Czech Republic	150	155	66	66
Hungary	77	65	56	56
Lithuania	5	8	15	16
Poland	61	67	83	88
Slovakia	5	4	115	93
Slovenia	89	78	84	93
Yugoslavia	30	60	60	60
Other	19	15	37	36
East Europe	436	452	515	507
West Europe	6,212	4,962	7,149	7,623

Hardwood Lumber Exports

Bosnia & Herz.	1	1	104	104
Bulgaria	50	77	120	120
Croatia	402	402	402	402
Czech Republic	36	23	22	22
Estonia	13	21	41	57
Hungary	130	150	163	163
Latvia	195	164	136	316
Lithuania	39	52	115	179
Poland	246	228	296	358
Romania	252	331	325	333
Slovakia	115	110	356	279
Slovenia	124	100	103	106
Yugoslavia	47	127	127	127
Other	66	64	36	28
East Europe	1,716	1,851	2,346	2,595
West Europe	1,864	1,867	1,826	1,774

Seattle Cont. from page 12

attle. These organisations were everything the trade negotiators were not. They had a clear object in mind - to derail the talks; they were organised; and they demonstrated mastery over the media. The WTO is only the latest in a line of NGO "victories". At the Earth Summit in 192, NGO pressure helped push through binding international agreements on greenhouse gases. In 1994, protesters forced the World Bank to undertake a complete overhaul of its goals and methods. Last year, NGOs helped sink the Multilateral Agreement on Investment.

During the 1990s, the numbers of NGOs has increased exponentially. One measure of this growth is provided by The Yearbook of International Organisations, which counts more than 26,000 NGOs, up from only 6000 in 1990. The size of these groups is also increasing rapidly. The WWF has around 5 million members, a 10 fold increase since 1985.

Impact of the Internet

The recent extension of campaigning power of NGOs owes much to developing technology, notably the internet. Pressure groups have demonstrated time and again their mastery over this medium. In the build up to Seattle, 1500 NGOs signed an anti-WTO protest declaration set up on-line. The internet allows NGOs to co-ordinate mass demonstrations of hundreds of different groups. Furthermore, Northern NGOs are using the internet to develop information links with emerging Southern groups. Groups like Greenpeace and Friends of the Earth are often able to access more detailed information on forestry practices than the trade and industry. As evidence, look no further than Greenpeace recent "Buying Destruction" report, which provides comprehensive information on the extent and nature of forestry activities of the largest companies operating in tropical countries. This information is made readily available, with Greenpeace particular slant, to consumers and policy makers in the West.

The power of NGOs is reflected in their financial resources. As a group NGOs are now able to deliver more aid than the whole of the United Nations. In the UK alone, the WWF raised £23 million last year, considered low compared with the £26 million raised the year before.

As NGO power increases, the power of inter-governmental organisations is being eroded. Part of the explanation for the weakness of these organisations is that, unlike NGOs, they have no political leverage. No parliamentarian faces direct pressure from the WTO or from ITTO. However, all politicians are now subject to pressure from NGOs. They are effective political lobbyists and use their claim of mass public support to good effect. To some, this represents a positive shift in power away from unrepresentative and dictatorial government in favour of the "people"; to others it is a dangerous extension of the power of unelected and unaccountable pressure groups.

In the face of the NGO onslaught, an increasing number of organisations have simply endorsed much of the NGO agenda. In the forest

sector, the World Bank announced it would no longer support forestry operations in primary tropical forest. It prefers to work in partnership with the WWF, favouring a limited policy emphasizing protected areas and certification. The Alliance demonstrates that the World Bank is now more transparent, but it is also more beholden to a new set of special interests. The combination of World Bank finance, and the WWF publicity machine, is leading to a lop-sided public debate over tropical forests. Much western media coverage now focuses on the World Bank/WWF Alliance as the single most important mechanism for "saving the world's rainforests". Government and UN efforts to develop meaningful national forest policies, handling the full complexity of the tropical forest issue, are either ignored or viewed with suspicion. The public is generally unaware of the International Forum on Forests or ITTO Objective 2000. Those that are aware, view them as technocratic, faceless bureaucracies.

And NGO's have not restricted themselves to government agendas. Companies throughout the forestry sector, under threat of demonstration and negative publicity, have preferred to endorse various NGO policy initiatives: to "avoid products from old growth forests"; or to "undergo FSC certification". Some celebrate these innovations as a new age of co-operation between the forest products trade and environmental groups. Others see it as an erosion of the quality of debate over forest policy in the short-term interests of "green" marketing.

Handling environmentalism

Either way, it is clear that the NGOs now play a central role in the evolution of international forest policy. And for individual corporations, the handling of pressure groups is a critical strategic issue which will impact on competitiveness. The forest products industry can no longer sit back and claim environmental issues are the domain of governments and UN bodies like ITTO. Nor will it's cause be served through complaints of political bias and the ignorance of consumers in the developed world. The industry needs to learn from the NGOs. It needs to participate actively in the international policy debate, using all the tools available. It should concentrate resources for more effective marketing and political lobbying. The industry needs to create, and to fund, its own pressure groups, dedicated to improving the international market place for wood products. It needs to use the internet more effectively to generate grass roots activity throughout the international trade; to convey information amongst forest products companies, and to promote it's views to consumers and the general public. Individual companies need to be flexible in forming strategic alliances with competing companies and other organisations, including - where necessary - with the NGOs themselves.

The alternative is to see the progressive tightening of trade restrictions; growing protectionism; and an industry at the mercy of narrow environmentalist interests. Bad news for the industry; and bad news for the world's forests.

Pressure groups

A lesson from Seattle

In a major set back for a global free trade in timber products, the recent WTO talks in Seattle ended in disarray. The WTO's many critics, including environmentalists and trade unionists, who brought Seattle to a standstill, are crowing that they derailed the process. While this claim may be overstated, the debacle of Seattle highlights the growing influence of pressure groups. It also raises questions over the wood trade's handling of the environmental movement.

The breakdown in the Seattle talks may have had as much to do with intransigence and blundering amongst politicians and bureaucrats, than with activists on the streets of Seattle. No single party can take all the blame. The EU's unwillingness to eliminate farm-export subsidies; the refusal of developing countries to be steam-rolled by the west; and the failings of the WTO Secretariat, all contributed to the outcome. But a large part of the failure can be laid at the door of the United States. America's chief trade negotiator, Charlene Barshefsky, proved to be abrasive and clumsy in her attempts to impose American-drafted deals on the meeting. President Clinton also managed to infuriate most of the government delegates by expressing sympathy for the anti-WTO demonstrators. He went on to imply in the local media that WTO would eventually enforce minimum labour standards with trade sanctions. An implication deeply resented by the developing world.

The implications of failure in Seattle are far reaching. It has undermined WTO's authority and bolstered the confidence of protectionists and interventionists everywhere. It also leaves the timber industry's plans of bringing about an early end of wood products' tariffs in disarray. Officially, efforts to launch a new round of trade talks are now "suspended". WTO have been provided with a mandate to restart discussions in Geneva next year. However, the EU's trade commissioner has already declared all papers "dead". A new trade round is unlikely to be launched during a US election year. Furthermore, sectoral negotiations due to begin in January will be hindered by lack of agreement over objectives and deadlines.

But perhaps more significant for the international wood trade, is the object lesson in campaigning provided by the non-governmental organisations (NGOs) who descended on Se-

SHARE PRICES FOR SOME U.K. COMPANIES

	52 Week	52 Week	31 Aug	1 Oct	1 Nov	2 Dec	24 Dec
	High	Low					
J. Latham	258.5	141.5	186.5	181.5	218.5	247.5	258.5
Meyer International	484.0	300.0	450.0	406.0	352.5	362.0	387.5
Travis Perkins	786.0	353.5	758.5	649.0	541.0	670.5	662.5
Barratt Devs.	391.0	195.0	324.0	268.5	252.0	272.5	281.5
John Laing	350.0	231.5	339.0	329.5	301.5	294.5	280.5
Alfred McAlpine	267.0	128.5	253.5	233.5	205.5	232.5	223.0
J. Mowlem	154.0	94.5	140.5	120.0	115.0	115.0	118.0
George Wimpey	179.5	94.0	152.0	126.5	122.5	116.5	113.5
Cornwell Parker	117.5	52.5	92.5	78.5	73.5	59.5	56.5

EXCHANGE RATES FOR ONE POUND STERLING & ONE US DOLLAR

		29 Oct		2 Dec		22 Dec	
		£STG	US\$	£STG	US\$	£STG	US\$
		Argentina	Peso	1.6401	0.9995	1.5988	0.9998
Australia	Aus.\$	2.5750	1.5692	2.5278	1.5808	2.4931	1.5513
Bangladesh	Taka	81.2246	49.5000	81.5542	51.0000	81.9571	51.0000
Belgium	Belgian Fr.	62.9787	38.3806	64.2858	40.2012	64.3118	40.0198
Belize	B\$	3.2490	1.9800	3.2259	2.0000	3.1979	1.9900
Bolivia	Boliviano	9.7306	5.9300	9.4827	5.9300	9.5135	5.9200
Botswana	Pula	7.5688	4.6125	7.4118	4.6349	7.4278	4.62214
Brazil	Real	3.2031	1.9520	3.0239	1.8910	2.9280	1.8220
Fr. Africa*	CFA Fr.	1024.09	624.100	1045.34	653.700	1045.76	650.75
Canada	Canadian \$	2.4136	1.4709	2.3646	1.4787	2.3739	1.4772
Chile	Peso	900.608	548.850	872.229	545.450	862.235	536.550
China	Yuan	13.5831	8.2778	13.2387	8.2788	13.3053	8.2796
Czech Republic	Koruna	57.1772	34.8450	57.4845	35.9480	57.6688	35.886
Denmark	Danish Krone	11.6044	7.0720	11.8564	7.4144	11.8645	7.3830
Estonia	Kroon	24.4194	14.8817	24.9358	15.5936	24.9434	15.5217
Europe	Euro	1.5612	0.9514	1.5936	1.0035	1.5943	1.0080
Finland	Markka	9.2825	5.6570	9.4752	5.9253	9.4790	5.8986
France	Franc	10.2409	6.2410	10.4534	6.5370	10.4576	6.5075
Germany	D-mark	3.035	1.8609	3.1169	1.9491	3.1181	1.9403
Ghana	Cedi	4763.55	2903.00	5452.16	3409.50	5608.45	3490.0
Guyana	Guyanese \$	292.901	178.500	289.202	179.300	288.617	179.60
Hong Kong	HK\$	12.7490	7.7695	12.4274	7.7715	12.4877	7.7708
India	Rupee	71.1987	43.3900	69.4049	43.4025	69.9125	43.5050
Indonesia	Rupiah	11199.2	6825.00	11657.44	7290.00	11353.5	7065.00
Irish Republic	Punt	1.2296	0.7493	1.2551	0.7849	1.2556	0.7813
Italy	Lira	3022.91	1842.22	3085.64	1929.61	3086.89	1920.90
Japan	Yen	171.244	104.360	164.132	102.640	163.215	101.565
Kenya	K. Shilling	123.232	75.100	119.173	74.525	116.989	72.800
Korea South	Won	1968.26	1199.50	1838.16	1149.50	1818.32	1131.50
Liberia	Liberian \$	1.6409	1	1.5991	1	1.607	1
Malaysia	Ringgit	6.2354	3.800	6.0766	3.800	6.1066	3.800
Myanmar	Kyat	10.2584	624.100	10.0837	6.2517	5.4802	3.4102
Netherlands	Guilder	3.4405	2.0967	3.5119	2.1962	3.5133	2.1863
New Zealand	NZ\$	3.2417	1.9755	3.1435	1.9658	3.1198	1.9414
Nigeria	Naira	156.444	95.3400	155.438	97.2000	157.004	97.700
Papua NG	Kina	4.4172	2.6919	4.4421	2.7779	4.3682	2.7182
Philippines	Peso	65.8822	40.1500	65.3233	40.8500	64.9229	40.4000
Poland	Zloty	6.9246	4.2200	6.7874	4.2445	6.6642	4.1470
Portugal	Escudo	312.993	190.745	319.489	199.793	319.618	198.89
Romania	Leu	27698.4	16880.0	28583.9	17875.0	28861.7	17960.0
Russia	Rouble	42.8357	26.1050	42.728	26.72	43.0034	26.760
Singapore	Singapore \$	2.7302	1.6638	2.6980	1.6872	2.6762	1.6653
South Africa	Rand	10.0834	6.1450	9.8449	6.1565	9.8855	6.1515
Spain	Peseta	259.762	158.305	265.1531	165.814	265.26	165.065
Sweden	Krona	13.5181	8.2382	13.7315	8.5870	13.6611	8.5010
Taiwan	\$	52.0822	31.7400	50.5956	31.6400	50.8793	31.6610
Tanzania	Shilling	1304.52	795.000	1272.89	796.000	1280.78	797.000
Thailand	Baht	63.3388	38.6000	62.2930	38.955	60.4714	37.630
Uganda	New Shilling	2473.66	1507.50	2397.05	1499.0	2412.913	1501.50
U.S.A	US \$	1.6409	1	1.5991	1	1.6070	1
Venezuela	Bolivar	1035.91	631.305	1023.62	640.125	1036.11	644.75
Vietnam	Dong	22988.2	14009.5	22413.0	14016.0	22533.4	14022.0
Zimbabwe	\$	62.7645	38.2500	60.7578	37.9950	61.9499	38.5500

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

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