

TROPICAL TIMBERS

an independent publication providing market information

volume 13

number 6

monthly

June 1998

Japan's declining market

Asia's economic problems seem to grow worse by the week. Most recently, attention has focused on Japan's slide into recession, the falling value of the yen and the impact of Japan's difficulties on other countries in the region. Recent reports are that Japan's GDP shrank 0.7% in the financial year ending in March - the worst ever post war decline. Reasons cited for the decline include the April 1997 increase in Japan's consumption tax which dented consumer confidence; the collapse of a series of major financial institutions late last year; and the economic problems in other parts of Asia which have seriously damaged export markets. As the world's largest importer of tropical timber by a considerable margin (see tables page 2), Japan's problems imply a reduction in timber demand, considerable downward pressure on prices and a major adjustment in the global trade.

The value of the yen has been sliding against the dollar as investors vote with their money, moving funds out of recession-hit Japan into the booming US economy. They are being

encouraged by miserable returns in Japan and lack of confidence in the regulation of Japan's financial markets - confidence that has been undermined by a series of scandals involving insider trading and stock manipulation. The joint currency intervention by the US and Japanese authorities on 17 June, which has arrested the yen's slide for the time being, may only be a temporary hiatus. Most analysts believe the Japanese authorities need to take much more radical steps to deal with the nation's structural problems. The government has attempted to stimulate the economy with temporary tax cuts and proposals to increase spending on public works. Investors would prefer to see deeper and more permanent tax cuts coupled with real efforts to bring about structural reform, particularly in the banking system. However the introduction of these measures would require a U-turn in the ruling party's economic policy.

Housing starts, a major factor driving demand for timber in Japan, have stagnated. In 1997, housing starts were 1.64 million units, a

decrease of 256,000 units compared with 1996. The forecast for 1998 is lower still, at 1.27 million units, a fall of 22% compared with last year. This means that consumption of tropical wood will be extremely low this year. Japanese importers are having major problems shifting their existing stocks of logs and plywood. At current levels of demand existing stocks of logs will last 5 months.

It's estimated that Japan will import only 2.78 million m³ of tropical logs, primarily from Sarawak, Papua New Guinea and the Solomon Islands, during the first 9 months of this year. This represents a 31% decrease over the same period last year. Japanese imports of plywood will also be significantly less this year. In the first 6 months of 1997, Japan imported 3.1

Continued on page 2

ITTO talks - now it should communicate

The International Tropical Timber Organisation needs to focus more on trade issues and take more positive steps to communicate its role to the outside world. Despite ITTO's considerable attempts to improve forest management, through member countries' commitment to Objective 2000 and numerous projects, there is still very little awareness of these efforts in major timber consuming markets. These markets continue to be undermined by well organised environmentalist campaigns that convey simplistic and misleading messages to timber buyers. Loss of markets, and resultant chronically low prices for tropical timber products, will undermine ITTO's efforts to develop sustainable forestry practices. This is the message conveyed by trade delegates to government officials of ITTO member countries at the recent meeting in Gabon in May.

During ITTO's market discussion, the UK's trade delegate Geoffrey Pleydell, emphasised the contribution made by the tropical timber trade to job and wealth creation in tropical countries and argued that "*whatever we say in our meetings about the role of forests, about conservation, in practice a high priority has to be its sustainable material benefit to the people and government of the country in which the forest exists. And that means the physical sale of forest goods. We have to be concerned about markets as well as about complex forest issues.*"

Mr Pleydell drew attention to the extent to which markets in European countries are being damaged by the environmental movement. He said the "*front line environmental publicists and campaigners are skilled, prolific in their output and aware of the impact of simple messages which focus totally on negative aspects.*"

Continued on back page

STATISTICS IN THIS ISSUE

U.K. IMPORTS

logs, sawn, plywood, veneers
sleepers, blockboard

Outside E.C.

February & March 1998

Intra E.C.

January & February 1998

TROPICAL TIMBER IMPORTS

Main importing countries

logs, sawn plywood Years 1996 & 1997

JAPAN

Wood products production/consumption
Year 1997

CHINA

Imports of logs, sawn, & plywood

Years 1991 to 1996

INDIA

Imports of logs, sawn, & plywood

Years 1991 to 1996

CAMEROON

Log exports

By destination

Years 1996 & 1997

By species

Year 1997

• Tropical Timbers, editor: Rupert Oliver

• Market and Environmental Information
for the Forest Products Industry

Enquiries: The Editor, Tropical Timbers,
19 Raikeswood Drive, Skipton,
North Yorkshire BD23 1NA
Tel/Fax: (44) (0) 1756 796992

Japan's declining markets

Continued from page 1

million cubic metres of tropical plywood. Expected import volumes for the first half of 1998 are expected to amount to only 1.9 million, a 40% drop.

Japan's plywood industry, the principal consumer of imported logs, is suffering severely. Due to the prolonged slump in the housing sector, the plywood market has been seriously depressed and mills are facing stiff competition from imported plywood. So far there have been 4 major mill closures in Japan this year, including Dantani, Showa, Yuasa and Ehime. Other mills are hanging on, but are declaring major losses. Plywood production during March was 264,000 cubic metres, 30% less than in March last year.

Despite low prices, the weakness of the Japanese market is such that even volumes of

imported plywood are down. In March imports of plywood into Japan totalled 381,000 cubic metres, some 13% less than the same period last year.

Lack of demand in Japan translates into severely depressed log and plywood prices in the Far East and financial difficulties for major producers. A year ago, producers in Sarawak were selling their best meranti logs to Japan at US\$240 a cubic metre. Today the same type of logs sell for US\$102. Many logging companies simply can't continue to operate with prices at these levels. In Sarawak, Papua New Guinea and the Solomon Islands, log producers have export grade logs on the ground but few offers for shipment. In Papua New Guinea, by October 1997, 12 major logging concessions had already ceased operations, with several others ceasing production by February 1998. Reports of mills closing and workers being laid off are common, adding to the economic miseries of the region.

JAPAN: WOOD PRODUCTS PRODUCTION & CONSUMPTION 1997				
000s m3	Logs	Sawn- wood	Ven- eers	Ply- wood
Production	0	624	150	3184
Imports	6216	1227	107	5608
Exports	0	0	0	0
Consumption	6216	1851	257	8792

Source: ITTO

While the direct impact of the Japanese recession on the volume of trade is considerable, perhaps even more significant to the timber industry will be its impact on the broader economies of Asian countries. A Japanese recession will reduce export volumes, undermine efforts to stimulate a recovery, and further erode demand. Most of SE Asia's currencies, despite their recent collapse against the dollar, have strengthened relative to the yen in the past few months, making their exports dearer in Japan, their biggest export market. This means their currencies may take another hammering in the near future. China is under growing pressure to devalue its currency, the yuan, putting further pressure on its neighbours. The World Bank has recently suggested that Asia is on the threshold of a deep and long "depression" and that this could spread to other areas of the world.

US markets boom

The May issue of the Hardwood Export Review reports booming market conditions in the US. There is a 29 year high in consumer confidence, low interest rates and an extremely strong housing market. Sales of furniture are also high, and there is strong demand for more timber for flooring, cabinetry and millwork. Most companies are operating at full capacity. Meanwhile sawmills are operating normally but few are increasing production. Reasons offered for not increasing production are lack of availability of reasonably priced timber and difficulties of obtaining labour. Strong domestic demand for US lumber covers most species, particularly Cherry, Hard Maple and Tulipwood. Strong domestic demand is serving to offset weak export markets in the Far East.

Arthur Pond of IHPA reported on US timber import markets at the recent ITTO meeting in Gabon. He noted the outlook is generally good but that due to problems in Asia, US GDP growth is forecast to slow to around 2.7%. Turmoil in Asia is likely to discourage the US Federal Reserve from raising interest rates. Total US wood imports for 1998 are forecast to fall slightly from \$12.9 billion in 1997 to \$12.5 billion due primarily to lower housing starts. Low sales from federal forests due to expanding harvesting restrictions will continue to constrain growth in the US domestic softwood supply. US imports of hardwood plywood, lumber, and veneer may increase slightly from a total of \$1.1 billion in 1997 to 1.2 billion in 1998 as currencies in SE Asia weaken.

MAJOR TROPICAL TIMBER CONSUMERS IMPORTS LOGS, SAWN & PLYWOOD 1996-1997						
000s m3	LOGS		SAWN		PLYWOOD	
	1996	1997	1996	1997	1996	1997
CHINA	1000	na	501	na	1300	na
FRANCE	678	750	218	300	127	130
GERMANY	116	80	157	100	196	200
INDIA	500	700	10	10	15	20
ITALY	250	230	151	160	190	195
JAPAN	6172	6216	1202	1227	4860	5608
MALAYSIA	722	730	322	350	6	5
NETHERLANDS	120	120	390	390	170	170
PHILIPPINES	878	1052	567	2009	11	31
PORTUGAL	350	358	56	58	1	1
SOUTH KOREA	1211	1100	504	500	991	1000
SPAIN	220	255	309	323	21	26
TAIWAN	1573	na	477	na	762	na
THAILAND	905	1210	2089	1873	25	15
UK	12	12	280	300	450	400
USA	3	3	251	223	1350	1400

Source: ITTO

Merger creates world's largest forest products company

Enso of Finland has merged with Sweden's Stora in the forest sectors biggest ever deal. The new group, Stora Enso, is now the world's biggest forest products company. The deal is a new high water mark in the growing transnational consolidation process among forest producers. It is also the first big industrial merger between a Finnish and a Swedish company. Industry analysts believe it will accelerate the process of restructuring in the forest products sector. The deal establishes a building block towards the creation of a truly global paper producer. Despite being the world's largest paper and board producer, Stora-Enso still only claims less than 4% of the market, an indication of the relatively high level of fragmentation in the forest products sector.

In a recent interview in the Financial Times, Stora Enso's Chief Executive Jukka Harmala, said that the new company will seek to increase

its share of world markets through further acquisitions. The sheer size of the merged company will reduce the risk element when the company enters new markets. The company will focus on expansion in South East Asia where Mr Harmala expects robust growth once the crises fades. According to Mr Harmala "in the year's to come one must be present in the fast growing areas where fibre is cheaper than it is in this [Scandinavian] part of the world. Today's economic problems [in Asia] will be overcome." Stora Enso joins an increasing number of big European and North American companies looking to expand into South East Asia, an ambition which has been one of the driving forces behind the recent phase of consolidation in the forest products sector. Forests products companies, which until recently have been largely intra-regional, are becoming increasingly international.

INDICATIVE PRICES

Latest indicative prices available at time when preparing this report. 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

	Apr	May	June
Ex Cameroon Fr.F/m3 FOB Douala LM			
N^oGOLLON			
70cm+20% 60/69	1450	1420	1370
BOSSE 60cm+	1575	1575	1550
AYOUS 70cm+	1075	1050	1025
BIBOLO 60cm+	1450	1450	1425
SAPELE			
80cm+20% 70/79	1750	1650	1650
SIPO			
80cm+20% 70/79	1950	1950	1900
IROKO			
80cm+20% 70/79	1650	1650	1650

	Apr	May	June
Ex Gabon Fr.F/m3 FOB Owendo LM			
ACAJOU			
70cm+20% 60/69	1250	1225	1200
DIBETOU 60cm+	1225	1200	1200
DOUKA			
70cm+15% 60/69	1200	1200	1150
SIPO			
70-79cm+10% 60/69	1725	1725	1700
80-99cm	1925	1925	1900

Sawn Timber

	Apr	May	June
Ex Ghana £/c.ft			
[Prices include a notional agent's commission and represent prices to importers & relate to FPIB price guidelines.] *subject to export levy.			
FOB Takoradi bundled FAS			
6"+ avg 9" C/£	3844	3786	3851
6' + avg 9' DM/£	3.07	2.87	2.98
AFMAHOGANY	10.10	10.10	10.10
EMERI	8.00	8.00	8.00
UTILE	10.90	10.90	11.20
ODUM	9.60	9.60	9.70
SAPELE	9.10	9.10	9.00
EDINAM	9.00	9.00	7.75
GUAREA	8.20	8.20	8.00
WALNUT	8.80	8.80	8.80
NIANGON	8.80	8.80	8.80
OMU	8.00	8.00	8.00
DANTA	7.40	7.40	7.50
WAWA No.1 C&S	5.60	5.60	5.60
MAKORE	8.60	8.60	8.65

	Apr	May	June
Ex Cameroon Fr.F/m3 FOB			
FAS width 6"+, length 6'+			
SAPELE	3100	3100	3100
SIPO	3700	3550	3500
BIBILO	2850	2900	2850
N^oGOLLON	3050	3150	3150
AFORMOSIA	3750	3700	3700
IROKO	3250	3300	3300

	Apr	May	June
Ex Gabon FR.F/m3 FOB			
FAS width 6"+, length 6'+			
OKOUME AD	2200	2200	2000

	Apr	May	June
Ex Zaire Fr.F/m3 FOB			
FAS width 6"+, length 6'+			
SAPELE	3250	3100	3000
SIPO	3800	3600	3400
MAHOGANY	2700	2850	2950
AFORMOSIA	3600	3600	3600
IROKO	3350	3350	3300

	Apr	Mar	June
Ex Cote d'Ivoire Fr.F/m3			
Fr.F/£	10.28	9.63	10.01
FOB Abidjan FAS			
6"+ avg 9"-10"			
6'+ avg 10'-11'			
1"-2"			
IROKO	3250	3300	3275
SIPO	3600	3500	3400
MAHOGANY	2850	2850	2850
FRAMIRE	2150	2150	2100
SAMBA No.1 C&S	1550	1550	1550
AZOBE dim. stock	2000/	2000/	2000/
	2600	2600	2600
OPEPE dim. stock	1850/	1850/	1850/
	2300	2450	2450

	Apr	Mar	June
Ex Malaysia M\$/ton			
C&F UK port M\$/£	6.29	6.20	6.49
DARK RED SERAYA/MERANTI			
Select & better GMS			
width 6"+ avg 7"/8"			
length 8'+ avg 12'/14'			
1-2" KD	2700	2580	2580
2.5" KD	2800	2675	2675
3" KD	2900	2800	2800
KERUING			
Standard & Better GMS			
1"-3"			
width: random or fixed			
length 16'+	1875	1740	1740
KAPUR			
Standard & Better GMS			
1"-3" plnd			
width 6"+ avg 7"-8"			
length 16'+	1875	1800	1800

	Apr	Mar	June
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"			

	Apr	Mar	June
Ex Brazil US\$/m3 C&F			
FAS US\$/£	1.66	1.63	1.67
6"+ avg 9-10"			
6'+ avg 10-11'			
MAHOGANY (Swietenia)			
1"-2" AD	1180	1180	1160
2.5"-3" AD	1200	1200	1180
1"-2" KD	1270	1270	1250
2.5"-3" KD	1290	1290	1270
VIROLA			
1" KD No.1 C&B			
boards	400	400	400
strips	370	370	370
CEDRO			
1"-1.5" KD	750	750	730
2" KD	780	780	760
2.5"-3" KD	810	810	790

Hardwood Markets

Conditions in the tropical hardwood market remain uncertain due to the on-going difficulties in Asia. These uncertainties are due to unpredictable exchange rates and political unrest in Indonesia which some fear may lead to a flood of dirt-cheap timber onto the international market, destabilising the situation further.

Peninsular Malaysia's move last month to suspend export levies on sawn timber is now seen by many as an unnecessary adjustment which has done more harm than good. The aim was to improve the economic position of the Malaysian mills and boost demand for their products. However, price levels for Malaysian timber were already extremely low due to the weakness of the Malaysian ringgit, which is around 40% lower than levels last year. The move has only served to further devalue importers stocks and create tensions in the trade. Some importers have seen the reduction in export levies as an opportunity to put pressure on suppliers to make downward adjustments to prices in contracts negotiated prior to the change. Exporters are insisting that these adjustments cannot be made, particularly on C&F contracts where they are already absorbing substantial increases in freight rates.

Some importers also seem to have misinterpreted the changes in levies implemented in April in the Eastern Malaysian Province of Sabah. In this case, export levies were not simply suspended but were replaced by a fixed royalty on logs entering the mill. The end result has been only marginal savings for the mills for most species, and actual increases for other species and product categories.

Meanwhile the chaos in Indonesia continues to play havoc with the rest of the Asian trade. The value of the rupiah is so low that prices for Indonesian products are highly competitive. Export taxes on sawn timber have also been reduced to 10% of FOB from previous levels ranging from \$250 to \$2400 per m3 depending on species and grade. However exchange rates and systems of control are such that producers aren't taking much notice of current rates of duty. The owners of mills, many of whom are Chinese and no longer resident in Indonesia, are simply desperate to get hold of US dollars and are shipping out what they can. Despite rock-bottom prices, the volumes involved remain small. Levels of demand are severely restricted and mills are unable to gain credit from local banks, non of which are now recognised internationally as credit worthy. As a result they are unable to pay salaries and can't afford the material inputs, many of which have to be bought in hard currency abroad, needed to continue to extract and process wood. Obtaining container space from Indonesia continues to be extremely difficult.

All this adds up to high degree of risk when dealing with Indonesian suppliers. It's an option only for those companies with a presence on the ground capable of guaranteeing supplies and

maintaining quality. Agents are emphasising the importance of shipping from suppliers with a reputation for reliability. So far no reports have reached "Tropical Timbers" of UK importers buying sawn timber from Indonesia.

Uncertainty continues to surround Indonesia's plans to reduce export levies on logs, making it financially possible for Indonesian producers to export logs. Given the current economic situation in the Far East, it's unlikely that markets will be able to absorb increased volumes of Indonesian logs. At the ITTO meeting in Gabon in May, it was agreed that governments should be formally alerted by ITTO of the need to avoid measures to increase exports which would serve to depress prices further and may damage efforts to put sustainable management in place.

Meanwhile, UK demand is low and importers lack the confidence to build up stocks, despite the bargains currently on offer. Some importers find themselves in an uncomfortable situation, sitting on devalued stocks as prices for DRM have continued to slip with weakening exchange rates. As with other Asian currencies, further weakening of the ringgit occurred in mid June as the extent of Japan's recession became apparent.

The weakening Malaysian currency has further increased the already large price differential between Dark red meranti and Sapele. Opinions differ over the extent to which this price differential has led to a shift away from Sapele to DRM. Some importers claim that it's almost impossible to shift Sapele given DRM's huge price advantage, and that there has been a move away from Sapele during June. Germany, Holland, Italy and France are also looking to increase their purchases of DRM. On the other hand, there's little doubt that a significant proportion of manufacturers continue to be firmly locked into Sapele and are reluctant to change due to its superior technical characteristics and their investment in marketing the species. Ongoing supply difficulties for Asian species are also causing buyers to think twice about moving away from Sapele.

Prices for most other African species have weakened marginally as demand has fallen off with the onset of the summer season. On the supply side, heavy rain in West Africa is slowing operations. Unfortunately for Ghana, the rains are falling in the south of the country and are doing little to ease the power cuts due to low water levels at the Akosombo dam HEP plant. Ghanaian

Wawa prices have firming slightly due to shortages of supply. Ghanaian supplies of Iroko are now infrequent and subject to strict controls to protect remaining stocks. Khaya prices are also reasonably firm with continuing demand from the US. Supplies from Zaire are moving sluggishly due to insufficient transport capacity and delays at port. Producers in Zaire report fairly full order books and are confident that they'll be able to push up prices by around FFr100 in the coming weeks.

There are concerns that the UK market for Swietenia, already at very low levels, will continue to decline. Early season indications are of limited activity with current UK stocks sufficient to cope with demand. The US market is sufficiently strong to suggest that prices for the species will hold up. With prices considerably higher than other tropical red woods, the only buyers are those seeking out Swietenia's superior technical qualities. There are also concerns that major importers will be deterred from stocking the species in the face of environmental demonstrations. There have already been minor demonstrations focusing on the Brazilian trade during June, and these are likely to intensify if current plans to undertake a joint TTF/Soil Association Swietenia log tracking project, which has the tentative support of ENGOs, fails to go ahead. Despite the best efforts of the trade to persuade IBAMA of the importance of the project for the UK's continuing mahogany trade, the Brazilian authorities have so far failed to authorise the project and it is now unlikely to go ahead this season. France continues to be the major buyer of Brazilian hardwoods, the major species being Tauari and Carupixa for which prices are dropping as there is intense competition with DRM. French manufacturers however have invested heavily in developing uses and markets for Brazilian species and many will not switch on price alone. Italy is also increasing its business with Brazil.

American Cherry continues to sell at a high price, with UK demand, particularly for 1", being high. Prices for Tulipwood are low as the species is available in quantity and there is intense competition between suppliers. Demand for Ash continues to be low and prices have weakened slightly. Prices for American species are heavily influenced by demand and supply conditions in the US where markets are now very buoyant.

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

	April	May	June
\$/£	1.66	1.63	1.67
RED OAK			
1"	1740	1760	1800
1.25"	1830	1830	1880
1.5"	1930	1930	2000
2"	2100	2100	2150
WHITE OAK			
1"	1710	1710	1700
1.25"	1825	1825	1760
1.5"	2155	2155	2155
2"	2780	2780	2780
ASH			
1"	1265	1250	1230
2"	1580	1580	1580
TULIPWOOD			
1"	1080	1080	1080
1.25"	1130	1130	1130
1.5"	1170	1170	1170
2"	1250	1250	1250
CHERRY			
1"	2940	3300	3350
1.25"	3000	3370	3370
1.5"	3190	3500	3500
2"	3475	3600	3600
HARD MAPLE			
1"	2140	2140	2100
1.25"	2275	2275	2200
1.5"	2410	2395	2395
2"	2545	2515	2500

UK economy slows

The UK economy continues to be buoyant, although there are signs that the boom may have hit its peak. Unemployment rose by 1700 in May, the first increase since 1996. Average earnings during the period February to April were up 5.2% on the previous year, while private sector pay is 6.1% higher. Rising earnings are fuelling inflation which is becoming an increasing concern. The retail price index rose 4.2% in May, an increase of 0.2% over April's figures. House prices have been rising fast, by 1.7% between April and May and by 9.3% over the last 12 months. Inflation is now well above government targets. These concerns encouraged the Bank of England to raise interest rates by one quarter percent to 7.5% on 4 June.

Figures from the EU statistical office indicate that growth rates throughout the EU as a whole are at last catching up with those in the US where first quarter growth for 1998 reached 3.7%. After a long period of sluggish growth, the European economy has experienced a steady upward trend since last year, reaching 3% in the 4th quarter of 1997. Imports of all commodities into the EU were 14.5% higher in the first quarter of this year compared with the same period last year. Annual inflation in the 11 country "euro-zone" is a fraction over 1%.

Plywood markets

The plywood market is still in a state of limbo, waiting on events in the Far East. Having fallen from a high of around INDO96 plus 10% prior to the Asian crises, prices for Far Eastern plywood seem at last to have reached bottom in terms of US\$ value. Prices vary considerably depending on quality and volumes purchased. Prices of around INDO96 less 25/26 are being quoted for smaller volumes of top grade BB/CC plywood. Large volume buyers may expect to pay lower prices of around INDO96 less 28/29.

Plywood production levels throughout the Far East continue to be reduced as mills are unable to shift existing stocks. Levels of demand are still extremely low from the traditional big Far Eastern buyers, South Korea and Japan. Markets in China, although still significant, are down on last year. Innoprise has ceased production at one of its mills in Sabah, intended as a temporary measure to ride out the period of chronically low demand. Asian mills that are continuing to operate are mainly running on half shift in an effort to run down inventories. In the longer term, mills that have the security of owning their own forests will be better placed to ride out the storm.

Some plywood mills in Indonesia have closed, and the remainder are under severe pressure lacking the cash needed to bring in logs and continue manufacturing. Mills are having severe problems gaining credit from Indonesian banks. The IMF-inspired reforms designed to stabilise the economy have meant that interest rates in the country are extremely high. Indonesia's economic climate remains in a spin. Prices are rising by the day, the currency is sliding and there are rumours that the government will soon run out of money altogether and that food shortages, already felt in the east of the country, will spread. There is growing concern over sporadic strikes and protests. Indonesia desperately needs the IMF to resume doling out its rescue funds. The IMF is understandably reluctant given the political uncertainties and the presence of a "transitional" government in the country. Even if IMF does begin releasing funds, it will take many months, even years, for investor confidence to return. APKINDO now seems to be a spent force. There are rumours that Bob Hasan, former Chairman of APKINDO and for a brief time Minister of Trade, has left Indonesia in the wake of President Suharto's fall.

Brazilian plywood remains uncompetitive and essentially off the market, with only occasional deals being made to off-load stock and maintain cash flow at the struggling mills. However there are reports that buyers in the Middle East are turning to Brazilian plywood following supply problems in Indonesia.

Despite low prices, UK market demand is said to be "patchy" with consumption levels generally falling. Stocks are at moderate levels and buyers lack the confidence to make major purchases in the current climate.

Suffering in South Korea

Korea's initial success in rescheduling \$22 billion in foreign debt after the International Monetary Fund provided a \$58.5 billion rescue package in December, created a sense of confidence that the nation had dealt with the worst of its financial difficulties. This confidence was soon replaced by international concern over the Korean government's apparent lack of urgency in implementing structural reform. However, the Korean government now seems willing to take more radical steps. In the meantime, Korea's timber importers and plywood manufacturing industry are experiencing a serious downturn due to continuing economic stagnation and contraction in the construction sector.

In recent months, the South Korean government has been subject to increasing international criticism for its perceived laxity in dealing with the structural problems of its economy, including debt-heavy industrial groups, insolvent banks, and growing unemployment. Investors are concerned that the troubled conglomerates, or *chaebol*, are being propped up by emergency bank loans at relatively low rates of interest, instead of being allowed to fail. This is seen as throwing good money after bad. Meanwhile many small firms with better financial credentials are unable to obtain credit and are going bust. The Korean government's motive for keeping the *chaebol* alive has been fear over growing unemployment. With 10,000 workers losing their jobs daily, unemployment now stands at 6.7% and is forecast to reach 10% this year. There are now concerns that a further fall in the value of the yen will undermine South Korean exports.

By mid June, the Korean government at last seemed to be taking more determined steps. It has ordered banks to draw up a hit list of 50 troubled companies to be targeted for liquidation. The government has been encouraged by an American promise to resume guarantees, suspended since 1991, for their businessmen's investments in South Korea. There is a growing realisation that foreign investment, for long frowned upon in South Korea, is the only way to save the economy. Government efforts to persuade trade unionists to abandon a national strike scheduled for June

were also successful.

Against this background, Korea's timber industry has been suffering severely. Negative growth in GDP and a 7.6% contraction in the construction sector in the first quarter of 1998, the largest fall since 1970, have led to extremely weak markets. A total of 175 housing construction companies went bust in the first quarter of 1998. Log imports (both tropical and temperate) during the same period totalled 1,097,724 cubic metres, only 60% of that for the same period in 1997. Although stocks of logs are said to be moderate, demand is almost zero. Most plywood manufacturers now run only 3 days a week. Current stocks of plywood have built up to around 3 months demand under current market conditions. Imports of plywood into Korea in the first quarter of 1998 amounted to a little over 98,000 cubic metres, only 37% of the import during the same period in 1997. Analysts are suggesting that the current market decline will continue until 1999.

In the longer term, the prospects for Korea may not be so bleak. Korea should benefit from the current market reforms and structural adjustment programme aimed at liberalising the economy. Korea should also benefit from acceptance of the IMF loan package which will increase investor confidence. As one element of the package, Korea is due to introduce a home mortgage programme designed to promote house buying. The government is also lifting current controls which impose ceiling prices on sales of new apartments. Despite drastic falls in existing levels of house construction, analysts are predicting housing shortfalls when the economy begins to pick up.

In 1997 South Korea was the world's third largest consumer of tropical logs, importing around 1.1 million m³; the world's fourth largest consumer of tropical sawn timber, importing about 500,000 m³; and the world's fourth largest importer of tropical plywood, importing nearly 1 million cubic metres (see table page 2). South Korea also has an extensive milling and plywood industry relying on imported logs. In 1997, Korea produced 450,000 cubic metres of tropical plywood, and around 150,000 cubic metres of tropical sawn timber.

UK timber production on the increase

The UK's Forest Enterprise has published its Corporate Plan which outlines it will manage UK state-owned forests and woodlands over the next three years. Key among its objectives for 1998-2001 are plans to harvest some 5 million cubic metres of timber each year, an increase of 10% compared with the past 3 years. The increase is seen as providing opportunities for investment in processing, especially sawmilling. The UK home-grown timber industry is currently experiencing difficult trading conditions. It is suffering under the combined

burden of a strong pound, which is making imported material more competitive, and continuing modest demand leading to an oversupply of wood.

Devolution of power to the new Scottish Parliament and Welsh Assemblies is also exercising the minds of the home-grown sector. The UK Government has decided that the Forestry Commission will remain a British body, but the forest managed by the Forest Enterprise will belong to the countries of England, Scotland and Wales.

UK Imports

Statistics are based on official figures of HM Customs and Excise. We try to amend anomalies, but it is not always possible to identify them. The imports of tropical wood apparently coming from continental Europe may include goods transhipped through a continental port. Boules and forms of square edged stock may be included under 'logs'. Where species are shown as coming from a source where it is known they do not occur, then it is assumed that the wood is wrongly identified and it is classified under "others" for that country. Major inconsistencies between volumes, weights and values are reconciled by estimates based on previous performance and marked 'E'.

From countries outside the E.C.

UK IMPORTS SAWN TROPICAL

Classifications: 440724.90.0, 440725.60.0, 440725.80.0, 440726.70.0, 440726.80.0, 440729.61.0, 440729.69.0, 440729.99.0, 440799.98.0

m3	Feb. 1998	Mar. 1998	Cum. 1998
BOLIVIA	34	53	447
BRAZIL	444	2134	3884
BURMA		17	47
CAMEROON	1153	1724	4785
COSTA RICA	13		13
GABON	74		74
GHANA	3002	2062	7285
GUYANA	468	459	1128
INDONESIA	217	451	1073
IVORY COAST	1610	1241	4083
MALAYSIA	3517	5978	13721
MEXICO	11		11
NIGERIA	19	72	111
PAPUA N.G.		12	12
PERU		22	22
PHILIPPINES	44	114	249
SINGAPORE	64	467	678
TANZANIA	63		65
THAILAND	60	63	123
TRIN. & TOB.			30
TOTAL	10793	14869	37841

UK IMPORTS BLOCKBOARD, LAMINBOARD, BATTENBOARD

Classifications: 441222.91.0, 441229.20.0, 441292.91.0, 441299.20.0

m3	Feb. 1998	Mar. 1998	Cum. 1998
BRAZIL	196	196	626
CHINA	64		64
CZECH REP.	40		40
INDONESIA	1507	1727	5662
LITHUANIA	14		54
MALAYSIA	165	32	218
NORWAY			35
POLAND		19	19
USA	3	143	146
TOTAL	1989	2117	6864

UK IMPORTS LOGS TEMPERATE HARDWOOD

Classifications: 440391.00.0, 440392.00.0, 440399.10.0, 440399.20.0, 440399.30.0, 440399.50.0, 440399.99.0

m3	Feb. 1998	Mar. 1998	Cum. 1998
BEECH			
ROMANIA	42	80	141
BIRCH			
CANADA	10	87	97
ESTONIA	733	1757	4282
LITHUANIA	34		34
LATVIA	94	335	617
POLAND	84	84	236
RUSSIA	178	108	330
OAK			
RUSSIA			103
USA		209	209
POPLAR			
USA		39	39
OTHERS			
AUSTRALIA	9	2	43
CANADA	214	277	614
ESTONIA	4805	2343	8450*
LITHUANIA	26		173
LATVIA	13536	4418	17954*
NORWAY			172
POLAND	70	60	153
RUSSIA	1161		1161
USA	1663	723	3298
TOTAL	22659	10522	38106

*May include softwoods

UK IMPORTS LOGS TROPICAL

Classifications: 440341.00.0, 440349.10.0, 440349.20.0, 440349.30.0, 440349.40.0, 440349.50.0, 440349.60.0, 440349.70.0, 440349.90.0, 440399.99.0

m3	Feb. 1998	Mar. 1998	Cum. 1998
BURMA			30
CONGO		104	239
CAMEROON	2214	2470	7801
ECUADOR			27
GABON	752	403	1482
EQ. GUINEA		157	157
MALAYSIA	62		95
MOZAMBIQUE			24
NIGERIA	83		83
PAPUA N.G.			87
SINGAPORE	24	27	80
TANZANIA	10		10
TOTAL	3145	3161	10115

UK IMPORTS SLEEPERS

Treated & Untreated

Classifications: 440610.00.0, 440690.00.0

m3	Feb. 1998	Mar. 1998	Cum. 1998
AUSTRALIA	105	920	2038
CZECH REP.		33	33
TOTAL	105	953	2071

UK IMPORTS SAWN TEMPERATE

Classifications: 440791.90.0, 440792.90.0, 440799.91.0, 440799.93.0, 440799.98.0

m3	Feb. 1998	Mar. 1998	Cum. 1998
BEECH			
CANADA	84	14	98
POLAND			26
ROMANIA		27	224
RUSSIA	55		55
SERB. & MONT.			34
USA	28		58
OAK			
CANADA	544	676	1473
CZECH REP.	8		8
HONDURAS		28	28
RUSSIA	92	17	109
SERB. & MONT.			22
SLOVAKIA		76	76
UKRAINE	172		172
USA	5211	5704	16287
POPLAR			
CANADA	28		93
USA	697	701	1969
WALNUT			
CANADA	2	5	7
USA	112	92	330
OTHERS			
AUSTRALIA	17		235
CANADA	1043	1611	3454
CHILE	104		104
CHINA		30	30
ESTONIA	854	1158	2962*
LATVIA	6230	8212	16519*
LITHUANIA	69	49	118
NORWAY			84
POLAND		30	30
RUSSIA	62	194	563
S. AFRICA	20		60
USA	3192	4828	12108
TOTAL	18624	23452	57336

*May include softwoods

Meyer Announce Profit Warning

Meyer International, the UK's biggest builders merchants, have warned that their sales in the 6 months to 30 September may be lower than expected. This is due to the costs associated with rebranding Harcros products and stores following Meyer's £305 million takeover last year. Costs have also been associated with the installation of a new computer system at Jewson's. Integrating Harcros into Jewson had cost £23m and contributed to a 58% fall in pre-tax profits to £18.9 in the year to 31 March 1998.

Meyer's purchase of Harcros increased Jewson's market share from 6% to 12% in the builders merchant sector, taking the company well ahead of its closest rivals.

The Financial Times noted that shares in Meyer fell only marginally in response to what amounted to a mild profits warning. This reflected the belief that Meyer will benefit from continuing consolidation in merchanting through economies of scale, a policy of bolt on acquisitions and investment in new technology.

**UK IMPORTS PLYWOOD & OTHER
LAMINATED BOARD**

 Classifications: 441213.11.0, 441213.19.0,
441213.90.0, 441214.00.0, 441219.00.0,
441222.99.0, 441229.80.0, 441292.99.0,
441299.80.0

m3	Feb. 1998	Mar. 1998	Cum. 1998
ARGENTINA		8	8
BELARUS		164	164
BRAZIL	7495	9392	31955
CANADA	13073	2203	26062
CHILE	344		442
CHINA	99	244	801
ESTONIA	535	819	1814
GHANA	84	28	138
GUYANA	564	80	1402
HONG KONG	1		1
INDONESIA	9892	8756	29297
ISRAEL	126	175	447
JAPAN			37
LATVIA	3821	2848	9695
LITHUANIA	1006	1697	3580
MALAYSIA	6187	9245	24673
MOROCCO	89	75	225
NORWAY	223	299	823
PHILIPPINES		30	68
POLAND	378	250	736
RUSSIA	5651	7664	21492
SINGAPORE		40	59
SLOVENIA	78		107
SOUTH KOREA		670	670
SWITZERLAND	223	33	353
TAIWAN	7		7
USA	42800	23890	169466
TOTAL	92676	68610	324522

UK IMPORTS VENEERS

 Classifications: 440831.11.0, 440831.21.0,
440831.25.0, 440831.30.0, 440839.11.0,
440839.21.0, 440839.25.0, 440839.31.0,
440839.35.0, 440839.51.0, 440839.61.0,
440839.65.0, 440839.81.0, 440839.89.0,
440839.91.0, 440839.99.0, 440889.81.0,
440890.89.0

m3	Feb. 1998	Mar. 1998	Cum. 1998
AUSTRALIA			2
BRAZIL			13
CAMEROON	11		11
CANADA	137	36	243
CONGO			26
GHANA 221		234	708
HUNGARY	32		32
INDONESIA	68		124
IVORY COAST	32		32
LATVIA	29		29
MALAYSIA		17	68
RUSSIA		65	65
S. AFRICA	155	241	536
SINGAPORE		22	22
SLOVENIA	64	60	124
SWITZERLAND	26	83	113
THAILAND	30	16	166
USA	782	1112	3078
ZAIRE	15	113	335
TOTAL	1602	1999	5727

Based on Abacus Data Services

**UK imports from
within the E.C.**

 HM Customs & Excise data for trade within the E.U is
subject to delay. Because of new methods of statistical col-
lection returns remain incomplete. Statistics are recorded
as received and may be corrected subsequently (C).

INTRA E.C. UK IMPORTS HARDWOOD LOGS

 Classifications: 440341.00.0, 440349.10.0,
440349.20.0, 440349.30.0, 440349.40.0,
440349.50.0, 440349.60.0, 440349.70.0,
440349.90.0, 440399.99.0

m3	Jan. 1998	Feb. 1998	Cum. 1998
BEECH			
GERMANY		20	20
SWEDEN	21		21
BIRCH			
FINLAND		4	4
OTHERS			
BELGIUM		44	44
FINLAND		883	883
FRANCE		1	1
GERMANY		92	92
IRELAND	12	22	34
NETHERLANDS		24	24
SWEDEN		1607	1607
TOTAL	33	2697	2730

INTRA E.C. UK IMPORTS PLYWOOD

 Classifications: 441213.11.0, 441213.19.0,
441213.90.0, 441214.00.0, 441219.00.0,
441222.99.0, 441229.80.0, 441292.99.0,
441299.80.0

m3	Jan. 1998	Feb. 1998	Cum. 1998
BELGIUM	623	285	908
DENMARK	90	175	265
FINLAND	4158	4764	8922
FRANCE	1660	1277	2937
GERMANY	473	265	738
IRELAND	165	250	415
ITALY	755	755	1510
NETHERLANDS	113	239	352
SPAIN	643	308	951
SWEDEN	208	534	742
TOTAL	8888	8852	17740

**INTRA E.C. UK IMPORTS BLOCKBOARD,
LAMINBOARD, BATTENBOARD**

 Classifications: 441222.91.0, 441229.20.0,
441292.91.0, 441299.20.0

m3	Jan. 1998	Feb. 1998	Cum. 1998
DENMARK	47	73	120
FINLAND	176	152	328
IRELAND	7		7
ITALY		54	54
NETHERLANDS	79		79
TOTAL	309	279	588

**INTRA E.C. UK IMPORTS
SAWN HARDWOOD**

 Classifications: 440724.90.0, 440725.60.0,
440725.80.0, 440726.70.0, 440726.80.0,
440729.61.0, 440729.69.0, 440729.99.0,
440799.98.0

m3	Jan. 1998	Feb. 1998	Cum. 1998
BEECH			
BELGIUM	125		125
DENMARK	227	176	403
FRANCE	133	5	138
GERMANY	2540	2036	4576
ITALY		9	9
OAK			
FRANCE	321	513	834
GERMANY	117	94	211
IRELAND		1	1
NETHERLANDS	1	118	119
OTHERS			
BELGIUM	1205	188	1393
DENMARK	167	146	313
FINLAND	283	232	515
FRANCE	1018	172	1190
GERMANY	340	494	834
IRELAND	105	2	107
NETHERLANDS	64	1031	1095
SPAIN	206	65	271
SWEDEN	2121	1504	3625
TOTAL	8973	6786	15759

INTRA E.C. UK IMPORTS VENEERS

 Classifications: 440831.11.0, 440831.21.0,
440831.25.0, 440831.30.0, 440839.11.0,
440839.21.0, 440839.25.0, 440839.31.0,
440839.35.0, 440839.51.0, 440839.61.0,
440839.65.0, 440839.81.0, 440839.89.0,
440839.91.0, 440839.99.0, 440889.81.0,
440890.89.0

m3	Jan. 1998	Feb. 1998	Cum. 1998
BELGIUM	122	210	332
DENMARK	109	62	171
FINLAND	44	29	73
FRANCE	164	237	401
GERMANY	168	162	330
IRELAND	3	2	5
ITALY	25	21	46
NETHERLANDS	29	14	43
PORTUGAL		2	2
SPAIN		42	42
SWEDEN	23		23
TOTAL	687	781	1468

INTRA E.C. UK IMPORTS
SLEEPERS TREATED & UNTREATED
 Classifications: 440610.00.0, 440690.00.0

m3	Jan. 1998	Feb. 1998	Cum. 1998
FRANCE	133	89	222
TOTAL	133	89	222

Based on Abacus Data Services

ECE/FAO/ACP project to gather forest resource data

 The European Commission and FAO, in co-operation
with a African and Caribbean countries that are
signatories to the Lome Conventions (ACP countries),
are launching a three year programme to improve the
quality and reliability of forestry data. The aim is to
strengthen information gathering and analysing capacity
in ACP countries. At present data available on forestry

 resources and industry in certain ACP countries is not
accurate or complete enough to establish effective forest
policies and correctly calculate annual allowable cut. In
addition, more reliable information on the forest sector,
including timber supply and demand, is required to
encourage inward private investment. More: Michael
Martin, Chief, FONS, FAO Rome: Tel: 39 6 570 53302

Tigers and dragons

Tropical Timbers takes a look at two countries that seem set to have a major impact on the international timber trade in the years to come. Together accounting for nearly 40% of the world's population, both China and India have recently imposed substantial reductions in domestic timber harvests and are becoming increasingly dependent on imported timber.

China's future potential

Recent government restrictions in timber harvesting in China are likely to have a major impact on the country's domestic market. The reductions are being implemented just at a time when demand for timber is likely to be high as steps are taken by China's government to increase the nation's stock of housing, promote home purchases, and urbanise a substantial proportion of the rural population. There is also some confidence that China's new premier Zhu Rongji, will pursue a more liberal trade and economic policy than his predecessor, Li Peng. China's State Forestry Administration intends to set aside 60% of forest land in state-owned forests for environmental benefits. Timber harvests will decline from 60 million cubic metres in 1998 to 20 million by 2002. The areas most affected are northern China and the Middle West region which will be short of logs to the tune of 1.5 million cubic metres annually. China's domestic forests were capable of providing large diameter logs of species such as Korean pine, white pine for construction use, and Manchurian ash and oak for furniture and joinery. Implementation of the government measures will mean that the domestic market for these species can no longer be supplied.

China will increase log imports to make up for lack of big diameter logs which are used for plywood production, furniture, joinery and, to a more limited extent, construction. North and central China will join east and south China as major markets for imported timber. Recent moves to liberalise China's timber import trade should also stimulate growth in China's importing sector. In 1995 the Chinese government eased import quotas and reduced tariffs on imported wood products to 16%.

China's economy has avoided the worst ravages of the Asian economic crises. The country has \$140 billion in foreign exchange reserves, a fixed currency and \$40 to \$50 billion a year in foreign investment. China's GDP is growing at a very rapid rate, at nearly 10% a year making it one of the world's largest economies. Nevertheless, China has economic problems to overcome, including weaknesses in the banking sector, an expensive social safety net, and potential large scale unemployment as unprofitable state owned enterprises are dismantled. However, continuing efforts are being made to reform China's economy, and this will create new opportunities for the timber industry.

Particularly significant reforms are underway in China's housing sector. Traditionally housing has been provided by the state. However, the provision of cheap housing has become

increasingly difficult for the government to fund. Efforts are being made to stimulate private home ownership. China's state owned Construction bank intends to double mortgage lending in 1998. All state employees are being required to pay 30% of their incomes into a fund to be used for the purchase of their homes. Public sector housing is being sold to private buyers. The process is being helped along by recent improvements in the level of Chinese incomes. Some estimates indicate that residential house construction will develop at 15% annually during the next 15 years. Rising incomes and private home ownership are contributing to growth and development in China's furniture sector. Increased demand is being stimulated by increased renovation of residential units, expansion and renovation of tourist buildings, hotels and restaurants, and rapid increase in the area of office space. There are now around 30,000 furniture manufacturers in China with total annual production of over 70 billion yuan. At present around 650 of these involve overseas joint capital. Increasing input of foreign funds and improvements in production technology are also allowing Chinese firms to move into the furniture export

	CHINA			
	WOOD PRODUCTS		IMPORTS	
000s m3	Trop. Logs	Other Logs	Sawn-wood	Ply-wood
1991	4089	352	942	1945
1992	4910	617	1461	2921
1993	2945	662	1717	2510
1994	3768	704	1544	3110
1995	3699	705	2112	3055
1996	3615	579	1968	2894

Source: FAO

market. China currently contributes only US\$1 billion to the international furniture trade (valued in total at around US\$46 billion), but this is set to increase. According to the Chinese Furniture Association, China's furniture production will increase annually by 10% during the next 10 years.

At present the picture of tremendous growth in China is marred by continuing economic uncertainties elsewhere in Asia. Economists are suggesting that China will only be able to maintain this year's targeted growth rates of 8% in GDP if exports remain strong. Shortfalls in Asian demand and the weakness of the yen are undermining China's exports. However, even at lower rates of growth, there's little doubt of the potential for China to contribute to a revival in Asian fortunes.

India's small traders

With a population of approaching one billion increasing at a rate of nearly 2% a year, India is home to a major and increasing portion of the world's population. In relation to the size of its population, India is not well endowed with forest resources. India's forest area totals around 65 million hectares, about 20% of land area but only 0.07 hectares per capita of population. On the basis of these crude statistics, India should be expected to figure prominently as an importer of tropical hardwood products in the years to come. India is also one of the few Asian countries that has so far escaped the economic turmoil in Asia - partly because it is still only weakly connected to global markets.

Recent trends affecting the management of India's forest resources reinforce the view that India is set to become an increasingly significant timber importer. Following a Supreme Court ruling of December 1996 aimed at conserving dwindling forest resources, the Indian government has placed severe restrictions on the harvesting of local logs. The area most affected by the ruling has been north eastern India, where the bulk of domestic forest resources are located. This region of the country also produces most of the nation's plywood, notably the Kitply company in Calcutta which enjoys around 60% of India's plywood market. In addition to plywood, Kitply produces a range of panel products including high density boards and veneered particle board. In reaction to the Supreme Court ruling, Kitply intensified its marketing efforts for imported wood products and shifted its focus to the production of high value wood boards.

Many producers in the Southern and Western states were also accustomed to sourcing logs and other material from the North East. Companies in this region have been hit particularly hard by the decision, with some having to close down operations, while others have had to diversify operations.

Reductions in domestic production should lead to increased import demand for veneers and other semi-finished products as well as increases in India's traditional log imports which have grown rapidly over recent years. To date, teak logs have dominated the import market. Imports should continue to focus on tropical hardwood species as the industry is not familiar with, nor well equipped to handle softwoods.

However a number of factors continue to constrain opportunities for those seeking to exploit India's emerging timber market. With per capita income of less than US\$400 a year, the most immediate constraint is the limited

purchasing power of most Indian households. Another major constraint is India's high duties on wood products imports. At present, the vast majority of Indian imports enter in log form. This is due primarily to the current tariff structure which allows duty free imports of logs but which applies tariff rates of as much as 60% on other wood products. These measures are designed to protect India's wood processing industry from overseas competition.

India's timber processing and manufacturing industry is characterised by thousands of small scale operators relying on low cost labour. Typically small traders import logs which are then sold to mills for sawing. Government regulations deter foreign investment and are designed to protect small Indian companies and prevent multi-nationals gaining a foothold. Capital investment in the furniture manufacturing sector is restricted to around \$500,000, although some exceptions are made

INDIA				
WOOD PRODUCTS IMPORTS				
000s m3	Trop. Logs	Other Logs	Sawn-wood	Ply-wood
1991	729	13	21	8
1992	694	9	16	5
1993	222	48	1	5
1994	255	29	2	10
1995	320	29	2	10
1996	310	25	4	17

Source FAO

for operations set up in free trade zones producing furniture for the export market. Despite these restrictions, the size of the wooden furniture industry today is estimated at \$1.7 billion per annum, with an annual growth rate of 15%. The furniture sector is dominated by the presence of single carpenters who service over 75% of the market.

India's existing government comprises a coalition led by the Bharatiya Janata Party which is essentially the party of small business. As such it hasn't been inclined to remove protectionist measures or to take significant steps to encourage foreign investment. Its first budget, held in early June, was, if anything, a protectionist budget. A flat 8% import duty surcharge on all commodities (with some exceptions) has been imposed with the aim of protecting domestic industry.

However, from the timber industry's point of view, the budget was not all bad. Of potential significance were measures taken to liberalise India's housing market, a sector which has been hindered due to considerable red tape. A decades-old law, the Urban Land Ceiling Act, described in the Economist as "an insane array of controls on the transfer of property", has been removed. Property developers have long complained that this law was the main reason for the short supply of building land in India. The government also announced ambitious plans to build 2 million houses in the coming year, with the help of housing finance institutions, and has declared a 5 year tax holiday for private sector property developers to further stimulate investment.

Holland and Canada Clash over Certification

The Canadian Government clashed with Holland over the issue of mandatory environmental labelling of timber at a meeting of the International Tropical Timber Organisation in Gabon at the end of May. The disagreement centred on draft legislation passed through the Netherlands House of Parliament earlier this year proposing mandatory labelling of timber and timber products from January 2000. Under the proposal, a green label would be issued for products derived from sustainable sources and a red label imposed on all products from other sources. Proof of sustainability would be determined according to one of four organisations accredited by the FSC or Dutch Council of Accreditation. Canadian delegates said that, due to the compulsory nature of the proposal, it was unlikely to be compatible with the obligations of the WTO and was contrary to the spirit of ITTO's Objective 2000. The

Canadian delegates emphasised that they support certification, but believe it should be market-based, voluntary and non legislated.

The Dutch Government took steps to diffuse the situation with a statement that strongly implied that it was very unlikely the draft legislation would actually be implemented. To become law, the draft legislation needs first to be cleared by the Upper House of the Dutch Parliament and approved by the Dutch Government. Before this stage can be reached, guidance must be sought from the European Commission and WTO to ensure the law doesn't conflict with WTO or European obligations. The Dutch Government made it clear that there were "considerable doubts" over the compatibility of the law with Holland's trading obligations and implied that the law was unlikely to progress beyond the next hurdle at the EC.

MacMillan Bloedel to phase out clearcutting

MacMillan Bloedel, the Canadian forest products company, has announced a forestry programme that has been endorsed by Greenpeace, until recently one of its staunchest critics. A Greenpeace press release of 11 June announced that MacMillan Bloedel has agreed to phase out clear cut logging in British Columbia. It also states that MacMillan Bloedel has created a new "Ancient Forest Zone" which is seen as "an innovative and progressive concept that Greenpeace will encourage other forest companies to follow." An independent panel has been established to oversee activities in the Zone. MacMillan Bloedel has suspended logging in the remaining areas of untouched temperate rainforest in BC.

MacMillan Bloedel's decision to phase out clearcutting begs the question - how will it be replaced? It is evident that in forests throughout most of British Columbia, which are boreal ecosystems adapted to large scale natural

disturbance, selection harvesting is not an option. Many boreal forest species need considerable amounts of light to regenerate. This is provided under natural conditions by the opening up of large tracts of forest following wildfires or insect disturbance. Clearcut forest management regimes effectively mimic these natural processes. MacMillan Bloedel will need to implement different harvesting regimes, that continue to open the forest canopy on a relatively large scale, but which can be described as something other than "clearcutting". Perhaps some form of retention harvesting, whereby ground cover, a limited proportion of trees, and snags are left to protect wildlife.

Greenpeace campaigns have focused heavily on making clearcut forestry methods unacceptable to European buyers. A number of corporate buyers have cancelled contracts with British Columbian companies so as to avoid Greenpeace demonstrations and related negative publicity.

French system to authenticate sustainability

The French Forest Authorities in association with the forest owners have developed a system designed to "authenticate" sustainable forest management. The scheme links implementation of the environmental management systems standard, ISO14001, by regional regulatory authorities with a comprehensive system of forest legislation. The ultimate aim is to ensure that forests are managed in accordance with forestry standards that are compatible with the Helsinki Principles and Guidelines. The scheme is being promoted under the acronym ORR, "Organisation, Regulation, Results". Under the scheme, the "organisation" that is certified under ISO14001 is in fact a combination of competent institutions that regulate forest management at regional level. These institutions

include the Office National des Forêts which manages state and communal forests; the Forest-owning Local Authorities; the Regional Centres for forest owners, public bodies run by elected representatives of private forest owners, which have been entrusted with developing and steering the production of private forests; and Tree-farming Forest Owners Associations. Registration to ISO14001 is designed to provide an independent assurance that the regional "organisation" is effectively implementing national forest regulations and ensuring continuous improvement in forestry practices. The scheme is focused on producing "Results", measurable progress towards sustainable forest management as defined by the Helsinki Criteria and Indicators.

A future in plantations

An article in the Pacific Rim Wood Market Report has emphasised the potential for future wood supply derived from plantations. The article is based on a forecast by industry specialist Bob Hagler of Wood Resources International, presented to the American Pulpwood Association conference in early May. Plantation forestry clearly isn't new, but current constraints on natural forest supplies, increasing demand, and the development of new management methods mean that plantations are set to become increasingly important sources of wood fibre supply. Large areas of plantations have been planted around the world. According to FAO (1997) plantation area in the tropics has doubled since 1980, from an area of about 40 million hectares, to around 81 million hectares today. Plantations now represent a little over 4% of total forest area in the developing world. More than 80% of these plantations are in the Asia-Oceania region.

Until about 20 years ago, many plantations were established with poorly defined end uses. Some plantations also suffered from lack of proper treatment and management following establishment. However, in the past 2 decades there have been considerable gains in technology which have allowed tremendous growth rates. Improved site selection, genetic research, and precise application of fertilising chemicals have contributed to this trend. Much more attention is also being focused on managing plantations for quality to ensure the wood resource is suitable for particular applications.

Mr Hagler categorises world timber supply into two groups. Firstly natural or extensively managed forests. These include all natural forests, managed forests established through natural regeneration, and plantations with

rotations of greater than 50 years. Together these forests account for nearly 85% of world wood supply. The second category of timber supply, short and medium rotation plantations managed on cycles of less than 50 years, currently contribute only 15% of world fibre supply but this proportion is set to increase. Many short rotation plantations were originally established for fuelwood production, but these will increasingly be used as a source of fibre by the forest industry.

Growth rates are a key factor determining the profitability of plantations. Globally, average growth rates for non coniferous plantations are 25 m³ per hectare per year and 15-20 m³/ha/yr for conifers. The use of short and medium rotation plantations serves to reduce the economic risks associated with investment in plantation forestry, which has involved tying up capital for long periods of time with a high degree of uncertainty over markets for the final product. It also improves cash flow and the rate of economic return. Increased establishment of short rotation plantations should lead to increased research, for example to develop genetically improved stock and trees with greater resistance to insect attack. Plantations may also help to stabilise the cyclical price volatility that occurs with dependence on natural forests.

Mr Hagler noted that globally the annual allowable cut could double over the next 30 years, much of this growth occurring in Asia and South America. Much of the supply from newly established Asian plantations will be used to satisfy growing domestic demand. However the surplus supply from South America, particularly of non coniferous wood will be available to make up expected wood fibre deficits in Europe and North America.

Cameroon log exports

China, India, the Philippines and Japan were major growth markets for Cameroon logs during 1997. The Asian crises will have reduced growth in these markets during 1998. Major species are obeche and limba.

LOGS BY DESTINATION Source SGS/ATIBT			
Destination	1996	1997	% chng
ITALY	238754	297051	24
CHINA	55967	276402	394
FRANCE	172385	211890	23
PHILIPPINES	75107	202029	169
JAPAN	101711	200618	97
INDIA	10011	139632	1294
SPAIN	89763	129320	44
PORTUGAL	82210	94212	15
TURKEY	37139	66236	78
GERMANY	36502	62729	72
HONG KONG	20816	62193	198
NETH'LANDS	51542	61860	20
TAIWAN	72069	57326	-20
THAILAND	132292	35381	-73
OTHER	89753	119163	
TOTAL	1266021	2016	60

LOGS BY SPECIES 1997 Source SGS/ATIBT

Species	m ³
Ayous/obeche	596788
Frake/limba	221130
Sapele	175750
Tali	136559
Azobe/bongossi	106648
Naga/ekop naga	95289
Iroko	74267
Aiele/abel	55832
Movingui	53408
Eyong	40548
Sipo	35407
Fromager/ceiba	34401
Moabi	33439
Bilinga	31327
Onzabili/angongui	30731
Padouk	30680
Bibilo/dibetou	22260
Faro	18347
Gombe/ekop gombe	18266
Afromosia/Assammela/Oe	14953
Others	190012
TOTAL	2016042

Malaysian notes

Exports

According to Primary Industries Minister Dr Lim, Malaysia's earnings from exports of timber products this year are expected to be reduced to RM13.2bil from RM14.72bil last year. The projection is based on export performance in the first four months of 1998. Dr Lim's comments were made after chairing a dialogue with the Malaysian Panel Products Manufacturers Association in mid June.

Prices for Malaysian plywood are now quoted at US\$220 per cubic metre compared with US\$420 before the start of Asia's financial crisis. Most of the big local plywood mills have been suffering losses of up to RM1mil every month. Malaysia's plywood industry continues to have difficulties securing credit facilities from banks, and are also suffering from high interest rates and rising freight rates. Freight charges for a 20-foot container at a British port were US\$950 in December last year, but rose to US\$1,100 in April this year.

Dr Lim also noted that Malaysian exporters are concerned about the 10.8% charge for the Export Credit Refinancing (ECR) scheme, which they consider "very high". Exporters are lobbying to reduce the charge to the 1984 level of 4.5%. Exporters are apparently confident that this would serve to increase plywood orders.

Sarawak

According to comments made by Barney Chan of the Sarawak Timber Association during ITTO market discussions in May, Sarawak exported 6.36 million cubic metres of logs in 1997, making it the world's third biggest exporter of logs after USA and the Russian Federation. Sarawak also exported 1.95 million cubic metres of plywood in 1997, making it the second largest exporter of tropical plywood after Indonesia. Sarawak also exports around 1.5 million cubic metres of sawn timber and other products.

Last year, about half of Sarawak's plywood, 970,000 m³, went to Japan. This year Sarawak desperately needs another market to take up the slack generated by Japan's weak market demand. Opportunities seem very limited. Other major markets have also tended to decrease their purchases, including China/Hong Kong which last year imported about 365,000 m³ of Sarawak's plywood.

Plantations

ITTO's Market News Service reports that amendments to the Sarawak Timber Industry Corporation Act will enable the Corporation to become the main driving force in promoting forest plantations. The Sarawak Government has a target of establishing one million hectares of plantations. The amendments also empower the Corporation to distribute timber through its wholly-owned subsidiary, Hardwood Timber Sdn Bhd, to timber processing plants.

ATO Director outlines forestry program

The African timber sector suffers from over-reliance on the export of unprocessed logs; lack of capital, technology and skills; and under-utilisation of the forest resource for timber production. However, Africa has the potential to become a more significant player with further investment in forest management and value added processing and through the development of green labelling to assist market access. This is the message of a presentation given by Mohammed Garba, Director General of the African Timber Organisation, during recent market discussions at the May council session of the International Tropical Timber Organisation held in Gabon.

Mr Garba noted that only about 10% of the timber extracted from African forests is consumed by the timber industry. The remainder is used for fuel and construction. Of the wood that is extracted for industrial purposes, one third is exported as logs with no value added. As a result, Africa occupies a marginal position in the international tropical timber trade contributing only around 8% by volume. Asia dominates with around 80%. This is despite Africa's possession of around 20% of the world's remaining area of tropical forest.

The forest policy and regulatory frameworks of many African countries inhibit the sustainable

development of the forest sector. Some administrations lack an up-to-date forest policy, adequate inventory data and effective planning framework. These problems are compounded by shortage of financial resources and political instability. Stumpage rates and government royalties often do not represent the real value of the resource, leaving forestry departments underfunded for necessary improvements in forest management and restricting their ability to prevent illegal logging.

Meanwhile industrial development is inhibited by lack of capital and inadequate information on resources and timber markets. Negative environmental campaigns to restrict trade in tropical timber products, irrespective of efforts to improve forest management, have also inhibited market access for African producers. To overcome these problems, Mr Garba stressed that African producer countries need to take steps to ensure their timber sectors are more attractive to international investors. There was a need to provide incentives and tax concessions to investors; ease taxes on machinery imports; demonstrate a secure political and economic environment; and provide a competitively priced and trained work force. The duration of tenure over forest concessions also needs to be extended to ensure logging companies have a

long term stake in the sustainable management of the forest resource.

A number of African states are already making significant headway in tackling these problems. Several ATO countries have either completed or are in the process of a serious exercise of reviewing their national policies and plans and launching national forestry action programmes. There are also those countries that have totally banned or drastically reduced log exports with a corresponding increase in exports of valued added products.

The African Timber Organisation is itself assisting both in the process of policy development and the development of a suitable framework for timber certification. It is working with the Centre for International Forestry Research (CIFOR) to develop appropriate criteria and indicators for the measurement of sustainable forest management in Africa's forests. A draft set of Criteria and Indicators are currently being tested in a number of African countries. The Criteria and Indicators will be used as a basis for the development of voluntary certification schemes in ATO member countries. This work has been supported by a range of international bodies including the EU Commission and the French and Dutch Governments.

AHEC Seminars

A series of four grading seminars in four European countries, jointly promoted by the American Hardwood Export Council and the hardwood importing Federations of France, Germany, the Netherlands, and Belgium, have been well received. Attended by 285 delegates, the seminars featured a presentation by Bob Sabistina, Chief Grader of the National Hardwood Lumber Association in Memphis USA. The seminars are part of a continuing programme that commenced in UK and Ireland last year and which will continue in Southern European countries, the next being held Valencia in June. AHEC's "Illustrated Guide to Hardwood Grading" which has been used at the Seminars, can be obtained from the American Hardwood Export Council (AHEC) Fax: 44 (0) 171 5888855.

New certification body

At a meeting of the UK Timber Grading Committee last week, BRE Certification Ltd was given the go-ahead to become an Approved Certification Body for visual strength grading of both hardwoods and softwoods, and also machine strength grading of softwoods. BRE Certification is owned by the Foundation of the Built Environment which also owns the Building Research Establishment. More from: Carol Atkinson, BRE Certification, BRE, Garston, Watford, Herts WD2 7JR

Senate urged to approve Africa-US Trade Bill

London's Financial Times reports that the US Senate is being urged to approve a trade bill designed to ease access to US markets for African countries with good political and economic records. The Bill is apparently one of President Clinton's top legislative priorities and is designed to further integrate African countries into the world economy. The African Growth and Opportunity Act would make it easier for African countries that have been certified by the US administration as

having adopted suitable economic and political reforms to sell a wide range of manufactured goods into the US market. It would also establish a bilateral US-Sub Saharan Africa Trade and Economic Co-operation Forum. Although passed by the House of Representatives in March, prior to President Clinton's visit to Africa in March, the bill has now become stalled in the Senate. A letter from the 48 eligible African countries has been sent to all 100 Senators, urging them to approve the Bill.

IKEA involved in forest rehabilitation in Malaysia

A Memorandum of Agreement has been signed between the IKEA group and Rakyat Berjaya Sdn Bhd, a wholly-owned subsidiary of the Innoprise Corporation in East Malaysia. The project, known as Innoprise-IKEA Rehabilitation of Degraded Forest or Inikea, covers 14,000 hectares and is aimed at restoring and rehabilitating heavily logged or burnt forests in a concession area managed by the Malaysian company. The rehabilitation project is to be funded by the IKEA Group which will contribute US\$750,000 per year for a minimum of five years.

Meetings

24-28 August: IUFRO - International Conference on Indicators for Sustainable Forest Management. Melbourne, Australia. Contact: Margaret Scarlett, E-mail: conforg@ozemail.com.au

16-18 October: FORAFRI International workshop: Sustainable management of African dense tropical rainforests today. Organised by FORAFRI. Joint CIRAD-Foret/CIFOR project, with support of IUFRO and technical assistance from FAO. Libreville, Gabon. E-mail: FORAFRI@compuserve.com

19-25 November: CIFOR, Bogor, Indonesia - 7 day workshop organised by CIFOR in association with the Oxford Forestry Institute, IIED, and ANU Forestry, on "Globalisation and Localisation: Exploring Tensions and Synergies in Forest Policy." Price \$US1500. Details from Ketty Kustiyawati, CIFOR, PO Box 6596 JKPWB, Jakarta 10065, Indonesia, fax: +62 251 622100

ATIBT - 4 December: Tropical timber day open to all professionals; 5 December - excursions to plants. Valencia, Spain. E-mail: atibt@compuserve.com

ITTO Continued from page 1

However "there is very little point in complaining about idealists in the developed world if we - ITTO - do not do something practical to give specifiers and purchasers alternative explanations to turn to." Mr Pleydell stressed that ITTO should have a proper media strategy, using the services of a professional PR firm. More emphasis should be placed on providing short simple publications for final consumers of tropical timber products.

Some trade delegates also stressed the importance of ITTO looking seriously at how member countries should provide credible guarantees of good forest practice to consumers. ITTO has so far avoided any specific stance in relation to certification and limited itself to reporting on progress. This stance was a particular irritant for Barney Chan of the Sarawak Timber Association: "It appears that ITTO is not willing to take up the challenge of certifying tropical timber for the international trade. Meanwhile we all sit back and watch the NGOs move rapidly to monopolise the certification process. Today they give the impression that the only viable certification process is the Forest Stewardship Council... While we see no green premium for certified products, we should not cut off that option for the trade. The future trade may need some form of certification.... Why cannot ITTO have its own certification programme?". Mr Chan proposed that there should be a separate Trade Meeting before the next ITTO meeting in Yokohama to discuss the issue of certification further. Such a meeting would provide an opportunity for the trade to formulate a more coherent policy on certification and bring its views to centre stage at the next ITTO meeting.

While certification has been the focus of much attention in recent years, it's not the only way for tropical producers to communicate their environmental commitment. This point was stressed by Geoffrey Pleydell who noted that demand for certified timber in the UK is limited to "a group of wholesalers and retailers, concerned with market advantage and where in many cases timber is not a major product". Their demands differ markedly to those of most UK importing companies. Many companies in the UK are committed to an Environmental Timber Purchasing Policy promoted by the Timber Trade Federation's Forests Forever Campaign. These companies are not necessarily looking for a label, but need more reliable information on wood product sources and evidence that their suppliers are committed to good forest management. Mr Pleydell suggested that producers could themselves implement voluntary environmental policies or codes of practice as one way of providing these assurances.

SHARE PRICES FOR SOME U.K. COMPANIES

	52 Week High	52 Week Low	02-Feb	02-Mar	01-Apr	26-May	20-Jun
J. Latham	203.5	188.5	189	189	201	201	201.5
Meyer International	445.5	328.5	332	379	396	430	382
Travis Perkins	628.5	457	458	558	609	605	549
Barratt Devs.	341	224	242	281	320	326	287
John Laing	394.5	309.5	322	315	366	361	394.5
Alfred McAlpine	181.5	133.5	142	151	176	168	161.5
J. Mowlem	150	77.5	85	86	123	125	149.5
George Wimpey	143.5	92.5	93	124	126	131	126
Cornwell Parker	182.5	146	161	181	159	152	151

EXCHANGE RATES FOR ONE POUND STERLING

		02-Mar	03-Apr	22-May	23 June
Australia	Aus.\$	2.4169	2.5222	2.5838	2.7495
Bangladesh	Taka	76.2331	76.8558	75.6358	77.4369
Belgium	Belgian Fr.	61.6779	63.2606	59.2180	61.8942
Belize	B\$	3.2930	3.3199	3.2672	3.3450
Bolivia	Boliviano	8.9240	9.0966	9.0011	9.2232
Botswana	Pula	6.2850	6.4596	6.3695	6.919
Brazil	Real	1.8608	1.8891	1.8813	1.9313
Fr. Africa*	CFA Fr.	1002.600	1027.560	962.750	1005.98
Chile	Peso	740.349	754.862	740.919	761.85
China	Yuan	13.6312	13.7439	13.5256	13.86
Denmark	Danish Krone	11.3910	11.6934	10.9422	11.4307
France	Franc	10.0260	10.2756	9.6275	10.0609
Germany	D-mark	2.9880	3.0664	2.8708	3.0011
Ghana	Cedi	3782.84	3844.45	3785.88	3851.12
Guyana	Guyanese \$	237.096	239.531	235.729	241.62
Hong Kong	HK\$	12.7480	12.8625	12.6563	12.9527
India	Rupee	64.7898	65.5598	66.4222	71.4576
Indonesia	Rupiah	14571.60	14441.60	17888.0	23943.92
Irish Republic	Punt	1.2076	1.2182	1.1410	1.1917
Italy	Lira	2946.33	3024.68	2831.11	2956.56
Japan	Yen	208.002	223.662	221.688	230.939
Kenya	K. Shilling	98.7901	98.8086	103.244	99.46
Korea South	Won	2688.74	2401.95	2260.09	2329.79
Malaysia	Ringgit	6.0509	6.2912	6.1999	6.6194
Myanmar	Kyat	10.2934	10.3775	10.2059	10.47
Netherlands	Guilder	3.3702	3.4548	3.2353	3.3824
Nigeria	Naira	36.0353	36.3297	35.7530	143.93
Philippines	Peso	65.6955	65.1531	63.1387	69.3252
Portugal	Escudo	305.928	314.063	293.966	307.406
Singapore	Singapore \$	2.6690	2.7033	2.6718	2.7646
South Africa	Rand	8.1362	8.3695	8.3134	9.2155
Spain	Peseta	253.586	260.396	243.937	254.596
Taiwan	\$	52.8132	54.7294	54.9061	57.4304
Tanzania	Shilling	1060.99	1078.88	1056.86	1091.03
Thailand	Baht	70.9642	68.1411	64.2414	69.2416
Uganda	New Shilling	1885.24	1913.92	1976.66	2042.28
U.S.A	US \$	1.6465	1.6600	1.6336	1.6725
Venezuala	Bolivar	851.241	870.852	876.680	909.23
Vietnam	Dong	21360.0	21544.5	21205.8	21735.22
Zimbabwe	\$	26.6734	26.7806	29.8949	30.01

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

SUBSCRIPTIONS

**Subscribers outside UK £110 p.a. (airmail monthly),
within UK £98 p.a. Payable in advance by cheque drawn
on a bank in the UK, made out to "Tropical Timbers"
and sent to: 19 Raikeswood Drive, Skipton, North
Yorkshire BD23 1NA, UK**

Contents may be reproduced by agreement with
the Editor and acknowledgement of source.