

TROPICAL TIMBERS

an independent publication providing market information

ITTO to refocus on trade

“From the point of view of the Trade, the meeting in Thailand was the most encouraging so far.....there was a widespread recognition, largely lacking at earlier ITTO meetings, of the importance of market related issues to ITTO and ITTO members, and of the crucial role of the Timber Trade in promoting sustainable forest management”. This was the verdict of Michael James, the UK Timber Trade Federation delegate to the recent ITTO meeting in Chang Mai, Thailand which ended on 3 June.

Market Discussions

A full day of the meeting was set aside for Market Discussions on the theme “The Downturn in the World Tropical Timber Market and the Positive Contribution that ITTO Should Make”. The discussions revolved around a paper, prepared by Ivan Tomaselli and Geoff Pleydell, which highlighted the scale of the downturn in tropical timber markets resulting from the Asian financial crises and the implications for sustainable forest management (see box page 2). By the end of the meeting, there was clear consensus that ITTO needed to spend more time and resources on market related activities in it’s project work. Projects take up a considerable amount of ITTO’s time and are too heavily skewed towards forestry research at the expense of trade and industry. It was also recognised that ITTO needs to devote more resources to public relations and public education about the role of ITTO in promoting sustainable forest management. Trade delegates were concerned that the general public continued to have little understanding of the progress made by countries towards ITTO Objective 2000. Michael James highlighted the extent to which the media debate in Europe is driven by environmentalists. He noted that the “public think that the agenda is set by the WWF, notably through their joint project with the World Bank, which calls for 10% of the world’s forests to be protected and some 200 million hectares to be certified. The media and public

are fed only a simplistic view of the issues, with little attention being given, or understanding shown, of the work being done by governments, for example, to develop effective national policies for sustainable forest management”. To overcome these problems ITTO needs to communicate with non specialist, non technical audiences.

Another theme of the market discussions was the need for ITTO to support further research into market intelligence. The Asian crises has served to highlight the vulnerability of the tropical timber trade to market downturns. Added to this vulnerability is the strength of competition from other wood and non wood products. ITTO already has access to this information and needs to be more pro-active in making it available.

Forest management certification is another issue on which ITTO should more pro-active. Trade delegates stressed the potential for confusion amongst consumers arising from the plethora of different schemes on offer. Much of the information on certification is made available to major buyers and the general public by environmental groups and the balance needed to be redressed. It was agreed that ITTO should collate information on the range of different certification schemes under development.

Michael James sums up the Market Discussions: “the various proposals were watered down on the way through the stages from the marketing discussions, via ITTO’s Marketing Committee to the Council, but the outcome nevertheless, represents important progress in focusing ITTO on the importance of market related issues and the need to publicise it’s activities.”

ITTO Objective 2000

As the year 2000 approaches, there is growing urgency for ITTO member countries to provide a thorough account of their on-going efforts to achieve ITTO’s Objective 2000. Under this objective, formally adopted by ITTO in 1990, member countries were committed to ensuring

Continued on page 2 - column 1

**Volume 14
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Contents

ITTO.	1/2
Asian Downturn.	2
Central African Republic	2
Greenpeace	2
Hardwood Markets	3/4/5
Y2K	5
Congo sawmill	5
UK Hardwood Demand	5/6
Publications	7
Plywood Markets.	8
European Hardwood Demand	8
Market Access/WTO.	9
Freight	10
South Korea.	10
Cameroon Log Ban	10
Ghana exports	11
Carbon Credits	11
Indonesia	11
Brazilian Mahogany.	12

Statistics in this issue

UK hardwood imports	6/7
Outside and inside E.C January 1999/1998	
Ghana exports	11
Forest products first quarter 1999	

ITTO Continued from page 1

that internationally traded tropical timber should be sourced from sustainably managed forests by 2000. At time of adoption, for many countries the commitment would require the complete overhaul of existing forest policies and practices. Since 1990, reports on progress have been irregular and often incomplete. A number of countries, for example Ghana and Malaysia, have been conscientious in providing full reports. Some, including Bolivia and Sarawak, have opened themselves up to more intensive scrutiny by ITTO missions of experts. The

willingness of these countries to both report on progress and to openly acknowledge problems has contributed to their reputation for good forestry practice amongst consumers.

At the ITTO meeting in Chang Mai, steps were taken to ensure a more thorough review of progress towards the year 2000 target. Member countries have to provide the Secretariat with their overview on the progress they have achieved by 1 November 1999. Two consultants will be appointed to prepare a composite report on Members progress, and on ITTO's contribution, by end March 2000.

Post Mortem on Asian Downturn

A paper presented to the ITTO meeting in Chang Mai highlights the weakness of the tropical timber industry in responding to macro-economic shocks and downturns. The paper, "Downturn in the International Tropical Timber Market" by Geoff Pleydell and Ivan Tomaselli, is an interim version of a final report to be presented in final form at the next ITTO meeting in Yokohama during November. It describes the scale of the trade downturn resulting from the Asian crises and comments on the longer term implications. The total volume of international tropical wood trade fell from 57.3 million m³ in 1996, to 53.1 million m³ in 1997, and to only 46.4 million m³ last year. As prices have fallen, the value of exports will have declined even more. Some of the worst casualties of the financial crises have been the world's largest tropical wood exporting countries - Indonesia, Malaysia and Papua New Guinea - together with key importing countries including Thailand, the Philippines and South Korea. Economic stagnation in Japan, the world's largest market for tropical wood, further contributed to a collapse in markets and plummeting prices. At the same time producers saw their access to finance seize up as banks collapsed, interest rates were pushed up to unaffordable levels, and banks became wary of approving new lending. Weak currencies meant the cost of consumables required by the industry, quoted in US dollars, hit the profitability of firms. While emphasising their conclusions are preliminary, the authors identify the following implications of the downturn:

- the tropical timber industry is very much at the mercy of macro-economic events. In countries where the timber industry forms a

significant part of the economy, any failures and weaknesses in the industry only add to national problems

- taking a less humanitarian line, the crises may have served to "rationalise" the industry. It may, for example, improve the balance between industrial and forest capacity, removing some of the more inefficient units.
- There is now a risk that plans to introduce sustainable forest management could be damaged by calls to step up exports. Reductions in duties or royalties aimed at assisting the industry, by lowering costs at a time of low prices, may also remove vital finance for better forestry without guaranteeing extra sales.

The report includes some preliminary observations on possible actions by the tropical timber trade. For example it notes that "at the trading level the crises may have reminded timber companies of strategic marketing actions which, while not removing the dangers, may help to ameliorate the situation. Diversification of markets and products may help iron out fluctuations in demand, even at the risk of sacrificing some profitability. The creation of good relations in business may mean a buyer continuing with that product, even though ceasing to buy from a competitor. Creation of customer loyalty is assisted through reliability, punctuality, quality and prompt and fair dealings over claims". Furthermore "timber companies need to be aware of the overall economic health and risks of the countries they are selling to. Trade associations might improve their endeavour to forecast future market conditions for their members."

Greenpeace devote US\$2.4 million to Amazon campaign

Greenpeace have recently announced that their "new global priority" will be the Amazon. According to their latest press statement; "Greenpeace will first concentrate on destructive logging activities in the Brazilian Amazon". Greenpeace identify the logging industry as "the main threat to ancient forests all over the world." This claim is apparently backed by their own research in a new report "Facing Destruction: A Greenpeace Briefing on the timber industry in the Brazilian Amazon." Greenpeace say that since 1970, an area the size of France has been deforested in the Amazon. This, Greenpeace imply, is entirely due to logging for timber, which "provides access for other forms of destructive forest use such as cattle ranching or soya plantations". The campaign has an annual direct budget of US\$2.5 million plus fundraising from Greenpeace's 33 offices worldwide.

Greenpeace have, at least, learnt one lesson; a recognition that their campaigns will achieve nothing if they deny the local population's need to make a living. Roberto Kishinami, Director of Greenpeace Brazil, suggests that "we want people to look at the forest as an opportunity for development, not as obstacle to it...the time to look at the Amazon as a "park" is gone. It is obvious that any effort to save the forest must address the question of a sustainable economic development". The campaign "will focus on finding sustainable economic alternatives such as rubber tapping or marketing fruits and plants from the forest for the 20 million people who live in the Amazon region." They also acknowledge a role for logging, although this should "only be allowed on specified areas in accordance with strict ecological and social criteria, through certified operations".

Greenpeace have simultaneously launched a campaign targeting Cameroon. In May, 20 Greenpeace activists chained themselves to logs from Cameroon entering the port of Antwerp in Belgium. The message on their banners was blunt: "don't buy rainforest destruction". Greenpeace claim in their press material, with no supporting information, that "all experts agree that the so-called selective logging operations are in fact equal to mining operations: logging the most valuable trees without caring for the rest of the forest...Many tree species are threatened with extinction due to overharvesting. Moreover the logging roads pave the floor for industrial poaching who follow the loggers and kill many endangered species such as the western lowland gorilla". Adding fuel to the campaign, Greenpeace allege that a Belgian timber company, Vandecasteele Houtimport, imported 71 logs of Afrormosia, a species listed on Appendix II of CITES, without obtaining the necessary legal documentation. The logs have apparently been confiscated by the Ministry of Agriculture.

CAR timber production down 20%

Reuters report that timber production in the Central African Republic fell by 20.9 percent to 147,007 m³ for the first quarter of 1999, compared to the same period in 1998.

Log production in January-March 1999 totalled 132,614 cubic metres, compared to 162,835 m³ during the same period in 1998. Sawn production stood at 13,867 m³ compared to 22,746 m³ in 1998. Exports during the same period remained stable at 38,252 m³, compared

to 37,897 in 1997, with log exports representing just over 80% of total exports during the first three months of 1999.

An official at the Forestry ministry, said the drop was linked to political uncertainty after parliamentary elections at the end of 1998. A handful of independents held the balance of power after supporters of President Ange-Felix Patasse and the opposition finished neck and neck in the election.

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

	Apr	May	June
Ex Cameroon Fr.F/m3 FOB Douala LM			
N°GOLLON			
70cm+20% 60/69	1400	1400	1450
BOSSE 60cm+	1550	1550	1550
AYOUS 70cm+	1000	1000	1000
BIBOLO 60cm+	1350	1300	1350
SAPELE			
80cm+20% 70/79	1650	1550	1550
SIPO			
80cm+20% 70/79	1900	1900	1950
IROKO			
80cm+20% 70/79	1650	1650	1650

	Apr	May	June
Ex Gabon Fr.F/m3 FOB Owendo LM			
ACAJOU			
70cm+20% 60/69	1200	1250	1200
DIBETOU 60cm+	1175	1175	1175
DOUKA			
70cm+15% 60/69	1100	1150	1150
SIPO			
70-79cm10%/60/69	1700	1700	1700
80-99cm	1900	1900	1900

Sawn Timber

	Apr	May	June
Ex Ghana DM/m3 FOB Takoradi			
FAS (includes notional agent's commission of 5%)			
6"+ avg 9" C/£	3932	4014	4030
6" + avg 9" DM/£	2.98	3.00	2.99
A.MAHOGANY AD	740	740	740
A.MAHOGANY KD	895	895	895
EMERI AD	760	760	760
UTILE KD	1150	1150	1150
ODUM AD	925	925	925
ODUM KD	1085	1085	1085
SAPELE KD	900	900	900
EDINAM AD	590	590	590
EDINAM KD	770	770	770
WALNUT AD	705	705	705
NIANGON AD	895	895	895
DANTA AD	680	680	680
DANTA KD	945	945	945
WAWA AD	430	430	430
WAWA KD	500	500	500
MAKORE AD	790	790	790
MAKORE KD	960	960	960

	Apr	May	June
Ex Cameroon Fr.F/m3 FOB			
FAS width 6"+, length 6"+			
SAPELE	2600	2650	2650
SIPO	3700	3750	3750
BIBILO	2700	2750	2750
N°GOLLON	3200	3200	3200
AFRORMOSIA	3800	3800	3800
IROKO	3275	3375	3375

	Apr	May	June
Ex Gabon FR.F/m3 FOB			
FAS width 6"+, length 6"+			
OKOUME AD	1950	2000	2000

	Apr	May	June
Ex Zaire Fr.F/m3 FOB			
FAS width 6"+, length 6"+			
SAPELE	2550	2600	2600
SIPO	3500	3550	3550
MAHOGANY	2950	2950	2950
AFRORMOSIA	3700	3700	3700
IROKO	3200	3300	3300

	Apr	May	June
Ex Cote d'Ivoire Fr.F/m3			
Fr.F/£	9.98	10.05	10.02
FOB Abidjan FAS			
6"+ avg 9"-10"			
6"+ avg 10"-11"			
1"-2"			
IROKO	3250	3300	3350
MAHOGANY	2650	2700	2750
FRAMIRE	2000	2000	2000
SAMBA No.1 C&S	1525	1525	1525
AZOBE dim. stock	2100/	2200/	2200/
	2700	2800	2800
OPEPE dim. stock	1850/	1950/	1950/
	2450	2550	2550

	Apr	May	June
Ex Malaysia US\$/ton, C&F UK port			
M\$/£	6.12	6.10	6.00
US/£	1.61	1.60	1.58
M\$/US\$	3.80	3.80	3.80

DARK RED MERANTI (KILN DRIED)

	Apr	May	June
Select & better GMS			
width 6"+ avg 7"-8"			
length 8"+ avg 12'/14'			
1-2" KD	810	830	870
2.5" KD	840	860	900
3" KD	870	890	980

KERUING

	Apr	May	June
Standard & Better GMS			
1"-3"			
width: random or fixed			
length 16"+	505	510	540
KAPUR			
Standard & Better GMS			
1"-3" plnd			
width 6"+ avg 7"-8"			
length 16"+	510	515	545

TEAK (Official price list basis)

	Apr	May	June
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	May	June
Ex Brazil US\$/m3 C&F			
FAS US\$/£	1.61	1.60	1.58
6"+ avg 9-10"			
6"+ avg 10-11"			
MAHOGANY (Swietenia)			
1"-2" AD	1120	1120	1120
2.5"-3" AD	1140	1140	1140
1"-2" KD	1210	1210	1210
2.5"-3" KD	1230	1230	1230

VIROLA

	Apr	May	June
1" KD No.1 C&B			
boards	400	400	400
strips	370	370	370
CEDRO			
1"-1.5" KD	720	720	720
2" KD	720	720	720
2.5"-3" KD	750	750	750

Hardwood Markets

Highlights

- Far Eastern logs and sawn prices rise...
- ... in the face of consumer resistance
- Sapele prices remain flat
- Iroko demand slow
- Expectations of high mahogany prices
- US exports to Europe down
- Far Eastern demand improving

Asian Hardwoods

Continuing tight supplies in the Far East are encouraging shippers to raise both log and sawnwood prices. Rains continue to hinder logging in certain areas of the Far East long after the traditional start of the dry season. For example there are reports of heavy rains and poor logging conditions in parts of Sabah and in Papua New Guinea. In Peninsular Malaysia, the authorities are increasingly rationing logging licenses in line with the country's sustainability commitment under ITTO Objective 2000, implying a long term tightening of supply. In Sabah, logs are becoming more readily available, but a large proportion are now being sold to Japan and China, rather than being retained for processing in the state. In setting higher prices, Asian shippers have been particularly encouraged by firm demand from Holland for DRM/Seraya 3" by 5", the size typically bought by Dutch importers, which is currently in short supply.

There is a lot of resistance to the price increases from European importers, who note the continuing weakness of prices for Sapele, the main competing African hardwood. Prices for both DRM and Seraya are now equivalent to those for Sapele, which in many ways is a higher quality hardwood. The competitiveness of Asian hardwoods (prices typically quoted in US dollars) in relation to African hardwoods (prices quoted in euros) has also been hit by the strength of the dollar relative to the euro. However, it would be wrong to suggest that European importers are necessarily in a position to switch between African and Asian species as price and exchange rates dictate. Asian suppliers are generally better placed than African suppliers to offer high processing capacity and the full range of products and services including kiln drying, dimension stock and containerised shipment. Shifting to Sapele takes time and commitment and many buyers will be wary of making the switch without a clearer picture of likely long term trends.

Meanwhile hardwood demand in Japan is on the increase. According to *ITTO's Market News Service*, Japan's economy grew by 1.9% in the first quarter of this year following increased government spending. Surveys are suggesting that business confidence is improving. Construction activity is also increasing. April housing starts stood at 107,204 units, 1.1%

HARDWOOD MARKETS *Cont.*

higher than the same month a year ago and the second monthly increase (following 26 straight months of decline). Public sector construction is also improving. Improvements in underlying economic conditions and an active plywood market, coupled with log shortages in the Far East have meant that hardwood log prices in Japan are gradually rising. Analysts however suggest that consumer sentiment remains subdued owing to wage concerns and rising unemployment.

Economic problems continue to beset other areas of the Far East. Conditions in Korea remain uncertain. Spurred on by an expected recovery in construction activity, rising log prices and fears of supply shortages, Korean importers contracted large volumes of hardwood logs during March and April. Imports of hardwood logs in April amounted to 117,922 m3, 8.5% higher than the previous month, and the highest recorded volume in the last 15 months. Unfortunately the anticipated recovery in construction demand has not yet materialised leaving importers stranded with high stocks.

China too is showing early signs of stalling growth. Since the beginning of the year, numerous companies have sought to take advantage of the Chinese governments's decision to cut back on domestic timber production and to liberalise the timber import trade. Timber imports have increased rapidly following the government's decision to reduce tariffs on logs and sawntimber to zero. Log imports amounted to 1.862 million m3 in the first quarter of this year, up 76.6% over the same period last year, while sawntimber imports increased 71%. Preliminary reports suggest that imports during the second quarter have also been substantial. However ITTO's Market News Service suggests that "just as the market was revived, demand seems to have stagnated again and prices have been falling". The Chinese government has been relying heavily on public spending, at levels many analysts consider unstable, to boost growth. It now needs to take on the more fundamental, and difficult, challenge of stimulating consumer spending and encouraging private business investment.

Indonesia's parliament approved a law on regional autonomy in April, giving regions 80% of forestry royalties.

African Hardwoods

Relatively slow European demand and a cheap euro have combined to ensure Sapele prices continue at low levels. Demand in the UK is still slow, while reports from elsewhere in Europe suggest that buyers are losing interest as the holiday season approaches. One bright area is Holland, where there are reports of increased activity, as some buyers have shifted way from Meranti and Seraya as prices for the Asian species have firmed. Agents are hoping that increased demand following the summer recess, coupled with firmer prices for Asian hardwoods, will lead to rising Sapele prices in the Autumn.

Prices for all Ghanaian species remain flat. Agents are reporting only limited demand despite the low prices on offer. However Ghanaian exports during 1999 have been higher than the depressed levels of 1998. Total exports of wood products between January and May 1999 were 174,536 m3, 8.6% higher than the same period the previous year. These exports were valued at US\$71.0 million, 6.9% more than the same period in 1998.

Demand for Iroko is reported to be "very slow indeed". Few UK companies are buying and demand from Ireland, so buoyant during 1999, is now very subdued. Significant unsold stocks of Iroko are available at quayside. Some agents are concerned that what they initially regarded as short term indigestion may reflect a longer term weakening in underlying Irish demand.

Exports from Gabon's state timber company, SNBG, during the first quarter of 1999 were well down on the previous year. The company exported 57,729 cubic metres of okoume logs in March 1999 compared to 122,260 cubic metres in March 1998. In February 1999, exports totalled only 45,689 cubic metres. Relaxation of the SNBG monopoly over sales of okoume and ozigo during 1998 meant that lower log volumes were exported through the state company. SNBG is due to resume its monopoly over okoume and ozigo exports this month. Reuters reported during May that the Democratic Republic of Congo were planning to export 17,000 tonnes of logs blocked in Kinshasa port for four months. ONATRA (the state transport company) was due to recommence transporting timber to Matadi port. Only timber companies which had complied with various government regulations would be allowed to export their logs.

Supplies from Congo (Brazzaville) continue to be disrupted by political events. Reuters report that militia close to ousted president Pascal Lissouba and former premier Bernard Kolelas have destroyed road bridges, preventing companies from transporting logs to rail lines for transfer to Pointe-Noire port. Rail transport in Congo Brazzaville has now been at a complete standstill for over eight months. In early May, over 30,000 cubic metres of wood were blocked in Brazzaville port, awaiting transfer to Pointe-Noire. Logs transported by the Congo (Brazzaville) national rail company CFCO rose slightly in 1998 to 134,484 tonnes, compared to 109,100 tonnes in 1997. However, this level is still down on pre-civil war levels, of 240,000 tonnes in 1996 and 209,000 in 1995. In May, the government of Congo (Brazzaville), sold timber company Societe Congolaise de Bois de Ouessou (SCBO) to a South African and Dutch group, Kenyon-Reuter, for three billion CFA francs (\$4.8 million). The sale forms part of the nation's seven-year privatisation programme. Kenyon-Reuter was among nine bidders for the international tender for SCBO. The group will be awarded a 1.35 million hectare forestry concession in north Congo, an area rich in red woods popular on the international market.

There are reports of increasing volumes of logs being exported from Liberia to the Ivory Coast.

USA TEMPERATE HARDWOODS INDICATIVE PRICES (North Appalachian) US\$ CIF UK MBM KD square edged net measure after kilning			
	<u>Apr</u>	<u>May</u>	<u>June</u>
\$/£	1.62	1.61	1.58
RED OAK			
1"	1750	1735	1775
1.25"	1855	1890	1940
1.5"	1960	1940	2090
2"	2305	2330	2400
WHITE OAK			
1"	1580	1575	1575
1.25"	1680	1780	1780
1.5"	2065	2170	2170
2"	2580	2655	2655
ASH			
1"	1200	1175	1175
2"	1525	1580	1580
TULIPWOOD			
1"	1050	1060	1060
1.25"	1085	1090	1090
1.5"	1130	1135	1135
2"	1160	1165	1165
CHERRY			
1"	3130	3160	3160
1.25"	3160	3225	3225
1.5"	3300	3335	3335
2"	3500	3570	3570
HARD MAPLE			
1"	2150	2155	2155
1.25"	2285	2200	2200
1.5"	2425	2425	2425
2"	2635	2635	2635

South American Hardwoods

Expectations are that, due to strong US demand, prices for new season mahogany will be very firm this year once logging gets underway from August onwards. US importers are showing an interest in importing FAS grades of mahogany this year, a change from their usual preference for standard grade. Gross C&F prices currently quoted in Tropical Timbers are regarded by agents as the likely "absolute minimum" price for new season mahogany. Prices for the species are now more than double those for African sapele, implying the species will only be bought in very small volumes by UK manufacturers. Environmental campaigning focusing on Brazilian mahogany has also led some UK importers to impose costly certification requirements on the species. Environmental campaigning looks set to continue with Greenpeace recent announcement that the Amazon will be their "new global priority". ITTO's Market News Service reports that tropical sawnwood exports to Asia have resumed. Demand is apparently in excess of supply. While prices are lower than before the Asian crisis, they are slowly improving.

North American Hardwoods

First quarter export data for 1999 demonstrates the difficulties experienced this year by US shippers to the sluggish European market. The largest European markets of Italy, UK, Spain, Germany, and Belgium Luxembourg saw the

HARDWOOD MARKETS *Cont.*

value of US hardwood imports fall by 6%, 18%, 17%, 20%, and 8% respectively compared with the same period in 1998.

In addition to recessionary forces which are affecting key European markets in Germany, Italy, and the UK, US hardwoods have come under intense competitive pressure in Europe from domestic and Eastern European hardwood producers. *Hardwood Review Export* notes in their June survey of export markets that European oak and beech are taking the place of temperate hardwoods in certain applications. In a buyers market, growing numbers of European customers are requiring specified lengths and widths and often also ask for colour selection. European producers are showing greater willingness to carry out these operations, tending to improve their competitive position. The weakness of the euro, which has fallen in value from US\$1.14 to US\$1.03 since the end of January, has further eroded the competitive position of US exporters. Nevertheless, with the recent end of the beech sales in Europe, there may be greater opportunities for US hardwood exporters to Europe in the coming weeks.

Despite the losses in Europe, overall US hardwood exports during the first quarter of 1999 were higher than the same period in 1998. In Europe, US exporters have partly compensated through increased sales to Portugal, Netherlands, Sweden and Ireland. More significant gains were due to an 8% increase in the value of exports to Canada and a 30% increase to Mexico.

Less significant in terms of overall value have been the gains made in a number of Asian markets. China has been area of export growth, with direct exports to the People's Republic increasing by 74% and exports to Hong Kong increasing by 41%. US exports to Korea have also experienced something of a recovery, increasing to 9,283 m³ during the first quarter of 1999 compared with only 2282 m³ during the same period in 1998.

During 1999, US hardwood production has been at historically high levels in response to favourable weather conditions and booming domestic demand. However, over recent weeks there are signs that the pace has begun to slow. One reason has been the build up of lower grade sawn wood which is proving difficult to shift.

Year 2000 Disruption

The Financial Times report that many developing countries face severe trade disruption and loss of vital tariff revenues after December 31 this year because their computerised customs systems cannot cope with the Year 2000 computer problem. An UNCTAD official told a meeting of the World Customs Organisation in Brussels during June that "a significant number of developing countries" could be severely disrupted for weeks, even months. In many of these poorer countries, customs duties provide as much as half of total government revenues.

Overall demand for US hardwoods in the European market remains subdued and competition is intense. Generally stocks are not particularly high as most buyers favour JIT purchasing. However different countries are experiencing very different economic conditions. Portugal, Spain and Ireland are buoyant and the market is benefiting from booming construction and strong demand for furniture and flooring. The UK and Italy are depressed economically and importers lack confidence in the future direction of demand. Economic conditions in France are better, but the demand for US, and other hardwoods, remains depressed.

Looking at individual species, European demand for both Cherry and high grade Hard Maple continues firm. There are reports that the supply of upper grade Hard Maple is tight as winter-cut inventories are declining rapidly.

White oak prices are very variable depending on source. In the Northern United States supplies are relatively tight and prices are holding steady, with agents quoting figures of around US\$1575 for 1" (CIF UK port, kiln dried, net). However there are reports of cheaper selling from southern states where supplies are more plentiful. There has been reasonable buying of White oak in Spain and Portugal.

More positive signs are emerging in the Ash market, for so long depressed. European buyers are reported to be looking for higher volumes. There is also growing demand for thicker sizes from Japan. US producers have tended to cut back on production of the species in response to low levels of demand, so prices may start to firm in the near future. During periods of high domestic demand for red oak, US buyers have, in the past, turned to Ash as a cheap substitute. However this effect has not been so apparent during the current boom and domestic US demand for Ash has remained subdued. As a result Ash prices are now very competitive.

Tulipwood production has been generally low this year due primarily to weak demand for the lower grades. There are reports of improved demand of Tulipwood in Italy, the largest European market for the species.

Prices for American red oak, which tend to be dictated by conditions in the domestic market, have increased slightly in response to strong US demand. Demand for red oak is improving in China and South Korea.

New sawmill in Congo

In the Democratic Republic of Congo (formerly Zaire), the South African Equatorial Timber Company is planning to build a new sawmill with annual capacity of 250,000 m³. The mill will be located in the Bangha region and will employ 60 people, gradually increasing to 150.

Ghanaian appointment

Mr Moses Adigbli's posting to London as the Timber Export Development Board's overseas representative comes to an end on July 15 1999. His reliever is Mr Alhassan N. Attah who will assume duty on 19 July 1999.

UK: recession fears recede

UK hardwood agents are reporting low levels of activity during June. The market remains extremely competitive.

Importers are reported to be experiencing relatively low sales, low prices and tight margins. The current trend towards short buying means that stocks are not particularly high, but neither is the urge to buy in bulk. Business tends to vary considerably between sectors. Selling rough sawn timber in the UK is proving a struggle. Those importers that are able to provide particular services, adding value to the product through machining for example, are reported to be more active. There are also reports of tropical veneers selling reasonably well. However, the mouldings market is reported to be more quiet.

The sluggishness of the UK hardwood industry is particularly disappointing coming at a time when sterling is comparatively strong in relation to the euro. However, this factor, while tending to improve the purchasing power of UK hardwood importers, is undermining UK manufacturers export performance. UK manufacturers selling into domestic markets are also having to contend with cheap imports. While some UK manufacturers in the wood products sector are reporting larger order books than last year, many seem to have found the second quarter a struggle.

Looking to the future, there are reasons to be optimistic. Underlying economic conditions appear to be improving and talk of recession, so prevalent early in 1999, now seems a thing of the past. The UK economy appears to have achieved a "soft landing", declining to zero GDP growth in the first quarter of the year, and now recovering slowly. Interest rates were cut to 5% on 10 June, the lowest rate since November 1977. Many now think that rates may sink even lower, entering territory unexplored since 1964.

The Bank of England's move to cut rates has been encouraged by extremely low rates of retail price inflation. UK consumers are, by all accounts, wary of spending their savings (except on property). When they do go on a shopping spree, they keep a close eye out for bargains. Retail sales improved by a strong 1% in May, but retail price inflation stood at only 1.3%, the lowest level for 6 years.

Lack of inflation is particularly surprising at a time of low unemployment. The proportion of the working-age population now in employment is not far short of the 1990 peak. The UK is now in the happy position of weak wage pressure despite strong employment. The strong pound has helped to keep inflation down by cutting import prices and holding down exports, slowing the economy.

Looking at the various sectors, the UK's housing market is now fairly buoyant. Halifax,

Continued page 6

Brazil stalls plywood price rise

A slight easing in supply constraints and continuing weak demand for plywood in many areas of the world, has undermined Indonesian producers' efforts to lead a sustained increase in prices. Forward prices for Indonesian plywood have steadied at around INDO96 less 10 to 12, with some mills offering even lower prices for larger orders.

Backed by improving economic conditions, and growing confidence in Indonesia's political situation following generally quiet polling on 7 June, the rupiah has been strengthening against the dollar. An appreciating currency creates new challenges for Indonesian plywood exporters, tending to weaken their competitive position on international markets.

By contrast, Brazilian shippers have benefited from the devaluation of the real earlier in 1999 and are now more competitive on price. Brazilian shippers are undercutting Far Eastern suppliers with some reports of Brazilian plywood being offered to UK buyers at prices as little as INDO96 less 20. Brazilian shippers of plywood to Europe have also tended to have an advantage over Far Eastern shippers due to lower cost and more reliable shipment. However, this advantage is being eroded as containers from Brazil are becoming more costly. The downturn in Brazil's economy has led to a major reduction in imports, reducing the availability of containers for export from Brazil. Shipping lines have responded by pushing up out-going container rates.

The UK market is described as "rather dull". Importers have more than enough stock to cope with current levels of demand. Expectations are that demand will remain weak for at least the next two months. Importers report that they still have significant volumes of stock bought several months ago at prices well below existing forward prices. These are being sold at well below replacement cost, leaving little

room for interest in the forward market.

The same situation is common in other European countries, where trade is also suffering from unfavourable exchange rates. The weakness of the euro in relation to the US dollar has made plywood imports expensive for continental European importers. Unlike UK importers, who seem happy to switch to Brazilian supplies as price dictates, European importers tend to be more wary of the quality of Brazilian panels.

According to ITTO's Market News Service Japan's plywood market is active, with orders from the major house builders remaining brisk. Plywood mills are continuing to buy logs helping to sustain price increases for logs resulting from tight Far Eastern supply. Logs of Malaysian Kapur and PNG Taun and Calophyllum for plywood are all reported to be in short supply.

Korean plywood mills produced around 59,586 m³ of plywood in April, not much change from the previous month but a significant recovery over 1998 levels. Korea has also been buying significant quantities of plywood from other South East Asian countries, with imports increasing to 67,424 cubic metres in April, nearly double that of the same month last year. While Korte's domestic demand is increasing slowly, the huge volume of imports has created difficulties for domestic manufacturers whose stock has built up rapidly.

China's market for utility plywood is suffering from high stocks and weak sales, while higher grade plywood is selling well and prices are firm.

Ghana's small plywood sector showed signs of recovery during the first quarter of 1999. Exports reached 4750 m³, nearly twice the volume exported in the first quarter of 1998 (2,276 m³), but still falling short of 1997 levels (5789 m³). Major importers were Israel, Belgium, and Australia.

falling activity in Germany's wood products manufacturing industries. Construction is sluggish, furniture sales are weak and door manufacturers are reported to be in a very depressed mood.

Italy is also in the doldrums. The country's furniture sector has already suffered a 50% drop in national sales this year, while there has been a 20% reduction in exports to Germany. The country's construction sector remains more sluggish than many had hoped earlier in 1998. However, it is not all doom and gloom. There are reports of firm demand for tropical redwoods, both Meranti/Seraya, and increasingly Sapele, from Dutch importers.

The French economy is also performing well, growing by 2.1% in the first quarter of this year. Although hardwood imports have been slow to pick up, there are some positive signs. For example, demand for garden furniture is reported to be strong while both the parquet and door sector are active (the latter absorbing quantities of ayous/wawa and other white tropical timbers). The window sector is more depressed as a result of increasing competition from uPVC.

For Spain, the euro has brought boom times. The linking of the peseta to the euro has provided the lowest interest rates for years. This has provided a boost to an already buoyant construction sector. New housing is projected at 8% this year. Markets for the main US hardwood, white oak, remain firm in all grades. There is also lively interest in Cherry and Maple. Spain is a major buyer of Sapele and tends to have a large influence on this market. However, despite underlying economic strength, Spanish demand for Sapele is sluggish. To some extent this may be explained by importers reluctance to carry stocks over the summer lull. Agents are now relying on strengthening demand for sapele from early September. Future prospects seem fairly good, with leading hardwood importers cautiously optimistic that firm market conditions will prevail for at least two years.

Germany's and France's auction sales for domestic hardwood lumber are nearing the end of their season. These have been dominated by strong sales of beech to Asia, with Chinese buyers attending French auctions for the first time. Spanish demand for French and German beech has also been very lively. Demand for oak has been strongly boosted by growing markets for high quality timber for oak staves. Stave demand in France is reported to have doubled from 200,000m³ to 400,000 m³ in response to a growing worldwide trend to mature wine in traditional oak casks.

European hardwood demand sluggish

European hardwood markets are generally reported to be "quite flat". Economic conditions throughout the continent, while variable, are generally unfavourable.

The weakness of the euro in relation to the US dollar is a particular problem for exporters of products valued in dollars, including US and Malaysian hardwoods. It is less of an issue for exporters in Eastern Europe and also in Africa, where currencies are tied to the euro. On the temperate side, there are reports that the high dollar rate and decreasing availability of some US hardwood species, is ensuring strong demand for European supplies, notably of Maple and Cherry. On the tropical side, although some contacts note signs of growing interest in Sapele, demand for the

African redwood from European buyers is still insufficient to ensure a sustained rise in prices. Much of the weakness in the euro can be laid at the door of the sluggish German economy, which grew at only 0-0.5% during the first quarter of 1999. Labour market rigidities and ill defined taxes are hindering German growth, while tax reforms and other government policies are undermining confidence. The very existence of the euro is also partly to blame. Germany's interest rates need to be lower, an option no longer available now that the monetary needs of Germany have to be balanced against those of the other 10 euro-economies. Nor has Germany much scope to loosen fiscal policy under euro-zone rules which require governments to keep down budget deficits. Weak economic conditions have contributed to

Reminder

Many thanks to all those that have so far returned Readers' Survey questionnaires issued in last month's Tropical Timbers. For those that haven't yet responded, please note that if you return questionnaires by 10 July you will be entered into our prize draw for one year's free subscription to Tropical Timbers.

Barriers to trade

For as long as there has been international trade, there have also been barriers to trade. Since the General Agreement on Tariffs and Trade (GATT) was established in 1947, governments have worked together to progressively reduce the impact of trade taxes (tariffs) and a range of “non-tariff trade barriers”, including requirements for technical standards and phytosanitary measures.

However, as these barriers have come down, others have sprung up, often relating to the environment, which may have an equally profound impact on the hardwood trade. This article is the first of a two part series reviewing market access issues now facing the trade.

The Emergence of WTO

The GATT was set up after the 2nd World War as a reaction to the economic follies of the 1930s. At a time of economic crises, governments the world over had responded by embracing protectionism with disastrous consequences. When GATT was founded in 1947, developed countries tariffs on manufactured goods averaged around 40%. Since GATT's inception, there have been eight rounds of international negotiations which have succeeded in progressively reducing tariffs. The impact has been profound. The World Trade Organisation (WTO), established at the end of the latest “Uruguay Round” of talks, estimates that by 2000, tariffs on manufactured goods will average less than 4%. Global trade has grown 16 times

since 1950. The WTO has become an increasingly popular club, with a membership of 132 accounting for 80% of world trade. Another 30 countries, including Russia and China, are in the queue to join. A new “Millennium Round” of trade talks should start next year for completion by 2005.

Despite the progress, plenty of barriers to trade remain. As conventional barriers, including tariffs and import quotas have come down, others such as discriminatory regulations have sprung up. The treaty to end the Uruguay Round, signed in 1994, reflected this change. The scope of trade rules was increased enormously. WTO was given real teeth to settle trade disputes. WTO responsibilities were extended beyond those of GATT to include new agreements covering technical standards and other trade impediments.

Two agreements are of particular importance to the forest products sector. First, the Agreement on the Application of Sanitary and Phytosanitary Measures is designed to improve conditions surrounding inspection and quarantine. Second, the Agreement on Technical Barriers to Trade, is designed to limit the use of technical regulations and product standards to legitimate health, safety, product quality and environmental protection purposes.

Over the years, tariffs on the trade in forest products have been progressively reduced. During the Uruguay Round there was agreement to phase out tariffs on pulp and paper and to

reduce tariffs on solid wood products by 50%. Europe and the US actually tabled offers to eliminate all wood products tariffs under the Uruguay Round, but there was little support from Japan and numerous developing countries, who rely on tariffs to protect domestic wood processing industries.

An end to wood tariffs?

Despite this set-back, import tariffs are no longer significant for many hardwood exporters. FAO, in a recent review of trade restrictions on the international forest products trade, note that “*it is clear that in developed countries most tariffs on forest products are generally quite low (less than 5% for most products) and only have a relatively limited impact on imports, [although] there are some significant exceptions to this statement ..wood based panels (especially plywood), some value added products, and various types of paper products have rates between 10-15% in several countries*” (See box). Much of the pressure to further liberalise wood products tariffs is coming from industry in the developed world. Manufacturers in the US and Europe are arguing that high import tariffs in the developing world discriminate against their products. They note, for example, that import tariffs for furniture are as high as 50% in China. Jaako Poyry estimate that elimination of tariffs would generate between 3 to 4% growth in wood products trade world-wide. The prospects for achieving this goal received a boost in November 1998 when, at a meeting of the Asia Pacific Economic Co-operation (APEC) forum, trade ministers from 16 APEC countries agreed to a trade liberalisation package which included proposals to remove all remaining tariffs on wood products. In January this year, the APEC proposals were submitted to the WTO General Council in the hope that all WTO member countries would join the initiative.

Accelerated Tariff Liberalisation

The APEC proposals are significant for two reasons. First, they have gained the support of countries previously very resistant to zero tariffs on wood products, including Japan, China and Indonesia. Second, the APEC countries want their proposal to be treated by WTO as an “Accelerated Tariff Liberalisation” package. This would mean that all tariffs on wood products would be removed by the end of 2004. If the package is not agreed, removal of remaining wood tariffs would probably have to wait until completion of the Millennium Round. Much hinges on the success of the APEC package. There is, however, still much work to do. Numerous developing countries are opposed to APEC's proposals. Many have not even agreed to participate in the Millennium Round of trade talks. The EU's official position is not promising. The EU favours delaying negotiations on wood products until the Millennium Round. Even if zero tariffs for wood products were agreed during the Millennium Round, which is far from certain, the process of removing tariffs would only begin in 2005.

Next Month:

Market Access and Environment

Import Tariffs in Major Developed World Forest Products Markets

The following information is taken from ITTO's “Report on the Impediments to Market Access for Tropical Timber”, published at the ITTO meeting in Thailand during May: Note that many exporting countries are able to avoid full tariff rates by benefiting from special preferences applied to certain countries. For example, members of regional groupings will be subject to low tariffs inside the group. Examples include ASEAN or the European-ACP (African, Caribbean and Pacific Group of States). Most developed countries also benefit from the Generalised System of Preferences (GSP). This is an international trading arrangement whereby individual importing countries offer lower tariffs to selected developing countries without requiring reciprocal benefits. The system is complicated because GSP conditions vary widely, with each country offering GSP preferences setting its own conditions. In Europe, eligibility for GSP preferences is based on a formula taking into account their export performance and overall development level.

European Union

Tariffs on the import of logs and sawn timber are zero. For other products tariffs are as follows:

	Tropical	Coniferous
Sawn wood (finger jointed):	4.9%	1%
Veneer	4-6%	3-4.4%
Plywood/Laminates	10%	7.6%
Wooden Picture Frames	5.1%	1%
Windows	3.6%	3.6%
Doors and frames	6%	1.2%

Developing countries under GSP are eligible to pay duty at 70% of the full duty rate. Both Indonesia and Malaysia were graduated out of Europe's GSP in 1998.

United States

Tariffs on the import of logs, sawn, and wood continuously shaped are zero. Coniferous plywood tariffs are being reduced from 20% to 4% under the Uruguay Round. Non-coniferous plywood tariffs are being maintained at 4%. Tariffs on builders carpentry are being reduced from 6.3% to 2.4% under the Uruguay Round. Tariffs on furniture parts are being eliminated under the Uruguay Round. For GSP countries, which includes most developing countries, tariffs are set to zero. Malaysia was graduated off the US GSP at the beginning of 1997.

Japan

Japan is committed to reducing many forest products tariffs under the Uruguay Round. However, the country retains a complicated tariff system.

With one exception (Kiri) all tropical, temperate and softwood logs have a zero tariff. Sawnwood from the tropical Dipterocarp/Lauan/Meranti Group is subject to duty reducing to 6% in 1999. Coniferous sawnwood, with a few exceptions has a zero tariff. Veneers mostly incur a 5% duty (with Kuarin, Tsuge and Boxwood 5.6%). Coniferous and non coniferous mouldings will attract a 3.6% tariff by 1999. Wood continuously shaped of Dipterocarp and several softwood species will attract a 5% by 1999.

Japan's tariffs for plywood are particularly complicated. Before 1996, tariffs of 10 to 14% were imposed on 13 of the most popular tropical species depending on thickness (with thinner sizes incurring a higher tariff). By 1999, tariffs will be reduced on the 13 species, plus one other, to 10% or 8.5%. All other species used for plywood will, by 1999, incur a 6% tariff. Plywood imports are not eligible for GSP.

Mahogany *cont. from p 12*

- The species is adapted to forests opened by catastrophes or silvicultural treatment. Research has shown that mahogany's regeneration success depends not only on abundant seed and sufficient light for growth, but also on advanced regeneration already in place during harvest. Inventories indicate that in natural forests immature trees are usually present. Careless logging can set back the high potential for mahogany regeneration, but low impact logging can protect seedlings and immature trees. The latter however may not open the canopy enough to promote their growth. Silvicultural liberation treatment is generally needed.

- Deforestation does not necessarily rule out the production of mahogany. Deforestation by the Mayan culture led to greater than normal mahogany populations.

- Mahogany has characteristics that contribute to success in plantations. Its silviculture is well understood and many examples of success exist. There are some 150,000 hectares of mahogany plantations already in existence. The mahogany shoot-borer, which damages mahogany in plantations, has been shown to be a manageable insect. It no longer prevents successful, large scale plantations in areas where the insect exists.

- Concessionaires removing timber from forests that they do not own are unable to guarantee the sustainable management of these forests. Strict adherence to this requirement would depress the value of export timber that does not qualify as sustainable and would increase incentives to convert the land to some other use without even extracting the timber.

Dr Lugo's paper suggests that active forest management is the best alternative for big leaf mahogany conservation. Enough is known about the silviculture of the species to provide guidance to tropical countries who decide to manage forests for mahogany. Such management has the added advantage of preserving much of the biodiversity of natural forests where mahogany is a component.

Late news: Cameroon

Preliminary reports have been received of a Cameroon government decree issued on 18 June. The unconfirmed reports suggest that new restrictions on the export of logs will be implemented from 1 July. Log exports of 22 commercial species, including Iroko, Sipo, Padauk, Ngollon, Bosse, and Bibolo, are likely to be banned. Log exports of 11 "First category" species, including Azobe, Framire, Koto and Tali, will be subject to a high rate of tax. Log exports of the remaining "Second category" species, will be subject to a lower rate of tax. Exports of logs of sapele and ayous will be allowed subject to "special authorisation" and quota. Quotas will be allocated to individual exporting companies. The size of quotas will depend upon each exporters success in promoting further processing and/or the export of "second category" species.

Freight: Rising charges Asia-Europe

Millennium surcharge

The Financial Times reports that shipping lines on the Asia-Europe trade routes are planning to impose a "millennium surcharge" on companies seeking to move large numbers of containers to Europe before the Year 2000. This will be on top of a rise in container shipping rates on 1 July averaging 20% on westbound shipments and 40% eastbound. Members of the Far Eastern Freight Conference (FEFC), who account for about 65 per cent of shipments between Europe and Asia, believe there may be a surge in demand for millennium-related consumer items and computer equipment. The shipping lines fear a sudden upsurge in demand in the second half of this year could stretch their resources and impose extra costs in repositioning empty containers. They are writing an option to levy a "millennium surcharge" of Dollars 150 per 20ft container - Dollars 300 per 40ft container - into contracts covering the second half of this year. They would give customers 30 days' notice of the surcharge. The "millennium surcharge", if invoked, would come on top of a proposed increase of US\$300 per 20ft container and US\$600 per 40ft container on westbound shipments. FEFC members include P&O-Nedlloyd, Maersk, NYK, and OOCL.

Transatlantic Conference

A major restructuring of the Transatlantic Conference Agreement (TACA) is underway. Shipping lines serving North America and Europe are expected to scrap the existing agreement which currently governs freight pricing negotiations on transatlantic routes, and start a new Conference. The move follows events last year that significantly undermined TACA. A number of new independent ocean carriers entered the transatlantic trade and reduced rates to gain market share, forcing some TACA carriers to break with the

conference. Transatlantic carriers are now hoping to limit shipping capacity in order to artificially increase rates. Such a move would require approval from European and North American governments. Source: IWPA News..

Brazilian/US Freight

The US Journal of Commerce reports that the plunge in Brazilian imports and expansion of exports that followed on from devaluation of the real in January has led to an imbalance in Brazilian containers. Northbound rates from Brazil to the United States have doubled from US\$800 to US\$1600 for a 40 foot container since the start of the year. The result has been that many wood related Brazilian exports have been priced out of the container market and have shifted over to breakbulk.

For the last 5 years, Brazil/US trade had been dominated by US exports. However with the devaluation of the real, during the first quarter of 1999 US total exports to Brazil fell by 35%, while Brazilian exports to the US increased by 25%. In the forest products sector, the devaluation and a US housing boom are generating double digit growth in Brazil's forest products shipments to the US.

US lumber imports from Brazil began to pick up 4 years ago and have doubled over the last two years. In the first quarter of this year, lumber finally overtook footwear as Brazil's top export to the United States. This trend is the result of Brazil's success in developing pine plantations in the south of the country on land cleared for agriculture and grazing during the 1960s. The majority of the lumber comprises southern yellow pine which now dominates the US non structural market (mouldings, mill work, fencing and interior applications). Brazilian pine has overtaken US ponderosa pine in these applications as US harvesting of pine has been increasingly restricted for environmental reasons.

Korea advances, but problems remain

South Korea has made remarkable progress in rebuilding it's mauled economy. The currency is strong again, the stock market is up 49% from a low this year in February, foreign-exchange reserves are hefty after substantial draining, and economists predict that this year Korea should grow by around 4% by some estimates. According to IMF Chief, Michel Camdessus, South Korea's economy has improved so much the country may soon no longer need IMF loans. However, the very success of South Korea may generate it's own problems. Some analysts fear that commitment to reform may be slipping.

Structural problems still remain. Many banks remain weak and burdened with bad loans, while the unwieldy conglomerates (Chaebol) on which the economy was built continue to balk at slimming down. In handling the Chaebol President Kim is constrained by his concern that rapid corporate reform will increase

unemployment to politically unacceptable levels. With a national election scheduled next year, rising unemployment will cost Kim's political party votes. One positive sign has been President Kim's appointment of Kang Bong-kyun as his new finance minister in an extensive cabinet reshuffle at the end of May. Kang is a close ally of Kim and is believed to share his views on reform. He has been behind the government-inspired 'big-deal' swaps of subsidiary companies between the Chaebol, designed to rationalise their activities.

An article in the Financial Times confirms the recovery is not yet complete. Much growth during 1998 will be due to manufacturers building up seriously depleted inventories. According to the FT, a recovery that depends in good measure on fiscal stimulus and an end to de-stocking does not represent a complete cure. Korea has made a good start, but there is a long way to go.

Carbon Credits

There has been much speculation over the extent to which a market in carbon credits will provide new investment opportunities in forests.

In December 1997, 38 industrialised countries signed up to the Kyoto Protocol, committing them to significantly reduce carbon dioxide emissions from burning of fossil fuels. Several countries, notably the US, have been arguing for the creation of an international system to allow countries with high carbon dioxide emissions to off-set these by trading in carbon credits with countries that have met their pollution targets. One way of acquiring these credits would be to pay for tree planting or forest conservation.

The issue has generated much debate. The forest industry, perceiving an opportunity to tap a new source of investment, has been keen to stress the long term possibilities. Environmentalists have been critical, fearing that the proposals would distract from efforts to reduce carbon dioxide emissions at source, and arguing that the scheme would lead to large scale planting of monocultures.

A new report "Carbon Markets for Tropical Forest Conservation: Towards A More Realistic Assessment" from the Centre for International Forest Research analyses these issues. The report is sobering, suggesting that the amount of money involved may be well below initial estimates. The authors estimate that the size of the total market for forest carbon is unlikely to exceed five billion dollars yearly and may be as low as US\$300 million. Funding may last for only a few decades until cheaper ways of reducing carbon emissions become available with the development of new energy technologies. The whole concept is also fraught with technical problems. For example it is difficult to demonstrate that the protection or creation of a particular forest actually reduces the amount of carbon in the atmosphere. Such projects may simply lead to another forest being cleared, or not being planted somewhere else.

On a more positive note, the report also suggests that those against carbon credits have probably exaggerated the potential dangers. As long as the amounts of money remain modest, it is unlikely that companies will plant millions of hectares of monoculture tree plantations simply to get the subsidies. The authors conclude that carbon markets are no panacea for the forest sector, although they may make a minor, and relatively short term, contribution as part of broader policy initiatives.

Ghanaian exports rising

First quarter exports from Ghana during 1999 were 11% higher, both in terms of value and volume, than the same period the previous year. Volumes were also higher than the first quarter of 1997. Exports of kiln dried lumber are little changed from 1998 levels. However, exports of air dried lumber are 34% higher than the same period the previous year. Wawa has been the main export species so far this year, with exports of around 35,000 m³ compared to 26,000 during the first quarter of 1998. Iroko exports amounted to 9000 m³, compared to 8250 m³ during the

first quarter of 1998. Major buyers of sawn timber have been Germany, a significant buyer of wawa, France, Italy and the UK.

Exports of both plywood and veneer were significantly higher than the same period in 1997. Plywood is mainly exported to Israel, Belgium and Australia. Sliced veneer mainly comprises asanfina and is exported to Italy, Spain, Belgium, the UK and Germany. Peeled veneers mainly consist of ceiba. Much of the peeled veneer is destined for the United States.

While 150 companies participated in the trade, only around 20 companies exported significant volumes.

GHANA FOREST PRODUCTS EXPORTS - FIRST QUARTER 1999

	1997	1998	1998	1999	1999	1998-99	1998-99
	Volume m ³	Volume m ³	Value US\$ mill	Volume m ³	Value US\$ mill	% Chng Volume	% Chng Value
Lumber (Kiln dried)	25000	28250	9.7	27350	10.5	-3.2	8.2
Lumber (Air dried)	36450	22300	9.0	29900	11.5	34.1	27.8
Boules	7950	12600	3.3	6900	1.8	-45.2	-45.5
Rotary Veneer	7700	9600	3.0	13400	3.9	39.6	28.3
Sliced Veneer	7150	7400	6.5	7900	6.8	6.8	4.6
Plywood	5800	2300	0.8	4750	1.5	106.5	87.5
Processed Lumber/mouldings	2450	4000	1.5	4200	1.9	5.0	23.3
Furniture parts	650	700	1.6	450	1.2	-35.7	-23.1
Other products	3400	3550	1.7	6150	2.2	73.2	28.7
Total	96550	90700	37.1	101000	41.2	11.4	11.1

Political stability key to Indonesia

The Indonesian government recently revised its economic targets for fiscal 1999-2000 (April-March). GDP is now expected to grow by 0-2%. The revision reflects early signs of economic recovery.

After four consecutive quarters of economic contraction, GDP grew by 1.34% in January-March OVER the previous three months. The rupiah has been strengthening against the dollar. The rupiah currently stands at 6680 to the dollar which is substantially higher than the 12,000-16,000 range experienced in mid-1998. Furthermore, the current appreciation has taken place despite gradually lowered interest rates. Declining interest rates have brought relief to heavily indebted companies. Revived investor confidence in Asia has resulted in an influx of foreign funds to the Jakarta Stock Exchange. Inflation is falling. Consumer prices declined 0.68% in April, following March's deflation of 0.18%.

There have also been a number of positive corporate and banking sector developments. In the first quarter of 1999, 152 domestic investment projects, valued at 8.25 trillion rupiah, were transformed into foreign-owned projects. There are reports of companies taking significant steps in restructuring their debts. Growing investor confidence in Indonesia has provided a boost for the Indonesian government's privatisation drive. The IMF, as

part of its \$43 billion-led bailout package for Indonesia, is requiring Jakarta to raise \$1.5 billion through sales in 10 state concerns during the fiscal year ending March 2000. Indonesia raised less than a third of this target during the last fiscal year ending March 31. But the government's cause is now being aided by a marked change in sentiment toward Indonesia amongst international investors in response to the improving economic conditions.

Recent reports suggest that Indonesia's state owned forestry companies will not be involved in the privatisation process. Asia Pulse reports that Muslimin Nasution, the Forestry and Plantation minister, has announced that Indonesia will not privatize any of the 14 state-owned forestry and plantation companies. In another report from Indonesia's National News Agency, Tanri Abeng, the state minister in charge of state-owned companies, suggests that Indonesia intends to cut the number of state owned forestry companies from 14 to five.

While there are reasons to be more optimistic about an Indonesian recovery, at least one area of significant uncertainty remains. The overriding key to recovery remains the country's ability to manage a peaceful political transformation. Without a resumption of political stability, the currently positive macroeconomic trends could easily go into reverse.

Big-Leafed Mahogany

This article is derived from a paper, "Facts on Big Leaf Mahogany", by the US Forest Service to accompany Dr Ariel Lugo's report "Point-Counterpoints on the conservation of Big-Leaf Mahogany". The full report is available at <http://www.fs.fed.us/research>.

The conservation status of South American mahogany (*swietenia macrophylla*) has been the cause of considerable controversy. There have been endless debates over the pros and cons of listing the species under the Convention on International Trade in Endangered Species (CITES). The species is currently listed on Appendix III of CITES and proposals are being considered to impose an Appendix II listing which would increase the level of international trade monitoring. Environmentalists claim that threats to the species are sufficient to merit CITES listing. These threats, it is argued, derive from tropical deforestation, inadequate natural regeneration, genetic erosion arising from removal of the best trees, and losses in plantations due to the shoot borer. However, a new research paper suggests that these threats have been exaggerated. The paper, prepared by Dr Ariel E. Lugo of the International Institute of Tropical Forestry in Puerto Rico, aims to clarify misconceptions concerning big-leaf mahogany and its place in tropical forests. The following issues are raised:

- Big leaf mahogany has an extensive natural range, over 200 million hectares from Mexico to Bolivia, and is adapted to several different ecological zones. The species is in no danger of extinction, although big-leaf mahogany forests are vulnerable and need protection. The stock of large trees has been reduced by utilisation.
- Big leaf mahogany is relatively fast growing in both natural forest and in plantations. Mahogany increment overall may even equal the volume of international trade, thus sustaining total standing volume. The volume of mahogany sold internationally each year is only 1% of the standing volume. This suggests that the endangered status of mahogany is a myth.
- There is no evidence that logging causes significant genetic erosion of mahogany. Evidence currently available suggests that there is a high gene flow among mahogany populations.

Continued page 10

SHARE PRICES FOR SOME U.K. COMPANIES

	52 Week High	52 Week Low	26 Feb	29 Mar	29 Apr	28 May	22 June
J. Latham	201.5	141.5	146.5	141.5	156.5	173.5	181.5
Meyer International	487.5	244	339.0	399.5	449.5	461.5	431.0
Travis Perkins	709.0	350	423.5	522.5	652.5	665.0	709.0
Barratt Devs.	397.5	155.5	262.0	296.5	360.0	321.5	375.0
John Laing	396.5	230.5	256.0	296.5	318.5	320.0	319.5
Alfred McAlpine	236.5	106.5	160.5	171.0	230.0	218.0	211.5
J. Mowlem	154.5	90.0	115.0	118.0	153.0	144.0	145.0
George Wimpey	182.5	90.5	133.0	153.5	161.5	159.0	157.5
Cornwell Parker	155.0	52.5	85.0	85.0	117.5	101.5	110.0

EXCHANGE RATES FOR ONE POUND STERLING

		29 Mar	29 Apr	28 May	29 June
Australia	Aus.\$	2.5536	2.4440	2.4508	2.4090
Bangladesh	Taka	78.4617	78.1103	77.7165	76.6204
Belgium	Belgian Fr.	60.9258	61.3745	61.8187	3.1596
Belize	B\$	3.2372	3.2227	3.2048	3.1596
Bolivia	Boliviano	9.2746	9.2169	9.1978	9.0839
Botswana	Pula	7.5973	7.4411	7.5746	7.3241
Brazil	Real	2.8528	2.6837	2.7802	2.7868
Fr. Africa*	CFA Fr.	990.70	998.0	1005.22	1002.45
Chile	Peso	786.396	784.324	790.865	818.258
China	Yuan	13.4015	13.3410	13.2656	13.0785
Denmark	Danish Krone	11.2255	11.3067	11.3862	11.3556
Europe	Euro	1.5104	1.5214	1.5325	1.5283
France	Franc	9.9070	9.98	10.0522	10.0245
Germany	D-mark	2.9539	2.9757	2.9972	2.9890
Ghana	Cedi	3913.78	3932.50	4014.01	4030.08
Guyana	Guyanese \$	260.092	273.284	256.384	273.305
Hong Kong	HK\$	12.5429	12.4883	12.4258	12.2563
India	Rupee	68.6286	68.9699	68.7750	68.5081
Indonesia	Rupiah	14365.09	13172.81	13039.55	10553.07
Irish Republic	Punt	1.1895	1.1983	1.2069	1.2036
Italy	Lira	2924.37	2945.91	2967.23	2959.05
Japan	Yen	193.762	191.952	193.602	191.116
Kenya	K. Shilling	105.05	109.33	112.97	115.21
Korea South	Won	1982.95	1894.14	1900.20	1828.22
Malaysia	Ringgit	6.1507	6.1231	6.0891	6.0033
Myanmar	Kyat	10.1190	10.0737	10.0177	9.8764
Netherlands	Guilder	3.3283	3.3528	3.3771	3.3678
Nigeria	Naira	150.530	150.983	155.457	159.063
Philippines	Peso	62.801	61.271	60.971	59.9535
Portugal	Escudo	302.790	305.02	307.228	306.381
Singapore	Singapore \$	2.8050	2.7337	2.7637	2.6901
South Africa	Rand	10.0839	9.7648	9.9950	9.5366
Spain	Peseta	251.295	253.145	254.977	254.275
Taiwan	\$	53.6809	52.6783	52.4706	51.0197
Tanzania	Shilling	1121.09	1139.23	1129.69	1145.36
Thailand	Baht	60.8999	60.2242	59.5212	58.2236
Uganda	New Shilling	2248.24	2449.26	2299.45	2294.66
U.S.A	US \$	1.6186	1.6114	1.6024	1.5798
Venezuela	Bolivar	943.441	952.316	958.836	956.577
Vietnam	Dong	22499.4	22411.46	22297.40	22005.04
Zimbabwe	\$	61.8306	61.4892	61.1316	59.9535

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

SUBSCRIPTIONS

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