

TROPICAL TIMBERS

an independent publication providing market information

Indonesian timber tax reform

Under pressure from the World Bank and International Monetary Fund (IMF), Indonesia continues to reform its forest taxation system.

The overall aim has been to progressively remove log export taxes and increase forest royalties, shifting the burden of forestry taxation from point of export to point of harvest. The combined effects of the measures is to make Indonesian domestic log prices reflect international market conditions and the costs of replacing timber following harvest. Prior to the changes, Indonesia's high log export taxes encouraged rapid growth in Indonesia's plywood industry by supplying it with a cheap source of logs. However this growth was achieved at the cost of inefficient processing and over-exploitation of forests. Moves to remove the market distortion created by the log export tax look reasonable on paper, but imply increased costs, lack of raw materials and dislocation in Indonesia's plywood sector, fueling unemployment in the short term.

Reform of Indonesia's forest tax system is one of the requirements for the disbursement of the World Bank's US\$1.1 billion loans to the country. In April 1998, export taxes on logs, sawntimber and rattans were reduced to 30%.

At that time, the government proposed further progressive reductions: to 20% from December 1998; to 15% from December 1999; and to 10% from December 2000. In the event the first reduction, to 20%, was implemented on 16 March this year. The move went ahead despite complaints from the domestic plywood industry that it would undermine their supply of logs.

In May, the Indonesian government took steps to increase taxes on timber harvests. The government announced its intention to raise the "resource royalty provision" rates from 6% to 10% of timber sales (see box for description of provisions). However there has been no clear statement of when the measure will be introduced.

Like the changes to the log export tax, the new royalty provision rates have not met with universal approval. The World Bank and IMF believe the new rate is too low, making the government's receipts from forest resources too small. They are demanding a 17.5% rate.

Meanwhile the Indonesian forest industry has reacted with dismay to the existing increase. They argue that the new rates raise timber companies' production costs and increase the

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Indonesia's Resource Royalty Provisions

The Indonesian government introduced the resource royalty provisions, or "rent tax", in May last year to replace mandatory forest royalties. The provision is imposed on logging companies for every cubic meter of logs felled and is calculated using standard selling prices for wood. The standard selling prices are set by the Ministry of Industry and Trade taking into account prices on the domestic and international markets.

The standard selling prices of large diameter seraya logs from Sumatra, Kalimantan, Sulawesi and Maluku are currently set at Rp 640,000/m³ (US\$75.3), while those from Irian Jaya, East and West Nusa Tenggara, Bali and East Timor are Rp 530,000/m³ (US\$62.3). The

current rate of resource royalty provision ranges from 0% to 6% depending on product type and origin as follows:

- 6% tax on large diameter logs of seraya and mixed wood from Sumatra, Kalimantan, Sulawesi, Maluku, Irian Jaya and East Nusa Tenggara; on specialty wood, such as teak, ebony, and sandalwood; and on large diameter rattan.
 - 5% tax on logs from industrial forests, such as pine, acacia, balsa and sengon.
 - 1% tax on logs with a diameter of less than 30 centimeters.
 - No tax is charged on small-diameter rattan
- Timber companies are also required to pay concession fees and reforestation funds.

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Focus on Indonesia

Timber tax reform *Continued from page 1*

price of logs to the country's processing sector. The industry is already reeling under the impact of low prices and high interest rates. They also suggest that the imposition of levies over and above the ability of the industry to pay tends to encourage illegal practices.

The changes in export taxes implemented so far have not led to any significant change in Indonesia's wood export trade. There has been no rush to push Indonesian logs and sawn wood onto the international markets. The Ministry of Industry and Trade reported recently that log exports for the financial year April 98 to March 99 amounted to only 3% of the government target set for the period. Quotas had been given to 40 forest concession holders

to export a total of 5 million m³ and 1.5 million m³ of logs and sawn respectively. However only 13 concessionaires exported a total of 155,000 cubic metres of logs. Hardly any sawn timber has been exported at all.

Political difficulties and a long drawn out rainy season have served to squeeze log supplies throughout Indonesia, while overseas markets, particularly for sawnwood, have been very restricted. As things have turned out, Indonesia's domestic plywood manufacturers have continued to buy up a large proportion of the country's limited log supplies. It remains to be seen whether the new rates will bring about more fundamental changes in the structure of Indonesia's hardwood trade.

Economy improves amidst political uncertainty

One year on from Suharto's resignation on May 2, 1998, Indonesia is gearing up for its first free election in over four decades. The long-awaited official political campaign season has arrived. Campaigning kicked off on May 19 with all 48 recognized political parties (45 of them brand new) parading around Jakarta. Despite some street tussles among party loyalists, there was little of the anticipated violence. Campaigning will now continue until June 4th. On June 5th, all campaign flags and signs are to be removed and June 6th is designated a "cooling off" day prior to the June 7th vote. Should the process continue as peacefully as it began, it will do much to boost business confidence, although uncertainty will remain until a president is selected and cabinet announced later in the autumn.

Until recently, President Habibie's ruling Golkar party had looked like winning the election despite its unpopularity. Its lead came through patronage, its widespread presence throughout Indonesia and an electoral formula skewed in its favour. However Golkar's announcement that Mr Habibie would be their presidential candidate has severely damaged the party's chances. Determined to see the removal of Habibie, and to irradicate any links with the former Suharto regime, the three leading opposition parties

have now formed a "united front" to oust the ruling party. Recent opinion polls give the new coalition a convincing lead. Whichever party wins, it will face a huge challenge to put the country back on a stable political and economic footing. They will have to find ways to end the ethnic and religious violence that has ruptured the country in recent months. They will have to deal with an independence vote in East Timor. And they must agree on a meaningful programme of economic reform.

On the economic side, despite general recognition that there is much to do, there are grounds for optimism. Business confidence has just received a boost following the successful sale of several state enterprises to institutional investors abroad. Indonesian conglomerates are also beginning to negotiate debt workouts with foreign creditors. Indonesia's macroeconomic statistics are beginning to show modest improvements. GDP showed a modest positive growth rate of 1.3% the first quarter of this year compared to the previous quarter, buoyed largely by 2.6 percent growth in the agricultural sector. Inflation is now predicted at ten percent for this calendar year, compared to 70 percent last year. Stock market prices are twice of those a few months ago. A long road to recovery remains ahead, but a start has been made.

Illegal logging

Amidst the political and economic uncertainty, reports of illegal logging in Indonesia continue to emerge. The *Guardian*, reporting on the Indonesia-UK Tropical Forest Management Programme (TFMP), warns that "unless the illegal activities are stopped, the forests will disappear within a generation." Alistair Fraser of Edinburgh-based forestry consultancy LTS International, who are managing the TFMP, notes that up to 800,000 hectares of forest land in Indonesia is cleared illegally each year. Sumatra is the worst affected region followed by Kalimantan, Sulawesi and Irian Jaya. Ac-

ording to research by Dr Fraser's team, many Ministry Officials, village chiefs, police and army officers are involved in illegal logging.

Shipping delays forecast

Shipping lines are again predicting a shortage of containers for outbound cargo from Indonesia due to increasing exports as well as continuing low imports into the country. The problem has been exacerbated by the Minister of Industry & Trade's recent ban on outbound 45 foot containers on the grounds that they are too heavy and damage roads and port facilities.

Korea speeds up

In Korea, economic indicators are improving rapidly. After GDP shrinkage of 6.1% in 1998, GDP grew 4.7% in the first quarter of 1999 compared with 1998. Unemployment is falling. Korea's Bureau of Statistics released a report showing a year-on-year 18.4% increase in industrial production during March, the highest jump since February 1995. Many analysts expect continued growth. The consensus is that the economy will expand by 5% during 1999.

During his first year in office, President Kim has sought to make the shattered economy more market oriented. Many billions of dollars have been poured into the country's banking sector. As many of the banks are state owned, the President has been able to use them to force through reform of the five chaebol (conglomerates) which dominate Korea's economic landscape. By threatening to cut credit lines, he has been able to pressure the chaebol to swap businesses and reduce their debts. The liquidity crises that pushed South Korea to the brink of bankruptcy 17 months ago is over. Foreign reserves have risen sharply and the currency has stabilised.

While the construction sector remains sluggish, the mood of increased confidence has filtered through to the timber sector. Imports of hardwood logs in March were the highest recorded since the economic crisis of 1997, reaching 108,716 cu.m, up 41 % from February. The production of plywood was recorded at 64,090 m³ in March, the second highest monthly figure since November 1997.

Taiwan slows down

Last year there had been high hopes that Taiwan would offer new opportunities for wood products exporters. These hopes seem to have been overly optimistic. Taiwan's housing market has hit hard times. Philip Lium, chief of the China Economic News Service, told *New Zealand Pine International* recently that 80% of the apartments built in Taiwan over the last five years remain unsold. He said that there were 600,000 empty unsold apartments and that many listed companies have gone bankrupt, putting considerable pressure on the banks.

Japan improves

After last years huge reduction in hardwood imports, signs of life are beginning to emerge in Japan. In March housing starts rose for the first time in 27 months. Furthermore wood based starts are performing better than non-wood starts. Low interest rates and a range of tax cuts are serving to encourage home purchases. The *Pacific Rim Wood Market Report* notes that prices for south sea logs into Japan gained 2-3% for plywood uses during May and 1% for lumber uses. The strong price trend is expected to continue. However, imports of hardwood lumber remain slow despite low stocks. Importers are wary of stocking up after being caught out when the Asian crises hit in 1997.

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

	Mar	Apr	May
Ex Cameroon Fr.F/m3 FOB Douala LM			
N°GOLLON			
70cm+20% 60/69	1400	1400	1400
BOSSE 60cm+	1550	1550	1550
AYOUS 70cm+	1000	1000	1000
BIBOLO 60cm+	1350	1350	1300
SAPELE			
80cm+20% 70/79	1650	1650	1550
SIPO			
80cm+20% 70/79	1900	1900	1900
IROKO			
80cm+20% 70/79	1650	1650	1650
Ex Gabon Fr.F/m3 FOB Owendo LM			
ACAJOU			
70cm+20% 60/69	1200	1200	1250
DIBETOU 60cm+	1175	1175	1175
DOUKA			
70cm+15% 60/69	1100	1100	1150
SIPO			
70-79cm 10%/60/69	1700	1700	1700
80-99cm	1900	1900	1900

Sawn Timber

Ex Ghana DM/m3 FOB Takoradi			
FAS (includes notional agent's commission of 5%)			
6"+ avg 9" C/£	3914	3932	4014
6" + avg 9" DM/£	2.95	2.98	3.00
A.MAHOGANY AD	740	740	740
A.MAHOGANY KD	895	895	895
EMERI AD	760	760	760
UTILE KD	1150	1150	1150
ODUM AD	950	925	925
ODUM KD	1110	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

Ex Cameroon Fr.F/m3 FOB			
FAS width 6"+, length 6"+			
SAPELE	2600	2600	2650
SIPO	3700	3700	3750
BIBILO	2700	2700	2750
N°GOLLON	3200	3200	3200
AFRORMOSIA	3800	3800	3800
IROKO	3300	3275	3375

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

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

	Mar	Apr	May
Ex Cote d'Ivoire Fr.F/m3			
Fr.F/£	9.91	9.98	10.05
FOB Abidjan FAS			
6"+ avg 9"-10"			
6"+ avg 10"-11"			
1"-2"			
IROKO	3275	3250	3300
SIPO	3550	3550	3650
MAHOGANY	2650	2650	2700
FRAMIRE	2000	2000	2000
SAMBA No.1 C&S	1525	1525	1525
AZOBE dim. stock	2100/	2100/	2200/
	2700	2700	2800
OPEPE dim. stock	1850/	1850/	1950/
	2450	2450	2550

Ex Malaysia US\$/ton, C&F UK port			
M\$/£	6.15	6.12	6.10
US/£	1.62	1.61	1.60
M\$/US\$	3.80	3.80	3.80

(Rates given for M\$ are official rates)			
DARK RED MERANTI (KILN DRIED)			
Select & better GMS			
width 6"+ avg 7"/8"			
length 8'+ avg 12'/14'			
1-2" KD	795	810	830
2.5" KD	810	840	860
3" KD	850	870	890

KERUING			
Standard & Better GMS			
1"-3"			
width: random or fixed			
length 16'+	495	505	510
KAPUR			
Standard & Better GMS			
1"-3" plnd			
width 6"+ avg 7"-8"			
length 16'+	500	510	515

TEAK (Official price list basis)			
FEQ/equivalent			
Boards: 6"+ avg 8", 6'+ avg 8'			
Shorts: 6"+, 3'/5.5' avg 4'			
Ex. Burma US\$ per ton of 50cu.ft.			
FOB Yangon (Rangoon)			
Boards 1" 8"x 8'	3890	3890	3890
Boards 1" 8"x 8'	2670	2670	2670
Teak from Singapore and Hong Kong nearer S\$3500 for 1" Boards, 1.5" US\$3550, 2" 3750, and US\$3850 for 2.5".			

Ex Brazil US\$/m3 C&F			
FAS US\$/£	1.62	1.61	1.60
6"+ avg 9-10"			
6"+ avg 10-11"			
MAHOGANY (Swietenia)			
1"-2" AD	1100	1120	1120
2.5"-3" AD	1120	1140	1140
1"-2" KD	1190	1210	1210
2.5"-3" KD	1210	1230	1230

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

Hardwood Markets

Highlights

- Upward pressure on Asian prices
- African supplies tighten
- Both US production and demand high
- May doldrums for UK trade....
-but economic prospects look less gloomy
- Euro weakens again

Asian Hardwoods

Asian hardwood log and sawn prices continue to rise in the face of tight supplies and a gradual pickup in Far Eastern demand. Even now, in an unusually drawn-out rainy season, wet weather continues to affect logging in some areas. Even as rains become less frequent, it will take several months for Asian mills to replenish depleted stocks. Agents are predicting that the upward pressure on prices for Asian species should be maintained at least until Autumn.

The rate of increase is such that prices for Far Eastern material into the UK now vary considerably depending upon lead time. Prices invoiced for Asian redwoods currently arriving in the UK are considerably lower than forward prices. C&F prices for June/July shipment to UK port of 2" kiln dried DRM from Peninsular Malaysia are being quoted at around US\$830/ton (US\$586 per m3). Equivalent prices for September/October shipment stand at around US\$900/ton (US\$636 per m3). While the price hike seems significant, shippers are keen to emphasise that even the latter prices are lower than those on offer in October 1997, such has been the scale of market collapse in the wake of the Asian crises.

Keruing is following the general trend towards higher prices, stimulated by tight supply and growing demand for the species in the Far East, notably from Korea and Thailand.

Suppliers in Sabah report that log extraction is at last underway after months of inactivity. But the process of building up stocks will be a lengthy one. ITTO's Market News Service reported at end April that the Sabah State Government has frozen the issuance of new timber licenses following a meeting between the Chief Minister for forests with the Sabah Timber Industries Association. No information is provided on the implications of the move.

Early in 1999 Malaysia introduced a ruling that no timber should be extracted above 3000 feet elevation. The ruling mainly affects heavier species (such as Merbau) which tend to grow at these altitudes and which are supplied to continental markets, notably Netherlands.

Malaysia will introduce a small export tax of RM1.36/m3 from August this year. The tax will be collected by the Malaysian Timber Industry Board to cover administrative expenses. A tax of RM10/m3 introduced for this purpose on 1 May was withdrawn two days later following complaints from the trade.

Conditions in Indonesia continue unsettled. Pro-

HARDWOOD MARKETS *Cont.*

duction is being disrupted during the build-up to the elections in June. Regulatory developments, including steps to reform the forestry taxation system, are causing uncertainty (see page 1). Indonesia has also begun the process of redistributing concession areas away from large conglomerates to smaller concerns. The government first auction of concession areas began in early May with three units in Kalimantan totaling 150,000 hectares. Despite rising prices and generally low inventories, UK importers continue to shy away from commitment to the Far Eastern forward market. They are buying where necessary from stocks already landed or on the water. Demand in the UK is slow. Against the background of tight supplies, Asian exporters are looking carefully at where they can obtain the best prices. At present they are showing greater enthusiasm for continental European markets than the UK. There continues to be strong demand for logs from a number of Far Eastern countries, which is fueling the trend towards higher Asian prices. *ITTO's Market News Service* notes that Chinese and Philippine buyers "still need more volume" and that, due to limited production, shippers intend to continue to increase log prices. In Japan, demand for plywood is increasing, which is putting further pressure on Asian log prices. Korean imports of hardwood logs in March were the highest recorded since the economic crisis began in 1997. However this seems to reflect Korean importers desire to build up inventories before prices rise any higher than any real improvement in underlying Korean demand.

African Hardwoods

Supplies from Africa are beginning to tighten as the dry season north of the equator nears its end. Weak prices for Sapele, the main redwood traded by European customers, has caused many producers to cut back on production. Political difficulties in the Congo Basin, and the introduction of new stumpage rates and regulations restricting supplies and increasing the costs of production in Ghana and Ivory Coast, are adding to a picture of overall tightening supply. Trade reports suggest that inventories at the Cameroon port of Douala are relatively low. Most of the Sapele loads currently available are from the Central African Republic and Congo, with only limited volumes available from the Cameroon. Tightening supplies have led to a marginal increase in the Sapele price. Current prices for air dried Sapele, at around FOB 2650 FrF/m³, are now comparable to those offered for Dark Red Mernati (adding US\$80 to cover freight and US\$80 for kilning, Sapele prices at UK port are around US\$600/m³). Price hikes for the competing Asian redwood should mean less market resistance to African shippers' attempts to continue to push up Sapele prices.

Determined efforts by some shippers to push up Sapele prices have so far been hindered by an unreceptive market and intense competition. On a positive note, there are signs of brighter

market prospects in Spain and Portugal, while there are unconfirmed reports of Dutch importers taking more interest in the Sapele market after a long absence. The major UK buyers of the species are continuing to hold back until there are firmer indications of an upward price trend.

Sales of iroko, primarily destined for the Irish market, have so far failed to pick up after the "indigestion" caused by the rush of long-awaited shipments entering Ireland in March. Some agents suggest that underlying consumption in the Irish market has slowed appreciably after last year's boom. Unlike the UK, Ireland tends to buy in relatively large consignments and there is less day to day movement of small volumes. With the large Irish buyers now holding back on new orders, activity and opportunities are limited. With tightening supplies, shippers are trying to push up prices, while Irish importers are equally keen to talk markets down. The result is a fragile balance with limited trade at steady prices.

Wawa prices have firmed slightly, with some contacts suggesting greater interest in the species from the Far East, but demand remains unremarkable.

Ghana's new higher stumpage rates became effective on 1 May. With increased constraints on timber supply from natural forests in Ghana, the country is focusing more attention on the development of commercial plantations. A Forest Plantation Development Project is proposed to develop institutions and policies to encourage more rapid plantation establishment. Project targets would be to establish 10,000 hectares per annum, creating a resource of up to 200,000 hectares of industrial plantations.

S. American Hardwoods

Tropical logs are in short supply as most of the region is in the the latter stages of the rainy season. The usual off-season lull in the European hardwood trade with Brazil is particularly quiet this year. Agents suggest there is likely to be little demand for Brazilian mahogany amongst UK buyers and little or no willingness to pre-finance logging operations when the mahogany season begins again in August. The limited volumes available are more likely to be directed to US importers more willing to pay the high prices required for mahogany.

Very tight supplies and comparatively high prices for cedar are deterring UK buyers of the species. There is limited demand from Scottish importers.

Brazil's domestic timber market has stabilised following the uncertainty caused by the *real's* devaluation and subsequent recovery. Fears of rapid inflation have subsided and interest rates have tumbled to their lowest level in 9 months.

N. American hardwoods

United States production and demand for hardwoods both continue high. There was only a limited winter slowdown this year and spring has been unseasonably warm in many areas, contributing to generally high inventories. 1999

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

	Mar	Apr	May
\$/£	1.62	1.61	1.60
RED OAK			
1"	1770	1750	1735
1.25"	1875	1855	1890
1.5"	1980	1960	1940
2"	2325	2305	2330
WHITE OAK			
1"	1500	1580	1575
1.25"	1650	1680	1780
1.5"	2050	2065	2170
2"	2550	2580	2655
ASH			
1"	1150	1200	1175
2"	1475	1525	1580
TULIPWOOD			
1"	1050	1050	1060
1.25"	1085	1085	1090
1.5"	1130	1130	1135
2"	1160	1160	1165
CHERRY			
1"	3050	3130	3160
1.25"	3155	3160	3225
1.5"	3285	3300	3335
2"	3490	3500	3570
HARD MAPLE			
1"	2150	2150	2155
1.25"	2285	2285	2200
1.5"	2425	2425	2425
2"	2635	2635	2635

has started well for the US economy with low interest rates encouraging large scale house building. Consumer spending is nearly at an all time high. The warm weather is also providing a boost to the construction industry. One of the few blips seems to be in the domestic flooring industry where demand is not as strong as in other sectors.

Hardwood Review Export notes that while production is high, the strength of US domestic demand is such that many shippers are running short of kiln dried material. However, despite firm domestic demand, most analysts are predicting that high production will ensure that there will be little upward movement in price. However there is one factor which could lead to a curtailment in US supplies. This is the apparent imbalance that exists in the demand for high and low grade material. Supplies of lower grade material are particularly abundant in the United States. To some extent this reflects a long term trend in hardwood resources. Higher proportions of logs of short length and diameter are being produced than ever before. No. 2 Common and lower grades now account for 50% of most sawmills production. US producers need to find markets to absorb the growing proportion of wood produced in these grades. If inventories of lower grades build up too much over the summer, many loggers will reduce levels of extraction, impacting on supplies of all grades. Current weakness in the US paper sector, which has reduced demand for chips and pulpwood, may increase pressure to curtail logging.

HARDWOOD MARKETS *Cont.*

On the export side, demand for US hardwoods in Europe is mixed, varying considerably between countries. Imports of US hardwoods into all euro-zone countries is hindered by the weakness of the euro against the dollar. Demand is very slow in Germany and Italy, but low interest rates are encouraging more buying in Spain, France and Ireland.

Outside the euro-zone, UK demand for US hardwoods is not affected by the poor performance of the European currency. Although stocks in the UK are not high, sluggish economic growth is contributing to an intensely competitive trading environment. This trade is now characterised by more than one agent as "cut throat". The UK market for US hardwoods is intensely price sensitive, partly because it forms such an important element of so many importers' business. US exporters are becoming increasingly frustrated by the lack of focus in the UK on the quality of either product or service. Some are redirecting their efforts to continental Europe.

US exporters are seeing a gradual, but patchy, improvement in Asian demand. Japan is reportedly still slow but improving for certain species and grades. China and Hong Kong are buying, but are offering low prices.

The difficulties encountered by US companies in supplying export markets is encouraging a reassessment of their overseas commitments. *Hardwood Review Export* notes that at a time when domestic markets are booming, some US companies are becoming disenchanted with the higher costs of servicing export markets and frustrated at their inability to supply products in demand.

Looking at individual species, demand in export markets for higher grades of Hard maple continues firm and tends to exceed supply. Lower grade material is not selling so well but there are some reports of improving demand. There seems to be no let up in the strength of demand for US cherry in Europe, with reports of particularly firm demand in France. There are some reports of tightening supplies of higher grades.

Ash remains weak in the UK but there are reports of strengthening demand for the species in France. Demand for thicker sizes of Ash is also reported to be improving in Japan.

White oak markets in Europe are characterised as generally "steady", but there is considerable competition and price resistance. One agent mentioned a marginal firming in demand for the species in the UK. US producers are showing greater reluctance to saw the species for sale at prices being offered by the major buyers.

There are some reports of improvements in export demand for tulipwood, with new orders from China and more enquiries for high grades from Italy. However these factors have so far had little impact on price. US producers are refraining from cutting the species due to the difficulty of off-loading lower grades.

UK doldrums...but signs of improvement

UK contacts were generally despondent about the strength of hardwood demand in May, with almost universal agreement that a slow start to the year has been compounded by unusually quiet trading in May. 1999 is already being characterised as a difficult year. On the tropical hardwood side, agents are having difficulty not only finding buyers, but also identifying supplies.

With conditions so difficult on the tropical side, agents and importers have come to rely more and more heavily on the US export trade. With so many dependent on this trade, competition has intensified. There is no change in UK importers dependence on just-in-time trading. Most continue to play safe and remain wary of the forward market.

On a more positive note, Melvyn King Director General of the Bank of England is forecasting that Britain's mild recession may already be on the turn. He is predicting "robust" growth in the UK with lower inflation. Early signs of an improvement in the economy have come from a strong rise in the home property market. Estimates of price hikes in the sector vary depend-

ing on source, with one major mortgage lender suggesting average house prices rose by 3.7% in the year to April, while another suggests an increase as high as 7.1%. Relatively low interest rates, which have been cut 7.5% last October to 5.25% today, have encouraged demand for housing. Bank of England data confirms the trend, indicating that March was a strong month for consumer borrowing for property. House starts are also up, recent figures indicating a 4% upturn in the year to the first quarter of 1999. The latest Report on Construction from the Chartered Institute of Purchasing and Supply indicates that activity in the house-building sector grew during April at the fastest rate since July 1997. Commercial construction also improved, but civil engineering saw declining business. A recent CBI survey suggests that overall retail sales grew slowly in March and April. However furniture retailers reported a downturn compared to the same period last year. Improvements in the construction sector will take a while to filter through to the UK timber trade. Some agents seem optimistic of rising demand from September onwards.

Mixed prospects in Europe

Euro-zone hardwood importers, particularly of US hardwoods, are suffering from the comparative weakness of the continent's new currency. The euro is down 8.9% against the dollar since its launch at the beginning of the year. The euro weakened further at the end of May with the announcement that Italy would be allowed to exceed official budget deficit limits designed to prevent excessive public spending by member states. Business confidence in Italy has been badly affected by war in Kosovo and this is undermining earlier hopes of a fragile recovery. The war has also impacted directly on the Italian trade by closing the door on a relatively low cost source of hardwoods in Serbia and Macedonia. So far, low interest rates have failed to stimulate much growth in Italy's construction sector. The market is characterised by severe competition.

Germany, Europe's largest economy, is also suffering from recessionary forces and low business confidence. GDP growth declined by 0.4% between the two final quarters of 1998. Analysts are predicting a further slowdown in the German economy this year. The Economist's poll of forecasters for May indicates that German GDP will increase by only 1.5% in 1999, compared with 2.5% last year. East Germany is still failing to catch up with the more prosperous west, growing by only 2% last year. Reconstructing the East German economy has proved more difficult than expected. The country is relatively reliant on manufacturing which has been hit hard by the Asian and Russian economic crises.

Trade reports indicate that German construction activity has "stabilised at low levels". However there were some indications of a slight recovery in construction activity during March. Manufacturing activity in Germany is very sluggish, with hardwood buyers increasingly looking for cheap supplies from Eastern Europe.

The slump in Germany has led to falling demand for furniture. Domestic manufacturers, together with exporters in Italy and Denmark have been hit hard.

France's economy is performing much better. The economic upturn which began last year, driven by strong domestic demand and growing consumer confidence, has continued into 1999. The Economist Poll of Forecasters predicts GDP growth of 2.2% this year. FFBTA, the French Timber Importers Federation report that, while demand for wood in most sectors is benefitting from the underlying economic strength, demand for tropical hardwoods remains subdued. Stock levels are "average" and are moving only slowly. However manufactured wood products are much in demand. This suggests that demand for primary wood products should also improve in time. FFBTA note a long term trend in wood imports away from primary products to semi-finished and finished goods.

Continuing strong economic growth is anticipated in Spain, the Netherlands and Ireland this year. The Spanish economy is expected to grow by 3.2% this year. News from Spain of

UK IMPORTS

Commentary

It would be wrong to draw any firm conclusions on the direction of trade during 1999 from one month's data. However comparison of January 1999 and 1998 data reveals two notable differences.

Firstly, imports of tropical logs and sawn were around 50% higher during January 1999 than January 1998. Import figures for both Malaysia and Cameroon were nearly double those for the same month in 1999. Tropical logs and sawn imports in January 1999 were also up 74% on December 1998. This may reflect a temporary blip related to shipping schedules or delayed orders rather than an underlying shift in the market. Data in future months will confirm one way or the other.

Secondly, January saw a surge in plywood imports from the Far East. Imports from both Indonesia and Malaysia in January 1999 were considerably higher than both the previous month and the same month in 1998.

Continued page 7

VENEERS FROM OUTSIDE THE EU

(cubic metres)

	Jan 99	Jan 98	Cum 99	Cum 98
BRAZIL		13		13
CAMEROON	3		3	
CONGO	25	26	25	26
GHANA	275	253	275	253
INDONESIA		56		56
MALAYSIA		51		51
SINGAPORE	35		35	
THAILAND	41	120	41	120
ZAIRE	160	207	160	207
TROPICAL	539	726	539	726
AUSTRALIA		2		2
CANADA	119	70	119	70
ESTONIA	152		152	
HUNGARY	39		39	
RUSSIA	33		33	
S. AFRICA	163	140	163	140
SLOVENIA	28		28	
SWITZERLAND	10	4	10	4
USA	497	1184	497	1184
TEMPERATE	1041	1400	1041	1400
TOTAL	1580	2126	1580	2126

SLEEPERS FROM OUTSIDE THE EU

(cubic metres)

	Jan 99	Jan 98	Cum 99	Cum 98
AUSTRALIA	1223	1013	1223	1013
GUYANA	133		133	
S. AFRICA	22		22	
SLOVAKIA	21		21	
TOTAL	1399	1013	1399	1013

HARDWOOD LOGS AND SAWN FROM OUTSIDE THE EU *Note 2*

(cubic metres)

	LOGS				SAWN				TOTAL			
	Jan 99	Jan 98	Cum 99	Cum 98	Jan 99	Jan 98	Cum 99	Cum 98	Jan 99	Jan 98	Cum 99	Cum 98
BOLIVIA						360		360		360		360
BRAZIL					1383	1306	1383	1306	1383	1306	1383	1306
BURMA		30		30		30		30		60		60
CAMEROON	3916	3117	3916	3117	4100	1908	4100	1908	8016	5025	8016	5025
CONGO		135		135	642		642		642	135	642	135
ECUADOR		27		27						27		27
GABON	319	327	319	327	144		144		463	327	463	327
GAMBIA					181		181		181		181	
GHANA					2579	2221	2579	2221	2579	2221	2579	2221
GUINEA					195		195		195		195	
GUYANA						201		201		201		201
INDONESIA					509	405	509	405	509	405	509	405
IVORY COAST					1238	1232	1238	1232	1238	1232	1238	1232
M'GASCAR					1		1		1		1	
MALAYSIA	219	33	219	33	8410	4226	8410	4226	8629	4259	8629	4259
MOZAMBIQUE		24		24						24		24
NIGERIA						20		20		20		20
PAPUA N.G.		87		87	57		57		57	87	57	87
PERU					25		25		25		25	
PHILIPPINES						91		91		91		91
SINGAPORE		29		29	168	147	168	147	168	176	168	176
STH KOREA					83		83		83		83	
TANZANIA	8		8			2		2	8	2	8	2
TRIN. & TOB.						30		30		30		30
TROPICAL	4462	3809	4462	3809	19715	12179	19715	12179	24177	15988	24177	15988
AUSTRALIA	7	32	7	32		218		218	7	250	7	250
AUSTRALIA Walnut					4		4		4		4	
CANADA	147	123	147	123	1277	800	1277	800	1424	923	1424	923
CANADA Birch	67		67						67		67	
CANADA Oak					404	253	404	253	404	253	404	253
CANADA Poplar						65		65		65		65
CANADA Walnut					12		12		12		12	
CHINA					8		8		8		8	
CZECH REP.					3		3		3		3	
ESTONIA	640	1792	640	1792					640	1792	640	1792
ESTONIA Birch					1019		1019		1019		1019	
LATVIA	107	188	107	188					107	188	107	188
LATVIA Oak					22		22		22		22	
LATVIA Poplar					401		401		401		401	
LITHUANIA		147		147	37		37		37	147	37	147
LITHUANIA Oak					44		44		44		44	
MOROCCO					25		25		25		25	
NORWAY		172		172		84		84		256		256
POLAND	16	23	16	23					16	23	16	23
POLAND Beech						26		26		26		26
POLAND Birch		68		68						68		68
POLAND Beech	77	19	77	19	78	197	78	197	155	216	155	216
ROMANIA					465	307	465	307	465	307	465	307
RUSSIA	281	44	281	44					281	44	281	44
RUSSIA Birch									187	103	187	103
RUSSIA Oak		103		103	187		187		187	103	187	103
S. AFRICA					21	40	21	40	21	40	21	40
SERB/MONT						34		34		34		34
SERB/MONT. Beech						22		22		22		22
SLOVAKIA					32		32		32		32	
SLOVAKIA Oak												
SLOVENIA						2		2		2		2
SLOVENIA Beech												
USA	631	912	631	912	2935	4088	2935	4088	3566	5000	3566	5000
USA Beech					9	30	9	30	9	30	9	30
USA Birch	82		82						82		82	
USA Oak					4136	5372	4136	5372	4136	5372	4136	5372
USA Poplar					562	571	562	571	562	571	562	571
USA Walnut					56	126	56	126	56	126	56	126
TEMPERATE	2055	3623	2055	3623	11737	12235	11737	12235	13792	15858	13792	15858
AFRICA	4243	3603	4243	3603	9126	5423	9126	5423	13369	9026	13369	9026
ASIA	219	179	219	179	9235	4899	9235	4899	9454	5078	9454	5078
AUSTR/PAC	7	32	7	32	4	218	4	218	11	250	11	250
E. EUROPE	840	2237	840	2237	1636	281	1636	281	2476	2518	2476	2518
N. AMERICA	927	1035	927	1035	9391	11305	9391	11305	10318	12340	10318	12340
RUSSIA	281	147	281	147	652	307	652	307	933	454	933	454
S. AMERICA		27		27	1408	1897	1408	1897	1408	1924	1408	1924
W. EUROPE		172		172		84		84		256		256
TOTAL	6517	7432	6517	7432	31452	24414	31452	24414	37969	31846	37969	31846

Europe Cont from page 5

booming construction and shortages of housing imply continuing strong demand for hardwoods. Ireland's overheating economy is expected to calm down only a little in 1999, with GDP growth falling back to 8.5% from 10% last year. This bodes well for iroko, demand for which is currently sluggish. Portugal's economy, while still strong, has been damp-

ened by weak export markets in Latin America. The extent to which economic performance varies between different European countries within the euro-zone creates difficulties for the European Central Bank. Germany and Italy need low interest rates to stimulate demand. Ireland and Spain need high interest rates to keep a lid on inflation. Inflation has already begun to take off in Spain. Divergence between Europe's two largest economies, Germany and

France, will put particular strain on the continent's new currency. It may also create political tensions, undermining the "growth and stability pact", the mechanism by which members of the euro-zone hope to keep other's public finances in order. The pact effectively limits the scope of individual member states to spend their way out of recession. While there are reasons for optimism, Europe faces many challenges in the coming months.

HARDWOOD LOGS AND SAWN FROM INSIDE THE EU *Note 3* (cubic metres)

	LOGS				SAWN				TOTAL			
	Jan	Jan	Cum	Cum	Jan	Jan	Cum	Cum	Jan	Jan	Cum	Cum
	99	98	99	98	99	98	99	98	99	98	99	98
BELGIUM	87		87		107	1205	107	1205	194	1205	194	1205
BELGIUM		Beech			85	125	85	125	85	125	85	125
DENMARK	52		52		167		167		52	167	52	167
DENMARK		Beech			458	227	458	227	458	227	458	227
FINLAND	795		795		895	283	895	283	1690	283	1690	283
FRANCE	185		185		178	1018	178	1018	363	1018	363	1018
FRANCE		Beech			111	133	111	133	111	133	111	133
FRANCE		Oak			602	321	602	321	602	321	602	321
GERMANY	490		490		718	340	718	340	1208	340	1208	340
GERMANY		Beech			2584	2540	2584	2540	2584	2540	2584	2540
GERMANY		Oak			165	117	165	117	165	117	165	117
IRELAND	11	12	11	12	260	105	260	105	271	117	271	117
NETHLNDS	173		173		921	64	921	64	1094	64	1094	64
NETHLNDS		Oak			6	1	6	1	6	1	6	1
SPAIN					160	206	160	206	160	206	160	206
SWEDEN	814		814		1977	2121	1977	2121	2791	2121	2791	2121
SWEDEN		Beech	21	21	26		26		26	21	26	21
EU TOTAL	2607	33	2607	33	9253	8973	9253	8973	11860	9006	11860	9006

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

	Jan	Jan	Cum	Cum
	99	98	99	98
BELGIUM	219	122	219	122
DENMARK	123	109	123	109
FINLAND	18	44	18	44
FRANCE	79	164	79	164
GERMANY	261	168	261	168
IRELAND		3		3
ITALY	32	25	32	25
NETHERLANDS	12	29	12	29
SWEDEN	8	23	8	23
EU TOTAL	752	687	752	687

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

	Jan	Jan	Cum	Cum
	99	98	99	98
BELGIUM	44		44	
FRANCE		133		133
EU TOTAL	44	133	44	133

BLOCKBOARD AND PLYWOOD FROM OUTSIDE THE EU (cubic metres)

	BLOCKBOARD				PLYWOOD			
	Jan	Jan	Cum	Cum	Jan	Jan	Cum	Cum
	99	98	99	98	99	98	99	98
BRAZIL	151	234	151	234	16934	15068	16934	15068
CAMEROON					19		19	
GHANA					108	26	108	26
GUYANA						758		758
INDONESIA	1522	2428	1522	2428	36260	10649	36260	10649
MALAYSIA	1140	21	1140	21	16591	9241	16591	9241
PHILIPPINES						18		18
SINGAPORE			2		20	19	20	19
SOUTH KOREA					18698		18698	
THAILAND					3180		3180	
ZIMBABWE					43		43	
TROPICAL	2815	2683	2815	2683	91853	35779	91853	35779
CANADA					10607	10786	10607	10786
CHILE					3989	98	3989	98
CHINA					772	458	772	458
ESTONIA					1167	460	1167	460
ISRAEL					109	146	109	146
JAPAN						37		37
LATVIA					2227	3026	2227	3026
LITHUANIA		40		40	440	877	440	877
MOROCCO						61		61
NORWAY		35		35	288	301	288	301
POLAND	6		6		229	108	229	108
RUSSIA					8850	8177	8850	8177
S. AFRICA					90		90	
SLOVENIA					42	29	42	29
SWITZERLAND						97		97
USA					6212	102776	6212	102776
TEMPERATE	6	75	6	75	35022	127437	35022	127437
AFRICA					260	87	260	87
ASIA	2664	2449	2664	2449	75630	20568	75630	20568
AUSTR/PACIFIC								
E. EUROPE	6	40	6	40	4105	4500	4105	4500
N. AMERICA					16819	113562	16819	113562
RUSSIA					8850	8177	8850	8177
S. AMERICA	151	234	151	234	20923	15924	20923	15924
W. EUROPE		35		35	288	398	288	398
TOTAL	2821	2758	2821	2758	126875	163216	126875	163216

BLOCKBOARD AND PLYWOOD FROM INSIDE THE EU *Note 3* (cubic metres)

	BLOCKBOARD				PLYWOOD			
	Jan	Jan	Cum	Cum	Jan	Jan	Cum	Cum
	99	98	99	98	99	98	99	98
BELGIUM					682	623	682	623
DENMARK		47		47	82	90	82	90
FINLAND	193	176	193	176	16735	4158	16735	4158
FRANCE	25		25		1482	1660	1482	1660
GERMANY					930	473	930	473
IRELAND		7		7	218	165	218	165
ITALY	166		166		990	755	990	755
NETHERLANDS		79		79	70	113	70	113
SPAIN					468	643	468	643
SWEDEN					483	208	483	208
EU TOTAL	384	309	384	309	22140	8888	22140	8888

Commentary *cont. from page 6*

Large volumes of plywood also arrived from South Korea. The trend towards more restricted imports of plywood from the United States, due to the strength of both US domestic demand and the US dollar, continued into January 1999. Finland and Chile also supplied larger volumes of plywood to the UK during January.

NOTES

- 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.
- Logs and sawn data for "other" species derived from Estonia (Total cum 1999 volume 4991 m3) and Latvia (total cum 1999 volume 8330 m3) are omitted from this table as these volumes are assumed to contain large quantities of softwood.
- HM Customs and Excise Data for trade within the EU is subject to delay. Because of new methods of statistical collection, returns may remain incomplete. Statistics are recorded as received and may be corrected subsequently and marked "C".

World plantations

A report in Australian Forest Products Statistics provides an update on global plantation area. Plantations constitute less than 3% of world forest area but supply 34% of global industrial roundwood. Opinions differ over the proportion of the world's 119 million hectares of plantations suitable for industrial roundwood production. Jaako Poyry estimate in a 1999 study that less than half the plantation area of Asia and Africa is suitable for commercial production. Other studies have estimated success rates of 61% in Asia and between 60 to 77% in Africa.

Asian crises speeds globalisation trend

The trend towards increased globalisation of ownership in the wood processing industries has intensified following the international financial crises of the last two years. According to Gerard Horgan, a Forest Research Economist speaking at the Asian Timber and Forestry Conference in March, the crisis has facilitated the introduction of new organisations into the South East Asian forest products industry. It has added urgency to the marriage

of western technology, finance, and marketing, to the fibre, labour and markets of Asia. He noted that "it would be wrong to think that without the crises acquisitions would not eventually have happened. They just wouldn't have happened as quickly." He thought that the crises might also accelerate the removal of trade barriers.

Source: New Zealand Pine International

Thailand

Thailand has a large wood products sector almost entirely dependent on imported raw materials. In 1989 a ministerial decree terminated all Thai logging concessions following a spate of disastrous floods and mudslides in southern Thailand. In that year, Thailand consumed about 3 million m³ of timber, with 1.8 million coming from forest concessions and the remaining 1.2 million m³ imported, primarily from ASEAN neighbours. Since then Thailand's demand for wood has doubled to around 6 million m³, nearly all of which has to be imported.

An increasing proportion of wood used in Thailand comprises rubberwood. MDF and particleboard are also being used in increasing volumes. Traditional species such as teak and rosewood are becoming less significant. Imports are derived primarily from Malaysia, Myanmar, Cambodia and Laos.

The nation's furniture industry has developed rapidly from a small cottage industry to become one of the largest industrial sectors in Thailand. There are over 2000 factories, owned primarily by small and medium sized companies, which employ 400,000 people. 90% of firms are locally owned. The furniture sector has remained relatively unscathed throughout the Asian crises. Local demand has been hit hard, but the industry has been successful in developing export markets, aided by currency devaluation making Thai products more competitive. Thai furniture companies have performed well in US markets against stiff competition from Malaysia and China due to higher quality of product and shorter delivery times.

Thailand's economy has had a bumpy ride since the onset of the Asian crises in November 1997. GDP growth fell from 8.6% in 1995 to -7.8% in 1998. However various signs of improved performance are now emerging. Foreign reserves have recovered and the baht stabilised. In March of this year the manufacturing production index rose 5.8%, the second consecutive monthly rise after extended declines since the middle of 1997. Exports and imports for March also rose to their highest levels since January last year. Many analysts expect domestic demand to show further improvement in the coming months following a US\$3.5 billion government stimulus package introduced on 1 April. A boost to foreign investors in Thailand also came during March with the passage of a new bankruptcy bill giving creditors more power to force debtors to pay up. Particularly encouraging for the timber sector are plans by the Thai government to pump low interest loans of US\$11 billion over a five year period to 13 targeted industries including the wood products industry. Less encouraging has been a long term trend away from using all-wood materials in the construction sector. Steel and concrete have made major inroads. Wood is now only used for door and window frames in many projects. Cheaper eucalyptus and rubberwood is used increasingly for these end uses.

Asian plywood demand improves

With rains in the Far East lingering on longer than usual this year, government elections in Indonesia, and moves to redefine logging regulations, log supplies to hardwood ply mills throughout the Far East remain very limited. Where plywood is being produced,

log quality is generally poor and mills are putting restrictions on the grades available. Much of the production is being targeted at buyers in China, Japan and the United States who are proving more willing to pay higher prices than European buyers. Much production is also focused on thicker sizes for the Japanese market, allowing mills to soak up larger quantities of low grade material in the plywood cores.

Agents are not expecting a major change in the Indonesian supply situation until after the government elections at the beginning of June.

After months of inactivity, producers in Sabah indicate that logs are again reaching the mills. However it will take several weeks to build up stocks after such a protracted lull in logging.

Hardwood log supplies are still tight in Brazil as the rainy season nears its end. Supplies will not start to flow more freely until mid to late June. Brazilian exporters are wary of committing to price and still waiting to see how the supply and demand situation develops when their competitors in the Far East start producing again in higher volumes. Some deals are being done by hardwood ply shippers in Brazil, but these primarily involve mills owned by Malaysian and other Asian firms whose priorities differ from Brazilian companies. Economic conditions in Brazil have stabilised, with the *real* recovering to around 1.6 to the US dollar after hitting a low 2.15 in February. The higher *real* exchange rate will tend to weaken the competitive position of Brazilian exporters. On the other hand these companies will benefit from the lower costs of importing essential raw materials, such as glues, and the lower costs of capital implied by lower interest rates. Recession in Brazil will mean weak domestic markets this year. Brazilian producers will be particularly dependent on export markets.

UK demand for plywood from importers is slow. Underlying end-user demand is still sluggish and stocks are sufficiently high to prevent prices rising. Contracts agreed several months ago at lower prices are still being cleared, further subduing price levels. There is little interest in the forward market. With relatively low demand and the rainy season coming to an end in the major supply areas in the Far East and South America, there is a temptation for importers to wait until clearer signals emerge of the future log supply and price trends. Current prices are at the same levels as last month at around INDO96 less 10. The various ingredients of sluggish demand in many parts of the world, high dependence on export markets, and the end of the rainy season, suggests intense competition in international plywood markets over the coming months. Added to this is increasing capacity and competition from OSB in certain markets.

A lasting improvement in market conditions in Japan and China is crucial to sustain a recovery in plywood prices. Trends in Japan have looked more promising during the Spring, with firming markets and prices both for domestic and imported plywood. The news from China is mixed. ITTO's *Market News Service* notes that although demand of plywood has risen slightly in recent weeks, prices for imported plywood have not increased due to large stocks and continued arrivals. Underlying trends are positive however, with evidence that China's state spending on infra-structure spending has ensured sustained economic growth into early 1999.

Much also hinges on the extent to which the slowdown in Asian log supply and plywood production is maintained. There is some evidence to suggest that declining Asian production is not short term, but reflects a major structural change in the nature of Far Eastern log supply. Forest resource data indicates that timber extraction in Malaysia and Indonesia has passed its peak and is now on a downward trend. Recent IMF inspired changes to the forest royalty system will also tend to reduce log supply to Indonesian mills. Furthermore the Asian crises has taken its toll on hardwood ply production capacity in other parts of the Far East, notably Japan.

ASEAN develops sustainable forestry standard

The ASEAN group of nations is developing criteria and indicators (C&I) for sustainable forest management. The criteria and indicators are based on the International Tropical Timber Organisation C&I that were revised in May 1998. The move by ASEAN is in keeping with the Helsinki and Montreal processes for European and other countries in the temperate and boreal zone to reach a regional consensus at government level on the defining elements of sustainable forest management. The ASEAN C&I will provide a basis for the elaboration of national sustainable forestry standards throughout South East Asia.

A draft set of C&I has been formulated by 30 forestry experts from the public and private sector at a meeting held in Kuala Lumpur in May. The draft is now being considered by senior forestry officials of the ASEAN nations. All ASEAN members except Singapore, Laos and Cambodia attended the meeting.

Commenting on the C&I, Dr Ismail, Director of ASEAN's Regional Centre for Forest Management said that in the longer term, ASEAN should strive to develop a regional sustainable forestry certification programme based on the C&I and using locally based certifiers familiar with forests in the region.

UK moves ahead with certification

The United Kingdom's Woodland Assurance Scheme (UKWAS), a system for third party certification of UK forests, is being launched at a press conference in London on 3 June.

The scheme has been developed through a consultative process involving the UK forestry sector, environmentalists, government authorities and the Forest Stewardship Council (FSC). One important feature of the scheme is that FSC, while not leading the process, have been involved as "partners" to increase market credibility. The "UK Audit Protocol", the certification standard agreed for use under UKWAS, is designed to be compatible with both FSC International Forestry Principles and the UK Government's national forestry standard. The final draft of the audit protocol was hammered out at a Technical Working Group meeting in early March.

Rumblings of dissatisfaction about UKWAS continue to emanate from the UK's private forestry sector. This is reflected in the lukewarm press release issued by the Timber Growers Association announcing finalisation of the audit protocol. The press release notes that the "*Woodland Assurance Scheme is as user friendly as can be produced at this time*" but that "*none of the stakeholders including TGA are happy with every detail*". They emphasise continuing concerns over the cost implications and suggest that "*the [Forestry] Commission's concentration on increasing the environmental and social outputs of our forests has damaged its credibility with some in the growing sector*". One feature of the UK scheme is that, while establishing a certification standard, it provides no mechanism to assess the professional competence (accredit) certification companies. Forest owners seeking certification under the scheme must use certifiers recognised by other

bodies. At present the Forest Stewardship Council is the only organisation accrediting certifiers for forestry operations, and the FSC label is the only product label available to forest owners seeking certification through UKWAS. However there are signs that other competing systems may emerge.

Under pressure from UK retailers, the Forestry Commission has decided to move ahead rapidly with certification of state-owned forests against the audit protocol using FSC accredited certifiers. The Forestry Commission has commissioned SGS, the largest FSC accredited certifier, to carry out the audit. Around 35% of the UK's forest area is Forestry Commission land owned by the state, but these forests are generally older and more productive than private forests and account for a much higher proportion of total UK production. The likelihood is that all these forests will be FSC-certified in the near future.

While the Forestry Commission seems content to go ahead with certification using FSC accredited certifiers, other interests in the industry are pushing for a broader approach. The Timber Growers Association seem keen to link the UK Woodland Assurance Scheme more closely to the Pan European Forest Certification Initiative (PEFC). PEFC is being developed by small forest owners associations throughout Europe to provide competition to the Forest Stewardship Council. PEFC is due to be launched this summer. The Timber Growers Association, Paper Federation and Timber Trade Federation have been meeting with the United Kingdom Accreditation Service (UKAS) to encourage the further development of a UK-based system to accredit certifiers outside the FSC framework. TGA's strategy seems to be to ensure that the UKWAS enables UK forest owners to obtain both FSC and PEFC certification at minimum cost.

Cameroon log ban

At time of going to press, no official announcement of the species covered by the log export ban in Cameroon, due for implementation on 30 June, had been made. However the Cameroon Forests Minister has made an informal announcement on the scope of the ban. The Minister said that exports of logs of all the major export species, except Sapele, will be banned from 30 June. Exports of logs of Sapele and a number of secondary species may be allowed subject to quota. Log exports of all other secondary species will not be included under the ban. EUWID, the German market newsletter, reports that Cameroon shippers are expecting the ban to last no more than 3 months. However the World Bank may have linked the granting of additional loans to implementation of the ban, increasing the likelihood of the Cameroon authorities going ahead with the reform.

Debt for forests

US President Clinton recently signed legislation that allows countries to reduce their debts to the United States by protecting tropical forests. Under the law, US\$325 million is being set aside over three years to promote "debt for nature" swaps with countries willing to conserve tropical forests. The Tropical Forest Conservation Act would forgive the debts of tropical countries in exchange for their channeling matching amounts of local currency into trust funds for forest protection. The bill was originally signed by the Bush administration for Latin America and the Caribbean, but has now been extended to include Asia and Africa.

Indonesian news on-line

Indonesia's largest English language newspaper, is now on-line at www.thejakartapost.com.

New global forest administration?

The world's material needs from forests can be satisfied without jeopardizing their ecological services, according to the World Commission on Forests and Sustainable Development, a group initiated by former world leaders.

The claim is made in the WCFSD report "Our Forests... Our Future." released in April drawn up after a series of hearings on five continents. However the Commission also concludes that fundamental changes need to be made in the way forests are managed and valued. It notes that forests face an uncertain future as global population is expected to grow 50% in the next half century. Co-Chairman of the Commission and former Swedish Prime Minister, Ola Ullsten notes that "Fixing the forest crisis is basically a matter of politics, it is about governments assuming their mandate to protect their natural resources – including forests – for the long term benefit of their citizens."

The Commission advocates a new set of global institutions designed to improve decision making on forests including:

- Forest Watch - A network connecting citizens with decision makers. Forest Watch would analyze and disseminate information on forests.
- Forest Management Council – An institution to standardize sustainable practices including eco-labeling of forest products and certification.
- Forest Ombudsman – A network of officials to identify and pass objective non advocacy judgements on corruption, inequity and abuse in forest operations.

- Forest Award - A way to recognize good performance in sustainable forest management.

The Report challenges the handful of countries with 85 % of the world's forests to exercise leadership through a Forest Security Council, modeled on the G8 summits but also involving the science, business and NGO communities.

WCFSD note the clear link between degraded forests and poverty. It suggests that "one billion of the world's poorest people in about 30 heavily deforested countries would be alleviated from poverty if given government support for managing neighboring public forest land and sharing the benefits within their communities." The report suggests the introduction of a Forest Capital Index designed to broaden economic valuation of forests to take account of their environmental and social benefits as well as their role in producing timber. The aim of the index would be to permit decision makers to evaluate progress in sustaining forest capital in each country, facilitate a global framework to estimate the value of eco-system services provided by forests and create the basis for market mechanisms to compensate developing countries for ecological services.

Roads *cont. from back page*

panies have little incentive to follow detailed environmental specifications. Roads tend to be built by companies to fulfil short-term transport requirements without consideration for the long term risks. This attitude is in turn the result of land tenure arrangements which give timber companies only short-term logging rights. Lack of resources available to national forest authorities further hinders planning.

Solving the problem of encroachment by small scale farmers is even more challenging. Again there are various "technical" solutions. These include blocking forest roads by removing bridges or policing of access by forest guards. Incentive schemes may be developed so that timber companies will forfeit if farmers encroach upon their forest concession areas. Ultimately however, more lasting solutions are dependent on providing local people with incentives to conserve forests and alternative means of subsistence other than clearing forest land. This involves the development of participatory strategies, bringing together the various interests at local level to ensure they have a common understanding of, and stake in, the long term management of forests.

These issues are discussed in *Road Infrastructures in Tropical Forests* available from ATIBT, 6 Avenue de St Mandé, F-75012 Paris, Tel 33 1 43 42 42 00, Fax 33 1 43 42 55 22.

Singapore hits bottom

Singapore's economy reported zero growth during 1998. Property prices have dropped 30% since the start of the Asian crises. Contractors and developers have been pressuring timber traders to reduce their prices and have been cancelling higher grade orders. Lack of housing starts has hit interior decorators and wood working businesses hard. To save money woodworkers have been using lower cost material from SE Asia, Africa and South America. The Singapore Government is seeking to boost the economy with large infra-structure projects, including expansion of an airport terminal and construction of a new subway. Figures from Singapore's Building and Construction Authority show that US\$235 million worth of new construction contracts were awarded in February, a big drop from the US\$882 million in February 1998. Overall, contracts awarded fell 36% during 1998 to US\$8.88 billion.

However there are signs that the economy may have hit bottom. Recent data shows that the economy grew 1.2% in the first quarter of 1999, after two consecutive quarters of minus growth. The Singapore government has raised its growth forecast for 1999 from between -1 and 1%, to between 0 and 2%. According to Courts, Singapore's major furniture and home appliances retailer, demand for furniture and home appliances has started picking up since January, due to the recovery in Singapore's real estate market.

European beech finds new markets

Over recent years European beech has been the major beneficiary of the trend towards lighter coloured temperate hardwoods in the European furniture and flooring sectors. Extensive promotion by European manufacturers of products made from beech has contributed to the decline in markets for the darker tropical hardwoods. The dominance of European beech at furniture shows throughout Europe over the last 6 months has provided a vivid illustration of this trend. Competition with North American hardwood species, notably Hard Maple, for European market share has also been intense. European beech is now making inroads into markets outside Europe, particularly in the Far East.

As demand for beech has grown, prices have increased. In 1997, the European Organisation of the Sawmill Industry noted beech prices rose 5 to 25% in 1997 depending on grade. During 1998, firm demand from the Far East has also tended to push up prices. Producers in Germany, France, Denmark and Eastern European countries have all benefited from this trend.

European trends

In Germany, harvesting of beech logs over recent years has been at around 2.6 million m³. Traditionally Germany has supplied large quantities of beech to a large domestic furniture industry and exported significant quantities, much of it in log form, to the furniture industries of Italy, Spain, Sweden and Denmark. In 1997, Germany exported 470,000 m³ of beech logs. In 1998, this figure leaped to 761,476 m³, largely due to an increase in exports to Asia. Germany exports of beech logs to Asian destinations increased from 56,000 m³ in 1997 to 131,000 m³ in 1998. Asia now accounts for 17% of total German beech log exports. Prices for German beech logs increased by 15% on average during 1998 compared with 1997 levels. Germany's exports of beech to Asia have been encouraged by weak domestic demand from the country's sluggish furniture industry.

A notable trend in Germany's beech market has been a move by German furniture and stair manufacturers to reduce costs by transferring some of their operations to Eastern Europe. This is tending to weaken Germany's domestic market for beech and strengthening the Eastern European market. Germany is importing increasing volumes of semi-finished beech products, such as scantlings, friezes and glulam boards from Eastern Europe.

French beech exports to China have been lively,

with reports that demand in early 1999 has been even higher than in 1998. With higher prices being offered for French beech logs in China and domestic markets, France has reduced exports to traditional buyers in Italy and Germany. Some loads of French beech are reported to have been sold to UK buyers for re-export to China. Big public sector infra-structure projects have helped to push up French domestic demand for beech.

Spain has been a major buyer of both French and German sawn beech. Spanish demand for sawn beech has been strong during 1999, with many importers running low on stocks and being concerned about continuing price rises due to the strength of Chinese demand. During recent months, Spanish importers have been complaining that contracts are not being complied with as exporters are finding more favourable prices are being offered in China. Spanish importers have sought to compensate for higher prices by buying lower grades.

Asian demand

Asian importers have been looking for high quality logs suitable for slicing into veneers and are willing to pay high prices. Highest prices are being paid in Taiwan and Hong Kong and the lowest in Japan. The trade with China, while lucrative, is challenging. There have been numerous complaints and instances of letters of credit being withheld. Recent trade reports suggest that current Chinese demand for beech exceeds availability. In addition to France and Germany, the Chinese are importing beech logs and sawn from Romania and through Italy from Croatia, Slovenia and Bosnia. In future the numbers of suppliers of European beech will tend to become more restricted as Chinese buyers limit purchases to companies whose shipments have not given rise to complaints.

Chinese importers of sawnwood are particularly interested in unedged goods due to low container rates and low labour costs in China. Most sales of sawn consist of FAS quality.

Recent figures from Hong Kong illustrate the scale of the European beech trade into China. In 1998, Hong Kong imported around 300 million m³ of temperate hardwood logs and sawn. Around 80% of this volume was re-exported to China. Of the 300 million m³ entering Hong Kong, around 100 million m³ came from Canada and North America and the remaining 200 million m³ came from Europe and consisted primarily of steamed beech. About 50% of the European beech arrived in log form and the remainder in sawn form.

Global survey of forest certification schemes

Forests Forever, the UK Timber Trade Federation's environmental arm, has issued an extensive review of certification schemes worldwide. The review provides a thorough guide to the latest developments in forest management certification and analyses each international and national level certification initiative in turn. The review identifies over 45 certification initiatives at national level around the world. These initiatives include both Forest Stewardship Council (FSC) and non-FSC schemes. More from: Forests Forever, Clareville House, 26/27 Oxendon Street, London SW1Y, UK Tel: 01718391891, Fax: 0171 9300094

Illegal trade in Vietnam and Cambodia

In a new report published by the environmental organisation, Global Witness, European importers of Vietnamese garden furniture are accused of turning a blind eye to the illegal felling of forests in Vietnam and neighbouring Cambodia. They have responded with the formation of a trust fund to promote independent certification.

Vietnam's wood processing sector last year exported wooden furniture worth US\$37 million to the European Union. According to a report in the *Financial Times*, the country has more than 100 state-owned wood processing companies, many of which are concentrated in the highland provinces along the border with Cambodia. Conversion to agriculture and over-logging have resulted in Vietnam's forest area falling from 14.3 million hectares in 1945 to today's 8 million hectares, around 24% of land area.

In 1997, Vietnam's government took steps to halt the nation's forest decline introducing controls on logging in natural forest. Official harvesting levels this year are only 300,000 m³ compared with over 3 million m³ in the early 1990s. Restrictions were imposed on timber exports. Today, Vietnam only allows the export of wooden products (except "fine art" objects) made from imported or plantation-grown timber. With access to domestic supplies curtailed, Vietnamese processors are almost entirely dependent on imported raw materials. According to Global Witness, a UK environmental group established in 1995, this wood includes illegally sourced Vietnamese timber and imports from neighbouring Cambodia.

Illegal exports from Cambodia

As in Vietnam, political instability has undermined forest management in Cambodia. Over the last 30 years Cambodia's forest cover has declined from over 70% to around 30% of land area. In a detailed briefing document by Global Witness, it is claimed that "*although the main cause of deforestation has traditionally been clearance for agriculture, logging is the biggest threat to Cambodian forests today.*"

Global Witness claim that revenue from the illegal felling of Cambodia's forests was used by both sides during the country's civil war between 1993 and 1998. It is also alleged that the "*Cambodian armed forces....effectively control logging on the ground and it is they who, in 1998, presided over the illegal export of massive quantities of Cambodian logs to Vietnam in order to fund Hun Sen's successful campaign to win the July 1998 election.*"

Reports from the International Monetary Fund (IMF) confirm that illegal logging has been widespread in Cambodia. World Bank technical assistance teams estimated in 1998 that harvesting levels in Cambodia amounted to around 4 million m³, 90% felled illegally. There have been various government efforts to

control the illegal exploitation of Cambodia's forests. In December 1996, the Cambodian government asked neighbouring countries for their help in the enforcement of a log export ban to take effect from 31 December 1996. On taking power in November last year, Prime Minister Hun Sen has implemented various high profile measures in an effort to win the confidence of the IMF and other aid agencies. In December, the Cambodian authorities seized 1000 illegally felled logs and set alight the trucks in which they were being carried.

Focus on the trade

Global Witness are keen to focus attention on the buyers of Cambodian timber. In their briefing paper, they provide evidence that significant volumes of Cambodian logs have been exported to Vietnam in breach of the log export ban. Global Witness identify a number of Vietnamese companies which they claim are manufacturing garden furniture from illegally exported Cambodian timber. They also name European companies alleged to have imported and marketed the final product.

The trading companies concerned are criticised for issuing misleading labels and statements to the general public on their products' environmental credentials. Some of the companies claim that the timber derives from "sustainable sources". Global Witness have now linked with Friends of the Earth in Europe to raise public awareness of the illegal trade. In their briefing document, Global Witness argue the buying public and European importing trade should "*not purchase Vietnamese garden furniture unless it carries the logo of the Forest Stewardship Council.*"

In response to the criticism, some of the European companies implicated by Global Witness have created a trust fund to help improve forest management in the supply region. Formation of the Tropical Forest Trust has been led by the Danish garden furniture maker ScanCom International in association with forestry and timber consultancy Fortech. The aim is to raise a central fund, through a 2% levy on furniture sales paid by suppliers and retailers which will be distributed to approved environmental forestry projects. From ScanCom's sales alone, this adds up to US\$1m a year. The membership also pledges to buy hardwood garden furniture only from suppliers with 'third party verified chain of supply systems' by April 2001. The organisation has already selected two forestry projects to fund in Vietnam and Laos.

The Vietnamese government has also begun to tackle the problem of illegal logging. In April, at the end of Vietnam's biggest ever illegal logging trial, thirty-six people accused of destroying forest reserves received long prison sentences. Most of the accused were local forestry protection officials.

Bouyant China

China's economy remains bouyant in 1999, but there are still reasons to worry. According to official figures, the country's economy grew by 8.3% in the first quarter of 1999 compared to the same period in 1998. The massive state spending binge on infra-structure projects which began last year has continued into 1999, heightening expectations that the government's 7% growth target for the year can be achieved. However the Economist raises alarm bells over the Chinese government's growing debt burden. They estimate that over 40% of government revenue goes towards debt servicing. Some of China's state economists are now saying that current levels of public spending are not sustainable. The real challenge for China is to stimulate consumer spending (still falling) and encourage private business investment (currently flat). Recent increases in import growth offer some grounds for optimism. Although this partly reflects the government's crackdown on smuggling, some might be due to a revival in domestic demand.

US economic warning

The international hardwood trade has come to rely heavily on the bouyancy of the US economy to soak up demand and prop up prices. At a time when economies have been sluggish just about everywhere else, the US economy has enjoyed its longest ever peace-time expansion and its lowest employment rate for almost 30 years. How long can it continue?

According to a recent editorial in the Economist, sustained US growth shouldn't be taken for granted. The recent decision of America's Federal Reserve to leave interest rates unchanged at 4.75% seems risky given the first signs of inflationary pressure. There was a marked jump in America's headline inflation rate to 2.3% in April. The labour market is tight which means wages will tend to accelerate.

The Economist suggests that "*if the beast of inflation escapes, the increase in interest rates needed to recapture it will then have to be bigger. And by holding rates steady, the Fed continues to fuel a share price bubble that if (when?) it bursts will damage the whole economy.*"

The Economist is not suggesting that economic meltdown is imminent. But it is pointing to a serious imbalance in the US economy. Much will hinge on the foresight of America's Federal Reserve in the coming months.

Meanwhile, there are mixed signals from US housing market. New housing starts in the US are now declining having reached a 12 year peak in January of 1.82 million units (seasonally adjusted annualised). Annualised housing starts of 1.57 million units were recorded in April, the sharpest monthly decline in more than 5 years. However this turnaround doesn't seem to reflect any downturn in the housing market. Sales of existing homes surged to a new record during the first three months of 1999 with 5.88 million units sold.

Forest Roads

Development or destruction?

Timber exploitation in tropical forests has been widely criticised on the grounds that it opens up previously inaccessible forest areas to small-scale farmers. A new publication produced jointly by FAO and ATIBT examines the issues raised by the construction of forest roads in the tropics.

The role of forest roads as a cause of tropical deforestation has been hotly debated. The forest industry has long argued that, apart from being essential for commercial timber exploitation, forest road networks provide a range of secondary benefits to rural communities. By permitting the transport of agricultural surplus to national and international markets, they can contribute to improvements in rural livelihoods. They facilitate the marketing of non wood products. By improving mobility they provide rural people with greater opportunities to take advantage of employment outside the forestry sector. Roads provide better access to education and medical services.

On the downside, there is clear evidence to suggest that forest roads can be both a direct and indirect cause of significant forest damage. Poorly constructed roads can lead directly to excessive canopy opening; stream sedimentation; water flow obstruction; soil erosion; increased risk of landslides; and disturbance to wildlife. The indirect consequences may be even more far reaching. The opening up of roads for selective timber extraction may be the first step in a process that leads eventually to the complete loss of tropical forest. The presence of a road network provides easy access to forests by small farmers. Encroachment into areas of forest already selectively harvested is particularly attractive because clearing costs tend to be lower due to prior removal of the larger trees.

As with so many tropical forest management issues, there is no easy solution to the dilemma of forest roads. The direct impacts can be minimised by careful planning and the use of various technical measures to reduce environmental damage. For example much can be achieved by careful integration of road design with felling operations, drainage and ecological surveys. Unfortunately the problem is usually not technical but is tied up with other aspects of the political or social environment. Technical solutions to the direct impacts of roads are often not implemented because logging com-

Continued page 10

SHARE PRICES FOR SOME U.K. COMPANIES

	52 Week High	52 Week Low	29 Jan	26 Feb	29 Mar	29 Apr	28 May
J. Latham	203.5	141.5	143.5	146.5	141.5	156.5	173.5
Meyer International	461.5	244	338.5	339.0	399.5	449.5	461.5
Travis Perkins	665.0	360	360.0	423.5	522.5	652.5	665.0
Barratt Devs.	360.0	155.5	223.5	262.0	296.5	360.0	321.5
John Laing	397.5	233.5	233.5	256.0	296.5	318.5	320.0
Alfred McAlpine	230.0	106.5	151.5	160.5	171.0	230.0	218.0
J. Mowlem	153.0	77.5	106.0	115.0	118.0	153.0	144.0
George Wimpey	161.5	91.5	104.5	133.0	153.5	161.5	159.0
Cornwell Parker	182.5	66.5	94.5	85.0	85.0	117.5	101.5

EXCHANGE RATES FOR ONE POUND STERLING

		26 Feb	29 Mar	29 Apr	28 May
Australia	Aus.\$	2.5800	2.5536	2.4440	2.4508
Bangladesh	Taka	77.6971	78.4617	78.1103	77.7165
Belgium	Belgian Fr.	58.8700	60.9258	61.3745	61.8187
Belize	B\$	3.2040	3.2372	3.2227	3.2048
Bolivia	Boliviano	68.3654	9.2746	9.2169	9.1978
Botswana	Pula	7.4460	7.5973	7.4411	7.5746
Brazil	Real	3.3242	2.8528	2.6837	2.7802
Fr. Africa*	CFA Fr.	957.27	990.70	998.0	1005.22
Chile	Peso	804.204	786.396	784.324	790.865
China	Yuan	13.2630	13.4015	13.3410	13.2656
Denmark	Danish Krone	10.8496	11.2255	11.3067	11.3862
Europe	Euro	1.4592	1.5104	1.5214	1.5325
France	Franc	9.5727	9.9070	9.98	10.0522
Germany	D-mark	2.8543	2.9539	2.9757	2.9972
Ghana	Cedi	3804.76	3913.78	3932.50	4014.01
Guyana	Guyanese \$	259.491	260.092	273.284	256.384
Hong Kong	HK\$	12.4119	12.5429	12.4883	12.4258
India	Rupee	68.3654	68.6286	68.9699	68.7750
Indonesia	Rupiah	14157.69	14365.09	13172.81	13039.55
Irish Republic	Punt	1.1494	1.1895	1.1983	1.2069
Italy	Lira	2825.69	2924.37	2945.91	2967.23
Japan	Yen	190.077	193.762	191.952	193.602
Kenya	K. Shilling	102.13	105.05	109.33	112.97
Korea South	Won	1960.05	1982.95	1894.14	1900.20
Malaysia	Ringgit	6.0876	6.1507	6.1231	6.0891
Myanmar	Kyat	10.0152	10.1190	10.0737	10.0177
Netherlands	Guilder	3.2160	3.3283	3.3528	3.3771
Nigeria	Naira	139.374	150.530	150.983	155.457
Philippines	Peso	62.398	62.801	61.271	60.971
Portugal	Escudo	292.573	302.790	305.02	307.228
Singapore	Singapore \$	2.7587	2.8050	2.7337	2.7637
South Africa	Rand	9.9244	10.0839	9.7648	9.9950
Spain	Peseta	242.815	251.295	253.145	254.977
Taiwan	\$	52.9942	53.6809	52.6783	52.4706
Tanzania	Shilling	1108.99	1121.09	1139.23	1129.69
Thailand	Baht	59.7867	60.8999	60.2242	59.5212
Uganda	New Shilling	2202.75	2248.24	2449.26	2299.45
U.S.A	US \$	1.6020	1.6186	1.6114	1.6024
Venezuala	Bolivar	920.550	943.441	952.316	958.836
Vietnam	Dong	22255.0	22499.4	22411.46	22297.40
Zimbabwe	\$	61.3567	61.8306	61.4892	61.1316

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

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