

TROPICAL TIMBERS

an independent publication providing market information

US Hardwoods

High hopes for 2000

A spirit of optimism pervaded much of the discussions at the 7th European American Hardwood Convention held in Prague during early November. The Director of the North American Lumber Association (NHLA) summarised US producers expectations for next year by concluding that "2000 will be a very profitable year, despite constraints on the supply side".

US hardwood producers remain confident of continued market buoyancy at home during 2000. Economic growth in the US is forecast at 3% in 2000, down on levels this year, but still significant. US housing starts in Autumn 1999 are down 5% on the same period last year, but remain at historically high levels. The United States home repairs market is expected to increase by 1.5% in 2000.

US export markets suffered during 1999 from economic weakness in Asia and Europe, but prospects are now improving in both regions. Asia's economies have levelled out after suffering severe decline during 1998. Growth in European demand should be stimulated by improvements in the underlying economy; now forecast to grow at around 2% next year.

Further details of the European demand situation emerged on the second day of the Convention during break-out discussions organised by country.

UK and Ireland

UK and Irish markets for US hardwoods are intensely competitive and importers are working on extremely tight margins. Importers' difficulties have intensified during 1999 due to price volatility for some of the more popular grades and species, notably Cherry and Hard Maple.

Eastern European suppliers of hardwoods were identified as a potential threat to US exporters in the UK market. There was also concern over UK manufacturers going out of business due to competitive pressure from manufacturers in Eastern Europe and Asia, causing shrinkage in

the overall size of the UK market for solid wood. Delegates discussed developments in UK trading and distribution networks. The hardwood sector continues to be dominated by smaller companies and there have been few moves towards consolidation. In part this reflects relatively low profitability acting as a disincentive to external investors. However, there has been a trend amongst manufacturers and importers to shorten supply chains by cutting out agents and buying direct from shippers. Some agents have responded to the threat by trading in landed stocks and dealing direct with manufacturers. Another factor has been the establishment of large concentration yards in the Netherlands to supply European importers relying increasingly on Just-In-Time orders.

There was general recognition too much emphasis is placed on price in the UK at the expense of product quality.

Delegates considered opportunities for diversifying the range of US lumber sold to the UK. At present, around 80% of the US import is FAS material and concentrated on a few of the most popular species. These constitute only 3% to 4% of the total US hardwood resource. Importers felt there were only limited opportunities to expand the UK market for lower grade material. However there may be potential to expand the range of species used.

Despite the gloomy nature of much of the discussion, there was underlying optimism over the strength of the UK economy. Increased consumer spending should stimulate demand in the furniture sector, while construction activity is forecast to improve during 2000.

Italy

Delegates were hopeful that Italian government policy would help to stimulate demand during 2000. Currently, Italian US hardwood lumber markets are dominated by tulipwood, red alder and red oak, with greater interest in Hard maple in the north. There is also demand for Cherry and Walnut logs. There may be potential for tulipwood strips. However experience has shown that white oak for window components

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were not successful. JIT business is likely to remain important in Italy. The provision of quality service is becoming increasingly important to maintain a competitive edge.

Spain and Portugal

Delegates were confident of prospects in 2000 despite existing high inventories. Spain is primarily a white oak market, although interest in cherry has been increasing. Furniture manufacturers are willing to look at alternative species. Spanish importers are increasingly focusing on quality, although many end-users are unwilling to pay. Interest in strips for moulding and blanks for components is increasing. There is little concern about competition from non-wood substitutes in Spain. There is more concern about potential competition from Eastern Europe.

Germany

After difficult trading in 1998 and 1999, German delegates were generally optimistic over prospects in 2000. It is believed that the Germany economy will grow, although importers will remain cautious over stock levels for fear of currency risk. Demand for flooring has been strong, and this trend is expected to continue. German mouldings producers using white oak and hard maple are also active.

Mouldings manufactured in Germany are more competitive than US moulding imports. Red alder is still the dominant import, accounting for 50% of all German US hardwood purchases. In the furniture industry, red alder and European beech are the dominant species, and delegates were considering whether consumers will eventually tire of beech. Some speculated that Hickory may be an interesting species for Germany due to its grain. American hard maple is being substituted by European maple in response to rising prices.

France

Trading activity in France is generally good and the building industry is very active due to a tax rebate for housing starts. The measure was designed to reduce unemployment which, while decreasing, still stands at around 11%. Consumption of timber is increasing, but demand for US hardwoods is still not strong. Despite its size, France is still only the sixth largest market in Europe for US hardwoods. Lack of demand is partly due to adverse exchange rates, down 10% on last year. Red oak shipments are falling as Lapeyre has reverted to French oak. The moulding industry continues to absorb white oak. Cherry orders are falling due to declining demand for solid wood furniture and a shift back to French oak. French delegates also expressed concern over recent price hikes for cherry. Other species of interest to the French market are alder, which is substituting for cherry, elm for selected clients, and tulipwood, which competes with European poplar. Ash is out of fashion. While there is interest in US dimension stock, French importers regard the trade as risky because of financing and the short delivery times required. Many French importers prefer to market their own dimension.

Belgium, Netherlands and Luxembourg

Benelux delegates felt that US hardwood exporters do not always focus sufficiently on length, quality and thickness. The furniture sector in Belgium and Netherlands may accept size tolerances, but specifications in the flooring sector are very tight, particularly on thickness. High labour costs are having a significant impact on the hardwood market. Demand for hardwood is being undermined as many manufacturers are moving to lower-cost countries, notably in Eastern Europe. The remaining manufacturers require quality material to maximise yield and thereby reduce costs.

Eastern Europe

Eastern Europe is highly diverse ranging from boreal regions on the Baltic coast, to Mediterranean conditions in the South. Market and supply conditions vary considerably, with some countries having the potential to become significant importers, and others competitors to US hardwoods. Economics and industries are in transition. Already many of the more inefficient companies have been weeded out. The most advanced countries economically are Poland, Slovenia, Slovakia, Hungary and the Czech Republic. Less advanced are Latvia,

Lithuania, Bulgaria and Romania. Romania has a particularly good resource base from which to develop. The Czech Republic, Hungary and Slovenia are less well endowed with forest resources and have the potential to develop as US export markets. As the standard of living increases in Eastern Europe, the market will develop. At present, demand for US hardwoods is mainly in veneer.

Iceland

Iceland is buying US hardwood logs, then sawing and producing flooring from #1 common and #2 common lumber for export to Scandinavia where there is increasing interest in the rustic look.

US hardwood supplies Negative trends

American hardwood lumber production reached record levels in 1998, at 33 million m³. However US producers at the AHEC Convention identified a number of negative trends that will impact on the supply side during 2000.

First, despite strong domestic demand, US hardwood producers are having difficulty off-loading the lower grades. At present the US pallet industry absorbs a significant quantity of this material. Around 35% of US hardwood is used for the production of pallets. However, this market is now threatened by new regulations, introduced following heavy lobbying by the plastic industry, which provide tax credits to manufacturing firms using reusable pallets and containers. If alternative markets for lower grades cannot be found, overall US production will be hit. The economics of wood production are such that, if the lower grade material cut from each log cannot be sold, production of the higher grades must also be curtailed.

Second, the changing ownership profile of the US forest resource is tending to reduce harvesting levels. An increasing proportion of new owners are urban dwellers buying second homes and retirees with no intention of managing forests for timber. The US industry faces a challenge informing new owners of the benefits of forests for timber production.

Third, for environmental reasons President Clinton has made concerted efforts to close down logging on publicly owned National Forest land. This may impact directly on hardwood log supply, as in the case of the Allegheny National Forest where recent closures curtailed US cherry harvests. The closure of public forests also acts indirectly on private forests, tending to increase pressure on private stands and raising overall stumpage prices in a region. This trend limits opportunities to expand hardwood production. However, there are also positive developments on the supply side, including continuing expansion in the overall size of the US hardwood forest resource, and investment by US mills to improve yield and production efficiency. Overall most analysts expect American hardwood lumber production to be maintained at existing levels during 1999 and 2000.

US Hardwood Lumber Exports

(000s cubic Meters)

By country			
Country	Year	Jan-June	Jan-June
Canada	1998	423.1	490.3
Mexico	1998	99.9	111.4
Italy	180.1	100.4	97.7
Spain	160.3	87.7	77.8
Japan	136.7	67.8	76.8
Hong Kong	119.1	54.7	67.7
United Kingdom	127.5	70.3	60.9
Taiwan	115.2	51.4	54.9
Germany	109.0	65.7	53.2
Bel-Lux	80.8	42.6	35.2
South Korea	32.0	9.2	34.3
China	32.5	15.5	30.8
France	44.1	24.0	24.7
Thailand	36.9	16.5	16.7
Netherlands	27.8	15.5	16.4
Portugal	31.8	13.3	15.9
All Others	252.5	126.0	133.0
Total Exports	2,502.1	1,283.5	1,397.7

By species and selected European country			
Species	Country	Jan-June	Jan-June
White oak	World	291.2	300.3
Of which	Spain	73.7	64.4
Of which	UK	33.2	23.6
Red oak	World	284.1	297.7
Of which	Bel-Lux	10.0	6.0
Maple	World	175.4	186.3
Of which	Germany	5.3	7.5
Of which	UK	6.0	6.3
Red Alder	World	112.9	117.4
Of which	Germany	37.1	23.8
Of which	Italy	20.5	18.2
Tulipwood	World	87.0	96.4
Of which	Italy	30.4	31.8
Cherry	World	63.6	84.4
Of which	Italy	9.0	7.3
Of which	UK	4.7	5.8
Ash	World	70.1	83.2
Of which	UK	7.7	12.1

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

	Sept	Oct	Nov
Ex CAR, Congo (Braz) Fr.F/m3 FOB Douala LM			
N'GOLLON			
70cm+20% 60/69	na	1550	1550
BOSSE 60cm+	na	1650	1650
AYOUS 70cm+	na	1100	1150
SAPELE			
80cm+20% 70/79	na	1650	1950
SIPO			
80cm+20% 70/79	na	2050	2450
<i>Note logs of Iroko and Bibolo are no longer available via Douala.</i>			
Ex Gabon Fr.F/m3 FOB Owendo LM			
ACAJOU			
70cm+20% 60/69	1350	1450	1475
DOUKA			
70cm+15% 60/69	1150	1250	1350
SIPO			
70-79cm 10% 60/69	1700	1800	1950
80-99cm	1900	2000	2200

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

Sawn Timber

Ex Ghana DM/m3 FOB Takoradi			
FAS (includes notional agent's commission of 5%)			
6"+ avg 9" C/£	4475	4764	5452
6"+ avg 9" DM/£	3.03	3.05	3.12
A.MAHOGANY AD	740	1050	1050
A.MAHOGANY KD	895	1200	1200
EMERI AD	760	760	760
UTILE KD	1450	1500	1500
ODUM AD	1090	na	na
ODUM KD	1250	1250	1250
SAPELE KD	1070	1070	1100
EDINAM AD	590	590	590
EDINAM KD	770	770	770
WALNUT AD	705	705	705
NIANGON AD	895	895	895
DANTA AD	680	710	710
DANTA KD	945	975	975
WAWA AD	450	500	500
WAWA KD	520	575	575
MAKORE AD	790	925	925
MAKORE KD	960	1090	1090

Ex Douala - Cameroon, CAR, Congo (Brazzaville)			
Fr.F/m3 FOB FAS width 6"+, length 6'+			
SAPELE	2800	2950	3200
SIPO	3900	3900	4200
BIBOLO	2800	2650	2750
N'GOLLON	3200	3200	3200
AFRORMOSIA	3800	4000	5500
IROKO	3375	3375	3500

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

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

	Sept	Oct	Nov
Ex Cote d'Ivoire Fr.F/m3			
Fr.F/£	10.15	10.24	10.45
FOB Abidjan FAS			
6"+ avg 9"-10"			
6'+ avg 10'-11'			
1"-2"			
IROKO	3375	3375	3400
MAHOGANY	2750	2750	2750
FRAMIRE	2000	2000	2000
SAMBA No.1 C&S	1525	1525	1525
AZOBE dim. stock	2200/	2300/	2500/
	2800	2800	2900
OPEPE dim. stock	1950	1950/	2100/
	2550	2550	2600
DABEMA dim. stock		1950/	1950/
		2550	2550

Ex Malaysia	US\$/ton, C&F UK port		
MS/£	6.29	6.24	6.13
US/£	1.66	1.64	1.60
MS/US\$	3.80	3.80	3.80
(Rates given for M\$ are official rates)			
DARK RED MERANTI (KILN DRIED)			
Select & better GMS			
width 6"+ avg 7"-8"			
length 8'+ avg 12'/14'			
1-2" KD	920	920	920
2.5" KD	950	950	950
3" KD	990	990	990

KERUING			
Standard & Better GMS			
1"-3"			
width: random or fixed			
length 16'+	550	550	550
KAPUR			
Standard & Better GMS			
1"-3" plnd			
width 6"+ avg 7"-8"			
length 16'+	555	555	555

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

Ex Brazil US\$/m3 C&F			
FAS US\$/£	1.66	1.64	1.60
6"+ avg 9-10"			
6'+ avg 10-11'			
MAHOGANY (Swietenia)			
1"-2" AD	1175	1175	1225
2.5"-3" AD	1185	1185	1235
1"-2" KD	1245	1245	1295
2.5"-3" KD	1275	1275	1325
VIROLA			
1" KD No.1 C&B			
boards	380	380	380
strips	360	360	360
CEDRO			
1"-1.5" KD	700	700	700
2" KD	720	720	720
2.5"-3" KD	750	750	750

Hardwood Market Highlights

- Meranti prices stable for 6 weeks
- Japan/Korea demand slow
- China over-heating
- African prices firming
-against background of intense rain
- US supply crunch imminent
-and prices firming rapidly

Asian Hardwoods
Prices stabilised

Meranti and Seraya supplies remain tight, although agents report lumber can still be obtained by shopping around. Thicker sizes are relatively plentiful although there are shortages of special dimensions and thinner sizes. Supplies are expected to tighten further over the coming months with the onset of rains, and the looming holiday season of Ramadan and Chinese New Year during January.

Despite these constraints on the supply side, C&F prices for Meranti and Seraya sawnwood have been stable now for 6 to 8 weeks. 2" kiln dried material supplied to UK port still stands at around US\$920/ton. C&F prices have been maintained despite recent increases in container freight rates which will have impacted on shippers margins. This price stability suggests that underlying demand for the species has not picked up as rapidly as shippers originally hoped. With the European holiday season now also looming, firmer demand is unlikely to kick in until after the New Year.

Nevertheless, with Asian economies looking healthier; more positive economic signals in some major European markets; and tight supplies in nearly all tropical timber producing countries, most agents are predicting that prices will rise again next year.

Agents report that Keruing is now relatively plentiful, and that demand is sufficient to maintain prices at around the US\$550/ton mark for kiln dried C&F. Reports in the trade press note that some Asian mills are not particularly willing to cut the thinner sizes of Keruing required in the UK, where the species is widely used in furniture upholstery. Asian mills are aware that they can secure better prices for lower specification material from the US and Thailand.

Turning to the log market, FOB prices for most Asian logs are firming due to slower production. The rains in Sarawak began in mid October and logging has slowed since then. Large logs are in particularly short supply. The weather in PNG is currently improving but overall harvest levels are down and no sizeable increase is expected in the near future. However log prices from the Solomon Islands, which have been higher than PNG prices over recent months, are weakening as their major buyers in the Philippines and China have reduced purchases. Considering the major Asian markets:

Asian Hardwoods *Cont.*

* in Japan, importers are showing little willingness to accept higher Asian log prices due to depressed plywood prices in Japan. Southsea log purchases are reported to have slowed. Consumer spending is at a stand-still. However, there are signs of economic recovery. OECD predict Japan's GDP will grow by 1.4% in 1999, a sharp upward revision from the minus 0.9% projected in May. September housing starts were up 10.5% year on year at 109,012 units. This is fourth straight monthly increase. * in Korea, the hardwood log market continues to be very quiet. There is still no significant demand from the construction sector, even

though October and November are usually active months. Stock levels are high as importers increased purchases earlier in the year in anticipation of the increased demand which failed to materialise. There is downward pressure on hardwood prices.

* in China, overall timber consumption has been steady and the market upbeat since the beginning of the third quarter. A recent survey indicates that China's timber imports continue at around 800,000 m³/month. Imports this year are forecast to exceed 10 million m³. Prices have been moving up due to further investment in construction and infrastructure projects, as well as strong demand in the interior decoration

sector. The latter sector continues to absorb significant quantities of high grade imported beech and teak, both in log and sawn form. US Hard maple is also firmly in demand. Strong demand for European beech has encouraged many European companies to set up offices in Shanghai. Demand for lower quality domestic hardwood logs is weakening as Chinese manufacturers turn increasingly to higher quality hardwood imports. Demand for softwoods in China is also weakening as these are substituted for panel and non-wood products in the construction sector.

While China remains a significant bright spot in world hardwood markets, there is growing concern that the timber import business may be over-heating. There are fears that a "boom and bust" cycle of demand will develop, playing havoc with prices and market development. In recent months there have been calls for the Government to intervene to impose some order in the business. Analysts are predicting it may take two years for the Chinese market to stabilise with annual import volumes unlikely to exceed 7 million m³.

CHINA TIMBER IMPORTS: JANUARY TO AUGUST

	1999	1998	% Change	1999	1998	% Change
	Volume	Volume		Value	Value	
	Mill. m ³	Mill. m ³		Mill. US\$	Mill. US\$	
Logs	6.12	2.99	105.0	791	395	99.9
"Converted timber"	1.64	0.96	70.5	388	202	91.7

Source: Pacific Rim Market Report

African Hardwoods

Supplies hit by heaviest rains for 50 years

The rains in Cameroon this year are extremely heavy, with unconfirmed reports that the downpour has been the worst since 1949. Logging operations and roads have been severely affected. Despite reports at the end of November that the rains had "eased off a bit", mills in the Cameroon are reporting severe shortages and that the situation will not improve in the near future. Prices for sawn Sapele are being pushed up, with agents indicating that FOB prices have reached at least FFr 3000 FOB shipping dry through Douala, and some suggesting that shippers should be holding out for FFr3200.

The price rises reflect conditions on the supply side more than any significant increase in underlying demand. An exception is France, where demand is being driven by strong economic growth and where importers are desperately trying to build up depleted stocks. French importers have been particularly hit by the ban on Cameroon log exports and some are increasing purchases of Sapele lumber to make-up the shortfall. Elsewhere in Europe, importers are still reluctant to commit forward to Sapele at the higher levels. With the end of year vacation period now looming, importers are keeping a particularly sharp eye on stock levels. Furthermore, many importers are still awaiting delayed contracts agreed at lower prices. However, one agent with good central African contacts suggests that many may be disappointed, noting that "50% of all outstanding contracts agreed prior to the summer holidays for wood supplied via Douala will fail to deliver". If so, many importers could be left short. This factor, coupled with the difficulties now being experienced in the Benelux countries to obtain sufficient volumes of Asian shoreas, has meant agents are confident importers will

soon accept higher African prices.

Further details of Cameroon's log export ban were set out in Decree 99/781 of 13 October. The Decree provides two annexes. Log exports of species listed in Annex 1 are prohibited. 23 of Cameroon's most well known species including sipo, sapele, bubinga, afrormosia, and iroko, are included in the Annex. In Annex 2 there are two categories of "promotional species" which can be exported in log form. Category 1 species comprise: Ayous, Azobe, Bilinga, Framire Kossipo, Kotibe, Koto, Limba, Okoume, Tali, Teck and Tiama. Export of Category 1 species will attract a special export tax of CFA 3000 per cubic metre, except for Ayous which attracts a tax of CFA 4000 per cubic metre. All other species are listed under Category 2 and are subject to an export tax of CFA 500 per cubic metre.

These regulations are now being strictly applied with no exceptions. The heavy rains are also affecting transit shipments to Douala of logs from Central African countries which are exempt from the regulations. As a result there are very few logs available for shipment from Douala. This situation has led to a very rapid rise in log prices. FOB Sapele and Sipo log prices quoted this month are 20% up on previous months, at FFr1950 and FFr2450 respectively. Logs of certain species, including Iroko and Bibolo are no longer available.

With Cameroon removed from the African log export equation, importers are looking for alternative sources. Liberia is attracting particular interest, with reports that volumes of logs of primary species may soon be available including Lovoa (African Walnut), Khaya, Bosse, Framire and Iroko. Prices are expected to be in line with Francophone countries.

FOB prices for Iroko from the Ivory Coast have remained fairly stable in the FFr3350 to FFr3400 band for air dried lumber for some time. Demand in the major Irish market remains steady. However supply is becoming more of a problem, with Irish importers having difficulty obtaining the specifications required from the Ivory Coast. Agents are speculating that Irish importers may have to consider a switch to Sapele. If so, they will need to persuade Cameroon millers to saw to their set-length requirements. This may be an uphill struggle, as Cameroon shippers may have no desire to diversify their markets further, particularly as they already have a reliable market for set-lengths in Spain. On the other hand, the Irish may be willing to pay more than Spanish importers for a similar product.

Logging in Ghana is still restricted by heavy rains and supplies are tight. Agents representing Ghanaian shippers are reporting slow buying in the UK, with prices still too high to attract much interest. There are still too many shippers of wawa chasing too few orders. Prices for most Ghanaian species, with the exception of Sapele, remain unchanged from last month. Agents suggest that interest in Ghanaian redwoods - including Edinam, Kossipo, Makore, and Khaya - is unlikely to revive unless further price strengthening for Sapele encourages a search for alternatives. However, the picture is not universally bleak for Ghanaian shippers. South Africa continues to absorb significant volumes, notably of wawa, while demand for khaya in the US is still firm. Ghana's total cumulative exports of wood products for January-September 1999 registered a 6.2% increase in volume and a 4.1% increase in value compared to the same period in 1998.

North American Hardwoods Supply crunch expected

Earlier this year the Federal Reserve was predicting a slow-down in the US economy during the 3rd and 4th quarters of the year. As things have turned out, no slow-down occurred and hardwood demand has remained very buoyant well into the last quarter of the year. Demand in the Far East has also been better than expected. The demand situation has caught many US producers by surprise. The volumes of logs put through the mills this year have been inadequate. According to *Hardwood Review Export*, exporters report that levels of green lumber available for kilning are insufficient to meet expected demand, and kiln dried inventories are very low. The hurricanes that hit the East coast of the United States in Fall 1999 have also taken a large slice out of this year's production. With power lines down and flooded woods in North and South Carolina, producers in the region are being forced to buy wood well outside their usual range, some buying as far afield as New England.

Over the coming weeks, the supply situation is expected to tighten further. Operations are slowing over the Thanksgiving holiday period. This will be followed in early December by Deer Week (hunting pulls more people out of the US lumber industry than any other activity), and then Christmas and the New Year. Another critical factor will be the weather. A hard winter would be a further constraint on supply. Meanwhile domestic demand, notably for Cherry, Hard maple and Red oak remains very firm. All these ingredients add up to a major supply crunch in December and January. Prices are already responding, with many species seeing significant price gains compared with last month. Thicker sizes are in particular short supply as mills have been reluctant to saw sizes that take a long time to dry.

As prices have risen, export markets have firmed as importers anticipate further gains and hope to ride on the back of appreciating stocks. The weakening of the dollar value against both the yen and the euro may be acting as a further boost. China/HK continues to be active in the US hardwood market, while orders of high grade material and special sizes from Japan are said to be improving. Demand from the Japanese furniture sector is reported to be slow however. Demand elsewhere in Asia for lower grade material is beginning to pick up.

Demand in Europe, as usual, is very variable. Buying in Germany remains very slow. The French are buying less US oak and shifting increasingly to European oak. The UK market remains competitive, and importers are nervous about the price rises, but buying is reported to be steady. Demand from the major white oak markets of Spain and Portugal is quite good. The large Italian market is again showing interest in US hardwoods after a lengthy lull.

Looking at individual species:

* cherry prices have reached a high plateau. Demand both in the US and export markets is very firm. *Hardwood Review Export* reports that

cherry prices are anticipated to rise to "all time highs", and that markets are "hectic". Only limited volumes are available.

* in the words of one agent "ash prices are seeing their strongest growth for 10 years". Ash production in the Northern US has been increasing, but remains well short of demand. Export orders for FAS material from the Far East and Europe are improving. Asian countries are buying more of the lower grades.

* tulipwood production, particularly of FAS, continues to lag behind demand. Demand is strengthening in Europe and the Far East. Price rises for 4/4 have been particularly significant.

* export and domestic demand for FAS hard maple is very firm and prices are rising rapidly.

* red oak prices are rising due to continuing firm domestic demand and limited supplies, particularly of the thicker sizes. Overseas demand is fair, but there are signs of firming.

* white oak markets are quieter as many European importers are overstocked. However, competitive pricing has led to growing interest in Spain and Portugal. There is also fair demand for dimension stock. US inventories are not high. Some agents anticipate rising prices.

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

	Sept	Oct	Nov
\$/£	1.66	1.64	1.60
RED OAK			
1"	1760	1760	2000
1.25"	1930	1930	2150
1.5"	2350	2250	2550
2"	2650	2650	2800
WHITE OAK			
1"	1625	1580	1580
1.25"	1780	1750	1750
1.5"	2300	2200	2200
2"	2850	2600	2600
ASH			
1"	1250	1250	1360
2"	1675	1675	1850
TULIPWOOD			
1"	1125	1125	1250
1.25"	1140	1140	1200
1.5"	1200	1200	1240
2"	1215	1215	1300
CHERRY			
1"	3450	3400	3450
1.25"	3550	3500	3500
1.5"	3700	3600	3700
2"	3900	3800	3900
HARD MAPLE			
1"	2500	2500	2750
1.25"	2550	2550	2950
1.5"	2750	2750	3050
2"	2850	2850	3150

South American Hardwoods Mahogany prices rise again

The Brazilian mahogany logging season has now finished in Brazil and supplies are very scarce. This, coupled with continuing buoyant demand in the US, has put upward pressure on prices. The Brazilian mahogany trade has become marginal in the UK due to limited supplies, uncompetitive pricing and environmental pressures. This situation is expected to continue, with even fewer licenses for mahogany extraction likely to be issued in the future.

Demand for cedar in the UK is reasonable. Prices remain stable. Agents are hoping that anticipated price rises for Asian meranti early next year will improve the species competitive position and stimulate demand next year.

Reports in the UK trade press refer to the devastating effects of recession in Brazil on the timber industry, with many small to medium size sawmills closed and left derelict. However, there are more promising reports emerging from other sources. ITTO's Market News Service reports that Brazilian hardwood exporters have been able to trade all the volume they can produce. Brazilian exporters are reaping the benefits of tight supplies and rising prices elsewhere in the tropics. The Asian market for Brazilian hardwood continues to improve and exports to that region are increasing. Thailand and Korea are taking increasing volumes every month. The Market News Service comments that "*Exports to these countries could be increased significantly if the volumes were available.*"

Brazilian exporters will also have benefited

from a weakening of the value of the real in early November, to around 2.0 to the US dollar, the lowest level since March. The fall was due to increased local demand for dollars to cover Brazilian government payments in November. There is no sign that it represents a further devaluation of Brazilian currency, as the economy is recovering and Brazil has achieved economic targets agreed with the IMF.

Brazilian domestic markets are said to be "firm", but demand usually slows in mid November as the end of year holiday season approaches. The longer term prospects for Brazilian domestic demand received a boost with the government's announcement of a new programme to finance construction. Some 800 million reals in loans will be made available over the next months. Although currently a limited programme, funding is expected to be increased next year.

After feeling the cold from the Asian crises last year, the Guyana forest sector is showing signs of recovery. Production between January and June reached 231,537 cubic metres, 3% higher than last year, according to the country's Statistics Bureau. The government expects full recovery next year, if the markets remain stable, with production reaching 1997 levels of 560,000 m³. This will be helped by investments by local and foreign companies, which appear confident that the industry's expansion will resume. The government believes the sector can eventually earn US\$100m a year. It yielded US\$32m last year.

Plywood Slow recovery

Far Eastern shippers are seeking to reverse the recent collapse in tropical hardwood ply prices. The increasing strength of the rupiah following the relatively peaceful outcome of Indonesia's elections meant that sales at previous low price levels were no longer viable. While agents suggest that Indonesian supplies are still relatively easy to come by, the rains have started in parts of the Far East. As these become more widespread, and with Ramadan and Chinese New Year looming in January, supplies are expected to tighten. Agents report that Indonesian shippers are now looking at prices of INDO96 less 18 to 20.

Despite widespread recognition that the plywood market is moving upwards, UK importers have adopted a "wait and see" attitude. Most continue to resist the higher prices. Recent price volatility and uncertainty in the principal supply countries have made UK importers nervous of the forward market. However, with importers holding off purchases, some agents suspect that gaps may soon start to appear in UK stocks. Continental European importers are showing greater willingness to pay, but these buyers generally take lower volumes than the UK.

Brazilian exporters are also trying to raise prices from their current depths. Some shippers are curtailing production rather than trying to match the Indonesians on price. While the recent weakness of the real has been a positive factor for Brazilian exporters, much of the benefit in the plywood sector has been eaten away by increased production costs. Glue prices in Brazil recently rose by 26%. Transatlantic container rates have also increased with the introduction of BAF Surcharges on all bills of lading after 15 November. The surcharges were imposed in response to recent oil price rises.

Many Malaysian producers have also curtailed production, being unwilling to enter the market at current price levels.

Looking at Asian markets, imported tropical hardwood ply prices in Japan seem to have reached bottom, but there is insufficient demand to ensure a sustained price increase. Prices are likely to bounce around at the low end of the range for some time. Weakness in Japanese demand stems from over-zealous purchasing in the first half of 1999. An inventory correction is currently in progress which should be complete by the end of the year. In Korea, plywood imports were high in September, at over 68,000 m³, and volumes are expected to have increased since then. Imports have been stimulated by the continuing weakness of Indonesian prices for thin plywood. Korean domestic producers sales are seriously threatened by the imported product.

Brazil is introducing a programme for the quality certification of plywood. The programme will cover pine plywood during the first stage, but hardwood ply should be included next year.

European Hardwoods France booms as Germany stagnates

Western Europe's two major hardwood producing countries, France and Germany, present a contrast. France is characterised by a strong economy, with double digit growth recorded in both the construction and furniture sectors. Recent government moves to stimulate employment in the construction sector by reducing value added tax for renovations from 20.6% to 5.5% has had a particularly beneficial effect. As a result, French sawmilling capacity is fully utilised and mills are reporting rising sales of both beech and oak. Booming French domestic demand is backed by firm export demand from China for European beech, although the Chinese are beginning to balk at the high prices and are increasingly demanding only the best grades. There is also favourable demand for French oak, both for stave production and milling grades. French stave production is reported to be absorbing around 400,000m³ of logs each year. This, coupled with the rising prices for European beech and North American species, has led to a sustained increase in prices for French oak. There are reports that the French furniture industry is replacing North American oak for European oak.

The picture is very different in Germany, where sawmills continue to struggle against a background of weak domestic demand for their products. The impact is being particularly felt in the country's furniture sector, where sales of European beech are now very slow. Demand amongst German stair manufacturers is reported to be better, but there is great deal of caution over pricing. At the same time German sawmills are being squeezed by rising prices for quality beech logs, generated by firm demand from China and France, which they are unable to pass on to their customers. German sawmills are becoming increasingly concerned about the availability of beech logs to meet the existing capacity of domestic mills. Poor prospects at home are encouraging German sawmills to look hard at export markets, with many keeping a particular eye on growing Asian interest in European hardwoods. There is talk of the potential for major structural

changes, as many of the smaller sawmills serving domestic markets may be forced to close, and production concentrated in larger technically more advanced mills. Through economies of scale and more efficient processing larger German mills would be better placed to compete at home and abroad.

The development of larger mills in Germany is being subsidised by the state authorities. This is a bone of contention for smaller German sawmillers and also the French milling industry. The Association of French Timber Industry recently filed a suite in Brussels against state subsidies to German mills on grounds of unfair competition.

Generally Eastern European hardwood production, although based on high quality wood, is less well presented than the German and French product. Wood may be cut reasonable well, but drying facilities are not readily available. However, Romania, Bosnia and Serbia are now selling quality beech, both logs and sawn timber, to China. These countries are able to supply edged, kiln dried, steamed 50 mm material at prices of around US\$800 to 850/m³ CIF. The same qualities from France and Germany are priced at around US\$950 to US\$1000. One US company has invested in the construction of what it describes as "the largest hardwood sawmill in Europe" in Romania, which is now supplying 90 to 100 container loads of beech to China every month.

Agents report that demand for European beech and oak is firm in the UK. There is an increasing shift away from traditional UK unsteamed beech, to continental supplies of the steamed product. Much European hardwood continues to be supplied to the UK from France and Germany. However small and increasing volumes are also being imported by lorry from Russia via the Baltic States where they are kilned for the UK and Scandinavian markets. The Russian trade through the Baltics is described by UK agents as "risky", as a significant proportion of contracts may not arrive, but pricing is competitive and there is growing interest amongst the UK trade.

Study highlights Malaysian furniture potential

A new survey highlights the potential of the Malaysian furniture sector. The study by the Malaysian Timber Council, entitled "The Furniture Industry in Malaysia", covers various aspects of the industry including investment potential, labour requirements, technology status, product development and raw material utilisation. The study refers to the rapid growth in Malaysia's furniture sector, averaging more than 40% annually. In ringgit value terms, total wooden and rattan furniture exports increased by 27% between 1998 and 1997, rising from RM.2.2 million to RM3.3 billion. Although Malaysia's main furniture markets are still the US and Japan,

markets have been successfully diversified and now include 140 countries world-wide. The European Union has become a major buyer of Malaysian furniture, accounting overall for 12% of wooden furniture exports in 1998. The UK is the largest EU buyer, importing RM214 million or 55% of all EU imports in 1998.

The study recommends that Malaysian manufacturers focus more on the high-value end of the market through innovative designs and improved quality. The report also advises that Malaysain firms should foster strategic alliances with foreign buyers, furniture design firms or design houses in the target markets.

Papua New Guinea New PM resolves World Bank dispute

The newly established PNG government, under Prime Minister Sir Mekere Morauta, have resolved a dispute with the World Bank over the recent direction of forest policy in the country. Resolution of the dispute, which centred around decisions taken by the last government of Prime Minister Bill Skate, has paved the way towards further World Bank support for sustainable forestry in the country.

Earlier this year, the World Bank wrote to then Deputy Prime Minister and Minister for Treasury and Planning, Iairo Lasaro, indicating that recent developments within the forestry sector had serious implications for the bank's program of support in PNG. The World Bank objected to PNG government decisions to:

- * allow a substantial extension of the largest timber concession in PNG through a process outside normal procedure;
- * require provincial forest management committees to provide "fast-track" approval a number of new logging operations;
- * amend the Forestry Act to legitimise the fast-track approach to logging operation approval;
- * withdraw an SGS log monitoring program;
- * reduce the budget allocation and staffing in the Forest Authority, undermining the authority's ability to support forest projects;
- * change the log export tax structure, reducing the taxes paid by logging firms; and
- * reallocate a forest concession of the Nature Conservancy used to demonstrate good concession practice and sustainable forest management, in favour of a commercial operator.

The World Bank proposed that there should be

a moratorium imposed on logging project applications and a comprehensive review carried out on all existing logging applications.

According to local newspaper reports, "the World Bank did not receive satisfactory responses from the previous government...[but] discussions with the new forestry minister have been constructive." PM Sir Mekere Morauta has already reversed some of the policy decisions. For example, SGS log monitoring contract was renewed in March this year, and log export taxes were re-instated in early August. The Forest Minister has also proposed bringing together all forest sector interests to discuss the future direction of forest policy.

These moves have paved the way for the World Bank to commit funding, jointly with the Global Environmental Facility, to PNG's Forestry and Conservation Project. The project aims to promote sustainable harvesting in PNG, and will involve, for the first time, the development of a country-wide strategy to promote conservation and small-scale sustainable enterprises. An endowment fund to finance alternatives to intensive forest utilisation will be established. A major focus of the project is to improve traditional landowners participation in forestry decisions, and awareness of forest management and conservation issues.

The project forms part of an economic reform package proposed by the government of Prime Minister Sir Mekere Morauta. Reflecting apparent confidence in the reform package, the World Bank and IMF committed over \$US500 million in assistance to PNG in November.

World Trade Organisation Free trade "no threat to environment"

A new study suggests the environmental impact of proposed global wood products tariff liberalisation would be small. The report contradicts environmental groups claiming that proposals to eliminate wood tariffs due to be considered by the World Trade Organisation would increase global timber harvests and environmental degradation. Environmentalists are expected to out in force at the Seattle meeting of WTO at the end of November campaigning against the elimination of wood tariffs.

The report, produced by Office of the United States Trade Representative and the Council on Environmental Quality, concluded that the tariff liberalization would have only a limited impact on forests worldwide, and no environmental impact in the United States.

The tariff cuts are part of an accelerated tariff liberalization initiative submitted to the World Trade Organization (WTO) by Asia-Pacific Economic Cooperation (APEC) countries, which includes the United States. The tariff liberalization would cut tariffs in eight sectors including forest products.

The report suggests that by 2010 the accelerated tariff liberalization initiative would, if implemented, increase total world trade in for-

est products by a maximum of 2%, timber harvest by 0.5%, and total world production and consumption of forest products by less than 1%. The initiative would tend to alter the composition of world trade by encouraging trade in value-added products and reducing trade in raw materials and semi-processed products.

While maintaining US commitment to trade liberalisation, President Clinton, has sought to reassure environmentalists in the run up to the Seattle meeting. He issued an executive order in November requiring the assessment and review of the potential environmental impact of major trade agreements. The Office of the U.S. Trade Representative (USTR) will conduct the environmental reviews. Clinton also issued a declaration of principles on trade and the environment to be used as a guide for U.S. negotiators in Seattle.

The Seattle meeting of trade ministers from 135 WTO-member governments will set the agenda for trade round negotiations over the next few years in eight sectors: chemicals, forest products, medical equipment and scientific instruments, environmental goods, energy, fish, gems and jewelry, and toys.

Amazon Rainforest New sources of funding

Back in 1991, there were high hopes for the long term future of the Amazonian rainforest following the launch of the Pilot Programme for the Protection of Tropical Forests" (PPG7) as a partnership among the seven richest countries of the world (G-7), the World Bank, and the Brazilian government. There have been some successes, but the programme has been hindered by administrative problems and bureaucratic delays. Discussions are now underway with a view to restructuring the program. New sources of funding may also be made available under PPG7 through schemes linking debt pardons with increased investment in Amazonian conservation projects.

Of the total 338m dollars allocated under the PPG7 programme so far, about 280m dollars have already been contracted. Of these, 85m dollars have already been used in hundreds of initiatives promoting sustainable Amazonian development. Among the most successful projects have been 130 demonstration projects - small experiments in sustainable development - in the Amazon and the demarcation of 22m ha in Indian areas. A further 22m ha are currently being demarcated.

Discussions are now underway with a view to streamlining financing under the programme. Due to the bureaucratic demands of the World Bank and donating country governments, the realization of some projects has been delayed by up to two years. To make the PPG7 more agile, the Brazilian government is proposing that the Secretariat of the Coordinating Office of the Amazon become a kind of "manager" of the programme. They are also proposing that funds should be used with greater "flexibility" in emergency situations, such as forest fires, and in other activities currently not covered by PPG7, including environmental education and the fight against deforestation.

For their part, the donating countries want Brazil to improve coordination of the hundreds of projects and the various financing mechanisms of the PPG7.

New sources of funding are also being discussed. The United States has said it would be willing to pardon US\$650m of Brazil's foreign debt if the money is invested in the protection of the Amazon. This type of debt reduction became possible after the approval of a law last year in the US Congress and which is already in effect for some Latin American countries. The idea is favoured by the Brazil's Ministry for the Environment, but still has not been evaluated by the government's economic team. The US would require that the money is invested in projects of that focus on "research and training of technical experts in the environment."

Cambodia

Lingering threat of illegal logging

According to a report in the South China Morning Post, scepticism is growing over Cambodia's progress to curb illegal logging. Local diplomats and the environmental organisation, Global Witness, suggest that an anticipated surge in hardwood demand from neighbouring Vietnam; a largely unaccountable army; and provincial officials with timber interests, may damage the country's efforts to halt illegal logging.

As part of an effort to convince the IMF to resume a US\$120 million loan package suspended in 1997, the Cambodian authorities have cracked down on illegal logging in the country. At a meeting with international donors in October the government claimed it had closed or destroyed 800 illegal sawmills since January. It had also cancelled 12 concession contracts and collection permits for nearly 680,000 m³ of timber. The government asserted that only 245,000 cubic metres of timber had been harvested so far this year and that revenue collection climbed from \$4.5 million in the first nine months of last year to nearly \$8 million by the end of September this year. In response to these assurances, the IMF resumed its loan programme in October with a commitment of \$81.6 million over three years.

However, the response of western diplomats to

the crackdown has been mixed. One notes that "There has been progress...the government has increased royalties from \$14 to \$54/m³, [but] we have been lied to far too many times...we want to see some sustained results."

Global Witness acknowledge that the Cambodian government "has really put some muscle behind the crackdown". However, they also suggest it was "most effective in January and February and there has been a steady increase in illegal activities since then. The forthcoming dry season may see an escalation in illegal logging, especially in border regions." Local industry sources report that wood demand in neighbouring Vietnam is expected to rise substantially over the next 5 years, which could make regulation of Cambodian forestry even more difficult. Vietnam may need to import 800,000 m³ next year, a figure projected to reach two million cubic metres by 2005. Import forecasts are being increased following the recent failure of an extensive agroforestry programme in Vietnam.

An independent forestry monitoring group is being established in effort to improve forest regulation in Cambodia. However, with corruption still a problem, and the continuing involvement of the army and provincial leaders in logging, the situation could yet deteriorate.

PEFC Progress

Finland and Sweden are hoping to be the first countries to have their privately owned forests certified as sustainable under PEFC, the Pan European Forest Certification Initiative, launched earlier this year. The two countries were the first to put forward national schemes for endorsement by PEFC at its general assembly in Prague in November. PEFC also welcomed new member bodies from Denmark, Latvia, and Slovakia, increasing the number of participating countries to 15. Much of the discussion at the assembly centred around chain of custody monitoring under PEFC.

The next PEFC summit will be held in Luxembourg in February 2000. An unresolved issue is the appointment of environmental, retailer and labour union representatives to the PEFC Board. These groups remain firm supporters of the rival FSC

Countries participating in PEFC develop their own national certification systems, while adhering to the Pan-European sustainability criteria. The organization plans to establish a permanent secretariat in Luxembourg.

Meanwhile FSC has approved the UK Woodland Assurance Scheme, launched in June, as an equivalent standard. This enables products certified using the UKWAS standard to bear the FSC logo if audited by an FSC-accredited certifier. However, UK private forest owners are keeping their options open by working on the formation of another national certification body to operate within the framework of the PEFC.

Korea-Gabon trade link

SK Corp., the general trading arm of the Korean SK business group, has signed an agreement with SNBG, the state-run lumber company of Gabon, for the distribution in Northeast Asian markets of wood produced in the African country. Under the agreement, SK Corp. plans to supply 300,000 m² of okoume lumber, worth about \$60 million, in Korea, China, Japan, and Taiwan each year.

Sarawak reviews regulations

Sarawak's forestry regulations are under review. The Sarawak Timber Industry Development Corporation (Amendment) Bill would affect the control of the manufacture, sale, distribution, and marketing of timber in the State. The bill would transfer a range of regulatory powers over the timber sector from Development corporations to the State Cabinet, and prescribe new penalties for contravention of the regulations. The legislation also seeks to confer authority on police to assist in the seizure, detention, and disposal of illegally harvested timber or timber products. The bill is scheduled for debate December 12 1999 and, if approved, would come into force on January 1, 2000.

Timbmet FSC commitment

Timbmet Ltd., Britain's largest hardwood merchant, has signed up to the WWF '95 Plus group. The company has set a target of sourcing 50% of its timber from forests independently certified to Forest Stewardship Council (FSC) standards by 2005.

Indonesian Notes

Federalism or disintegration?

New Indonesian President Abdurrahman Wahid is facing increasing pressure to extend federalism throughout Indonesia, or risk the break-up of the whole of the archipelago. The referendum that led to East Timor's independence has set a precedent. Aceh, a province boasting large forest resources on the northern tip of Sumatra, is now pushing for independence more forcefully than ever before. In November, nearly one million people, a quarter of Aceh's 4.2 million population, crammed into the state capital Bandar Aceh to show their support for independence. At the other end of Indonesia, the people of Irian Jaya have held mass demonstrations supporting greater autonomy. Irian Jaya shares a border with Papua New Guinea and holds over 30 million has of forest land.

In addition to forest resources, staunchly Muslim Aceh has significant gas reserves and also boasts oil, gold, silver and rubber. Irian Jaya is also rich in resources, housing the vast Freeport gold and copper mine which boasts some of the richest deposits in the world. Legislation on revenue-sharing agreed to earlier this year proposes that 15% of oil revenue would go to the regional governments and 85% to Jakarta. Provinces would also get 30% of their gas revenue. However, in an effort to appease the independence movement, Mr. Wahid suggested Aceh could retain 75% of the total wealth generated in the province. Local commentators suggest that full Federalism is probably the only way left for Indonesia to retain its state intact. Without it, they are predicting more rioting, and potential bloodshed.

New forest area data

Recent satellite data (April 1999) indicates that, of Indonesia's officially designated forest land of 121 million hectares, 92.4 million hectares is still covered by natural forest and 28.7 million hectares is non productive land, abandoned forest areas, or secondary forest. Natural forests account for 48% of Indonesia's total land area of 192 million hectares.

Plywood production down

The Indonesian authorities expect total plywood production to reach around 7.6 million m³ during 1999 against an original projection of 10 million m³. Of this volume, it is projected that around 2.8 million m³ is for the Japanese market. Japan imported around 1.55 million m³ of Indonesian plywood during the first half of 1999. *Source: ITTO Market News Service*

Large scale illegal logging

Indonesia's state-owned forestry company PT Inhutani III has reported that 52% of logs used by timber processors in the country were supplied illegally - ie. not from state owned forest companies or privately held concessions. *Source: Pacific Rim Market Report*

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cluded that ITTO should:

- * focus more on the provision of accurate market forecasts, including analysis of macro-economic conditions
- * look at new market frameworks to reduce price volatility and improve price transparency (e.g. futures exchanges, internet trading)
- * concentrate more on reducing environmental barriers to trade in the developed world (which undermine Asian producers ability to diversify markets) through promotion of Objective 2000, and proactive work on timber certification.
- * report on the status of tropical wood versus non-tropical and non-timber competitors.
- * examine the contention that producers committing resources to sustainable forest management may be undercut in the market place by producers managing unsustainably
- * study ways of improving the efficiency of the tropical wood sector, notably through expansion of trade in value-added products, market diversification, improved marketing and training.

Government moves ineffective

Two aspects of the report are particularly worth highlighting. First, the report implies that many of the emergency moves by timber exporting governments to mitigate the impact of the crises were at best ineffective, and at worst potentially damaging. These measures included lowering of export duties on wood products and permitting the export of logs in an effort to improve the dire financial circumstances of exporting companies. These moves may have actually contributed to price weakness. They were also unwelcome to importers, who saw a further devaluation of their existing stocks. Much of the income from export duties was earmarked for exporting nations sustainable forestry programmes. This income was foregone for little positive gain.

Second, the report highlighted the value of different corporate strategies when faced with volatile market conditions. It demonstrated that problems were greatest for tropical wood primary products - logs sawnwood, plywood and veneer - while added value products were less affected. Furthermore, multi-product Asian timber groups, with diversified markets and strong long term linkages between buyer and seller, were better placed to ride the storm.

While not disagreeing with the general thrust of these arguments, the Malaysian ITTO delegation noted that there are risks associated with value added production in the tropics, as well as benefits. Value added production requires exporters to invest heavily in expensive capital equipment and technology, taking on extra debt, to service markets which are already highly competitive. As a less costly alternative, the Malaysians proposed that tropical timber producers may reduce risks to their business by diversification in the process of marketing the same product. They suggested that tropical producers review their traditional channel of market access by way of FOB and CNF contracts and

look at ways of bypassing trade intermediaries to supply end-users direct.

Another central topic of discussion at the ITTO meeting was appointment of a new Executive Director to replace Dr Freezaillah of Malaysia, who is retiring. The appointment went to Dr Sobial of Brazil, formerly ITTO's Assistant Director Forest Industry. The appointment clears the way for ITTO to focus again on strategic priorities in the context of other international forestry developments. For example, the United Nations Intergovernmental Forest Forum con-

cludes its sessions in February next year, and there is the possibility of a Seattle Round of trade liberalisation talks. ITTO needs urgently to consider the future of Objective 2000 now the deadline is imminent. Furthermore, the present agreement under which ITTO operates expires in 2001.

The Editor wishes to thank Michael James, trade representative to the UK delegation, and the Timber Trade Federation for providing Tropical Timbers with copies of reports from the ITTO meeting.

Price volatility**Mixed reaction to futures proposals****Malaysian delegates at the ITTO meeting proposed the establishment of a Tropical Hardwood Plywood Exchange to overcome problems of price volatility in the sector. While supported by Malaysian exporters, other commentators are sceptical.**

In arguing for an exchange, Malaysian officials pointed to the "tumultuous" hardwood ply trading conditions in 1997 and 1998. The Asian crises led to a huge slow down in plywood demand. Instead of seeking to impose a commensurate cut-back in supply, producers scrambled to gain market share by cutting prices to the bone. The price cuts were led by Indonesian producers, that together in 1997 produced around 9.61 million m³ of tropical plywood, accounting for 60% of world production. In 1997, Malaysia produced around 3.99 million m³, accounting for about 25% of world production.

The Malaysian's argue that the removal of APKINDO's market control role at the height of the Asian crises left the tropical hardwood ply trade without a structured system of price benchmarking. APKINDO, the Indonesian Plywood Manufacturers Association, enforced a monopoly over the Indonesian export trade and established price levels for the Indonesian product. APKINDO's detractors, which included international financial institutions like IMF, argued for removal of APKINDO's monopoly on the grounds that the controls were not cost effective; slow to respond to changing market needs; put Indonesian producers at an advantage; and were abused to enrich a limited range of corrupt businessmen.

While there may have good reasons for the removal of the APKINDO monopoly, the effects have not been universally beneficial. Price volatility has increased, while information on the trade has become less reliable. Decisions are now based on a variety of less timely information sources and rumour. As a result, argue the Malaysians, there is now a need for an alternative and more transparent risk and price management mechanism. A futures exchange could fulfil this role.

The Malaysian's proposal is to introduce a trade in "futures contracts" - an agreement to buy or sell a specified amount of plywood at an agreed price on or before a given date in the future - to operate in parallel with the physical or cash market. The futures market may reduce risks inherent to the plywood trade by protecting buyers and sellers against future price changes. It would establish a visible and transparent price formation process. The Malaysians also believe such a system could increase market liquidity through involvement of non-trade speculators.

While the technical arguments appear logical, plywood traders contacted by *Tropical Timbers* have been very sceptical of the potential for a futures exchange. They note that past experience is far from promising, pointing particularly to the failure of an exchange established in the United States ten years ago for the softwood ply industry. The exchange failed because the softwood ply industry, which is significantly larger than the tropical industry, was too small to be of interest to investors. Furthermore, a futures exchange for the tropical industry would only function with the full support of Indonesian producers, which is unlikely to be forthcoming.

Underlying this scepticism is a realisation that "quick fix" solutions to price volatility in the form of novel market mechanisms are no alternative to more fundamental change; both in macro-economic management and in the way the tropical plywood industry is regulated. The problems of the industry derive from a complex mix of political instability, corruption, poor management of national economies, and ineffective forest regulation in parts of South East Asia. In Indonesia particularly, these factors have combined to encourage over-capacity in the plywood sector; rampant illegal logging; and a tendency amongst mill owners to look to the short-term.

Price stability will only return to the tropical plywood industry when, and if, Indonesia succeeds in establishing a stable political and economic base, and when the nation's authorities implement effective measures to stamp out illegal logging.

ITTO Meeting Market issues on the agenda

In line with the International Tropical Timber Organisation's desire to increase its relevance to the hardwood trade, market related issues were firmly on the agenda at the annual meeting in Yokohama 1-6 November.

Reports from the meeting suggest there is growing recognition at government level that a flourishing international tropical timber market is essential to ITTO's main objective of sustainable tropical forest management. Moves were set in train to give the informal trade group, which meets at every ITTO gathering, more formal input to the wider Council discussions. There was also discussion of a final report on the implications of the Asian crises for the tropical timber industry.

Informal trade group

The Informal Trade Group, comprising trade members of delegations from both producer and consumer countries, proposed that a period of time should be set aside formally at each ITTO session for the trade to report on important developments in the market place since the previous meeting. This idea was approved by ITTO and included in the main meeting report. The trade group agreed a theme for the Market discussions to be held in Peru in May 2000 under the title "What does it take to be both responsible and successful in the International Tropical Timber Market?". Particular topics for discussion are expected to include:

- * how can the trade respond positively to environmental criticism and forest certification?
- * potential for trade in value-added products
- * improving the efficiency of the tropical timber trade through, for example, improved marketing, diversification, and use of technology
- * the impact of export restrictions and the advantages of a transparent and well informed international market place.

Market downturn report

A final report on the "Downturn in the Tropical Timber Market from 1997-1998" was presented to the ITTO meeting by co-authors Geoffrey Pleydell and Ivan Tomaselli. Delegates broadly endorsed the wide range of recommendations designed to mitigate the effects of any future international economic crisis. Amongst numerous other recommendations, the report con-

SHARE PRICES FOR SOME U.K. COMPANIES

	52 Week High	52 Week Low	27 July	31 Aug	1 Oct	1 Nov	2 Dec
J. Latham	247.5	141.5	178.5	186.5	181.5	218.5	247.5
Meyer International	484.0	300.0	418.5	450.0	406.0	352.5	362.0
Travis Perkins	786.0	353.5	755.0	758.5	649.0	541.0	670.5
Barratt Devs.	391.0	195.0	343.5	324.0	268.5	252.0	272.5
John Laing	350.0	231.5	335.0	339.0	329.5	301.5	294.5
Alfred McAlpine	267.0	128.5	221.0	253.5	233.5	205.5	232.5
J. Mowlem	154.0	94.5	136.0	140.5	120.0	115.0	115.0
George Wimpey	179.5	94.0	153.0	152.0	126.5	122.5	116.5
Cornwell Parker	117.5	52.5	96.5	92.5	78.5	73.5	59.5

EXCHANGE RATES FOR ONE POUND STERLING & ONE US DOLLAR

		30 Aug £STG	30 Sept £STG	29 Oct £STG	29 Oct US\$	2 Dec £STG	2 Dec US\$
Argentina	Peso			1.6401	0.9995	1.5988	0.9998
Australia	Aus.\$		2.5257	2.5750	1.5692	2.5278	1.5808
Bangladesh	Taka	2.5144	81.9498	81.2246	49.5000	81.5542	51.0000
Belgium	Belgian Fr.	61.2947	62.4244	62.9787	38.3806	64.2858	40.2012
Belize	B\$	3.1749	3.3111	3.2490	1.9800	3.2259	2.0000
Bolivia	Boliviano	9.3184	9.7678	9.7306	5.9300	9.4827	5.9300
Botswana	Pula	7.3324	7.5407	7.5688	4.6125	7.4118	4.6349
Brazil	Real	3.1091	3.2275	3.2031	1.9520	3.0239	1.8910
Fr. Africa*	CFA Fr.	996.70	1015.07	1024.09	624.100	1045.34	653.700
Canada	Canadian \$			2.4136	1.4709	2.3646	1.4787
Chile	Peso	820.553	880.504	900.608	548.850	872.229	545.450
China	Yuan	13.1395	13.7043	13.5831	8.2778	13.2387	8.2788
Czech Republic	Koruna			57.1772	34.8450	57.4845	35.9480
Denmark	Danish Krone	11.2954	11.5008	11.6044	7.0720	11.8564	7.4144
Estonia	Kroon			24.4194	14.8817	24.9358	15.5936
Europe	Euro	1.5195	1.5475	1.5612	0.9514	1.5936	1.0035
Finland	Markka			9.2825	5.6570	9.4752	5.9253
France	Franc	9.9670	10.1507	10.2409	6.2410	10.4534	6.5370
Germany	D-mark	2.9718	3.02660	3.035	1.8609	3.1169	1.9491
Ghana	Cedi	4183.73	4474.96	4763.55	2903.00	5452.16	3409.50
Guyana	Guyanese \$	274.629	286.410	292.901	178.500	289.202	179.300
Hong Kong	HK\$	12.3264	12.8604	12.7490	7.7695	12.4274	7.7715
India	Rupee	69.0422	72.1613	71.1987	43.3900	69.4049	43.4025
Indonesia	Rupiah	12302.75	13203.02	11199.2	6825.00	11657.44	7290.00
Irish Republic	Punt	1.1967	1.2188	1.2296	0.7493	1.2551	0.7849
Italy	Lira	2942.07	2996.30	3022.91	1842.22	3085.64	1929.61
Japan	Yen	176.413	173.9735	171.244	104.360	164.132	102.640
Kenya	K. Shilling	119.38	126.65	123.232	75.100	119.173	74.525
Korea South	Won	1879.86	2012.32	1968.26	1199.50	1838.16	1149.50
Liberia	Liberian \$			1.6409	1	1.5991	1
Malaysia	Ringgit	6.0323	6.2911	6.2354	3.800	6.0766	3.800
Myanmar	Kyat	9.9243	10.3500	10.2584	624.100	10.0837	6.2517
Netherlands	Guilder	3.3485	3.4102	3.4405	2.0967	3.5119	2.1962
New Zealand	NZ\$			3.2417	1.9755	3.1435	1.9658
Nigeria	Naira	156.682	157.774	156.444	95.3400	155.438	97.2000
Papua NG	Kina			4.4172	2.6919	4.4421	2.7779
Philippines	Peso	63.1012	67.712	65.8822	40.1500	65.3233	40.8500
Poland	Zloty			6.9246	4.2200	6.7874	4.2445
Portugal	Escudo	304.62	310.238	312.993	190.745	319.489	199.793
Romania	Leu			27698.4	16880.0	28583.9	17875.0
Russia	Rouble			42.8357	26.1050	42.728	26.72
Singapore	Singapore \$	2.6792	2.8034	2.7302	1.6638	2.6980	1.6872
South Africa	Rand	9.6668	9.9557	10.0834	6.1450	9.8449	6.1565
Spain	Peseta	252.816	257.475	259.762	158.305	265.1531	165.814
Sweden	Krona			13.5181	8.2382	13.7315	8.5870
Taiwan	\$	50.5563	52.6258	52.0822	31.7400	50.5956	31.6400
Tanzania	Shilling	1261.23	1317.57	1304.52	795.000	1272.89	796.000
Thailand	Baht	60.8391	67.2567	63.3388	38.6000	62.2930	38.955
Uganda	New Shilling	2329.59	2508.16	2473.66	1507.50	2397.05	1499.0
U.S.A	US \$	1.5875	1.6556	1.6409	1	1.5991	1
Venezuala	Bolivar	983.584	1038.866	1035.91	631.305	1023.62	640.125
Vietnam	Dong	22163.98	23168.594	22988.2	14009.5	22413.0	14016.0
Zimbabwe	\$	60.7201	63.2421	62.7645	38.2500	60.7578	37.9950

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

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