

Tropical Timber Market Report

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Editorial

ITTO resumes the publication of the *Tropical Timber Market Report* after a 45-day break. Dr Michael Adams left ITTO in June 2005 after more than nine years as MIS Coordinator, during which time the *Report* grew appreciably in stature and popularity; it is now read on a regular basis by over 5,000 people and is highly valued in the tropical timber trade and by timber-market analysts worldwide. We thank Mike for his many years of service and wish him well in his new endeavours.

This *Report* has been edited by Dr Jairo Castaño. Starting with this edition he will be introducing some changes, which we hope readers will enjoy. We look forward to receiving your feedback as we strive to continually improve our service.

Dr. Manoel Sobral Filho
Executive Director
ITTO

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International Log Prices

Sarawak Log Prices

FOB	US\$ per Cu.m
Meranti SQ up	205-210↑
Small	175-180↑
Super small	145-150↑
Keruing SQ up	175-185
Small	145-155
Super small	115-125
Kapur SQ up	155-160
Selangan Batu SQ up	170-175

FOB log prices remain firm

Apart from limited supplies, the strong demand from China and India has continued to contribute to the steady rising in FOB prices for Far Eastern tropical logs. FOB price rises have been apparent for all the key species including meranti, keruing, kapur, merbau and selangan batu.

A growing proportion of Sarawak logs are being diverted to domestic plywood and sawn mills. Sarawak log exports to Japan are now restricted since most Japanese buyers are unwilling to pay the higher prices on offer.

Rumours in India

Ttjonline.com has recently reported that there are rumours that India may be considering relaxing the high tariffs on timber other than logs. Some analysts believe, added ttjonline, this is unlikely taking into account that labour is abundant and inexpensive and production costs are very competitive to maintain timber processing in the country. On other hand, if the rumours prove to be true, it may reflect the increasing difficulties facing India in sourcing logs for further processing in the country.

Ringgit revalued

On July 21st, China abandoned its decade-old currency peg of 8.28 to the US dollar, revaluing the yuan by 2.1%. Malaysia followed suit, dropping its seven-year-old US dollar peg and letting the ringgit appreciate by more than 1%.

China is using a weighted basket of mainly four currencies (the US dollar, the euro, the yen and the won) to determine the exchange rate of the yuan.

Francophone West African Log Prices

There have been some small downwards adjustments of the prices of some grades during during July and the first part of August, otherwise log prices have remained largely stable and unchanged.

Iroko prices retreating

Iroko prices are now under pressure as European buyers feel they had moved too high for current market conditions, even though supply is very limited. As a result, Iroko prices have retreated, though production remains very restricted as harvestable trees now tend to be more remote and less abundant. Some Irish buyers are making a shift to sapelli which is seen as cheaper and abundant.

FOB	Euro per Cu.m		
	LM	B	BC/C
Afromosia/Assaméla	381	351↑	-
Acajou/N'Gollon	206	175	-
Ayous/Obéché	206	191	160
Azobe	183↑	167↑	137
Bibolo/Dibétou	152	114	-
Movingui	190	175	152
Fromager/Ceiba	114	114	-
Iroko	305↓	289↓	259↓
Limba/Fraké	137	114	99
Moabi	244	221	206
Padouk	206	206	175
Sapelli	213	198	175
Sipo/Utile	274	259	229
Tali	144	130	91
Doussie	457	396↑	274

Rainfall is hampering wood felling in the areas to the north of the equator, which is affecting log supply. However, the demand for most African wood species has fallen against previous months due to the holiday period in Europe. Some traders believe that iroko prices will stabilize once European buyers return to business after the summer vacations. The rains have begun in Cameroon making logging more difficult. In Congo-Brazzaville it is still dry and reports are of very large volumes of okoume logs being shipped out, while okoume exports from Equatorial Guinea continue to decline to a very low level as forest resources become exhausted.

Gabon Okoumé, FOB Grade	US\$ per Cu.m
CI	150
CE	122
CS	94
QS	176
Okoumé for China Grade	US\$ per Cu.m (Free alongside ship)
40% CI, 40% CE, 20% CS	200

The UN renews export embargo on Liberia

The UN Security Council renewed its ban on timber trade in Liberia in June 2005. The SC noted that the provisional government of Liberia (NTGL) continued to fail to extend its authority over the country's timber producing areas. The SC added that although there is not evidence now of illegal timber exports, the NTGL had undertaken few of the reforms that would lead to the lifting of the export embargo.

MYANMAR

Teak Logs, FOB	Euro per Hoppus Ton (traded volume)	
<i>Veneer Quality</i>	<u>June</u>	<u>July</u>
2nd Quality	3902↑ (9 tons)	3917↑ (9 tons)
3rd Quality	3680↓ (11 tons)	3405↓ (16 tons)
4th Quality	3213↓ (50 tons)	3021↓ (51 tons)
<i>Sawing Quality</i>		
Grade 1 Avg.	1978↓ (175 tons)	1843↓ (122 tons)
Grade 2 Avg.	1561↓ (189 tons)	1475↓ (226 tons)
Grade 3 Avg.	801↓ (50 tons)	1011↑ (14 tons)
Grade 4 Avg.	1129↓ (687 tons)	1099↓ (674 tons)
Assorted Avg.	852↑ (390 tons)	875↑ (471 tons)
Domestic	677↑ (800 tons)	698↑ (925 tons)

Hoppus ton = 1.8 Cu.m

Prices for above listed grades of Myanmar teak logs showed mixed trends in June and July. However, this was in contrast to April when prices for most grades declined drastically.

Much of Myanmar's teak continued to be processed domestically into higher value-added products. Myanmar has a stated policy to expand downstream processing which is leaving fewer logs for export.

PAPUA NEW GUINEA

New tenders

Tenders for the development of new forest management areas in PNG will close on 5th September 2005. The period of the permits will be for 35 years.

Project	Province	Area (ha)	Loggable area (ha)	AAC (m ³ /ha/yr)
Amanab Blks 5 & 6	West Sepik	297,000	27,2000	182,000
Middle Ramu Block 1	Madang	159,000	77,000	122,000

AAC= Annual allowable cut

Changes to PNG Forest Act approved

On August 3rd 2005 the PNG parliament passed the forestry Act Amendment bill, under which the Forest Industry Association will again be given a position on the National Forest Board, replacing the PNG Chamber of Commerce and an 'industry representative'. Also, the Eco-forestry Forum has been replaced by one member from the community involved in forest activities.

Other changes related to rectifying typing errors, reference to provisions, the inclusion of terms to clarify and simplify procedures and processes, and the inclusion of new provisions to cover loopholes in the Forest Act. Other amendments also included language under which provincial governments and members of the Parliament not otherwise mentioned would be consulted on the National Forest Board's intentions to enter into a Forest Management Agreement.

Saw/veneer log grade	US\$ Average FOB per Cu.m	
	May	June
Malas	59↓	60↑
Calophyllum	75↓	77↑
Taun	72↓	75↑
Terminalia	60	61↑
Pencil Cedar	73↓	77↑
PNG Mersawa	83	84↑
Red Canarium	59↓	60↑
Erima	59↓	58↑
Dillenia	59↑	57↓
Burckella	62↑	61↓
Kwila	103↑	104↑

Plantation kamarere logs	US\$ Average FOB per Cu.m	
	May	June
Diameter 60+cm	45↓	73↑
50-59cm	57↓	65↑
40-49cm	54↓	58↑
30-39cm	49↓	53↑
20-29cm	38↓	40↑

Trade statistics

Below are estimates for shipments of PNG logs to main destinations in 2004. For the first half of 2005, log exports from PNG amounted to 1.1m cu.m at a value of \$67m. Saw/veneer log grade exports amounted to 189,477 cu.m. In plantation species, Kamarere remains the main export species, primarily to the markets of Japan, Vietnam and Korea.

	1000 m ³	%	Average price \$/m ³
China	1,296.4	64.4	58
Japan	340.0	16.9	57
Korea	157.3	7.8	50
Vietnam	136.3	6.8	69
Taiwan	44.6	2.2	50
India	19.7	1.0	142
Hong Kong, SAR	7.9	0.4	53
Philippines	7.2	0.4	71
Singapore	2.7	0.1	-
Total	2,012.1		59

Domestic Log Prices

BRAZIL

Logs at mill yard	US\$ per Cu.m
Mahogany 1st Grade	No sales
Ipê	95↑
Jatoba	64↑
Guaruba	45↑
Mescla (white virola)	49↑

Shortage of roundwood

Roundwood supplies in Brazil have been affected by a transportation stoppage in Mato Grosso State. The transportation stoppage was ordered in connection with a corruption scandal at IBAMA discovered in June. According to several importers, Brazilian plywood manufacturers have been affected. Mato Grosso state is located in the south-west of Brazil and is, together with Pará state, the most important roundwood supplier in the Amazon region.

INDONESIA

Prices for Indonesian timber products are not available. The MIS is currently looking for a new source of price data in that country.

Indonesia increases harvest quota

Indonesia's Minister of Forestry announced that the harvest quota for natural timber for 2006 would be increased to 7.9m cu.m, 46% more than in 2005. The quota had been reduced to 5.45m cu.m in 2005 to achieve sustained yield, which the government believes has been achieved to a certain extent. After severe control of illegal harvest under the reduced quota, the situation seems finally to be settling down and the government has decided to again increase the harvest. With the increased quota, plywood and lumber mills, which halted operations due to suspended licenses, are said to be ready to run again.

The Minister explained that the new quota is opportune given the increased wood demand for the restoration of Sumatra in the wake of the Indian Ocean tsunami late last year. The harvest quota in recent years in Indonesia was as follows:

Allowable harvest quota in Indonesia (mill. cu.m.)

2001	2002	2003	2004	2005	2006
22.5	12	6.89	5.74	5.45	7.9

PENINSULAR MALAYSIA

Logs	US\$ per Cu.m
Domestic (SQ ex-log yard)	
DR Meranti	245-250↑
Balau	175-180
Merbau	295-305↑
Rubberwood	95-100
Keruing	185-195↑

GHANA

	US\$ per Cu.m
Wawa	36-44
Odum	77-175
Ceiba	31-53
Chenchen	33-88
Mahogany (Veneer Qual.)	40-91
Sapele	55-154
Makore (Veneer Qual.)	54-154

PHILIPPINES

The Philippines export sector is hoping that the government reconsiders the logging and log exportation ban when it launches a new reforestation programme. The forest industry's share of the country's GNP has dipped significantly since the inception of the ban, according to the government.

International Sawnwood Prices

Francophone West Africa

Sawnwood prices are unchanged through the first half of August, though some producers report that prices are under some downwards pressure. Cameroon shippers are said to be asking slightly lower prices than those in Gabon and other countries; however, mills in the region are confident that the market will remain firm and stable through to the fourth quarter.

It is not yet clear what impact on the African trade India's planned relaxation of its high import duties on sawnwood and other processed products next year will have. According to some observers, Indian buyers are currently very active and certain that prices will hold up right through the fourth quarter. The impact of a change in India's import tariffs on the African trade is unknown.

FOB	Euro per Cu.m
Okoumé	
FAS GMS	285↑
Standard and Better	260
FAS Fixed Sizes	290
Sipo	
FAS Standard Sizes	488
FAS Fixed Sizes	519
Sapelli	
FAS scantlings	487
Dibtou	
FAS Standard Sizes	381
FAS Fixed Sizes	412
Iroko	
FAS GMS	488↑
Scantlings	519
Strips	304
Khaya	
FAS GMS	366

BRAZIL

FOB Belem/Paranagua Ports	US\$ per Cu.m
Export Sawnwood	
Mahogany KD FAS FOB	
(UK market)	no trade
Jatoba Green (dressed)	630↑
Cambara KD	475↑
Asian Market (green)	
Guaruba	265
Angelim pedra	280
Mandioqueira	230
Pine (AD)	135

MALAYSIA

Sawnwood prices generally have not risen at the same rate as log prices if taking into account that a \$10 per cu.m. increase in log prices should roughly correspond to a rise of \$30 per cu.m. in sawnwood. In contrast, plywood prices have surged more accordingly to increased log price rises.

Malaysia to ban export of rubberwood products

China's demand for wood continues to grow unabated. South East Asian countries, which are major sources of raw material and also have large processing capacity, are caught between supplying their own industries and meeting China's demand.

As a result of domestic furniture industry complaints about a lack of raw materials, the Malaysian Government announced recently a ban on Rubberwood sawntimber export and there will be no new quotas for the export of such timber with immediate effect. Before, a quota system was applied to the export of rubberwood sawnwood, with 60% used for domestic consumption and 40% for export.

The unutilised quotas approved earlier will be allowed to continue for the exports of rough sawntimber. The annual production of rubberwood sawntimber is variously estimated at between 350,000 to 500,000 cu.m. It was estimated that 80% of rubberwood sawntimber is consumed by the furniture industries alone. The imposition of the export quota by the authority is to ensure that the rubber plantation owners enjoying a fair price for the raw material and at the same time the authority is also trying to ensure that there are adequate raw materials for the industry.

Sawn Timber, FOB	US\$ per Cu.m
White Meranti A & up	340-350↑
Seraya Scantlings (75x125 KD)	645-655↑
Sepetir Boards	205-215↑
Sesendok 25,50mm	330-335↑
Kembang Semangkok	375-385↑

INDONESIA

Indonesia restricts export of sawnwood, rattan

The Indonesian government, which banned the export of rough-sawn timber in October 2004 in order to revitalize its domestic wood processing industry, wants tighter controls on this ban because it believes that air-dried sawnwood is still being exported. The announcement of tighter controls prompted complaints from local mills, which insisted they had been observing the rules. After several meetings, it was agreed that the original rules would be maintained but that mills must submit written pledges to BRIK (Indonesian association of vitalizing wood industry).

It was also reported that Indonesia will ban the export of semi-finished rattan products because the domestic furniture industry has increasing difficulty in obtaining sufficient supplies; China is a major importer. Indonesia had already banned the export of unprocessed rattan.

GHANA

Air-dry FAS 25-100mm x 150mm and up x 2.4m and up.

FOB	Euro per Cu.m
Afromosia	855
Asanfina	480
Ceiba	180
Dahoma	310
Emeri	350
Edinam	370
Khaya	540
Makore	460
Niangon	495
Odum	630
Sapele	490
Wawa 1C & Sel	250

Ghana's Export duties reduced

In Ghana, a new directive seeking to remove the export levy on lumber, veneer and plywood exports has been issued to the Customs, Excise and Preventive Service (CEPS) and other stakeholders. The move is intended to reduce the operational costs of timber exporting industries in the country. However, the ban on the export of round or square logs is still in force.

The minister announced that the National Reconstruction Levy (NRL) Act, which sought to reduce various rates of national construction levy (known also as development levy), has received Presidential approval. The Act revised downwards the A to D categories of NRL paid by companies. The levy categories were reduced from 10% to 7.5%; 7.5% to 5%; 5% to 3.5% and 2.5% to 1.5%, respectively. The levies will be further reduced in 2006 and eventually eliminated by 2007.

PERU

Peruvian timber exports rise 44% in 2005

Peruvian timber exports rose 44% to over \$80m in the first half of 2005 compared to the same period in 2004 (\$55.7m). The USA was the main destination (44% of total timber exports), followed by Mexico (33%), China (9%), Hong Kong, SAR (2%), Italy (2%) and others (4.6%). The first five countries represented almost 90% of Peru's timber exports.

Around 54% of US imports were Mahogany sawnwood, followed by Virola sawnwood, hardwood friezes, and furniture parts and pieces. Mexico's imports consisted mainly of Virola and Marupa sawnwood, and plywood. China and Hong Kong, SAR imported mainly hardwood friezes.

Sawnwood, main export product

Sawnwood continued its standing as the dominant export timber product, accounting for 59% of all timber exports. It was followed by friezes and decking (15%), plywood (11%), furniture parts and pieces (9%), plywood and veneers (3%), and other products (3%). The first five product categories accounted for over 97% of all Peruvian timber exports. However, the surge in timber exports was primarily driven by an increase in the export prices of mahogany sawnwood, friezes and plywood.

Declining production concerns local exporters

Although timber exporters have greeted the increases in exports with enthusiasm, they are concerned by the lack of raw material. Log production has been decreasing since 1999, when production reached 1.55m cu.m; in 2004 it was 1.2m cu.m. This production involves 195 timber species, with 10 of them representing 87% of the national production and the balance of the production represented by 185 species.

Sawnwood, FOB	US\$ per Cu.m
Mahogany 1C&B, KD 16%	
Central American market	
US market	1350-1400↑
Spanish Cedar 1C&B, KD 16%	1580-1620↑
Central American market	
Mexican market	690-710↑
Walnut 1" thick, 6'-11' length	700-720↑
US market	
Pumaquiro 25-50mm AD	640-660
Mexican market	
Virola 1-2" thick, length 6'-8' KD	460-490
Grade 1, Mexican market	
Grade 2, Mexican market	270-300↑
Lagarto 2" thick, 6'-8' length	210-225↓
Spanish market	
Cumaru 4" thick, 6'-11' length KD	320-340
Central American market	
Ishpingo (oak) 2" thick, 6'-8' length	760-790
Spanish market	355-365

Mahogany exports reached 10,283 cu.m in June

Following the establishment of a national export quota for mahogany (*Swietenia macrophylla*) of 23,621 cu.m. for 2005 (see MIS 10/11), customs authorities reported that Peruvian mahogany exports reached 10,284 cu.m in the first half of 2005; the trade was worth \$21.3m. The USA is by far the largest destination market, accounting for just over 90% of mahogany exports (\$19.2m). Other export markets include Dominican Republic (4%), Germany (2%), Puerto Rico (2%) and Sweden (1%).

Domestic Sawnwood Prices

BRAZIL

Sawnwood (Green ex-mill)	US\$ per Cu.m
<i>Northern Mills</i>	
Mahogany	No sales
Ipé	444↑
Jatoba	328↑
<i>Southern Mills</i>	
Eucalyptus (AD)	136
Pine (KD) 1st Grad	181↑

MALAYSIA

Sawnwood	US\$ per Cu.m
Balau (25&50mm,100mm+)	255-260↑
Merbau	490-500↑
Kempas 50mmx(75,100 & 125mm)	215-220↑
Rubberwood	
25x75x660mm up	200-210↓
50-75mm Sq.	220-225↓
>75mm Sq.	245-250↓

The demand for rubberwood, the most important furniture timber in Malaysia, has diminished. This was probably attributed to a slowdown in the furniture demand. At the same time, manufacturers of rubberwood sawnwood from Southern Thailand are pushing their products to the Malaysian market. This added supply has resulted in lower prices for rubberwood sawnwood.

GHANA

	US\$ per Cu.m
Sawnwood	
Wawa 25x300x4.2m	73
Emeri 25x300x4.2m	70
Ceiba 25x300x4.2m	53
Dahoma 50x150x4.2m	138
Redwood 50x75x4.2m	122
Ofram 25x225x4.2m	136

PERU

	US\$ per Cu.m
Mahogany	1512-1522
Virola	186-200
Spanish Cedar	630-640
Catahua	177-183
Tornillo	357-365

International Plywood and Veneer Prices

Indonesian prices

Prices for Indonesian timber products are not available. The MIS is currently looking for a new source of price data in that country.

Stricter control kept reducing log supply

The control of illegally harvested logs in Indonesia has been tighter reducing even more the log supply and prompting the shutting down of more plywood mills.

Japan and Indonesia negotiating FTA

Japan and Indonesia have entered in bilateral negotiations toward reaching a FTA. The government of Indonesia has pointed out that tariff rates of plywood differ among timber species ranging from 6% to 10% and requested Japan to agree on only one rate. The Japanese government explained that tariff differentiations are made so as not to compete with major domestic products and that certain kinds of species are more important than others in terms of tropical forest protection.

Japan insisted that the discussions on tariffs on wood panels and other timber products should be linked to discussions on export duties, restrictions on logs and illegal logging. While recognizing the importance of combating illegal logging and the

significant progress already made, the Indonesian government stressed that it should not be linked to market access. Both governments are expected to reach an agreement by mid-2006.

Indonesia loses market share in Europe

Indonesian film-based plywood grades continue to lose share in the EU market. 21mm film-based plywood, in particular, is being increasingly replaced by Chinese and Russian plywood. Chinese 21mm poplar film/film kept gaining importance due to its noticeably lower price. Filmed birch plywood from Russia has also become a substitute for Indonesian products. According to traders, Chinese producers are even offering their plywood grades at up to 30% below prices for Russian products. Besides lower prices, Chinese and Russian plywood compete with Indonesian plywood with more readily availability. However, it is expected that the loosening of the dollar-yuan peg will lead to higher plywood prices in Chinese products.

Brazilian Plywood and Veneer

Veneer FOB (Belem/Paranagua Ports)	US\$ per Cu.m
White Virola Face 2.5mm	220
Pine Veneer (C/D)	140

8% duty on US plywood imports

Softwood plywood from Brazil (HS code 4412.19.40, softwood plywood with sheets of 6mm tick each, rough sheathing) lost its duty free status in July 2005. The plywood product is now subject to 8% duty at time of arrival date, not Bill of Lading, according to 19 CFR 14169 of the US Customs Code.

Statistics indicating that Brazil supplied more than half of all the softwood plywood the USA imported in 2004 triggered a federal order to impose the duty. In 2004, Brazil became the leading supplier of softwood plywood to the USA with over 1.1 million cu.m. (up from 0.52 million cu.m in 2003), around 62% of total softwood plywood imports to the USA. Brazil exports softwood plywood and other commodities duty free to the USA under the "Generalized System of Preferences" (GSP) system.

Plywood FOB	US\$ per Cu.m
White Virola (US Market)	
5.2mm OV2 (MR)	350↓
15mm BB/CC (MR)	300↓
White Virola (Caribbean market)	
4mm BB/CC (MR)	415↓
12mm BB/CC (MR)	320↓

Pine EU market	US\$ per Cu.m
9mm C/CC (WBP)	225↓
15mm C/CC (WBP)	215↓
18mm C/CC (WBP)	210↓

...and 7% duty on EU plywood imports

In addition to the US duty, Brazilian exporters are likely to start paying a 7% duty on shipments to the EU, their other major offshore market, earlier than last year. The annual EU quota of 650,000 cu.m for plywood imports from South America was running out by mid-2005, well ahead of the 2004 pace. The EU duty applied in when the volume reaches 550,000 Cu.m.

Plywood trade falls but timber trade grows

Brazil's real has risen significantly against the US dollar in the last months and has unfavourably affected Brazilian exporters. This situation is making domestic manufacturers concerned with high costs and margin reductions.

Despite the appreciation of the real, the trade balance of solid woods is reaching new records in 2005. The exports of Brazilian solid wood products in the first half of 2005 grew 7.2% in comparison to the first half of 2004, from \$1.4m to \$1.5m. However, June exports fell for different products excepting wooden furniture, which exports grew 13.2% in value in comparison to the same period of 2004 (\$71.6m).

Exports of tropical sawnwood were \$50.9m in June of 2005, up from \$48.8m in June 2004. However, volume fell 15.6% to 151.6m cu.m. from 179.6m cu.m.. Pine sawnwood exports decreased both in value and volume in June 2005. Exports reached \$68.5m (144.3m cu.m), down 19.4% (in value) from June 2004.

Exports of tropical plywood and pine plywood recorded the largest fall in June. The exports of tropical plywood reached \$40.3m (70.7m cu.m) in June 2005, down from \$62.4m (109.5m cu.m) from

2004. Pine plywood exports recorded \$36.5m (135.8m cu.m.), down from 35% from 182.6 cu.m. in June 2004. These reductions in exports have been a result primarily of the weak US dollar, a duty on Brazilian plywood exported to the US, a European quota on plywood imports from South America and a stiff competition of Chinese plywood in the EU.

Malaysian plywood

MR Grade BB/CC FOB	US\$ per Cu.m
2.7mm	400-410↑
3mm	375-380↑
9mm & up	325-330

Plywood excluded from FTA

The governments of Japan and Malaysia reached recently a basic agreement on an Economic Partnership Agreement (EPA) treaty including a Free Trade Agreement (FTA). An accord on agricultural and forest products had already been reached late last year. Duties on all forest products except for plywood will be removed when the treaty goes into effect probably in summer 2006.

The negotiation on plywood duties will be resumed after the treaty comes into force. The government of Japan intends to discuss the matter of combining tariff rate by Japan and export duty (royalty) and export quota set by Malaysia. In the mean time, a duty of 6-10% will continue being applied on hardwood plywood imports.

Japan is also negotiating a FTA with Thailand. The FTA with Indonesia, Malaysia and Thailand are the sixth for Japan, which has FTAs with Singapore and Mexico and struck basic deals with the Philippines last November.

GHANA

Rotary Veneer	Euro per Cu.m	
	CORE (1-1.9mm)	FACE (BELOW 2mm)
Bombax	325	360
Chenchen	325	360
Kyere	325	360
Ofram	325	360
Ogea	325	360
Otie	325	360
Ceiba	270	300
Mahogany	425	460

The above prices are for full sized panels, falling sizes minus 15%. Thickness below 1mm to attract a 5% premium.

Rotary Veneer Core Grade 2mm and up	US\$ per Cu.m
Ceiba	235
Chenchen,Ogea & Essa	295
Ofram	305

Veneer FOB	US\$ per Cu.m
Lupuna 3/Btr 2.5mm	210-215
Lupuna 2/Btr 4.2mm	220-235
Lupuna 3/Btr 1.5mm	235-240

Sliced Veneer	Euro per Sq.m	
	Face	Backing
Afromosia	1.19	1.00
Asanfina	1.25	0.80
Avodire	0.92	0.60
Chenchen	0.72	0.50
Mahogany	1.03	0.70
Makore	1.01	0.60
Odum	1.54	0.95

Domestic Plywood and Veneer Prices

BRAZIL

Rotary Cut Veneer (ex-mill Northern Mill)	US\$ per Cu.m
White Virola Face	183▲
White Virola Core	150▲

Plywood (ex-mill Southern Mill)	US\$ per Cu.m
Grade MR (B/BB)	
White Virola 4mm	593▲
White Virola 15mm	437▲

Plywood, FOB	Euro per Cu.m	
	WBP	MR
Redwoods B/BB		
4mm	560	460
6mm	340	310
9mm	315	290
12mm	300	280
15mm	310	285
18mm	300	275
Light Woods B/BB		
4mm	500	330
6mm	335	270
9mm	290	255
12mm	270	235
15mm	280	245
18mm	245	235

MALAYSIA

Domestic	US\$ per Cu.m
3mm	385-395▲
12-18mm	305-315

PERU

Lupuna Plywood BB/CC (Pucallpa mills)	US\$ per Cu.m
122 x 244 x 4mm	461
122 x 244 x 6mm	451
122 x 244 x 8mm	438
122 x 244 x 10mm	424
122 x 244 x 12mm	430
122 x 244 x 15mm	426
122 x 244 x 18mm	491

Grade AB/BB would attract a premium of 5%. BB/BB would be 5% less, C/CC would be 10% less and CC/CC would be 15% less.

PERU

FOB for Mexican Market	US\$ per Cu.m
Copaiba, 2 faces sanded, B/C, 15x4x8mm	350-355
Virola, 2 faces sanded, B/C, 5.24x8mm	395-405
Lupuna, treated, 2 faces sanded 5.2x4x8mm	345-350
Lupuna plywood	325-330
B/C 15x4x8mm	335-340
B/C 9x4x8mm	330-335
B/C 12x4x8mm	360-365
C/C 4x8x4mm	

Other Panel Product Prices

BRAZIL

FOB Belem/Paranagua Port <i>Export Prices</i>	US\$ per Cu.m
Blockboard Pine 18mm 5 ply (B/C)	340
<i>Domestic Prices</i>	
Ex-mill Southern Region Blockboard White Virola Faced 15mm	397↑
Particleboard (ex-mill) 15mm	236↑

MALAYSIA

Other Panels	US\$ per Cu.m
<i>Particleboard</i>	
Export 12mm & up	130-140↓
Domestic 12mm & up	130-145↓
<i>MDF</i>	
Export 15-19mm	205-215↓
Domestic 12-18mm	195-200↓

PERU

Domestic Particleboard	US\$ per Cu.m
1.83m x 2.44m x 4mm	293
1.83m x 2.44m x 6mm	247
1.83m x 2.44m x 8mm	219
1.83m x 2.44m x 9mm	227
1.83m x 2.44m x 12mm	210

Prices of Added Value Products

MALAYSIA

Mouldings, FOB	US\$ per Cu.m
Selagan Batu Decking	595-605
Red Meranti Mouldings 11x68/92mm x 7ft up	
Grade A	640-645↑
Grade B	535-540↑

GHANA

Parquet Flooring 1st grade, FOB	Euro per Sq.m
10x60x300mm	
Apa	12.0
Odum	7.8
Hyedua	13.67
Afromosia	13.72
10x65-75mm	
Apa	14.47
Odum	10.18
Hyedua	18.22
Afromosia	13.93
14x70mm	
Apa	17.00
Odum	11.00
Hyedua	17.82
Afromosia	17.82

Grade 2 less 5%, Grade 3 less 10%.

PERU

Strips for parquet	US\$ per Cu.m
Cabre uva KD S4S	
Asian market	1250-1300↑
Cumaru KD, S4S	
Swedish market	610-625
Asian market	570-590↑
Cumaru decking, AD, S4S E4S	
US market	750-800↑
Pumaquiro KD # 1, C&B	
Mexican market	465-480
Quinilla KD, S4S 2x10x62cm	
Asian market	570-580↑

Furniture and Parts

Chinese bedroom furniture

The US anti-dumping tariffs have sharply reduced shipments of wooden Chinese bedroom furniture to the USA, but the impact is of limited benefit to US manufacturers according to the trade publication Wood and Wood Products. Shipments of Chinese wooden bedroom furniture fell 15% to \$978m between July 2004 and March 2005, even as imports of other types of Chinese furniture rose.

In December, the US Commerce Department set final duties for most Chinese wooden bedroom

furniture at 6.65%, and up to 198% in some cases. The main effect of the tariffs has been a shift of production from China to neighboring Vietnam, where production costs are lower. Some Taiwanese manufacturers shifted facilities to Vietnam to get around the sanctions.

MALAYSIA

Rubberwood	FOB	US\$ per Cu.m
Semi-finished Dining table solid laminated top 2.5' x 4' with extension leaf		19.5-21↓
As above, Oak Veneer		28-30↓
Windsor Chair		8-9
Colonial Chair		11.5-12.5
Queen Anne Chair (soft seat) without arm		14.5-15↑
with arm		18-19↓
Chair Seat 27x430x500mm		2.05-2.10↓

Rubberwood Tabletop 22x760x1220mm sanded & edge profiled	US\$ per Cu.m
Top Grade	520-530↓
Standard	490-495

BRAZIL

FOB Belem/Paranagua Ports	US\$ per Cu.m
Edge Glued Pine Panel Korean market (1st Grade)	560↓
US Market	525↓
Decking Boards Cambara	600↑
Ipê	1100↑

Report from Japan

Sluggish plywood market resists higher prices

The movement of imported board and plywood continues dull. Wholesalers expressed that there has not been active demand except for hunting of low-priced scarce items. Arrivals of tropical hardwood plywood have been declining month after month because of declining production in Indonesian plywood mills. There have been very little offers of products such as concrete forming panel and structural 12mm panel from Indonesian mills. However, the declining inventories have had a negligible impact on the sluggish Japanese domestic market. As a result, the gap between

bullish Indonesian suppliers and bearish Japanese buyers is widening. The only item in short supply is concrete forming for coating and buyers look for low priced offers on this item.

Indonesian mills curtailed plywood production

Many Indonesian plywood mills have been forced to curtail plywood production due to continued log shortages. One of the three Korindo group mills is reducing production. Purawan Lumber Industry's mill has virtually stop production since last April. There is no plywood offer for the Japanese market from those mills. Since the above mills are major suppliers of coated plywood, the inventories of coated plywood are tightening in Japan. Log shortages obey stricter control of illegal harvest by the Indonesian government and seasonal floods in Kalimantan which hampers transportation of logs.

Late June log prices for meranti regular were ranging from \$145 to \$160 per cu.m. at Samarinda mills, which are \$20-25 higher compared to a year ago. Higher log prices are another reason for plywood production curtailment since passing high prices to the dull Japanese market is difficult. As a result, total supply of plywood in the Japanese market has decreased while plywood imports from Indonesia while those from Malaysia's have been filling the gap in the first half of 2005. The export prices of Malaysian 3x6" concrete forming panel were \$350-355 per cu.m C&F in late June, which have been pushed down gradually by weak Japanese purchase.

In July, the movement of imported plywood and board improved slightly after a long slump until June. A building materials trading company reported that inquiries increased in July. Movement of OSB and MDF for building was also improving gradually since early July.

The cost of imported plywood has gone up due to the weakening of the yen while the supplies continue bullish due to critical log shortages. The importers reported that the cost is way higher than current domestic market prices so few deals have concluded. There are no offers for commodity items like Indonesian 12mm panel but there are offers for thin plywood and floor base. In the Tokyo regional market, concrete forming panel for coating is in short supply and inquiries are increasing but the prices remain flat at about 970-980 yen. The inventories of JAS concrete forming panel are

declining gradually but demand continues depressed. July export prices of 2.3mm F 3star (category 2) were \$500-505 per cu.m C&F, of 3.7mm F 3star (category 1) were about \$430 and of 5.2mm F 3star (category 1) were \$400-410. They are all unchanged from June. Domestic sales prices of 2.3mm F 3star (category 2) were unchanged at 260-270 yen per sheet delivered.

Malaysia overtakes Indonesia as largest ply supplier

Malaysian plywood supply to Japan has surpassed Indonesian for five straight months now. Indonesian mills suffer insufficient log supply and higher log prices so there are limited offers for Japan. Japanese buyers are progressively shifting to Malaysian suppliers. However, as Malaysian import costs keep rising, imports are gradually declining.

Plywood imports and supply in Japan (2005)

	Jan-May 2005 (cu.m.)	% change with 2004
Malaysia	955,897	+14.9
Indonesia	884,924	-17.0
China	155,513	+31.2
New Zealand	19,723	+11.2
Canada	13,755	-43.9
Others	27,527	-25.3
Total imports	2,057,339	-1.8
Domestic	1,310,200	+3.4
Of which softwood	917,240	+8.6
Total supply	3,367,539	+0.1

The most recent data for June reported imports of 191,000 cu.m. from Malaysia, 158,000 cu.m from Indonesia and 400,000 cu.m from other countries. This consolidates Malaysia as Japan's largest plywood supplier.

Revised JAS law passed and approved

The revised Japan Agricultural Standards (JAS) law submitted to the Diet by the Ministry of Agriculture, Forestry and Fisheries has been passed and approved and will come into force in March 2006. 2006-2009 will be a transition period but after March 2010 current JAS approved plants will need to conform to the new law.

The main change to the law is a minimization of the government's involvement in the registration of organizations that can issue approval to JAS applicants. Any organization that fully meets the standard (ISO guide 65) will be able to qualify, including foreign organizations. It is expected that there will be more applications from qualified foreign organizations (besides those from the five

countries in North America and South East Asia currently about to issue approvals). Furthermore, with the revised JAS law, not only manufacturers but also distributors, such as importers, can qualify if they can prove they manage manufacturing processes. As a result, plywood importers and large wholesalers will be able to apply for JAS approval on behalf of manufacturers.

Outlook for the second half of 2005

The Japanese Forestry Agency disclosed its forecast of major wood products for the second half of the year. New housing starts are expected to drop slightly because of shrinkage of the tax break on housing loan interest. As a result, imports of wood products for the third quarter are expected to be down compared to the corresponding period last year. The major concern in the second half is higher cost of products and transportation as a result of worldwide rising oil prices.

North American logs will be constrained by high ocean freight. North American lumber imports are predicted to amount to 1m cu.m for the each of the third and fourth quarters. European lumber is proving popular, supported by busy demand for lamina for laminated lumber. The demand for Russian logs for lumber is shifting to genban. The total demand for plywood is predicted to be about 1.98m cu.m. in the third quarter and 1.94m cu.m in the fourth quarter. Indonesian supply is expected to continue to decline due to a shortage of logs, while Malaysian supply will increase to fill this gap. Overall, imports of tropical plywood are expected to decline 3.6% to 4.76m cu.m in 2005.

Structural laminated lumber is in strong demand for pre-cutting plants for use in beam and post. The price structures of some major import products – South Sea logs, plywood and laminated posts – have been undergoing changes. The cost of tropical logs continues to rise due to higher FOB prices and a weaker yen. Plywood makers have tried to find substitute materials such as smaller logs or logs from other sources but their costs have been also rising. Meranti regular FOB prices were about \$168-170 in late July, which was \$3-4 up from June and new proposals were at \$172-173 despite the weak plywood market in Japan.

Japan's structural softwood plywood market remains stagnant. July prices for 12mm 3x6 F 4star (category 1) were about 670 yen per sheet delivered,

30-40 yen lower than June despite manufacturers' proposed price of 700 yen. Manufacturers' sale price of 3-metre, 105mm square laminated posts was 1,800 yen per piece delivered for July shipments. Despite increasing orders, manufacturers were very cautious about increasing production because of the lamina supply shortage. Pre-cutting plants, which are the main users of laminated post, argue that they cannot pass on higher prices, so there is strong resistance to higher prices.

June new housing starts

Total starts were 109,184 units in June, up 7% from May (101,862 units) and 2.4% higher than in June 2004. This is the third expansion in a row and the second time in over eight months that starts exceeded 100,000 units. The main reason for this increase is attributed to an increase of houses for sale and for rent.

Housing starts forecast

The Japanese Research Institute of Construction and Economy has made its mid-year forecast on new housing starts for 2005. New housing starts have been forecast at 1.19m units for 2005, 0.3% less than 2004. Owner's units are estimated at 362,000 units, 1.5% less than 2004, despite favorable factors such as strong desire for ownership by the younger generation and low mortgage interest rates.

The number of rental unit starts has increased for three straight years but a high rate of vacancies is expected to hold new starts down at 462,000 units, 1.1% less than in 2004. Units built for sale are estimated at 358,000, 2.5% more than the previous year.

For 2006, the forecast is for 1.197m housing starts, up 0.6% from 2005. Negative factors such as a possible interest rate rise and the shrinkage of a tax break on mortgage loan interest will be offset by expected improvements in employment and wages helped by a steady recovery of the economy in general. The desire of baby-boomers to own their own houses is still seen as strong, which would help to increase owner's units by 3.5% to 374,000.

CIF price of tropical logs rising in Japan

Climbing log import prices, inflated ocean freight and a weakening yen are sending import log costs rapidly upward. This has been compounded by a

depressed plywood market in Japan so that importers struggle in their negotiating with mills. The mills, in turn, are confronted by higher log cost and poor profitability. Mid-July FOB log prices in Sarawak were \$168-170 per cu.m (SQ up) for meranti regular. The suppliers have been bullish with limited log inventories and there has been active buying by other countries like China, India and Vietnam.

The \$170 for meranti regular can jump up to about 7,000 yen per koku CIF (around \$227 per cu.m) in the Japanese market. Small meranti, which is about \$140 per cu.m FOB, can reach more than 5,900 yen per koku CIF (over \$190 per cu.m). Therefore, plywood mills have no choice but to raise their sales prices, which is problematic in a still sluggish market. Meantime, log importers have not been able to keep passing higher costs onto their buyers and it is reported that importers are taking financial losses. Some Japanese importers expect that log supply will improve soon as China's buyers seem to be shying away from high value logs, and FOB prices will consequently decline.

Logs for Plywood Manufacture, CIF	Yen per Koku
Meranti (Hill, Sarawak)	6,350 ↑
Medium Mixed	6,450 ↑
STD Mixed	5,300 ↑
Small Log (SM60%, SSM40%)	
Taun, Calophyllum and others (PNG)	5,200 ↑
Mixed Light Hardwood, G3-G5 grade (PNG)	4,500 ↑
	7,000
Okoumé (Gabon)	7,500 ↑
Keruing MQ & up (Sarawak)	7,000 ↑
Kapur MQ & up (Sarawak)	

Koku=0.278 Cu.m

Logs for Sawmilling, CIF	Yen per Koku
Melapi (Sarawak) High Select	8,800
Agathis (Sarawak) High Select	8,600

Lumber, FOB	Yen per Koku
White Seraya (Sabah)	
24x150mm, 4m 1st grade	105,000
Mixed Seraya, Sangi	
24x48mm, 1.8-4m, S2S	43,000 ↑

June and July Wholesale Prices

		June ¥/sheet	July ¥/sheet
Indonesian Plywood			
2.3mm (thin plywood, F 4star, type 2)	920 X 1830	290	290
3.7mm (med. thickness, F 4star, type1)	910 X 1820	430	430
5.2mm (med. thickness, F 4star, type 1)	910 X 1820	540	540
12mm for sheathing (F 3star, type 2)	910 X 1820	820	820
12mm for foundation (F 4star, special)	910 X 1820	870	870
12mm concrete-form ply (JAS)	900 X 1800	830 ↓	830
11.5mm flooring board	945 X 1840	1100 ↓	1100
3.6mm baseboard for overlays (OVL)	1230 X 2440	780	780
5.2mm for packing	1230 X 2440	830	830
8.5mm for packing	1230 X 2440	1080 ↓	1080
Malaysian Plywood			
2.3mm (thin plywood, F 4star, type 2)	920 X 1830	290	290
3.6mm (med. thickness, F 4star, type1)	910 X 1820	430	430
5.2mm (med. thickness, F 4star, type 1)	910 X 1820	540	540
12mm for sheathing (F 3star, type 2)	910 X 1820	820	820
12mm for foundation (F 4 star, special)	910 X 1820	870	870
11.5mm concrete-form ply (JAS)	900 X 1800	830 ↓	830
11.5mm flooring board	945 X 1840	1100	1100
3.6mm baseboard for overlays (OVL)	1230 X 2440	780	780
Softwood Plywood (Canadian CSP)			
9.5mm foundation of wall (JAS)	1220 X 2440	1500	1500
12.5mm sheathing (T&G JAS)	606 X 2273	1050 ↓	1050
15.5mm foundation (T&G JAS)	1220 X 2440	2500	2500
18.5mm foundation (T&G JAS)	1220 X 2440	2850	2850
Particleboard (Indonesian)			
12mm for woodworking	910 X 1820	460	n/a
15mm for woodworking	910 X 1820	570	n/a
OSB (North American)			
12mm foundation of roof (JAS)	910 X 1820	980 ↓	980
9.5mm Foundation for 2 by 4 (JAS)	910 X 2440	1030	1020 ↓

For more information on the Japanese market please see www.n-mokuzai.com

Report from China

Strategic Adjustment of Forestry Productivity

In a recent televised meeting organized by the State Forestry Administration, a call was made for a 'strategic adjustment' in China's development plans to ensure it followed a path towards sustainability. Forestry, in particular, would be needed to expand shelter belts along eastern coastal areas, bring desertification under control in the underdeveloped western provinces, provide timber through fast-growing and high-yielding forests and ensure that natural forests were fully protected in the north. In short, the forestry development layout for the four major regions would comprise expansion in the

east, control in the west, use in the south and rehabilitation in the north.

Major Wood Products Traded in 2005

IMPORTS

Logs

Log imports continued to grow in the first half of 2005 and were 14.8m cu.m. valued at \$1.6b, up 13% in volume and 18% in value year on year. On average, prices for imported logs rose by 4%, down from 10.8% last year. Softwood log imports reached just over 9m cu.m valued at \$678m, a year on year increase of 17% in volume and 24% in value. In comparison, hardwood log imports amounted to 5.7m cu.m. valued at \$939m, a year on year increase of 8% in volume and 14% in value. Tropical log imports grew only 4.8% to just under 4m cu.m..

Sawnwood

Sawnwood imports contracted by 1.1% to 3m cu.m. but their value grew 8% to \$723m. Softwood sawnwood imports continued to increase and reached just under 1m cu.m. valued at \$163m, up 16% in volume and 19% in value. Hardwood sawnwood imports amounted to 2m cu.m. valued at \$560m, down 8% in volume but up 6% in value. Tropical sawnwood imports rose strongly by 16% to 1.75m cu.m..

Wood-based panels

Plywood import volumes continued to decline, falling 5% to 363 700 cu.m., although value rose slightly to \$183m. Veneer imports were 58 300 tons valued at \$58m, up 3% in volume and 14% in value. By contrast, fiberboard imports fell drastically to 329 400 tons valued at \$12m, a year on year decline of 21% in volume and 14% in value. Particleboard imports were comparatively lower, amounting to 12 800 tons (\$3.4m), a year on year increase of 2% in volume and 7% in value.

EXPORTS

Sawnwood exports continued their strong upward trend, reaching 293 100 cu.m. (\$134m), a year on year increase of 34% in volume and 31% in value. Similarly, plywood exports climbed to 2.7m cu.m. (\$864m), a year on year increase of 38% in volume and 67% in value. Fiberboard exports also grew significantly and topped 482 700 tons (\$1.8b), a year on year increase of 504% in volume and 518% in value.

Veneer exports continued to decline and amounted to 37 000 tons (\$60m), a year on year decrease of 14% in volume and 3% in value. Particleboard exports declined to 2 700 tons (\$964 000), a year on year decrease of 73.8% in volume and 64.4% in value. Wooden furniture exports continued to surge, reaching over \$2b, a year on year increase of 24%.

Log imports declined in Zhangjiagang Port

It has been reported that log imports through Zhangjiagang Port declined in the first half of 2005 to 1m cu.m. (\$198m), down 27% in volume and 23% in value. However, Zhangjiagang Port continues to be the largest port for log imports[?] in China.

According to local experts, the main reasons for the decrease were the shortage of timber resources from Southeast Asia and the increasing cargo diversion to other neighboring ports. Zhangjiagang Port's imported logs came mainly from Oceania (390 000 cu.m.), Africa (370 000 cu.m.) and Southeast Asia (250 000 cu.m.), making up 38%, 36% and 24% respectively of total logs imported. Affected by oil price rises, log shortage supply and currency exchanges, the average price for imported logs was reported to have risen 5% to \$192 per cubic meter.

The fraction of defective imported logs in Zhangjiagang Port grew drastically by 42.5% to 11 500 cu.m. in the first half of 2005, while Quarantine Bureau compensation claims rose to \$1.5m.

80% of Jiangsu Imported Logs had Exotic Pests

Exotic pests have been imported along with logs in Jiangsu Province in recent years. According to the statistics from the inspection and quarantine sector, 172 kinds of pests were found in 1m cu.m. of logs. Imported logs with insects constitute 70% of imports while the presence of Class 1 harmful insects shows an increasing trend.

The invasion of large quantities of foreign pests have endangered the national ecological security and caused significant economic losses. According to partial statistics, pine wood nematode alone had caused 20m trees dead and 2.3b yuan of economic losses. According to local experts, the main reasons for the high percentage of imported logs with pests are:

- Logs with harmful insects from Russia have not been treated before leaving the country.
- Imported logs often still have their bark, increasing the probability that the logs will harbor pests.
- Treatment for pests is not done on 100% of logs in many countries.

Jiangsu is currently paying more attention to the inspection and quarantine of imported logs and has taken a series of measures to increase the degree of detection and interception.

Workshop on Wood Residue Recycling

China's Wood Saving and Development Center, supported by the Department of Environment and Resources Conservation under the National Development and Reform Committee, will host the first *International Workshop on Wood Residue Recycling and Reusing* in November 2005 in Beijing. The conference aims to implement the spirit of the "State Council on Energy-Saving Society" as well as to exchange domestic and foreign production technology and management experience, research and discuss ways to industrialize domestic wood residue recycling and reusing and encourage development of national related industry policies.

Guangzhou City Imported Timber Market

Logs	Yuan per Cu.m
Radiata 6m, 30cm diam.	1100
Luan	2100-2300↑
Merbau 6m, 60cm diam.	3800-4100↑
Kapur/Keruing 60cm+ diam.	2550↑
Beech 6m, 30cm Veneer	3300-3600
Qual.	
Sawnwood	9800-14800↑
Teak Boards	8500-9600↑
US Maple 2" KD	9600-14500↑
US Cherry 2"	11000-14500↑
US Walnut 2"	3400-3500↓
SE Asian Sawn 4m+, KD	
Plywood	20-32
4x8x3mm	150-170↓
4x8x18mm	

Shanghai Furen Wholesale Market

Logs	Yuan per Cu.m
Wenge (Africa)	5000-5500
Sawnwood	
Beech KD Grade AB	3800-3900
US Cherry, 25mm	12500-13000↓
US Red Oak, 50mm	11000-11800↑
Sapele Grade A	5500-5800↑

Hebei Shijiazhuang Wholesale Market

Logs	Yuan per Cu.m
Korean Pine 4m, 38cm+ diam	1650↑
Mongolian Scots Pine	
4m, 30cm diam.	980↓
6m, 30+cm diam.	1010↓
Sawnwood	
Mongolian Scots Pine	
4m, 5-6cm thick	1280↑
4m, 10cm thick	1250↑

Shandong De Zhou Timber market

Logs	Yuan per Cu.m
Larch	
4m, 24-28cm diam.	890
6m, 24-28cm diam.	900
White Pine	
4m, 24-28cm diam.	940
6m, 24-28cm diam.	950
Korean Pine	
4m, 30cm diam.	1100↓
6m, 30cm diam.	1150↓

Tian Jin City Huan Bo Hai timber Market

Sawnwood	Yuan per Cu.m
US Black Walnut	
2.2-4m, 5cm thick	15000
Padauk 2.2-3.2m, 5cm thick	8500-9800
Sapele 2.2-2.6m, 5cm thick	5300
Ash 4m, 50mm thick	3600

For information on China's forestry try: www.forestry.ac.cn

News from around Europe

The 2005/2006 World Furniture Outlook

World production of furniture is worth about \$240b. This estimate is based on a CSIL analysis of 60 countries contained in *The 2005/2006 World*

Furniture Outlook published in June 2005. The text below is reproduced by permission from CSIL.

The seven major industrial economies which are, in order of furniture production, the USA, Italy, Germany, Japan, the UK, Canada and France, together produce 58% in value of the world total. All developed countries produce 76% of the world total.

Furniture production in emerging countries currently amounts to only 24% of the world total in value; China produces 9% of the world total. China and Poland, in particular, have increased production rapidly thanks to recent investments in new plants especially oriented towards the export sector.

In the 1995-2004 period there was a very large increase in the imports of the USA (from \$6.5b to \$21.4b in current dollars) and of the UK (from \$1.8b to \$6.6b in current dollars), and smaller increases in France, Germany and Japan. Italy remains the leading exporter, but the increase of Italian furniture exports in the same period was limited, while Chinese exports increased by about \$8b.

Greater Openness of the Furniture Markets

The major structural change in the furniture sector of the past decade was the increased degree of openness of the markets (measured as the ratio between imports and consumption, which for the entire world rose from 18% in 1995 to 31% in 2004). This increase was particularly significant in the USA, where the trade deficit for furniture increased from \$5.3b in 1996 to \$18.8b in 2004, providing the most important stimulus to global furniture trade.

As a consequence of the opening of the main markets, international trade of furniture until 2000 had grown faster than furniture production and faster than international trade of manufactures. In 2001 the international furniture trade contracted with the global economy, but resumed growth in 2002. In 2005 and 2006 the world GDP will probably continue to grow at a fast pace and so will international trade of manufactures. World trade of furniture is expected to grow by 6% in 2005 (\$80b) and by 7% in 2006 (\$85b) in current dollars. Furniture demand is expected to grow in 2005 and 2006 in all large markets. The global outlook is positive for both years because the continuing

strong growth in the USA is accompanied by an upturn in Europe.

The list of countries where furniture demand in 2006 should grow more than 3% in real terms includes Ireland, eight of the new EU members (Estonia, Hungary, Latvia, Poland, Lithuania, Czech Republic, Slovenia and Slovakia), three in Central and Eastern Europe (Croatia, Russia and Ukraine), nine in Asia (China, India, Indonesia, Malaysia, Philippines, Singapore, Taiwan, Thailand and Vietnam) and one in South America (Chile). Moderate growth is expected in all the rest of the 60 countries with the exception of Germany where no growth is predicted.

Obviously, there are still important differences in the degree of openness of the various markets, differences that depend on the history of the furniture industry, the structural conditions and the comparative advantage of the manufacturers in each country. For example, some markets are of a limited size (small islands, states with low population density and few inhabitants, developing economies with very low per capita incomes), do not have a modern furniture industry and do not make a significant contribution to world furniture trade.

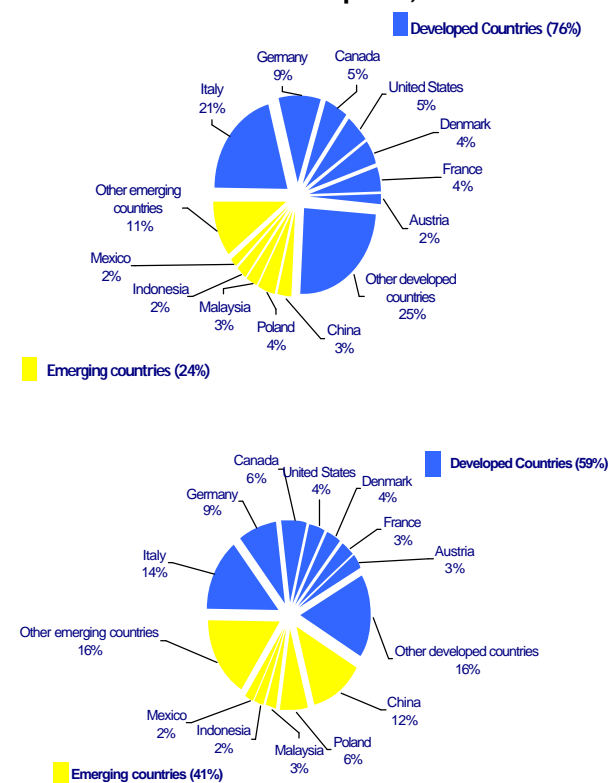
Starting with the 2004/2005 edition of the CSIL's Outlook, the number of countries surveyed was increased from fifty to sixty to mainly account for the enlargement of the EU and the potential importance for furniture production and/or consumption of some countries (Vietnam, Serbia and Montenegro, Bulgaria, Ukraine and Lebanon). The 60 countries had a combined furniture production of around \$238b in 2004, accounted for roughly 75% of the world population and for virtually all world furniture production in terms of value. The international furniture trade of these countries amounted to about \$75b in 2004. The apparent consumption per capita of furniture ranges from an average of \$10 per year in emerging countries to \$217 per year in developed countries as compared to the worldwide average of \$52 per year.

The 25 members of the EU, plus Norway, Switzerland and North America accounted for 75% of furniture consumption in 2004 although their population represents only 19% of the total; Asia and the Pacific, on the other hand, have 3b inhabitants (66% of the total) and accounted for 20% of total furniture consumption.

Leading Exporting Countries

The main furniture exporting countries in 2004 were Italy, China, Germany, Poland and Canada. The relative positions of the main exporting countries have changed considerably between 1996 and 2004. Italy remained in first position with a share of 14% in 2004 but China moved from 10th to 2nd, Canada from 3rd to 5th, Poland from 8th to 4th and the USA from 4th to 6th.

Breakdown of furniture exports, 1996 and 2004



About 59% of furniture exports came from developed countries in 2004; however, the share of developed countries lost 17 percentage points to some emerging countries. China's share increased from 3% in 1996 to 12% in 2004. Other major furniture exporting emerging countries were Poland, Malaysia, Indonesia and Mexico. Among the developed countries, Canada increased its share slightly from 5.3% in 1996 to 5.9% in 2004. Several other interesting changes are apparent in the 1996-2004 period:

- the EU (15) lost more than 12 percentage points
- the new EU members gained 5 percentage points
- North America lost 1 percentage point
- the Asia and Pacific region gained 7 percentage points

- the surge in US imports was accompanied by a surge in exports from China, Canada and Mexico.

Inter-Regional Furniture Trade

A sizeable percentage of international trade is carried out within the economic regions into which the world economy is divided:

- in the EU (15) plus Norway and Switzerland about 64% of the foreign furniture trade takes place within these countries
- in the NAFTA area (USA, Canada and Mexico) more than 36% of foreign furniture is traded within the area
- in the Asia and Pacific region about one third of total foreign furniture is traded within the region.

Overall, trade within regions amounts to more than 50% of total world furniture trade. Therefore, only one half of the world furniture trade can be considered "global" in the sense that it takes place between countries in geographically distant regions. The most important of these flows are:

- from the emerging countries of Asia to the USA (56% of outgoing flows from this area) and, to a less extent, to Europe
- from the EU to the USA, mostly from Italy
- from the new EU members (notably from Poland) to Western Europe (especially to Germany).

Report from the UK

The Bank of England (BoE) cut interest rates by 0.25% last week in an effort to bolster the economy but it gave a clear indication that the rate was unlikely to be cut again soon. The aim of the BoE is to prevent inflation from exceeding 2% per annum. But with oil prices reaching new highs in recent days, all sectors of the economy are affected. The office of national statistics says that manufacturing costs are rising at their fastest rate in 20 years.

In the year to July, input prices overall rose 15%. Producers were only able to pass on some of the costs, so output prices rose by only 3% in the same period.

James Latham, one of the leading hardwood importers, has performed well over the last year, showing a £4m profit.

It is well known that the timber industries rely heavily on the performance of the construction industry. The latest statistics show a reasonably buoyant situation, with new house starts up from last year. However, a forecast for timber sales (in value) in the UK points to only 1-3% growth up to 2009, which would mean that volume would fall.

The tropical timber market is faced with two problems: the increasing need for certified timber, and price. This translates into a different approach to species selection, bearing in mind that many users do not feel that the species is paramount and are generally not looking for criteria beyond price when making their choices. This means there is a continuing change in the sourcing of supplies and today Africa is coming into the frame, in preference to South America and South East Asia.

Log Prices in the UK

FOB plus commission	Euro per Cu.m
Sapele 80cm+ LM-C	2650-285↑
Iroko 80cm+ LM-C	380-390↑
N'Gollon 70cm+ LM-C	220-225
Ayous 80cm+ LM-C	250-260

Sawnwood Prices in the UK

FOB plus Commission	Stg. per Cu.m
Brazilian Mahogany FAS 25mm	905*
Teak 1st Quality 1"x8"x8"	2035-2350
Tulipwood FAS 25mm	370-390↑
Cedro FAS 25mm	420-450
DR Meranti Sel/Btr 25mm	400-415↑
Keruing Std/Btr 25mm	275-295↑
Sapele FAS 25mm	340-350↑
Iroko FAS 25mm	440-490
Khaya FAS 25mm	340-370
Utile FAS 25mm	405-415
Wawa No.1 C&S 25mm	225-235

*When last available

Plywood and MDF in the UK

Plywood Panels 8"x4", CIF	US\$ per Cu.m
Brazilian WBP BB/CC 6mm	610↑
Brazilian Mahogany 6mm	(1265)*
Indonesian WBP BB/B 6mm	620-630↑
MDF	Stg. per Cu.m
Eire, BS1142 12mm	42.50

*When last available

Report from Holland

The market for tropical and non-tropical timber, including softwood and panel/sheet materials, is dormant. Exporters in Malaysia complain that sales to the Dutch market are small. The situation has worsened during the summer holidays and it is not expected to pick up until the end of August or early September.

For the time being, exporters are refraining from offering typical Dutch sizes without request. Exporters are confronted with no immediate requirements for the main size of 3x5" on one hand, and interest for sizes such as 2.1/2x5", 2.1/2x6", 7/4x10" and 12", which are not readily available, on the other.

The economic situation in Holland continues to be problematic. Consumption is subdued and the building sector in particular is underperforming. However, despite the low and sluggish demand stocks seem to be coming down gradually. Some traders report that more end-users now seem to be aware of the very difficult supply situation in Malaysia and Indonesia and of the fact that some items (such as merbau) are in acute shortage. This awareness, coupled with recent developments in the exchange rate of the euro, has led to a slight improvement in prices. For S4S-fingerjoined material, for instance, some traders report a slight upward trend in prices free delivered at end-users' yard.

Although there were hardly any CNF Rotterdam sales, exporters in Malaysia generally maintained their prices. Nemesu non-PHND (Pin Holes No Defect) even enjoyed a hefty price increase.

Sawnwood prices in Holland

CNF Rotterdam	US\$ per Ton of 50 Cu.ft.
Malaysian DRM KD Sel/Btr (PHND in 3x5")	
Bukit	1080-1085↓
Nemesu	no offers
Seraya	1100
MTCC Certified Seraya	1120
MTCC Certified Nemesu	1110
Merbau KD Sel/Btr	
Sapfree in 3x5"	n.a.
Merbau 7/4x12"	1570
Indonesian DRM KD Sel/Btr (PHND in 3x5")	
Bukit	1070
Seraya	n.a.

Report from North America

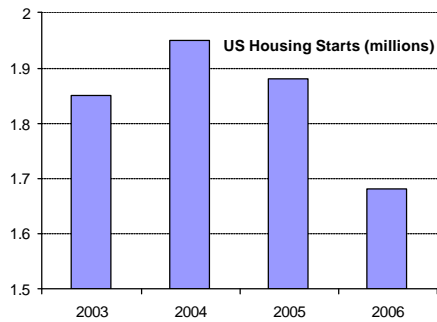
Oil prices hit new highs

Crude oil kept jumping to unprecedented levels of over \$67 a barrel as rising consumption in Asia and North America stretches the ability of producers to supply refiners. Political instability in Iraq and Saudi Arabia are also contributing to the upward trend.

Mid-term prospects for the US housing market look strong

The fundamentals of the American housing market are still healthy according to Globe & Mail and Aktrin. The residential construction industry has benefited from attractive mortgage rates (30-year rates are still below 6%); an improving job market; and a slowly increasing disposable income.

Furthermore, the existing housing inventory in the USA is relatively low, covering a house demand of less than 5 months.



Housing starts in May increased slightly to 2m (seasonally adjusted annual rate). The increase was led by the single-family sector, up 4.7%, while multi-family was down almost 20%. Geographically, the South was the only region with a decline in housing starts (-12%) while the Northeast, Midwest, and West were up 5%, 18.7%, and 12.3% respectively.

There are concerns that the housing bubble may burst. Indeed, the new housing market is expected to fall to 1.88m units in 2005, which would be lower than last year's 1.956 m units.

Inflation and dollar issues are expected to push mortgage rates upward through 2006. A number of other economic indicators are also deteriorating, such as: the rising ratios of home price to income (currently about 3.5); home price to rent (currently about 1.3); and mortgage service debt to income (currently over 10%). These facts foreshadow the possibility that the housing market will pull back further in 2006. Already, building permits (an indicator of future activity) were off 4.6% in May 2005. Single-family housing construction will probably slow the most as higher mortgage rates will shift some prospective buyers to the rental market.

Even though the US home-building activity may cool down next year, its longer-term prospects remain strong. High immigration levels are one reason. It will take an average of more than 1.8m housing starts annually to meet the needs of US residents over the next five years.

Another reason is the taste that Americans have developed for larger living spaces. The houses of the future are going to be bigger than the ones of the past, and larger houses require more building material. Currently, the average home in the USA is built with 15,000 board feet of lumber and 10,000 square feet of structural panels (plywood and OSB). US lumber and panel producers on their own are unable to meet these demands. As a result, the country will continue to rely heavily on imports.

At present, Canada – and particularly British Columbia – holds a 34% share of the US market. The strength of the US housing market has helped to make BC lumber producers among the world's top performers and there is no sign of a slowdown. In 2004, BC stood out as the industry's top performing region in the world, earning an 11% return on capital employed (ROCE) (global average was 5.4% in 2004). It is generally assumed that a ROCE of over 10% is needed to make an industry competitive in the capital market. The good performance of BC's lumber producers was driven mainly by capital investments, which have created more efficient and larger mills, and by a focus on solid wood products. Top performers in BC include Canfor Corp and West Fraser Timber Co Ltd, the second and third-largest lumber producers in the world.

Nevertheless, the forestry sector is still facing overcapacity due to new production coming on stream in the southern hemisphere. Further consolidation and closures of high-cost producers may be needed.

Changing Preferences in US Furniture

Each year since 1934, the *Appalachian Hardwood Manufacturers, Inc. (AHMI)* undertakes a survey of furniture showrooms at the *International Home Furnishings Market* in High Point, NC, USA, to determine changes in the usage of wood species in furniture.

Over the long term, the species composition for furniture sold in the United States has changed considerably. Up to the late 1960s, walnut was the most dominant species (40% of use). But since the mid 1960s, this fell out of favor, dropping below 1% by the late 1990s. Red oak also underwent significant swings, from about 5% of share prior to

1970 to a high of 17% in 1995, only to fall back again to 9% in 2005. Cherry has enjoyed great popularity among American consumers (except during the 1930s and 1940s), often claiming a share above 10%.

Usage of species in furniture (%) from 1930s
(Average per decade)

	30s	40s	50s	60s	70s	80s	90s	2000s
Red Oak	2.7	5.1	5.3	3.5	10.7	15.1	14.2	10.7
Cherry	2.2	1.4	12.4	19.1	6.8	11.2	17.8	17.6
Pine	n/a	n/a	n/a	n/a	12.0	10.6	11.7	9.5
Hard Maple	12.0	8.9	12.5	16.3	9.2	4.8	7.7	9.1
Mahogany	n/a	n/a	n/a	n/a	n/a	n/a	6.8	5.4
Rubberwood	n/a	n/a	n/a	n/a	n/a	n/a	1.3	3.6
Walnut	39.3	24.8	19.4	24.9	8.7	2.6	1.0	1.7
Other woods	n/a	n/a	n/a	n/a	n/a	n/a	22.9	23.1
Laminates & non-wood	n/a	n/a	n/a	n/a	n/a	n/a	16.8	19.3

Hard maple has been re-gaining popularity recently. Its share advanced from 6% in 1997 to 10% in 2005. Pine furniture, which hit a high of 13% share in the 1990s, has lost a bit of favor with consumers since then to reach 8% in 2005.

With regards to tropical species, growing concerns about rainforests and endangered species has led to a persistent decline in the usage of mahogany. While in 1996 8% of American bedroom and dining room furniture were made of mahogany, in 2005 only 5% are made of this species. Rubberwood is another imported species which has fared much better. Its share in the US furniture sector has advanced from less than 1% in 1997 to 6% in 2005.

Furniture made of painted and laminated wood, as well as non-wooden furniture, has often captured a share in the 10%-20% range. It reached a low of 12% in 2000 and a high of 21% in 1997. As of 2005, the share stands at 18%.

According to the AHMI survey, there has been a marginal increase in wood furniture sales in 2005 compared to 2004. Wood furniture displayed at the High Point furniture market comprised 82% of total furniture, up 1% from 2004. Painted or printed woods, overlays, and brass-glass-metal

combinations comprised 18% of the bedroom and dining room furniture groups.

The survey also detected a broader mix of species. American wood species dominated in all categories, with cherry, red oak, maple and pine being the top four species. However, imported woods (above all ubberwood and other Asian species) continue to make inroads. The growing proportion of non-indigenous species is explained by the fast increase of imported furniture into the USA. In 2005, only 24% of the wooden furniture products shown at the High Point furniture market were made in the USA. The other 76% of the products were imported or made from a combination of US and imported species, up from 72% in 2004 and from 52% in 1999.

The survey made a distinction between wood bedroom and dining room groups, wall units, entertainment centers and home office furniture. The top species in the bedroom and dining room groups was cherry with 16% of the furniture surveyed. This wood has been the market leader for more than 15 years and increased its dominance in 2005. Hard maple and red oak follow with 10% and 9% shares respectively. Maple's share increased slightly while red oak's declined marginally between 2004 and 2005. As a result, hard maple and red oak traded places in 2004. The three abovementioned species accounted for more than one-third of the bedroom and dining room furniture displayed at the High Point market. Other species included pine (8%); rubberwood (6%); white oak, ash and mahogany (each with 5%); alder (4%); and others (6%, mainly a combination of 14 Asian wood species).

A slight increase in wood use (up 1%) in the home-office, entertainment-center and wall-unit categories was also reported, thereby continuing a trend that started in 1999. American species dominated with oak (24%), cherry (18%) and maple (12%), together accounting for more than 50% of the market. Other widely used woods include white oak and pine (each 8%). Painted and printed woods, overlays, and brass-glass-metal combinations totaled 9%, down 1% from the previous year.

China spent over 44.89b yuan (5.5b US dollars) in the past seven years on protecting natural forests. The bulk of the investment, about 42b yuan, was provided by Chinese government, the ministry said.

http://news.xinhuanet.com/english/2005-08/07/content_3322443.htm

Growing on the strength of 'local oak' in Malaysia: in the Buloh Kasap plantation, rubber trees are grown not necessarily for latex but for wood that would be used in the furniture industry.

<http://biz.thestar.com.my/news/story.asp?file=/2005/8/7/business/11684697&sec=business>

Malaysia has announced a state of emergency in two towns after air pollution reached dangerous levels. The pollution is blamed on fires lit to clear land in neighbouring Indonesia, seriously affecting air quality and visibility across the Malacca Strait.

<http://news.bbc.co.uk/2/hi/asia-pacific/4140660.stm>

Not long ago, applying an energy rating to a new home was the exception to the rule. Now it's the law. Embodied energy is the big issue now. It's not just about how much energy a product will use in the next 10 or so years, but how much it will use during its life time.

<http://www.infolink.com.au/articles/de/0c0356de.asp>

Oil charged to a record \$66 a barrel Thursday as Iran's nuclear work put it at odds with the UN's atomic watchdog, and more US refinery snags threatened gasoline supplies to the world's biggest consumer.

<http://money.cnn.com/2005/08/11/markets/oil.reut/index.htm>

Singapore-based Asia Pulp and Paper (APP), part of Indonesia's Sinar Mas Group, has been accused of illegal logging of natural forest in southwest China's Yunnan province. The alleged deforestation was done as part of a vast wood-for-paper project, in which APP and the Yunnan government are cooperating.

<http://www.atimes.com/atimes/China/GH09Ad02.html>

Tasmanian woodchips are becoming too expensive for the Japanese paper industry to buy, an Australian leading forest products economist has warned.

http://www.themercury.news.com.au/common/story_page/0,5936,16198780%255E921,00.html

The US lost an appeal to maintain punitive duties on Canadian lumber, a development that may spur the return of C\$5b (\$4.13b) of tariffs to companies such as Canfor Corp. and Tembec Inc.

http://www.bloomberg.com/apps/news?pid=10000082&sid=akN39tkiJ_yI&refer=canada

Villagers in Kelantan, who have long earned a living from collecting and processing agarwood, now have to comply with new rules aimed at conserving the trees, which yield the fragrant wood.

<http://thestar.com.my/lifestyle/story.asp?file=/2005/8/9/lifefocus/11585171&sec=lifefocus>

Main Dollar Exchange Rates

As of 5th August 2005

Brazil	Real	2.31	↑
CFA countries	CFA Franc	531.07	↓
China	Yuan	8.10	↑
EU	Euro	0.81	↓
Indonesia	Rupiah	9,756.00	↓
Japan	Yen	111.99	↓
Malaysia	Ringgit	3.75	↑
Peru	New Sol	3.25	↑
UK	Pound	0.56	↓

Abbreviations

LM	Loyale Merchant, a grade of log parcel
QS	Qualite Superieure
CI	Choix Industriel
CE	Choix Economique
CS	Choix Supplimentaire
FOB	Free-on-Board
KD	Kiln Dry
AD	Air Dry
Boule	A log sawn through and through, the boards from one log are bundled together.
BB/CC	Grade B faced and Grade C backed Plywood.
BF	Board Foot
Sq.Ft.	Square Foot
Hoppus ton	1.8 cubic metres
Cu.m	Cubic metre
Koku	0.278 Cu.m or 120 BF
SQ	Sawmill Quality
SSQ	Select Sawmill Quality
FAS	Sawnwood Grade First and Second
WBP	Water and Boil Proof
MR	Moisture Resistant
MBF	1000 Board Feet
MDF	Medium Density Fibreboard
F.CFA	CFA Franc
↑↓	Price has moved up or don

Appendix. Tropical Timber Price Trends

This section will be resumed in the next issue of the *MIS Report*.