

Chapter 12

Tropical timber market developments

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Highlights

- In 2000, the global tropical timber sector continued to recover from the sharp downturn due to the 1997 and 1998 Asian crises.
- China is driving the tropical log trade and will likely soon become the largest importer of primary tropical timber products.
- With increased orientation towards value-added processing, the value of the trade of secondary processed tropical wood products is approaching that of the declining value of primary product trade.
- The United States is the single largest importing country of secondary processed wood products, and imports the greatest value of tropical secondary products. The EU 15-country bloc imports the largest value of secondary products, mostly furniture.
- Tropical log production and exports continued to decline in 2000, while sawnwood, veneer and plywood production and trade expanded.
- Reconstituted panels, such as MDF, will become increasingly important for tropical countries in utilizing tropical raw materials efficiently and as substitutes for plywood and sawnwood.
- Tropical sawnwood imports by EU countries fell by 3% in 1999 but rose by 7% in 2000. Imports of other primary tropical timber commodities by the EU fell during 1999 and 2000.
- Certification of sustainable forest management is a hot topic and tropical countries are producing some certified forest products, either under a national label or under an international scheme's label.
- Tropical timber prices have recovered generally from the 1997 and 1998 crises, and in the case of mahogany sawnwood, have reached record levels.
- Several major discrepancies between exporters' and importers' reports of trade flows indicate significant volumes of undocumented trade in logs and sawnwood.

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Secretariat introduction

The secretariat would like to express its sincere appreciation for this continued close cooperation with our colleagues in the International Tropical Timber Organization, specifically Drs. Steven E. Johnson and Michael J. Adams and Ms. Masaki Miyake. Drs. Johnson and Adams are the principal authors of the ITTO Annual Review and Assessment of the World Timber Situation 2000 and Market Information Service, respectively, from which this chapter was drawn. Like our Review, ITTO's Review is the basis for a market discussion each May, which has also contributed to the updated analysis below.

Readers will note that some of the terminology differs slightly from the rest of the Review but the authors have focused the following analysis on the tropical trade developments of the UNECE region. ITTO categorizes its members into producer and consumer countries. Only ITTO member countries are covered.

12.1 Introduction

During 2000 the global tropical timber sector continued to recover from the sharp downturn of 1997 to 1998, with many markets stable or improving. China is now driving the tropical log market and will likely soon become the largest overall importer of primary tropical timber products. Many producer countries continued their shift to secondary processed products exports in 2000, with the value of trade in these products continuing to rise towards the value of primary tropical timber products trade.

Auditing of forest management and the related issue of timber certification remained topical issues in 2000, with forestry operations in many countries seeking some form of certification, either through the Forest Stewardship Council (FSC) or the Pan European Forest Certification system, or through other avenues (e.g. ISO 14000 or national standards authorities). Malaysia's National Timber Certification Council and Indonesia's ITTO-supported Ecolabelling Institute should both soon begin marketing tropical certified forest products with their own labels. Many tropical countries are unwilling to seek certification solely through international bodies like FSC. This is leading to a proliferation of national schemes and preliminary discussions regarding a framework for mutual recognition of schemes.

This analysis is based on 2000 statistics because data for 2001 were not available to ITTO at the time of preparation of this Review. However, it is likely that tropical timber markets also showed some weakness in 2001.

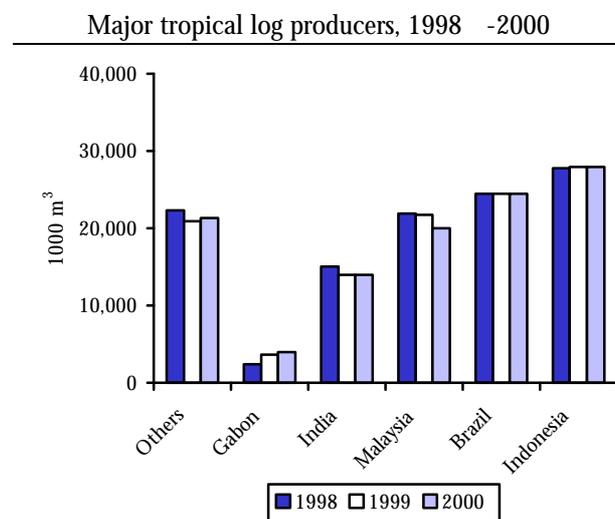
12.2 Production

12.2.1 Logs

The production of tropical industrial roundwood ("logs") in ITTO producer member countries totalled 113.5 million m³ in 1998. This total was down 9% from 1997 levels, with a further decrease of 1% to 112.5 million m³ in 1999. Log production by ITTO producer member countries further declined to 111.3 million m³ in 2000. Of the top five, Indonesia, Brazil and Gabon were stable or increasing during the period 1998 to 2000, whereas Malaysian and Indian production declined (graph 12.2.1). Malaysian production fell from about 30.3 million m³ in 1996 to 20 million m³ in 2000, a reduction of almost 34% in just five years and nearly 50% in the last decade. This decrease reflects lower harvests in both Sabah and Sarawak, with the latter's harvests from its permanent forest estate now at the annual level of 9 million m³ recommended by the ITTO mission to Sarawak in 1990.

Tropical log production is dominated by four producing countries (Indonesia, Brazil, Malaysia and India), which together comprised around 80% of ITTO production in 1999 to 2000 (graph 12.2.1). All figures are based on total estimated removals, including those from forest conversion operations. Indonesian reports indicate that in recent years the Government has converted 3.4 million hectares of forests into plantations, 2.4 million of which are palm-oil estates. Most of the cleared forests were classed as secondary degraded and reportedly did not contribute significantly to Indonesian log production. Indonesian log production is probably significantly higher than the estimates given here, however, with some sources estimating the illegal harvest to be almost equal to

GRAPH 12.2.1



Source: ITTO, 2001.

or even greater than the official figures of under 30 million m³.

Unfortunately, Indonesia, similarly to Brazil and India, has never provided production figures to ITTO, necessitating the use of estimates based on reported exports and assumed domestic consumption. Gabon is the only country with increasing log production, due largely to increased exports to China.

Four other ITTO producer members, Myanmar, Cameroon, Papua New Guinea, and Côte d'Ivoire, had log production exceeding 2 million m³ in 1999. Of these, only Côte d'Ivoire reported significantly increased production in 2000.

Two ITTO consuming countries possess significant tropical timber resources: Australia and China. Aggregate production from these sources for 1999 was estimated at 250,000 m³, 20.6% down from 1998, with the bulk of this drop coming from China's southern provinces of Hainan Island and Yunnan. Log production from these areas is consumed almost entirely domestically. China is reducing domestic felling for environmental reasons and the abolition of import tariffs is encouraging increased log imports to meet domestic needs.

The Asia-Pacific region produced just over 62% of ITTO members' tropical hardwood logs in 1999 (table 12.2.1). Asia's share of ITTO log production declined slightly to 60.4% in 2000. Africa's share of production

remained at about 10 to 11% in 1999 to 2000, and Latin American production remained at about 28%.

12.2.2 Sawnwood

Production of tropical sawnwood in ITTO producing countries totalled 33 million m³ in 1999, up slightly (0.8%) from 1998. Production declined slightly to 32.9 million m³ in 2000, due to production declines in Asia. Africa, which makes up less than 6% of ITTO production, still suffers from weak infrastructure and environmentally demanding export markets that constrain major investments in wood processing. However, production is gradually rising owing to log export bans and requirements for further processing in many countries. Latin America, with around 36% of ITTO sawnwood production, decreased production by 1% in 1999 but increased almost 2% in 2000. Despite recovering by almost 3% in 1999 from the crises levels of 1998, Asian production continued a steady decline, dropping 2% to under 18 million m³ in 2000 for a total 17% decline in the last five years. The Asian region accounted for around 56% of sawnwood production in producer countries in 1999 and 2000.

The major ITTO producers of tropical sawnwood in the 1998 to 2000 period, as ranked by 1999 production, were Brazil (9.9 million m³), India (6.8 million m³), Indonesia (5.5 million m³) and Malaysia (5.2 million m³) (graph 12.2.2). Production by the first three was stable in 2000, but Malaysia's sawnwood production declined by 6% to under 5 million m³, moving it well below Indonesia for the second year in a row. Malaysian production has declined by 36% in the last five years and has driven Asian production downward in the same period. The country's declining sawnwood production is due to falling log production and the increasing use of available logs in

TABLE 12.2.1

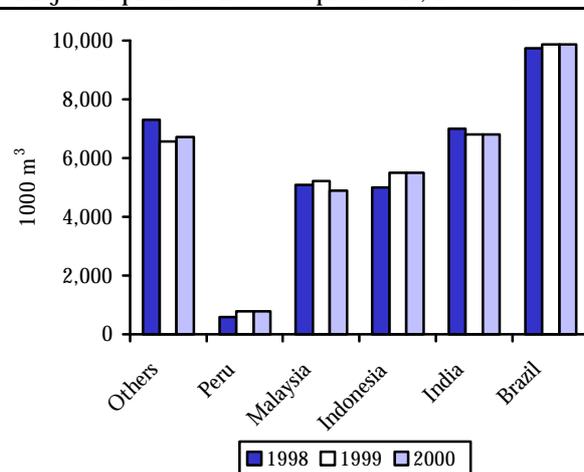
Tropical forest products production, 1998 -2000
(1,000 m³)

	1998	1999	2000
AFRICA			
Logs	11,080	11,747	12,486
Sawnwood	2,130	2,050	2,174
Veneer	561	629	796
Plywood	355	369	410
ASIA PACIFIC			
Logs	70,199	69,427	67,225
Sawnwood	17,925	18,400	17,992
Veneer	1,078	1,242	1,514
Plywood	12,388	13,284	13,177
LATIN AMERICA/CARIBBEAN			
Logs	32,254	31,286	31,609
Sawnwood	12,675	12,545	12,769
Veneer	204	197	194
Plywood	1,214	1,305	1,436
TOTAL			
Logs	113,533	112,459	111,320
Sawnwood	32,730	32,994	32,934
Veneer	1,843	2,068	2,504
Plywood	13,957	14,958	15,023

Source: ITTO, 2001.

GRAPH 12.2.2

Major tropical sawnwood producers, 1998 -2000



Source: ITTO, 2001.

veneer, plywood and other secondary processing mills. The top four tropical sawnwood producing countries comprised just under 79% of ITTO sawnwood production in 1999 to 2000. Peru, which overtook Colombia as ITTO's fifth largest sawnwood producer, produced 791,000 m³ in 1999.

Four other countries (Colombia, Ecuador, Côte d'Ivoire, and Cameroon) produced over 500,000 m³ of tropical sawnwood in 1999. Production increased or remained stable in 2000 in all of these countries.

Consumer countries produced 1.7 million m³ of tropical sawnwood in 1999, down by 13% from 1998 levels, with most of the decrease due to China, Japan and the EU. Further decreases in these countries, despite a recovery in the Republic of Korea, led to a further 6% decline in 2000.

12.2.3 Veneer

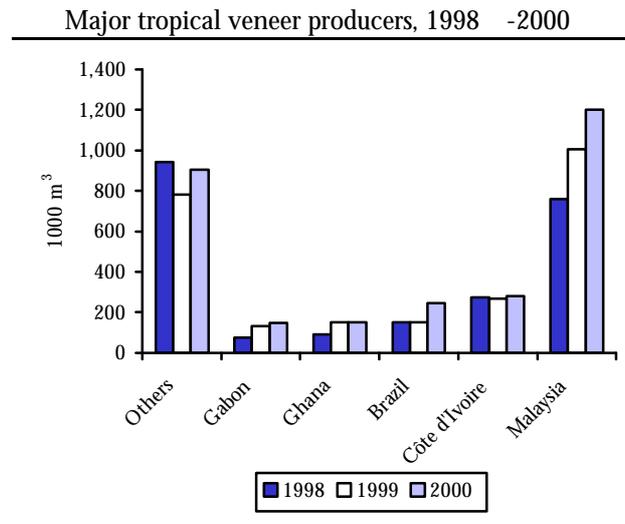
Production of tropical veneer in ITTO producing countries totalled almost 2.1 million m³ in 1999. Veneer production figures should not include veneer used in domestic plywood production and therefore represent only the production of veneer intended to be traded as such. Veneer production in producing countries surged by 12% in 1999, and again by 21% to over 2.5 million m³ in 2000. The 1999 and 2000 increases were due largely to similar increases in Malaysia's veneer production, which climbed by 58% from under 760,000 m³ to 1.2 million m³ between 1998 and 2000.

Asia produced over 1.2 million m³ of tropical veneer in 1999, Africa produced 629,000 m³ and Latin America produced 197,000 m³. Aggregate production rose in Africa (up 27%) and Asia (up 22%), while Latin America was stable in 2000 (graph 12.2.3).

Malaysia's dominant role is clear. Malaysia's veneer production made up 49% of ITTO's producer production in 1999 and 40% of total ITTO veneer production. Côte d'Ivoire is ITTO's second largest producer, with production rising to 280,000 m³ in 2000. Ghana (150,000 m³ in 1999, up 67% from 1998) overtook Gabon and equalled Brazil's veneer production as ITTO's third largest tropical veneer producer in 1999. Gabon's production also increased sharply in 1999 and 2000 as a result of new capacity. Two other ITTO producer members (Philippines and Cambodia) had veneer production of at least 75,000 m³ in 1999. Cambodian production has recently seesawed, tumbling by 58% to 75,000 m³ in 1999 before rebounding by 60% to 120,000 m³ in 2000 owing to changes in China, its main market for veneer.

ITTO consuming countries produced 421,000 m³ of tropical veneer in 1999, down 6% from 1998 levels, and remained at that level in 2000. Production of veneer in

GRAPH 12.2.3



Source: ITTO, 2001.

consumer countries in 1999 was split between the EU (57%), China (including Hong Kong and Macao S.A.R.s, 17%), Japan (17%) and Taiwan Province of China (9%). Japan, China and Taiwan Province of China consume virtually all of the veneer they produce, however, while about one quarter of the total produced in Europe is re-exported (mainly to other European countries). EU production dropped by nearly 5% to 240,000 m³ in 1999 as a result of a decline in Portugal but remained stable in 2000. Japan's production of tropical veneer fell by 7% to 70,000 m³ in 1999 and remained at this level in 2000. Japan's tropical veneer production has more than halved in the last five years as its tropical veneer and plywood industries contracted together with log availability and the economy.

12.2.4 Plywood

Production of plywood in ITTO producing countries totalled almost 15 million m³ in 1999. Plywood production in producing countries increased by 7% in 1999 and remained at this level in 2000. Plywood production by Indonesia, by far the top ITTO producer, rose by 9% from 1998 levels to about 8.5 million m³ in 1999 (graph 12.2.4). Malaysia's plywood production also rose by 6% in 1999 to 4.1 million m³, before falling 3% to 4 million m³ in 2000. Overall, however, Malaysian plywood production has increased by 8% in the last five years, while Indonesian production has declined 8% in the same period. The Asian region produced 13.3 million m³ of plywood in 1999 (about 89% of total producer member production), Latin America produced just under 1.3 million m³ (9%) and Africa produced 369,000 m³ (2%). Asia, Latin America and Africa consumed 16%, 63% and 58% respectively of their

production domestically in that year. Asia's low consumption/production ratio is due to the exports led industries of Malaysia and Indonesia. The low domestic utilization of plywood in Asia is an anomaly, with domestic markets consuming a majority or a near majority of all other primary tropical timber products in all three regions.

Production in China, which overtook Japan as the third largest producer of tropical plywood, climbed by 110% to 2.1 million m³ as a result of a sharp increase in tropical log imports and a corresponding decrease in plywood imports. Chinese plywood production rose further by 10% to 2.3 million m³ in 2000. China has more than quadrupled its tropical plywood production in the last five years to keep pace with the demand of its growing construction sector.

Tropical plywood production in Japan increased slightly by 3% in 1999 before dropping 9% to 1.6 million m³ in 2000 (graph 12.2.4). Brazilian production increased by 11% to 1 million m³, and remained at that level in 2000. Taiwan Province of China, the Republic of Korea, France and India all produced at least 300,000 m³ of tropical plywood in 1999. After being hit by the Asian turmoil in 1998, the Republic of Korea's plywood production rebounded by 50% from 300,000 m³ in that year to 450,000 m³ in 1999. Korea's upward trend in tropical plywood production continued in 2000 as its construction market strengthened.

ITTO consuming countries produced 5.3 million m³ of plywood in 1999 (about 26% of total ITTO production), a 29% surge from 1998. ITTO consuming countries' production further increased by 2% to 5.4 million m³ in 2000, led by the increases in Chinese and Korean production. Large declines in tropical plywood

production were observed in Taiwan Province of China (in 1999) and Japan (2000), owing primarily to log shortages. Taiwan Province of China's tropical plywood production has fallen by 36% in the last five years, while Japan's production has more than halved in the same period. Japanese domestic plywood production is now well below plywood imports, after 50 years of domestic production exceeding imports ended in 1995. Japanese plywood manufacturers are increasing the proportion of softwoods used in plywood production, as well as investigating lamination and other techniques to allow re-use of concrete form-ply. Several plywood manufacturers from Japan, Taiwan Province of China and elsewhere have established joint ventures for plywood and other panel production in tropical countries.

12.2.5 Reconstituted panels

Substantial quantities of reconstituted panel products, particularly MDF, are now being produced in several tropical countries, primarily in Asia. Many new plants are now operational, or soon will be, to meet the expected surge in demand for such products. Reconstituted panel products will become increasingly important as limits on the growth of plywood production are reached and as more countries move further into downstream processing and attempt to utilize available resources more efficiently. These panels substitute for plywood and sawnwood in many uses, resulting in decreasing or slower growth in production of these traditional tropical timber products in many countries.

12.3 Exports

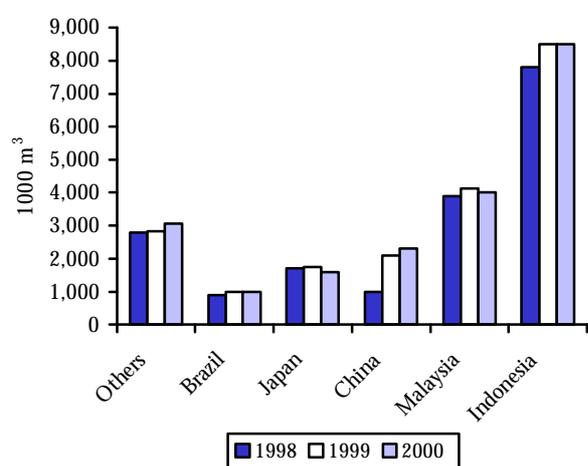
The composition of exports for 1998 to 2000 from the ITTO producing regions continues to change (tables 12.3.1, 12.3.2 and 12.3.3). The contribution of logs to total tropical timber exports of ITTO producers (in terms of both value and roundwood equivalent volume) fell dramatically from over 60% in the 1980s to around a quarter in 2000. Only Africa continues to export a higher volume equivalent of logs than processed products, with log exports making up 38% of log production and 54% of total roundwood equivalent export volume in 1999.

The Asia-Pacific region is rapidly replacing log exports with the export of processed products, spurred by Indonesian plywood exports and Malaysian exports of sawnwood, veneer and plywood. Asian log exports made up 23% of total Asian export volume in 1999 (15% of log production).

Latin American tropical log exports are a small fraction of both production and total exports. Total roundwood equivalent export volume as a percentage of log production increased from 8% to 12% in Latin America from 60% to 65% in Asia and from 70% to 72%

GRAPH 12.2.4

Major tropical plywood producers, 1998 -2000



Source: ITTO, 2001.

TABLE 12.3.1
Composition of exports by producing regions, 1998 -99
(1,000 m³ roundwood equivalent)

Region	Log production			Log exports			Processed exports			Total exports		
	1998	1999	2000	1998	1999	2000	1998	1999	2000	1998	1999	2000
Africa	11,080	11,747	12,486	4,367	4,442	4,831	3,372	3,818	4,119	7,739	8,259	8,950
Asia-Pacific	70,199	69,427	67,225	7,971	10,249	9,237	33,930	34,462	34,500	41,901	44,711	43,737
Latin America	32,254	31,286	31,609	137	137	136	2,563	3,162	3,777	2,700	3,298	3,913
TOTAL	113,533	112,459	111,320	12,475	14,826	14,204	39,865	41,442	42,396	52,340	56,269	56,600

Notes: Totals may not sum exactly due to rounding. "Processed exports" include sawnwood, veneer and plywood.

Source: ITTO, 2001.

TABLE 12.3.2
Tropical timber export ratios, 1998 -1999

Region	Log exports as % of production			Log exports as % of total exports			Processed exports as % of total export		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Africa	39	38	39	56	54	54	44	46	46
Asia-Pacific	11	15	14	19	23	21	81	77	79
Latin America	0	0	0	5	4	3	95	96	97
TOTAL	11	13	13	24	26	25	76	74	75

Source: ITTO, 2001.

in Africa. Total ITTO producer member exports in roundwood equivalent increased by 8% from 52.3 million m³ to 56.6 million m³ in 1998 to 2000, owing to the recovery of African and Asian log exports and increased sawnwood exports by all three regions.

12.3.1 Logs

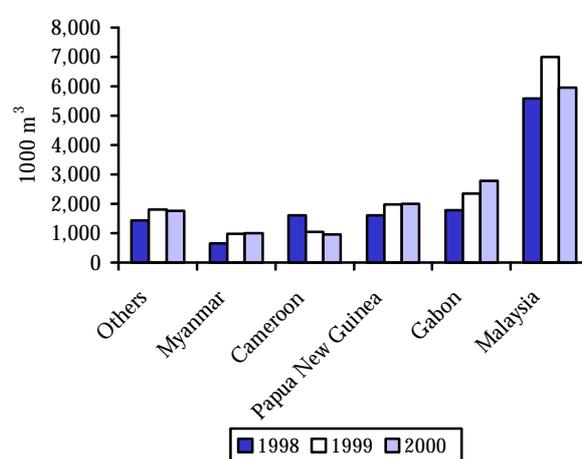
Total ITTO producer member exports were just over 14.8 million m³ in 1999 (graph 12.3.1). Log exports by producer members decreased by 4% in 2000 to 14.2 million m³.

Malaysia continues to dominate the trade in tropical logs with almost 7 million m³ exported in 1999, constituting 47% of ITTO producer member exports. Malaysia's log trade in 1999 jumped sharply in volume by 25% from 1998 levels but decreased to under 6 million m³ in 2000. The increase in 1999 was due mainly to increased exports to China. Malaysia's major log customers are all in Asia, with China (including Taiwan Province of China), Japan and India accounting for 82% of the reported log export volume in 1999.

Papua New Guinea is the third largest tropical log exporter, with 1999 exports of almost 2 million m³, up from 1.6 million m³ in 1998 but still far below the pre-crises levels of almost 3 million m³ per year. The bulk of

Papua New Guinea's log exports (71% in 1999) go to Japan and the Republic of Korea, with the Chinese market growing rapidly to about 17% of Papua New Guinea's exports in 1999, mainly in lower grades. Log exports by Myanmar (the fifth largest log exporter at almost 1 million m³) increased by almost 50% in 1999.

GRAPH 12.3.1
Major tropical log exporters, 1998 -2000



Source: ITTO, 2001.

TABLE 12.3.3

Tropical forest products exports, 1998 -2000
(1,000 m³)

	1998	1999	2000
AFRICA			
Logs	4,367	4,442	4,831
Sawnwood	1,307	1,414	1,504
Veneer	371	443	506
Plywood	125	175	183
ASIA PACIFIC			
Logs	7,971	10,249	9,237
Sawnwood	3,565	3,723	4,102
Veneer	954	1,041	905
Plywood	11,143	11,178	11,006
LATIN AMERICA/CARIBBEAN			
Logs	137	137	136
Sawnwood	817	988	1,103
Veneer	126	99	77
Plywood	364	512	706
CONSUMERS			
Logs	180	279	234
Sawnwood	475	618	579
Veneer	94	112	81
Plywood	617	645	634
TOTAL			
Logs	12,655	15,107	14,437
Sawnwood	6,164	6,743	7,288
Veneer	1,546	1,694	1,570
Plywood	12,249	12,510	12,530

Source: ITTO, 2001.

Myanmar's main trading partners are India, Thailand and China (although there is a major discrepancy between the figures provided by Myanmar and those provided by China).

Africa supplies the majority of the remainder of world tropical hardwood log exports. Gabon and Cameroon are the region's largest exporters (and ITTO's second and fourth largest), but the Democratic Republic of the Congo, Liberia, the Central African Republic and Côte d'Ivoire also exported substantial quantities of logs in 1999. Gabon's exports increased by 32% in 1999 as trade with China increased. Gabon's exports grew another 19% to almost 2.8 million m³ in 2000. Cameroon imposed limitations on some species of log exports in 1999, leading its exports to plunge by 36% and a further 8% in 2000 to under 1 million m³. Ghana, a former top exporter, has banned exports of tropical hardwood logs since 1996. Liberia's civil war (which led to drastic decreases in official log production and exports for most of the 1990's) was resolved in 1998, leading to a resumption of legal log exports. Exports subsequently jumped by 157% in 1999, with most of these logs destined for Europe. Liberia

announced in late 2000 that it intends to consider a ban on log exports to promote the establishment of a domestic wood processing industry.

Following International Monetary Fund (IMF) guidance, Indonesia resumed log exports in 1999 after a 13-year moratorium. Official log exports in 1999 were recorded at almost 300,000 m³ by Indonesian customs authorities, and were mostly destined for India and China. However, Malaysia alone reported imports of almost 600,000 m³ of Indonesian logs in 1999 compared to less than 8,000 m³ of exports to Malaysia reported by Indonesia, while China's reported imports (nearly 400,000 m³) were almost five times the reported Indonesian level. This evidence supports claims of many observers that substantial undocumented Indonesian log exports exist. Indonesia announced in late 2000 that it would re-implement its log export ban to attempt to reduce illegal exports and to ensure sufficient log supplies for domestic mills, although it was unclear when the ban would come into effect again.

Re-exports of logs by consumer countries increased by 64% to 296,000 m³ in 1999, 33% of which was accounted for by re-exports from Hong Kong S.A.R. to China. Most of the remainder was inter-EU trade. Consumer countries did not in general provide detailed breakdowns of re-exports (value or destination). Consumer country re-exports of tropical logs declined by 21% to 234,000 m³ in 2000.

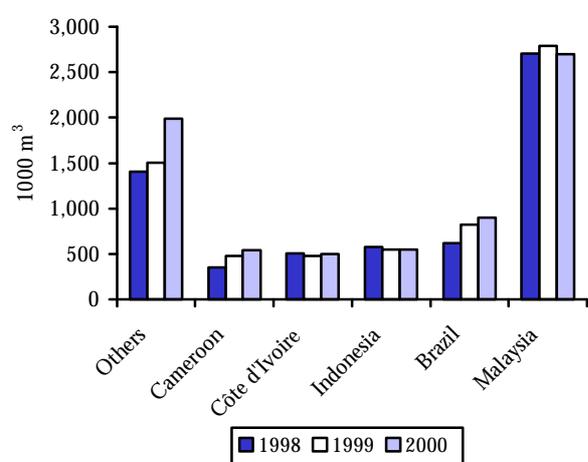
12.3.2 Sawnwood

ITTO producers exported a total of 6.1 million m³ of tropical sawnwood in 1999, up almost 8% from 1998 (graph 12.3.2). Malaysia continues to dominate the trade in tropical sawnwood, with the 2.8 million m³ exported in 1999 constituting 46% of total ITTO producer member exports. Malaysia's sawnwood exports rose by 2% in 1999 as its major markets of Thailand and Japan recovered. Malaysia's other major sawnwood customers in 1999 were the Netherlands, the Philippines and the large Chinese market (including Hong Kong S.A.R. and Taiwan Province of China). There were large discrepancies between the trade flows reported by Malaysia and by its trading partners China and Thailand in 1999.

Indonesian exports of sawnwood fell 5% to 548,000 m³ in 1999 but were stable in 2000. Indonesia's major sawnwood market is Japan, but its reported trade with China in 1999 was far smaller than China's report. Sawnwood exports from Malaysia decreased in 2000, while exports by Brazil and Côte d'Ivoire increased slightly. Cameroon's exports have grown steadily, by 35% in 1999 and a further 14% in 2000, to reach 540,000 m³ as mills processed logs banned from export. In addition to the countries in the graph, Ghana and Thailand exported over 200,000 m³ of sawnwood in 1999 respectively.

GRAPH 12.3.2

Major tropical sawnwood exporters, 1998 -2000



Source: ITTO, 2001.

ITTO consumer countries exported 493,000 m³ of tropical sawnwood in 1999, primarily (37%) from the EU countries. EU exports of tropical sawnwood increased from 173,000 m³ in 1996 to 181,000 m³ in 1999. The Netherlands, a larger exporter of tropical sawnwood than most producing countries, was the main EU tropical sawnwood exporter at 70,000 m³ in 1999. Mostly high-value species of sawnwood (or higher value-added products) are being exported by the Netherlands, primarily to other countries in Europe. Hong Kong S.A.R. was the biggest consumer tropical sawnwood exporter at 170,000 m³ in 1999, mostly re-exports to China (although the figures reported by both partners diverge widely). Total consumer country exports of tropical sawnwood fell to 469,000 m³ in 2000.

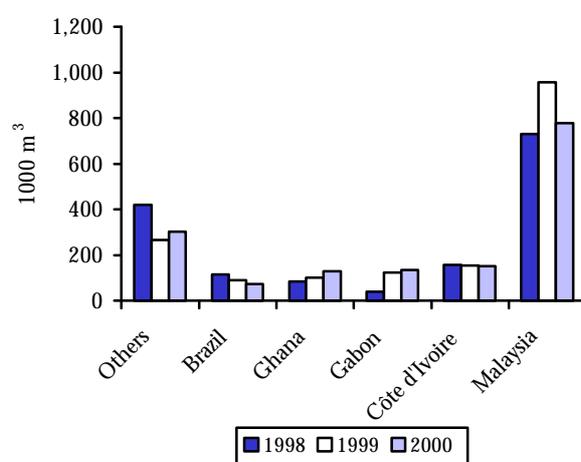
12.3.3 Veneer

ITTO producing member veneer exports were just under 1.6 million m³ in 1999, up 9% from 1998 (graph 12.3.3). ITTO producer country veneer exports dropped 6% in 2000 to under 1.5 million m³. Malaysia continued to be ITTO's dominant veneer exporter, with exports of 957,000 m³ in 1999 accounting for 61% of total ITTO producer member exports. Malaysian exports are mainly directed to China, Taiwan Province of China, the Philippines, the Republic of Korea and Japan.

Côte d'Ivoire was the second largest tropical veneer exporter in 1999 at 153,000 m³, a decrease of 2% from the 1998 figures. Côte d'Ivoire's veneer markets are the EU (mainly Italy, Spain and Germany) and the United States. Gabon was the third largest ITTO tropical veneer exporter, with exports more than tripling to 124,000 m³ in 1999 as new capacity came on stream. Cambodia's veneer exports plunged by 62% to 68,000 m³ in 1999 as

GRAPH 12.3.3

Major tropical veneer exporters, 1998 -2000



Source: ITTO, 2001.

exports to China (its main market) were replaced by China's increasing imports of peeler logs.

The EU accounted for 95,000 m³ of total consumer country tropical veneer exports of 110,000 m³ in 1999, with 2000 levels of EU exports dropping to 67,000 m³. France, Spain, the Netherlands and Germany are the largest EU tropical veneer exporters. Consumer country exports of tropical veneer are often of much higher value than those from producer countries. Total exports by ITTO consumer countries decreased to 81,000 m³ in 2000.

12.3.4 Plywood

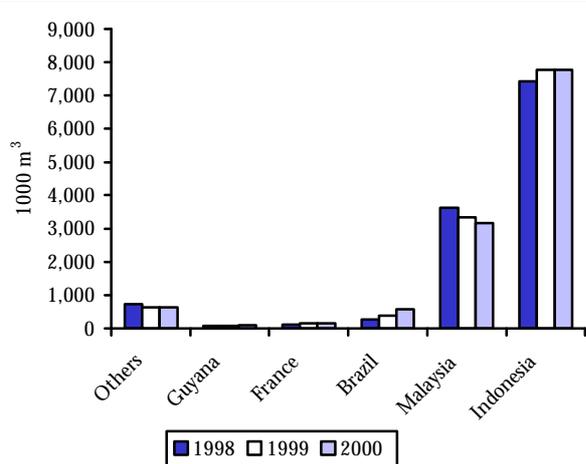
In 1999, ITTO producer plywood exports rose only 2% to just under 12 million m³, the only product not showing a recovery from depressed 1998 export levels (graph 12.3.4). Tropical plywood exports by producers remained flat in 2000, still 1.3 million m³ less than the amount exported in 1997. Indonesia continued to dominate the trade in tropical plywood with the 7.8 million m³ exported in 1999 constituting 65% of total ITTO producer member exports, although this was down from 84% in 1992. Indonesia's exports were estimated to have fallen slightly in 2000 owing to declining Chinese imports, instability in many regions of the country and difficulties in obtaining logs, blamed by many mills on illegal exports.

Malaysia is Indonesia's major competitor in the tropical plywood trade. Malaysian exports decreased by 8% to 3.3 million m³ in 1999, and dropped further to 3.2 million m³ in 2000. Malaysia was a major supplier of the Chinese plywood market and has been hard hit by China's switch to log imports. Malaysia's rapid growth in plywood exports up to 1997 (when exports approached

4 million m³) was due to the construction of new plywood mills in Sabah and Sarawak to process formerly exported veneer logs. These two eastern Malaysian states account for almost all of the country's plywood exports. Malaysia's exports are now mainly to Japan, the United States and Singapore.

GRAPH 12.3.4

Major tropical plywood exporters, 1998 -2000



Source: ITTO, 2001.

Latin American plywood exports increased 41% in 1999 to 512,000 m³ owing to an 18% jump in Brazil's exports to 383,000 m³. Brazil's tropical plywood exports further increased to 574,000 m³ in 2000. The United States and the EU (mainly the United Kingdom, Germany and Belgium) are the major markets for Brazil's hardwood plywood. Africa's plywood exports remained relatively minor at 175,000 m³ in 1999 but have grown rapidly in the past 5 years due to new mills in Cameroon and Gabon.

Tropical plywood exports from the EU dropped 31% in 1999, driving ITTO consumer country exports down by 21% to 490,000 m³ (still more than three-quarters from the EU). Consumer country exports fell again to 484,000 m³ in 2000.

12.4 Imports

Major ITTO importers, defined here as those with imports of at least 100,000 m³ of one or more tropical products, have varying dependence on tropical timber (table 12.4.1). The table indicates in which products each country qualifies as a major importer by denoting the relevant figures in bold; only China and Taiwan

TABLE 12.4.1

Tropical proportion of total imports by major ITTO importers, 1999

	Proportion (%)			
	Logs	Sawnwood	Veneer	Plywood
Consumer members				
Belgium	0.9	14.9	32.2	57.8
China	47.5	53.8	99.2	91.5
Hong Kong, S.A.R.	52.1	94.0	61.4	94.0
Taiwan Province of China	63.1	27.7	91.1	56.9
France	43.5	8.2	28.0	35.1
Germany	5.4	2.6	30.9	33.4
Italy	9.9	5.5	33.3	29.2
Japan	21.3	7.0	45.5	90.3
Republic of Korea	14.6	39.0	45.5	94.7
Netherlands	20.5	10.7	30.3	42.9
Portugal	25.7	27.0	16.4	13.0
Spain	14.1	4.5	37.8	10.4
United Kingdom	7.6	3.0	10.0	67.1
United States	0.0	0.8	9.1	67.5
Producer members				
Brazil	30.7	99.8	98.1	100.0
India	80.6	37.1	18.4	36.6
Malaysia	100.0	100.0	100.0	100.0
Philippines	62.7	80.6	96.4	80.0
Thailand	82.3	83.2	71.4	90.5

Note: Bolded percentages indicate countries qualifying as major importers of tropical timber.

Source: ITTO, 2001.

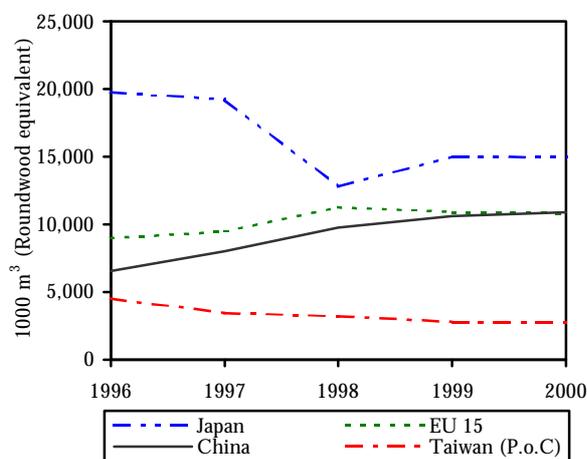
Province of China qualify as major importers of tropical timber under this criterion in all primary product categories. Of the ITTO consumer members in the table, China (including Taiwan Province of China) appears to be the most dependent on tropical imports, with a significant proportion of its imports of tropical origin.

Unsurprisingly, given the dominance of tropical plywood in international plywood trade, most of the countries in the table have a fairly high dependence on tropical plywood imports, with the Republic of Korea, Japan and China dependent on tropical sources for over 90% of total imports (although this dependence is decreasing). Tropical sawnwood has a low market share in most non-tropical countries, with only China (including Hong Kong S.A.R.) dependent on it for half or more of its sawnwood imports. Only Hong Kong S.A.R. and Taiwan Province of China amongst major consumers imported a greater proportion of tropical than non-tropical logs in 1999. In contrast to consumer countries, most of the major ITTO producer country importers in the table depend on tropical imports for the majority of their imported wood needs. This is changing, however, with for example, India, the Philippines and Thailand now sourcing substantial quantities of log imports from non-tropical areas.

Europe's imports have increased slightly over the past five years, as Spain, Portugal and France have offset decreased imports by northern EU countries and finished products have replaced logs (graph 12.4.1). Taiwan Province of China's imports have moved steadily lower due to increased non-tropical imports and a slowing economy, while Japan has yet to and may not recover from the 1998 crash. However, China's imports have surged, led by increased log imports.

GRAPH 12.4.1

Imports of tropical wood products, 1996 -2000



Source: ITTO, 2001.

12.4.1 Logs

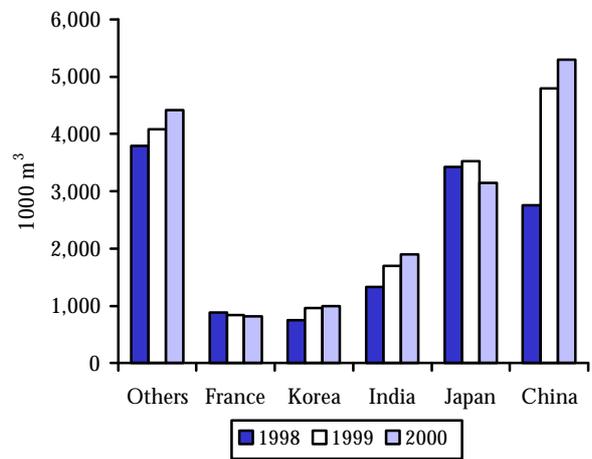
Total imports of tropical hardwood logs by ITTO members rose 23% to 15.9 million m³ in 1999, about 5.3% (or 0.8 million m³) greater than total log exports by all members. The gap between reported imports and exports in 2000 increased to 13% (about 2.1 million m³) indicating greater pressure on non-ITTO members, forecasting errors or most likely, a combination of these. Differences between reported ITTO imports and exports is made up by legitimate log exports from Indochina, the Solomon Islands, Paraguay and non-member tropical African countries, plus unrecorded or under-reported exports from both members and non-members.

Of the top ITTO tropical log importers in 1998 to 2000, ranked by import volume in 1999, China overtook Japan as the world's largest importer of tropical logs, with about 4.8 million m³ imported in 1999 (up 74% from 1998) (graph 12.4.2). China's growing economy, a ban on domestic harvesting and a zero tariff on log imports were the main driving factors for this sharp rise. China's import levels leapt another 10% in 2000 to 5.3 million m³, consolidating it as ITTO's largest tropical log importer with almost one third of total ITTO log imports. China's tropical log imports have soared over fivefold in the last five years, with Malaysia, Gabon and Papua New Guinea the main sources. China's import of non-tropical logs has also expanded rapidly, with Russia providing the bulk of an estimated 7 million m³ in 2000. If China's log imports continue to grow as expected, it will soon replace Japan as the world's top log importer, both tropical and temperate combined.

Japan was the second largest ITTO tropical log importer, with imports of just over 3.5 million m³ in 1999, up just 3% from the depressed level of 1998. Japanese

GRAPH 12.4.2

Major tropical log importers, 1998 -2000



Source: ITTO, 2001.

demand for tropical logs continued to be met primarily (63%) by Malaysian exports in 1999. Japan imported almost 1 million m³ of logs from Papua New Guinea and over 50,000 m³ from Africa (mainly Gabon and Cameroon) in 1999. Japanese tropical log imports fell by 11% in 2000 owing to its slowly recovering economy, reduced supplies from Malaysia and an increasing reliance on softwood logs. Russia is now Japan's major log supplier, with imports of close to 6 million m³ in 1999. Larch is the preferred species for plywood manufacture, and with prices 40% below the cheapest tropical logs, it appears certain to gain further market share.

India is the third largest importer of tropical logs, at 1.7 million m³ in 1999 (up 28% from 1998), mostly from Malaysia and Myanmar but with an increasing component of African logs.

The Republic of Korea is also a major ITTO log importer, absorbing almost 1 million m³ in 1999 (up 29% from 1998), from Papua New Guinea (39%) and Malaysia (36% of total imports, down from 71% in 1993). The Republic of Korea's imports increased by another 3% in 2000 as its economy continued recovering. The Republic of Korea's imports of logs from Africa were 251,000 m³ in 1994, but the ban on exports from Ghana (Republic of Korea's main African supplier in that year) led to a sharp drop in imports from that continent. The Republic of Korea's current main African suppliers are Gabon and Cameroon, from which it imported a total of 19,000 m³ in 1999. Much of the Republic of Korea's tropical log supply is now being sourced from the Solomon Islands, which provided almost 125,000 m³ of logs in 1999.

The EU countries imported 2.5 million m³ of tropical logs in 1999, most of which came from African producers. European log imports fell 3% in 1999, due to the increase in Africa's exports to Asia and log export restrictions. France remains the largest of the EU log importers; its imports decreased by 8% in 1999 to 815,000 m³ and remained at this level in 2000. The bulk of France's tropical log supplies come from Gabon, Cameroon, the Democratic Republic of the Congo and Liberia. Italy, Spain and Portugal are also major European log importers, each with over 360,000 m³ of log imports in 1999. European log imports decreased a further 8% in 2000 to just over 2.3 million m³.

Several ITTO producing countries have become importers of logs, indicating the extent of wood shortages in their domestic forest sectors. India (1.7 million m³), Malaysia (677,000 m³), Thailand (386,000 m³), and the Philippines (366,000 m³) were the major ITTO producer country importers of tropical logs in 1999, reflecting resource scarcity and increased timber demand in these countries. Total imports of tropical logs by ITTO

producing members rose by 44% to 3.2 million m³ in 1999, and a further 17% to just over 3.8 million m³ in 2000, reflecting the recovery in many producer economies.

12.4.2 Sawnwood

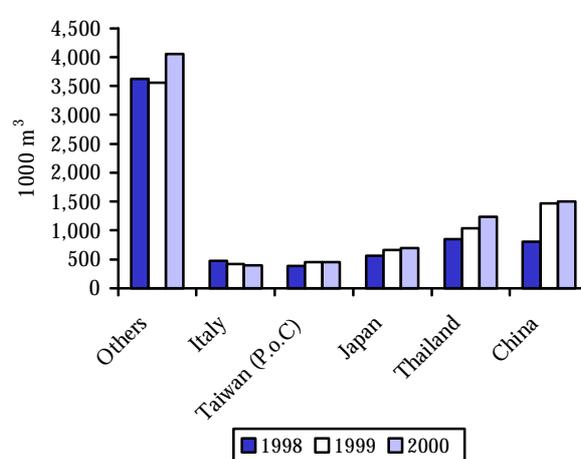
Total ITTO imports of tropical sawnwood increased 13% to almost 7.6 million m³ in 1999 and a further 10% to over 8.3 million m³ in 2000. The 1999 figure is almost 1 million m³ greater than total ITTO exports, with the gap due to the same factors discussed under logs. With 1999 imports of nearly 1.5 million m³, China has overtaken Thailand as the top ITTO sawnwood importer, with an 83% surge in 1999 and a further increase of 2% in 2000 (graph 12.4.3). China's tropical sawnwood imports are mainly from Indonesia (40%) and Malaysia (38%). China's and Taiwan Province of China's (the fourth largest tropical sawnwood importer) combined imports accounted for 34% of ITTO consumer imports in 1999.

After its imports of tropical sawnwood plummeted from 2.1 million m³ in 1996 to 845,000 m³ in 1998, Thailand rebounded by importing over 1 million m³ (up 23%) in 1999 as its large furniture and secondary processing industries started recovering. Thai imports recovered a further 19% to over 1.2 million m³ in 2000.

Both Thailand's and Japan's tropical sawnwood imports are primarily from Malaysia (84% and 48%, respectively). Japan also imported substantial quantities of sawnwood from Indonesia (40%) in 1999. Japan remained ITTO's third largest tropical sawnwood importer in 1999 as its imports increased by 17% to 661,000 m³. Its imports increased another 5% to 691,000 m³ in 2000. Japanese imports of tropical sawnwood have

GRAPH 12.4.3

Major tropical sawnwood importers, 1998 -2000



Source: ITTO, 2001.

fallen by almost 50% since 1996, while its imports of temperate sawn softwood (primarily from Canada and increasingly from Nordic countries) have remained strong, growing from around 8 million m³ in 1999 to 9 million m³ in 2000.

Malaysia, the Netherlands, the United States, Spain, the Republic of Korea and the Philippines were also major importers, each with over 300,000 m³ of sawnwood imports in 1999. Imports by the Netherlands, the Republic of Korea and the Philippines were primarily from Malaysia and to a lesser extent Indonesia. Malaysia's imports were from Indonesia (although no corresponding trade flow was reported by Indonesia). The United States, Spain, the Republic of Korea and the Philippines imports were from Latin America and Africa. As the height of the bar for "others" in graph 12.4.3 indicates, the tropical sawnwood market is the most diversified of all primary tropical timber products, with the five largest importers accounting for less than half of total ITTO imports in 1999.

Total tropical sawnwood imports by EU countries fell by over 3% in 1999 to 2.2 million m³, primarily as a result of import declines in Italy and Spain. More than half of this was supplied by Asian producers, principally Malaysia and Indonesia. Côte d'Ivoire, Cameroon, Brazil and Ghana supplied virtually all of the remainder of EU imports. EU imports increased almost 7% in 2000 to nearly 2.4 million m³ due to increases in the United Kingdom, Portugal and Spain.

Italy is the largest importer of tropical sawnwood in the EU, absorbing 419,000 m³ in 1999 (down 11% from 1998) and 400,000 m³ in 2000. The Netherlands (385,000 m³), Spain (351,000 m³), France (245,000 m³) and Belgium (235,000 m³) were other major EU tropical sawnwood importers in 1999. All these countries, except the Netherlands, increased their imports of tropical sawnwood in 2000.

12.4.3 Veneer

Total ITTO imports of tropical veneer increased 16.5% to just over 1.3 million m³ in 1999 (graph 12.4.4). The rise in imports was due primarily to increasing demand by China and Taiwan Province of China which rose 28% and 8% respectively. While China's imports decreased by 21% to 400,000 m³ in 2000, Taiwan Province of China's remained stable.

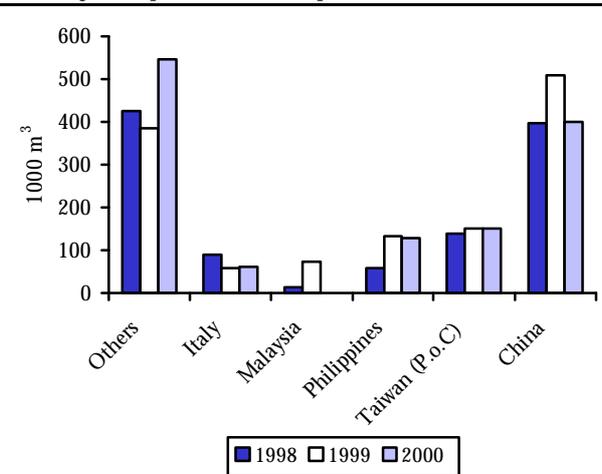
Four out of the five top veneer importers are Asian countries, with imports sourced primarily from Malaysia. The majority of European imports are from African producers (mainly Côte d'Ivoire, but increasingly also from Gabon and Ghana). Malaysia's surge in imports in 1999 was reported as being sourced largely from

Indonesia, although no corresponding trade flow was reported by Indonesia.

The EU absorbed 206,000 and 246,000 m³ of tropical veneer in 1999 and 2000 respectively, around one-fifth of total ITTO imports. Japan imported 51,000 m³ of tropical veneer in 1999, 2% less than in 1998. Japan's tropical veneer imports decreased by another 12% to 45,000 m³ in 2000. Overall, ITTO tropical veneer imports fell slightly in 2000 to just under 1.6 million m³.

GRAPH 12.4.4

Major tropical veneer importers, 1998 -2000



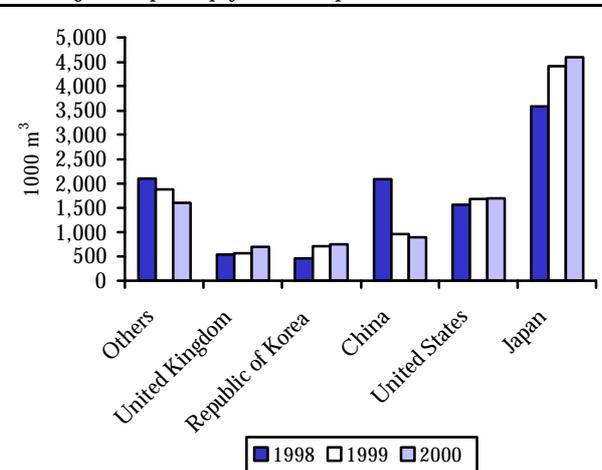
Source: ITTO, 2001.

12.4.4 Plywood

Total ITTO imports of tropical plywood fell by 1.2% to just under 10.2 million in 1999, despite a 23% increase in Japanese demand (graph 12.4.5). Imports increased

GRAPH 12.4.5

Major tropical plywood importers, 1998 -2000



Source: ITTO, 2001.

slightly in 2000 to just under 10.3 million m³. Exports of tropical plywood by ITTO members continue to substantially exceed aggregate imports by members, indicating the dominant position of ITTO producers in world markets for this product. The majority of all tropical plywood imports came from Indonesia and Malaysia (62% and 37% respectively in 1999 for the top importer, Japan).

Japan continues to replace domestic plywood production with imported plywood (tropical and non-tropical) and substitutes such as OSB and MDF. Its tropical imports climbed 4% in 2000, to 4.6 million m³, although its construction sector remained relatively flat. Japan ranks first among tropical plywood importers. The increase in plywood imports by Japan is at least partially due to its difficulty in obtaining tropical logs for domestic production in the face of competition from China. Low prices also made imported plywood more attractive than domestic production in 1999 and 2000. Japan is now importing small quantities of low-priced tropical plywood from China, which was overtaken by the United States with 1.7 million m³ as ITTO's second major plywood importer in 1999. China, with 953,000 m³, dropped to ITTO's third largest importer, following a 54% plunge in 1999 and a further 6% decline to 900,000 m³ in 2000. Chinese imports have more than halved since 1998 as authorities moved to increase domestic plywood production from imported logs to boost employment and offset reduced domestic log supplies. Tariffs on imported plywood are 15%, compared with zero for logs.

The United States imported almost 1.7 million m³ of tropical plywood in 1999 (up 8% from 1998), 49% from Indonesia, 26% from Malaysia and most of the rest from Latin America. United States imports rose another 1% in 2000.

EU imports of tropical plywood totalled just under 1.7 million m³ in 1999, level with 1998. EU imports are led by the United Kingdom, Germany and the Netherlands. Most of the EU's tropical plywood also came from Indonesia and Malaysia, with Brazil and intra-European trade also playing a fairly large role in many countries' imports. China is beginning to export small amounts of tropical plywood to the EU, particularly to its largest plywood importer, the United Kingdom. European imports of tropical plywood dropped by 6% to under 1.6 million m³ in 2000 due to declines in Germany and Italy.

The Republic of Korea (710,000 m³) and Taiwan Province of China (384,000 m³) were also substantial tropical plywood importers in 1999. After halving from 991,000 m³ in 1996 to 456,000 m³ in 1998, Korean tropical plywood imports rebounded by 56% in 1999 and a further 6% to 750,000 m³ in 2000 as its construction

sector started recovering. Indonesia has traditionally supplied most of the Republic of Korea's plywood imports, but Malaysia increased its share from 18% in 1994 to 28% in 1999.

12.5 Price developments of tropical timber

13.5.1 Logs

Real (1990) FOB prices for most important species of African log exports were relatively stable or declining during the 1999 to 2000 period. Real prices of mahogany (acajou) and, particularly sapelli, rose gradually in the last quarter of 1999 owing to the introduction of an export ban by Cameroon on logs of sapelli, iroko, sipo and other valuable species in mid-1999. Real prices for mahogany continued rising in the first quarter of 2000 and firmed at around \$236/m³ before declining sharply during the second and third quarter of 2000 (despite a surge in mid-2000) in United States dollar terms, though they were stable or rising in French franc terms. In late 2000, mahogany prices were at \$201/m³, a record low. This was due to a further weakening of the French franc and the euro compared with the United States dollar. From January to September 2000, the French franc and the euro had devalued by 18% and 14%, respectively, which has offset local currency price rises in these species. After peaking at \$283/m³ in early 2000 owing to the log export ban, euro prices for sapelli were stable through 2000, although in dollar terms they declined steadily to reach a low of \$244/m³ despite a surge in mid-2000.

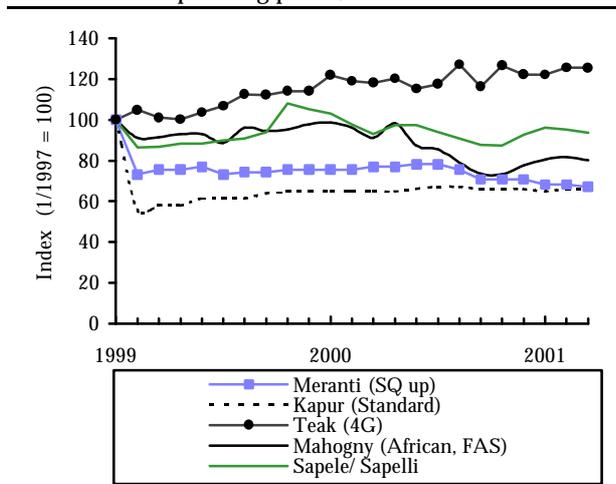
Although the prices for African logs were somewhat depressed and stagnant for much of 1998, by 1999 their recovery was more pronounced than that of most species of Asian logs (graph 12.5.1). The current strength of European demand is fuelling the acceptance of higher euro prices for popular species of African logs.

After the sharp drop during the Asian crises of 1997 and 1998, most species of Asian logs have been recovering steadily. Most have traded at real prices between \$120 and \$150/m³ from the end of 1998, still a long way from 1996 and 1997 price levels. Kapur log prices recovered slightly in 1999 and stabilized in the second and third quarters of 2000 at around \$134/m³ before jumping to \$139/m³ in late 2000. Real FOB prices for Selangan batu, meranti and keruing logs showed a slightly more marked recovery in 1999 and 2000. These species were trading at \$144/m³, \$151/m³ and \$144/m³ in late 2000 as export markets (particularly China) increased orders.

In comparison to African log prices, Asian log prices are still 25 to 33% below their levels in January 1997. This is because Africa exports timber primarily to Europe

GRAPH 12.5.1

Tropical log prices, 1999 -2001



Note: SQ up is sawmill quality, 4G is 4th grade, FAS is first and seconds (highest quality).

Source: ITTO, 2001.

and China, where the impact of the 1997 to 1998 Asian economic crises was relatively small, while Asia primarily exports to Japan, the Republic of Korea and Thailand, which were more severely hit by the crises and are still recovering. Many Asian markets have also increased their use of substitute materials such as softwood and non-wood products.

In contrast to other Asian species, prices for teak logs were practically unaffected during the Asian financial turmoil in 1997 and 1998. Prices for 4th and SG-1 grade teak rose steadily in the last quarter of 1999 to \$1,804/m³ and \$1,361/m³, while SG-2 grade teak fluctuated widely in the same period before rising above \$1,000/m³ to close 1999. Real FOB prices for 4th grade teak were generally increasing through 2000 owing to a strong demand for furniture and other joinery products in European and Japanese markets, reaching \$1839/m³ in late 2000. Further price increases for 4th grade teak have been prevented by the weak economic situation in Japan and the strong United States dollar. Prices for SG-1 grade teak were comparatively more volatile in 2000 than prices for the lower quality SG-2 grade which declined for most of 2000 owing to stronger demand for lower and cheaper grades, such as Assorted Quality. SG-1 and SG-2 grades were being traded at prices of \$1252/m³ and \$920/m³ in late 2000. Despite the mixed price trends for the different teak grades in 2000, demand and prices for all are expected to gradually firm.

12.5.2 Sawnwood

African sawnwood prices were stable or increasing for several important species including mahogany and wawa (obeche) in 1999 and 2000 (graph 12.5.2). After falling to a low of \$450/m³ (\$466/m³ nominal) in mid-1999, real prices for mahogany (one of the most valuable African sawnwood export species) rose during the last half of 1999 and the first half of 2000. Mahogany prices reached a record high of \$581/m³ as the EU furniture sector, especially in the United Kingdom, boosted imports. In the last year, African mahogany prices have surpassed the previous high set in late 1994, but were declining in late 2000.

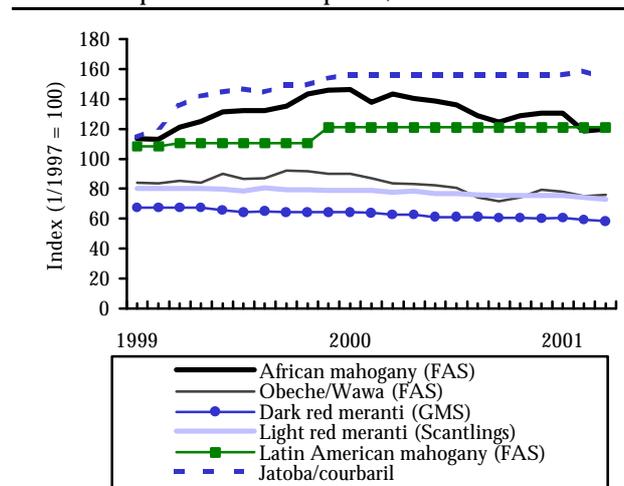
After a period of relative stability, prices of wawa rose slightly in the second half of 1999 to reach \$312/m³ but declined gradually to \$262/m³ in late 2000 as competition from lower-priced Asian sawnwood, temperate hardwoods and softwoods increased.

After rising slightly during the last half of 1999, prices of Malaysian dark red meranti, GMS grade and light red meranti scantlings firmed at \$400/m³ and \$528/m³, respectively, during the first half of 2000 before declining slightly in late 2000.

Latin American mahogany and jatoba sawnwood prices were rising or stable in 1998 and the first half of 1999. Mahogany prices have risen steadily since 1998 as a result of greater demand in the major markets of the United States and Europe and a total ban on logging, processing and trading of this valuable species in Para State of Brazil imposed by IBAMA (the Brazilian

GRAPH 12.5.2

Tropical sawnwood prices, 1999 -2001



Note: FAS is first and seconds (highest quality), GMS is general market specification a lower Malaysian grade and scantlings are a lower construction grade.

Source: ITTO, 2001.

environmental agency) in 1998. The reason for the ban was the identification of serious illegal logging in this region. Latin American mahogany prices rose in the first quarter of 2000 from \$989/m³ to \$1083/m³, a record high, and remained at this level for most of 2000. Jatoba sawnwood prices also showed a strong upward trend during the last half of 1999 and the first half of 2000, rising by 46% to \$631/m³ and remained at this level for most of 2000.

The relatively strong price trend for Latin American sawnwood is due to continued strong demand in North American and European markets as well as the strengthening of Asian currencies and increased sawnwood demand from that region. Prices of Brazilian tropical sawnwood are expected to continue rising as producers are working at the limit of their capacity to cope with an increased demand and as IBAMA extended the mahogany moratorium through August 2002.

12.5.3 Plywood

Prices for plywood have not exhibited the degree of post-crisis recovery observed for other tropical timber products (graph 12.5.3). Plywood prices from Indonesia and Malaysia have, in general, declined steadily since 1996. This discussion focuses on Indonesian prices, with which Malaysian prices are closely correlated. By mid-1998, prices of Indonesian BB/CC moisture resistant (MR) plywood had halved to about \$235/m³, \$211/m³ and \$192/m³ for 2.7 mm, 3 mm and over 6 mm thicknesses, respectively. Record lows for these products were due to the impact of the Asian financial turmoil and the weaker yen. Indonesian export prices firmed between

late 1998 and most of 1999, owing to a stronger yen and an active demand for thin plywood in China. However, prices then declined in late 1999 and stabilized at around \$363/m³, \$300/m³ and \$198/m³, for the above thicknesses, respectively, in 2000. These real price levels were still 35 to 50% below the highs of 1996. Asian plywood prices have not recovered due to: flat construction sectors in Japan, the Republic of Korea and other Southeast Asian consumers; a recent change of import tariff structures in China, which favours log over plywood imports; increasing substitution by softwood plywood in some consuming countries; and strong competition from other wood-based panels.

Latin American plywood prices have also undergone dramatic declines. This is particularly notable in white virola, the most valuable Brazilian plywood export species, which after being relatively stable between \$261 and 280/m³ between late 1998 and 1999, plummeted to a record low of \$217/m³ in the first half of 2000, despite volume shortages caused by the closure of some virola plywood mills in the Amazon. Prices of white virola remained stable for the rest of 2000 and may increase in the short term as the volume shortages take effect. Some analysts believe that virola plywood prices could fall further to around the \$200/m³ mark in 2001 as Brazilian manufacturers attempt to compete with OSB and pine plywood. This could put some mills out of business.

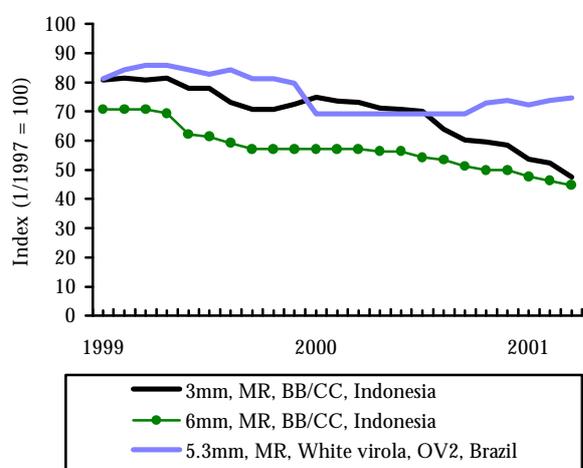
12.6 Secondary processed wood products

Secondary processed wood products (SPWPs) play an increasingly important role in many tropical countries' forest sector, often offsetting declines in traditional primary forest products exports. This analysis of SPWP trade utilizes statistics from the UN Comtrade database, for which 1998 was the most recent year of data availability for many countries at the time of preparation.

The primary categories of tropical SPWPs in trade are wooden furniture (the major category, accounting on average for two-thirds of trade values), builder's woodwork (joinery and other builder's wood), products of domestic/decorative use (table/kitchenware, ornaments, picture frames, etc.), packaging/pallets, coopers' products (casks, barrels, etc.) and other manufactured products (tools, handles, brooms, shoe lasts, etc.). Since furniture and parts of cane and bamboo have become important tropical forest products exports for many ITTO member countries, these products are also included in this analysis.

GRAPH 12.5.3

Tropical plywood prices, 1999-2001



Note: MR is moisture resistant, BB/CC is lower quality for construction plywood and OV2 is a Brazilian grade.

Source: ITTO, 2001.

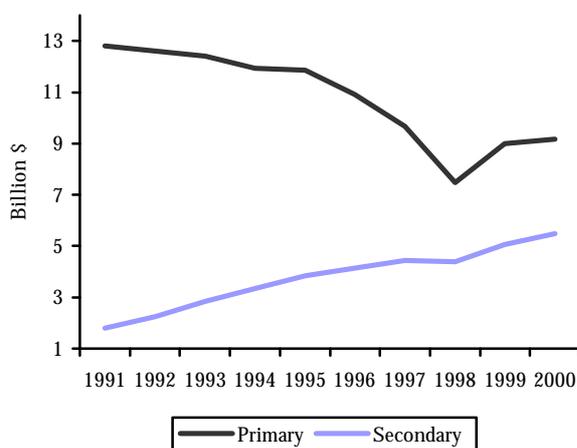
12.6.1 Major importers

All ten of the world's major SPWPs importers are ITTO consumer members. ITTO consumer country imports of SPWPs from ITTO producers (\$4.4 billion) were 13% of total imports of these products from all sources in 1998, down from an average 14 to 15% during the 1990s. This value was 59% of the total value of primary tropical timber product imports by ITTO consumers in 1998, up from 14% in 1991. This proportion decreased in 1999 to 56% as imports of primary tropical timber products recovered in several countries and continue to surge in China. The share of SPWPs in total tropical imports continued its upward trend in 2000, rising to an estimated 60% of primary imports (graph 12.6.1). Consumer imports from producer countries grew by about 33% between 1995 and 1999, well above the 24% growth in imports from all sources. ITTO consumer imports of SPWPs from other ITTO consumer countries have been constant at about 72% of their total imports since 1995 and were worth \$23.3 billion in 1998.

The top ten ITTO importers accounted for over 83% of ITTO consumer imports of SPWPs from ITTO producers in 1998, a proportion that has been constant through the 1990s. The United States is by far the world's largest single importer of SPWPs and the largest importer from ITTO producer countries. These countries accounted for 18% of its huge \$9.3 billion import market for SPWPs in 1998, though this proportion is gradually declining. United States imports come predominantly from other ITTO consumers (71% in 1998). Imports from ITTO consumer countries more than doubled in value from 1995 to 1999, while imports from producer countries rose by 57%.

GRAPH 12.6.1

Imports of primary and secondary tropical timber products by ITTO consumer countries, 1991 -2000



Source: ITTO, 2001.

As a group, the EU is the world's largest importer of SPWPs, with its 15 Member States in 1998 importing \$16.8 billion worth of these products, led by Germany, France, the United Kingdom, Belgium and Luxembourg, the Netherlands and Austria. Together these 7 countries accounted for over 82% of total EU imports. However, the EU countries import a relatively small proportion (10% in 1998) of their SPWPs from ITTO producer countries. EU imports from ITTO producers were stable at around 9 to 10% of total SPWP imports from 1995 to 1999. Although this is a small market share, its value now exceeds \$1.6 billion, comparable to United States imports from ITTO producers and almost three times the value of Japanese SPWP imports from ITTO producers. The market share of the EU SPWP imports held by other ITTO consumers has been declining gradually, from 72% in 1995 to 66% in 1999. In Germany, the largest EU SPWP importer (\$5.4 billion in 1998), only 6% of the market has been captured by ITTO producers.

Japan is the largest market in terms of percentage of imports of SPWPs from ITTO producers. ITTO producers captured 31% of Japan's almost \$2 billion market for these products in 1998, still by far the largest share in all of the major markets. The market share of ITTO producers went up to 35% of Japan's \$2.2 billion SPWP imports in 1999. Transportation costs, tariff levels and regional marketing relationships play a role in the differences in market share held by ITTO producers in the major markets for SPWPs, but there is clearly a substantial opportunity for all producing countries to increase their market share, particularly in the huge European market for these products.

Two thirds of SPWP imports by ITTO consumers and by the EU, the leading import region, are wooden furniture. Cane and rattan furniture (18%) and builder's woodwork (mouldings, dowels, etc., 15%) are far behind as the second and third most valuable types of SPWP imports. France had the greatest proportion of wooden furniture in its SPWP imports at 73% in 1998.

12.6.2 Major exporters

Italy is by far the world's largest exporter of SPWPs. Just over 76% of Italian exports are absorbed by other ITTO consumer countries. Italy's exports comprised about 31% of the \$19.5 billion of EU SPWP exports in 1998. The EU accounts for 72% of ITTO consumer exports of SPWPs. Other major exporters include Canada, China, Poland and the United States.

Canada and China experienced a rapid growth in SPWP exports between 1995 and 1999. Canada's exports grew by 150% in the period while China's grew by two thirds. This trend of growth in China, which has been evident since 1990, is expected to continue. Many

companies from Taiwan Province of China and other traditional Asian producers are establishing furniture and other SPWP joint ventures in southern China because of the low wages there. China exported almost \$2.2 billion worth of SPWPs in 1998, establishing it as by far the top exporter of these products in the developing world.

Over two thirds of ITTO consumers' SPWP exports consisted of wooden furniture, mostly shipped to other ITTO consumers. Builder's woodwork (17%) and packaging, pallets, casks, barrels and other manufactured products (14%) are far behind as the second and third most valuable types of SPWP exports. Italy's SPWP exports are mostly composed of wooden furniture (86%), at a value of almost \$5.2 billion in 1998. Cane and bamboo furniture exports from ITTO consumers (where relatively little cane or bamboo is grown) were almost \$790 million in 1998, compared with only \$228 million in total exports of these products by all producer countries.

Malaysia, Indonesia, Thailand, Brazil and the Philippines are the major ITTO producer member exporters of SPWPs. Other ITTO producer exporters of SPWPs are smaller and include Honduras, Bolivia and India. The top five ITTO producer exporters accounted for almost 97% of total ITTO producers' SPWP exports of \$3.5 billion in 1998. This value fell 14% from 1995 owing to declines in exports from Indonesia (-50%) and Thailand (-9%), largely as a result of the economic turmoil that affected these countries in 1998. ITTO producers' SPWP exports surged 42% in 1999, helped by a recovery in the economy of these two countries and continued SPWP export growth in Malaysia and Brazil.

After a remarkable increase in exports of 271% between 1991 and 1996, Indonesia's development of downstream processing declined sharply in 1997 and halved in 1998. Indonesia was still the largest ITTO producing country exporter of SPWP in 1997, with exports worth over \$1.2 billion, but it was overtaken by Malaysia in 1998 with \$1.1 billion when Indonesia's exports crashed with its economy to almost \$739 million. Indonesia regained its leadership in 1999, when SPWP exports surged by 129% to almost \$1.7 billion with Malaysia in second place with \$1.3 billion. Indonesia's SPWP exports go mainly to the major markets of the United States, Japan and Europe. To put ITTO producer exports into a global perspective, Italy shipped over \$6 billion worth of SPWP to global markets in 1998, about 74% higher than the combined value of all SPWP exports from all ITTO producer countries.

Although developing countries enjoy some degree of tariff relief under the Generalized System of Preferences (GSP) or other schemes for SPWPs in many of the major markets, these benefits have been eroded by general tariff

reductions in many countries under the Uruguay Round of trade negotiations. Tariffs in many countries remain high, however, compared with those for primary products like logs and sawnwood. This is one reason why the contribution of developing countries to total imports of such products by ITTO consumers is still below its potential. The EU, Japan and the United States apply no import tariffs on SPWPs from GSP countries, while rates for most other countries range from 2 to 6% on the major product categories. In contrast, many developing countries retain very high tariffs (up to 80%) on these products.

Asia-Pacific is by far the dominant producing region in terms of SPWP exports (84% of all ITTO producers' SPWP exports in 1998), with Latin America (primarily Brazil) a distant second. Value-added processing in the African region has been growing (by 39% from 1995 to 1999), although it is still minimal, owing largely to a lack of capital and infrastructure. Nevertheless, many African Governments such as those of Ghana, Cameroon and Gabon are making the development of secondary processing a priority. Ghana made up 52% of SPWP exports from Africa in 1998. The breakdown between the main tropical regions is unlikely to change significantly, as countries in all three regions continue to express their desire to further expand downstream processing capacity.

Of the ITTO producer countries, Malaysia, Indonesia, Thailand and the Philippines were the largest SPWP producer exporters of wooden furniture, builder's woodwork, packaging, pallets and other manufactured products and cane furniture, respectively, in 1998. The major categories of Malaysia's exports, the largest SPWP producer exporter in 1998, were wooden furniture (75%) and builder's woodwork (15%). Malaysia's SPWP exports go mainly to the major markets of United States, Japan and Singapore. About 70% of Malaysian wooden furniture exports are manufactured from rubberwood.

Thailand has also linked the development of its furniture industry to its rubberwood resources, with all new sawmill licenses now contingent on use of this material. The ban on logging in Thailand's native forests imposed in 1991 has increased its dependence on imports as well as on former rubber plantations for wood supplies. The decline in Thai exports of SPWPs noted above was also affected by wood supply constraints, though exports recovered by 23% in 1999 owing to a boost in the exports of packaging, pallets and other manufactured products. Thailand's wooden furniture, its most valuable SPWP export (worth \$430.5 million in 1998), is manufactured largely from rubberwood. Thai SPWP exports go mainly to the markets of United States, Japan and Europe. Both Thailand and Malaysia have been successful in penetrating high-value markets, particularly in Japan, with their rubberwood furniture. Regulations in both

countries favour further processing, restricting exports of raw rubberwood, although the restrictions have been relaxed in Malaysia due to imbalances in domestic supply and demand. Exports of SPWPs from Malaysia and Thailand were not as badly affected by the economic downturn as were Indonesian exports.

In contrast to its export performance from 1990 to 1995, when exports grew almost fourfold, Brazil's exports of SPWPs stabilized at well under \$500 million until 1998 but surged by 26% to over \$584 million in 1999. The major categories of Brazilian SPWP exports were wooden furniture (56%) and builder's woodwork (29%). Brazil's SPWP exports go mainly to the major markets of the United States and Europe.

Major categories of Africa's SPWP exports were packaging, pallets and other manufactured products (45%), wooden furniture (34%) and builder's woodwork (21%). African SPWP exports are mainly directed to the EU (notably the United Kingdom) and the United States markets.

The development of new processing technologies (e.g. MDF and veneer lamination) and raw material supplies (e.g. rubberwood) are allowing the use of a wider range of tropical wood species in furniture and other SPWPs production in ITTO producer countries and consequent increases in production and exports. The contribution of SPWPs to the forest sectors of ITTO producers and other developing countries will continue to grow rapidly in coming years, with corresponding reductions in production and especially exports of primary tropical timber products.

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