

Chapter 8

After steady growth, sawn hardwood markets declined in 2001

Sawn hardwood market developments, 2001-2002¹

Highlights

- After rising to above 50 million m³ in 2000, total sawn hardwood production in the UNECE region declined, led by the sharp drop by the United States.
- In 2001 sawmill production increased significantly in central and eastern European countries, while it remained constant in western Europe.
- Some of the drop in western European sawn hardwood production can be attributed to the resolution of the 1999 windstorms oversupply.
- Exports for the UNECE region were down by 5% in 2001 compared to 2000, largely accounted for by the United States (down 9%) and the European Union (down 13%).
- UNECE region imports of sawn hardwood in 2001 were down by 6%.
- Apparent consumption in the UNECE region fell from its 2000 peak of nearly 53 million m³ due to a weakened United States market.
- Central and eastern European countries consumption of sawn hardwood is increasing for furniture manufacturing and re-export to the European Union, as evidenced by Poland's furniture exports rising to 7% of total national exports.
- The catastrophic events of 11 September 2001 served merely to accentuate reduced demand in UNECE markets that were already fragile.
- The rapid development of Asian furniture industries continues to have far reaching effects on the hardwood trade in the United States where furniture production has suffered increasingly, and on European producers that have partially lost Asian markets to which they were becoming accustomed.
- Markets continue to be affected by concerns over rates of currency exchange.
- Environmental issues, mainly surrounding certification, have received increased press attention and all hardwoods may well become increasingly embroiled in the issue of legality, whether tropical or temperate.

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Secretariat introduction

This chapter on sawn hardwood markets focuses on temperate hardwood developments. A separate chapter, 13, is on tropical timber markets.

The secretariat would like to thank Mr. Michael Buckley for once again authoring this analysis of the sawn hardwood markets. Formerly European Director of the American Hardwood Export Council (AHEC), Mr. Buckley is well placed to perform such an analysis in that he has considerable experience throughout Europe and the United States. As a hardwood industry consultant, Mr. Buckley's first-hand knowledge about hardwood markets outside of the UNECE region is valuable. We are extremely grateful to Mr. David Venables, European Director of AHEC for facilitating this chapter. Production of this chapter extends our collaboration with AHEC yet one more step.

8.1 Introduction

The condition of the hardwood global market in the year of 2001 was already fragile in terms of demand before the events of 11 September 2001 that precipitated a sharp reduction in confidence and trading in both Europe and the United States. The data for 2001 have confirmed the prediction of last year's *Review* that 2000 was a vintage year. In fact 1999 was a more notable year for production, but 2000 was a peak year for trade. However in September 2001, the trade journal *hardwoodmarkets.com*, covering global hardwood industries and markets, headlined "Good start for the European Union trade" but went on to state that it was

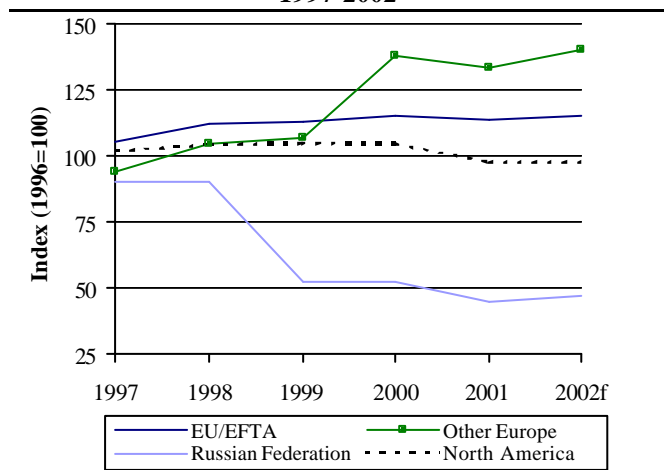
"likely that there was a more significant slow down in the second quarter of the year as concerns over the global economy mounted". It was quite clear from anecdotal evidence and from trade press reports that the second half of 2001 was a downturn in consumption of all wood products. Furthermore, European exporters of beech were suffering from a sudden reduction of demand in China where many importers were losing interest in a species that they were finding less and less profitable. Beech was replaced by a wide range of imported sawn hardwood from many countries including some Russian hardwood in log form.

The year 2001 has reversed trends, notably in imports and exports and particularly in levels of production. It has also seen a more unstable market with many users unwilling to continue to accept the levels of prices that had been achieved earlier. Buyers were consistently cautious, operating increasingly "Just in Time" and keeping stock levels to a minimum wherever possible. Currency markets were also nervous at the sustained high level of the U.S. dollar against European currencies, which drew loud complaints from many United States exporters, filled with consternation at the imminent introduction of the euro coinage on 1 January 2002. However, there was little disruption to trade in January 2002. The main effect may have been the wider acceptance of the euro for trade within Europe, disadvantaging the United States hardwood trade *vis-à-vis* European grown hardwoods.

Apparent consumption of sawn hardwood – production plus imports minus exports – peaked in the UNECE region in 2000 (graph 8.1.1 and table 8.1.1). Total hardwood consumption includes logs sawn in the region, both temperate and tropical, as well as imports. Consumption of sawnwood does not include value-added hardwood products, e.g., dimension (semi-machined sawnwood). Within the region, apparent consumption is down from 51.52 million m³ in 1998 to 50.77 million m³ in 2001. The largest and most significant fall (6.6%) has been in the massive United States domestic market, followed by a huge reduction (7.8%) in Italy which has the second highest apparent consumption in the European Union, after France and ahead of Spain (tables 8.3.1 and 8.5.1). Germany is well behind those three, and also fell (6.5%). A major factor is the increase of imports of value-added products, notably furniture, but also doors, windows and mouldings into the North American and European markets. When this occurs, although the final consumer is in North America or Europe, the sawn hardwood is "consumed" in a country which manufactures the value-added product.

GRAPH 8.1.1

Consumption of sawn hardwood in the UNECE region, 1997-2002



Note: f = The Timber Committee's forecast trend for 2001 to 2002, made at the October 2001 session, was applied to the 2001 figure.

Source: UNECE/FAO TIMBER database, 2002.

TABLE 8.1.1
Sawn hardwood balance in the UNECE region, 1997-2001
 (Million m³)

	1997	1998	1999	2000	2001	Timber Committee estimate for 2002 ¹
EU/EFTA						
Production	7.41	7.50	7.86	7.78	7.78	7.85
Imports	6.92	7.74	8.14	8.41	7.95	8.03
Exports	1.73	1.82	2.52	2.49	2.16	2.16
Net trade	-5.19	-5.92	-5.62	-5.92	-5.78	-5.87
Apparent consumption	12.60	13.42	13.49	13.70	13.57	13.72
OTHER EUROPE						
Production	5.17	5.84	6.45	7.87	7.73	8.09
Imports	0.41	0.50	0.78	0.92	0.90	0.91
Exports	1.96	2.47	2.92	3.25	2.95	3.04
Net trade	1.54	1.97	2.14	2.33	2.05	2.13
Apparent consumption	3.62	3.87	4.31	5.54	5.68	5.95
RUSSIAN FEDERATION						
Production	3.93	3.97	2.47	2.54	2.50	2.62
Imports	0.05	0.03	0.01	0.02	0.01	0.01
Exports	0.25	0.25	0.30	0.39	0.63	0.68
Net trade	0.20	0.22	0.30	0.37	0.63	0.67
Apparent consumption	3.73	3.75	2.17	2.17	1.87	1.95
NORTH AMERICA						
Production	30.68	31.07	31.32	31.02	29.01	29.11
Imports	2.12	2.25	2.58	2.86	2.46	2.46
Exports	3.89	3.68	4.13	4.39	3.89	4.01
Net trade	1.77	1.43	1.55	1.53	1.43	1.55
Apparent consumption	28.91	29.64	29.77	29.48	27.58	27.57
UNECE TOTAL						
Production	47.88	49.21	48.99	51.28	49.07	49.68
Imports	9.59	10.60	11.61	12.40	11.53	11.62
Exports	7.91	8.30	10.33	10.74	9.83	10.08
Net trade	-1.68	-2.30	-1.29	-1.66	-1.70	-1.54
Apparent consumption	49.56	51.52	50.28	52.94	50.77	51.22

¹ The Timber Committee's forecast trend for 2000 to 2001, made at the October 2000 session, was applied to the 2000 figure.

Source: UNECE/FAO TIMBER database, 2002.

During 2001 some market sectors performed poorly, particularly the construction industry, which negatively affected sawn hardwood demand. In furniture there continued to be capacity rationalisation as production in Europe moved eastwards and Asian producers continued to take market share from European (and American) producers of low-cost furniture. However the hardwood flooring market remained firm in terms of demand although there was a slight drop (1.2%) in production of the "traditional" area – mainly in the European Union. The European Federation of the Parquet Industry (FEP) has now admitted producers from three eastern European countries and the resulting combined production amounted to 75.6 million m² of parquet. Finally there was an un-paralleled increase in

demand for oak barrel staves, a high value product, just at a time when material had become less available, due to the reduction in new cuttings of high quality oak in France following the forest damage earlier by the great storm of 1999.

8.2 UNECE region

Production of sawn hardwood in the UNECE region as a whole dropped below 50 million m³ in 2001 for the first time in four years, of which the year 2000 was the peak (table 8.2.1). The major influence on this figure comes from the United States, where production has fallen significantly, by almost 2 million m³ in 2001, equivalent to 6.5% (it should be noted that the United

TABLE 8.2.1
Production of sawn hardwood in the UNECE region, 1998-2001
(1,000 m³)

	1998	1999	2000	2001	Change 2000 to 2001	
					Volume	%
EU/EFTA	7 496	7 863	7 782	7 783	1	0.0
of which:						
France	3 023	2 979	2 968	3 030	62	2.1
Germany	1 165	1 559	1 320	1 287	-33	-2.5
Italy	900	900	900	900	0	0.0
Spain	741	741	872	872	0	0.0
Portugal	370	350	407	423	16	3.9
OTHER EUROPE	5 836	6 455	7 868	7 730	-139	-1.8
of which:						
Turkey	1 889	2 020	2 710	2 645	-65	-2.4
Romania	744	973	1 319	1 254	-65	-4.9
Poland	782	788	730	700	-30	-4.1
Latvia	400	593	580	645	65	11.2
Croatia	522	519	519	519	0	0.0
CIS	4 813	3 349	4 619	4 550	-69	-1.5
of which:						
Russian Federation	3 970	2 465	2 540	2 500	-40	-1.6
NORTH AMERICA	31 070	31 323	31 015	29 008	-2 007	-6.5
Canada	1 027	1 051	1 083	1 023	-60	-5.6
United States	30 043	30 272	29 932	27 985	-1 947	-6.5

Source: UNECE/FAO TIMBER database, 2002.

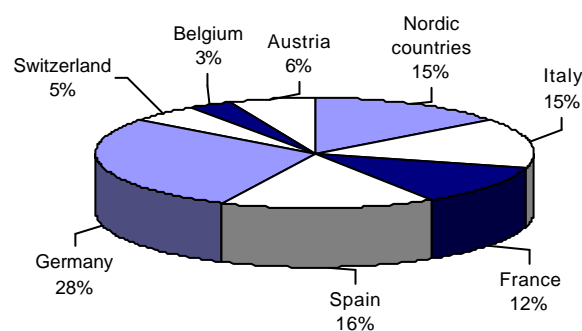
States revised the million m³ production for 2000 down to 29.9 million m³ for that same year).

Imports and exports were both down in the region and markets became very nervous at the end of the year. As a result apparent consumption was also down. Trade in sawn hardwood has been unsettled by concerns about exchange rates and particularly the high value of the dollar. Increasingly western European buyers have turned towards eastern Europe for sawn hardwoods, to which the response has been improvements in specifications and quality. However the reliability of these supplies is not proven and in some cases has given rise to criticism from manufacturers who have to make provision for increased stock and increased funds for reduced cash flow. Trade of sawn hardwood in the UNECE region is mainly within subregions, with growing volumes flowing from "Other Europe" to EU/EFTA (table 8.2.2).

In the flooring market² there is a discernible trend taking place as German consumption reduces in line with its consumption of all hardwood products, having dropped from a 31% share of the European Union

flooring in 2000 to 28% in 2001 (graph 8.2.1). Meanwhile southern Europe is catching up fast with Spain moving up to number two flooring market (16%) and increases in France and Italy. These four countries account for 71% of hardwood flooring consumption in the European Union.

GRAPH 8.2.1
European Union consumption of flooring, 2001



Note: Nordic countries include Denmark, Finland, Norway and Sweden.

Source: European Federation of the Parquet Industry, 2002.

² The majority of the wood flooring market is hardwood.

TABLE 8.2.2

Major sawn hardwood trade flows in the UNECE region 1997-2000

(% of global trade)

To:		From:															Grand total		
		EU/EFTA				Other Europe			CIS		North America			Non-UNECE					
		FRA	DEU	ITA	BEL	Total	HRV	HUN	Total	RUS	Total	USA	CAN	Total	MYS	BRA		IDN	Total
EU/EFTA	Italy	0.3	0.2			1.0	1.6	1.0	4.9	0.3	0.4	1.0	0.1	1.2	0.2	0.1	0.1	2.3	9.8
	Germany	0.5		0.3	0.1	1.5		0.1	2.1	0.1	0.5	0.6	0.2	0.8	0.3			0.8	5.6
	Netherlands	0.3	0.4		0.5	1.8			0.4			0.2	0.1	0.2	1.4	0.4	0.1	2.4	4.9
	Spain	0.6	0.5	0.1		1.4			0.2		0.1	0.9	0.1	1.0		0.4		2.1	4.7
	United Kingdom	0.2	0.2	0.1		1.0			0.9			0.7	0.2	0.9	0.4	0.1		0.9	3.8
	France		0.1	0.2	0.2	0.7			0.3			0.2	0.1	0.3	0.2	0.8		2.1	3.5
	Belgium	0.3	0.1			0.5			0.3			0.2		0.2	0.2	0.1		0.5	1.5
	Austria		0.1	0.1		0.3	0.2	0.2	1.1										1.4
	Portugal	0.1				0.4						0.2		0.2		0.3		0.6	1.2
	Total	3.1	2.0	0.9	1.0	10.5	2.0	1.6	11.7	0.6	1.3	4.6	1.2	5.8	2.8	2.3	0.3	12.7	42.0
Other Europe	Slovenia					0.1	0.3		0.5										0.6
	Total		0.2	0.1		0.6	0.3		1.9	0.2	0.5	0.1		0.1				0.2	3.4
CIS	Russian Federation																		0.2
	Total					0.1			0.1	0.6	0.7								0.9
North America	United States			0.2		0.3							5.3	5.3	0.4	0.7	0.2	2.4	8.1
	Canada										6.6		5.3	6.6	0.1			0.2	6.8
	Total			0.2		0.4					6.6	5.3	11.9	0.5	0.8	0.2		2.6	14.9
Non-UNECE	Japan			0.1		0.2					0.9	0.1	1.0	2.3	0.1	0.4		4.3	5.5
	Thailand										0.2		0.2	2.6	0.2			4.1	4.3
	Hong Kong	0.2	0.3	0.2		0.8					0.7	0.1	0.8	1.0	0.1	0.2		2.3	3.9
	China	0.1	0.3	0.1		0.5		0.2	0.1	0.1	0.4		0.4	0.6	0.1	0.3		2.3	3.5
	Taiwan P.o.C					0.1					0.6	0.1	0.7	1.3	0.1	0.3		2.1	2.9
	Total	0.6	0.7	0.5		3.1	0.2		2.5	0.3	0.3	6.0	0.4	6.4	13.5	1.7	1.7	26.5	38.8
Grand total		3.8	3.0	1.8	1.0	14.7	2.4	1.6	16.3	1.7	2.8	17.3	7.0	24.2	16.8	4.8	2.2	42.0	100.0

Note: AUT = Austria, BEL = Belgium, BRA = Brazil, CAN = Canada, CHE = Switzerland, CHL = Chile, CHN = China, CZE = Czech Republic, DEU = Germany, ESP = Spain, EST = Estonia, FIN = Finland, FRA = France, GAB = Gabon, GBR = United Kingdom, HRV = Croatia, HUN = Hungary, IDN = Indonesia, ITA = Italia, JAP = Japan, KOR = Republic of Korea, LVA = Latvia, MAL = Malaysia, MEX = Mexico, MYS = Malaysia, NLD = Netherlands, NOR = Norway, NZL = New Zealand, PNG = Papua New Guinea, POL = Poland, P.o.C = Province of China, PRT = Portugal, RUS = Russian Federation, SVK = Slovakia, SWE = Sweden, THA = Thailand, USA = United States, ZAF = South Africa.

Source: UN COMTRADE/EFI, 2002.

8.3 EU/EFTA subregion

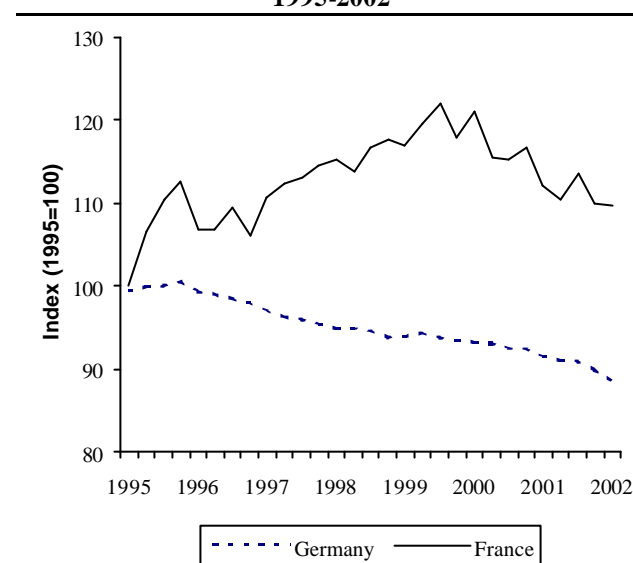
The European Union and the EFTA region increased sawn hardwood production only marginally although there was a significant increase in France (2.1%). The reason behind the increase in France is due to a gain in real demand due to successful promotion of oak, and a subsequent revival in consumption as well as some residual production of sawnwood from logs felled by the December 1999 windstorms. Conversely, there was a reduction in Germany (-2.5%) following a loss of exports for German beech and completion of converting storm-felled logs. Sawnwood prices were falling in 2001 and early 2002 in Germany, and France (graph 8.3.1). Over the last four years there has been a very gradual increase in the EU/EFTA subregion in sawn hardwood production from 7.5 m³ in 1998 to 7.8 million m³ in 2001, representing a cumulative increase of 7.2% for the period. The EU/EFTA accounted for just over 16% of the sawn hardwood production in the UNECE area of the world and is therefore still dwarfed by the North American continent which accounted for 59% in 2001.

Exports from EU/EFTA countries suffered a fall of 13.2% in 2001 compared to the previous year and this compared to a drop of only 4.5% for the region as a whole (tables 8.3.1 and 8.3.2). Very significant reductions in exports were seen in France (-11.5%), Germany (-9.9%), Belgium (-20.4%) and Austria (-22.8%) caused largely by loss of Asian markets for beech and in part from processing the storm-generated wood before insect and fungal attack. The Chinese had overbought beech sawnwood and were unable to make profit on it. And there were mistakes with grades and qualities. Furthermore there is a trend towards sawing beech logs in China.

Imports of sawn hardwood, approximately one-third tropical, had been steadily rising from 1998 to 2000 (by 10.4% over three years) but fell back by 5.5% in 2001 to 8.0 million m³. This reflected a more fragile economy in 2001 than the previous year and also perhaps a greater use of European resources. The two major countries where imports fell were Italy, suffering from poor furniture export demand – especially in Germany, and Germany itself. Consumption of hardwood products there, particularly furniture, has adversely affected producers in Austria, Denmark and especially Italy. Nor do prospects for 2002 look good. Sales of furniture in the first quarter in Germany were down by 11% on the previous year and 15% down in March on the previous March, according to the Verband der Deutschen Mobelindustrie (VDM). In 2001 building investments in Germany were down by 5.8% according to the Zentralverband des Deutschen Baugewerbes (ZDB), although the drop in building

permits were slightly lower in 2001 than in 2000. By contrast, the United Kingdom, where the economy was still healthy, increased imports by 6.2% during 2001. Overall the European data is still subject to adjustment but the trend indicated is in line with expectation.

GRAPH 8.3.1
French and German beech sawnwood prices,
1995-2002



Sources: Statistisches Bundesamt and Centre d'Etudes de l'Economie du Bois, 2002.

TABLE 8.3.1

Exports and imports of sawn hardwood in the UNECE region, by volume, 1998-2001
(1,000 m³)

	1998	1999	2000	2001	Change 2000 to 2001	
					Volume	%
EXPORTS						
EU/EFTA	1 822	2 519	2 491	2 163	-328	-13.2
of which:						
France	552	719	661	585	-76	-11.5
Germany	446	494	616	555	-61	-9.9
Belgium	...	397	347	276	-71	-20.4
Austria	110	243	261	202	-59	-22.8
Italy	125	161	167	147	-20	-12.0
Netherlands	137	145	114	114	0	0.3
OTHER EUROPE	2 466	2 921	3 250	2 946	-304	-9.4
of which:						
Romania	333	423	646	498	-148	-22.9
Latvia	316	372	442	494	51	11.6
Poland	297	308	315	234	-81	-25.7
Lithuania	170	202	204	229	25	12.2
CIS	328	757	603	829	226	37.5
of which:						
Russian Federation	249	303	391	631	240	61.4
NORTH AMERICA	3 680	4 129	4 395	3 892	-503	-11.4
Canada	1 178	1 339	1 445	1 257	-188	-13.0
United States	2 502	2 790	2 950	2 635	-315	-10.7
IMPORTS						
EU/EFTA	7 743	8 142	8 407	7 947	-460	-5.5
of which:						
Italy	2 021	2 054	2 076	1 837	-239	-11.5
Spain	1 259	1 201	1 323	1 323	0	0.0
Netherlands	605	687	748	748	0	0.0
United Kingdom	479	504	655	696	41	6.2
Germany	775	809	822	695	-127	-15.5
France	600	720	659	659	0	0.0
OTHER EUROPE	497	778	922	899	-23	-2.5
of which:						
Poland	94	133	160	206	46	28.8
Slovenia	90	120	143	122	-22	-15.0
Israel	23	102	121	121	0	0.0
Czech Republic	89	91	117	110	-7	-6.0
Turkey	78	100	77	38	-39	-50.6
CIS	112	113	204	220	16	7.9
of which:						
Russian Federation	26	7	17	5	-12	-70.6
NORTH AMERICA	2 249	2 580	2 864	2 462	-402	-14.0
Canada	954	1 084	1 182	1 038	-144	-12.2
United States	1 295	1 496	1 682	1 424	-258	-15.3

Source: UNECE/FAO TIMBER database, 2002.

TABLE 8.3.2

Exports and imports of sawn hardwood in the UNECE region, by value, 1998-2001
(\$1,000)

	1998	1999	2000	2001	Change 2000 to 2001	
					Volume	%
EXPORTS						
EU/EFTA	1 063 818	1 055 789	1 078 630	920 303	-158 326	-14.7
of which:						
Germany	199 332	227 936	297 513	248 454	-49 059	-16.5
France	212 195	208 973	208 188	182 747	-25 440	-12.2
Belgium	...	172 222	193 954	144 662	-49 292	-25.4
Italy	231 306	156 225	124 209	95 112	-29 097	-23.4
Netherlands	100 232	98 993	74 870	72 602	-2 268	-3.0
Austria	46 427	69 017	60 957	63 093	2 136	3.5
OTHER EUROPE	430 492	517 505	609 612	569 087	-40 525	-6.6
of which:						
Romania	95 862	129 095	169 708	164 401	-5 307	-3.1
Poland	79 600	81 100	81 100	64 100	-17 000	-21.0
Latvia	40 173	45 622	48 351	51 897	3 546	7.3
Slovakia	43 915	46 551	46 839	47 542	703	1.5
Lithuania	23 643	30 173	27 941	34 683	6 743	24.1
CIS	18 474	51 333	36 199	63 629	27 431	75.8
of which:						
Russian Federation	17 537	22 100	27 900	57 372	29 472	105.6
NORTH AMERICA	1 628 980	1 792 855	1 879 850	1 620 962	-258 889	-13.8
Canada	407 405	426 443	451 716	395 403	-56 314	-12.5
United States	1 221 575	1 366 412	1 428 134	1 225 559	-202 575	-14.2
IMPORTS						
EU/EFTA	3 243 888	3 251 309	3 285 270	2 982 228	-303 041	-9.2
of which:						
Italy	738 000	760 599	701 516	615 353	-86 163	-12.3
Spain	408 145	374 736	385 758	374 073	-11 685	-3.0
Netherlands	317 961	347 479	359 839	348 939	-10 900	-3.0
United Kingdom	280 669	282 695	319 813	311 958	-7 856	-2.5
France	313 098	269 864	306 311	293 003	-13 308	-4.3
Belgium	...	267 241	305 336	249 182	-56 154	-18.4
OTHER EUROPE	148 645	182 520	211 786	206 852	-4 934	-2.3
of which:						
Israel	11 000	47 539	55 941	55 941	0	0.0
Poland	25 700	30 200	38 700	43 300	4 600	11.9
Slovenia	27 221	33 828	36 669	29 553	-7 116	-19.4
Czech Republic	31 341	27 163	27 463	23 820	-3 642	-13.3
Cyprus	6 436	...	7 868	7 715	-153	-1.9
CIS	18 877	3 874	8 463	8 819	356	4.2
of which:						
Russian Federation	8 664	2 332	2 890	1 835	-1 055	-36.5
NORTH AMERICA	703 989	793 548	894 797	806 249	-88 548	-9.9
Canada	305 358	352 248	401 755	344 408	-57 347	-14.3
United States	398 631	441 300	493 042	461 841	-31 201	-6.3

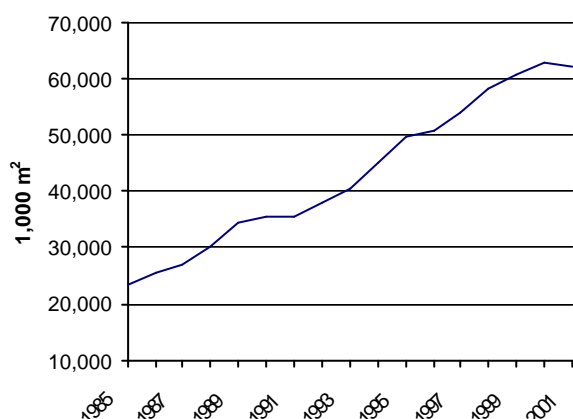
Source: UNECE/FAO TIMBER database, 2002.

Apparent consumption in the EU/EFTA region is down by only 1.0% in 2001 compared to 2000 (table 8.3.3). There were notable improvements in:

- Belgium, on the partial recovery of furniture production and a strong flooring market;
- France, where the consumption of oak is recovering and the barrel stave market is very strong; and
- United Kingdom, which enjoyed the best apparent consumption on a four-year rising trend due to its healthy economy.
- There were notable reductions in:
 - Germany, on continued weakness in construction projects and furniture demand;
 - Norway, on loss of some export markets in the European Union; and
 - Italy, on weak demand from Germany and some other furniture markets.

GRAPH 8.3.2

Flooring production in the European Union, 1985-2001



Source: European Federation of the Parquet Industry, 2002.

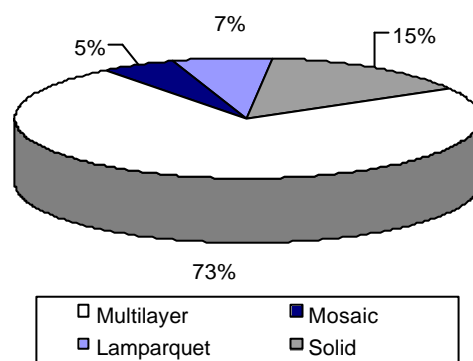
Markets were already nervous in 2001 before the terrorist attacks of September. Demand levels were already showing some signs of weakness as the economies of Europe were beginning to slow and the hoped-for improvement in furniture consumption did not materialise. This was particularly true for Germany and all producing countries dependent on exports to Germany. The strength of the dollar was already negatively affecting export markets for American hardwood suppliers, but combined with reductions in the domestic demand in the United States, mill cutbacks resulting in producing even less higher grade material available for export.

In the hardwood flooring market, which has grown consistently in Europe, consumption was down (-1.3%) within the European Union in 2001 for the first time in many years, (graph 8.3.2) but demand was particularly strong in France (13%) and Spain (16%), both catching up with the trend of the fashion for hardwood floor-coverings in the rest of northern Europe.

Solid hardwood flooring accounted for 15.2% but was up (4%) on 2000, whereas multilayer fell, and solid ‘lamparquet’ by 23% to 4.6% market share, giving solid flooring products one-fifth share (graph 8.3.3). Lamparquet is solid but in small pieces, which are not glued together - as in mosaic. Thus mosaic, lamparquet and solid all qualify as different forms of solid wood, accounting for 27% of the production shown.

GRAPH 8.3.3

Flooring types in the European Union, 2001



Source: European Federation of the Parquet Industry, 2002.

One ongoing phenomenon in Europe is the increase in the use of oak barrels for wine, which is the subject of endless discussion and argument concerning type. Increasingly, it appears, wine drinkers prefer the taste of oak. French oak came under pressure after the great storms of 1999 after which harvests were reduced.

American white oak, being much cheaper and even preferred by some producers, is increasingly imported as blank stave material to be manufactured in Europe because the import of finished barrels is banned for phyto-sanitary reasons. Meanwhile there are also known to be oak barrel aging trials going on, even in France, using oak from Croatia and Ukraine among other European origins. Much of this oak is simply described as ‘European oak’. At least one French barrel manufacturer has established production in the United

States and eastern Europe to take advantage of the local wood resource to meet regional demand for barrels.

Another sector that has shown very healthy growth within the region, consuming significant volumes of sawn hardwood and veneer, is the door manufacturing industry in Spain. There are now several huge state-of-the-art producers with individual capacities of high quality products up to 2 million doors per year. This industry has invested heavily in the last few years and the fact of Spain's dependence on imports for hardwood has become irrelevant to its success.

8.4 Other Europe

Elsewhere in Europe, other countries, led by Turkey and Romania, accounted for 15% of the UNECE region's hardwood production – not far behind the European Union production. Overall production was down 1.8% on the previous year, but the long-term trend is significantly upward, by 28% over the four-year period from 1998 to 2001. Turkey supposedly produced 35% of the "Other Europe" sawn hardwood production, much of which is believed to be beech, however it is possible that the total figure of 2.6 million m³ is overstated, being mixed with some softwood species. If the figure is correct, Romania – an important

producer – only achieved 17.5% of the production of this subregion producing 1.3 million m³. Furthermore, Romania's production has expanded by 67% in the same four years. The three other main countries in this area are: Poland, which is experiencing a gradual fall in production; Croatia, where statistics were unavailable; and Latvia, where the increased use of birch by IKEA and other uses has pushed production up by 61%.

By contrast to the EU/EFTA subregion, exports from "Other Europe" were up in 2001 by 2%, now accounting for one third of the UNECE region's total exports. Even this position may be understated for the data from Croatia, again an important exporter, was not available in time for this Review.

"Other Europe" imports of hardwood are extremely varied. Anecdotal evidence, for example, indicates French beech and oak being shipped to Romania for processing and re-export. There is also a growing trade in species that are not native, such as black walnut and black cherry, to satisfy overseas furniture markets demanding certain product ranges, natural colours and designs. There is also a huge trade in hardwood material simply shipped by the European Union investors – mainly German – into eastern European plants for furniture and other products for re-export.

TABLE 8.3.3
EU/EFTA sawn hardwood apparent consumption, 1998-2001
(1,000 m³)

	1998	1999	2000	2001	Change 2000 to 2001	
					Volume	%
EU/EFTA	13 417	13 486	13 699	13 568	-131	-1.0
Austria	292	322	335	332	-3	-0.9
Belgium	...	481	508	528	20	3.9
Denmark	259	161	153	209	56	36.6
Finland	106	105	153	153	0	0.1
France	3 072	2 980	2 966	3 104	138	4.7
Germany	1 494	1 874	1 526	1 427	-99	-6.5
Greece	72	148	112	112	0	0.0
Ireland	159	141	151	155	4	2.3
Italy	2 796	2 793	2 809	2 590	-219	-7.8
Luxembourg	...	29	40	40	0	0.0
Netherlands	621	701	777	777	-1	-0.1
Norway	52	56	53	87	34	64.2
Portugal	544	559	647	606	-42	-6.4
Spain	1 968	1 902	2 155	2 155	0	0.0
Sweden	352	368	340	340	0	0.0
Switzerland	253	250	227	176	-51	-22.5
United Kingdom	596	613	747	778	31	4.1

Source: UNECE/FAO TIMBER database, 2002.

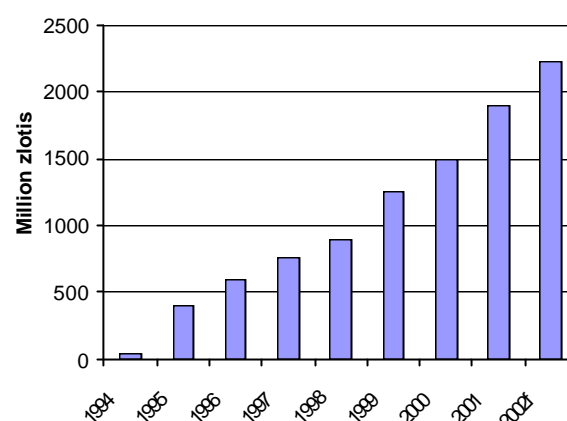
The most significant example of this is Poland accounting for 21% of the regions' imports. Five other countries led by Hungary (plus Slovenia, Israel, Czech Republic, and Slovakia) account for another 50% of the total. Given that re-export prospects for finished products, such as furniture, play an important role in the trade in sawn hardwood, there is an interesting comparison within this region when considering Poland and Hungary. In contrast to the activity in Poland, traders and manufacturers in Hungary experience rising labour costs and now adverse tariff rates against United States sawn hardwood compared to that from the European Union.

Of all the UNECE subregions, only "Other Europe" had continued growth in apparent consumption in 2001, rising 2.6% over 2000 (table 8.4.1). Turkey, the largest consumer in "Other Europe", dropped 112,000 m³, a 4.1% decrease. Notable gains in consumption were made in Poland (up 17%), which grows continuously and is now the leading furniture supplier to the European Union. In 2001 Poland exported 70% of all furniture produced, which represented 7% of its total national exports – a vital ingredient in its trade balance as a mainstay of Polish exports.

In 2002, Polish deliveries to IKEA are estimated to amount to 2.2 billion zlotis (\$538 million) making

GRAPH 8.4.1

Polish furniture sales to Ikea, 1994-2002



Note: f = forecast.

Source: *Gazeta Wyborcza*, 2002.

Poland number two supplier in the world after China (graph 8.4.1).

Apparent consumption of sawn hardwood in Romania has also continued to grow, marking a 13% increased consumption on 2000 and 85% over the four years from 1998 – largely due to an influx to Romania of investment and technology together with marketing expertise from foreign investors.

TABLE 8.4.1

Other Europe sawn hardwood apparent consumption, 1998-2001
(1,000 m³)

	1998	1999	2000	2001	Change 2000 to 2001	
					Volume	%
OTHER EUROPE	3 989	4 471	5 533	5 675	142	2.6
Albania	19	20	43	43	0	0.0
Cyprus	19	17	25	16	-9	-34.3
Czech Republic	357	360	364	369	5	1.4
Estonia	21	26	-52	15	66	...
Hungary	-19	68	90	90	0	0.0
Israel	21	102	120	120	0	0.0
Latvia	88	228	146	157	11	7.4
Lithuania	103	116	115	97	-18	-15.8
Poland	578	613	575	671	97	16.9
Romania	413	554	679	765	86	12.6
Slovakia	137	49	206	234	28	13.7
Slovenia	113	128	164	184	20	12.0
The fYR of Macedonia	8	15	19	9	-10	-52.1
Turkey	1 958	2 101	2 759	2 647	-112	-4.1
Yugoslavia	178	150	-28	-15.6

Source: UNECE/FAO TIMBER database, 2002.

Hungary, Poland and Romania are now included in

TABLE 8

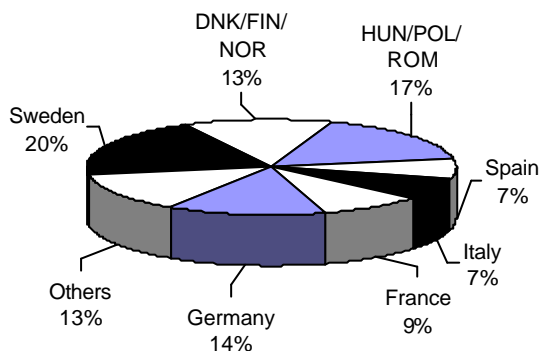
North American sawn hardwood app
(1,000 m

	1998	1999
NORTH AMERICA	29 638	29 774
Canada	802	796
United States	28 836	28 978

Source: UNECE/FAO TIMBER database, 2002.

GRAPH 8.4.2

Flooring production in the European Federation of the Parquet Industry members, 2001



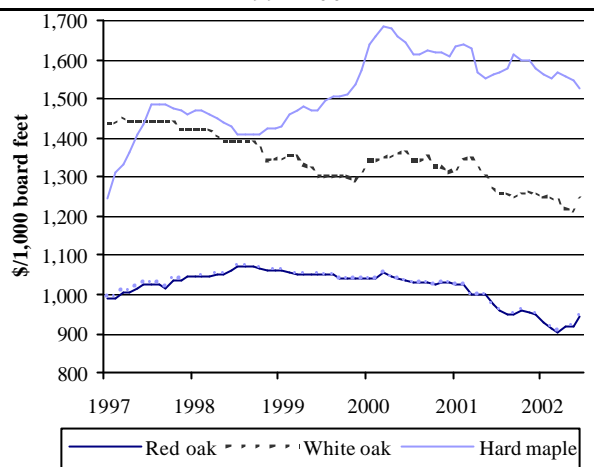
Note: Others include Austria, Belgium, Netherlands and Switzerland. DNK = Denmark, FIN = Finland, NOR = Norway, HUN = Hungary, POL = Poland, ROM = Romania.
Source: European Federation of the Parquet Industry, 2002.

8.5 North America

The United States is by far the largest producer of hardwood sawn hardwood in the UNECE region accounting for 56.9% in 2001 with Canada adding only 2.1% to bring the total in North America to 29.0 m³. Adjusted data shows that 1999 was the peak production year (table 8.1.1) at 33.8 million m³ rather than 2000 as suggested by the data presented last year. United States hardwood production is very sensitive to the domestic market for furniture and construction for interiors, but also to profitability of sawmills and the economic conditions of the last two years has resulted in mill closures and shift reductions that have reduced the overall production. Sawn hardwood prices were falling in the United States during the last year, with small upturns apparent in early 2002 (graph 8.5.1). The recession in the United States manufacturing sector

GRAPH 8.5.1

Sawn hardwood prices in the United States, 1997-2002



Source: Hardwood Review, 2002.

curtailed demand for pallets, most of which are made from sawn hardwood. Canadian production of sawn hardwood is based on both American grown and Canadian native species and has been remarkably steady in the last four years, although it showed a reduction of 5.6% in 2001.

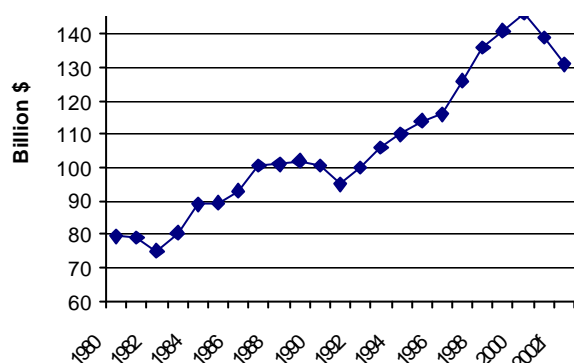
Exports of American hardwoods, including those grown in the United States and processed in Canada, were down in total by 431,000 m³ in 2001 – a drop of 10.3% for North America. This was widely believed to be due largely to the strength of the dollar against European currencies throughout the year, rather than the events of 11 September 2001 which disrupted trade too late in the year to make a major impact on the full result. Furthermore there was much competition emerging from eastern Europe producers, who were beginning to offer hardwood to traditional western European buyers of American hardwoods. As a result of all these factors, United States exports were down by 6.3% and from Canada by 14.3%. Latest USDA Foreign Agricultural Service data (WP 102, March 2002) shows that in 2001 the European Union 15 countries accounted for 28% of United States global exports of sawn hardwood, down from 29% in 2000.

Import data from North America, used over recent years, includes tropical and temperate sawn hardwood. The import volume for 2001 used in this report includes about 16% or 400,000 m³ of tropical timber from a wide range of countries. Inclusion of tropical sawnwood is maintained in order to make consistent historical comparison of apparent consumption over the last four years (there is approximately 33% tropical timber in the European Union data, arising for example from re-exports from say Netherlands to United

TABLE 8.6.1
CIS sawn hardwood apparent consumption, 1998-2001
(1,000 m³)

	1998	1999	2000	2001	Change 2000 to 2001	
					Volume	%
Belarus	740	365	490	496	6	1.2
Republic of Moldova	58	59	58	58	0	0.0
Russian Federation	3 747	2 169	2 166	1 874	-292	-13.5

Source: UNECE/FAO TIMBER database, 2002.



Note: f = forecast.

Source: Federal Reserve Board, 2002.

Kingdom but seen as European timber). Imports of sawn hardwood into the United States and Canada amount to 2.5 million m³ compared to exports of 3.9 million m³ all of which is of North American (temperate) origin.

North American apparent consumption is almost entirely dependent on its domestic market which suffered in 2001 from hugely increased competition for its furniture makers from Asia, especially China and increasingly Viet Nam and other southeast Asian nations (table 8.5.1 and graph 8.5.2). The last couple of years have seen a rapid acceleration in the furniture manufacturing capacity in several different regions within China. Much of this was initiated by Taiwanese producers who have invested in a plant in China, but who now see attractive opportunities in other low labour cost countries such as Vietnam. As a result United States consumption of higher grade sawnwood has seen reduced demand leading to production cut-backs. At the same time less lower grade material was consumed by the packaging market. Canadian consumption appears little changed over the four-year period.

United States furniture production has taken a sharp downturn since the 2000 when the economy started to slow and the full impact of imports from Asian producers was felt. Most commentators believe that this

trend will continue for some time and many United States hardwood producers point to it as a major reason for reduced profitability that they currently suffer. The level of residential construction in the United States has however underpinned the market for hardwood to some extent without which the downturn in hardwood consumption might have been far worse.

8.6 CIS subregion

Production of sawn hardwoods in CIS continues to show a falling trend, down by 1.5% in 2001, with the greatest reduction in the Russian Federation, 1.6% lower. However, CIS production remains at 9.2% share of the ECE production which is unchanged from 1998.

Exports of sawn hardwood from CIS reached a recent record high in 2001, rising to 829,000 m³ – up from 603,000 in 2000. Of the total CIS export volume, the Russian Federation accounted for 76%. In value, CIS exports increased by 75.8% over 2000. The CIS is a relatively insignificant import region, accounting for only 1.8% of total imports in 2001, although there is an upward trend, with imports now double the level of four years ago – albeit from a small base. This may indicate strategic imports for products made in CIS and re-exported to countries specifying species or specifications and grades that are unavailable in CIS.

However the CIS region as a whole is showing a downward trend in apparent consumption due to the steady decline in the Russian Federation (table 8.6.1). Overall production was down, exports were up significantly and with imports only up marginally, consumption appears to be falling in CIS.

8.7 Conclusion

8.7.1 What next in the sawn hardwood markets?

The conclusion for 2001 is that sawn hardwood within the UNECE region has reduced in production and apparent consumption, entering into a downward cycle that may have had its origins early in the year.

The question now is whether that cycle is terminating in 2002 or not. Certainly lower production and stocks, especially in some dry specification of key species, appears to be setting the bottom of the price cycle with some mid-year indications of prices firming. In the case of German beech, for example, production is reported as having been reduced by 40% in the first five months of 2002.

There remain however three major un-answered questions concerning the true consumption of temperate sawn hardwood in the UNECE region as a whole. First is the authenticity and accuracy of the huge United States hardwood production volumes over the immediate last few years, coupled with the current trend in 2002. Estimates vary considerably, but there is little doubt that production fell heavily in 2001 due to mill closures and shift reductions. Second, is the age-old problem of accounting for dimension and semi-processed sawnwood. Third is knowing the consumption of tropical sawn hardwood included in temperate hardwood data.

Another issue facing the hardwood trade in Europe is a perceived over-capacity of importers all chasing smaller volumes of sales as many users increase the volumes that they purchase direct from producers. This is a long-term trend, but one that the hardwood trade has not been able to address through rationalisation.

8.7.2 Effective promotion can alter markets

Despite the depressed state of the hardwood market in some sectors and in certain key countries, the market for sawn hardwood remains relatively buoyant for a few applications. As the American Hardwood Export Council (AHEC) has shown over many years, effective promotion is one measure that the hardwood industry can take to stimulate demand and to ensure that hardwoods take their share of the wood consumption available. In recent years oak has suffered from reduced demand by furniture makers and European producers faced stiff competition from American oak. Subsequent efforts by the French oak industry under L'Association pour la Promotion des Emplois du Chêne Français (l'APECF) have been impressive and are now showing results. At the Carrefour International du Bois, held in May 2002 in Nantes, France, they advanced the promotional initiative that they had started in 2000 with improved publications and in particular their publication *Partenaire de l'Avenir, le Chêne*.

At the same event AHEC also launched its new grading guide in French which covers both red and white oak. Such initiatives by the global hardwood trade are too rare so these are to be welcomed. Whether they have contributed to the continued taste for oak in flooring may

not be proven but the European Federation of the Parquet Industry (FEP) has published wood species data for 2001 which gives oak a 46.4% share. Together oak, beech and maple account for 72% of all species in flooring. FEP report that beech is losing out to oak in the traditional German market, just as many furniture shows in Europe have demonstrated a return in fashion for light-coloured, natural finished, oak.

Temperate hardwood accounts for 75% of flooring manufactured in Europe by FEP members (table 8.7.1). FEP is predicting "substantial growth" for 2002 with no major changes in market share.

Reports from European trade journals also support and promote hardwood sector growth: "*Never has wood been so popular*" (*L'echo des Bois*, Belgium, 2002); "*All the indicators are that European governments increasingly see the timber sector as a vital element in their strategies for sustainable development*" (*TTJ*, United Kingdom, 2002). The ability of hardwood traders to turn this climate of interest to greater consumption may well depend upon the environmental policies that they adopt and implement³.

8.7.3 Expanding niche markets

As a niche market, there seems to be no end to the strengthening demand for oak for barrels across Europe with good prospects for many European and American producers who are able to meet the stringent quality and drying requirements for stave material. European wine makers, particularly in France, under threat from "New World" producers are losing market share and consequently looking desperately at ways to re-introduce the fashion for their wines. This is a long term

TABLE 8.7.1

Species market share in European flooring, 2001

Species	%
Oak	45.3
Red oak	1.2
Beech	17.7
Chestnut	1.7
Birch	2.3
Maple	7.4
Ash	5.2
Acacia	0.2
Pine	0.7
Eucalyptus	0.6
Cherry	1.9
Tropical	13.9
Other	2.1

Source: European Federation of the Parquet Industry, 2002.

process part of which now seems to be an increased use of oak for flavours perceived to be in fashion with the masses in the world of supermarket buying in the European Union. Although it should also be noted that wine barrels have a limited life which underpins the need demand through replacements.

8.7.4 Mixed market signals in first half of 2002

This year of 2002 is one of mixed signals for hardwood consumption both on the North American continent and across Europe, in which the dynamics of supply and demand are changing and the prospects for the future unclear. Central and eastern European has taken an increasingly significant role as supplier mainly at the expense of United States hardwood suppliers. Commenting on the consumption of hardwood in Europe, the authoritative German publication EUWID reported that *“the European Organisation of Sawmills (EOS) expects another shifting of production to the east”*.

8.7.5 Currency fluctuations

Changes in currency had been unsettling trade, as American hardwoods lost ground to European hardwoods. However, at the time of writing, the euro was fast approaching parity with a weakening dollar, which could revive interest in American hardwood shipments to Europe.

8.7.6 Certification

The environmental issues surrounding hardwoods are again the centre of attention and intense debate and activity. The certified forest area has heightened throughout the UNECE region during the last twelve months (see chapter 11 on certified forest products). Existing schemes such as the Sustainable Forestry Initiative (SFI) in the United States and emerging schemes, which are fast making progress, such as the Pan European Forest Certification (PEFC) scheme are not yet achieving universal acceptance. Increasingly, European markets – especially in the north – are looking for sustainable (preferably certified) hardwood sources and these two schemes demonstrate that there may be choices. The pressure on governments and local authorities, through guidelines on public provenance, in European and America, is likely to increase and accordingly their subsequent sensitivity towards the use of all hardwoods, irrespective of source, could be affected. This comes at a time when designers, architects and consumers are taking a renewed interest in hardwood as a fashionable material.

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