

Market concerned about short supply and export taxes

by
Jairo Castaño

PRICES FOR TROPICAL timber products firmed in the second quarter of 2007. Contributing to this are continued strong demand from China and India, declining exports of primary timber products, growing exports of processed wood products and the prospect of steep export taxes on Russian logs.

African prices stable on the back of steady demand

Prices for Central/West African timber products remained relatively stable in the second quarter of 2007, helped by robust demand from China and India for lower log grades, heavy rains in producing areas, mild weather in Europe and rising prices and tightening supply in Southeast Asia. Prices are expected to remain firm through spring and beyond. However, okoume and okan logs for the Chinese market lost ground as stocks built up in some Chinese ports. The log inventory build-up was deemed temporary. *Figure 1* shows that prices for African mahogany (khaya) logs are about to match the historical high reached in 1993.

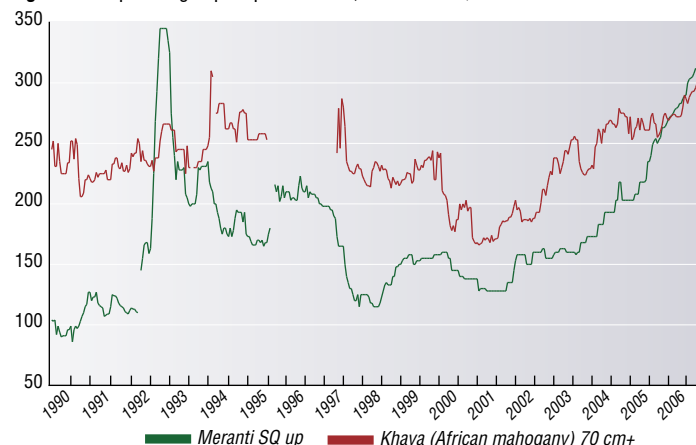
In Ghana, exports of wood products fell almost 8% in value and 3% in volume in 2006 due to inadequate supply of raw timber materials to meet export contracts. Ghana and the EU held their first voluntary partnership agreement (VPA) meeting in Accra in March 2007. Once concluded, the agreement will bind both parties to ensure that only legally or properly harvested timber will be exported to the EU market. The EU initiated similar formal VPA talks with Malaysia in September 2006 and with Indonesia in January of this year.

Southeast Asia concerned about tightening timber supply

Prices for Southeast Asian timber products continued to surge unabated through the second quarter of the year, particularly after Chinese New Year celebrations came to

Logs

Figure 1: Tropical log export price trends, nominal US\$/m³ FOB



an end. Prices in Malaysia and Indonesia rose across the board, fuelled by demand from China and India and due to the continued weakening of the US dollar. In the second quarter of 2007, meranti logs reached new 14-year highs while dark red meranti sawnwood prices broke the record levels achieved in previous months (*Figure 2*).

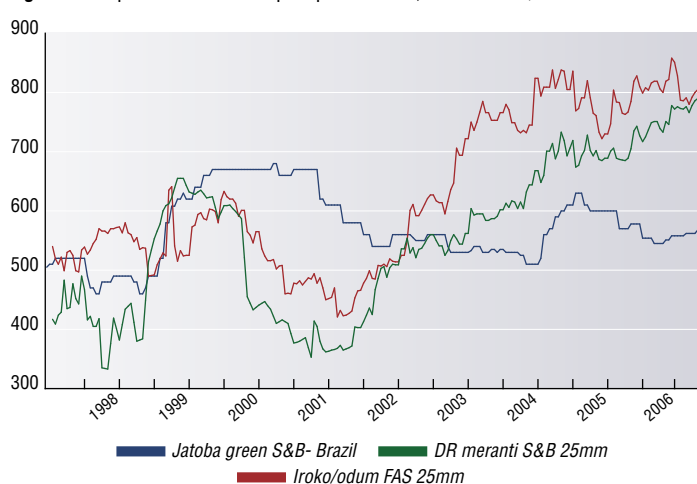
The timber processing industry in these Southeast Asian countries continues to face growing shortages of raw timber materials. Malaysia is developing policies to promote plantations while Indonesia increased its logging quota for natural forests from 8.13 to 9.1 million m³ in 2007. Sources close to the Ministry of Forestry indicated that the new quota could be revised up to 12.4 million m³. Indonesia is also pondering imports of timber from neighbouring countries to meet local industry demand. The tight availability of rubberwood continues to harm Malaysian furniture manufacturers, who are striving to remain competitive against formidable rivals such as China and Vietnam amid rising rubberwood prices and a strengthening Malaysian ringgit. China is the world's largest furniture exporter while Vietnam displaced Malaysia in 2005 as the largest tropical exporter of furniture. This is despite the fact that China and Vietnam import most of their timber raw materials.

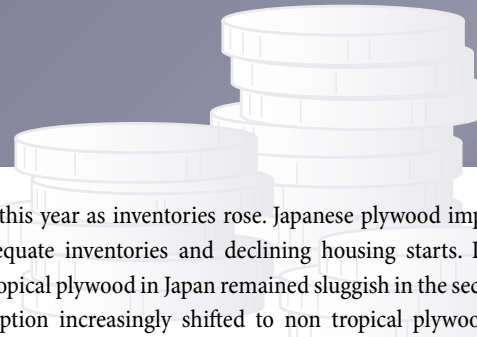
The EU has recently suspended imports of ramin wood from Malaysia. The suspension was related to the listing of ramin in Appendix II of CITES, which took effect in January 2005. The suspension came as a surprise to both the federal and state authorities in Malaysia. The Malaysian Ministry of Natural Resources and Environment was seeking clarification from the EU on what has been deemed as a unilateral decision despite ongoing VPA talks.

Average prices for all Myanmar teak grades rose across the board early in the second quarter of 2007. The main reasons were better log quality in March tenders and limited teak cargoes available in Yangon. Another factor driving prices up was an increase in prices by the Myanmar Timber Enterprise (MTE) for direct sales contracts of teak and other hardwoods in mid March. Moreover, the European market is reportedly strong, with good demand for teak veneer logs.

Sawnwood

Figure 2: Tropical sawnwood export price trends, nominal US\$/m³ FOB





Delays in forest management plans slow Brazilian exports

Brazilian exports of solid wood products grew marginally in 2006, amid rising exports of added value products and despite a contraction of exports of primary products. Exports have been hit by a strong Brazilian currency and import duties in major markets. Delays in the approval of forest management plans remain an issue in the tropical regions of Brazil, which have led to production stoppage and lay-offs. Some Brazilian timber companies are in joint ventures with Chinese companies to take advantage of low production costs and high productive capacity. About 12% of large Brazilian companies have already transferred part of their production to China, either by installing their own plants or by outsourcing part of the production. Finished products are then re-exported to major markets. Figure 3 shows that prices for white virola plywood continued to rise gradually in the first half of 2007 but trail behind Southeast Asian plywood prices which have increased the price gap with their Latin American counterparts.

Brazil now has the largest area of FSC-certified tropical forest in the world. With 5.1 million hectares of certified forests (2.8 million hectares of natural forests and 2.3 million hectares of forest plantations), the country ranks sixth worldwide, behind Canada (18 million hectares), Russia (16.9 million hectares), Sweden (10.4 million hectares), the US (9.3 million hectares) and Poland (5.9 million hectares). In Latin America, Brazil is followed by Bolivia (2.1 million hectares) and Mexico (0.8 million hectares). In global terms, Malaysia follows Brazil with 4.73 million hectares of MTCC-certified tropical forests.

In Peru, INRENA halved the logging quota for mahogany from 23 239 m³ in 2006 to 13 477 m³ in 2007. Further reductions are likely following CITES' review of the implementation of mahogany's Appendix II listing. INRENA is requiring replanting of logged mahogany at a 10:1 ratio, a condition for the approval of a yearly plan of operations in the Amazon. The measures have been praised by CITES and other stakeholders. Meanwhile, stakeholders in Guyana were discussing whether to adopt a restricting policy or ban on log exports.

Sluggish plywood demand in Japan

Japanese imports of tropical plywood surged in 2006, thanks to larger supply from Malaysia and China that offset declining imports from Indonesia. However, domestic plywood prices underwent a correction in the first

quarter of this year as inventories rose. Japanese plywood imports slowed due to adequate inventories and declining housing starts. Imports and prices of tropical plywood in Japan remained sluggish in the second quarter, as consumption increasingly shifted to non tropical plywood. However, plywood prices are expected to recover and peak in the third quarter ahead of the slowdown in the Japanese construction sector in winter.

Russian export log tax may bring structural change

Russia, the world's largest exporter of logs, announced in February that it will raise log export duties steeply from 6.5% to up to 80% but not less than €50 per m³ by January 2009. The move is intended to boost the country's domestic wood processing industry. A major structural change in global wood markets is expected as a result since Russia accounts for about 40% of the world's exports of softwood logs. The decision has caused concerns in several countries, as Russian logs account for over 80% of the log imports in China and Finland, for almost half of imports in Japan and for a large proportion in Korea. Importers reckoned that log imports from Russia would become unprofitable. Some tropical log suppliers were bullish following the announcement. The decision reinforces the shifting perception of wood (or at least logs) being a relatively abundant commodity to a relatively scarce one.

Ongoing correction in US housing sector

In the US, housing starts continued slowing down in the second quarter of 2007, compared with a year ago. Private housing starts have reached the slowest pace in more than nine years as builders worked down inventories. The 2007 forecast has been trimmed several times amid weaker confidence. The National Association of Home Builders (NAHB) recently forecast a 20% decline in 2007 to 1.44 million units, down from 1.8 million in 2006 and 2.06 million units in 2005.

Meanwhile, congressmen sought support for a bill to ban US imports of wood products derived from illegal logs. The bill would extend the Lacey Act, which prohibits importation of wildlife taken in violation of conservation laws, to apply to wood and timber products.

China expands wood products trade surplus

As the foreign trade of China's forest products developed rapidly in recent years, the country recorded its first trade surplus in 2005. Recent custom statistics show that China expanded its trade surplus of wood products by 171% to \$5.8 billion in 2006. This was due to the fact that China mainly imports timber raw materials (primary products such as logs, chips and pulp) and exports more valuable wood products such as wooden furniture (49% of global exports) and plywood (30% of global exports). However, China's plans to further expand the production and trade of wood based panels are hampered by log shortages in tropical countries.

Editor's note: Thanks to Jairo Castaño, who recently left ITTO to pursue new professional goals, for his regular contributions to Market trends over the last two years.

Plywood

Figure 3: Tropical plywood export price trends, nominal US\$/m³ FOB

