

## Weather factors steer timber prices

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**I**N RECENT MONTHS, tropical timber prices have been particularly affected by weather. A longer than usual rainy season in West and Central Africa and heavy thunderstorms in Southeast Asia have driven prices upwards due to supply shortages. Mild winters in Europe and Japan have held demand relatively steady, further contributing to rising prices. This is in stark contrast to previous years when business slowed considerably during Christmas and the winter months, usually resulting in downward pressure on prices.

### Far East demand lifts African prices

West and Central African timber prices held onto 2006 gains in December as opposed to previous years when prices weakened ahead of the Christmas holiday. Tight supply and active demand from China and India continued to support prices. In January, West and Central African log prices surged on the back of robust demand from the Far East, a longer than usual rainy season and a mild winter in Europe. *Figure 1* shows that prices for African mahogany (khaya) logs are reaching new 13-year highs. Sapele log prices have also been edging up and are at levels roughly similar to those of iroko.

## Logs

**Figure 1:** Nominal FOB prices of African and Southeast Asian logs (\$/m<sup>3</sup>)



### Flooding sends Southeast Asian prices up

Prices for Southeast Asian timber products rose sharply across the board in early January after severe thunderstorms struck several production areas and floods forced evacuations in Malaysia and Indonesia. Prices for Southeast Asian timber products have risen moderately since then as flooding receded in most states, except the Jakarta area and Sarawak. Some small mills may be driven out of business due to inadequate insurance coverage for such disasters. As of February 2007, meranti logs had reached 14-year highs while dark red meranti sawnwood prices were at their highest level since ITTO started to track this product in 1998 (see *Figure 2*). Meanwhile, prices for Southeast Asian plywood (notably meranti) reached fresh ten-year highs, finally

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- spreading the budget over a longer implementation period;
- planning for a second (or follow-up) phase at project conception;
- building a reserve into project budgets for maintenance costs ('Forest Fund') such as was adopted in Missahoé; and
- building into the project economic options for sustainability after funding has ended.

Some other comments/recommendations for ITTO and its members are:

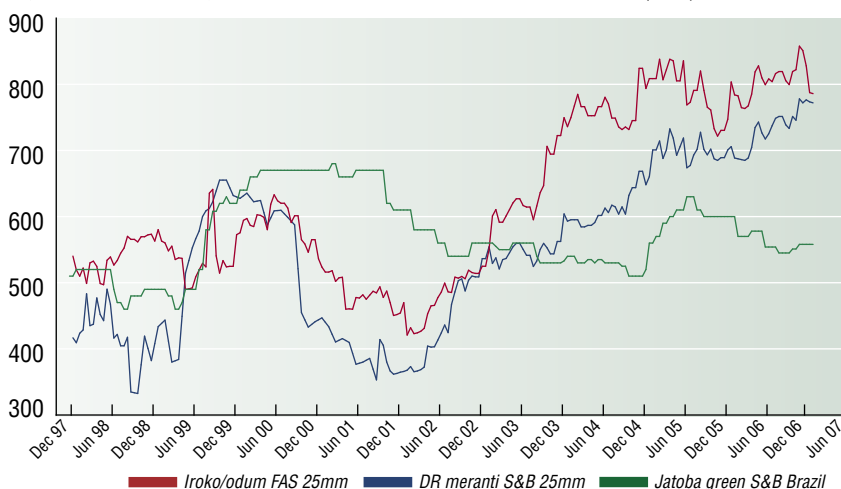
- 1) Openness and flexibility in considering project modifications is a definite advantage. Addressing design errors in approved projects during implementation (eg Worobong) is much better than enduring such errors (eg Abutia).
- 2) ITTO should consider limiting its project investments exclusively to permanent fruit trees when requested to finance community development actions that are not related to forest products. If other agricultural crops are needed for the success of the project, the funding should come from other sources.

- 3) ITTO should generally not invest in pure forest research projects. When such support is justified, ITTO should seek participation of other specialized agencies.
- 4) Member governments should avoid submitting community forest management project proposals to ITTO unless they can guarantee clear community land tenure or access to forest resources, as well as clearance of forest management plans and/or logging authorizations.
- 5) Transfer of the infrastructure and pertinent goods acquired with project funds to community enterprises should be included in project completion procedures.

*The complete report of this ex-post evaluation is available from the ITTO Secretariat (itto@itto.or.jp)*

## Sawnwood

**Figure 2:** Nominal FOB prices of African, SE Asian and Brazilian sawnwood (\$/m<sup>3</sup>)



recovering from the doldrums that followed the Asian financial crisis of a decade ago. Prices for rubberwood raw materials and furniture have also risen, fuelled by record prices for natural latex and weather-related factors. Business activity in Southeast Asia slowed in mid-February ahead of the Chinese New Year celebrations.

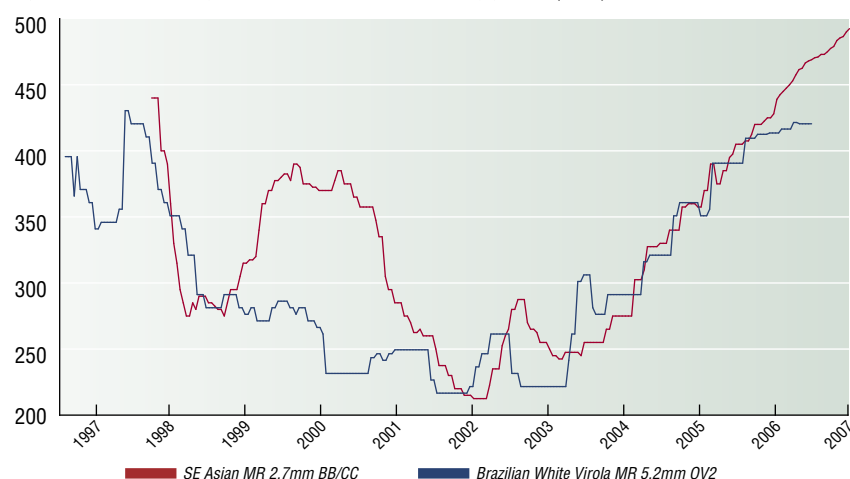
Indonesia and the EU agreed in January to start formal talks towards a voluntary partnership agreement (VPA) under the EU's Forest Law Enforcement, Governance and Trade (FLEGT) initiative aimed at establishing a trading system and a licensing mechanism to curb the sale of illegal timber products to the EU. The EU initiated similar formal VPA talks with Malaysia in September 2006. Malaysia and the EU have since then agreed to appoint an independent body to audit the legality of timber exported to Europe.

## Brazilian currency hits export industry competitiveness

In Latin America, initial timber trade statistics for 2006 confirm a contraction in export volumes from Brazil. Brazilian exports of tropical sawnwood (down 1.4%), plywood (down 23%) and furniture (down 6.7%) declined in 2006. Figure 3 shows that prices for white virola plywood have been moving upwards since 2002. However, the trend has not been as steep as that for Southeast Asian plywood prices. Brazilian timber products have lost some competitiveness in the international market due to the strengthening of Brazil's currency against the US dollar. Peru's timber exports (mostly

## Plywood

**Figure 3:** Nominal FOB prices of SE Asian and Brazilian plywood (\$/m<sup>3</sup>)



sawnwood) reached a new high in 2006. Bolivian export statistics reveal that the US imports mainly added-value wood products while China imports mostly sawnwood.

## Chinese plywood swamps European markets

Chinese plywood continues to rapidly gain market share in major European markets at the expense of tropical plywood. In the UK, traders said that the oversupply of Chinese plywood (mainly poplar) was devaluing the market. Following a complaint by the European Federation of the Plywood Industry (FEIC), the European Commission (EC) is investigating Chinese plywood imports to Europe. The EC is studying whether to extend anti-dumping duties it already imposes on okoume-poplar plywood to other Chinese plywood products with different face veneers, such as bitangor, red canarium and kedondong. Chinese plywood

is 25–40% cheaper than competing tropical products. If approved, the anti-dumping duties could narrow the price gap between these products. Similarly, the US Trade Representative filed on 2 February a complaint against Chinese plywood at the WTO. The complaint challenges China's use of subsidies for hardwood plywood products. Meanwhile, Chinese manufacturers recently announced increased poplar plywood prices for Europe.

New timber procurement policies have recently been announced in some consumer countries. New Zealand adopted a new public procurement policy for timber in a bid to clamp down on illegal logging in the South Pacific. Germany, in turn, announced that its timber procurement policy would be based on Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification (PEFC) and comparable certificates. Meanwhile, an EU timber trade seminar urged countries to harmonize their timber procurement policies, echoing similar calls from other fora.

In Japan, imports of tropical logs and plywood surged in 2006. Plywood supply from Southeast Asia recovered sharply last year, lured by higher prices in Japan and an improved housing market. However, in February, Japanese plywood mills were resisting higher log prices due to declining domestic plywood prices amid adequate plywood stocks.

In the US, demand for timber products has been severely affected by the ongoing correction in the housing sector. Although US housing starts surged briefly in late 2006, privately owned housing starts fell 14% in January 2007, for a cumulative 38% drop since January 2006.

ITTO's *Tropical Timber Market Information Service* newsletter is available bi-weekly on [www.itto.or.jp](http://www.itto.or.jp) or on request from the ITTO Secretariat ([itto@itto.or.jp](mailto:itto@itto.or.jp))