



**United Nations
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GENEVA TIMBER AND FOREST DISCUSSION PAPER 35

TRENDS IN THE TROPICAL TIMBER TRADE, 2002-2003

by

Steve E. Johnson, Michael Adams and Masaki Miyake



UNITED NATIONS

United Nations Economic Commission for Europe/
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UNECE



Timber Branch, Geneva, Switzerland

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Note

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Abstract

“Trends in tropical timber markets, 2002-2003” presents recent trends and developments in tropical timber markets. This UNECE/FAO *Geneva Timber and Forest Discussion Paper* presents the full text and graphics from the abbreviated chapter of the same name in the *Forest Products Annual Market Analysis, 2002-2004*. The paper follows the UNECE Timber Committee perspective on tropical timber markets, that is mainly as imported and traded with the UNECE region. In addition tropical timber developments have direct and indirect impacts, including policy implications, on temperate forest products markets.

Acknowledgements

This analysis was produced by 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 and Market Information Service*, respectively, from which this *Discussion Paper* was drawn. Like our *Forest Products Annual Market Analysis*, ITTO's *Review* is the basis for a market discussion each May, which has also contributed to the updated analysis below. We sincerely appreciate this continued, close cooperation which we feel benefits both organizations.

Layout and graphics work for this *Discussion Paper* were done by Mr. Tapani Pahkasalo, masters degree candidate, Department of Forest Economics, University of Helsinki. Mr. Pahkasalo was an intern at the Timber Branch during the summer of 2003 and worked with us on the production of the *Forest Products Annual Market Analysis, 2002-2004*, as well as a number of auxiliary projects, such as this one. We express our gratitude for his capable assistance.

Statistics in this paper come from the UNECE/FAO/EUROSTAT/ITTO Joint Forest Sector Questionnaire. ITTO categorizes its members into producer (tropical) and consumer (non-tropical) countries. Only ITTO member countries are covered, but these constitute 95% of all tropical timber trade.

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Preface

Production and trade of tropical timber products have direct effects on consumption of both tropical timber and temperate timber in the UNECE region. Faced with this situation UNECE and FAO have for several years been monitoring these markets in close collaboration with the International Tropical Timber Organization (ITTO).

“Trends in tropical timber markets, 2002-2003” presents recent trends and developments in tropical timber markets. A special feature is the rapidly growing importance of China as a trader of tropical forest products. China is an increasingly important destination for UNECE region temperate timber exports, as well as being a source of growing imports. Currently China imports more tropical roundwood than any other country, which is directly related to its policy to reduce drastically the harvesting of timber. China’s imports of temperate roundwood from the UNECE region escalated when this policy took effect a few years ago. These developments demonstrate clearly how policies for sustainable forest management in the UNECE region must take fully into account trends all over the world. It is one of UNECE's major tasks to monitor, understand and foresee these trends.

I would like to thank the authors of the paper and the others who have contributed to it, as well as their organisations and institutions. The ability to generate productive partnerships such as these is a key part of UNECE’s comparative advantage. The authors and contributors and their affiliations are presented in the acknowledgements.

This publication is a further contribution of UNECE, FAO and their partners to monitoring trends in the forest and forest products sector, which is at the core of the sustainable development of the region.



Brigita Schmögnerová
Executive Secretary
UN Economic Commission for Europe

Highlights

- China consolidated its position as the world's largest tropical log and sawnwood importer in 2002.
- Log exports from tropical countries fell almost 20% to 12.8 million m³ in 2002 due largely to export bans in Africa and Indonesia.
- China's imports of tropical plywood are shrinking, but the country is becoming a significant tropical plywood exporter based on imported logs.
- Low prices and over-capacity persist in the tropical plywood sector.
- Tropical countries are increasing exports of reconstituted panels, pulp, paper and secondary-processed wood products.
- Certification of sustainable forest management is a concern for many tropical exporters, leading some countries, led by Malaysia and Indonesia, to develop national schemes and to seek recognition from international certification systems.
- Increasingly governments and other stakeholders are developing new ways of cooperation to improve forest law enforcement and governance, for example bilateral agreements to reduce trade in illegally sourced forest products.
- The UN Security Council has prohibited imports of wood products from Liberia as revenue from timber exports by that country has increasingly been used for illegal arms transactions.

1. INTRODUCTION

This Discussion Paper provides details on trends in trade and prices of major primary tropical timber products to mid-2003. The exports of reconstituted panels and wood pulp and paper products from tropical countries are included here since these products (predominantly based on plantation resources) are assuming increasing importance in several countries.

2. EXPORT TRENDS

2.1 Industrial roundwood (logs)

The contribution of logs to total primary tropical timber exports of ITTO producers (in terms of both value and roundwood equivalent (rwe) volume) fell dramatically in 2002 to 23%, the first time this ratio has dropped below one-quarter, continuing a steady decline from highs of over 60% during the 1980s. Only Africa continues to export a significant volume of logs compared to processed products, with log exports making up 54% of total roundwood equivalent export volume in 2001, but dropping to less than 50% of total export volume in 2002 as export restrictions took effect in several countries. The Asia-Pacific region has rapidly replaced log exports with the export of processed primary products, spurred by Indonesian plywood exports and Malaysian exports of sawnwood, veneer and plywood. Asian log exports made up 25% of total Asian export volume in 2001 and 2002 (about 15% of log production). Latin American tropical log exports are a small fraction of both production and total exports. The decreasing roundwood equivalent levels of primary product exports are offset by increased exports of secondary products (SPWP), particularly from Indonesia, Malaysia, Brazil and Thailand (table 2.1.1).

Total ITTO producer member log exports were almost 15.9 million m³ in 2001. Log exports by producer members decreased by 19.5% in 2002 to 12.8 million m³. Malaysia continues to dominate the trade in tropical logs with 5 million m³ exported in 2001,

constituting 32% of ITTO producer member exports. Malaysia's log trade decreased by 26% from 2000 levels and fell a further 15% to 4.3 million m³ in 2002 (graph 11.2.1). Malaysia's major log customers are all in Asia, with China, Taiwan Province of China, Japan and India accounting for 81% of the reported log export volume in 2001.

Indonesia was the second largest log exporter in 2001 at almost 3.5 million m³. As Indonesia's trade statistics were incomplete, trading partner reports were used to supplement officially provided data. Indonesia's main log trading partners are China and Malaysia, both of which it signed agreements with in 2002 to regulate illegal trade, resulting in the slump in exports shown in graph 2.1.1.

Following IMF guidance, Indonesia resumed log exports in 1999 after a 13-year moratorium. Malaysia alone reported imports of 715 000 m³ of Indonesian logs in 2001 compared to 3 000 m³ reported as exported by Indonesia, while China's reported imports (over 1.1 million m³) were more than two hundred times greater than the level reported by Indonesian customs authorities, supporting the claims of many observers that substantial undocumented or illegal Indonesian log exports existed. Indonesia has now re-implemented its log export ban to attempt to reduce illegal exports and ensure sufficient log supplies for domestic mills, and has requested trading partners to assist in stopping the flow of smuggled logs.

Papua New Guinea is the fourth largest tropical log exporter, with 2001 exports of almost 1.6 million m³, down by 22% from 2000 levels. PNG's log exports remain far below the pre-Asian crisis levels of almost 3 million m³ per year. The Chinese market has grown rapidly to account for about 54% of PNG's exports in 2001, mainly in lower grades, while a significant quantity of PNG's higher quality log exports (27% in 2001) still go to Japan. Log exports by Myanmar (the fifth largest log exporter at 1 million m³) decreased by 9% in 2001. Myanmar's main trading partners are India, Thailand and China (although there is a major discrepancy in the figures provided by Myanmar and China).

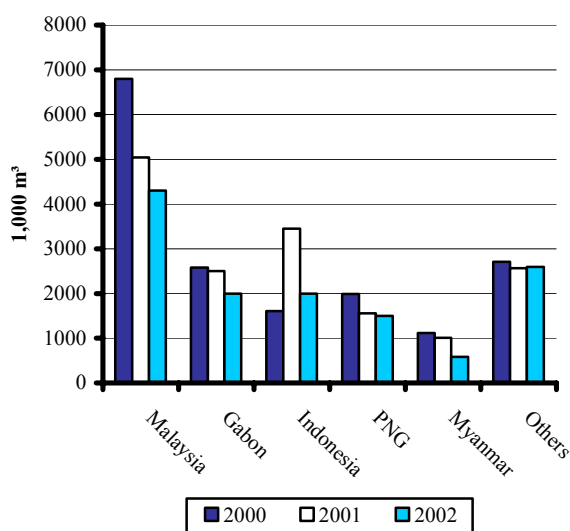
Table 2.1.1

Composition of exports by producing regions, 2000-2002
(1000 m³ rwe)

Region	Log Production			Log Exports			Processed Exports			Total Exports		
	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002
Africa	13 287	12 980	12 814	4 836	4 551	4 120	5 017	3 922	4 254	9 853	8 474	8 375
Asia-Pacific	76 964	73 105	72 019	11 516	11 092	8 417	35 982	34 122	33 785	47 497	45 214	42 201
Latin America	35 864	35 805	35 899	195	254	267	3 559	4 441	4 021	3 753	4 696	4 288
Total	126 115	121 890	120 732	16 546	15 898	12 804	44 558	42 485	42 060	61 104	58 383	54 864

Note: Totals may not sum exactly due to rounding.

GRAPH 2.1.1
Major tropical log exporters



Source: ITTO, 2003.

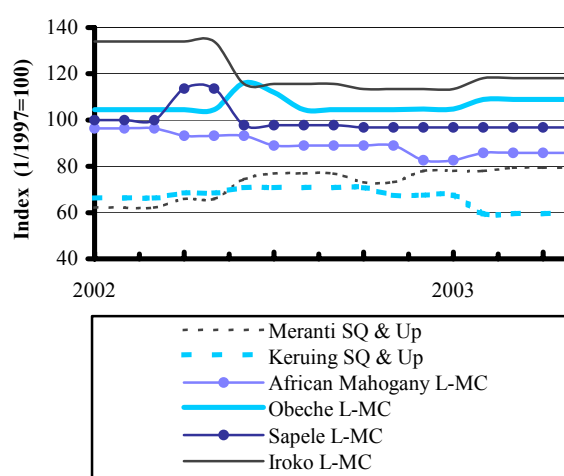
Africa supplies the majority of the remainder of world tropical hardwood log exports. Gabon is the region's largest exporter (and ITTO's third largest), but Cameroon, Central African Republic, Côte d'Ivoire, Liberia and Republic of Congo also exported substantial quantities of logs in 2001. Gabon's exports decreased by 3% in 2001 to 2.5 million m³ as a decline in European markets exceeded an increase in trade with China. Gabon's exports fell 20% to 2 million m³ in 2002. Cameroon's exports continued to fall, slumping by 63% in 2001 and a further 4% in 2002 to 225 000 m³. Both Cameroon and Gabon are attempting to promote increased local processing and have imposed limitations on log exports, although these are being implemented more strictly in Cameroon. 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 log exports which have grown rapidly to offset declines from other African countries. Liberia's exports increased by 6% and 9% in 2001 and 2002 respectively, reaching almost 1 million m³, with most of these logs destined for China and Europe. Renewed conflict in Liberia will limit further export growth.

Exports of tropical logs by consumer countries decreased by almost 13% to 231 000 m³ in 2001, 30% of which was accounted for by tropical log re-exports from Hong Kong S.A.R. to China. Most of the remainder was intra-EU trade, with France and Germany the main tropical log re-exporters at over 12 000 m³ each. Consumer country exports of tropical logs continued to decline in 2002, dropping 24% to 175 000 m³.

2.1.1 Tropical log export prices

The encouraging signs of improvement in tropical log export prices seen in 2000 and 2001 were not sustained into 2002 and fears of further declines were realized in late 2002 through to the first half of 2003. The momentum of price improvements for African and Asian logs was not maintained into 2003 (graph 2.1.2). African suppliers have, however, fared better than suppliers in Asia where FOB prices have stubbornly held at levels some 30-40% below those seen prior to the Asian financial crisis.

GRAPH 2.1.2
Tropical hardwood log price trends in 2002-2003



Note: Prices FOB (INCOTERMS 2001).

Source: ITTO, 2003.

The different price trends experienced by log exporters in the African and Asian regions reflects the differing impact of their two distinct major markets of Europe and Japan/China. In Asia, log prices have been seriously and negatively affected by the continued weakness of demand for wood products in Japan and by the leadership in price setting in the Asian log trade now exerted by China, a leadership dominated by demand for low prices. Many analysts have pointed to the flow of illegal logs to China as an element in depressing prices. Agreements aimed at stemming the flow of illegal logs, signed between Indonesia and the Governments of China and Malaysia, appear to be having an impact with exporters hoping for a positive influence on prices.

In the twelve months up to May 2003 African log prices have moved in a narrow range, with virtually no price movements observed from March to May as log buyers resisted attempts by producers to lift prices. During the second quarter of 2003 Italian buyers were in the market for okoume, substituting for samba which

was not available due to the civil unrest in Cote d'Ivoire, and pushing okoume prices higher.

Recent conflicts in other African countries have also had a severe impact on the log trade and prices. Exports from Central African Republic and the Republic of Congo have fallen and buyers have turned to Gabon and Cameroon for supplies of good quality sapele and moabi. The problems of trading in African logs were compounded in mid-2003 by Resolution 1478 of the United Nations Security Council (UNSC) which prohibited imports of wood products from Liberia. The ban on imports went into effect on July 7 2003 and will run for ten months. The Security Council resolution notes that revenue from timber exports has increasingly been used for illegal arms transactions since restrictions were placed on the diamond trade with Liberia. The UNSC identified 37 countries that have been buying timber from Liberia, with the major markets being China and France.

2.2 Sawnwood

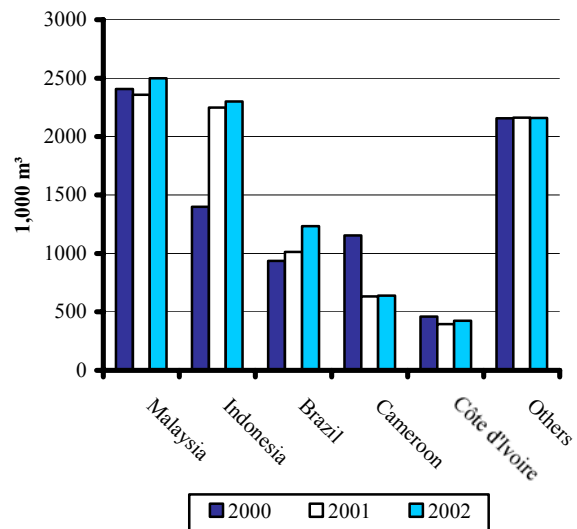
ITTO producers exported a total of almost 8 million m³ of tropical sawnwood in 2001, up 6.1% from 2000, with the increase mainly due to revised estimates for Indonesian exports based on trading partner reports. Malaysia continues to dominate the trade in tropical sawnwood, with the 2.4 million m³ exported in 2001 constituting 29% of total ITTO producer member exports (graph 2.2.1). Malaysia's sawnwood trade fell by 2% in 2001 as its major markets of Japan and the Netherlands contracted. Malaysia's other major sawnwood customers in 2001 were Thailand, Korea and the large Chinese market (including Hong Kong S.A.R. and Taiwan P.O.C. There were, however, large discrepancies between the trade flows reported by Malaysia and trading partners China, Thailand and Korea in 2001. Malaysia's exports rebounded to 2.5 million m³ in 2002.

Indonesian exports of sawnwood rose sharply to nearly 2.3 million m³ in 2001. Indonesia's major sawnwood market is China, but its reported trade with China in 2001 was less than a tenth of China's reported imports. As for industrial roundwood, the absence of reliable trade figures from Indonesia for 2001 sawnwood exports required estimates to be made based on trading partner reports. In contrast to Indonesia, Cameroon's exports dropped a huge 45% in 2001, but recovered by 2% in 2002, reaching 640 000 m³. The large drop in Cameroon was probably due to decreased log availability, although clarifications are still being sought. Sawnwood exports for all of the top five ITTO exporters increased in 2002. In addition to the countries in the graph, Thailand, China and Ghana all exported

over 200 000 m³ of tropical sawnwood in 2001 and 2002. China's exports (reported as 313 000 m³ in 2001) have exploded from almost nothing in the late 1990's and need to be further verified.

ITTO consumer countries exported 724 000 m³ of tropical sawnwood in 2001, primarily (51%) from the EU countries. EU exports of tropical sawnwood increased from 316 000 m³ in 1998 to 369 000 m³ in 2001. Belgium, a larger tropical sawnwood exporter than many producing countries, is the main EU (and ITTO consumer) tropical sawnwood exporter at 161 000 m³ in 2001. Belgium was followed by the USA (67 000 m³) and the Netherlands (61 000 m³), both significant consumer country tropical sawnwood exporters. Total consumer country exports of tropical sawnwood rose to 734 000 m³ in 2002.

GRAPH 2.2.1
Major tropical sawnwood exporters



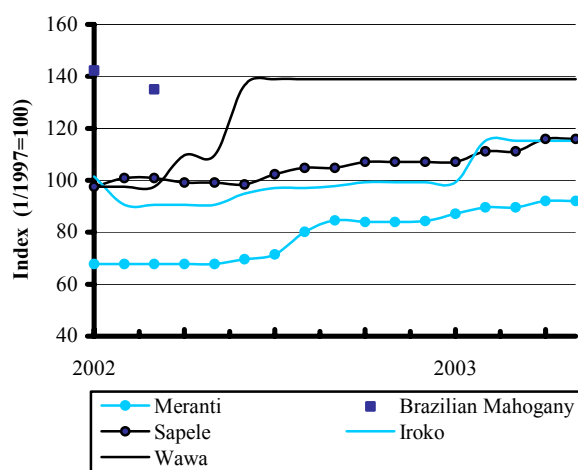
Source: ITTO, 2003.

2.2.1 Tropical sawnwood export prices

Trends in FOB prices for some tropical sawnwood mirror to a large extent the pattern observed for tropical log prices (graph 2.2.2). The improvements in price levels seen in the aftermath of the Asian financial crisis were not sustained and a hint of strengthening prices towards the end of 2002 and the early part of 2003 could not be maintained. Asian sawnwood prices, as reflected in the graph by the price trends for dark red meranti, remain at levels some 5-10% below those of early 1997. However prices have shown resilience over the past year, climbing from around \$425/m³ in June 2002 to almost \$500/m³ in May 2003.

GRAPH 2.2.2

Tropical sawnwood price trends, 2001-2003



Note: Prices are FOB (INCOTERMS 2001) for FAS grades, 25-millimetre thickness.

Source: ITTO, 2003.

The government of Brazil published a decree in February 2003 suspending mahogany harvesting and creating a Mahogany Special Commission to attempt to ensure this species was sustainably managed, hence the gap for recent Brazilian mahogany sawnwood prices (graph 2.2.2). The same decree proposed tax incentives for the forestry sector to promote sustainable development in the Amazon region. The mahogany sector in Brazil generated 500 000 jobs and from 1971 to 2001 earned US\$3.9 billion from foreign markets. The temporary ban was aimed at securing the future of this vital sector of the Amazon economy. These measures, coupled with the seizure of several shipments of Brazilian mahogany by US Customs due the inability of the Brazilian government to confirm if the timber had been legally sourced (as per CITES requirements), disrupted mahogany markets and eroded price levels for all exporting countries. Peru's mahogany exporters in particular witnessed a severe drop in demand and prices due to the market uncertainty.

In spite of some optimistic reports early in 2003 on prices for iroko in the UK and Ireland, African producers reported no upwards trend in prices, largely because of the plentiful but slow moving sawnwood stocks of iroko and sapele available in Germany and France (graph 2.2.2). Producers and importers expect the slow trading to continue through 2003, with prices at best expected to remain stable. Wawa is the best performing African sawnwood species, with prices stable for the past year at about 40% above 1997 levels.

2.2.2 Freight Rates

The sudden increase in oil prices in early 2003 had serious repercussions for the timber export trade. With container freight rates rising and the Bunker Adjustment Factor (BAF) going up with every increase in oil prices, Japanese and European importers suffered further erosion of margins. For Japan the base rate for containers went up by \$200 to 300 per box (40' dry cargo) from March 2003 and only by June had it returned to more acceptable levels. This represented an increased cost of about \$2.50 per cubic metre for Japanese importers.

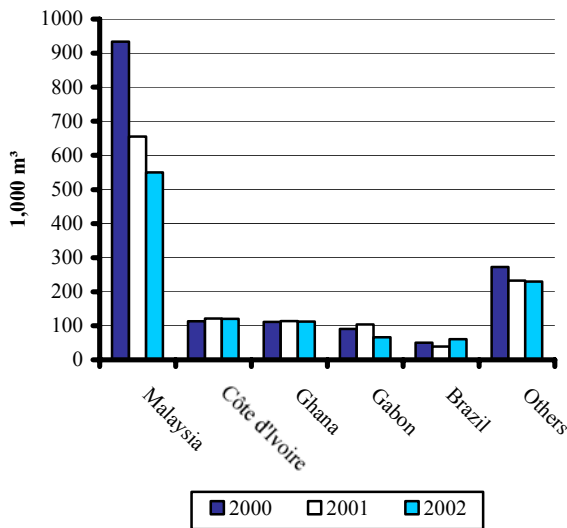
Dutch importers saw Asian shippers abandon firm freight rates, which were around \$1650 per 40-foot box to Rotterdam, replacing them with variations for the buyers' account. In April 2003 freight charges for 40-foot containers increased by \$200 to 300 per box, sending freight rates from Malaysia to Holland close to the \$2000 per box level. These problems along with considerable uncertainty in currency markets in early 2003, added to the problems of exporters and importers alike. At mid-year many importers were taking a wait and see attitude before committing to purchases fearing continuing wide currency swings would wipe out already thin margins.

2.3 Veneer

Total ITTO producer member exports decreased by nearly 22% to 1.1 million m³ in 2001. ITTO producer country veneer exports slumped a further 11% in 2002 to 1 million m³. Despite recent sharp drops, Malaysia continues to be ITTO's dominant veneer exporter, with exports of 656 000 m³ in 2001 accounting for 57% of total ITTO producer member exports (graph 2.3.1). Malaysian exports are mainly directed to China, the Republic of Korea, Taiwan Province of China, the Philippines and Japan.

GRAPH 2.3.1

Major tropical veneer exporters, 2000-2002



Source: ITTO, 2003.

Côte d'Ivoire was the second largest tropical veneer exporter in 2001 at 121 000 m³, an increase of 7% from 2000 exports. Côte d'Ivoire's main veneer markets are all in the EU (mainly Belgium, France, Germany and Italy). Ghana is the third largest ITTO tropical veneer exporter, having grown steadily to reach 114 000 m³ in 2001. Gabon and Brazil overtook Cameroon as ITTO's fourth and fifth largest tropical veneer exporters with 104 000 m³ and 39 000 m³ respectively in 2001. Tropical veneer exports were stable or declining in all major countries except Brazil in 2002, as illustrated in the graph.

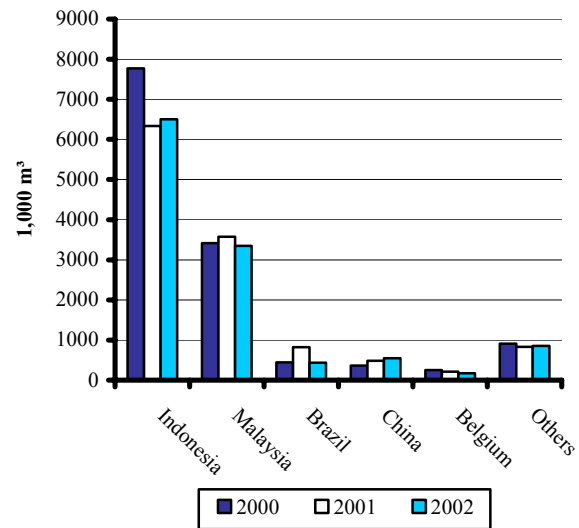
The EU accounted for 89 000 m³ of total consumer country tropical veneer exports of 120 000 m³ in 2001, with 2002 levels of EU exports remaining stable. France, Germany and the Netherlands are the largest EU tropical veneer exporters. Total exports by ITTO consumer countries increased slightly to 122 000 m³ in 2002. Consumer country exports of tropical veneer are often of much higher aggregate value than those from producer countries, although prices of individual species of tropical veneers are not regularly tracked by ITTO or others.

2.4 Plywood

In 2001, ITTO producer exports of tropical plywood declined 8.3% to 11 million m³, dropping further to 10.7 million m³ in 2002. Indonesia continues to dominate the trade in tropical plywood with the 6.3 million m³ exported in 2001 constituting 57% of total ITTO producer member exports, although this is down from a high of 84% in 1992. Indonesia's exports were estimated to have increased slightly in 2002 to 6.5 million m³ (graph 2.4.1).

GRAPH 2.4.1

Major tropical plywood exporters, 2000-2002



Source: ITTO, 2003.

Malaysia is Indonesia's major competitor in the tropical plywood trade. Malaysian exports increased by 5% to 3.6 million m³ in 2001, but decreased by 6% to 3.4 million m³ in 2002. Malaysia was a major supplier of the Chinese plywood market and has been hard hit by that country's switch to log imports. Malaysia's rapid growth in plywood exports up to 1998 (when exports reached 4 million m³) was due to the construction of new plywood mills in Sabah and Sarawak to process formerly exported veneer logs and log imports from Indonesia; the two eastern Malaysian states account for almost all of the country's plywood exports. The restrictions on Indonesia's log exports imposed in 2002 led to decreased production and exports from these mills. Malaysia's exports are now mainly to Japan, Korea and the USA.

Latin American plywood exports increased 52% in 2001 to 940 000 m³ due to an 88% jump in Brazil's exports to 826 000 m³ which was confirmed by IBAMA but requires further investigation. Brazil's tropical plywood exports decreased sharply by 47% to 440 000 m³ in 2002. The USA and the EU (mainly the UK, Germany and Belgium) are the major markets for Brazil's hardwood plywood. Africa's plywood exports remained relatively minor at 166 000 m³ in 2001 but have grown rapidly in the past 5 years due to increased exports from Côte d'Ivoire, Gabon and Ghana.

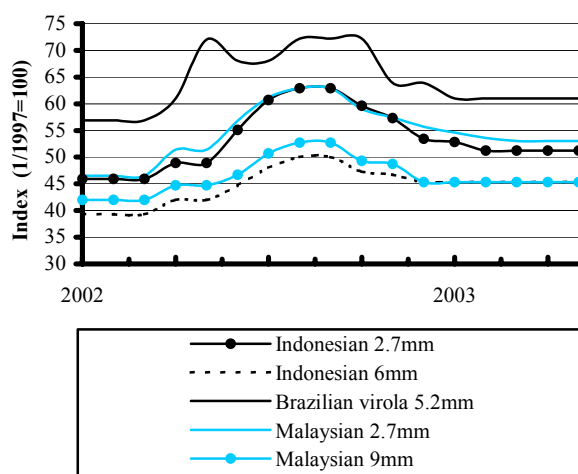
Although tropical plywood exports from the EU dropped 7.5% in 2001, ITTO consumer country exports increased by almost 12% to 1.1 million m³ (slightly more than half from the EU) due to China's sharp increase of 33% to 486 000 m³. China's boom in tropical plywood exports to markets like the EU, Taiwan P.O.C.

and Japan is especially notable since it is largely based on logs sourced from ITTO's two main producer country plywood exporters (Indonesia and Malaysia), both of which have been steadily losing share in the plywood markets being targeted by China. Consumer country exports rose a further 2% to almost 1.2 million m³ in 2002.

2.4.1 Tropical Plywood Export Prices

2002 was not a particularly good year for tropical plywood exporters and early 2003 brought new hurdles to market access. In two of the major markets for tropical plywood, Japan and the EU, new and stricter standards on formaldehyde emission levels for imported plywood have been introduced. Mills will have to modify production processes as well as pay for external, third party checking and this will increase the cost of producing plywood. Since market prices for commodity plywood are still extremely weak, having never recovered to the levels seen prior to the 1997-1998 Asian financial crisis, the prospects for tropical hardwood plywood are not bright. In fact, at the end of May 2003 prices for Asian export plywood were still at only 45-55% of the pre-crisis levels (graph 2.4.2).

GRAPH 2.4.2
FOB price trends for tropical plywood



Source: ITTO, 2003.

After what appeared as the beginning of a recovery in 2000, Brazilian plywood prices retreated during 2001 through to mid-2002 when, following improving prices for Asian plywood, Brazilian producers also announced price increases (graph 2.4.2). The fall in the value of the US dollar during 2003 has been responsible for higher dollar denominated plywood prices everywhere but most notably in Brazil. Nevertheless, in the first four months of 2003, Brazil exported US\$11.1 million of tropical plywood, 18.0% less than in the equivalent period of 2002.

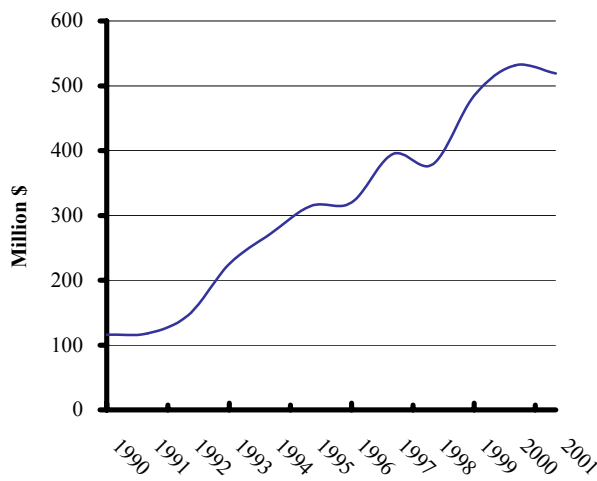
As prices began to climb in 2002, European plywood importers jumped to secure Brazilian stocks before prices went up further. This situation was mirrored in Japan for Asian plywood, where purchases were spurred by a stronger yen making imports cheaper. Unfortunately the net result of the exuberant buying was over-stocking in the major markets. In these circumstances the only way for suppliers to advance sales was through discounts, so market prices slipped again at the end of 2002. By early 2003 Brazilian plywood exporters had reduced prices considerably and widened the price differential with Asian tropical plywood from its average of just over 10% to nearer 30-35%. Despite these decreases Brazilian prices were still at over 60% of early 1997 levels at the end of May 2003, significantly better than Asian prices (graph 2.4.2).

A recent study (ITTO, 2003c) found that, despite substantial downsizing, significant overcapacity continues to exist in the tropical plywood sector, with estimates of capacity utilization during 2000 at around 50% in the Asian plywood sector as a whole, 58% in Africa, and a slightly better 65% in South America. The problem is most pronounced in Indonesia where log shortages are the main issue rather than demand weakness. Quite a few plywood mills, especially in Indonesia, have severe cash flow constraints - their marketing and processing operations are now driven by cash flow needs rather than profit optimisation and international markets are taking advantage of this by capping moves to improve prices.

2.5 Reconstituted Panels

The rapid growth of ITTO producer country exports of reconstituted panels (particle board and fibreboard) over the 1990-2001 period has been driven by an impressive expansion in exports by Asia, particularly Malaysia (up more than twenty-fold since 1990) Thailand (up over 400%) and Indonesia (up 219%), the three largest ITTO producer exporters (graph 2.5.1). Asia accounted for 82% of ITTO producer exports of reconstituted panels in 2000. By comparison, exports by Brazil (mainly of fibreboard) have declined by 12% in the same period due to increased domestic demand. Brazil was, until the mid-1990s, the largest ITTO producer exporter of reconstituted panels. The value of reconstituted panel exports from tropical countries, while growing strongly, is still only about 7% of the value of exports of traditional primary tropical timber products from these countries, worth US\$7.4 billion in 2001.

GRAPH 2.5.1
Reconstituted panel exports by ITTO producers, 1990-2003



Source: ITTO, 2003

Particle board exports by ITTO producer countries rose by 15% to 1.2 million m³ in 2000, but declined 9% to 1.1 million m³ in 2001. ITTO tropical particle board exporters have doubled their exports in the past five years, but still account for only around 5% of total world particle board exports.

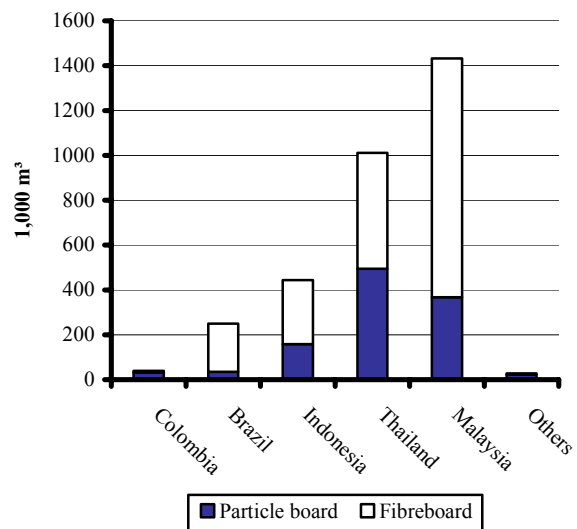
Thailand and Malaysia have become the two largest ITTO tropical particle board exporters since 1999 when they both overtook Indonesia (graph 2.5.2). Thailand's particle board exports increased by 14% to 433 000 m³ in 2000 and a further 14% to 495 000 m³ in 2001. Malaysia also increased exports by a substantial 35% to 421 000 m³ in 2000, but fell back 13% to 367 000 m³ in 2001. Indonesian particle board exports declined by 4% to 241 000 m³ in 2000, slumping a further 34% to 159 100 m³ in 2001. Brazil and Colombia are the largest ITTO particle board exporters in Latin America, exporting over 30 000 m³ each in 2001.

Fibreboard exports by ITTO producer countries rose by 11% to 1.8 million m³ in 2000, increasing a further 14% to 2 million m³ in 2001. ITTO producer countries account for approximately 15% of world exports. Malaysia is by far the largest ITTO tropical fibreboard exporter (all MDF), having steadily increased its exports in the past 5 years from 590 000 m³ in 1997 to over 1 million m³ in 2001.

Thailand is ITTO's second largest tropical fibreboard exporter. Like Malaysia, Thailand has continuously increased its fibreboard exports over the past 5 years. In 2000, Thai exports increased by 54% to 433 000 m³, rising a further 19% to 516 000 m³ in 2001. Thai fibreboard exports in 2001 were composed of 20% hardboard, 75% MDF and 5% insulating board.

Indonesia is ITTO's third largest tropical fibreboard exporter but its recent growth has been slower than in Malaysia and Thailand. Indonesia increased exports by almost 4% to 277 000 m³ in 2000 and by 3% to 285 000 m³ in 2001. Indonesia's fibreboard export composition in 2001 was 46% hardboard, 52% MDF and 2% insulating board. Brazil is also a major ITTO tropical fibreboard exporter, with 214 000 m³ sold abroad in 2001. Reconstituted panels from tropical Asia are exported mainly to north Asian countries (China, Korea and Japan), while Latin American exports go mainly to the USA with smaller amounts to Europe and neighbouring countries.

GRAPH 2.5.2
Major tropical reconstituted panel exporters in 2001



Source: ITTO, 2003.

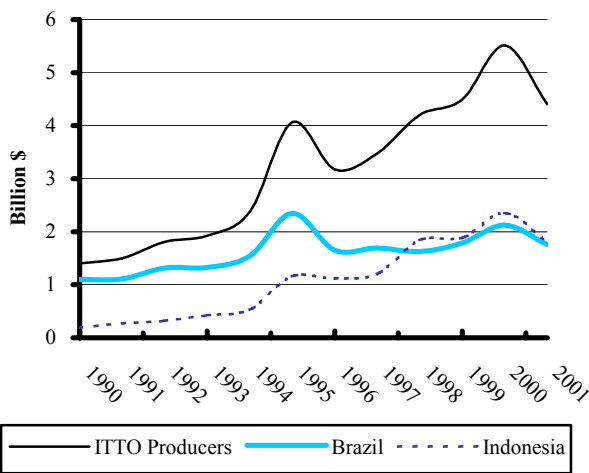
2.6 Wood pulp and paper products

Export earnings for pulp and paper in ITTO producing countries have been increasing since 1990 (graph 2.6.1). Pulp and paper exports from ITTO producers have risen by 293% over this period, led by increases in exports from Indonesia (up over 12 times) and Brazil (up 94%) (graph 2.6.2). Indonesia's pulp and paper exports have led ITTO producer exports upward in the last decade and now account for 41% of total producer pulp and paper exports. Indonesia overtook Brazil in 1998 as the largest ITTO producer exporter of these products. In Brazil (which now accounts for about 40% of the producer country total), pulp and paper exports grew steadily until 1995 before decreasing sharply as production was diverted to meet the growing needs of its huge domestic market. Exports recovered in 1999-2000 due to a devaluation of the real. Exports by all producers declined in value terms in 2001 (despite

increases in quantity in many cases) as prices fell due to the slowing global economy.

GRAPH 2.6.1

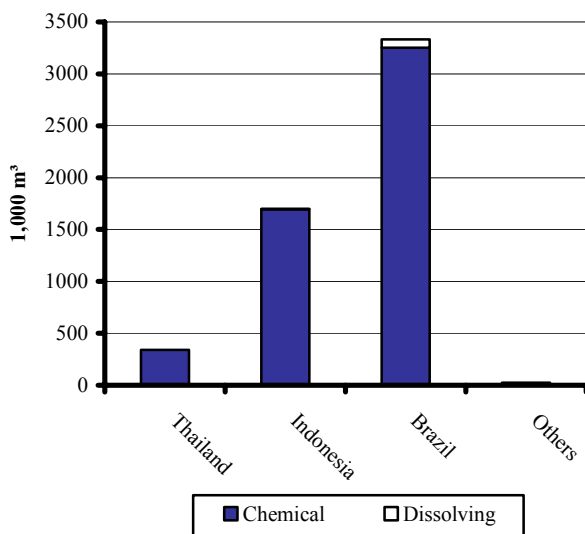
Pulp and paper exports by ITTO producers, 1990-2001



Source: ITTO, 2003.

GRAPH 2.6.2

Major wood pulp exporters in 2001



Source: ITTO, 2003.

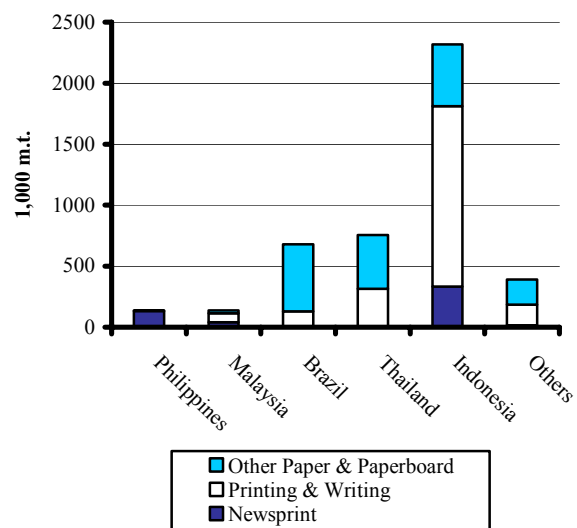
There are only three significant tropical pulp exporters (Brazil, Indonesia and Thailand), all of whom export only or primarily sulphate bleached chemical pulp. Wood pulp exports by ITTO producers totalled 5.4 million tons in 2001, led by Brazil where exports grew over 10% to 3.3 million tons. Brazil's exports include substantial quantities of pulp manufactured from pine in the southern, non-tropical part of the country. Indonesia's pulp exports also jumped in 2001, up 25% to 1.7 million tons. However, the value of pulp exports fell 22% from the year before, indicating the difficult market conditions in 2001. Thailand's exports have grown the fastest of the big three,

more than tripling to 341 000 m³ in the five years to 2001. Both Thailand and Brazil experienced 20-25% drops in the value of their pulp exports in 2001 despite the increases in quantity. Brazil's exports are global, with major markets in Europe, the USA and north Asia. Indonesian (and Thai) exports go primarily to north Asia. Total ITTO producer pulp exports accounted for almost 15% of global trade in 2001.

Indonesia is by far the largest ITTO producer paper exporter, despite a 15% drop to 2.3 million tons in 2001 (graph 2.6.3). Indonesia's exports almost tripled from 1997 to 1999 when they approached 3 million tons, but have since fallen. Values have dropped more sharply than quantities, slumping 23% in 2001. Most of Indonesia's exports (65% in 2001) are printing and writing paper, with the bulk of the remainder wrapping and packaging paper/paperboard (17%) and newsprint (13%). Thailand and Brazil exported 756 000 tons and 680 000 tons of paper respectively in 2001, with the main categories for both countries wrapping and packaging paper/paperboard and printing and writing paper. Malaysia and the Philippines are smaller but growing exporters, both at just under 140 000 tons in 2001. Paper exports from tropical Asia go mainly to China, with smaller amounts to other north Asian countries, neighbouring tropical countries and the EU. Brazil's exports are primarily to other Latin American countries. ITTO producers accounted for less than 5% of global paper exports in 2001.

GRAPH 2.6.3

Major tropical paper exporters in 2001



Source: ITTO, 2003.

3. IMPORT TRENDS

Major ITTO importers were dependent on tropical wood products in 2002 (table 3.1). Major importers are defined here as those with imports of at least 100 000 m³ of one or more tropical products. Countries qualifying as a major importer are identified in the table by bolding the relevant figures. Only China, Taiwan P.O.C. Province of China and Korea qualify as major importers of tropical timber under this criterion in all primary product categories. These three importers are also the most dependent of the major ITTO consumer importers on tropical timber, with a significant proportion of their substantial log (China and Taiwan P.O.C.), sawnwood, veneer and plywood 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 Korea, Japan and China dependent on tropical sources for over 90% of total imports (although this dependence is decreasing). Tropical sawnwood has a lower market share in most non-tropical countries, with only China dependent on it for more than half 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 2001.

In contrast to consumer countries, most of the major ITTO producer country importers depend on tropical imports for the majority of their imported wood needs (table 3.1). This is changing, however, with for example, India, the Philippines and Thailand now sourcing substantial quantities of log imports from non-tropical areas.

3.1 Industrial roundwood (logs)

Total imports of tropical hardwood logs by ITTO members rose nearly 9% to 18.9 million m³ in 2001, about 17% (or 2.8 million m³) greater than total log exports by all members. The gap between reported imports and exports in 2002 increased to 21% (almost 2.7 million m³) indicating greater pressure on non-ITTO members, reporting errors or (most likely) a combination of these. Differences between reported ITTO imports and exports is to some extent made up by reported log exports from Equatorial Guinea and the Solomon Islands, the two largest non-ITTO tropical log exporters with exports averaging about 450 000 m³ per year each in 2000-2001. Other non-member tropical log exporters are less significant and include Bangladesh (average annual exports around 100 000 m³), Mozambique (70 000 m³), Laos (40 000 m³), Madagascar (30 000 m³) and Viet Nam (20 000 m³). The sum of all log exports by non-ITTO tropical countries in

Table 3.1
Tropical Proportion of Total Imports by Major ITTO Importers, 2002
Proportion (%)

Consumer Members	Logs	Sawnwood	Veneer	Plywood
Belgium	1.3	13.7	35.4	56.2
Canada	0.0	0.8	9.2	70.0
China	40.6	72.4	86.9	95.0
Egypt	2.0	0.0	80.0	96.9
France	36.5	13.1	41.9	40.2
Germany	4.4	2.8	26.3	18.4
Hong Kong S.A.R.	81.1	42.0	78.1	73.5
Ireland	20.2	15.3	33.3	14.0
Italy	5.3	3.6	29.9	15.1
Japan	15.4	6.7	40.9	90.2
Netherlands	17.3	11.8	30.6	37.6
Portugal	49.7	39.8	66.7	71.6
Republic of Korea	7.8	47.0	60.6	93.3
Spain	4.2	17.2	12.4	6.0
Taiwan (P.O.C.)	67.1	35.7	89.1	76.3
United Kingdom	13.3	4.4	27.0	30.2
USA	0.0	0.8	5.5	60.5
Producer Members				
India	82.1	24.0	0.3	67.3
Malaysia	92.4	42.5	14.7	74.6
Philippines	47.0	58.4	91.8	6.0
Thailand	83.8	78.7	75.0	73.2

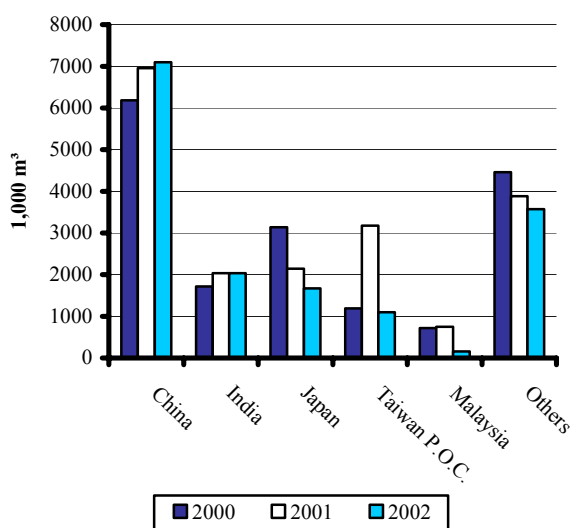
Note: Countries qualifying as a major importer are identified in the table by bolding the relevant figures.

Source: ITTO, 2003.

2001 was 1.1 million m³, leaving 1.6 million m³ plus tropical log imports by non-ITTO members of 247 000 m³ to be accounted for by unrecorded or under-reported exports and/or over-reported imports from both members and non-members.

China, the world's largest importer of tropical logs, imported over 6.9 million m³ in 2001 (up 12% from 2000). China's growing economy, the ban on domestic harvesting and the zero tariff on log imports continue to be the main driving factors behind its growing imports. China's tropical import growth slowed in 2002, rising 2% to 7.1 million m³ (graph 3.1.1). China's tropical log imports, which account for over 45% of total ITTO imports, have soared more than five-fold in the last five years, with Indonesia, Gabon, Malaysia, Myanmar and PNG the main sources. China's import of non-tropical logs has expanded even more rapidly, with Russia providing the bulk of more than 16 million m³ imported in 2002. China's total log imports from all sources exceeded those of Japan (previously the world's top log importer) for the first time in 2001. In 2003, only 2 years after overtaking Japan, China's rapidly growing imports from all sources will likely be double those of Japan at around 26 million m³.

GRAPH 3.1.1
Major tropical log importers, 2000-2002



Source: ITTO, 2003.

Official Chinese statistics do not include Taiwan Province of China (P.O.C.) nor Hong Kong S.A.R. and Macao S.A.R.s, so the figures used here for these importers are based on other available sources or estimates. Taiwan P.O.C.'s spike in imports to over 3 million m³ in 2001 was reported and confirmed by the UN COMTRADE database. However, the unit values for tropical logs derived from the COMTRADE data

appear low, so the volume figure may be overstated. Taiwan P.O.C.'s main tropical log trading partners in 2001 were Malaysia, Gabon and Indonesia, although the latter two reported minimal exports in the opposite direction.

Japan is the second largest ITTO tropical log importer, with imports of just over 2.1 million m³ in 2001, down 32% from 2000 levels. Japanese demand for tropical logs continued to be met primarily (67%) by output from Malaysia in 2001. Japan imported 401 000 m³ of logs from Papua New Guinea and over 74 000 m³ from Africa (mainly Gabon and Equatorial Guinea) in 2001. Japanese tropical log imports fell another 22% in 2002 due to its contracting economy, reduced supplies from Malaysia, competition for log supplies with China and an increasing reliance on softwood logs. Russia continued to be Japan's major log supplier, with imports from that country reported at over 5 million m³ in 2001. Larch is now a preferred species for plywood manufacture in Japan and with prices still below those of the cheapest tropical logs, it appears likely to gain further market share.

India is the fourth largest importer of tropical logs, at slightly over 2 million m³ in 2001 (up 19% from 2000), mostly from Malaysia and Myanmar but with an increasing component of African logs. As India supplied no data to ITTO, and since only 2000 data was reported by India's customs officials to COMTRADE, estimates of 2001 imports have been based on reports of trading partners.

Malaysia is also a major ITTO log importer, absorbing almost 746 000 m³ in 2001 (up 4% from 2000), from Indonesia (96%) and Myanmar (2%). Malaysia's reported imports fell sharply in 2002 to 162 000 m³ when a memorandum of understanding was signed with Indonesia to attempt to control illegal logging and trade of timber products from that country.

The EU countries imported just over 2 million m³ of tropical logs in 2001, down 6% from 2000. Most EU tropical log imports continue to come from African producers. France remains the largest of the EU log importers, overtaking the Republic of Korea as fourth largest ITTO consumer importer in 2001, despite a 12% drop in imports to 735 000 m³. France's imports dropped sharply again to 457 000 m³ in 2002 as log export restrictions in some of its main suppliers (Cameroon, Gabon and Republic of Congo) took effect. Portugal and Italy are also major European log importers, with 420 000 m³ and 276 000 m³ of log imports respectively in 2001. European log imports decreased nearly 10% in 2002 to just over 1.8 million m³.

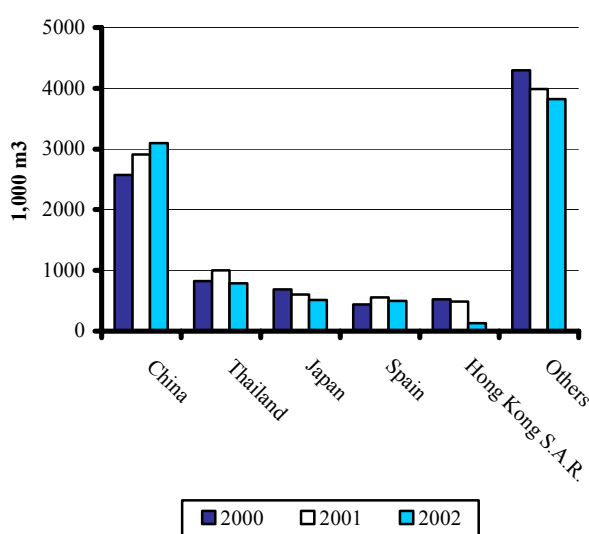
Several ITTO producing countries have become major importers of logs, indicating the extent of wood shortages in their domestic forest sectors. India and Malaysia (see above), as well as Thailand (433 000 m³), and the Philippines (259 000 m³) were the major ITTO producer country importers of tropical logs in 2001, reflecting varying degrees of resource scarcity and increased timber demand in these countries. Total imports of tropical logs by ITTO producing members rose by 9.3% to 3.6 million m³ in 2001, but fell by nearly 17% to under 3 million m³ in 2002. This was mainly due to sharp decreases in Malaysian and Thai imports.

3.2 Sawnwood

Total ITTO imports of tropical sawnwood increased 2% to almost 9.5 million m³ in 2001 but fell by 7.2% to 8.9 million m³ in 2002. With 2001 imports of nearly 3 million m³, China is by far the top ITTO tropical sawnwood importer (graph 3.2.1). China's imports surged 13% in 2001 and a further 7% in 2002. China's tropical sawnwood imports are mainly from Indonesia (40%) and Malaysia (14%). China's, Hong Kong S.A.R.'s and Taiwan P.O.C.'s combined imports accounted for almost half of ITTO consumer imports in 2001. Thailand imported 1 million m³ (up 22%) in 2001 as its large furniture and secondary processing industries continued to recover. However, Thai imports fell 22% to 785 000 m³ in 2002 due to a slowing domestic economy. Both Thailand's and Japan's tropical sawnwood imports are primarily from Malaysia (64% and 45%, respectively).

GRAPH 3.2.1

Major tropical sawnwood importers, 2000-2002



Source: ITTO, 2003.

Japan also imported substantial quantities of tropical sawnwood from Indonesia in 2001 (43% of total imports). Japan remained ITTO's third largest tropical sawnwood importer in 2001 although its imports decreased by 13% to 601 000 m³. Japanese imports decreased a further 14% to 514 000 m³ in 2002. Japanese imports of tropical sawnwood have fallen by over 50% since 1996, while its imports of softwood lumber (primarily from Canada and increasingly Scandinavia) remained at over 7 million m³ in 2001 and 2002, level with mid-1990's imports.

Total tropical sawnwood imports by EU countries declined by 1.5% in 2001 to 2.7 million m³, due primarily to decreased imports in Belgium, Germany, the Netherlands and Portugal. Malaysia and Indonesia are the main sources for EU imports, accounting for over half of the total. Côte d'Ivoire, Cameroon, Brazil and Ghana supplied virtually all of the remainder of EU imports. European tropical sawnwood imports decreased almost 8% in 2002 to 2.5 million m³ due to declines in Belgium, Denmark, France, Germany, Italy, the Netherlands and Spain. Spain is the largest importer of tropical sawnwood in the EU, absorbing 553 000 m³ in 2001 (up 25% from 2000) and 500 000 m³ in 2002. Spain's imports are primarily from Africa (Cameroon and Côte d'Ivoire) and Brazil. France (396 000 m³), the Netherlands (388 000 m³) and the U.K. (348 000 m³) were other major EU tropical sawnwood importers in 2001.

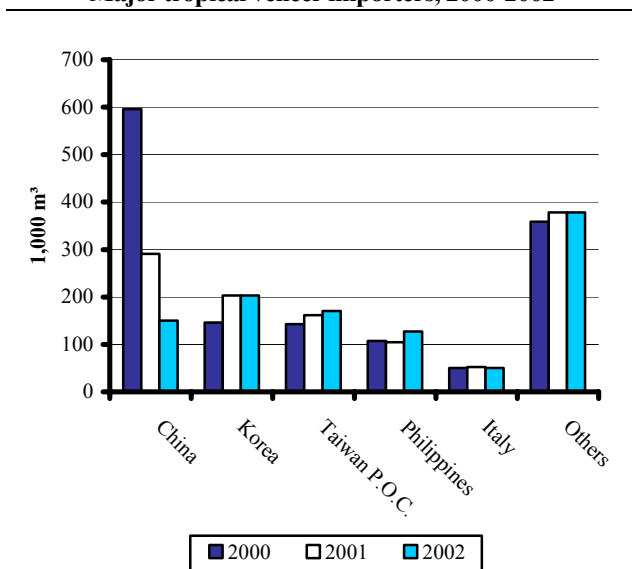
The tropical sawnwood market is the most diversified of all primary tropical timber products, with the five largest importers accounting for under 60% of total ITTO imports in 2001; this is illustrated by the size of the bar for "Others" (graph 3.2.1).

3.3 Veneer

Total ITTO imports of tropical veneer dropped nearly 15% to 1.2 million m³ in 2001, falling further to 1.1 million m³ in 2002. China continued to substitute domestically produced veneer for imports, with tropical veneer shipments dropping by 51% to just under 300 000 m³ in 2001. Despite this decline, China remained the top ITTO importer in 2001. With imports halving again to 150 000 m³ in 2002, China relinquished the top spot to Korea, where imports surged 39% in 2001 to 203 000 m³ and remained stable in 2002. Four out of the five top veneer importers are Asian countries (graph 3.3.1). Imports by Asian countries are primarily sourced from Malaysia, while the majority of European imports are from African producers (mainly Côte d'Ivoire, but increasingly also from Gabon and Ghana). The EU absorbed 227 000 m³ and 234 000 m³ of tropical veneer in 2001 and 2002, around one-fifth of

total ITTO imports in both years. Japan imported 48 000 m³ of tropical veneer in 2001, 6% less than in 2000. Japan's tropical veneer imports decreased a dramatic 80% to 9 000 m³ in 2002.

GRAPH 3.3.1
Major tropical veneer importers, 2000-2002

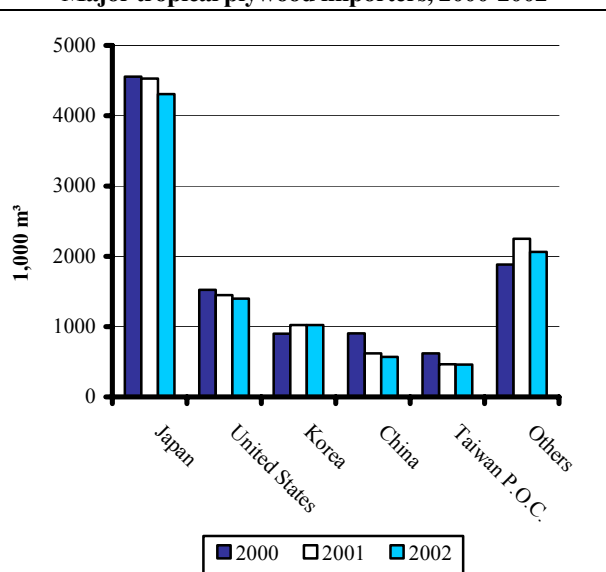


Source: ITTO, 2003.

3.4 Plywood

Total ITTO imports of tropical plywood were stable at 10.3 million m³ in 2001. Imports decreased by 5% in 2002 to 9.8 million m³. The majority of all tropical plywood imports are sourced from Indonesia and Malaysia (59% and 41% respectively in 2001 for the top importer, Japan). Japan continues to replace domestic hardwood plywood production with softwoods, imported plywood (tropical and non-tropical) and substitutes like OSB and MDF. Its tropical plywood imports decreased by 5% in 2002, to 4.3 million m³, due to its continuing flat construction sector (graph 3.4.1). The general trend toward increasing plywood imports by Japan is partially due to its difficulty in obtaining tropical logs for domestic production in the face of competition from China. Low prices also continued to make imported plywood more attractive than domestic production in 2001-2002. Japan is now importing small but growing quantities of low-priced tropical plywood from China.

GRAPH 3.4.1
Major tropical plywood importers, 2000-2002



Source: ITTO, 2003.

The United States was ITTO's second major tropical plywood importer in 2001 at nearly 1.5 million m³, a drop of 5% from 2000 levels. The USA received 41% of this plywood from Indonesia, 23% from Malaysia and most of the rest from Latin America. USA imports declined another 3% in 2002 to 1.4 million m³. As its construction sector recovered, Korea overtook China as ITTO's third largest tropical plywood importer in 2001, at over 1 million m³. Indonesia traditionally supplied most of Korea's plywood imports, but Malaysia has increased its share rapidly, from 18% in 1995 to 42% in 2001. China's imports dropped 32% in 2001 to 619 000 m³ and a further 8% to 570 000 m³ in 2002. Chinese imports have declined more than 70% 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 to zero for logs. Taiwan Province of China (464 000 m³) was also a substantial tropical plywood importer in 2001, from Indonesia (62%), Malaysia (30%) and China (8%).

EU imports of tropical plywood totalled 1.4 million m³ in 2001, a 7.2% increase from 2000 levels. EU imports are led by the UK, Belgium and the Netherlands. Most of the EU's tropical plywood also came from Indonesia and Malaysia, with Brazil and intra-EU trade also playing a fairly large role in many countries' imports. China continued to export small but growing amounts of tropical plywood to the EU, particularly to the UK where quality concerns have been raised. European imports of tropical plywood dropped by 8.4% to 1.3 million m³ in 2002 due to declines in Belgium, the Netherlands and Germany.

4. CONCLUSION

Attempts to halt the illegal trade of logs and to promote value-added processing of timber in tropical countries will continue to reduce the volume of tropical industrial roundwood in trade. One way to ascertain if logs and other products exported are sustainably (and therefore legally) produced is to implement a chain of custody log tracking and/or certification system. Timber certification therefore remains a topical issue for many tropical countries, with several tropical forestry operations continuing to seek some form of certification, either through the Forest Stewardship Council (FSC), or via other avenues (e.g. ISO 14000, national standards authorities, etc.). Tropical countries are increasingly developing national schemes, led by Malaysia's National Timber Certification Council (NTCC) and Indonesia's ITTO-supported Ecolabelling Institute (LEI), both of which continued steps to market certified tropical forest products with their own labels in 2002. Several other tropical countries are seeking support from ITTO and others for the development of national certification schemes. The proliferation of national schemes has led to numerous calls for a framework for mutual recognition between schemes and organisations such as the ITTO and FAO have been active in attempting to facilitate agreement on such a framework. ITTO has also carried out substantial work to promote phased approaches to certification, through which tropical countries can be recognized for their progress towards sustainable forest management, thereby maintaining market access for their products. It is likely that increasing volumes of tropical timber products (both primary and secondary) in world markets will soon bear certificates attesting to their legality and sustainability.

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- ITTO. 2003d, Potential Role of Phased Approaches to Certification in Tropical Timber Producer Countries as a Tool to Promote Sustainable Forest Management.

Some facts about the Timber Committee

The Timber Committee is a principal subsidiary body of the UNECE (United Nations Economic Commission for Europe) based in Geneva. It constitutes a forum for cooperation and consultation between member countries on forestry, forest industry and forest product matters. All countries of Europe; the former USSR; United States, of America, Canada and Israel are members of the UNECE and participate in its work.

The UNECE Timber Committee shall, within the context of sustainable development, provide member countries with the information and services needed for policy- and decision-making regarding their forest and forest industry sector ("the sector"), including the trade and use of forest products and, when appropriate, formulate recommendations addressed to member Governments and interested organizations. To this end, it shall:

- i. With the active participation of member countries, undertake short-, medium- and long-term analyses of developments in, and having an impact on, the sector, including those offering possibilities for the facilitation of international trade and for enhancing the protection of the environment;
- ii. In support of these analyses, collect, store and disseminate statistics relating to the sector, and carry out activities to improve their quality and comparability;
- iii. Provide the framework for cooperation e.g. by organizing seminars, workshops and ad hoc meetings and setting up time-limited ad hoc groups, for the exchange of economic, environmental and technical information between governments and other institutions of member countries that is needed for the development and implementation of policies leading to the sustainable development of the sector and to the protection of the environment in their respective countries;
- iv. Carry out tasks identified by the UNECE or the Timber Committee as being of priority, including the facilitation of subregional cooperation and activities in support of the economies in transition of central and eastern Europe and of the countries of the region that are developing from an economic point of view;
- v. It should also keep under review its structure and priorities and cooperate with other international and intergovernmental organizations active in the sector, and in particular with the FAO (Food and Agriculture Organization of the United Nations) and its European Forestry Commission and with the ILO (International Labour Organisation), in order to ensure complementarities and to avoid duplication, thereby optimizing the use of resources.

More information about the Committee's work may be obtained by writing to:

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Trade Development and Timber Division
UN Economic Commission for Europe
Palais des Nations
CH - 1211 Geneva 10, Switzerland
Fax: + 41 22 917 0041
E-mail: info.timber@unece.org

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Publications**

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1. Forest Products Prices, 2000-2002 (web data release expected March 2004, hard copy expected May 2004).
2. Forest Products Statistics, 1998-2002 (database since 1964 on website, publication available on the web March 2004, hard copy expected April 2004).
3. Forest Products Annual Market Analysis, 2002-2004 (available on web, hard copy expected March 2004).
4. Forest Fire Statistics, 2000-2002 (web data release expected March 2004, hard copy available May 2004).
5. Forest Products Trade Flow Data, 2000-2001 (tables available on web, no hard copy available).
6. Forest Products Prospects for 2004 (available on web, hard copy expected February 2004).

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