Sawn Hardwood Markets 2005-2006

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David Venables, AHEC European Director

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Globalisation & the China factor……………

- Increased world fuel & energy costs forcing a rise in raw material & processed wood product prices

- China & others (Vietnam) showing a rise in exports of products other than furniture, such as sawn hardwood, flooring, plywood etc etc.

- Consumption (secondary processing) of sawn hardwoods continues to shift towards the East, away from the former EU-15 and from North America to Asia

- The shift in consumption towards the East has led to a shift in production away from all subregions in the UNECE region except EECCA

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……..while the UNECE hardwood resource is becoming increasingly important………………..

- Despite the China factor, Temperate sawn hardwoods are in high demand throughout the region

- In fact the emphasis on oak has strengthened (European & American white)

- Despite lower overall sawn hardwood consumption in 2005, year-on-year increases in hardwood flooring production as well as a shift towards hardwood in the building sector are creating new demand.

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European production down, while consumption remains stable……………………

- 2005 production marginally down, owing to lower output from France & Germany, as well as poor harvesting conditions in Romania

- French & German production lower due to number of factors incl a diversion of logs to Asian markets (oak) and lower beech demand in Europe,

- However press reports suggest production of sawn beech could increase once again.

- Steady consumption temperate sawn hardwood, due to increased hardwood flooring production and more interest in hardwood as a construction and interior finishing material

North American production & consumption falling, but US exports increasing................

- Restructuring within the US hardwood sector, mill closures and increased imports of components and finished goods by end-users resulting in lower production

- High stumpage prices and increased roundwood shipments to China leading to reduced access to raw material

- US exports becoming increasingly important and rising to 12.3% of all US sawn hardwood produced last year, up from just 7.5% in 1998

- US imports of hardwood increased in 2005, especially from Latin America and the Far East. However this has reversed in first half of 2006.

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Russian production developing.......................

- Modernisation of the industry, tax breaks on imports of woodworking machinery and rapid implementation of the Forestry Act are all beginning to have a positive impact on Russian sawn hardwood production

- Increasing Chinese demand for logs undermining the incentives for sawn hardwood producers, despite a log export tariff

- Nevertheless, exports of sawn hardwood rose by 30% in 2005, mostly destined for China

- Consumption in the CIS region remains low, due to limited secondary processing and a lack of organisation in end-user sectors

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Increasing influence of forest certification & environmental procurement policies………….

- Increases in FSC certified state forests in central and eastern Europe and PEFC forests in France and Germany beginning to filter through to sawn hardwood market

- European hardwood producers have begun to actively pursue CoC certification and to market certified forest products, even without price premiums

- Wider concerns about illegal logging encouraging further take up of public procurement policies

- Market impact remains uncertain, but temperate hardwood suppliers are likely to come under increasing pressure to provide reliable assurances of sustainable management

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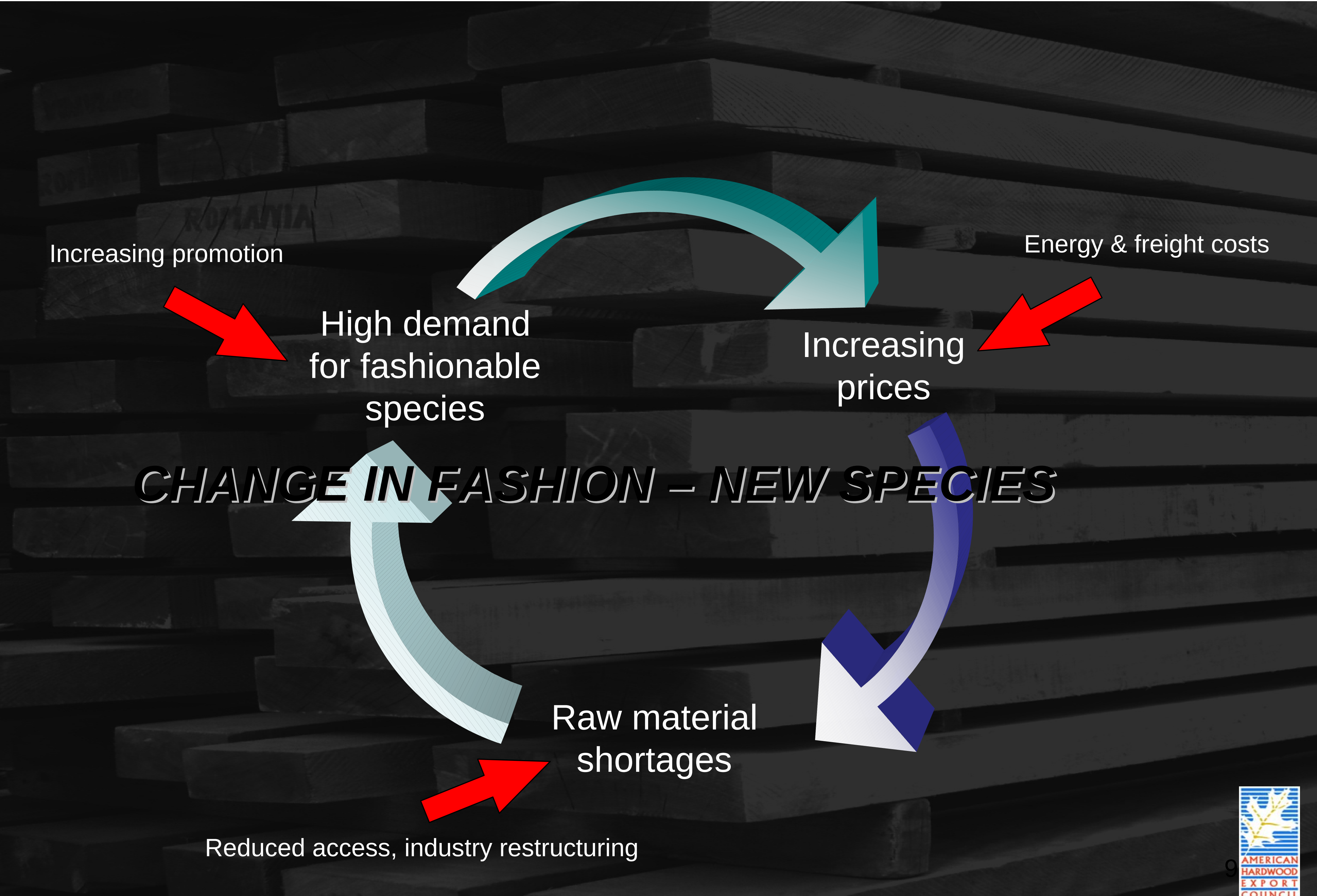
Hardwood Species trends

- Tropical species: meranti sapele iroko mahogany all affected by short supply. Reduced forest inventory, more focus on illegal logging and rising raw material costs. Economic and political instability.
- Growing demand for darker hardwood colours especially in Europe and emergence of certified supplies could create new market opportunities.
- White oak fashion will remain strong boosted by a growing fashion for “character” finishes.
- Exotic look popular led by walnut
- Increasing acceptance of wider range of species, less concern about names more about sustainability, continuity and suitability Wider.
- Increased promotion is developing opportunities for new species and helping reinvent established ones.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Raw material shortages
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