

FOREST PRODUCTS FEATURE ARTICLES

U.S. WOOD PRODUCT EXPORTS TO MID-EAST STABLE DESPITE ANTI-AMERICAN SENTIMENT

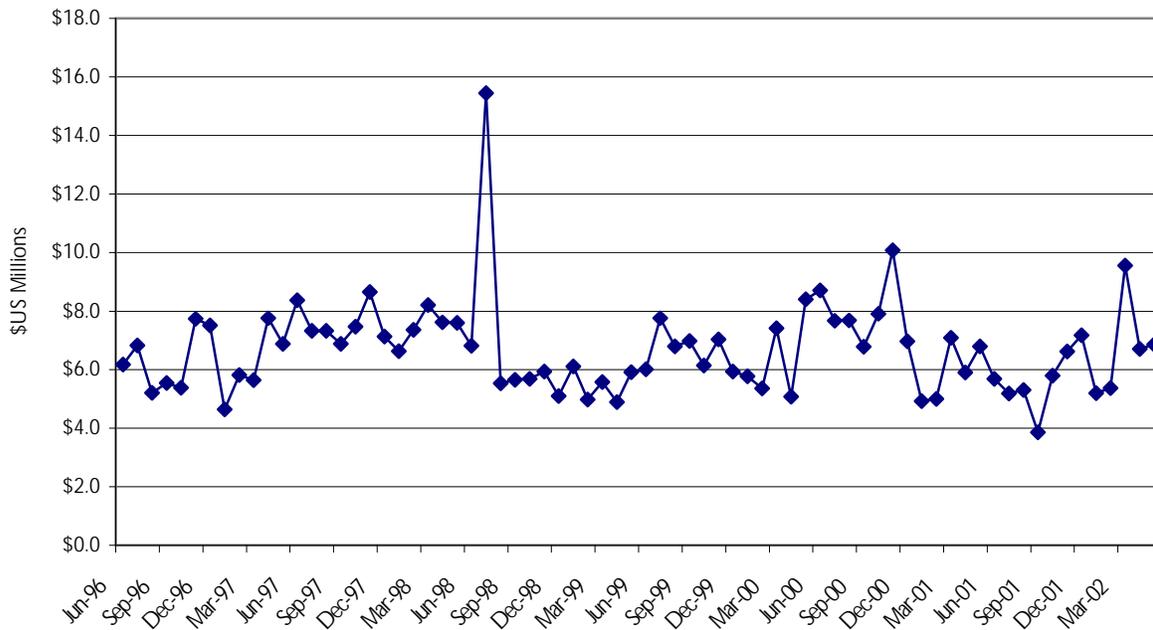
By William Bomersheim, Agricultural Marketing Specialist

Despite anti-American sentiment and a regional grass-roots effort to boycott American goods¹, U.S. wood product exports to the Mid-East region remain stable. Total U.S. exports of agricultural and industrial goods to the region have dropped 13 percent since January 2002, and sales of certain high profile American products have fallen further.² However, U.S. wood product exports to the Mid-East region grew 22.5 percent during the first six months of 2002 compared with the first

six months of 2001. U.S. exporters have shipped more than \$37 million of solid wood products to the Mid-East since January, compared with \$31million during January - June 2001. In contrast, U.S. wood product exports to the world are down nine percent for the first six months of 2002.

Although many U.S. exporters are facing a difficult marketing situation in the Mid-East region, U.S. wood products exporters have been relatively sheltered from the anti-American sentiment since few U.S. wood products are sold directly to consumers. Most U.S. wood products are destined for the interior, joinery, and furniture industries and demand for wood is driven by major construction activities.

Monthly U.S. Wood Product Shipments to the Mid-East, June 1996 - May 2002

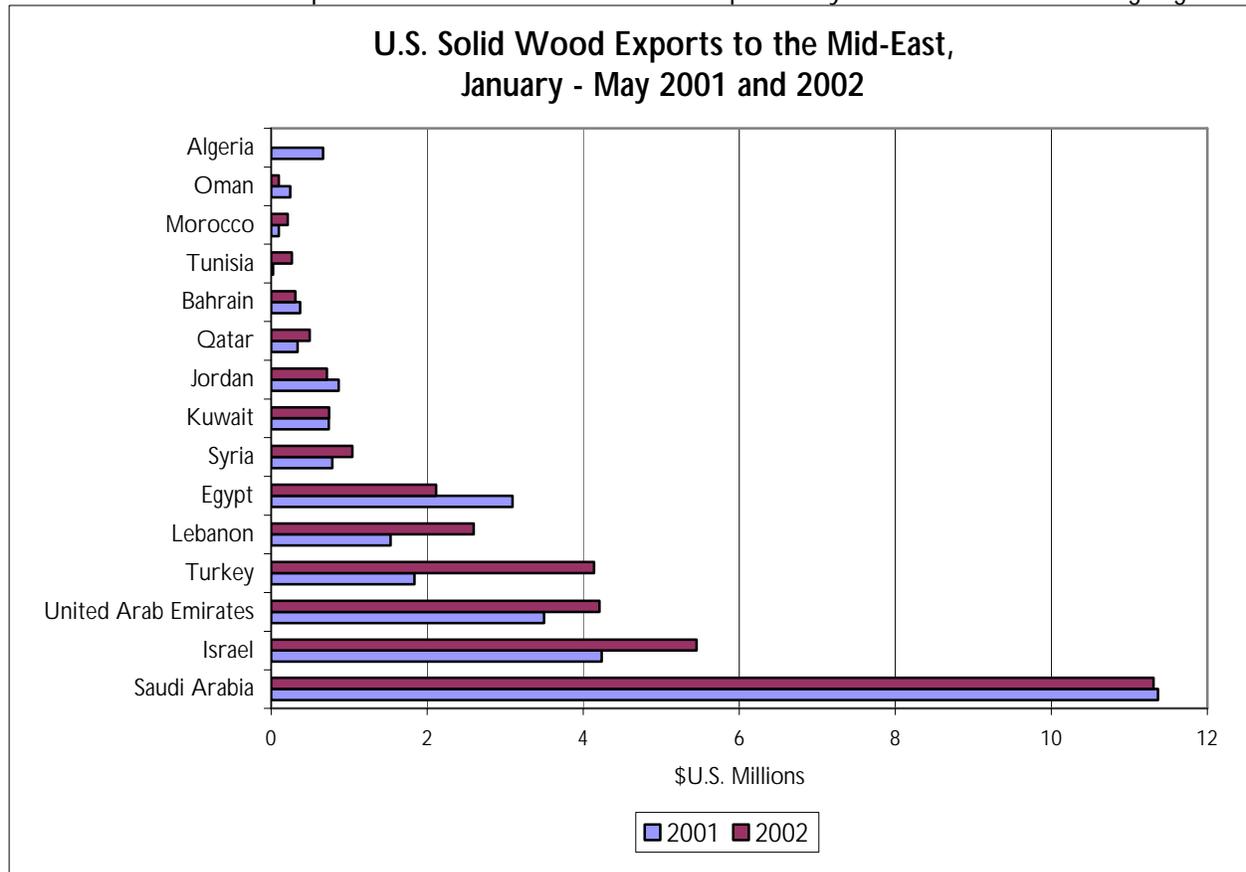


Note: U.S. wood product shipments to the Mid-East have been relatively stable for nearly a decade.

In addition, U.S. solid wood exporters are benefiting from growing construction and development activities in many of the Gulf States. During the next five years, as many as 150 five-star hotels may be built in the Gulf region. Booming refurbishment and construction of luxury villas, along with major hotel construction projects such as the Durrat Al Bahrain project, a 400 room six star hotel, aqua park, marina and village construction project, are fueling continued demand for U.S. wood products.

items, and softwood lumber accounted for \$13.8 million in U.S. exports to the region, while U.S. log sales were worth an additional \$5.6 million. The remaining \$11.8 million in U.S. wood product exports was comprised of articles such as plywood, fiberboard, molding, and millwork.

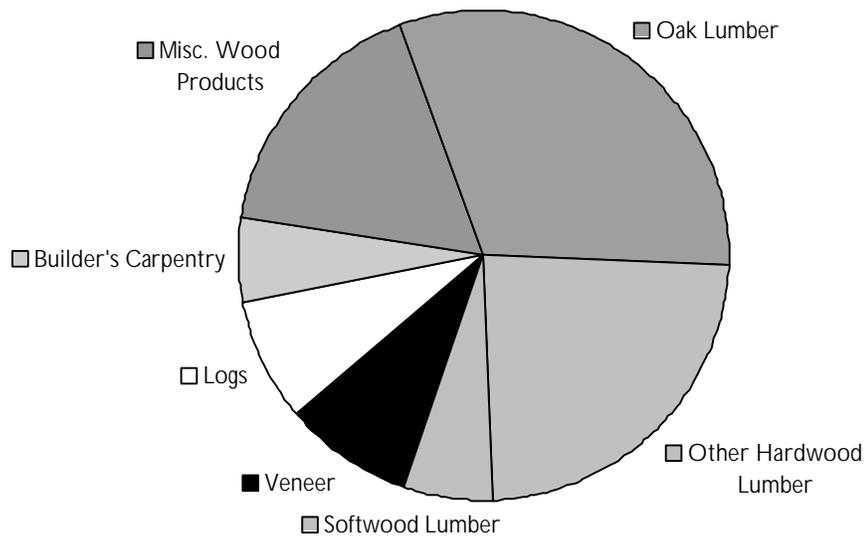
Although current events in the Mid-East have the potential to influence U.S. business relations, most wood products importers are primarily interested in obtaining high-



U.S. hardwoods make up the bulk of U.S. solid wood product sales to the Mid-East region. Last year, hardwood lumber accounted for 24 percent of U.S. solid wood product sales to the region, while veneer and builder's carpentry items accounted for an additional 15 percent. In 2001, the United States exported \$21.5 million of oak lumber (mostly red oak) and \$16.4 million of other hardwood lumber to the region. Veneer, builder's carpentry

quality products that meet their specific needs. At a time when many American exporters are postponing or scaling back consumer oriented marketing activities in the region, U.S. officials recommend continued U.S. company support and strong trade servicing activities. This is especially true for the U.S. wood products industry. Company support may be key to capitalizing on future growth opportunities.

U.S. Solid Wood Exports to the Mid-East Region in 2001



¹ In an effort to negatively impact U.S. businesses in the region, grass roots campaigns have begun encouraging consumers to boycott American goods; distributing detailed lists of American products with suggested non-American substitutes, and picketing businesses such as U.S. branded fast food outlets.

² Sales at most American fast-food outlets in the region are down 20 to 30 percent and many American consumer goods are facing similar losses. U.S. tobacco exports to the region, amounting to more than \$640 million in 2001, are down 47 percent for the first six months in 2002. Anecdotal stories of retail chains pulling American products from the shelves are becoming increasingly common. At least one supermarket chain in Bahrain with over 10,000 customers a day has reportedly pulled more than 1,000 American products from its shelves.

THE MEXICAN MAQUILADORA WOOD PRODUCTS TRADE: OVERVIEW AND OPPORTUNITIES

By Derek S. Lieberman and Lashonda McLeod, Agricultural Marketing Specialists

The Mexican maquiladora industry has been in existence for almost 40 years and has seen substantial growth, especially in the 1990s. Even with the economic downturn in 2001, this sector represents a significant opportunity for exports of U.S. wood products.

WHAT IS A MAQUILADORA?

A maquiladora is an assembly or manufacturing facility located in Mexico in which Mexican, U.S., Asian, or European companies prepare goods for consumers, generally outside of Mexico, utilizing Mexico's labor force and temporary importation programs.

Since the creation of the maquiladora program of 1965, maquiladora plants have engaged in assembly, manufacturing, or service activities, generally combining Mexican labor and materials with foreign technology, components, and capital. They import machinery, equipment, parts, raw materials, and other components utilized in the production process duty-free on a temporary in-bond basis. Companies then re-export the finished or semi-finished products from Mexico to the United States or other third-country markets, or they sell them in the Mexican market, subject to certain restrictions. Foreign investors may own 100 percent of the equity in the maquiladoras, as long as they are registered as Mexican companies.

LOCATION AND OWNERSHIP DISTRIBUTION

About 90 percent of the maquiladoras are located along the U.S.-Mexico border with over one-third concentrated in Juarez near the Mexico-Texas border. The physical proximity of Mexican producers to the U.S.-Mexican border provides an enormous benefit to foreign investors and domestic exporters. The ability to move merchandise by truck enables much greater delivery flexibility between customers and suppliers. In 1997, more than three-fourths of the border trade between Mexico and the United States traveled by truck.

As of July 2001, companies representing 21 countries owned maquiladora facilities in Mexico. However, companies from just three countries ((the United States (61 percent), Mexico (28 percent) and Japan (5 percent)) own 94 percent of the maquiladoras. In the border region, the Mexican ownership rate is much lower than in the interior on Mexico. In both Chihuahua and Baja California Norte, about 70 percent of the maquiladoras are owned by U.S. companies, and about 18 percent are owned by Mexican firms. Asian firms are represented to a significantly larger extent in Baja California Norte (13 percent) than in Chihuahua (7 percent). Neither state has a Mexican owned maquiladora with more than 1,000 employees.

MAQUILADORA ECONOMICS

Employing over one million people, the maquiladora sector has grown in step with the reform of the economy and it has withstood the difficult business cycle fluctuations that have taken place along the way. In the process, the maquiladora

industry has transformed the border region with the United States from one of the poorest to one of the most vibrant areas in Mexico. The maquiladora industry is largely U.S.-demand driven since most of Mexico's maquiladora production is destined for the U.S. market. Periods of sustained maquiladora export growth are associated with U.S. economic expansion. Conversely, periods of U.S. economic deceleration exert downward pressure on maquiladora export performance.

Maquiladora output, which reached U.S. \$83 billion in 2000, now contributes to nearly one-half of Mexico's exports. Maquiladoras are currently being used by 70 percent of the labor-intensive Fortune 500 companies. The maquiladora industry currently accounts for over 3,700 maquiladora businesses with annual sales in excess of U.S. \$37 billion of inputs and supplies, 98 percent of which are of U.S. origin.

The largest maquiladora industry sectors, based on value-added in Mexico, are electrical and electronic products, with notable growth in the wood furniture sector. While maquiladora activity in all industries has grown in absolute terms, the composition of maquiladora plants has changed markedly over the years. During 1979–1998, the number of furniture plants almost increased by 6-fold and the number of employees in the sector grew by 13-fold (Table 1). Despite this growth, the share of maquiladoras in the furniture and wood products industries remains relatively small (Table 2). Overall, as of 1998, almost 10 percent of maquiladoras were in the furniture and wood products sector.

Table 1: Growth in Maquiladora Furniture Industry

| ACTIVITY | 1979 | | 1985 | | 1998 | |
|------------------------------------|--------|-----------|--------|-----------|--------|-----------|
| | Plants | Employees | Plants | Employees | Plants | Employees |
| Wood and metal furniture and parts | 54 | 3,515 | 74 | 6,522 | 353 | 49,373 |

Table 2: Percentage of Industry by Type in Selected States (1998)

| INDUSTRY | BAJA CALIFORNIA | CHIHUAHUA |
|-----------|-----------------|-----------|
| Furniture | 17 | 0 |
| Wood | 7 | 5 |

WOOD PRODUCTS TRADE

Softwood and hardwood lumber, as well as shaped wood (siding, molding, and framing) and panels of all types, dominate U.S. exports to the Mexican maquiladora sector. Furniture exports from Mexico maquiladoras to the United States, exceed all other wood-based exports to the United States from maquiladoras (Tables 3 and 4). Maquiladoras manufacture most of the furniture destined for export markets, including bathroom furniture and television cabinets, among other products.

Table 3: U.S. Exports of Wood Products, 1996-2001 (U.S \$ million)

| WOOD PRODUCT CATEGORIES | U.S. EXPORTS TO MEXICO | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | PERCENT CHANGE 01/00 |
|-----------------------------|------------------------|-------|-------|-------|-------|-------|-------|----------------------|
| All Wood Products | Total | 311.9 | 376.9 | 434.7 | 478.3 | 566.8 | 498.4 | -12.1 |
| | To Maquiladora | 184.6 | 219.8 | 243.3 | 272.1 | 296.1 | 233.6 | -21.1 |
| | Percent Maquiladora | 59 | 58 | 56 | 57 | 52 | 47 | |
| Softwood | | | | | | | | |
| Lumber (includes treated) | Total | 47.4 | 47.4 | 56.7 | 63.3 | 79.9 | 68.0 | -14.8 |
| | To Maquiladora | 19.8 | 18.6 | 23.5 | 29.5 | 31.1 | 21.2 | -31.8 |
| | Percent Maquiladora | 42 | 39 | 41 | 47 | 39 | 31 | |
| Siding, Molding and Framing | Total | 16.3 | 17.1 | 20.7 | 12.9 | 15.3 | 13.2 | -13.5 |
| | To Maquiladora | 7.0 | 9.3 | 16.4 | 8.9 | 13.2 | 10.9 | -17.8 |
| | Percent Maquiladora | 43 | 54 | 80 | 69 | 87 | 82 | |
| Hardwood | | | | | | | | |
| Lumber | Total | 73.7 | 92.7 | 112.6 | 116.3 | 132.7 | 102.2 | -23.0 |
| | To Maquiladora | 51.1 | 65.6 | 80.7 | 75.8 | 78.3 | 56.2 | -28.1 |
| | Percent Maquiladora | 69 | 71 | 72 | 65 | 59 | 55 | |

| | | | | | | | | |
|-------------------------------------|---------------------|------|------|------|------|------|------|-------|
| Siding, Molding and Framing | Total | 5.5 | 11.5 | 16.5 | 27.9 | 25.8 | 22.7 | -12.3 |
| | To Maquiladora | 3.2 | 6.7 | 8.6 | 20.9 | 20.9 | 16.4 | -21.2 |
| | Percent Maquiladora | 58 | 59 | 52 | 75 | 81 | 73 | 66 |
| Veneer | Total | 6.5 | 9.6 | 10.5 | 13.7 | 17.8 | 17.4 | -2.2 |
| | To Maquiladora | 2.4 | 3.2 | 3.6 | 4.5 | 5.3 | 6.7 | 26.0 |
| | Percent Maquiladora | 37 | 34 | 34 | 33 | 30 | 39 | |
| Panels | | | | | | | | |
| Particleboard OSB/ Waferboard | Total | 39.7 | 40.9 | 47.1 | 50.3 | 48.7 | 52.1 | 6.9 |
| | To Maquiladora | 36.2 | 34.8 | 40.7 | 42.1 | 39.6 | 20.8 | -47.4 |
| | Percent Maquiladora | 91 | 85 | 86 | 84 | 81 | 40 | |
| Fiberboard | Total | 16.3 | 26.6 | 29.9 | 37.2 | 61.1 | 56.4 | -7.7 |
| | To Maquiladora | 8.5 | 14.8 | 15.1 | 21.9 | 34.6 | 30.3 | -12.3 |
| | Percent Maquiladora | 52 | 56 | 51 | 59 | 57 | 54 | |
| Plywood | | | | | | | | |
| Softwood | Total | 27.6 | 32.1 | 33.1 | 36.9 | 57.3 | 46.9 | -18.1 |
| | To Maquiladora | 5.8 | 9.7 | 11.7 | 11.3 | 12.0 | 8.5 | -29.5 |
| | Percent Maquiladora | 21 | 30 | 35 | 31 | 21 | 18 | |
| Hardwood | Total | 9.8 | 8.6 | 7.4 | 9.0 | 15.1 | 9.9 | -34.4 |
| | To Maquiladora | 6.7 | 6.2 | 5.2 | 5.6 | 10.3 | 6.4 | -37.9 |
| | Percent Maquiladora | 69 | 73 | 69 | 62 | 68 | 64 | |

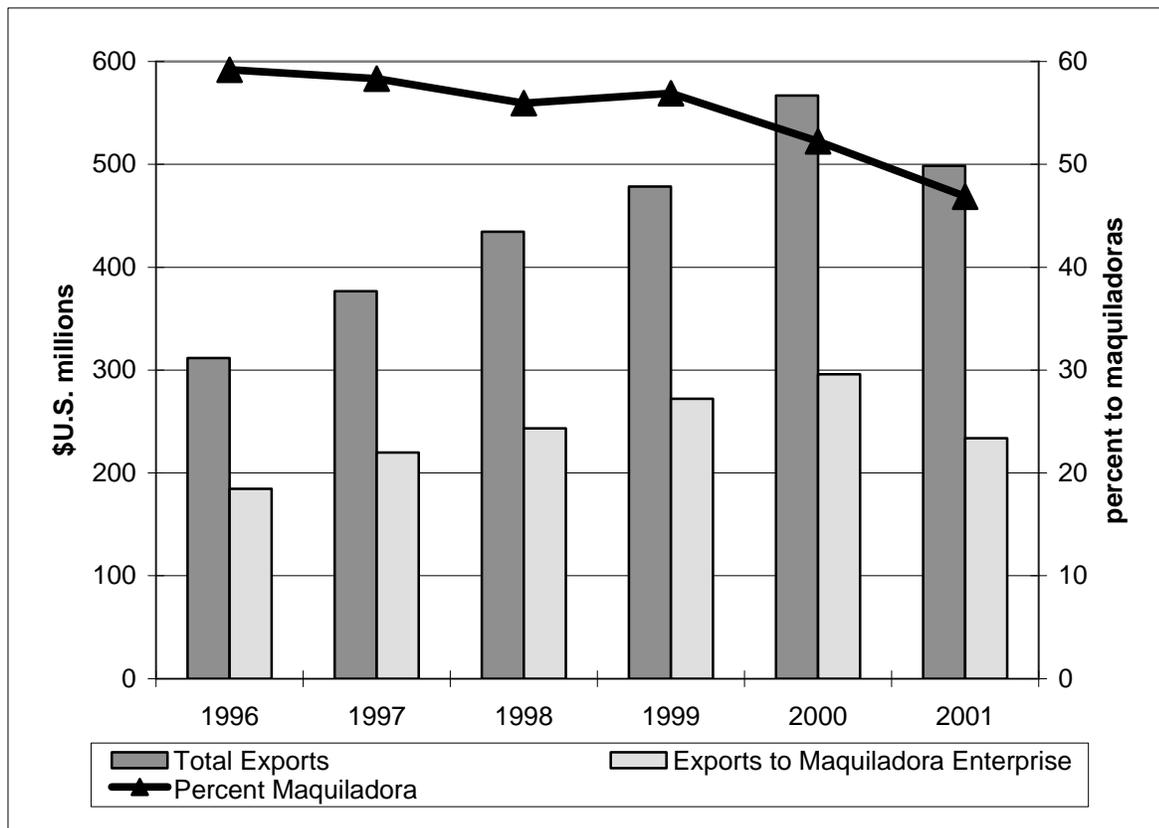
Table 4: U.S. Imports of Wood-Based Products from Mexico, 1996-2001 (US\$ million)

| WOOD PRODUCT CATEGORIES | U.S. IMPORTS FROM MEXICO | | | | | | | PERCENT CHANGE 01/00 |
|---|--------------------------|-------|-------|-------|-------|-------|-------|----------------------|
| | | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | |
| Furniture (including prefabricated buildings) | Total | 428.6 | 561.4 | 623.5 | 685.4 | 794.1 | 693.9 | -12.6 |
| | From Maquiladora | 316.5 | 358.2 | 404.4 | 473.7 | 513.1 | 411.3 | -19.8 |
| | Percent Maquiladora | 74 | 63 | 65 | 69 | 65 | 59 | |
| All Wood Products (Chapter 44) | Total | 482.1 | 523.9 | 490.3 | 516.3 | 506.1 | 376.1 | -25.7 |
| | From Maquiladora | 135.0 | 150.0 | 189.1 | 195.2 | 271.1 | 187.7 | -30.8 |
| | Percent Maquiladora | 28 | 29 | 39 | 38 | 54 | 50 | |
| Selected Categories of Wood Products | | | | | | | | |
| Wooden Frames | Total | 68.3 | 87.7 | 116.4 | 102.6 | 102.4 | 85.1 | -16.9 |
| | From Maquiladora | 48.5 | 63.8 | 88.4 | 79.8 | 83.7 | 69.1 | -17.4 |
| | Percent Maquiladora | 71 | 73 | 76 | 78 | 82 | 81 | |
| Builders' Joinery & Carpentry | Total | 50.6 | 50.1 | 64.6 | 78.7 | 138.8 | 71.4 | -48.6 |
| | From Maquiladora | 24.6 | 28.4 | 49.3 | 60.4 | 121.0 | 60.9 | -49.6 |
| | Percent Maquiladora | 49 | 57 | 76 | 77 | 87 | 85 | |

| | | | | | | | | |
|-----------------------------|---------------------|-------|-------|------|------|------|------|--------|
| Solid Wood Packing Material | Total | 50.1 | 48.2 | 52.5 | 74.8 | 64.7 | 33.4 | -48.5 |
| | From Maquiladora | 9.3 | 12.5 | 9.5 | 10.9 | 30.5 | 7.9 | -74.1 |
| | Percent Maquiladora | 19 | 26 | 18 | 15 | 47 | 24 | |
| Sawdust, Wood Waste & Scrap | Total | 7.3 | 6.5 | 4.3 | 7.3 | 6.0 | 6.2 | 2.8 |
| | From Maquiladora | 6.4 | 5.7 | 3.9 | 7.0 | 5.7 | 5.8 | 1.9 |
| | Percent Maquiladora | 88 | 87 | 90 | 95 | 94 | 93 | |
| Wood, Continuously Shaped | Total | 117.3 | 118.1 | 99.2 | 86.5 | 70.1 | 69.1 | -1.4 |
| | From Maquiladora | 12.1 | 9.2 | 8.7 | 3.8 | 0.3 | 4.7 | 1421.0 |
| | Percent Maquiladora | 10 | 8 | 9 | 4 | 0.4 | 7 | |
| Wood Marquetry, etc. | Total | 14.8 | 19.5 | 11.3 | 9.1 | 8.6 | 7.0 | -18.2 |
| | From Maquiladora | 9.8 | 9.3 | 5.8 | 3.6 | 3.0 | 2.3 | -22.1 |
| | Percent Maquiladora | 67 | 48 | 52 | 40 | 35 | 33 | |
| Other Articles of Wood | Total | 22.0 | 28.4 | 27.7 | 41.0 | 26.8 | 37.3 | 39.0 |
| | From Maquiladora | 15.1 | 19.1 | 21.9 | 28.0 | 19.4 | 31.5 | 62.7 |
| | Percent Maquiladora | 68 | 67 | 79 | 68 | 72 | 85 | |

Note: U.S. exports of forest products to Mexico grew almost 82 percent overall and over 60 percent in the maquiladora sector, from 1996 to 2000 (Figure 1). Particularly strong growth in the same period occurred in exports of hardwood siding, molding and framing; hardwood veneer; fiberboard; and softwood plywood (Table 3).

Figure 1: U.S. Exports of Wood Products to Mexico, 1996-2001



Note: Mexico's forest products processing industry showed substantial growth overall through 2000, particularly the furniture, molding, and flooring sectors, with maquiladora production consistently accounting for over 50 percent of the total (Table 4). While overall U.S. imports of wood products from Mexico were flat from 1996 to 2000, there was an increase of over 100 percent from the maquiladora sector (Figure 2). Particularly strong growth in the same period occurred in imports of builder's joinery and carpentry and solid wood packing material (Table 3). U.S. imports of furniture also experienced solid growth (Figure 3 and Table 4).

Figure 2: U.S. Imports of Wood Products from Mexico, 1996-2001

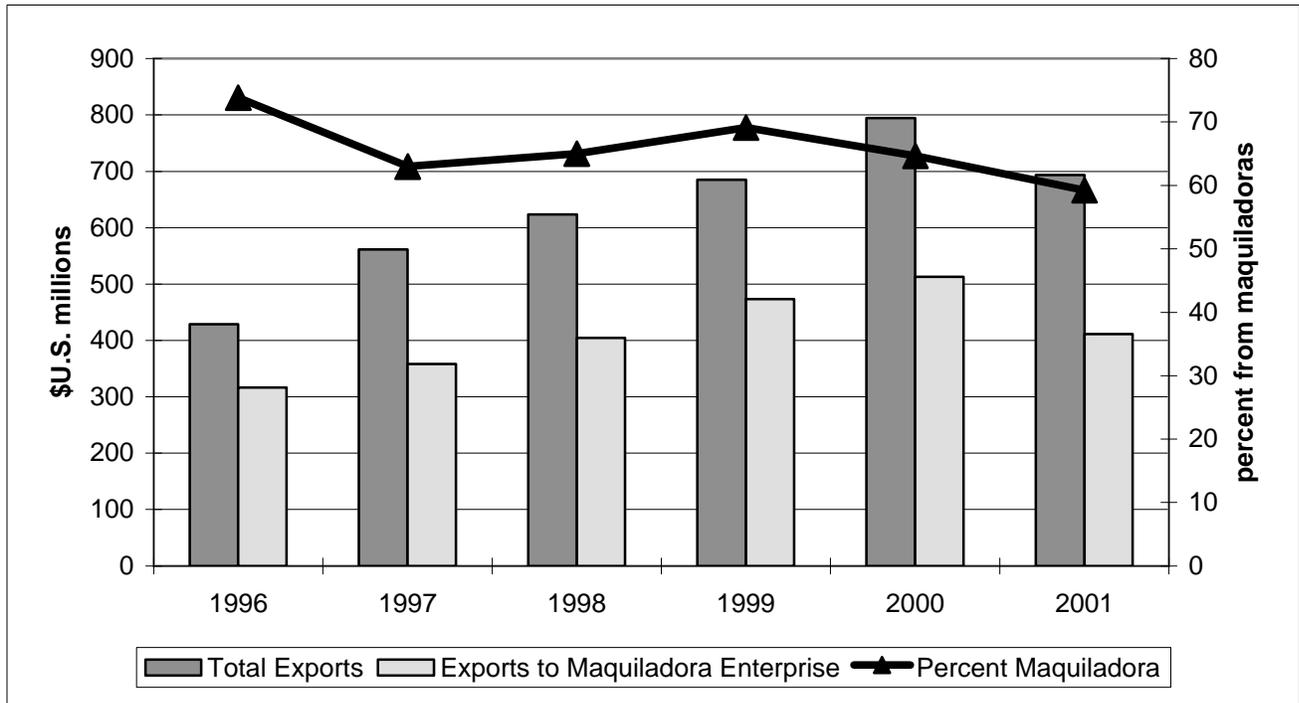
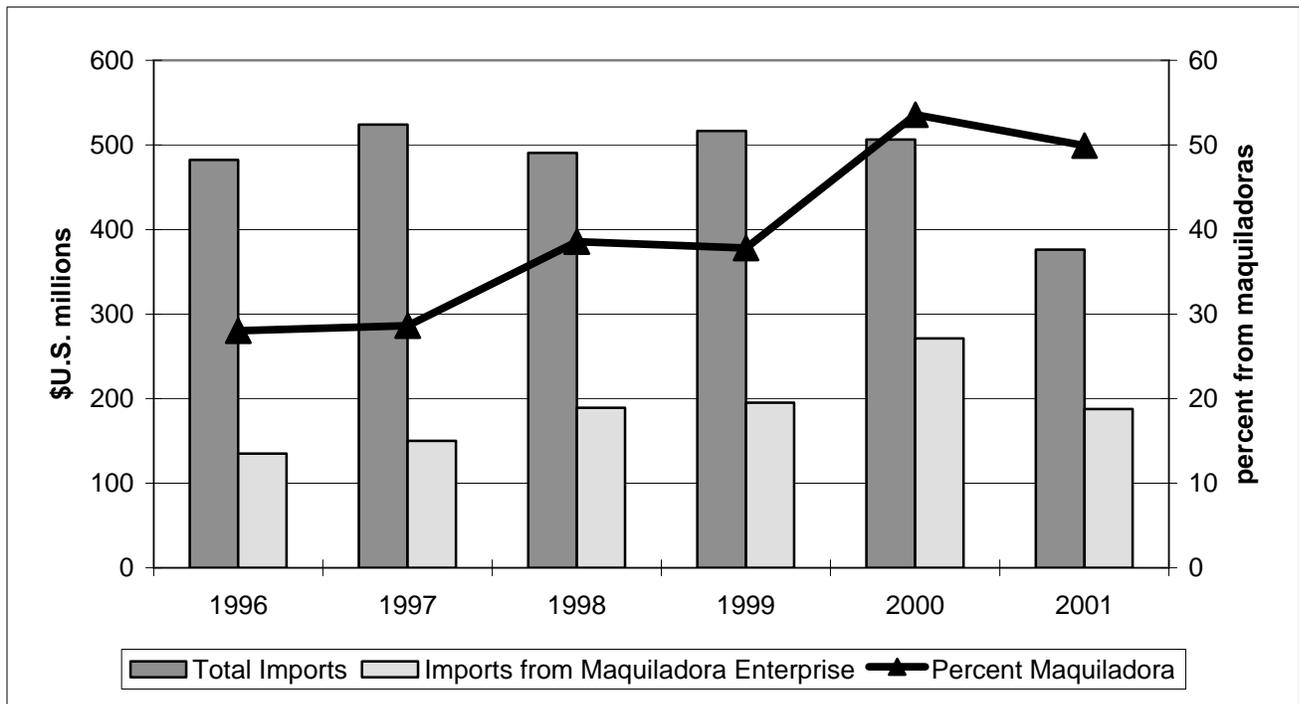


Figure 3: U.S. Imports of Furniture from Mexico, 1996-2001



FURNITURE & INTERIORS SECTOR

Wood furniture production in Mexico has not fully recovered since the peso devaluation in 1994. However, the devaluation in 1994 resulted in cost reductions for maquiladora companies. Growth in wood furniture production continued on an upward trend from reaching U.S. \$794.1 million in 2000, before declining by almost 13 percent to \$693.9 million in 2001 (Figure 3 and Table 4). Domestic plants have been looking to reduce the use of tropical hardwoods and to increase the use of temperate hardwoods and medium density fiberboard (MDF) as substitutes for solid wood.

Traditionally, Mexican furniture producers have relied on imports of U.S. hardwoods to meet demand. The furniture sector is increasingly dependent on U.S. exports, as indicated by the share of exports going to the maquiladora sector. This sector appears to be growing in terms of dependence on U.S. exports and the share of exports going to the maquiladora sector. Mexico's inadequate infrastructure, poor distribution channel, and past forestry practices have prevented the Mexican forestry industry from meeting this demand.

OTHER MARKET OPPORTUNITIES

The maquiladora industry has sizable agricultural, chemical, and other processed and non-processed product sectors that require durable packaging materials for shipping. Most exporters of electronic components, chemical compounds, automotive parts, and similar items, tend to use high quality durable packing material to ensure the safety of their products. In this market

segment, both structural softwood plywood and oriented strand board (OSB) have opportunities. Because of its low price, OSB has an advantage in the manufacturing of one-way, non-returnable pallets and crates, and most U.S. OSB exports have gone to the maquiladora sector, reportedly for this purpose (Table 3). On the other hand, plywood has inherent advantages in closed loop or "captive" pallet systems and as agricultural bins because of its long-term durability. However, only a relatively small proportion of softwood plywood is currently going to the maquiladora sector (Table 3), indicating high market potential.

STATUS OF THE MAQUILADORA INDUSTRY IN 2001

During 2001, the number of operating maquiladora plants decreased from 3,703 to 3,450, a net loss of 253 plants that were closed permanently or at least temporarily. The decline in total employment was more pronounced, a loss of 226,456 jobs to just over 1.08 million persons.

Hit by an economic slowdown in the United States and rising costs in Mexico, many maquiladoras are scaling back or shutting down and relocating production to lower cost countries.

The strong peso and higher wages have made operations in Mexico more expensive than in Malaysia and China, and China's entry into the World Trade Organization has attracted the attention of manufacturers. Additionally, maquiladora operators are concerned about regulatory and tax regimes, which have increased costs and created uncertainty for foreign investors, especially those dealing with low-margin consumer goods destined for the U.S.

market.

Despite these setbacks, the maquiladora industry has historically been a vibrant part of the Mexican economy and should not be discounted. Gross exports by the maquiladoras now account for 49 percent of Mexico's total merchandise exports, up from 38 percent in 1996. Imports by the maquiladoras continue to be relatively strong and should recover in tandem with the U.S. economy. The three- to five-year outlook appears positive for Mexico, both as an importer of raw materials and semi-finished products, and as an exporter of furniture, moldings, and flooring. Mexico will continue to be a net importer of forest products.

THE MAQUILADORA PROGRAM UNDER THE NORTH AMERICAN FREE TRADE AGREEMENT

NAFTA rules for maquiladoras were implemented in two phases: the first in the period 1994-2000, and the second starting in 2001. During the first phase, maquiladoras were permitted to continue the duty-free importation of inputs into Mexico, regardless of origin, and sales into the domestic market were greatly liberalized. In the second phase, NAFTA rules of origin determined duty-free status for a given import, i.e. inputs from the United States and Canada are not assessed duties. Maquiladora companies are now subject to the duty-deferral provisions contained in Article 303 of NAFTA. Under Article 303 provisions, maquiladoras are required to pay Mexican customs duties, as well as any applicable antidumping and countervailing duties, for any foreign non-NAFTA originating materials

contained in manufactured products that are exported to the United States or Canada.

For example, a wooden chair that is manufactured and assembled in Mexico from a combination of NAFTA originating and non-NAFTA originating components is not considered to be NAFTA originating and does not qualify for NAFTA preferential treatment. If all materials and components were sourced from a NAFTA country the chair would qualify as NAFTA originating and no duties would be owed.

Consequently, maquiladoras have an incentive to do business with North American suppliers. Under the new rules, purchasing NAFTA originating materials and components can result in significant cost savings for maquiladoras and increased export opportunities for U.S. forest products exporters.

CONCLUSION

It appears that the maquiladora industry has reached a crossroads. In the past, this sector capitalized on the competitiveness of the peso vis-à-vis the U.S. dollar to increase exports, particularly to the United States.

The Mexican maquiladora industry is an important component of the Mexican economy, and it is closely tied to the U.S. economy. The economic boom of the 1990's in the United States was influential in driving growth in the maquiladora wood products sector, leading to increased plants and employment. As a result, exports of U.S. wood products to the maquiladoras showed similar growth. Despite recent setbacks, there are several factors that

should contribute to renewed growth and U.S. wood export opportunities in the sector:

- Manufacturers are looking to increase the use of temperate hardwoods and medium density fiberboard (MDF) in lieu of tropical hardwoods.
- Manufacturers are working towards developing markets in the EU.
- Maquiladora manufactures of non-wood products will continue to require high-quality solid wood packing materials for shipping and handling.
- NAFTA Article 303, provides cost-saving incentives for maquiladoras to purchase inputs from U.S. suppliers.

U.S. exporters should also explore the possibility of utilizing USDA's export credit programs to assist in financing exports to Mexico (information about the GSM-102 Program and the Supplier Credit Guarantee Program, may be found at www.usda.fas.gov/export.html).

MALAYSIA STRENGTHENS FOREST POLICIES

*By Tony Halstead
Agricultural Economist*

In January 2002, Malaysia officially launched a national forest certification scheme in order to address the issue of illegal log trade. Under the Malaysian Timber Certification Council (MTCC), the certification scheme will be implemented in two phases.

In phase one, the Malaysian Criteria, Indicators, Activities and Standards of Performance for Forest Management Certification (MC&I) will be used as the standard to assess forest management

practices in the permanent forest reserves. Details of these standards can be found at www.mtcc.com.my/documents/mc&i.pdf

In 2001, Malaysia's permanent forest reserves were estimated at 14.45 million hectares, of which 10.64 million hectares were classified as commercial forests.

In phase two, MTCC will continue to collaborate with the Forest Stewardship Council (FSC) in order to gain wider market acceptance of the country's sustainable forestry practices. Currently, there are over 151,000 hectares of FSC certified forests in Malaysia.

In June 2002, Malaysia's Ministry of Primary Industries announced a total ban on log imports from Indonesia. The Malaysian Government's action was taken to allay fears that its wood supply originates from illegally harvested timber and to protect the integrity of its national timber certification scheme. The Malaysian Government stated that the log import ban only applies to Indonesia and that log and timber imports from other countries would not be affected.

INDONESIA BANS LOG EXPORTS

Malaysia's decision to ban logs imported from Indonesia follows Indonesia's own log export ban, which was reinstated in October 2001. Indonesia had a log export ban in place between 1988 and 1998. However, the devastation of the Asian Financial Crisis led to the government's decision to lift the log export ban in order to generate foreign currency. The International Monetary Fund has a \$5 billion loan program with

Indonesia and periodic disbursements are contingent upon a number of economic reforms being implemented across all sectors, including logging. Estimates of Indonesia's sustainable production hover around 22 million cubic meters per year. Estimates of annual illegal logging in Indonesia range from 30 million to 60 million cubic meters. It is widely reported that up to one-third of the illegal log harvest is exported.

The Indonesian navy has been enlisted to control illegal log trade. One month after the log export ban was reinstated, the navy intercepted three cargo ships carrying illegal timber. Since then, the ships and the logs have been held in the port of Tanjung Priok in Jakarta, and the situation has become a test case for Indonesia's illegal logging laws.

COUNTRIES STILL IMPORTING INDONESIAN LOGS

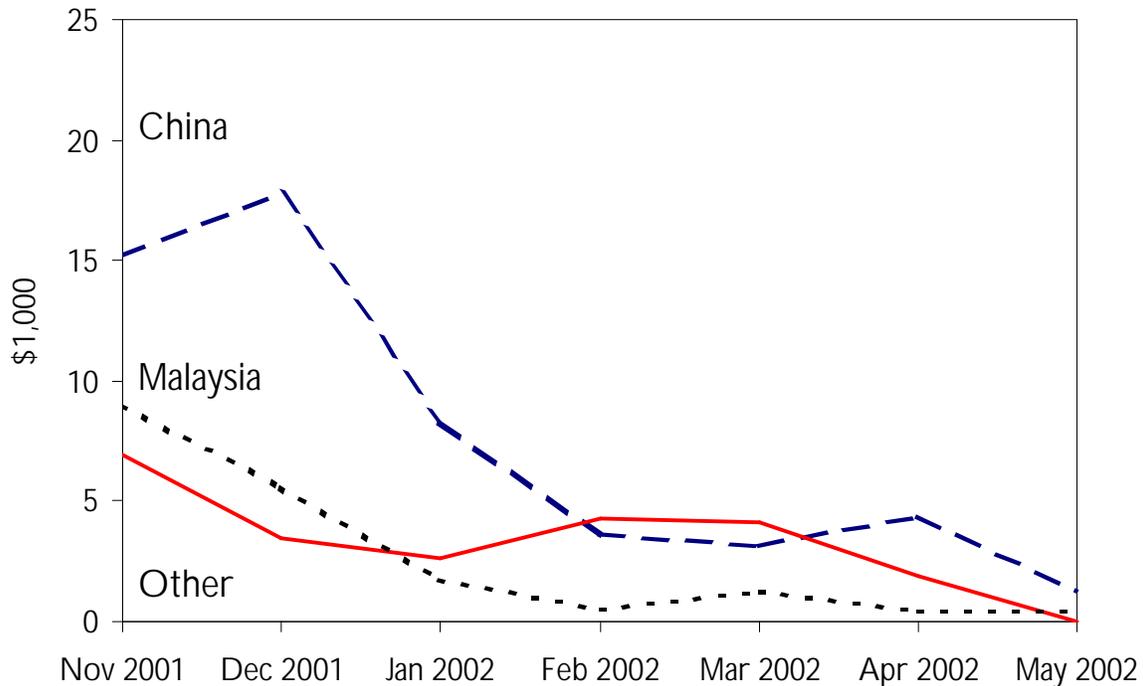
Despite the 2001 Indonesian log export ban, Indonesia's official data indicates that log exports were valued at more than \$11.5 million between November 2001 and March 2002. However, trade data from third countries importing Indonesian logs reveals a much higher level of trade.

Based on data from major importing countries, Indonesia's log exports were valued at more than \$95 million since the log export ban was announced. Although year-to-date data for 2002 suggests that most countries are importing fewer logs from Indonesia, log exports from Indonesia may still reach over \$100 million in 2002.

Official Malaysian data indicate that over

\$23 million of logs were imported from Indonesia between November 2001 and April 2002, a time when Indonesia's log export ban was in place. This situation drew public attention to the legal status of logs entering Malaysia, giving the government the incentive to ban logs from Indonesia in order to preserve the integrity of their domestic policies towards illegal logging.

Third-Country Imports of Indonesia's Logs; November 2001-May 2002



CHARACTER MARKED U.S. HARDWOODS IN JAPAN *Doreen Chen-Moulec, Agricultural Marketing Specialist*

Through the Market Access Program (MAP) program, American Hardwoods Export Council (AHEC) has successfully promoted "character marked" U.S. hardwoods for furniture use in Japan. The lower grade hardwoods being promoted in Japan consist of #2 common, which is defined as rough lumber with a yield of at least 50 percent of clear cuttings. Most lumber currently sold to Japan is of higher grades such as firsts and seconds. Since roughly one half of the hardwood lumber produced in the United States is #2 common, increasing demand for the lower grades will help create markets for lesser-demanded lumber.

AHEC promoted #2 common hardwood using a variety of tactics, including increasing awareness and demand through the *Japan Eco Furniture Design Contest*, regional trade servicing, and furniture trade shows. In the *Japan Eco Furniture Design Contest*, AHEC members donated various species of #2 common hardwood lumber to Japanese craftsmen and furniture designers, who then created furniture incorporating character marks as part of the natural design. Awards were given to entries for the "Most Innovative Design Award" and "Creative Use of Character Marks."

Through the MAP funded promotion, a leading Japanese furniture manufacturer Hida Furniture, developed a new furniture line embracing U.S. character marked hardwoods. Hida Furniture unveiled this furniture line, which is

called "Eco Conscious," at the International Furniture Fair in November 2001. The "Eco Conscious" furniture line integrates into its design, knots, pinholes, and mineral streaks naturally found in #2 common white oak. Approximately 100 retail furniture outlets throughout Japan carry the Hida line. Because of its popularity among consumers, Hida Furniture has doubled purchases of #2 common hardwoods during the last year, and another participant of the contest has reported increased sales of character marked furniture of up to 30 percent.

JAPAN WOOD FURNITURE MARKET

While the furniture industry in Japan in general is declining, Japanese imports of furniture have grown over the last decade, from \$1.24 billion in 1990 to a record \$3.06 billion in 2001. After this surge in imports, furniture imports are expected to remain stable and opportunities for growth in furniture sales remain positive. In 2001, the five top exporters of furniture products to Japan were China, Taiwan, the United States and Thailand. In 2001, lumber consumption in the furniture and interiors section was 313,000 cubic meters, a 14.9 percent drop from the 363,000 cubic meters consumed in 2000. However in 2000, Japanese wood furniture imports grew 19.8 percent from the previous year, the first increase after three years of stagnation.

In the first six months of 2002, U.S. wood furniture exports for office use increased 33.4 percent, whereas, U.S. wood furniture exports for household use decreased 5.3 percent from 2001. Challenges affecting the wood furniture sector in Japan include the sluggish economy and low priced wooden furniture imported from Asian countries.

BENEFITS OF #2 COMMON HARDWOOD SPECIES

Developing a market for character marked hardwoods has many benefits. Increased demand for such hardwoods can result in management options for long-term land stewardship. Typically, landowners receive only marginal payments for all but the highest grades of hardwoods logs, with the lower lumber grades often sold at pulpwood or firewood prices. The widespread demand for only the highest grades contributes to the removal of the highest quality trees. Such high grading results in the diminishing value of the forest as well as the quality of the remaining timber stock. Character marks are typically found in lower graded lumber, which has not been widely traded overseas. Historically, Japanese hardwood lumber buyers have purchased predominately first and seconds (the highest grade).

Character marked furniture is aesthetically appealing as it highlights the natural beauty of the wood through its artistic incorporation of character marks. The uniqueness and craftsmanship of character marked furniture sets it apart from mass-produced wood furniture and returns a craftsman touch to the pieces.

Eco-friendly furniture is gaining popularity in Japan, reflected throughout the 2001 International Furniture Fair in Tokyo. Exhibitors from Japan, Hong Kong, and the United States presented furniture made of eco-friendly materials. Visitors at the International Furniture Fair were drawn to the originality of the character marked furniture and the resource efficient aspect of using #2 common hardwoods.