

# Tropical Timber Market Report

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## Top Story

### **Brazilian domestic market absorbing most tropical plywood**

A sector study undertaken by the Brazilian Association for Mechanically Processed Timber Industry (ABIMCI) explains why production of tropical plywood for export has declined.

The ABIMCI report says in 2012 tropical plywood production in Brazil was 483,000 cubic metres, a 51% decline from 2000 to 2012.

Domestic consumption of tropical plywood was 426,000 cubic metres in 2012, representing a 22% increase since 2000.

For more see page 9

## Report from Central/West Africa

### Supply issues driving up prices for some species

Several upward movements in FOB prices have been reported and while these changes are small they are more reflective of supply issues rather than any overall change in the market.

Having said that, prices for sawn sapele have been firming strongly due to continued high demand and because log sare no longer flowing from the Central African Republic because of the severe escalation of the internal conflict.

The pressure on supplies of sapele logs is also likely to increase though; as yet, there are no reports of changes in sapele log prices.

### Producers eager for Indian buyers to return to the market

Buyers for China are in the market for sapele and okoume logs but padouk is once again out of favour and prices for padouk have been falling back. Producers suggest this will continue until buyers for the India market return.

### More emphasis on profitable Mid-East markets

West and Central African producers are becoming even less interested in the European market and are concentrating marketing efforts towards the Middle East and Far East where trade levels are good and buyers are willing to accept less stringent requirements than buyers in Europe.

Reports suggest that, after some limited success by West and Central African producers to compete with meranti in the Middle East markets, SE Asian shippers of meranti are once more gaining the upper hand and taking market share from African sawn timbers.

### Supply issues of serious concern

Supply issues are the main focus of concern at present. Producers in Gabon, in particular, report a tough log supply situation and this is driving millers to resort to buying from other millers who themselves are struggling to keep sawmills fully supplied even when they have forest concessions.

Heavy rains in Cameroon and also Congo Brazzaville have impacted log transport this year and recently, producers in Gabon indicated that the heavy rain was affecting log supplies.

The rain season in Cameroon is coming to an end and production is beginning to return to normal which should help ease the shortfall in supply of sawn sapele and one or two more of the other species in higher demand.

## Log Export Prices

West African logs, FOB	€ per m <sup>3</sup>		
Asian market	LM	B	BC/C
Acajou/ Khaya/N'Gollon	220	220	155
Ayous/Obeche/Wawa	225	210	150
Azobe & Ekki	235↑	230	150↓
Belli	230	230	-
Bibolo/Dibétou	150↓	145↑	-
Iroko	250↓	225	220
Okoume (60% CI, 40% CE, 20% CS) (China only)	315↑	315↑	240
Moabi	300	300↑	-
Movingui	220	200	170↓
Niove	170↑	170↑	-
Okan	255	255	-
Padouk	310↓	280	210↓
Sapele	270	255	180
Sipo/Utile	315↑	285	190
Tali	295	295	-

## Sawnwood Export Prices

West African sawnwood, FOB	€ per m <sup>3</sup>
Ayous FAS GMS	335↓
Bilinga FAS GMS	520
Okoumé FAS GMS	480
Merchantable	270
Std/Btr GMS	350
Sipo FAS GMS	550
FAS fixed sizes	-
FAS scantlings	550↓
Padouk FAS GMS	800↓
FAS scantlings	800↓
Strips	400
Sapele FAS Spanish sizes	535↑
FAS scantlings	555↑
Iroko FAS GMS	565↓
Scantlings	590↓
Strips	440↓
Khaya FAS GMS	450
FAS fixed	470
Moabi FAS GMS	550
Scantlings	550
Movingui FAS GMS	415

## Report from Ghana

### Import duty relief for mills importing logs

The Forestry Commission is consulting with the Customs Divisions of the Ghana Revenue Authority to try and secure tax exemptions for those timber companies which wish to import log raw materials

Ghana intends to step up imports of timber raw materials from Cameroon and elsewhere to bridge the gap between demand from the established timber mills and the domestic supply of raw materials.

Domestic demand for wood products is high and expected to grow further as the population expands and as incomes rise. The main source of demand is from the housing and construction sectors.

The import option is considered a short to medium-term measures to ensure the domestic timber enterprises remain viable and continue to contribute to economic growth and job security.

### Africantimber.net launched to spur intra-African trade

In spite of its vast timber resources, Africa is a net importer of timber and wood products but the intra-African trade in timber is less than 10% of all imports.

The lack of market information and transparency, constraints related to policy and legal frameworks, logistics and infrastructures as well as limited managerial capacity in the private sector are the main causes for the weak intra-African trade.

This was the conclusion of a study “Good Neighbour – Promoting Intra-African Markets in Timber and Timber Products” produced by the International Tropical Timber Organization (ITTO). To try and stimulate greater intra-African trade an online business-to-business timber marketplace (Africantimber.net) has been launched to provide market information and facilitate communication among traders in the region

### Domestic Log Prices

Ghana logs	US\$ per m <sup>3</sup>	
	Up to 80cm	80cm+
Wawa	150-160	164-185
Odum Grade A	170-175	180-188
Ceiba	115-133	138-150
Chenchen	100-112	118-128
Khaya/Mahogany (Veneer Qual.)	125-150	155-180
Sapele Grade A	152-157	161-185
Makore (Veneer Qual.) Grade A	106-116	141-166
Ofram	112-118	130-135

### Boule Export prices

	Euro per m <sup>3</sup>
Black Ofram	235
Black Ofram Kiln dry	333
Niangon	492
Niangon Kiln dry	575

### Export Sawnwood Prices

Ghana Sawnwood, FOB	€ per m <sup>3</sup>	
FAS 25-100mm x 150mm up x 2.4m up	Air-dried	Kiln-dried
Afrormosia	855	945
Asanфина	480	544
Ceiba	240	269
Dahoma	284	342
Edinam (mixed redwood)	350	470
Emeri	353	542
African mahogany (Ivorenensis)	593	629
Makore	575	650
Niangon	570	617
Odum	530	641
Sapele	567	645
Wawa 1C & Select	275	323

### Export Rotary Veneer Prices

Rotary Veneer 1-1.9mm , FOB	€ per m <sup>3</sup>	
	CORE (1-1.9mm)	FACE (2mm)
Ceiba	274	330
Chenchen	320	358
Ogea	298	350
Essa	322	330
Ofram	320	357

### Export Sliced Veneer Prices

Sliced Veneer, FOB	€ per sq. m	
	Face	Backing
Afrormosia	1.32	0.80
Asanфина	1.20	0.47
Avodire	1.12	0.47
Chenchen	0.85	0.53
Mahogany	1.30	0.47
Makore	1.26	0.43
Odum	1.88	1.08

### Export Plywood Prices

Plywood, FOB	€ per m <sup>3</sup>		
BB/CC	Ceiba	Ofram	Asanфина
4mm	428	600	641
6mm	422	592	622
9mm	360	415	475
12mm	357	435	439
15mm	325	363	380
18mm	305	363	367

Grade AB/BB would attract a premium of 10%, B/BB 5%, C/CC 5% and CC/CC 10%.

### Export Added Value Product Prices

Parquet flooring 1st	FOB € per sq.m		
	10x60mm	10x65-75mm	14x70mm
Apa	12.70	15.36	18.80
Odum	10.70	11.20	12.40
Hyedua	14.08	14.00	18.45
Afrormosia	14.30	18.65	18.55

Grade 2 less 5%, Grade 3 less 10%.

## Report from Malaysia

### Certification seen as key to improved market share

A newly formed Timber Industry Forum (TIF), comprising associations representing the sawntimber, plywood and furniture sectors as well as timber traders signed a memorandum of understanding (MOU) with the Forest Research Institute of Malaysia (FRIM) to enhance product quality for better marketability.

It is expected that work proposed in the MOU will focus on certification of timber products for local and international markets. The work on certification will focus on compliance with domestic and international technical requirements.

The industry and trade participants of the TIF are optimistic that, with the technical help of FRIM, Malaysian timber products will secure a larger slice of the international markets as well improved sales in domestic markets.

### Industry and government consultation

The Ministry of Plantation Industries and Commodities recently consulted with various industry sectors to obtain their input on current issues of concern. The consultation was a platform for the industry to bring up problems for the attention of related government agencies, councils and related institutions.

The two day event was divided into various sessions such as palm and biofuel, rubber, timber and cocoa, pepper, tobacco, kenaf and sago.

The timber industries raised seven main issues on which they have concerns: delivery systems, rules and policies, labour availability, the government minimum wages, raw material supply as well as incentives and finance. Among the major concerns of the timber industry are the variable definitions and standards on legality in importing countries.

#### **Sabah and EU to work on reducing forest degradation and deforestation**

The European Union (EU) and Sabah Forestry Department have launched a RM16 million (US\$4.9 million) programme of work on tackling climate change through sustainable forest management and community development. The four year programme is aimed at contributing to sustainable and low carbon development in the state of Sabah.

Both parties will cooperate on a REDD+ strategy to reduce emissions from deforestation and forest degradation, promote the sustainable management of forests as well as the conservation and enhancement of forest carbon stocks.

The programme has been designed to support Sabah's efforts to reduce greenhouse gas emissions from forest degradation and deforestation. In this sense, the director of Forestry Department, Sam Mannan, said: "It (the joint Sabah:EU programme) will help us to effectively engage local communities in forest management and rehabilitation both on government and community lands. I believe that this will generate valuable experiences and enhance our capacity to further develop and implement the planned Sabah REDD+ strategy".

The Borneo Post newspaper reported Mannan as adding "the programme would benefit the poorest people in Sabah – those who are dependent on the forest for their livelihood. Through this programme, they will appreciate the environment better, not that they don't already, but we want to prove that by conserving the forest and by sustainable management on the ground, this would also improve their livelihood. There is no point having conservation and what not at the expense of the people's livelihood and people's standard of living. This must be addressed. This is part of the objectives and goals."

#### **Good prospects in Japanese and Korean markets**

In plywood exporters in Sarawak are upbeat that recent market developments are very positive and are driving up demand for panel products in two key markets, Japan and South Korea.

Japan seems set to increase imports of plywood from Sarawak, partly attributed to Japan hosting the Olympic Games in 2020. South Korea is also set to increase imports of plywood when the three-year anti-dumping duties on Malaysian plywood expire at end of February 2014.

Japanese companies operating in Sarawak held a closed door meeting last month to analyse various matters including the capacity of plywood supply from Sarawak.

It is widely thought that they are preparing to import more plywood for the many projects of the 2020 Olympics Games.

Sarawak Timber Industry Development Corporation (STIDC) figures reveal that plywood exports from Sarawak to South Korea recovered sharply to 331,457 cu.m last year from 239,449 cu m in 2011 when the anti-dumping duties came into force.

In 2010, some 512,000 cu m was exported to South Korea. Sarawak plywood exports to South Korea are likely to benefit from reported anti-dumping duties ranging from 2.4% to 27% being imposed on plywood from China,

#### **Latest log prices**

Log traders based in Sarawak reported FOB export prices as follows:

- Meranti SQ US\$ 255 – 275 per cu.m
- Kapur SQ US\$ 320 – 345 per cu.m
- Keruing SQ US\$ 290 – 325 per cu.m
- Selangan batu regular US\$ 505 – 525 per cu.m

### **Report from Indonesia**

#### **2014 Growth projections**

The Indonesian National Economic Committee (Komite Ekonomi Nasional, KEN) is forecasting that Indonesia's GDP growth will slip to 5.5 percent next year, down from the 5.7 percent growth rate estimated for this year. KEN chairman, Chairul Tanjung, has said the Indonesian economy in 2014 would not be very different from the trend seen towards the end of 2013.

#### **Improved household consumption**

A consumer survey by the Bank of Indonesia (BoI) in November has indicated that household consumption improved slightly and this was reflected on the Consumer Confidence Index (CCI) which increased by almost 5 points to 114.3. The improved CCI is, says the BoI, the result of improving economic conditions and a healthier job market.

Looking ahead the survey suggests consumers are optimistic about short term economic prospects. Over the next three months the indications in the survey are that consumer prices will continue to edge up especially for food, beverages and tobacco products. Next year is election year in Indonesia so efforts may be made to hold down price increases on basics.

#### **Faltering rupiah**

Indonesia's central bank governor is urging the private sector to sell dollars to help the efforts of the bank maintain stability in the dollar:rupiah exchange rate. The rupiah/dollar exchange rate dropped below 12,000 recently but has since recovered some ground.

However international currency traders are bearish on the rupiah as demand in Indonesia for dollars increases at year end.

#### **SVLK audit process too tough for small enterprise**

A staff member of the Indonesia Multi Stakeholder Forestry Programme (MSFP) has said that many small businesses are facing fundamental problems that prevent them from satisfying an audit to obtain the government's timber legality verification system (SVLK) certificate.

Speaking during a discussion held by the International Centre for Trade and Sustainable Development (ICTSD) and the Center for International Forestry Research (CIFOR), Agus P. Djailani, of the MSFP said "to qualify for an SVLK audit companies must possess various legal business permits, however small companies find this very costly and complicated,,"

Available data show that, for instance, each SME may require more than Rp 17 million (US\$1,420) to acquire the necessary environment-related business documents.

In addition, the SVLK audit process costs between Rp 24 million and Rp 30 million per enterprise and is valid for only three to six years.

According to CIFOR, there are 4,000 registered timber exporters as of now. However, there are still tens of thousands of unregistered small timber businesses.

CIFOR forest governance scientist Krystof Obidzinski said it would take more time, money and capacity building to assist small businesses in preparing themselves to undergo the SVLK audit.

In response the Forestry Ministry Director of Forestry Development, Agus Sarsito, said that inter-ministry coordination — between the Forestry, Trade and the Cooperatives and Small and Medium Enterprises ministries — was important for solving the problem.

Trade Ministry Director, Oke Nurwan, argued that the main problem is the lack of awareness of export trends and of the SVLK amongst small entrepreneurs. He said, "they (SMEs) see the SVLK audit as an obstacle, though such certification is getting more and more necessary in the global market,"

#### **Indonesia and Sweden cooperate on renewable energy**

The development of a renewable energy policy by the Indonesian government is being assisted by the Indonesian-Swedish Initiative for Sustainable Energy Solutions (INSISTS).

The Swedish Ambassador to Indonesia, Ewa Polano, is reported in the Jakarta Post as saying "Indonesia and Sweden are two countries that have high ambitions to reduce carbon emissions and, therefore, it is really important to focus on renewable energy,"

The Indonesian National Energy Council (DEN) and the Swedish Energy Agency (SEA) have concluded an agreement for the establishment of a research department within the Gadjah Mada University.

#### **Domestic Log Prices**

Indonesia logs, domestic prices	US\$ per m <sup>3</sup>
Plywood logs	
core logs	220-240
Sawlogs (Meranti)	235-260
Falcata logs	200-230
Rubberwood	100-120
Pine	140-160
Mahoni (plantation mahogany)	150-200

#### **Domestic Ex-mill Sawwood Prices**

Indonesia, construction material, domestic	US\$ per m <sup>3</sup>
Kampar (Ex-mill)	
AD 3x12-15x400cm	445-500
KD	-
AD 3x20x400cm	655-700
KD	-
Keruing (Ex-mill)	
AD 3x12-15x400cm	400-490
AD 2x20x400cm	520-580
AD 3x30x400cm	440-500

#### **Export Plywood Prices**

Indonesia ply MR BB/CC, export FOB	US\$ per m <sup>3</sup>
2.7mm	620-670
3mm	670-700
6mm	-

#### **Domestic Plywood Prices**

MR Plywood (Jakarta), domestic	US\$ per m <sup>3</sup>
9mm	410-450
12mm	390-440
15mm	300-340

#### **Export and Domestic Other Panel Prices**

Indonesia, Other Panels, FOB	US\$ per m <sup>3</sup>
<i>Particleboard</i>	
Export 9-18mm	-
Domestic 9mm	-
12-15mm	-
18mm	-
<i>MDF</i>	
Export 12-18mm	660-690
Domestic 12-18mm	550-600

### **Report from Myanmar**

#### **Teak logs sales for the local wood industry**

A total of 430 tons of Sawing Grade 7 teak logs were sold to domestic mills by open tender on 6 December. Three local companies bid during the sale. The highest bid obtained was US\$610 per ton, considerably lower than the price that MTE can secure from international buyers for logs of the same grade.

Despite the significant difference in log grading for local sales and international tenders analysts point out that the price of just US\$610 per ton is an indication of what price levels the MTE can expect to get from the sales of logs after the log export ban.

A lack of foreign competition will invariably bring log prices down resulting in much reduced revenue for the MTE but better incentives for domestic manufacturers.

## **Market Situation**

In November 37, 900 cubic metres of teak logs and 115,720 cubic metres of other hardwood logs were shipped. This brings the total volume shipped from April to the end of November to approximately 279,000 cubic metres teak logs and 975,900 cubic metres of other hardwood logs.

Analysts say markets remain mixed with weak demand for non-teak hardwood logs. Analysts expect export shipments to increase in the coming three months in advance of the log export ban set for 1 April 2014.

## **Myanmar Forest Industry gets International support**

The Building and Wood Workers International (BWI) in collaboration with the Ministry of Environmental Conservation and Forestry (MOECAF) and the Ministry of Labour, Employment and Social Welfare organised a Conference in Yangon from 28 to 29 November 2013 on Sustainable Forest Management (SFM) in Myanmar.

The BWI is a Global Union Federation grouping free and democratic unions with members in the Building, Building Materials, Wood, Forestry and Allied sectors. The BWI has 334 trade unions representing around 12 million members across 131 countries around the world.

Ambet Yuson, General Secretary of the Building and Wood Workers International (BWI) said "sustainably managed forests that promote social justice, environmental protection and enhanced economic output have the potential to reduce poverty, spur economic development, create jobs and contribute to a healthy local and global environment".

MOECAF Minister Win Tun delivered a keynote address welcoming the conference saying the conference brought together global experience and learning to foster cooperation with international bodies and experts enabling Myanmar to promote SFM practices.

The Myanmar Timber Merchant's Association Joint General Secretary, Barber Cho, urged the International Labour Organisation (ILO) to support capacity building and training for employers' organisations in the country.

Maung Maung, General Secretary of the Federation of Trade Unions of Myanmar, spoke at length on the opportunity for developing a "decent work agenda" for workers in the Myanmar's Wood and Forestry sector.

Asia Pacific BWI Vice President Rama Chandra Khuntia gave a closing address noting that the evolving process of sustainable forest management in Myanmar was reflective of the changed national circumstances and was in compliance with internationally accepted standards.

The Myanmar Government, last year enacted the Environmental Conservation Law as its response to save jobs and promote sustainable development.

## **Foreign Investment in the wood sector**

The Myanmar Investment Commission (MIC) has approved the 100% investment of an Indian company MAK Plywood Industries Pvt. Ltd. for the production of plywood and veneer in Myanmar.

The MIC also reported a joint venture by BS Progressive Pvt. Ltd, of India and the National Export Import Company of Myanmar for the production of plywood and veneer.

## **Myanmar posts US\$1 .1 billion trade deficit**

Myanmar Central Statistical Organisation reported a trade deficit of over US\$1 billion during the first half of FY 2013-14.

Export earnings were US\$4497.54 mil. and income from the overland border trade was US\$1771.78 million making a total of US\$6269.32 million.

Imports were valued at US\$6328.73 million and border trade imports were US\$1042.15 million making total imports worth US\$ 7370.88 million.

## **Expansion of domestic milling the aim of log ban**

The Myanmar Timber Merchants' Association (MTMA) Joint Secretary-General, Barber Cho has said that timber trade flows could dramatically change after the commencement of the log export ban and the MTMA was still assessing future market prospects.

At present logs and processed wood products are exported and the logs are mainly exported to India. Cho said when the log export ban was introduced Indian importers might shift to purchasing semi-finished products such a change would be facilitated by changes in India's import tax structure.

## **Myanmar speaks out on illegal log trade along Sino-Myanmar border**

During the Sino-Myanmar Trade Co-operation talks conducted after the 13th Sino-Myanmar Border Trade Fair held in early December officials from Myanmar requested Chinese authorities act to stop the flow of illegal logs from Myanmar into Yunnan province.

This matter was brought to the attention of Yunnan provincial government officials by the Myanmar Consul-General Aung Kyaw Oo. He said Myanmar was facing environmental problems due to denuded mountains.

**November teak log tender results**

The following shows the grade, quantity and prices for teak logs during the 22 and 25 November tender conducted by the MTE.

**Teak tender prices**

Grade	Quantity (Tons)	US\$ per hoppus ton
4th Quality	10	6611
SG-1	12	5012
SG-2	24	3660
SG-4	271	3147
SG-5	57	2878
SG-6	170	2194
SG-7	130	1729

Hoppus ton=1.8m<sup>3</sup>; All grades, except SG-3/5/6, are length 8' x girth 5' & up. SG-3/4/6 are girth 4' & up. SG-3 grade is higher than SG-4 but with lower girth and price. Prices vary due to quality and/or girth at the time of the transaction.

**Report from India**

**Second quarter GDP supported by increased agricultural output**

Recently released statistics from the government show that in the second quarter India's GDP grew 4.8%, up from 4.4% in the first quarter. This compares to the 5.2% in the second quarter of the last fiscal year.

The improvement in second quarter 2013 GDP, say analysts, was mainly due to higher agricultural output which supported rural income growth and overall national consumption. In addition, the monsoon rains restocked dams providing for an increase in hydro-power output of almost 8%.

In recent months exports have grown because of improvement in demand from the main western markets and this, coupled with depreciation of the rupee, has created new export opportunities.

In the domestic market the Wholesale Price Index grew 7% during October and the Consumer Price Index still hovers in double digits, a cause for considerable concern on the part of consumers.

**Celebrating forests, the annual tree plant festival**

Analysts point out that this year the monsoon rains were evenly distributed and of satisfactory intensity. During the monsoon period India has a tradition of mass planting of trees called Van Mahotsav or 'celebrating forests'.

This movement was initiated in 1950 by India's Union Minister for Agriculture, Kulapati Dr K M Munshi. This festival has gained immense national importance and every year, millions of saplings are planted all across India in observation of the Van Mahotsav week.

It is expected that every citizen of India has to plant a sapling in the Van Mahotsav week. It helps spread awareness amongst people about the harm caused by the cutting down of trees.

People celebrate Van Mahotsava by planting trees or saplings in homes, offices, schools, colleges, etc. Awareness campaigns are held at various levels. The State Governments, NGOs, Village Welfare bodies as well as private groups enthusiastically plant useful trees. The Indian Forest Service supplies hundreds of thousands of saplings for this annual event.

Reports from Karnataka said that many Sandalwood saplings were supplied along with fruit bearing trees such as Jambul (*Eugenia* spp.), Wild Badam (*Terminalia catappa*), Kokum (*Garcinia* spp.), Jackfruit (*Artocarpus integrifolia*), wild Jackfruit (*Artocarpus hirsute*), and Jaarige (*Garcinia spicata*) Tamarind, Gooseberry (*Terminalia* spp) etc .

The trend is to plant trees yielding high value timbers such as sandalwood, red-sanders, teak and mahogany as well as fruits and medicinal products. Planting is made on wasteland, denuded forest lands, city parks, along roads and also in plantations. Individuals also plant in their gardens.

Similar activities were reported from Kerala, where the Forest Department joined forces with major establishments such as Southern Railways, the Indian Army, Navy, Air Force and Student Police Cadets, under their Harith Keralam or Green Kerala project. It was reported that the railways alone planted 120,000 saplings.

**Indian buyers accepting smaller logs**

As the rupee exchange rate has stabilised importers have more confidence in planning forward purchases. Demand for wood products in India is steadily picking up and buyer's specifications are easing to take advantage of the availability of small girth plantation teak logs which are available at attractive prices. These changes are reflected in the log import prices below.

Current C & F prices for imported plantation teak, Indian ports per cubic metre are shown below.

	US\$ per cu.m
Tanzania teak, logs	350-885
Côte d'Ivoire logs	280-750
PNG logs	400-575
El-Salvador logs	350-650
Guatemala logs	350-550
Nigeria squares	300-450
Ghana logs	275-650
Guyana logs	300-450
Benin logs	250-650

Benin sawn	430-800
Brazil squares	360-680
Colombia logs	335-685
Togo logs	350-715
Ecuador squares	275-540
Costa Rica logs	350-700
Panama logs	260-550
Sudan logs	320-680
Congo logs	450-550
Kenya logs	390-600
Thailand logs	460-700
Trinidad and Tobago logs	400-680
Uganda logs	440-780
Uganda Teak sawn	680-800
Laos logs	320-450
Malaysian teak logs	140-450
Nicaragua logs	370-535
Liberia logs	350-460
Brazil logs	350-750

Variations are based on quality, lengths of logs and the average girth of the logs.

For the first time teak log imports from Cameroon have been reported at US\$ 350 to 510 per cubic metre.

#### **Furniture manufacturers investing in new technologies**

Demand for sawnwood in India is steadily improving and deliveries from South East Asia have expanded. Sarawak continues to be the largest supplier of tropical hardwoods to India the number one buyer of logs from Sarawak. Tropical timbers are popular in the building industry and are of growing interest to Indian furniture manufacturers.

With IKEA having finalised its investment in India the furniture sector as a whole has been given a boost and domestic manufacturers are retooling to become more competitive. Already some plants have world class production capacity.

Seeing the opportunities in the furniture industry, Hettich, one of the leading manufacturers of furniture fittings, has opened a Rs. 1 billion state-of-the-art production facility in Gujarat. The company has announced plans for Rs.5 billion, 5 year investment plan for manufacturing in India.

The maturing of furniture industry in India will boost domestic consumption of wood and wood products and increased exports will boost earnings by the sector.

#### **Domestic ex-sawmill prices for air dried sawnwood cut from imported logs**

Prices for air dry sawnwood per cubic Foot, ex-sawmill are shown below.

Sawnwood,(Ex-mill) (AD)	Rs. per ft <sup>3</sup>
Merbau	1500-1650
Balau	1500-1650
Kapur	1200-1250
Kempas	1100-1200
Red Meranti	850-950
Radiata Pine (AD)	550-650
Whitewood	600-650

Variations are based on quality, length and average girth of logs

#### **Domestic prices for Myanmar teak processed in India**

Export demand for teak products manufactured in India continues to be good but domestic demand for Myanmar teak products is only from selective high net worth clients.

Sawnwood (Ex-mill)	Rs. per ft <sup>3</sup>
Myanmar Teak (AD)	
Export Grade F.E.Q.	6000-14000
Plantation Teak A grade	5000-5500
Plantation Teak B grade	4000-4250
Plantation Teak FAS grade	3250-3500

Price variations depend mainly on length and cross section

#### **Prices for imported sawnwood**

India imported around US\$1.83 million worth of American hardwood lumber and veneers in the first six months of this year and prices remain very stable.

Ex-warehouse prices for imported kiln dry (12% mc.) sawnwood per cu.ft are shown below.

Sawnwood, (Ex-warehouse) (KD)	Rs per ft <sup>3</sup>
Beech	1300-1350
Sycamore	1300-1400
Red oak	1500-1650
White Oak	1600-1800
American Walnut	2300-2400
Hemlock clear grade	1300-1400
Hemlock AB grade	1100-1200
Western Red Cedar	1600-1650
Douglas Fir	1200-1300

Price variations depend mainly on length and cross section

#### **West African exporters begin shipping veneers to India**

The housing sector in India continues to be depressed and the prospects for any quick turnaround are slim. Analysts report a shortage of construction grade veneers which is pushing up imports. In addition to SE Asian countries,

West African countries have also started to supply core and face veneers from tropical hardwoods to Indian plywood manufacturers.



Analysts report it is likely that wage rates under Rural Employment Guarantee scheme are likely to be raised which will increase the labour costs and could further worsen the problem of labour shortages in the wood working sector.

**Prices for WBP Marine grade plywood from domestic mills**

Plywood, Ex-warehouse, (MR Quality)	Rs. per sq.ft
4 mm	35.50
6 mm	47.00
9mm	59.5
12 mm	74.00
15 mm	98.00
18 mm	103.00

**Domestic ex-warehouse prices for locally manufactured MR plywood**

Locally Manufactured Plywood "Commercial Grade"	Rs. per sq.ft	
	Rubberwood	Hardwood
4mm	Rs.18.00	Rs.27.50
6mm	Rs.27.50	Rs.34.50
9mm	Rs.34.50	Rs.42.00
12mm	Rs.41.00	Rs.51.00
15mm	Rs.50.40	RS.62.70
19mm	RS.58.00	Rs70.50
5mm Flexible ply	Rs.36.00	

**Report from Brazil**

**Brazilian furniture production slowed in September**

Reports indicate that national furniture production fell by almost 2% in September but for the first three quarters of 2103; there was a 3.2% increase in output compared to the same period in 2012.

In the state of Rio Grande do Sul during August and September furniture manufacturers reported a 5.6% increase in output which equates to the production of some 7.8 million items. However for the first three quarters of the year output from manufacturers in Rio Grande do Sul declined 0.4% compared to the same period in 2012.

Furniture retail sales also fell by around 9% in terms of items sold and by 8% in terms of revenue. However, the figures for the first three quarters of the year are more encouraging as retail sales increased 5.5% in number of items and by 8.6% in terms of value.

Investment in the furniture sector in the first six months of the year, the latest for which data is available, increased 48%, in comparison with the same period in 2012. The Brazilian Development Bank (BNDES) disbursed some US\$95 million for investment in the furniture sector up to July this year.

In other encouraging news, Brazilian imports of wood working machinery for the furniture sector increased almost 6% up to October of this year compared to the same period in 2012.

**Rio Grande do Sul state remains furniture export leader**

The state of Rio Grande do Sul remains the leader amongst Brazilian states exporting furniture with US\$171.5 million being exported between January and October this year.

The main export destinations for furniture manufactured in Rio Grande do Sul were the United Kingdom (US\$24.8 mil.), Uruguay (US\$21.7 mil.) and Peru (US\$20 mi.). Total Brazilian furniture exports between January and October were US\$588.3 mil. and the main market was Argentina.

According to the Furniture Industries Association of State of Rio Grande do Sul (Movergs), the state manages to hold onto its number one position because manufacturers benefit from a programme to compensate exporters for the high tax burden and from government incentives.

However, the advantage to exporters is threatened as the government plans to end the "Reintegra" programme through which it returns 3% of the value of exports to exporters.

The states of Santa Catarina and Paraná are the second and third ranked in terms of furniture exports with sales of US\$154.7 mil. and US\$100.7 mil. up to October this year. In fourth place is Bahia state where exports this year fell 13% compared to 2012.

The data on exports are reported by Movergs in collaboration with the Furniture Management Center for Innovation (CGI Moveleiro) and are based on Ministry of Development, Industry and Foreign Trade (MDIC) data.

**Domestic market absorbing most tropical plywood**

The sectoral study undertaken by the Brazilian Association for Mechanically Processed Timber Industry (ABIMCI) presents trends in the Brazilian domestic market for tropical plywood for the period 2000-2012.

Overall, production of tropical plywood, particularly for export, has declined over the past few years due mainly to the difficulty in obtaining quality raw materials from verified legal sources, to the more intense control of logging and because of intense competition from Chinese made plywood.

The ABIMCI report says in 2012 tropical plywood production in Brazil was 483,000 cubic metres, a 51% decline between 2000 and 2012. Domestic consumption of tropical plywood in Brazil was 426,000 cubic metres in 2012, representing a 22% increase since 2000.

The trend towards Brazilian production of tropical plywood for the domestic market and a reduction in exports is very apparent as, between 2000 and 2012, the share of tropical plywood production consumed domestically rose from 35% in 2000 to 88% in 2012.

The peak year for the Brazilian tropical plywood production was 2004 but by this time China was already a major plywood exporters with around 18% of the world market compared to Brazil's 12% share.

In 2012, China continued to dominate the international tropical plywood markets and increased its overall market share to just under 37% while Brazil's share of the international market for tropical plywood declined to under 5%.

#### Brazil's 2000-2012 tropical plywood export trend

The ABIMCI study mentioned above provides details of trends in Brazil's export of tropical plywood between 2000-2012.

In that period Brazil's tropical plywood exports fell a massive 91% in volume and 83% in value. In 2000 approximately 64% of the Brazilian tropical plywood production was exported but by 2012 this had fallen to just 12% with a significant proportion of production being directed to the domestic market.

Until 2004 tropical plywood exports expanded largely because of demand in the United States and Europe but in 2005 exports dropped because of an increase in import taxes in the United States and the depreciation of the American Dollar against the Brazilian Real. In 2009 exports were severely affected by the global economic crisis.

Between 2011 and 2012 exports of tropical plywood declined 22% in volume and 20% in value, declining from 74,500 cubic metres to 58,200 cubic metres (US\$45.5 million to US\$36.2 million, respectively). Brazil still faces stiff competition in international markets from Asian countries such as China, Malaysia and Indonesia which are major tropical plywood exporters.

Companies in the state of Paraná provide most of Brazil's tropical plywood accounting for around 29% of all tropical plywood exports but the value of these exports has fallen from US\$ 45.4 mil. in 2008 to US\$20.5 mil. in 2012. The state of Santa Catarina is second ranked in terms of tropical plywood exports.

Manufacturers in the states of Pará, Mato Grosso do Sul and Acre, once traditional producers of plywood made entirely of veneer from tropical species, lost market share between 2008 and 2009. At the same time producers in the state of Rondônia sold tropical plywood worth US\$ 4 million in 2008 and managed to maintain exports in the region of US\$2 mil. in 2012.

In 2008, Brazilian exports of tropical plywood were mainly to Europe especially the United Kingdom (28%),

Italy (6%), and Germany (5%). The United States accounted for 14% of the total and Venezuela for 10%. In 2012 the export share changed and the main destinations became Argentina (35%) and Venezuela (14%). In 2008 imports by the United States represented 10% followed by Puerto Rico 7% and Germany 5%.

#### Price trends

The average price of timber products in BRL did not show variation from the previous fortnight.

#### Domestic Log Prices

	US\$ per m <sup>3</sup>
Brazilian logs, mill yard, domestic	
Ipê	158
Jatoba	105
Guariuba	84
Mescla (white virola)	88

#### Export Sawnwood Prices

	US\$ per m <sup>3</sup>
Sawnwood, Belem/Paranagua Ports, FOB	
Jatoba Green (dressed)	1278
Cambara KD	770
Asian Market (green)	
Guariuba	394
Angelim pedra	920
Mandioqueira	302
Pine (AD)	220

#### Domestic Sawnwood Prices

	US\$ per m <sup>3</sup>
Brazil sawnwood, domestic (Green)	
Northern Mills (ex-mill)	
Ipê	803
Jatoba	568
Southern Mills (ex-mill)	
Eucalyptus (AD)	232
Pine (KD) 1st grade	204

#### Export Veneer Prices

	US\$ per m <sup>3</sup>
Veneer, Export (Belem/Paranagua Ports) FOB	
White Virola Face 2.5mm	341
Pine Veneer (C/D)	240

#### Domestic Veneer Prices

	US\$ per m <sup>3</sup>	
Rotary cut Veneer, domestic		
(ex-mill Northern Mill)	Face	Core
White Virola	247	202

#### Export Plywood Prices

	US\$ per m <sup>3</sup>
Plywood, FOB	
White Virola (US Market)	
5.2mm OV2 (MR)	498
15mm BB/CC (MR)	483
White Virola (Caribbean market)	
4mm BB/CC (MR)	675
12mm BB/CC (MR)	493

	US\$ per m <sup>3</sup>
Pine Plywood EU market, FOB	
9mm C/CC (WBP)	368
15mm C/CC (WBP)	341
18mm C/CC (WBP)	337

#### Domestic Plywood Prices

	US\$ per m <sup>3</sup>
Plywood, domestic (ex-mill Southern mill)	
Grade MR (B/BB)	
White Virola 4mm	776
White Virola 15mm	540

Domestic prices include taxes and may be subject to discounts.

#### Prices For Other Panel Products

	US\$ per m <sup>3</sup>
Belem/Paranagua Ports, FOB	
Blockboard Pine 18mm 5 ply (B/C)	422
Domestic Prices, Ex-mill Southern Region	
Blockboard White Virola faced 15mm	506
Particleboard 15mm	331

### Export Prices For Added Value Products

FOB Belem/Paranagua Ports		US\$ per m <sup>3</sup>
Decking Boards	Cambara Ipê	1,045 2,570

## Report from Peru

### Lack of awareness of environmental issues partly the cause of forest loss

Over the past ten years forest loss in Cusco has become a matter of concern for regional and national authorities as deforestation rates are affecting the flora and fauna in the state.

Analysts suggest the main factors driving deforestation in Cusco are the construction of roads without proper management and the increase in a population that does not understand issues related to environmental conservation.

The areas most affected in Cusco are Quillabamba, Vilcabamba, Kimbiri and Pichari. Deforestation in Quincemil, in the province of Quispicanchi, is influenced by illegal mining. The buffer zone of the Manu National Park has also been affected but here remedial work is underway.

Environmental issues have become part of the national agenda and the government and local administrations give priority to the recovery of deforested areas.

### Agrobanco special office opened in Iquitos

Agrobanco the state financial service that supports development of the forest sector has opened a new office in Iquitos.

The head of the new office said he will promote forestry and agricultural development in the Loreto region and has projected 2014 lending to promote forest industries and the production of sacha inchi and camu camu. The new office will have autonomy for the evaluation and approval of credit applications.

### Export Sawnwood Prices

Peru Sawnwood, FOB Callao Port		US\$ per m <sup>3</sup>
Mahogany S&B KD 16%, 1-2" random lengths (US market)		1570-1655
Spanish Cedar KD select		
North American market		958-977
Mexican market		946-965
Pumaquiro 25-50mm AD	Mexican market	545-598

Peru Sawnwood, FOB Callao Port (cont.)		US\$ per m <sup>3</sup>
Virola 1-2" thick, length 6'-12' KD		
Grade 1, Mexican market		428-487
Grade 2, Mexican market		358-404
Cumaru 4" thick, 6'-11' length KD		
Central American market		841-865
Asian market		866-939▲
Ishpingo (oak) 2" thick, 6'-8' length		
Spanish market		509-549
Dominican Republic		584-598
Marupa (simarouba) 1", 6-11 length	Asian market	421-482

Peru Sawnwood, FOB Iquitos		US\$ per m <sup>3</sup>
Spanish Cedar AD Select Mexican market		911-931
Virola 1-2" thick, length 6'-13' KD		
Grade 1, Mexican market		429-467
Grade 2, Mexican market		332-377
Grade 3, Mexican market		161-176
Marupa (simarouba) 1", 6-13 length KD		
Grade 1, Mexican market		349-398

### Domestic Sawnwood Prices

Peru sawnwood, domestic		US\$ per m <sup>3</sup>
Mahogany		867-911
Virola		133-159▲
Spanish Cedar		296-355
Marupa (simarouba)		108-119

### Export Veneer Prices

Veneer FOB Callao port		US\$ per m <sup>3</sup>
Lupuna 3/Btr 2.5mm		198-223
Lupuna 2/Btr 4.2mm		212-222
Lupuna 3/Btr 1.5mm		211-221

### Export Plywood Prices

Peru plywood, FOB Callao (Mexican Market)		US\$ per m <sup>3</sup>
Copaiba, 2 faces sanded, B/C, 15x4x8mm		318-347
Virola, 2 faces sanded, B/C, 5.2x4x8mm		423-439
Cedar fissilis, 2 faces sanded 4x8x5.5mm		759-770
Lupuna, treated, 2 faces sanded, 5.2x4x8mm		363-385
Lupuna plywood	B/C 15x4x8mm	393-419
	B/C 9x4x8mm	366-385
	B/C 12x4x8mm	350-360
	B/C 8x4x15mm	416-439
	C/C 4x8x4mm	389-425
Lupuna plywood B/C 8x4x4mm	Central Am.	370-393

### Domestic Plywood Prices

Lupuna Plywood BB/CC, domestic (Iquitos mills)		US\$ per m <sup>3</sup>
122 x 244 x 4mm		444
122 x 244 x 6mm		397
122 x 244 x 8mm		415
122 x 244 x 12mm		399
(Pucallpa mills)		
122 x 244 x 4mm		463
122 x 244 x 6mm		439
122 x 244 x 8mm		430
122 x 244 x 12mm		429

### Domestic Prices for Other Panel Products

Peru, Domestic Particleboard		US\$ per m <sup>3</sup>
1.83m x 2.44m x 4mm		282
1.83m x 2.44m x 6mm		230
1.83m x 2.44m x 12mm		204

### Export Prices for Added Value Products

Peru, FOB strips for parquet		US\$ per m <sup>3</sup>
Cabreuva/estoraque KD12% S4S, Asian market		1287-1388
Cumaru KD, S4S	Swedish market	897-1025▲
	Asian market	1289-1350
Cumaru decking, AD, S4S E4S, US market		1210-1298
Pumaquiro KD # 1, C&B, Mexican market		423-511
Quinilla KD, S4S 2x10x62cm, Asian market		493-519
	2x13x75cm, Asian market	732-815

## Report from Guyana

### International demand for purpleheart logs sustained

There were no exports of greenheart and mora logs in the period reviewed but some purpleheart contracts were shipped.

For current shipments purpleheart attracted FOB export prices of US\$385 per cubic metre for Standard sawmill quality while the Small sawmill quality logs earned a positive price of US\$240 per cubic metre.

The main destination for Guyana's purpleheart logs during the period reviewed was Asia.

#### Export prices for Undressed sawnwood slip slightly

Sawnwood exports made a positive contribution towards total export earnings during this period. Undressed greenheart earned favourable top end prices and Select category prices were US\$1,145 per cubic metre FOB, down slightly in comparison to the previous period when at top end price of US\$1,484 was secured.

Merchantable category undressed sawn greenheart top end prices remained stable at US\$721 per cubic metre FOB. The Caribbean and North America were the main market for this Undressed greenheart sawnwood.

Exports of Undressed purpleheart sawnwood continued earning favourable prices of US\$1,200 per cubic metre FOB for Prime category while Select category the top end price fell from US\$2,250 to US\$1,993 per cubic metre FOB. The primary markets were the Caribbean, Oceania (New Zealand) and North America.

Undressed Mora sawnwood attracted fair prices in international markets in the period reviewed. Select category earned top end price of US\$ 975 per cubic metre FOB, while for Sound and Merchantable qualities previous FOB price levels were maintained at around US\$500 per cubic metre. Exporters of mora serviced demand in the Caribbean, European and North American markets.

#### Caribbean markets prefer dressed sawnwood

Exports of Dressed sawnwood were made and earnings were positive. Shipments of Dressed greenheart earned FOB prices of US\$1,377 per cubic metre as against US\$ 1,102 per cubic metre in the previous period.

Similarly Dressed purpleheart also made a notable contribution to overall earnings with an increase top end price of US\$1,187 per cubic metre FOB as against US\$1,060 in the previous period. The Caribbean stood alone as the major destination for both Dressed greenheart and purpleheart sawnwood.

Plywood exports resumed and favourable prices in the region of US\$584 per cubic metre FOB were achieved in the markets of the Caribbean and South America.

Roundwood (greenheart piles) FOB prices moved to as much as US\$565 per cubic metre for Caribbean, European and North American destinations.

Splitwood (shingles) prices were acceptable at US\$1,023 per cubic metre FOB with the Caribbean and North America as the main markets supporting exports of these products.

#### Promoting domestic acceptance of a wider range of species

One of the functions of the Forest Products Development and Marketing Council (FPDMC) – in collaboration with the Guyana Forestry Commission and the Forest Products

Association – is the promotion the utilisation of the lesser used species of woods (LUS) found in Guyana.

These LUS have properties that are comparable to the more commercialised species in terms of green density, heartwood, grain and texture etc. This has been verified by the UK Timber Research and Development Association and the Tropenbos International Foundation.

Extensive tests conducted on fifteen species including Black Kakaralli, Darina, and Fukadi have found that the properties of these species are similar to the more commercialised species such as greenheart, purpleheart, crabwood and locust.

The FPDMC has published a handbook that groups lesser used species into categories based on their properties. This information is detailed in a FPDMC's Handbook. A number of domestic sawmills and lumber yards are now offering mixed hardwood packages, that is, a greater number of species to make up a specific order. This approach seeks to promote greater use of LUS at home and overseas.

#### Export Log Prices

Logs, FOB Georgetown	SQ - US \$ Avg unit value per m <sup>3</sup>		
	Std	Fair	Small
Greenheart*	-	-	-
Purpleheart	365-385↑	170-280	240↑
Mora	-	-	-

\*Small SQ is used for piling in the USA and EU. Price depends on length. In the case of no price indication, there is no reported export during the period under review.

#### Export Plywood Prices

Plywood, FOB Georgetown Port		US\$ Avg unit val. per m <sup>3</sup>	
Baromalli	BB/CC	5.5mm	
		12mm	450-584
	Utility	5.5mm	No export
		12mm	No export

#### Export Sawnwood Prices

Sawnwood, FOB Georgetown		\$ Avg unit val. per m <sup>3</sup>	
EU and US markets		-Undressed	Dressed
Greenheart	Prime	-	-
	Standard	-	724-1,377
	Select	640-1,445	
	Sound	-	
	Merchantable	636-721	
Purpleheart	Prime	1,200	-
	Standard	-	721-1,187
	Select	650-1,993	
	Sound	-	
	Merchantable	-	
Mora	Prime	-	
	Select	500-975	
	Sound	450-500	
	Merchantable	500	

In the case of no price indication, there is no reported export during the period under review.

## Report from Japan

### 2013 GDP set to miss target

Recently revised data from Japan's Cabinet Office are showing that GDP growth in the third quarter slowed more than initially forecast. GDP at an annualized rate is now forecast to expand by just 1.1% down from the earlier estimate of 1.9%. The private sector remains very cautious on prospects for sustained growth and business spending is not expanding.

Despite an announcement of a massive spending package to ease the burden on consumers of the rise in consumption tax due to take effect in April 2014 public spending also remains subdued.

The government spending package, says the Cabinet Office, could boost GDP by 1% and lay the foundation for the creation of about 250,000 jobs.

### OECD releases economic forecast for 2014

The Organisation for Economic Cooperation and Development (OECD) has just released its assessment of the Japanese economy.

See:

[www.oecd.org/eco/outlook/japaneconomicforecastsummary.htm](http://www.oecd.org/eco/outlook/japaneconomicforecastsummary.htm)

The OECD report says "Japan's recovery from its 2012 recession is being driven by strong export growth, consumer spending amid rising confidence and employment, and a rebound in business investment.

The expansion, which is being supported by strong monetary stimulus and a fiscal package, is expected to continue.

However, fiscal consolidation, including the consumption tax hikes in 2014 and 2015, is projected to slow output growth to around 1½ per cent in 2014 and 1% in 2015. The sustained recovery will help push inflation toward the 2% target.

With gross public debt surpassing 230% of GDP, a detailed and credible fiscal consolidation plan to achieve the target of a primary budget surplus by FY 2020 is a top priority to sustain confidence in Japan's public finances.

The hike in the consumption tax rate to 8% in 2014 is an important first step to achieve fiscal sustainability and it should be followed by the second hike, to 10%, in 2015.

Additional fiscal stimulus packages beyond that planned for 2014 might jeopardise the needed fiscal consolidation. Increasing sustainable growth through bold structural reforms is also essential to address the fiscal situation, as is expansionary monetary policy.

The Bank of Japan's "quantitative and qualitative monetary easing" should continue until the inflation target has been sustainably achieved in order to ensure a definitive exit from deflation."

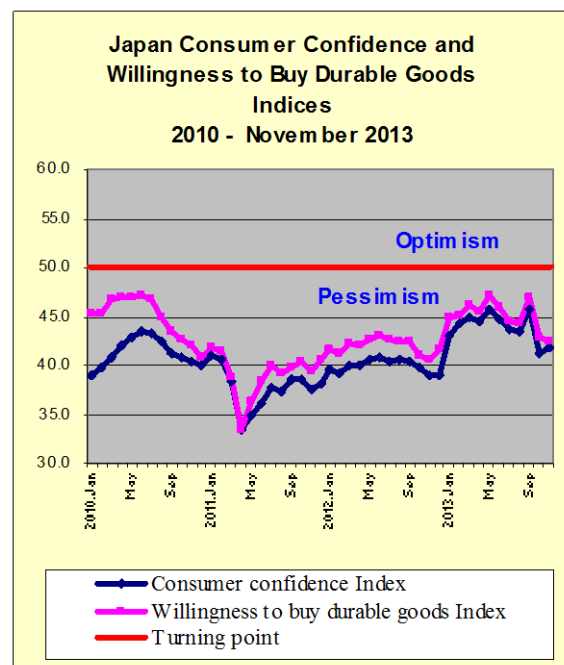
### Household spending remains weak and consumer purchasing index dips

The consumer confidence index in November was only slightly higher than in October according to data from Japan's Cabinet Office, rising to 41.9 in November from 41.2 in October. Analysts had expected the index to move closer to 45 so the November result is a big disappointment for the government.

The other closely tracked index, consumers' willingness to buy durable goods, fell slightly from 42.9 in October to 42.4 in November.

Household spending in Japan remains weak mainly because consumers do not have confidence that they will benefit from current economic policies and because the employment situation is tough. In the face of rising inflation and stagnant incomes; short term prospects are not bright.

The government reported that, excluding food, the consumer price index rose almost 1% from a year earlier but much of this could be the result of the steep jump in electricity prices introduced after the nuclear power plants were shut down after the Fukushima nuclear disaster.

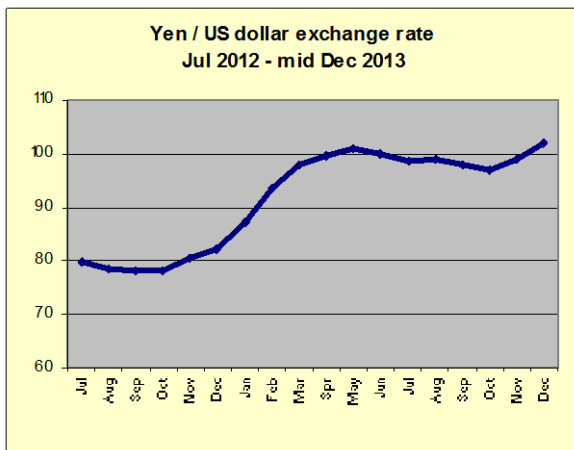


Source: Cabinet Office, Japan

### Yen drops below 100 to the US dollar

The sharp decline in the yen exchange rate to below yen 100 to the US dollar resulted in a boost to the value of the Japanese stock market which is dominated by export companies.

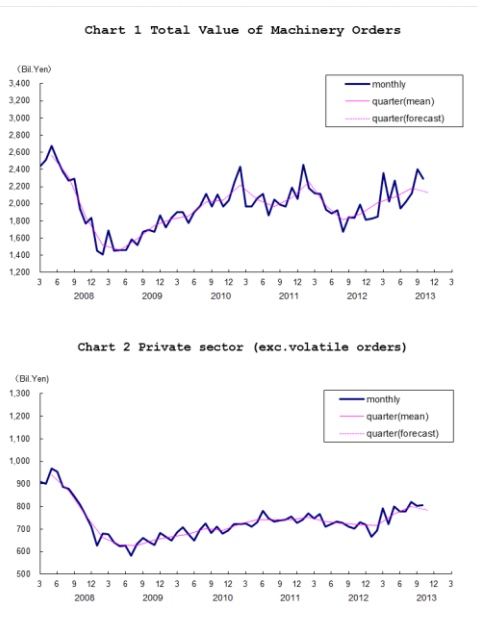
Japan's exporters will be the biggest beneficiaries of the yen's weakness, as consumers overseas with dollars will find Japanese imports cheaper. The yen:euro exchange rate was steady around yen 139.35 yen on 12 December close to the recent five-year high of yen 139.70.



**Machinery orders signal positive change in business sentiment**

Machinery orders in Japan, a measure of business prospects, rose just over half of 1 percent in October according to the latest data from Japan’s Cabinet Office.

The October figures mark a rebounding from the decline in September and haven given encourage to the government and central bank as they fight to pull the Japanese economy out of its deflationary spiral. For the Cabinet Office press release on machinery orders see: [www.esri.cao.go.jp/en/stat/juchu/juchu-e.html](http://www.esri.cao.go.jp/en/stat/juchu/juchu-e.html)



Compared to figures for last year the recent data shows an almost 18% gain in machinery orders.

Providing an economic climate in which business increase capital investment is core to the Japanese government’s efforts to turn around the economy.

At the moment the economy has been improving but analysts warn this may be mostly the result of purchases

being made before the consumption tax increase in April next year.

**Trade news from the Japan Lumber Reports (JLR)**

The Japan Lumber Reports (JLR), a subscription trade journal published every two weeks in English, is generously allowing the ITTO Tropical Timber Market Report to extract and reproduce news on the Japanese market.

*The JLR requires that ITTO reproduces newsworthy text exactly as it appears in their publication.*

For the JLR report please see: <http://www.n-mokuzai.com/modules/general/index.php?id=7>

**Revision of JAS rules on LVL**

Revision of JAS rule on LVL has been approved and the Ministry of Agriculture, Forestry and Fisheries made public notice on November 12. It will be effective on February 10, 2014. Main revisions are increase of percentage of insertion of orthogonal veneer, new standard on cave-in performance and addition of lower grade of bending performance. JAS rules are reviewed and revised in every five years.

The revision this time includes setting up of type A and type B for structural LVL. Type A is former structural LVL and type B allows more insertion of orthogonal layers.

By former rule, a percentage of orthogonal layers have to be less than 20% and insertion place has to be second layer from outside then the new rule says a percentage of orthogonal layer in thickness is less than 30% and it allows to insert into third layer from outside.

This prevents warping and curving of LVL and improves precision to make products for use as panel. Specifically, it works better for stressed skin panel (SSP- hexahedron beam) and wider board over 1,200 mm.

As to insertion of orthogonal layer, new standard follows the European rules since SSP is widely used for large furniture stores and roof of airport buildings. Compared to steel, it makes roof weight much lighter, which simplifies construction of base parts and reduces construction cost.

The new rule stipulates standard of cave-in performance (maximum of 18N/square millimeter/vertical use of type A only) so that it can be used for foundation of mid-rise buildings and lower frame of 2x4 buildings.

Classification of bending performance of structural LVL had ten classifications from 180 E to 60 E then the new rule adds lower grade of 50E in focusing use of domestic cedar.

There is potential use of LVL for interior with its unique design but fire proof performance is necessary in case of

exposed use. It is necessary to have the Minister's approval if it is used as panel so the Japan LVL Association made performance test in September to acquire quasi-fire proof approval on cedar product (30 mm in thickness, 150 mm in width and 4 meters in length).

The application has been submit to the Ministry of Land, Infrastructure and Transport and the approval of the Minister can be obtained early next year.

**South Sea (tropical) logs**

Log producing regions in the South East Asia are in rainy season now so that log market is firm. In Sabah and Sarawak, Malaysia, log hauling is becoming difficult on muddy road because of frequent heavy rainfall. Log production was steady until October but it started dropping in November markedly.

Log market is now still stable as India is holding down its purchase because of weak Rupee. Since last September, there are more small logs so to buy regular logs, it is becoming package with small logs.

Current Sarawak meranti regular FOB prices are \$280-290 per cbm, \$10 up from October. Small merati prices are \$240-250 and super small are \$220-230.

Sabah serayah regular prices are about \$265 and kapur regular are about \$375. Both are \$5 up from October. Like Sarawak meranti, percentage of regular is decreasing in serayah with heavier percentage of small serayah so it is necessary to pay higher prices to have more regular but with weakening yen, higher FOB is hard to accept for the buyers. PNG suffers heavy rain and log production is dropping.

**Domestic logs and lumber**

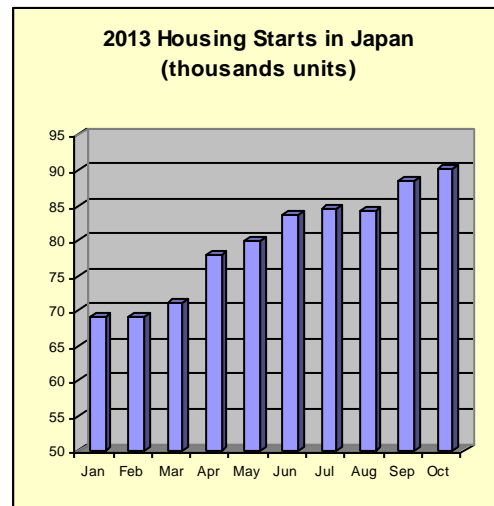
Log supply gets tight as lumber demand picks up so that log prices are climbing all over Japan. In Northern Kanto and Kyushu, post cutting cedar log prices are approaching to 16,000 yen and sill cutting cypress log prices shot up to 30,000 yen and those high prices influencing others like smaller cedar logs and post cutting cypress logs.

High log prices are reflecting lumber prices. In Tokyo regional market, lumber prices are skyrocketing. KD cedar post prices are 60,000 yen and KD cypress sill prices are exceeding 80,000 yen.

**October housing starts**

Total starts in October were 90,226 units, 7.1% more than October last year. This is the first monthly starts over 90,000 units since October 2008 and the starts have been increasing for 14 consecutive months.

Seasonally adjusted annual starts were 1,037,000 units, 0.7% less than September.



Source: Ministry of Land, Infrastructure, Transport and Tourism, Japan

Reason of high starts is psychological effect of firming trend of mortgage interest rate. Another possible factor is last minute rush-in orders before the consumption tax increase, which should have been over in September.

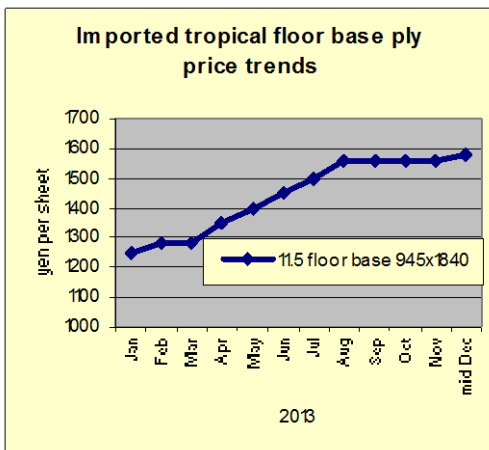
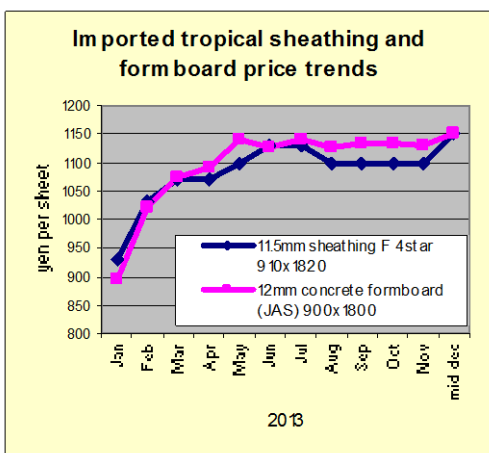
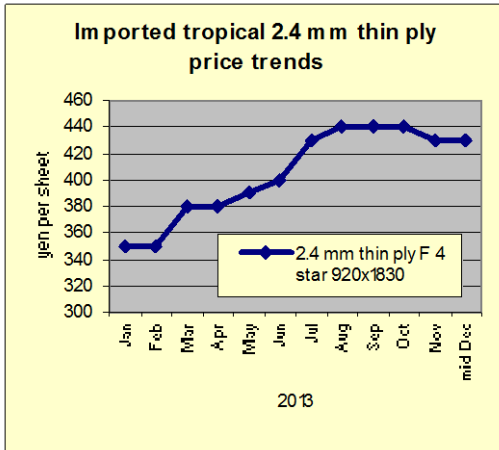
By type, owners units continue to increase for 14 straight months and maintain over 30,000 units for five consecutive months. In those, wood based units were 53,217, 8.3% more than October last year out of which 40,095 units were traditional post and beam, 18% more and 11,680 units were 2x4, 4.7% more. Despite negative factors like higher materials cost and shortage of workers, owners units continue making good result.

Rental units have increased for eight straight months with 35,059 units, 3.3 % more.

Units built for sale including condominiums show declining trend. Detached units built for sale were over 20,000 units but condominiums were down by 17% from September after sales of large units were over.

The Ministry of Land, Infrastructure and Transport commented that this seems to be temporary dip as the builders have steady building plans for future then there is not any increase in particular month as overall increase continues for last several months.

**Price trends for imported plywood**



**Report from China**

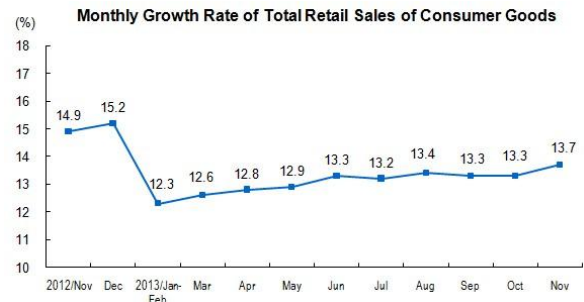
**Continued growth in retail sales**

China's industrial output and retail sales rose in November, the latest in a series of signals indicating that the Chinese economy is on a path to recovery. Factory output rose 10% from a year ago and retail sales were up 13.7%.

The National Bureau of Statistics of China has released November retail sales data showing total retail sales of consumer goods grew up by 13.7 percent year-on-year.

Of the total, retail sales of consumer goods by industrial enterprises increased 13 percent.

For the latest press release see: [http://www.stats.gov.cn/english/pressrelease/t20131211\\_402931817.htm](http://www.stats.gov.cn/english/pressrelease/t20131211_402931817.htm)



Source: National Bureau of Statistics, China

Retail sales of consumer goods in urban areas in November were up by 13.6 percent, year-on-year; while that in rural areas was up by 14.8 percent, year-on-year.

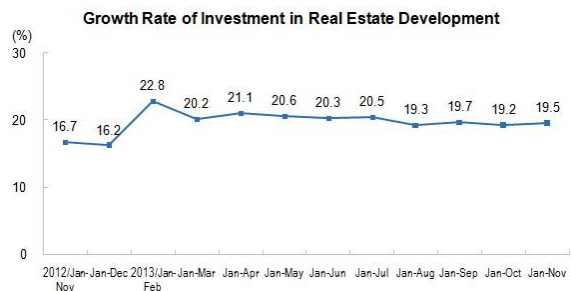
From January to November, retail sales of consumer goods in urban areas was up by 12.8 percent, year-on-year; while that in rural areas was up by 14.5 percent, year-on-year.

In terms of different consumption items, in November catering service sales grew by 9.4 percent, year-on-year while retail sales of non perishable goods was up by 14.3 percent, year-on-year. Other data show an increase in fixed asset investment which altogether has lifted growth in the Chinese economy to 7.8% in the second quarter up from the 7.5% growth in the earlier quarter.

**Completion of real estate investment**

Total investment in real estate development in the first eleven months of 2013 was yuan 7,741.2 billion up by 19.5 percent year-on-year. Of the total investment in residential buildings was yuan 5,311.2 billion (up by 19 percent), accounting for 68.6 percent of all real estate development investment.

This information is contained in a press release from the National Bureau of Statistics of China. For more see: [http://www.stats.gov.cn/english/pressrelease/t20131211\\_402931816.htm](http://www.stats.gov.cn/english/pressrelease/t20131211_402931816.htm)



Source: National Bureau of Statistics, China



In the first eleven months of the year real estate investment in eastern region yuan 4,306.8 billion (up by 17.3 percent year-on-year, investment in the central region stood at yuan 1,708.4 billion (up by 21.7 percent) while in the western region investment was yuan 1,725.9 billion (up by 23.1 percent).

In the first eleven months the land area purchased by the real estate development enterprises totaled 347.73 million square metres, a year-on-year increase of 9.9 percent, while that in the first ten months fell 3.6 percent.

#### **China bans import of ash logs and sawnwood**

Recently the Quality Supervision, Inspection and Quarantine office and the State Forestry Administration (SFA) jointly issued a notice advising that as of 1 November 2013 China has banned the import of Fraxnus (ash) logs and sawnwood from countries and regions in which Fraxnus die-back occurs.

The countries affected are Poland, Lithuania, Latvia, Sweden, the Czech Republic, Germany, Denmark, Estonia, Belarus, Slovakia, Romania, Austria, Norway, Russia (Kaliningrad), Slovenia, Switzerland, Finland, France, Hungary, Italy, Croatia, Belgium, Holland, Britain, Ireland, Ukraine. Ash dieback is caused by the fungus *Hymenoscyphus pseudoalbidus* previously known as *Chalara fraxinea*

*Chalara dieback* has seriously affected a high percentage of ash trees in continental Europe most notably in Scandinavia (including Denmark, which has an estimated 90 per cent of ash trees infected) and Baltic States.

The trees susceptible to die-back are *Fraxnus excelsior*, *Fraxinus excelsior Pendula*, *Fraxinus angustifolia*, *Fraxinus angustifolia subsp. Danubialis*, *Fraxinus ornus*, *Fraxinus nigra*, *Fraxinus pennsylvanica*, *Fraxinus Americana* and *Fraxinus mandschurica*.

#### **Harvests reduced in Daxing'an, Xiaoxing'an and Changbai mountain forests**

A recent government plan for the sustainable development of national resources provides details on how forest management and protection will be strengthened. The plan includes decisions that by 2015 harvesting will be stopped in Daxing'an Mountain, Xiaoxing'an Mountain and the Changbai Mountain forest regions in China. The plan outlines the establishment of a national timber strategic resources reserve.

#### **Output from state enterprises in NE and Inner Mongolia forest regions set to fall**

On 2 December this year the SFA released the timber production plan in 2014 for the state owned enterprises in the Northeast and Inner Mongolia forest regions.

The total harvest volume in 2014 in these forest regions will be 7.789 million cubic metres (down 14% from 2012) and the expected processed output will be in the region of 3.8 million cubic metres, (down 11% from 2012).

Of the total, the harvest for the Jilin Forest Industry Group, the Inner Mongolia Forest Industry Group and the Heilongjiang Forest Industry Bureau will be 2.031 million cubic metres, 2.019 million cubic metres, 2.039 cubic metres and 1.70 million cubic metres respectively.

In order to secure the limited forest resources timber production and harvesting will be carefully monitored to ensure no over cutting.

#### **Investment deal between China and Canada**

It has been reported that a forestry investment MOU was signed between the Biomass Professional Committee of China New Energy Chamber of Commerce under the All-China Federation of Industry and Commerce and the Asian Investment and Trade Council of British Columbia.

The intention of the Chinese group is to invest up to C\$1 billion to purchase logging management rights and build a biomass and processing plant in Canada.

Production and utilisation of bio-energy sources is only just beginning in China so the potential for China in developing forest based bio-energy investment is greater in Canada.

Canada is one of the main countries where China is investing and many Chinese forestry and timber enterprises are interested in investing in Canada. For more see: [www.cnecc.org.cn/en/index.asp](http://www.cnecc.org.cn/en/index.asp)

#### **Demand for timber raw materials surges in Guangdong**

Guangdong has one of the developed timber processing sectors in China. It is estimated that there are some 20,000 timber processing enterprises in Guangdong Province. Of these, there are 6,000 furniture enterprises, 400 paper making enterprises, 200 plywood enterprises and 74 MDF plants.

The total value of output from wood processing enterprise expanded from yuan 20.6 billion in 1978 to yuan 9560.2 billion in 2012.

The consumption of wood raw materials in Guangdong has expanded to meet industry needs from 1.51 million cubic metres in 1978 to 113 million cubic metres in 2012. Of the total consumption in 2012 logs accounted around for 29% (33 mil. cu.m).

#### **China/Canada timber distribution centre for Hebei**

It has been reported that a 50/50 joint venture has been established between Tangshan Caofeidian Wood Industry Co. Ltd (TCW) under the Hebei Wenfeng Industrial Group and Canfor Corporation, a company with headquarters in Vancouver, Canada.

The new venture will build sawnmill in Tangshan City. An agreement cementing this deal has been formally signed in Beijing. The Hebei Wenfeng Industrial Group, has mining and timber interests but is looking to expand investment in the timber sector.

Caofeidian is an island land reclamation converted economic development zone in Bohai Bay under the jurisdiction of Tangshan city, Hebei Province.



Source:China Daily

According to the agreement the sawnwood processing plant will occupy more than 23 hectares within the 600 ha site the Caofeidian provincial administration has set aside to develop one of the largest concentrations of wood processing enterprises in northern China. It is forecast that timber imports to the new processing centre could account for between 15 – 20% of the national total.

Reportedly Canfor Corporation is examining the potential for construction of a secondary manufacturing facility to be located at the deep water Caofeidian Port.

The parties involved will develop a business plan over the next several months and if viable Canfor could enter into a supply agreement with the joint venture to build a strategic partnership to demonstrate its commitment to the Chinese market for lumber.

For more see: [www.canfor.com/media-center/news-press-releases/2013/11/26/canfor-corporation-announces-a-50-50-joint-venture-with-tangshan-caofeidian-wood-industry-co.-ltd-](http://www.canfor.com/media-center/news-press-releases/2013/11/26/canfor-corporation-announces-a-50-50-joint-venture-with-tangshan-caofeidian-wood-industry-co.-ltd-)

**Price trends across China**

<b>Guangzhou Yuzhu International Timber Market</b>		
<b>Logs</b>		<b>Yuan/cu.m</b>
Lauan	Diameter 60 cm <sup>+</sup>	2000-2200
Kapur	Diameter 80 cm <sup>+</sup>	3100-3200
Merbau	Diameter 100 cm <sup>+</sup>	5200-5400
Teak	Diameter 30-60 cm	6500-13000
Wenge		4300-4800
Red Oak (France)	Diameter 30 cm <sup>+</sup>	2500-2600
Purpleheart	Diameter 60 cm <sup>+</sup>	3500-3600
Rosewood		3700-4200
<b>Sawnwood</b>		
Maple	Grade A	7500-9500
Walnut (USA)	FAS 2 inches	14000-16000
Cherry (USA)	FAS 2 inches	10000-12800
Sapelli	Grade A	6600-7000
Okoume	Grade A	4200-4500
Teak (plantation)	Grade A	9600

**Shanghai Furen Forest Products Wholesale Market**

<b>Logs</b>		<b>Yuan/tonne</b>
Red sandalwood (India)	All grade	1-2 mil.
Rengas (Vietnam and Nepal)	All grade	7000-8800
Granadillo (Mexico)	All grade	7500-8000
<b>Sawnwood</b>		
Okoume (Africa)	grade A	4300-4700
Sapelli (Africa)	grade A	5800-6300
Beech (Europe)	grade A	4500-4800
Red Oak (North America)	2 inches FAS	7000-7300
Cherry (North America)	2 inches	9800-10500
Maple (North America)	2 inches	8700-8900
Merbau (Indonesia)	All grade	8500-13500

**Hangzhou Timber Trading Market**

<b>Logs</b>		<b>Yuan/cu.m</b>
Ash	4 m 30 cm	3200-4800
Larch	4 m 30 cm 10 cm	1800-2900
Linden	4 m 26 cm	2400-3500
<b>Sawnwood</b>		
Beech (Europe)	All grades	2800-5000
Black walnut (N. America)	All grades	7000-13000
Teak (Myanmar)	All grades	9000-18000
Red oak (N. America)	All grades	3500-5000
Alder (Myanmar)	All grades	4500-5300
Merbau	All grades	7200-12000
<b>Plywood</b>		
Red beech	3mm	50-75
Black walnut	3mm	60-102
Teak	3mm	70-148

**Wenzhou Timber Trading Market**

<b>Logs</b>		<b>Yuan/cu.m</b>
Ash	2 m 20-30 (cm)	1300
Chinese fir	4 m 16-18 (cm)	1500
Wenge	all grades	4500-5100
Teak (Plantation)	all grades	2100-2500
Merbau	all grades	3500-5000
Spelle	all grades	3200-3700
<b>Plywood</b>		
Red beech	4' x 8' x 3 mm	40-80
Black walnut	4' x 8' x 3 mm	40-85
Teak	4' x 8' x 3 mm	45-110

**Shandong De Zhou Timber Market**

<b>Logs</b>	<b>Length</b>	<b>Diameter</b>	<b>Yuan/ cu.m</b>
Larch	4m	18-22 cm	1230
	4m	24-28 cm	1250
	4m	30 cm	1450
	6m	18-22 cm	1280
	6m	24-28 cm	1300
	6m	30 cm	1500
White Pine	4m	24-28 cm	1320
	4m	30 cm	1400
	6m	24-28 cm	1350
Korean Pime	6m	30 cm	1400
	4m+		1700
	6m+		1750
Mongolian	4m	30 cm	1380
	4m	36 cm	1500
Scots Pine	4m	36 cm	1500
	6m	30 cm	1420
	6m	36 cm	1600

### **Uncertainty in European market for Chinese plywood**

European demand for hardwood plywood manufactured in China has been patchy during the second half of 2013. Various issues have contributed to uncertainty in this market during the period. Freight rates have been very volatile.

In August, China imposed a 6% VAT requirement on both the costs incurred from ex-mill to FOB and on prepaid freight. Wet weather in some parts of China during the autumn months led to delays in eucalyptus and poplar logging. This in turn contributed extra transport costs for mills forced to source logs from a larger area. The wet weather also meant longer veneer drying times, contributing to delays in shipments of finished plywood.

The market has also continued to be affected by increased concern for legality verification following EUTR enforcement. European importers are concentrating purchases on the larger Chinese mills better able to provide legality documentation.

Efforts to replace tropical hardwood veneers from regions perceived to be high risk on illegal logging have continued. This is changing the mix of products now being delivered to the European market. There has been a gradual rise in European demand for dyed reconstituted poplar-faced plywood despite some concerns about the quality of glues, the durability and difficulty of achieving a smooth finish with these products.

Those European buyers willing to pay more for a higher quality alternative have been sourcing Chinese plywood faced with an FSC or PEFC certified sapele or meranti veneer and a non-certified poplar or eucalyptus core.

Overall supply of Chinese hardwood plywood grades for the EU market has been quite well balanced with demand in recent months. Total production has been reduced due to log supply problems and in anticipation of slow demand over the European winter months.

During the autumn, Chinese mills were requesting that orders be placed well in advance of the Chinese New Year holiday season in January. By early December, many mills had already fully committed their production for the pre-holiday period.

Monitoring price trends for Chinese hardwood plywood is now complicated by the diversity of certified and uncertified products being sold into the EU market following implementation of EUTR.

However, overall FOB prices have tended to firm on the back of reduced production and higher veneer and other costs in China in recent months combined with consistent ordering in the run-up to the holiday season. Some mills are compromising on the quality of veneers and glues in an effort to maintain stable prices.

Availability of Chinese plywood to European buyers is expected to become more restricted and prices to firm during the first quarter of 2014. This is due to the combined effects of limited log supply and the Chinese New Year holiday.

There is also likely to be increased diversion of product to the United States following the US government's decision on 5 November to dismiss the on-going anti-dumping case against Chinese plywood. As a result, previously announced anti-dumping and countervailing duties of 73.04% on US imports of Chinese plywood which were due to come into effect in November have not been imposed.

### **Volatile freight rates encourages EC anti-trust probe into shipping lines on Asian routes**

Fluctuating freight rates have contributed to very volatile CIF prices for Chinese plywood delivered into Europe. For example, freight rates on the Shanghai-Rotterdam route fell from US\$2,800/40ft container in early September to as low as US\$1300/40ft container by the end of October – a decline equivalent to about US\$30 per cu.m of delivered plywood.

In November, shipping lines tried to force rates for a 40-foot container back up to US\$2700, but these prices were short lived and rates had fallen back to US\$2000 by mid-December.

The freight rate volatility stems partly from the practice of the large container shipping firms operating on the Asia-Europe route to announce major price hikes on a regular basis.

These announcements have been made roughly simultaneously four times in the past year, most recently at the start of December. On each occasion, the larger firms have been undercut immediately by smaller container companies and the price hikes have failed to stick.

The European Commission, citing concerns that some of the larger firms may be informing each other in advance of their price intentions and thus impeding competition on Asia-Europe routes, launched formal anti-trust proceedings against 14 shipping lines on 22 November 2013.

### **Revision of EU GSP to impact veneer and plywood market**

Amendments to the EU's Generalized System of Preference (GSP) scheme are impacting on the EU's market for veneer and plywood. Certain developing countries outside of the EU needing economic assistance are permitted reduced rates of duty under the GSP scheme.

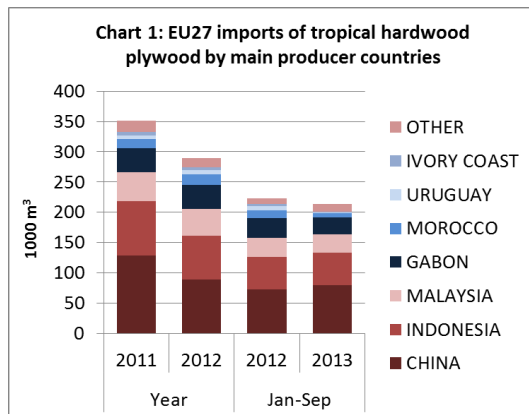
For customs declarations after 1 January 2014, eighty-seven of these countries will no longer benefit from GSP status.

Of particular significance for the veneer and plywood trade, Malaysia, Gabon and Russia will lose their GSP status on 1 January 2014.

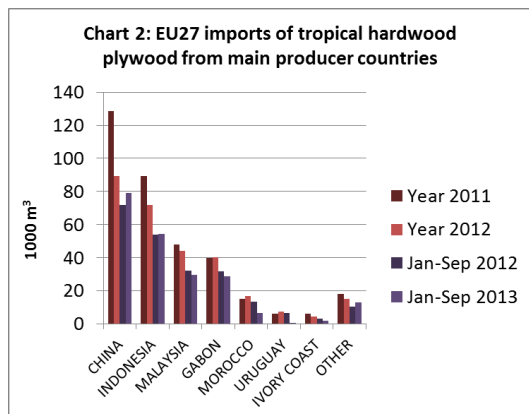
EU import duties for both plywood and veneer products from these countries will then increase from 3.5% to 7%.

Cameroon, Ghana and Ivory Coast will also lose their GSP status in January 2014, but these countries have other trade arrangements in place. Brazil will also lose its GSP status although this will not change anything in the case of wood products because it was already specifically excluded after having achieved a sustained significant volume of trade to the EU.

Countries retaining their GSP status under the reformed scheme include Congo DRC, Liberia and Myanmar. China also retains its GSP status but, as with Brazil, this specifically excludes timber products under Chapter 44, so effectively no change.



Source: FII Ltd analysis of eurostat



Source: FII Ltd analysis of eurostat

**EU tropical plywood imports down 4% in first nine months of 2013**

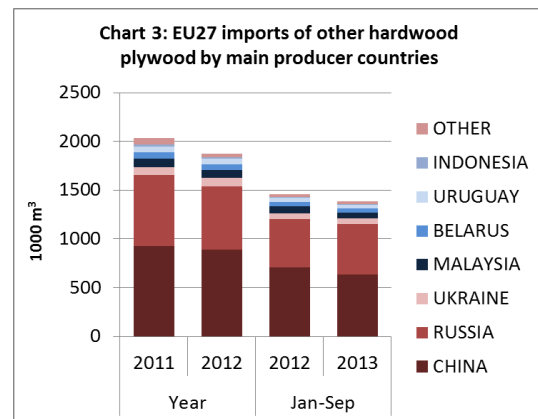
EU imports of tropical hardwood plywood in the first nine months of 2013 were 214,100 cu.m, 4.2% less than the same period in 2012 (Chart 1). During the period, imports increased from China by 10% to 79,000 cu.m and remained stable from Indonesia at 54,000 cu.m.

However imports of tropical hardwood plywood fell by 8.4% to 29,700 cu.m from Malaysia, and by 9.2% to 28,900 cu.m from Gabon (Chart 2). Imports of tropical hardwood plywood have been rising into Belgium, the UK and France this year, but declining into the Netherlands, Italy and Germany.

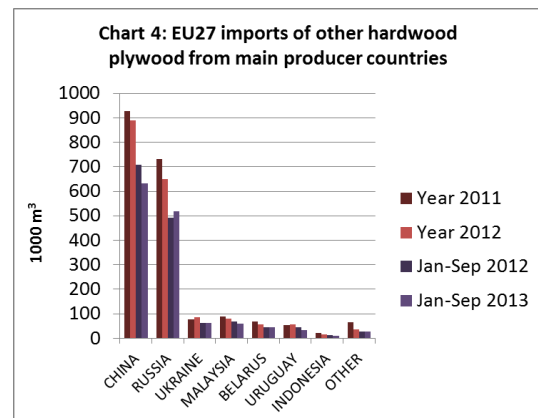
EU imports of plywood faced with other (non-tropical) hardwoods have also been declining this year. Imports of this commodity were 1.39 million cu.m in the first 9 months of 2013, 5.1% down on the same period in 2012 (Chart 3).

Imports from China during the January to September 2013 period were 632,600 cu.m, 10.8% less than in the first nine months of 2012.

This decline was partly offset by a 5.3% rise in imports from Russia to 517,000 cu.m (Chart 4). A slight rise in imports by Germany, Poland, Italy and France was insufficient to offset a decline in imports by the UK and Belgium.



Source: FII Ltd analysis of eurostat



Source: FII Ltd analysis of eurostat

**Slight upturn in European demand for Malaysian plywood**

While imports of Malaysian plywood into the EU declined during the first nine months of 2013, recent reports suggest a slight upturn in demand in the last quarter of the year.

This is particularly true of the UK, Germany and Belgium. Demand in the Netherlands and France has remained slow. The short-term increase in demand has contributed to lengthening delivery times for Malaysian plywood into Europe. As for Chinese plywood, volatile container rates have led to significant variations in CIF prices for Malaysian plywood delivered to Europe in recent months. However FOB prices have remained quite stable.

Prices for Malaysian plywood are typically up to one third higher than prices for Chinese substitutes. However, there is rising interest from importers seeking products guaranteed to meet European technical performance standards.

Enforcement of the EU Construction Products Regulation (CPR) from 1 July 2013 means that CE-Marking demonstrating conformance to the EN13986 standard is now mandatory for all plywood used in structural applications in the EU.

Importers have also been keen to beat the rise in import duties on Malaysian plywood following the change in GSP status on 1 January 2014.

**European market for okoume plywood still very slow**

Expectations that orders for okoume plywood manufactured in Gabon might pick up in the second half of 2013 in advance of the rise in import duties from 1 January 2014 have not been realised.

Demand for okoume plywood in Europe remains very weak with slow buying in both the French and Dutch construction sector.

There has also been little or no recovery in demand for okoume plywood from the Italian boat manufacturing sector this year. Margins in the European okoume plywood manufacturing sector are extremely thin. In the face of slow demand, French manufacturers have been unable to raise selling prices.

Despite low demand, delivery times for okoume plywood into the EU market have been increasing due to log supply and transport problems in Gabon over the summer months and a significant reduction in production both in Europe and Gabon.

This is particularly true of FSC certified products for which there is slightly firmer demand since implementation of the EU Timber Regulation in March 2013.

**Robust demand for Russian birch plywood**

EU imports of Russian birch plywood have been higher during 2013 than in 2012. This is despite widespread reports of supply shortages due to limited log supply in Russia and rising demand in Russia’s domestic market and in Turkey, Asia, and in the Middle East.

This in turn has led to long lead times on new orders and delays to existing orders. Delivery periods for rough plywood now extend up to 2-3 months.

However availability of Russian film and mesh faced birch plywood is better and delivery times are shorter. Russia’s exclusion from the EU’s GSP on 1 January 2014 has encouraged some increased buying in the last quarter of 2014 in anticipation of the rise in import duties.

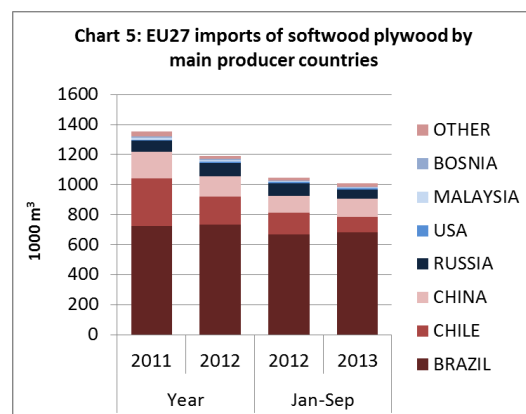
**China and Brazil increase share of EU softwood plywood imports**

EU imports of softwood plywood were 1.01 million cu.m in the first 9 months of 2013, 3.6% down on the same period in 2012 (Chart 5).

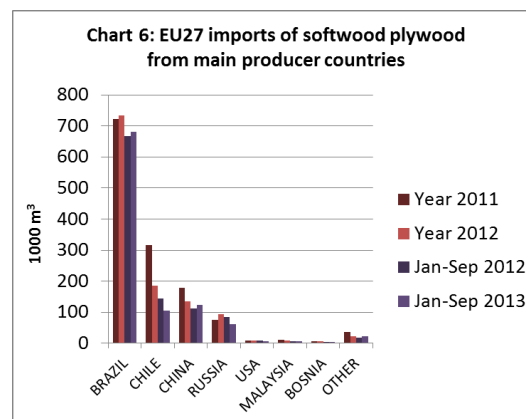
Imports from Brazil during the January to September 2013 period were 680,100 cu.m, 1.8% more than during the first nine months of 2012.

Imports of softwood plywood from China also increased during this period, by 10.2% to 123,100 cu.m. However, imports from Chile declined by over 27% to 104,200 cu.m (Chart 6).

A rise in softwood plywood imports by Germany, the UK, and Belgium was insufficient to offset a larger decline in imports by Italy, Denmark and the Netherlands.



Source: FII Ltd analysis of eurostat



Source: FII Ltd analysis of eurostat

Prices for Brazilian elliotis pine plywood on offer to EU importers have risen \$10-15/cu.m in recent months, mainly in response to good demand in Brazil and US, Mexican and Caribbean markets and to rising freight costs.

Flooding in southern Brazil during September led to a short-term increase in delivery times during the autumn months.

Higher prices also led to reduced orders from some European importers concerned about the difficulty of passing on increased prices to customers at a time when European consumption is still quite slow.

Nevertheless, there are reports of reasonable European forward orders for delivery in January under the 2014 quota.

**TTJ reports firm plywood demand in the UK**

The UK Timber Trade Journal’s latest plywood market report for the UK suggests that demand in the country is now “firm” and product from most sources is attracting stable to rising prices.

Forward ordering is patchy, but consumption is reasonable and there is rising optimism about the future. Most importers are still mainly topping up stock, but more regular monthly orders are now coming through. UK importers expect that total sales in 2013 will be slightly better than in 2012.

**EU tropical hardwood veneer imports down 10%**

EU imports of hardwood veneer have been declining this year. Imports of tropical hardwood veneer in the first nine months of 2013 were 180,800 cu.m, 10.2% less than the same period in 2012 (Chart 7).

During the period, imports from Gabon fell 13% to 89,100 cu.m. Imports from Ivory Coast were down 9.5% at 42,700 cu.m. These losses were only partly offset by a rise in imports from Cameroon, up 7.3% at 21,500 cu.m (Chart 8).

In the first nine months of 2013, imports of tropical hardwood veneer into France declined 14.9% to 75,100 cu.m. Imports into Spain fell 12.1% to 24,100 cu.m. However, after a very weak year in 2012, there was a 17.7% rise in imports by Italy in the first nine months of 2013 to 41,100 cu.m.

The decline in EU imports of tropical hardwood veneer is partly due to weak demand in end-use sectors for decorative sliced products. Sales to the European door and furniture manufacturers have been weak all year. There has also been only slow demand from large interiors projects, such as hotel, shop and bank refurbishment.

While sales of sliced veneers to board manufacturers and higher value speciality sectors, such as automobile and yacht manufacturing have been more stable, these have been insufficient to offset the decline in the larger industrial sectors.

In fact rising sales to veneered board manufacturers may be partly at the expense of direct sales of veneers to joiners. Prices for sliced veneer are coming under intense pressure in the European market.

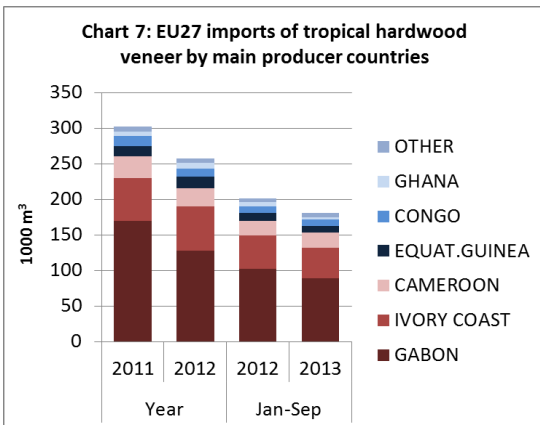
The market situation is little better for rotary tropical hardwood veneers used for plywood and flooring manufacturing in Europe. Market conditions in the European engineered wood flooring sector remain weak and there is a continuing trend to substitute tropical woods for alternative materials.

There is also limited demand for veneers in the European okoume plywood manufacturing sector now that capacity is much reduced, particularly following the closure of France-based producer Plysorol in 2012.

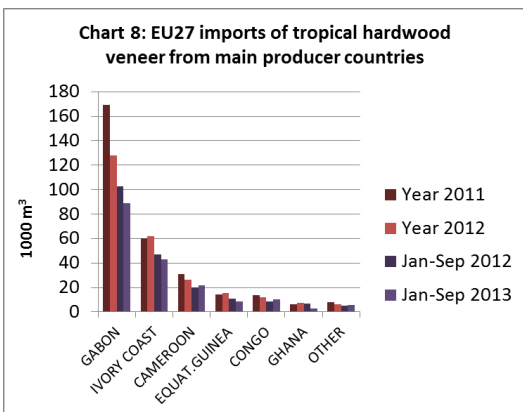
EU imports of temperate hardwood veneer in the first nine months of 2013 were 127,900 cu.m, 5.9% less than the same period in 2012 (Chart 9). Due to recent inward investment, Ukraine is becoming a more important external supplier of hardwood veneer to the EU.

According to UNECE Timber Committee data, veneer production in the Ukraine has been rising in recent years and the country is exporting a wide range of sliced, rotary and reconstituted (fine-line) veneers into the EU. During the first nine months of 2013, imports from Ukraine were 31,100 cu.m, 4.7% up on the same period in 2012.

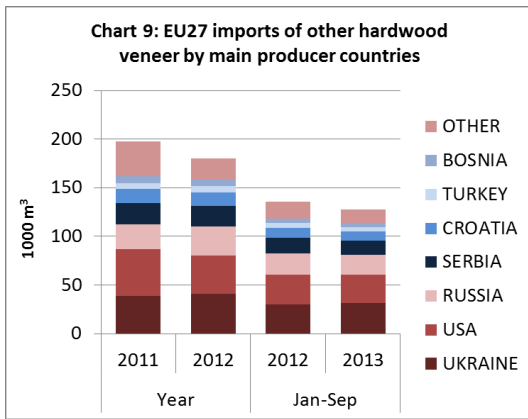
Meanwhile, EU imports of temperate hardwood veneer fell from the USA by 4.3% to 29,200 cu.m and from Russia by 9.2% to 20,400 cu.m (Chart 10). Temperate hardwood veneer imports have been rising into Germany, Austria and Poland this year, but falling into Italy and Spain.



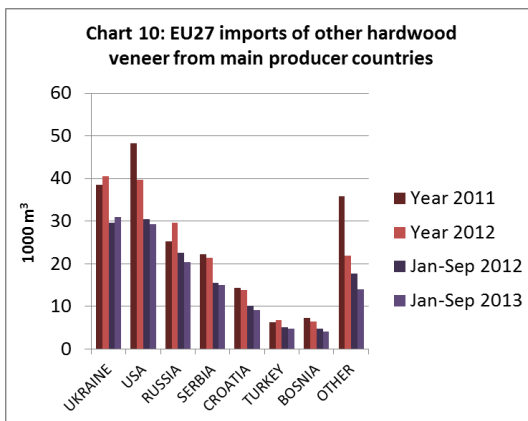
Source: FII Ltd analysis of eurostat



Source: FII Ltd analysis of eurostat



Source: FII Ltd analysis of eurostat

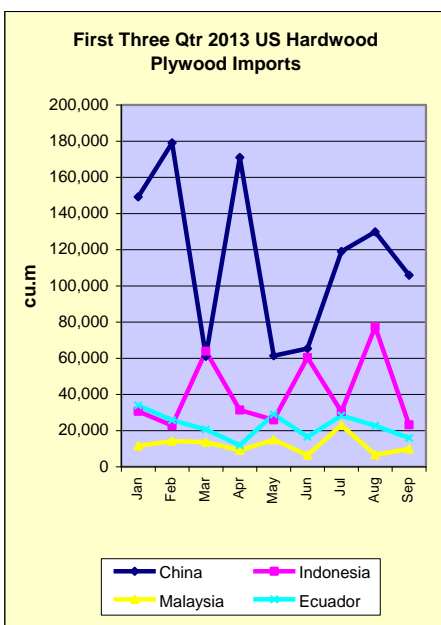


Source: FII Ltd analysis of eurostat

### Report from North America

#### Lower hardwood plywood imports from Indonesia and China

Imports of all major wood products declined in September, but the steepest drop was in hardwood plywood imports. US imports of hardwood plywood declined from 290,946 cu.m. in August to 219,290 cu.m. in September.

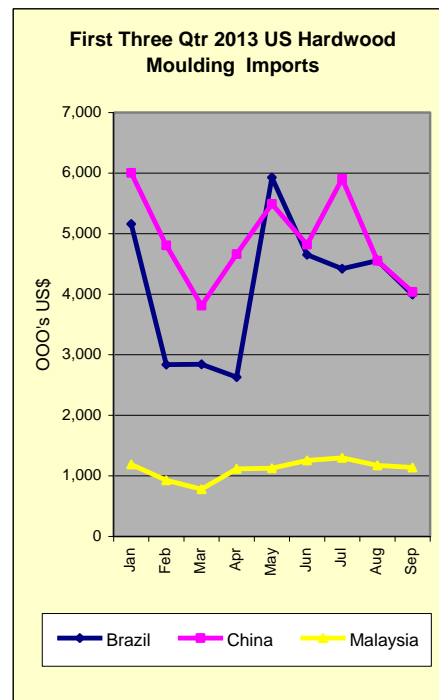


Source: US Department of Commerce, US Census Bureau, Foreign Trade Statistics

Lower shipments from Indonesia (23,122 cu.m.) accounted for much of the decline, but imports from China also decreased. Imports from China were 105,874 cu.m. in September, down 18% from the previous month.

#### More hardwood moulding from Brazil

Hardwood moulding imports declined to US\$15.0 million in September, down 10% from the previous month.

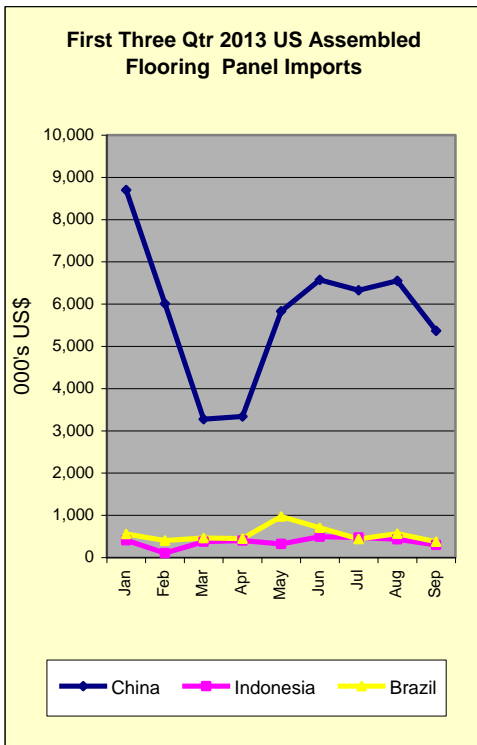


Source: US Department of Commerce, US Census Bureau, Foreign Trade Statistics

All major suppliers shipped less except Canada whose shipment increased by 26%. Imports from China fell by 11% to US\$4.0 million in September.

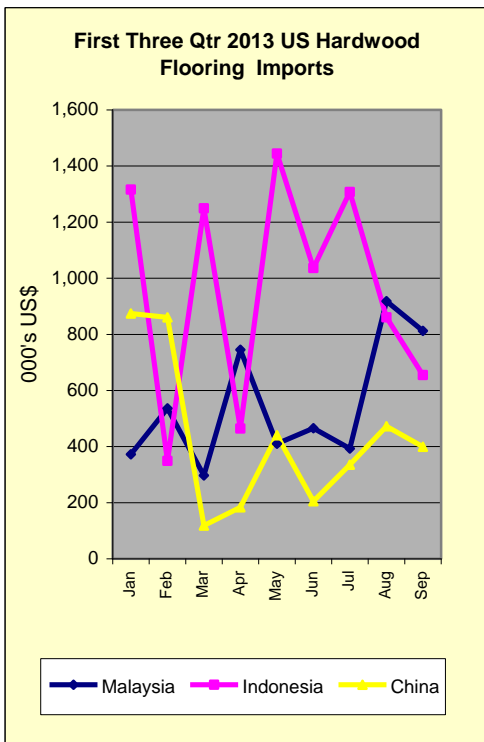
#### Flooring imports down in first three qtrs, except from Indonesia, Brazil and Canada

Imports of assembled flooring panels were worth US\$9.3 million, down 15% from August. Imports from Canada grew by 9% to US\$2.2 million in September. China's shipments declined by 18% to US\$5.4 million.



Source: US Department of Commerce, US Census Bureau, Foreign Trade Statistics

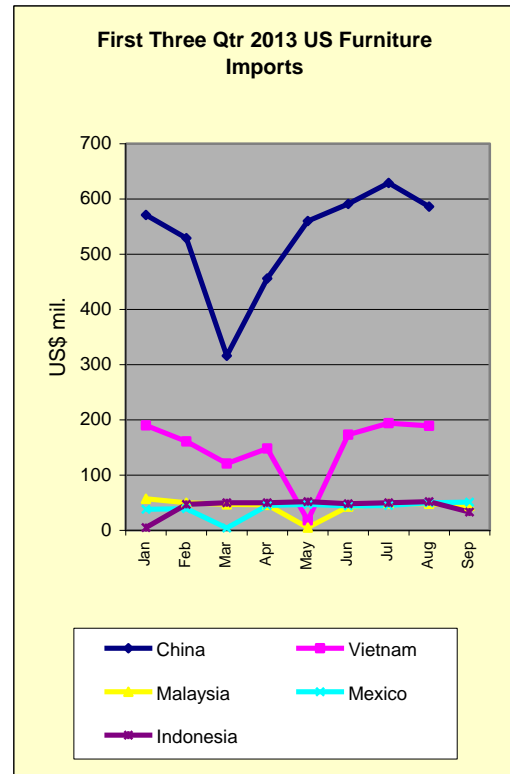
Hardwood flooring imports also decreased in September. Imports were just US\$2.4 million in September, and year-to-date imports are 16% lower than at the same time last year. Only imports from Indonesia are higher than in 2012.



Source: US Department of Commerce, US Census Bureau, Foreign Trade Statistics

### Higher wooden furniture imports from Mexico and Canada

The US imported US\$1.13 billion worth of wooden furniture in September. Year-to-date imports remain 5% higher than in 2012.



Source: US Census Bureau: Foreign Trade Division USA Trade @ Online

US trade statistics report very low imports from China and Vietnam in September, but it remains to be seen whether imports from these two countries were in fact down by 90% or if it was a reporting error.

Furniture imports from Canada and Mexico grew in September, while Malaysia and Indonesia shipped less compared to the previous month.

### Economy improves despite federal government shutdown

The US economy continued to grow in October despite the federal government shutdown, according to the Institute of Supply Management. Most businesses appear not affected by the government shutdown in early October or by the threat of a government default on its debt.

Economic activity in the manufacturing sector expanded for the fifth consecutive month in October. Both the furniture and the wood products sectors reported improving business conditions.

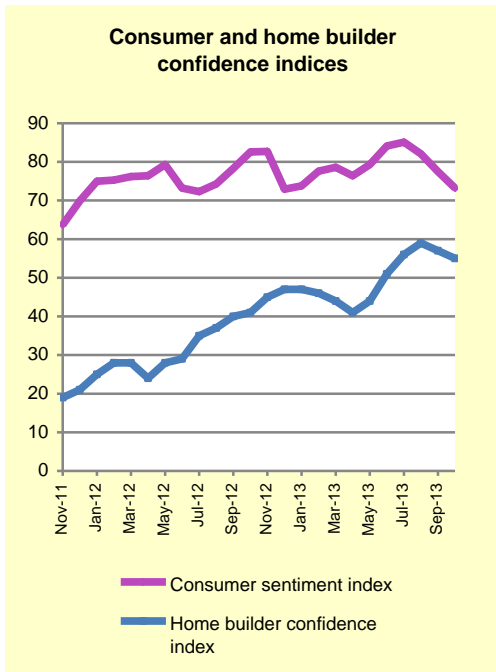
The unemployment rate was 7.2% in September, almost unchanged from 7.3% in August, according to the US Bureau of Labor Statistics.

### Consumer confidence down

Consumer confidence in the US economy fell again in October, according to the Thomson Reuters/University of



Michigan consumer sentiment index. Consumers felt that the government shutdown and reduced government spending would have a negative effect on the economy.

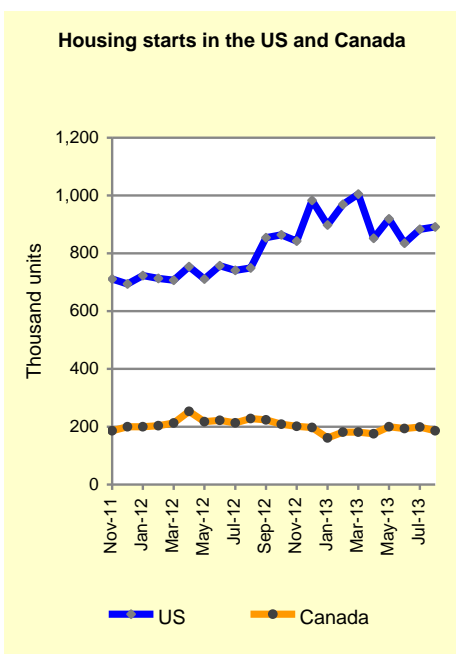


Source: Thomson Reuters/University of Michigan Surveys of Consumers

Many consumers even expressed the view that the government has become the main obstacle to stronger economic growth. Only 25% expect their personal financial situation to improve in the coming year.

**Construction cost and mortgage rates affect home builders' confidence**

Builder confidence in the market for newly built single-family homes declined in October, but the majority of builders remain positive about the market outlook.



Source: US Census Bureau, CMHC

Builder confidence continues to be affected by higher mortgage rates and construction costs, according to the National Association of Home Builders. Uncertainty about government policies contributed to a slowdown in demand for new homes.

Home builders' confidence was highest in the Midwest in October but declined in the Northeast and West.

**Home prices outpace income growth**

The most recent US housing statistics are not yet available because of the government shutdown in October. The National Association of Home Builders estimated September housing starts at 875,000 to 900,000 (seasonally adjusted annual rate). More single-family construction contributes to the improvement, according to the association.

Sales of existing homes declined 1.9% from August to September, at seasonally adjusted rates. The National Association of Realtors makes the increase in home prices responsible for the slowdown. Housing affordability fell as home price increases outpaced income growth.

**Canadian housing market strong in urban centres**

Canadian housing starts grew by 5.5% to 196,000 in September (seasonally adjusted annual rate). Much of the growth was in multi-family construction in urban areas.

The Canadian Housing and Mortgage Corporation still expects overall housing starts in 2013 to decline from the previous, but recent data indicates that demand for both new and existing homes remains strong.

**Hardwood promotion program proposed**

The US Department of Agriculture has released the proposed hardwood lumber and hardwood plywood research and promotion programme. The programme would carry out promotion of US hardwood lumber and plywood to increase their consumption.

All US manufacturers of hardwood lumber and plywood would pay for the programme. The government invites comments on the programme until January 14, 2014. After that a referendum will be held among US manufacturers on whether to implement the programme.

Promotion programmes are common in the US for agricultural commodities such as milk, cotton and soybeans. The hardwood programme would be the first promotion programme in the wood industry.

**Environmental product declarations for LEED certification**

The US Green Building Council has announced that it will develop environmental product declarations for building materials in partnership with the certification company Underwriter Laboratories. The US Green Building Council runs the LEED green building certification program.

The environmental products declarations will disclose the environmental impacts of building materials. LEED is the

leading green building program in North America and it integrates environmental product declarations in its newest version of the certification system.

**Environmental and Health Statements for flooring products**

Flooring producer Tarkett has developed a transparency tool that provides all product ingredients and the environmental and health risks.

The tool, Environmental and Health Statements, will soon be available in Tarkett's North American markets. It is expected to meet the growing demand by architects, builders and green building programs for more environmental and health information about building products.

**Disclaimer:** *Though efforts have been made to keep prices near to accurate, these are published as a guide only. ITTO does not take responsibility for the accuracy of this information.*

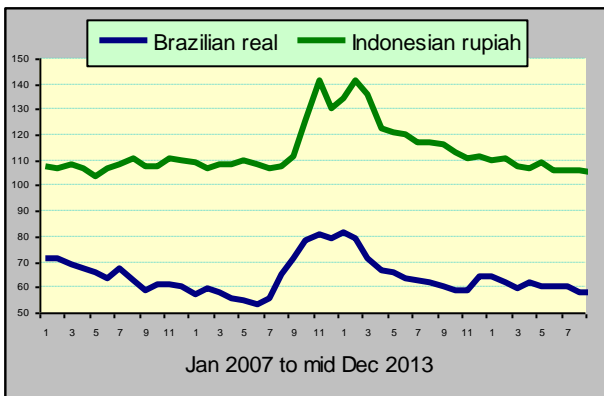
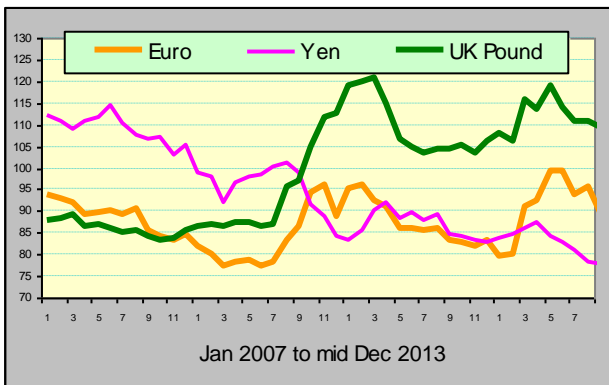
*The views and opinions expressed herein are those of the correspondents and do not necessarily reflect those of ITTO.*

## Main US Dollar Exchange Rates

As of 10th December 2013

Brazil	Real	2.3084
CFA countries	CFA Franc	476.19
China	Yuan	6.0719
EU	Euro	0.7267
India	Rupee	60.9975
Indonesia	Rupiah	11853
Japan	Yen	102.84
Malaysia	Ringgit	3.2042
Peru	New Sol	2.7925
UK	Pound	0.6282
South Korea	Won	1051.85

Exchange rates index (Dec 2003=100)

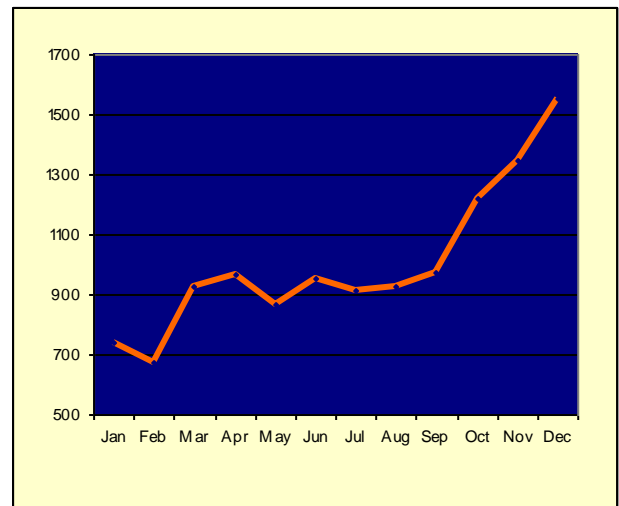


## Abbreviations and Equivalences

Arrows	Price has moved up or down
BB/CC etc	quality of face and back veneer
BF, MBF	Board foot, 1000 board foot
Boule	bundled boards from a single log
CI, CE, CS	Supplimentaire
CIF, CNF	Cost insurance and freight
Clean Sawn	square edged boule
cu.m cbm	cubic metre
FAS	First and second grade of sawnwood
FOB	Free-on board
Genban	Sawnwood for structural use in house building
GMS	General Market Specification
GSP	Guiding Selling Price
Hoppus ton	1.8 cubic metre
KD, AD	Kiln dried, air dried
Koku	0.28 cubic metre or 120 BF
LM	Loyale Merchant, a grade of log parcel
MR, WBP	Moisture resistant, Water and boil proof
OSB	Oriented Stand Board
PHND	Pin hole no defect
QS	Qualite Superieure
SQ,SSQ	Sawmill Quality, Select Sawmill Quality
TEU	20 foot container equivalent

## Ocean Freight Index

Baltic Supramax Index January 2013 – December 2013



The BSI (Baltic Supramax Index), published by the Baltic Exchange, is the weighted average on 5 major time-charter routes. It is based on a 52,454 mt bulk carrier carrying commodities such as timber.

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