

# Tropical Timber Market Report

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The ITTO *Tropical Timber Market (TTM) Report*, an output of the ITTO Market Information Service (MIS), is published in English every two weeks with the aim of improving transparency in the international tropical timber market. Its contents do not necessarily reflect the views or policies of ITTO. News may be reprinted provided that the ITTO *TTM Report* is credited. A copy of the publication should be sent to [ti@itto.int](mailto:ti@itto.int).

## Contents

Central/West Africa	2
Ghana	3
Malaysia	5
Indonesia	5
Myanmar	6
India	7
Brazil	9
Peru	11
Guyana	12
Japan	13
China	18
Europe	21
North America	26
Currencies and Abbreviations	28
Ocean Freight Index	28

## Top Story

### Reliance on timber imports of concern

India has been meeting its growing demand for wood products through increased imports as domestic supplies are insufficient but the dependence on imports is of concern.

A high proportion of domestic logs come from farmers and land owners which, under the present regulations, have little incentive to grow trees for the timber industry.

To boost timber production a National Agro forestry Policy has been drafted which will remove the unfavourable regulations in the Indian Forest Act on felling and transportation of farm grown trees.

Government estimates suggest that the policy will help increase the area under agro forestry from 25 million ha. to 53 million ha

For more see page 8

## Headlines

	<i>Page</i>
<b>Changes in Congo Brazzaville may boost availability of logs</b>	2
<b>Myanmar log export ban to benefit Malaysian companies</b>	5
<b>Heavy rains and poor roads driving up timber transport costs in Brazil</b>	10
<b>Sharp fall in Japan's consumer confidence due to impending tax hike</b>	14
<b>China diversifies sawnwood sources</b>	20
<b>EU tropical wood imports decline 13% in 2013</b>	21
<b>EU construction rises slightly but remains 20% below pre-crises levels</b>	22
<b>ETTF reports only limited impact of EUTR to date</b>	25
<b>More US manufacturers offering 'tropical' look-alike but non-wood decking</b>	27

### Okoume a firm favourite of buyers in Asia

Demand from Asian buyers remains good especially for logs and this has resulted in the firming of some prices over the past month. Middle East demand is reported to be very good with okoume sawnwood a firm favourite.

The trial shipments of mixed redwoods made by West and Central African exporters have been moderately successful with more importers in the Middle East beginning to request mixed redwoods. Overall, the level of log availability is just adequate for the current demand.

### Changes in Congo Brazzaville may boost a availability of logs

Exporters in Cameroon report very active demand for some of the lesser used timbers. The availability of logs on the international market has been boosted as companies that are in the process of building mills in Congo Brazzaville have been granted permission to export a higher quota of logs during the mill construction phase.

The government in Congo Brazzaville is strictly enforcing forest management plans and, as in Gabon, the authorities do not hesitate to withdraw and re-allocate concessions if companies do not comply with the terms of the management plans.

The trade is hopeful that the availability of sapele could improve as more logs are coming out of Congo Brazzaville where there are untapped resources. As the new mills begin production the supply of sawn sapele and other prime timbers is certain to substantially increase.

### Delays to shipments from Cameroon and Gabon

Exporters in both Cameroon and Gabon have recently experienced difficulties in dispatching exports. Shippers in Gabon have had shipments affected by strikes and in Cameroon it has been reported that some essential port equipment is out of order causing delays in shipments.

### Prospects in EU looking brighter

Exporters say they are shipping orders to European markets on schedule and that the current level of demand is absorbing all the mill production such that stocks cannot be built up. A modest improvement in demand in the EU has resulted in some price increases for specific EU specifications.

UK buyers are a little more active than importers in the EU and now have a more positive outlook for construction activity, especially house building. Prices for sapele sawnwood to EU specifications have increased and this upward movement in sapele prices has pulled up sipo prices.

The market outlook for the EU is improving, however there are no signs of improving demand from Spain or Portugal.

### Companies using the Brazzaville-Yaoundé suffer unauthorized 'tax' burden

Trucking along the Brazzaville-Yaoundé corridor presents many challenges to the timber industry. Any company using the Brazzaville-Yaoundé corridor is frequently required to pay unauthorised "taxes" demanded by groups on both the Congolese and Cameroonian sides of the border.

In order to address this the Economic Community of Central African States (CEEAC) will launch an initiative to facilitate unrestricted transportation between the Congo and Cameroon in particular to improve transport along the Ketta Road in Congo to Djoum, Cameroon which is still under construction.

Jean Jacques Samba of Uni-congo, an organisation of Congolese business leaders is on record as saying "illegal taxes significantly increase transportation costs adding up to 30% to the export transaction costs".

### 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	235↑	230↑
Okoume (60% CI, 40% CE, 20% CS) (China only)	340↑	340↑	260↑
Moabi	280	270	-
Movingui	220↑	220↑	180↑
Niove	165	165	-
Okan	265↑	265↑	-
Padouk	300↓	275↓	210
Sapele	280	270	180
Sipo/Utile	310	285	190
Tali	300	300	-

### Sawnwood Export Prices

West African sawnwood, FOB	€ per m <sup>3</sup>
Ayous FAS GMS	345↑
Bilinga FAS GMS	520
Okoumé FAS GMS	480
Merchantable	270↑
Std/Btr GMS	350
Sipo FAS GMS	465↓
FAS fixed sizes	550
FAS scantlings	560↑
Padouk FAS GMS	800↑
FAS scantlings	820↑
Strips	450↑
Sapele FAS Spanish sizes	540↓
FAS scantlings	545↓
Iroko FAS GMS	570↑
Scantlings	590
Strips	440
Khaya FAS GMS	450
FAS fixed	470
Moabi FAS GMS	550
Scantlings	550
Movingui FAS GMS	420↑

## Report from Ghana

### Year-on-year growth in exports

Ghana's timber exports for the 2013 recorded a year-on-year growth in terms of both volume and value according to available data from the Timber Inspection Development Division (TIDD) of the Forestry Commission.

Overall the volume of exports increased just over 8% in 2013 compared to 2012 while the value of 2013 exports rose a healthy 19.5%.

### Export volumes, 2012 and 2013

	2012 (‘000’s cu.m)	2013 (‘000’s cu.m)	% Change 2012 - 2013
Lumber (AD)	57.76	96.76	67.5
Lumber (KD)	54.61	62.91	15.2
Veneer	-	-	
Sliced	17.98	21.66	20.4
Rotary	4.91	6.6	34.2
Curls	0.04	0.03	minus 30
Plywood	90.91	59.35	minus 34.7
Boules (AD+KD)	1.25	1.07	minus 14.3
Other Products	23.77	23.37	minus 1.7
<b>TOTAL</b>	<b>251.25</b>	<b>271.74</b>	<b>8.2</b>

Source: TIDD, Ghana Forestry Commission

### Export values, 2012 and 2013

	2012 Euro Mil.	2013 Euro mil.	% Change 2012 - 2013
Lumber (AD)	21.21	42.06	98.3
Lumber (KD)	22.87	27.7	21.1
Veneer	-	-	
Sliced	14.73	16.59	12.6
Rotary	1.56	2.25	44.6
Curls	0.35	0.22	minus 36.7
Plywood	28.57	19.51	minus 31.7
Boules (AD+KD)	0.58	0.49	minus 16.1
Other Products	9.97	10.47	5
<b>TOTAL</b>	<b>99.84</b>	<b>119.29</b>	<b>19.5</b>

Source: TIDD, Ghana Forestry Commission

Sawnwood and veneer exports grew in terms of both volume and value in 2013 compared to 2012. Of the 21 products exported in 2013, air dried and kiln dried sawnwood and plywood (including overland exports) accounted for 35.6%, 23.2% and 21.8% respectively of

total export volumes which totalled 271,740 cu.m earning euro 89.27 million.

Overland plywood exports to neighbouring countries accounted for 96% of the total plywood exports (59,350m<sup>3</sup>) in 2013. The main markets were Nigeria, Burkina Faso and Niger.

Primary product exports (mainly sawnwood, boules, veneers and plywood) accounted for over 90% of the volume and value of exports. The major species exported during 2013 were wawa, mahogany, ofram, sapele, rosewood, dahoma and denya.

The United States, China, Germany, UK, Nigeria, Senegal and India were some of the major markets for Ghana's wood products in 2013.

The ECOWAS countries, especially Nigeria, Burkina Faso, Niger, Benin and Senegal, were significant buyers of Ghana's wood products in 2013.

### Power rationing affects businesses

The Electricity Company of Ghana (ECG) has introduced a nationwide power rationing scheme which became necessary because the supply of natural gas from Nigeria is inadequate to meet Ghana's power requirements.

The load shedding and erratic power supply has meant that businesses, including timber manufacturers, have had to switch to on-site diesel generators which has pushed up production costs.

Ghana relies on gas from Nigeria for power generation but supplies are becoming unreliable due to frequent technical problems with the West African Gas pipeline.

### Domestic gas supplies to come on stream in September

The head of the state-run Ghana National Petroleum Corporation (GNPC), Alex Mould, has said Ghana will start processing gas from its offshore Jubilee oil field by September after long delays.

Construction work on the US\$750 million plant, originally scheduled for completion last year, has been delayed because of both financial and technical problems.

### Consumer price inflation at 3-Year high

Ghana's annual consumer price inflation rose to a fresh three-year high of 14% in February, up from 13.8% in January according to the Ghana Statistical Service. The impact of the rise in fuel prices on transport and food prices has driven inflation higher.

In related news a mission from the International Monetary Fund (IMF) recently assessed the state of the Ghanaian economy. At the end of the mission, the IMF issued a press release which summarised the conclusions from the visit which says: "Ghana's economy slowed down on the back of sizable external and fiscal imbalances and energy disruptions in the first half of the year.

Based on data for the first three quarters of 2013, the mission estimates growth of 5.5 percent—well below the levels of recent years. On the fiscal side, revenue shortfalls, overruns in the wage bill, and rising interest costs pushed the 2013 deficit to 10.9 percent of GDP, versus a target of 9 percent.

The overrun would have been higher in the absence of significant revenue measures, the elimination of fuel subsidies, large increases in utility prices, and compression of other expenditure.

The large fiscal deficit combined with a weaker external environment, led to a widening of the current account deficit to 13 percent of GDP and to further pressure on international reserves.

The consequent weakening of the cedi together with large administered price increases contributed to inflation rising above the end-year target range to 13.5 percent”.

For the full release see:

<http://www.imf.org/external/np/sec/pr/2014/pr1471.htm>

#### Foundation for Ghana's maritime transport hub

Ghana has established a multi-million maritime safety and security project that will ensure constant surveillance of the country's territorial waters. A vessel monitoring and information management system (VTMIS) has been put in place providing for 24 hour monitoring of vessels moving in and out of Ghana's waters.

The Director-General of the Ghana Maritime Authority (GMA), Mr Peter Issaka Azumah, said in an interview with the Graphic Press that “completion of the VTMIS project and its planned commissioning next month would boost the country's vision of becoming the central point in West Africa where majority of maritime businesses are transacted.” Mr Azumah outlined the VTMIS at a conference on Coastal and Maritime Surveillance in Africa.

For the full story see:

<http://graphic.com.gh/business/business-news/20099-ghana-s-maritime-hub-concept-gets-us-35m-boost.html>

#### Domestic Log Prices

Ghana logs	US\$ per m <sup>3</sup>	
	Up to 80cm	80cm+
Waw a	153-160	167-185
Odum Grade A	170-175	180-188
Ceiba	118-135	138-150
Chenchen	105-122	125-133
Khaya/Mahogany (Veneer Qual.)	125	155
Sapele Grade A	152-160	168-185
Makore (Veneer Qual.) Grade A	116-122	125-132
Ofram	115-122	130-135

#### Boule Export prices

	Euro per m <sup>3</sup>
Black Ofram	240
Black Ofram Kiln dry	333
Niangon	492
NiangonKiln dry	575

#### Export Sawwood Prices

Ghana Saw wood, FOB	€ per m <sup>3</sup>	
	Air-dried	Kiln-dried
FAS 25-100mm x 150mm up x 2.4m up		
Afrormosia	855	945
Asanfina	480	564▲
Ceiba	230▼	326▲
Dahoma	276▼	337▼
Edinam (mixed redwood)	351▼	515▲
Emeri	380▲	556▲
African mahogany (Ivorensis)	593	602▼
Makore	575	650
Niangon	550▼	625
Odum	582▲	743▲
Sapele	567	652▲
Waw a 1C & Select		323

#### Export Rotary Veneer Prices

Rotary Veneer 1-1.9mm, FOB	€ per m <sup>2</sup>	
	CORE (1-1.9mm)	FACE (2mm)
Ceiba	255▼	330
Chenchen	320	369▲
Ogea	298	340
Essa	322	330
Ofram	300	355

#### Export Sliced Veneer Prices

Sliced Veneer, FOB	€ per sq. m	
	Face	Backing
Afrormosia	1.32	0.80
Asanfina	1.20	0.59▲
Avodire	1.12	0.47
Chenchen	1.00	0.62
Mahogany	1.30	0.43
Makore	1.30	0.45
Odum	1.78	1.08

#### Export Plywood Prices

Plywood, FOB	€ per m <sup>2</sup>		
	Ceiba	Ofram	Asanfina
BB/CC			
4mm	446▲	600	641
6mm	422	580	622
9mm	360	423	490
12mm	357	446▲	445
15mm	325	380▲	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	13.00▲	15.36	18.80
Odum	11.50	11.80	12.52
Hyedua	14.10	14.00	18.45
Afrormosia	14.30	18.65	18.55

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

## Report from Malaysia

### Low level of demand for certified wood disappoints industry

The MTCC has released data for the last four months of 2013 on exports of wood products certified through the Malaysian Timber Certification System (MTCS).

Product	Sep-13	Oct-13	Nov-13	Dec-13
Sawntimber	9,535	12,027	6,195	9,842
Plywood	4,251	5,746	3,346	3,895
Mouldings	1,574	1,970	1,921	1,621
total cu.m	15,360	19,743	11,462	15,358

Source: MTCC

In the last four months of 2013, Malaysia exported 62,215 cu.m of certified timber products. The highest volume went to Netherlands with 19,313 cu.m (31% of total), United Kingdom 9,977 cu.m (16%) and Germany 4,727 cu.m (7.6%).

The MTCS, operated by MTCC, is endorsed by the Programme for the Endorsement of Forest Certification (PEFC).

Industry analysts say that, despite the development and progress of timber certification in Malaysia, the purchase of certified wood products has been disappointing. This weak demand for certified timber products is thought to be discouraging companies from applying CoC certification.

The most commonly heard complaint from industry is that demand for certified products is not expanding and even when a price premium can be secured this is insufficient to offset the additional expenses incurred.

### Diversification into Glulam production

Glue laminated timber (Glulam) will be promoted by the Malaysian Timber Council (MTC) to increase acceptance by the domestic construction industry. MTC has identified glulam as an innovative technically superior material that will offer many advantages to construction companies.

Yeo Heng Hua of MTC said diversifying manufacturing is one means for the country to achieve its export target of RM53 billion by 2020 and ensure the growth of Malaysia's timber industry.

### Myanmar log export ban to benefit Malaysian companies

Myanmar's log export ban on 1 April is seen by many in the industry as providing an opportunity for Malaysian timber companies, especially as demand in India and Japan is firm.

The investment research company, RHB Research Institute, says "Malaysia's log prices will be undergoing a re-rating as Myanmar's log exports catered to more or less the same export markets as Malaysia".

RHB's Hoe Lee Leng said, "Looking back at history, when Indonesia banned log exports in 2001, Malaysia went from having a 43% log export market share to a 58% market share. In view of the change in Myanmar, we expect tropical log prices to start to go up again from the first half of 2014, after the existing inventory of logs held in importing countries declines".

Hoe is expecting the knock-on effect of the Myanmar ban to be less felt in the plywood markets where he predicts prices will go up 2 – 3% year-on-year.

He pointed out that while Japan housing projects grew 11% in the year 2013 and 12.3% in the first quarter of 2014, plywood imports did not rise by the same amount, growing only 3.3% year-on-year.

The Myanmar log export ban is expected to benefit Sarawak timber companies most as they are the nation's main log exporters.

The Sarawak Timber Industry Development Corporation (STIDC), in its first quarterly magazine for 2014, states it is hopeful that Sarawak will sustain timber and timber product export values at RM7.2 billion (approximately US\$ 2.2 billion) this year.

### Plantation C&I Standards under revision

The Malaysian Timber Certification Council (MTCC) is in the process of reviewing its standards for the Criteria and Indicators for forest plantations. The review committee of sixteen stakeholders met for the second time in Kuching.

As a result of the second meeting, the committee prepared an Enquiry Draft for a revised Standard which will be further deliberated upon in the three regions of the country namely, Peninsular Malaysia, Sabah and Sarawak. Details of the regional consultations will be posted on the MTCC website: [www.mtcc.com.my](http://www.mtcc.com.my).

## Report from Indonesia

### Vietnam and Malaysia outperform Indonesia's wood product exports

The Indonesian Ministry of Trade has reported that the 2013 value of wooden furniture exports was US\$1.2 billion and that rattan furniture exports were worth US\$219.8 million.

While this is a good performance, Indonesia's furniture exporters are yet to match the achievements of both Vietnam and Malaysia which exported more than twice the amount in the case of Malaysia and 4 times as much in the case of Vietnam.

However, none of the SE Asian exporters can match the performance of China where wooden furniture exports in 2013 were US\$12.38 billion. Indonesia's Trade Minister, Muhamad Lutfi has said that the country should do better as it has 140 million hectares of forest so has ample timber resources to support greater exports.



**Furniture SMEs gain from CIFOR assistance**

In order to take full advantage of the opportunity created by the VPA for easy access to EU markets, furniture manufacturers in Central Java have established a new association that will help small and medium sized companies secure legality certification under Indonesia's SVLK.

The establishment of the new body was assisted by CIFOR through its Furniture Value Chain research project headed by Herry Purnomo.

CIFOR had undertaken a study to find ways to boost the incomes of small-scale furniture makers whose industry has been in decline since the 2008 global financial crisis and the impact of ASEAN free pact.

**Result of biomass study released**

The Indonesian Ministry of Forestry has released the results of its massive biomass study conducted in Central Kalimantan. The approach taken has the potential to be a model for similar projects in other areas and the results provide a key reference point in terms of national green house gas reporting. For more details see:

<http://www.forda-mof.org/index.php/berita/post/1662>

**Domestic Log Prices**

Indonesia logs, domestic prices	US\$ per m <sup>3</sup>
Plywood logs	
core logs	195-220
Saw logs (Meranti)	200-220
Falcata logs	170-190
Rubber wood	95-110
Pine	125-140
Mahoni (plantation mahogany)	130-150

**Domestic Ex-mill Sawwood Prices**

Indonesia, construction material, domestic	US\$ per m <sup>3</sup>
Kampar (Ex-mill)	
AD 3x12-15x400cm	390-410
KD	-
AD 3x20x400cm	565-600
KD	-
Keruing (Ex-mill)	
AD 3x12-15x400cm	345-370
AD 2x20x400cm	455-500
AD 3x30x400cm	390-420

**Export Plywood Prices**

Indonesia ply MR BB/CC, export FOB	US\$ per m <sup>3</sup>
2.7mm	620-650
3mm	650-670
6mm	-

**Domestic Plywood Prices**

MR Plywood (Jakarta), domestic	US\$ per m <sup>3</sup>
9mm	370-390
12mm	345-360
15mm	285-315

**Export and Domestic Other Panel Prices**

Indonesia, Other Panels, FOB	US\$ per m <sup>3</sup>
<i>Particleboard</i>	
Export 9-18mm	680-720
Domestic 9mm	960-1020
12-15mm	585-610
18mm	400-450
<i>MDF</i>	
Export 12-18mm	720-755
Domestic 12-18mm	325-450

**Commercial tax reduction**

The Pyidaungsu Hluttaw (Union Parliament) while debating taxation matters decided upon a reduction from 50% to 25% in the commercial tax on logs and rough sawn timber.

After the log export ban, MTE will remain the sole supplier of raw material to the domestic mills and it is understood all sales by MTE are inclusive of the commercial tax.

One analyst said that if the sales invoices from MTE included the statement 'pricing is inclusive of commercial tax' this would help exporters speed up their preparation of tax and export documentation.

Analysts close to the timber industry say that it appears the commercial tax for processed timber products will be 5%, another step towards the development of the export-driven timber trade and industry.

**Union Parliament approves electricity rate hike**

The New Light of Myanmar of 20 March reported that the Pyidaungsu Hluttaw has approved an increase in the electricity rates from 1 April, the beginning of the new fiscal year.

Some journalists are critical of this hike, arguing that rate increases for the industrial sector would inevitably create a chain reaction resulting in an increase in consumer prices.

Maung Maung Lay, vice chairman of the Union of Myanmar Federation of Chambers and Commerce Industry (UMFCCI), said production costs for Myanmar industries were set to rise significantly as a result of the change in power rates and that this will undermine the competitiveness of Myanmar products.

Myat Thin Aung, chairman of the Hlaing Thayar industrial zone in Yangon, voiced similar concerns as reported by the Irrawaddy on 24 March saying "All manufacturers will be impacted ... they can't compete with imported goods because production costs are increasing."

**EU and Myanmar to negotiate investment protection agreement**

The EU reinstated trade preferences to Myanmar in July 2013 and in late March this year the EU Trade Commissioner Karel De Gucht opened negotiations for an investment protection agreement between the European Union and Myanmar with Dr. Kan Zaw, Union Minister of National Planning and Economic Development of the Republic of the Union of Myanmar.

The EU Member States gave endorsed the opening of these negotiations which, if successful, will improve the protection and fair treatment of investors from both sides and will thus contribute to attracting investments to Myanmar and the EU.

"This investment agreement could become an important accelerator for the reform process in Myanmar/Burma", said EU Trade Commissioner De Gucht. "Experience has shown that improving legal certainty and predictability for investments is key in providing business opportunities and much-needed development for this growing economy.

I hope we can conclude negotiations swiftly to open the door to an increased flow of mutually beneficial investments. The European Union fully supports Myanmar's reform process and is ready to support further efforts in this direction. Currently, there is no bilateral investment treaty in place between Myanmar and any EU Member States".

For the full press release see: [http://europa.eu/rapid/press-release\\_IP-14-285\\_en.htm](http://europa.eu/rapid/press-release_IP-14-285_en.htm)

### Teak sales

The following grades were sold by competitive bidding on 10 and 21 March 2014 at the Myanma Timber Enterprise (MTE) tender hall.

Grade	Hoppus tons	Avg. US\$ /H. ton FOB
4 <sup>th</sup> Quality	10	\$7,023
Sawing Grade-1	14	\$5,722
Sawing Grade-2	33	\$4,996
Sawing Grade-4	148	\$3,362
Sawing Grade-5	30	\$3,022
Sawing Grade-6	89	\$1,501
Sawing Grade-7	95	\$1,200

Teak logs sales by Special Open Tender 21 March 2014 Maung Kone Depot, Momeik are shown below.

Grade	Hoppus tons	Avg. US\$/H.t on
SG-4	5	1655
SG-5	8	1111
SG-6	7	712
SG-7	22	608
SG-8	14	399

Analysts say that, as these teak logs were sold on-site at the Maung Kone Depot in Momeik which is in the northern part of the country, it is unlikely these logs can be exported before the log export ban comes into effect.

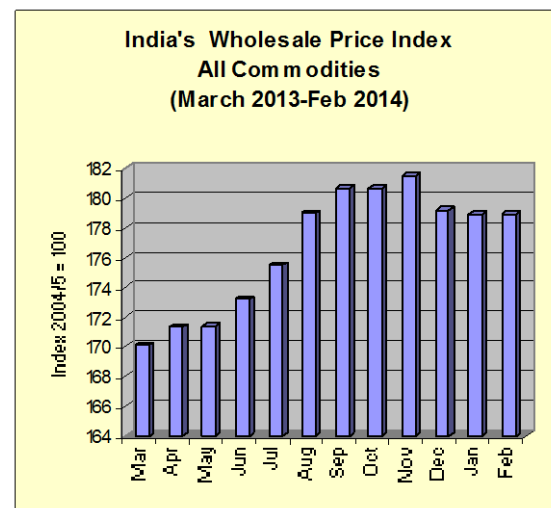
Timber traders are desperately trying to ship whatever they can before the 1 April deadline and are being helped as both the weather and transport conditions are

favourable. Analysts expect to see a further surge in export shipments of logs during the final days of March.

## Report from India

### Wholesale price steady

The Office of the Economic Adviser to the Indian government provides details of trend in the Wholesale Price Index (WPI). The official Wholesale Price Index for 'All Commodities' (Base: 2004-05 = 100) for the month of February remained at 178.9. The indications are that the wholesale price index will fall further in the second quarter.



Data source: Office of the Economic Adviser to the Indian government

### Indian economy on a stronger footing

Analysts are suggesting that the upcoming election could lead to a further strengthening of the Indian economy and an increase of inward investment, especially as the economy looks better placed to withstand any further external shocks.

Signs of a recovery in the global economy are boosting the outlook for India's exporters and the recent decline in commodity prices, especially of energy, industrial goods and gold, combined with weaker domestic demand, is helping reduce India's trade deficit.

The stable rupee:US dollar exchange rate has been effectively maintained and from being one of the worst performing emerging market currencies, the rupee has become more resilient thanks largely to the actions of the Reserve Bank of India.

In addition, the deficit has begun to fall as has the rate of inflation. Overall, prospects for the economy have improved and with polls showing a strong prospect of continued political stability, the economy should further improve after the elections.

In a recent press statement Morgan Stanley indicated it has raised its forecast for India's 2014 GDP growth to 5.2%.

**Inflation at nine month low**

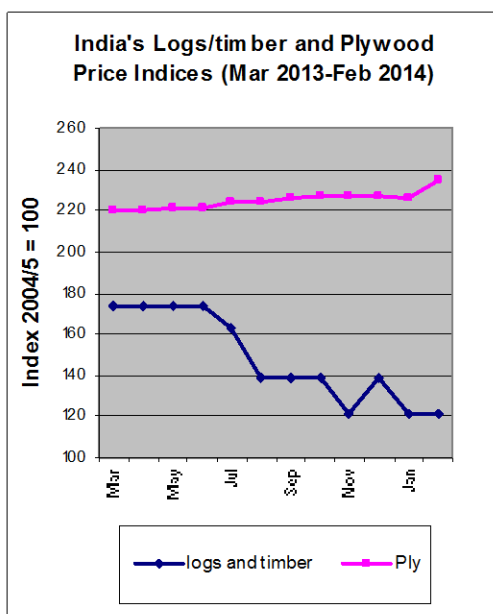
The inflation rate recently eased to a nine month low of 4.68%. Retail inflation, which eats into household budgets, has also dropped to a two year low of 8.10% from 8.79 % in January 2014.

Through recent action by, and new regulations from, the Ministry of Environment and Forestry, the mining, power and manufacturing sectors have improved opportunities for added value production and export. These changes are already filtering into the index for industrial production which has improved over recent months.

**Timber and plywood wholesale price indices**

In addition to data on the Wholesale Price Index for all commodities, the Office of the Economic Adviser to the Indian government also reports data on wholesale price movements for a variety of wood products.

The Wholesale Price Indices for Logs/timber and Plywood are shown below. The logs/timber index has remained at the same level for two consecutive months.



Data source: Office of the Economic Adviser to the Indian government

**Reliance on timber imports of concern**

India has been meeting its growing demand for wood products such as plywood, sawnwood and pulp and paper through imports as domestic industries are inadequate to meet the growth in demand but the dependence on imports is of concern.

According to the National Research Centre for Agro forestry (NCRA), the country imported six million cubic metres of timber last year. NCRA data suggests India has 23,220 saw mills, 2,562 large and small plywood mills, 660 pulp and paper mills but says most are operating at only 40 per cent of their capacity.

The NCRA says the main reason for the inadequate supply of raw materials is that a high proportion of logs come

from farmers and land owners which, under the present regulations, have little incentive to produce wood raw materials.

In an effort to boost agro-forestry output a National Agro-forestry Policy (2014) has been drafted which, say analysts, has the potential to revive the agro-forestry sector.

Currently small farmers avoid agro-forestry production because of unfavourable regulations on felling and transporting of farm grown trees in the Indian Forest Act. The Act restricts felling and transportation of trees grown even on private farmland, especially of those species which are found in the nearby forests, a measure aimed at reducing illegal felling.

In addition, unlike the agriculture sector, the agro-forestry sector lacks an institutional insurance facility. The new policy addresses this and for the first time promises risk coverage to farmers practicing agro forestry against theft and natural calamities such as cyclone, storm, floods and drought.

The policy calls for farmers to be provided with soft loans. Government estimates suggest that the policy will help increase the area under agro forestry from 25.32 million hectares to 53 million ha

India's imports of wood and wood products continue to grow with firm demand from manufacturers.

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

	US\$ per cu.m C&F
Tanzania teak, sawn	350-885
Côte d'Ivoire logs	390-750
PNG logs	400-575
El-Salvador logs	340-695
Guatemala logs	400-550
Nigeria squares	370-450
Ghana logs	375-650
Guyana logs	300-450
Benin logs	340-650
Benin sawn	435-800
Brazil squares	360-680
Brazil logs	350-750
Cameroon logs	390-510
Togo logs	380-715
Ecuador squares	330-540
Costa Rica logs	355-700



Panama logs	360-550
Sudan logs	480-700
Congo logs	450-550
Kenya logs	390-600
Thailand logs	460-700
Trinidad and Tobago logs	420-680
Uganda logs	440-780
Uganda Teak saw n	680-800
Laos logs	300-605
Malaysian teak logs	325-525
Nicaragua logs	370-535
Liberia logs	350-460
Colombia logs	400-685

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

#### Prices for domestically sawn imported logs

Demand for Balau is very strong and because supplies have not kept pace prices have risen. As a result of the rise in prices for balau meranti is now more widely accepted

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

Saw n wood,(Ex-mill) (AD)	Rs. per ft <sup>3</sup>
Merbau	1550-1650
Balau	1650-1850
Kapur	1200-1250
Kempas	1100-1200
Red Meranti	875-975
Radiata Pine (AD)	550-650
Whitewood	600-650

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

#### Myanmar teak processed in India

Export demand continues to be good but domestic demand is still slow.

Saw n wood (Ex-mill)	Rs. per ft <sup>3</sup>
Myanmar Teak (AD)	
Export Grade F.E.Q.	6000-15000
Plantation Teak A grade	5500-6000
Plantation Teak B grade	3500-4250
Plantation Teak FAS grade	3000-3500

Price variations depend mainly on length and cross section

#### Imported sawnwood prices

Demand for hardwoods from the USA and timber from Canada is improving as these timbers become more widely accepted. Prices in the local market remain unchanged.

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

Saw n wood, (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

#### Plywood market slow to revive

With the Indian rupee slowly strengthening prices for imported plywood as well as prices for plywood manufactured from imported logs have fallen slightly. Plywood manufacturers are expecting the domestic housing market to get a boost after the general election and anticipate this expand demand for plywood.

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

Plywood, Ex-w arehouse, (MR Quality)	Rs. per sq.ft
4 mm	34.00
6 mm	46.00
9mm	58.00
12 mm	72.50
15 mm	96.00
18 mm	101.00

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

Locally Manufactured Plywood "Commercial Grade"	Rs. per sq.ft	Rubberw ood	Hardw ood
4mm		Rs.18.00	Rs.26.50
6mm		Rs.27.50	Rs.34.00
9mm		Rs.34.50	Rs.41.00
12mm		Rs.41.00	Rs.50.00
15mm		Rs.50.40	RS.61.00
19mm		RS.58.00	Rs68.25
5mm Flexible ply	Rs.36.00		

#### Report from Brazil

##### Real depreciation helping exports

The Consumer Price Index (IPCA) that measures inflation in Brazil rose 0.69% in February 2014 after increasing 0.55% in January 2014. In February 2013 the IPCA rate was 0.60%.

The average exchange rate in February 2014 was BRL 2.38 to the US dollar, significantly weaker than BRL 1.97

in February 2013 demonstrating by how much the Brazilian currency has depreciated against the US dollar.

In February 2014, the Monetary Policy Committee of the Central Bank (COPOM) decided to increase the Selic (interest) rate from 10.5% to 10.75%.

#### **Timber sector negotiates more favourable tax basis**

The Department of Finance of the State of Mato Grosso (SEFAZ) has published the wood price list that is used by SEFAZ as the basis for calculating state taxes.

The state government initially planned to increase prices in its minimum price list by 10%, but after strong lobbying by the timber industry an increase of 4.1% was agreed.

According to Timber Industries Association of Northern Mato Grosso (Sindusmad), this adjustment while consider high, will not add significantly to costs or affect the competitiveness of companies in relation to other producing States.

The price list negotiations took into consideration the fact that the state government needed to maintain the same level of tax (Tax over Circulation of Goods and Services) revenue from previous years.

#### **Heavy rains and poor roads driving up timber transport costs**

Forest products transport from Mato Grosso state to the main consumer centres is being hampered by the above average rainfall for this period in the region.

Unpaved roads have been turned into muddy rivers and river crossings have become difficult and dangerous. As a result of the difficulty driving conditions companies in the forestry sector have seen transport costs rise sharply compared to what they were paying in December last year when there was less rainfall.

According to the Union of Timber Industries for Mid-North region in the State of Mato Grosso (SINDINORTE), road transport costs increased 10% in less than two months.

In order to transport wood products from Nova Maringa, located 305 kilometers from Cuiabá (the state capital) to the São José do Rio Preto consumer cluster located in the state of São Paulo the current freight costs are as high as R\$220 per ton. In December 2013 the transport cost for the same route was about R\$200 per ton.

Transport costs from Colhiza (one of the State's largest timber producers) to the State of Espírito Santo have jumped over 30% from R\$360 to R\$490 per ton in the past two months.

Due to this unexpected rise in transport costs SINDINORTE has requested a reduction in the prices for wood products in the official list used to set taxes.

According to the Union of Wood and Furniture Industries of Northwestern Mato Grosso (SIMNO), transport costs could rise even more as companies are forced to use alternative, longer routes.

#### **February export performance**

In February 2014, wood product exports (except pulp and paper) increased 19% in terms of value compared to February 2013, from US\$186.2 million to US\$221.6 million.

Pine sawnwood exports increased 37% in value in February compared to February 2013, from US\$12.7 million to US\$17.4 million. In terms of volume, exports rose 30.1%, from 57,900 cu.m to 75,300 cu.m in the same period.

Tropical sawnwood exports rose just over 1% in volume, from 27,700 cu.m in February 2013 to 28,000 cu.m in February this year and the value of exports increased 7.2% from US\$15.2 million to US\$ 16.3 million, in the same period.

Pine plywood exports improved by around 13% in value this February compared to February 2013, from US\$30.2 million to US\$34.1 million. There was also an increase in the volume of exports by 13.8%, from 81,100 cu.m to 92,300 cu.m in the same period.

While of declining significance, tropical plywood exports fell almost 18% from 4,500 cu.m last February to 3,700 cu.m in February this year.

#### **Potential in furniture sector examined in new report**

The value of wooden furniture exports increased from US\$34.3 million in February 2013 to US\$37.2 million in February 2014, an 8.5% increase and furniture production for the domestic and international markets is expected to expand throughout in 2014.

A study on the potential for the furniture market in 2014 has been launched by the Institute for Industrial Studies and Marketing (IEMI). The early findings forecast a 3.5% increase in furniture parts sales, a 14.5% rise in imports and an 8% rise in exports in 2014.

The overall value of furniture output, says the study, could rise to US\$14.5 billion while imports could be around US\$337 million and exports US\$503 million in 2014 on the basis of an exchange rate of R\$ 2.44 per US dollar. Brazil has around 18,200 furniture manufacturers which provide about 300,000 direct and indirect jobs.

#### **March prices round-up**

Average natural forest roundwood prices range from US\$109 to US\$169.5 per cu.m at mill yard, while average prices for sawnwood from natural forest species varied from US\$253.5 to US\$859 per cu.m ex-factory depending on species. In both cases the highest prices were for ipê (Tabebuia sp.).

The average price of parica WBP plywood ranged from US\$520 to US\$ 735.5 per cu.m ex-factory depending on thickness.

Prices for parica MR glue plywood were in the range of US\$478 to US\$ 651.5 per cu.m ex-factory, according to the thickness. The average price for reconstituted panels were US\$314.5 per cu.m ex-factory for raw MDP (15 mm) and US\$494 per cu.m ex-factory for raw MDF (15 mm).

#### Domestic Log Prices

Brazilian logs, mill yard, domestic	US\$ per m <sup>3</sup>
Ipê	169.5↑
Jatoba	105
Massaranduba	121
Miracatiara	123
Angelim Vermelho	114.5
Mixed redwood and white woods	109

#### Export Sawwood Prices

Saw nwood, Belem/Paranagua Ports, FOB	US\$ per m <sup>3</sup>
Ipê	1294
Jatoba	1202
Massaranduba	707
Miracatiara	726
Pine (KD)	228

#### Domestic Sawwood Prices

Brazil sawnwood, domestic (Green ex-mill)	US\$ per m <sup>3</sup>
Ipê	859↑
Jatoba	534.5↑
Massaranduba	411
Miracatiara	471
Angelim Vermelho	409
Mixed red and white	253.5
Eucalyptus (AD)	227.5↓
Pine (AD)	180.5
Pine (KD)	189.5

#### Export Plywood Prices

Pine Plywood EU market, FOB	US\$ per m <sup>3</sup>
9mm C/CC (WBP)	372↑
12mm C/CC (WBP)	345
15mm C/CC (WBP)	337↓
18mm C/CC (WBP)	325↓

#### Domestic Plywood Prices (excl. taxes)

Parica	US\$ per m <sup>3</sup>
4mm WBP	735.50
10mm WBP	659.50
15mm WBP	520.00
4mm MR	651.50
10mm MR	513.50
15mm MR	478.00

Domestic prices include taxes and may be subject to discounts.

#### Prices For Other Panel Products

Domestic ex-mill Prices	US\$ per m <sup>3</sup>
15mm MDP	315
15mm MDF	494

#### Export Prices For Added Value Products

FOB Belem/Paranagua Ports	US\$ per m <sup>3</sup>
Decking Boards Ipê	2,330.00
Jatoba	1,550.00

#### Strategy to promote forestry sector investment

In order to achieve conditions that will lead to greater investment and market access the Ministry of Agriculture will be hosting workshops to promote the Forestry Sector in the Amazon region namely, Mother God, Loreto and Ucayali.

The workshop participants will be drawn from timber and non-timber resource managers, native communities, forestry consultants and major NGOs in the area.

#### INIA launches agro-forestry drive

The National Institute of Agricultural Innovation (INIA) will promote agro-forestry to increase the productivity of land in large regions of Peru. It is planned to introduce pine in coffee producing areas of Villa Rica.

#### Export Sawwood Prices

Peru Saw nwood, 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 Saw nwood, FOB Callao Port (cont.)	US\$ per m <sup>3</sup>
Virola 1-2" thick, length 6'-12' KD	
Grade 1, Mexican market	431-496
Grade 2, Mexican market	372-415
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	592-611
Marupa (simarouba) 1", 6-11 length Asian market	421-482

Peru Saw nwood, 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 Sawwood Prices

Peru sawnwood, domestic	US\$ per m <sup>3</sup>
Mahogany	867-911
Virola	142-166
Spanish Cedar	296-355
Marupa (simarouba)	110-121

#### Export Veneer Prices

Veneer FOB Callao port	US\$ per m <sup>3</sup>
Lupuna 3/Btr 2.5mm	207-239
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	328-365
Virola, 2 faces sanded, B/C, 5.2x4x8mm	466-489
Cedar fissilis, 2 faces sanded 4x8x5.5mm	759-770
Lupuna, treated, 2 faces sanded, 5.2x4x8mm	373-399
Lupuna plywood B/C 15x4x8mm	407-439
B/C 9x4x8mm	366-385
B/C 12x4x8mm	350-360
B/C 8x4x15mm	424-446
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	467
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>
Cabreva/estoraque KD 12% S4S, Asian market	1293-1351
Cumaru KD, S4S Sw edish market	897-1025
Asian market	1255-1345
Cumaru decking, AD, S4S E4S, US market	1215-1311
Pumaquiro KD # 1, C&B, Mexican market	464-534
Quinilla KD, S4S 2x10x62cm, Asian market	493-519
2x13x75cm, Asian market	732-815

## Report from Guyana

### Mora log prices ease, India the top log buyer

Only greenheart and mora logs were exported in the period reviewed, there was no export of purpleheart logs. Greenheart log FOB prices were fair on the market with Standard Sawmill Quality priced at an average of US\$ 140 per cu.m, Fair Sawmill Quality US\$130 per cu.m and Small Sawmill Quality US\$120 per cu.m.

In comparison mora log FOB prices were stable with Standard Sawmill Quality traded at US\$120 per cu.m and Fair Sawmill Quality at US\$115. The FOB price for Small Sawmill quality mora logs was US\$110 per cu.m FOB. The major markets for Guyana's logs were in Asian, predominantly India.

### Mora sawnwood outperforms other timbers

The sawnwood market was quiet over the past weeks. Non-dressed greenheart (Prime Quality) low end FOB prices remained stable at US\$954 per cu.m but Select Quality top end prices moved up from US\$848 to US\$910 per cu.m. Then again, Sound Quality Non-dressed greenheart FOB prices were largely unchanged.

Non-dressed purpleheart Select Quality sawnwood prices remained firm at US\$1,080 per cu.m FOB but Non-

dressed mora Select Quality prices saw a fall in FOB price from US\$976 to US\$954 per cu.m.

On the other hand, Merchantable Quality mora FOB prices climbed from US\$500 to US\$594 per cu.m. The main destinations for sawn but Non-dressed species from Guyana were the Caribbean, Europe, Oceania and North America.

During the period under review Dressed greenheart sawnwood FOB prices held firm price at US\$1,060 per cu.m. However Dressed purpleheart FOB prices saw a rise in top end price from US\$869 to US\$1,102 per cu.m.

The Caribbean was the only market to absorb dressed sawnwood in the period reviewed.

Plywood export prices were unchanged at US\$ 584 per cu.m FOB in the markets of Central and South America.

Greenheart piles for heavy construction works secured a fair price on the market earning as much US\$425 per cu.m FOB for Select Quality and US\$432 per cu.m for Sound Quality. Europe and North America remain the major markets for this product. Guyana splitwood (shingles) commanded a fair FOB price of US\$1,023 per cu.m in the Caribbean and N. American markets.

### Profit from using Lesser Used Species

Guyana's forests contain a large diversity of timber species but only a handful of these species (greenheart, purpleheart, kabukalli and crabwood) are popular being readily recognised for both their strength and aesthetic properties.

It has been established that the technical properties of many lesser used species (LUS) are comparable to those of the more popular species for example Darina, a LUS has similar properties to Hububalli, a popular timber. Hububalli is popular locally for furniture and building components but now Darina is gaining in popularity.

Similarly, black kakaralli is suitable for piling as it has properties close to those of greenheart but is available at a more competitive price.

### Update on Guyana's VPA Process

Guyana is committed to fulfilling the aspects of the VPA process as outlined in the Roadmap for Guyana EU FLEGT VPA. The Communication and Consultation Strategy is in its final stages of completion.

The document is currently being reviewed by stakeholders directly and indirectly involved in the forest sector. Importantly, the document will continue to be an active document and will therefore be subjected to updates as deemed appropriate in the interest of advancing the VPA process.

The National Technical Working Group met with representatives of FAO during March 2014 to discuss strengthening and advancing the VPA process as well as

the progress made with the development of the Communication and Consultation Strategy and the completion of the Scoping of Impact Study; both of which are funded by the FAO.

Stakeholder engagement activities have continued within the country. Staff have been recruited by the Guyana Forestry Commission and were given an introduction to FLEGT as well as an update of Guyana's VPA process.

Additionally, members of the National Technical Working Group met with a wide cross-section of stakeholders to update them on the VPA process, fostering a better understanding of the EU FLEGT process and examining the Legality Definition.

Revision of the Draft Legality Definition is ongoing and stakeholders are being urged to contribute. Emails can be sent to: [euflegt@forestry.gov.gy](mailto:euflegt@forestry.gov.gy)

**Export Log Prices**

Logs, FOB Georgetown	SQ - US \$ Avg unit value per m <sup>3</sup>		
	Std	Fair	Small
Greenheart*	140	130	120
Purpleheart	-	-	-
Mora	120	115	110

\*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	No export
		12mm	450-584
	Utility	5.5mm	No export
		12mm	No export

**Export Sawwood Prices**

Saw wood, FOB Georgetown		\$ Avg unit val. per m <sup>3</sup>	
EU and US markets		Undressed	Dressed
Greenheart	Prime	954	-
	Standard	-	640-1,060
	Select	594-910	-
	Sound	699-783	-
	Merchantable	-	-
Purpleheart	Prime	-	-
	Standard	-	848-1,102
	Select	1,060-1,080	-
	Sound	-	-
	Merchantable	-	-
Mora	Prime	-	-
	Select	954	-
	Sound	-	-
	Merchantable	594	-

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

**Japan's 2014 budget heavy on state spending**

The 2014 budget has just been adopted in Japan and incorporates massive government spending which may be as high as US\$936 billion. The extra high budget involves more resources for social security, defense and public works much of which is aimed at softening the blow of the upcoming tax increase.

Considerable faith is being placed in fiscal stimulus measures to strengthen the economy but the Japan Times, the prominent English language newspaper, is urging caution saying "the tax hike, combined with higher pension premiums and reduced social benefits could cost households yen 7.5 trillion (approx. US\$74 billion)".

Japanese consumers are also being hit by rising costs of imported goods because of the weakening yen, all of which could drive down consumer spending. Household spending in Japan accounts for over 50% of GDP so lower consumer spending will affect the whole economy.

For a summary of the 2014 budget see: <http://www.mof.go.jp/english/budget/budget/fy2014/01.pdf>

**Retail sales boom**

Japanese consumers have been on a spending spree ahead of the 1 April increase in the consumption tax. Retailers in the country report record sales of electrical goods and the auto market has jumped around 30% over the past months.

However the retailers are well aware the good times will come to an end after the tax hike and are planning sales campaigns to try and keep sales afloat.

**Foreign cash flies from Japan**

Data from Japan's finance ministry showed foreign investors sold around US\$11 billion in the second half of March, the biggest movement of cash since 2005 as a reaction to worries that Japan's economy is faltering. Analysts say the delays in implementing essential reforms to spur growth are yet to be enacted which is further undermining confidence in the government strategy.

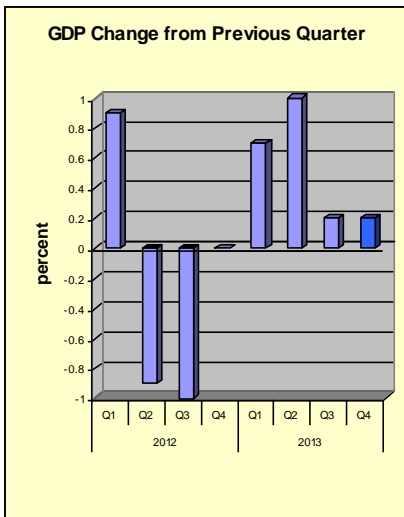
While the Japanese media have been quick to report the wage increases recently agreed by the large corporations many small and medium sized companies could not offer workers an increase in basic wages. The government is expected to respond to any slowing in the economy with another fiscal stimulus package in mid year.

See:

[http://www.mof.go.jp/international\\_policy/reference/itn\\_transactions\\_in\\_securities/week.pdf](http://www.mof.go.jp/international_policy/reference/itn_transactions_in_securities/week.pdf)

First quarter GDP figures will be available in April and are expected to show a significant improvement because of the increase in consumer spending in advance of the consumption tax increase.





Source: Cabinet Office, Japan

### Quantitative and qualitative monetary easing explained

In a speech at the International Centre for the Study of East Asian Development on 24 March, Kikuo Iwata, the Deputy Governor of the Bank of Japan (BoJ) spoke on the Bank of Japan's philosophy behind its quantitative and qualitative monetary easing (QQE) policy.

The BoJ introduced QQE in April 2013 to achieve the price stability target of 2 percent in terms of the year-on-year rate of change in the Consumer price Index (CPI) with a time frame of about two years.

The full speech can be seen at: [https://www.boj.or.jp/en/announcements/press/koen\\_2014/ko140324a.htm/](https://www.boj.or.jp/en/announcements/press/koen_2014/ko140324a.htm/)

Iwata explained: "QQE consists of two pillars. The BoJ has made a clear commitment that it "will achieve the price stability target of 2 percent at the earliest possible time, with a time horizon of about two years."

The second pillar is to engage in actions that embody the commitment specified in the first pillar. As exemplified by the phrase "quantitative and qualitative monetary easing," those actions are to increase the "quantity" of the BoJ's balance sheet and change the "quality" of its asset purchases.

An increase in quantity requires massively increasing the amount of money the BoJ directly supplies to the financial system -- this is called "the monetary base" -- at an annual pace of about 60-70 trillion yen.

Measures to increase the monetary base are mainly through the purchases of Japanese government bonds (JGBs), and the BoJ will purchase JGBs so that their outstanding amount will increase at an annual pace of about 50 trillion yen.

A change in quality requires purchasing assets with a higher risk profile. Among the JGBs, the BoJ has started purchasing those with longer remaining maturities. In addition, it has increased the amounts of purchases in

exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) in order to reduce risk premiums on assets.

When we (the BoJ) decided to introduce the QQE last April and used the expression -a new phase of monetary easing both in terms of quantity and quality -. The BoJ has been pursuing monetary easing in exactly that manner, at an unprecedented scale."

Chart 3

### Why is Deflation Problematic?

#### Decline in Aggregate Demand due to Deferred Spending

The more you wait, the more goods and services available at the same price (value of cash and deposits increases just by holding them)  
 ⇒ Firms and households defer investment and consumption  
 ⇒ Aggregate demand declines  
 ⇒ Vicious cycle of price declines and recession

#### Increase in Effective Debt Burden

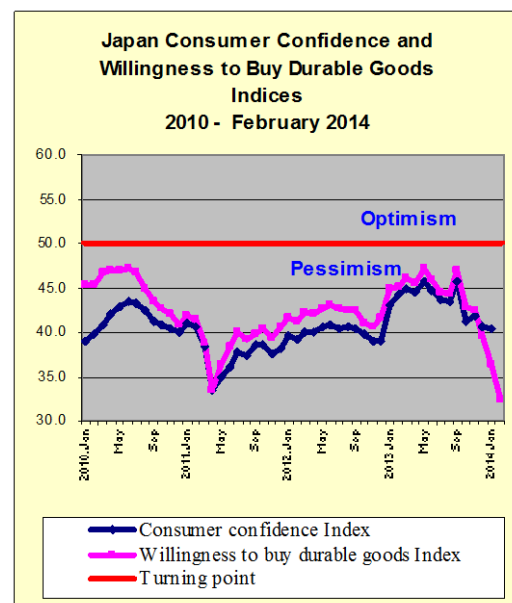
Decline in prices = Increase in the value of money for goods and services  
 = Increase in the effective debt burden for borrowers  
 ⇒ Willingness of firms and households to borrow declines  
 ⇒ Aggregate demand declines  
 ⇒ Vicious cycle of price declines and recession

Source: Bank of Japan

### Sharp fall in consumer confidence due to impending tax hike

Japan's Cabinet Office has released the results of the February 2014 showing the consumer confidence index fell to 38.3 in February, the third month of decline and the lowest it has been since September 2011.

The latest Consumer Confidence Survey was carried out in 15 February and showed more Japanese householders were even more pessimistic than in January.



Source: Cabinet Office, Japan

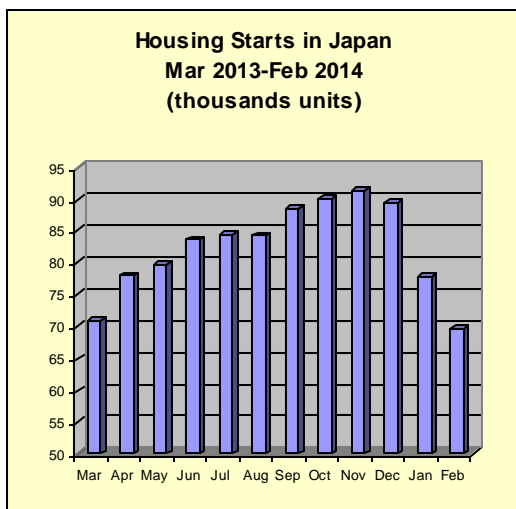
In a strange statistical twist consumer confidence was sharply below the level forecast by many analysts and at the same time retail sales have been booming as purchases are made in advance of the consumption tax increase.

It is likely to be several months until the confidence index in the survey is undisturbed by such one-off events. The results of the March survey will be available in mid April.

**Japan housing starts fall sharply**

After rising 12.3% in the last quarter of 2013 the latest figures from Japan’s Ministry of Land, Infrastructure and Transport shows that first quarter 2014 housing starts growth fell to 1% year on year and are down 10.4% from January. Although a decline in starts was expected the February results are well below the 4.9% growth analysts had forecast.

House builders in Japan are bracing for lean times after the consumption tax is increased and as a new fuel surcharge will be levied from mid April. The pace at which the 50 major building contractors have been securing orders fell in February extending the decline seen in January.

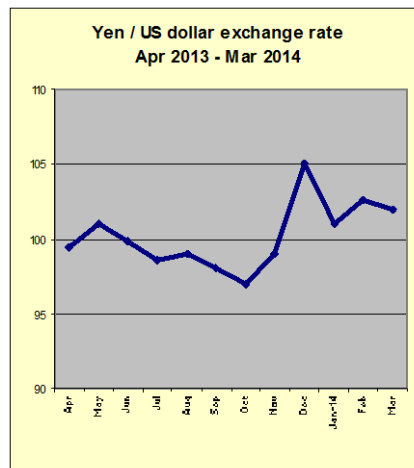


Source: Min. Land, Infrastructure Transport and Tourism

**Yen:dollar March roller coaster**

In early March the yen strengthened against the US dollar rising to almost 100 as the yen became a haven currency on concerns over US Russia relations.

However, within days the dollar strengthened against the yen as traders shrugged off worries over slowing growth in China and the tensions over Russia’s annexation of Crimea. By the end of the month the yen/dollar exchange rate was 103 to the US dollar.



Interest rates in the US are set to rise as early as 2015, if not before and recent confirmation of this by the US Federal Reserve boosted the dollar.

When US interest rates increase the yen, euro and Canadian dollar are likely to be among the biggest losers as these countries will not be in a position to raise interest rates at the same time or at the same speed which is likely to result in further weakness for the yen.

**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>

**South Sea (tropical) logs**

Weather in Sarawak has been unstable. After heavy rain stopped, came dry weather with sun shine and some rivers are drying up. In particular, Tanjung Manis is heavily affected by this weather and log production is considerably dropping so the buyers are sending their ships to Baram and Bintulu to fill up ships.

Since production at Tanjung Manis takes about a half of export logs, other ports are not able to fill up a gap. Thus, total volume is declining. Facing this shortage, India is sending their ships to PNG and Solomon Islands.

In this situation, log prices are firming. Sarawak meranti regular prices are US\$285-295 per cbm FOB, US\$5-10 higher than February. Small meranti is about US\$250 and super small is about US\$230. They are also US\$5-10 up.

Heavy rain continues in PNG so log production is slow. China started buying aggressively after some pause during Chinese New Year’s days.

Log prices are going up and particularly low grade log prices are up by about US\$20. Ships have to wait for logs so it takes longer to finish up. There is no sign of weather improvement. Weather is totally different from Sarawak.

**January plywood supply**

Total plywood supply in January was 599,900 cbms, 11.4% more than January last year and 12.3% more than December. This is the highest monthly supply in last twelve months.

Volume of imported plywood exceeded 360,000 cbms, which pushed total volume up. Inventories of domestic softwood plywood dropped below 100,000 cbms.

Imported plywood volume was 366,500 cbms, 12.9% more than January last year and 25.5% more than December, which is the largest monthly arrival since June 2011. In

particular, plywood from Malaysia was 158 M cbms, 6.6% more and 31.1% more, 36 M cbms more than December. The volume from Indonesia and China also increased by 10-20,000 cbms.

Domestic plywood production in January was 233,300 cbms, 9.2% more and 3.6% less. In this, softwood plywood was 217,900 cbms, 11.6% more and 3.8% less. The shipment was 246 M cbms, 9.3% and 6.2% more.

The manufacturers shipped out their inventories so that the inventories were down to 93,200 cbms, about 23,000 cbms less than December.

In general, operations of major precutting plants have been slowing down but orders from large house builders continue busy.

Plywood manufacturers think that the demand would slow down after consumption tax hike in April but considering forecast of housing starts this year, the demand should stay relatively stable through the year.

**South Sea (tropical) hardwood plywood market**

Market of South Sea hardwood plywood soared since last December with declining inventories and higher offer prices by the suppliers for future shipments but excitement simmered down in February and speculative purchases are over in fear of price drop in March by dumping sales for book closing. The market is quiet right now.

The suppliers suffer production delay by log shortage since last December so that arrivals in February and March would be down. The importers push the suppliers to make quicker shipments.

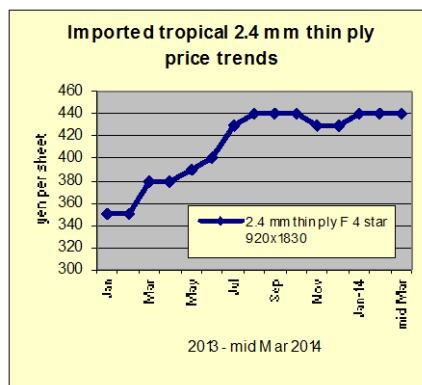
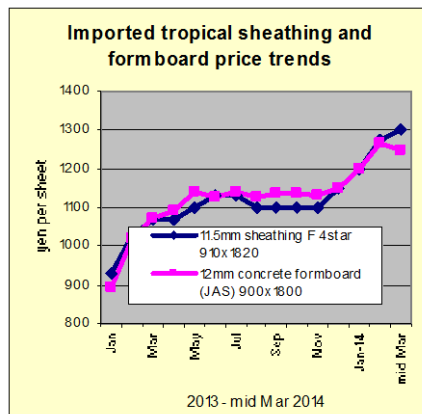
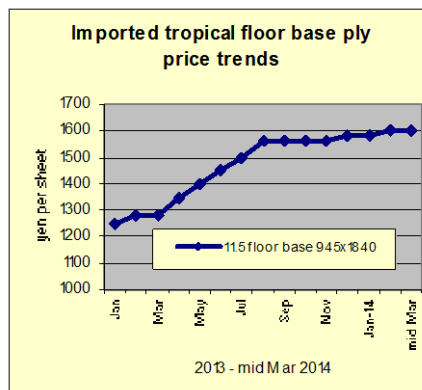
In Japan, January arrivals were 360,000 cbms but the importers felt scarcity with declining on-hand inventories. Because of delayed shipments, contract balances are increasing so the importers were not able to buy future in February.

Meanwhile, the suppliers try to reduce accepting orders in fear of higher log prices in future. In price negotiations in

late February, the suppliers proposed slight increase but because of stronger exchange rate, yen cost remains almost unchanged.

Buyers in Japan are cautious because of large order balances and uncertain market after April.

**Price trends for Japanese imports of Indonesian and Malaysian plywood**



**largest LVL plant in Japan**

Iida Group Holdings (Tokyo), house builder and real estate dealer, First Wood (Fukui prefecture), laminate lumber manufacturer and precutting processor and Kawai Ringyo (Iwate prefecture), lamina and wood chip manufacturer will jointly build the largest LVL manufacturing plant in Aomori prefecture with total investment of about 8.4 billion yen.

Aomori Prefecture has been inviting investment for large wood processing facilities since 2012. Three groups are the first one to discuss the location and size of facility.

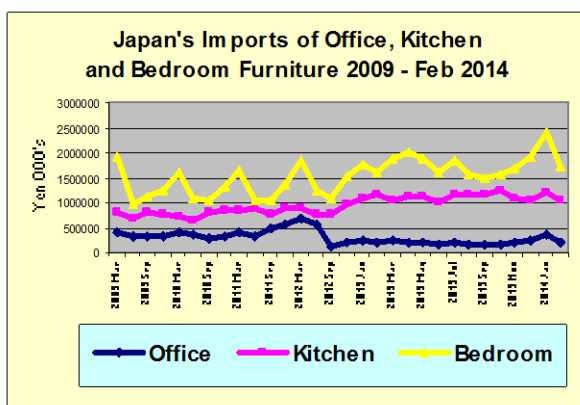
Size of the facility is LVL production of 60,000 cbms a year with log consumption of 120,000 cbms. Total production of LVL in Japan so far is about 70,000 cbms so this facility will be the largest single manufacturing plant. The plant will be completed in March 2015.

**Trends in office, kitchen and bedroom furniture imports**

Japan’s office kitchen and bedroom furniture imports from 2009 to the end of February 2014 are shown below. Imports of bedroom furniture exhibited a cyclical trend between 2009 and 2012.

However, from 2012 bedroom furniture imports began to increase and have continued upwards since. However, February bedroom furniture imports fell sharply as Japanese companies adjusted stocks in anticipation of a decline in sales after the consumption tax is increased on 1 April.

Similarly, February imports of office and kitchen furniture fell as businesses brace the fall-out from the tax hike.



Source: Ministry of Finance, Japan

**Year-on-year change in imports (value, 000's yen)**

	Feb-13	Feb-14	% change
Office furniture	206557	217862	5.5
Kitchen Furniture	1140885	1041354	-8.7
Bedroom furniture	1596551	1727481	8.2

**Office furniture imports (HS 9403.30)**

February 2014 imports of office furniture into Japan were up 5.5% year on year but down a massive 40% on January imports. In February 2014 the biggest losers were China (down 61%),Indonesia (down 71%), Sweden and Germany.

The top three suppliers of office furniture in February this year were China (34.5%), despite the significant decline compared to January, Poland (17%) and Taiwan P.o.C

(11%). The three top suppliers accounted for 62.5% of all office furniture imports in February 2014.

EU suppliers of office furniture to Japan accounted for just 6% of all office furniture imports and managed to capture a greater share of the market in Japan during February.

**February 2014 office furniture imports**

	Imports Feb 2014
	Unit 1,000 Yen
S. Korea	2410
China	75187
Taiwan P.o.C	23344
Thailand	1973
Malaysia	11004
Indonesia	4258
Sweden	-
Denmark	5690
UK	857
France	374
Germany	13119
Portugal	17207
Italy	14150
Poland	36402
Lithuania	5502
Slovakia	3071
USA	3314
Mexico	-
Total	217862

Source: Ministry of Finance, Japan

**Kitchen furniture imports (HS 9403.40)**

Japan’s February 2014 imports of kitchen furniture were down 14% compared to levels in January and down 8.7% compared to levels in February 2013.

The top three suppliers accounted for over 75% of all kitchen furniture imports by Japan and remain Vietnam, Indonesia and China.

Of the EU suppliers of kitchen furniture to Japan in February this year only Germany provided any significant amount but this accounted for just 2.3% of all imports of kitchen furniture.

The biggest losers in February 2014 were Vietnam (down 19.5% ) and China (down 38%), on the other hand both the Philippines and Indonesia increased exports of kitchen furniture to Japan in February this year.

**February 2014 Kitchen furniture imports**

	Imports Feb 2014
--	------------------

	Unit 1,000 Yen
S. Korea	1303
China	199244
Taiwan	
P.o.C	-
Vietnam	359617
Thailand	3543
Malaysia	24790
Philippines	177613
Indonesia	228533
UK	371
France	377
Germany	23664
Italy	1778
Austria	2933
Romania	987
Lithuania	1184
Canada	1421
USA	13996
Total	1041354

Source: Ministry of Finance, Japan

#### Bedroom furniture imports (HS 9403.50)

Japan's bedroom furniture imports increased throughout 2013 and reached a record high in January 2014.

#### February 2014 Bedroom furniture imports

	Imports Feb 2014 Unit 1,000 Yen
S. Korea	242
China	759071
Taiwan	
P.o.C	17931
Vietnam	594741
Thailand	97710
Singapore	-
Malaysia	119291
Philippines	259
Indonesia	45856
Sweden	262
Denmark	2170
UK	2092
France	1652
Germany	234
Italy	4835
Poland	34158
Austria	1408
Romania	741
Turkey	-
Lithuania	3549
Slovakia	12889
USA	28390
Total	1727481

Source: Ministry of Finance, Japan

February 2014 imports show a sharp reversal in fortunes having corrected sharply to be down 28% on levels in

January. Despite the fall in February imports of bedroom furniture were still some 8% higher than in February 2013.

The top three suppliers in February, as in January, were China (44%), Vietnam (34.4%) with Malaysia (7%) joining the league table with an export performance double that of February.

The biggest losers in February were China (down 47%) with Hong Kong and Singapore supplying no bedroom furniture in February 2014 after a good performance in January.

EU suppliers accounted for just 3.7% of Japan's February bedroom furniture imports and this was down 22% on levels in January. Imports from Poland fell while suppliers in France managed a better performance in February.

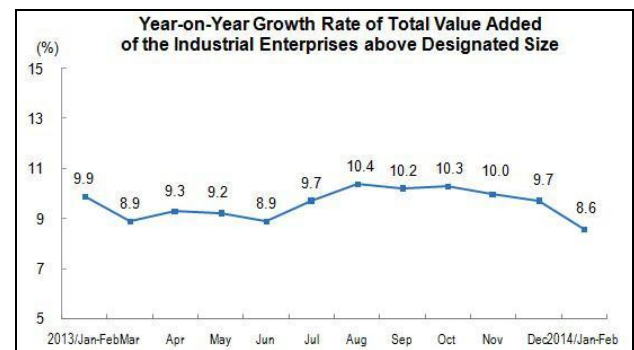
### Report from China

#### Raw material prices dip as growth slows

Industrial output in China fell during the first two months of this year following a pattern of the past few years but an improvement is expected during the second quarter.

Early in the year factory output fell and the real estate market was weaker than a year ago in some sectors which is leading some analysts to lower forecasts for China's growth. This negative assessment has also been fuelled by declining industrial production, retail sales and investment.

The gradual slowing of growth in China has already led to some slippage of mineral prices and other raw materials including timber.



Source: National Bureau of Statistics of China

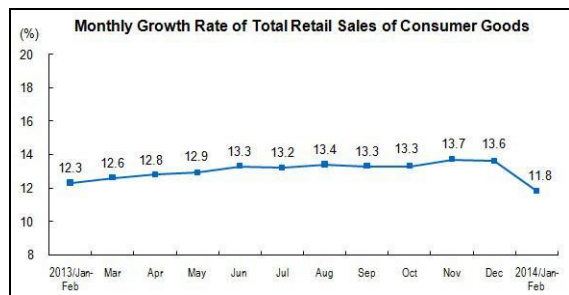
The impact of the slowing economy has had a noticeable effect on exchange rates. The yuan fell below 6.20 to the US dollar in mid March, the first major fall since early last year.

While the current weakness in the yuan has a lot to do with the strategy of the Central Bank which began allowing the currency to move in a wider band than recently the weakness comes at a time when investors are reassessing risks in the Chinese economy.



**Better prospects for retail sales going into second quarter**

The National Bureau of Statistics has published retail sales data for the first two months of 2014 showing sales of consumer goods grew by 11.8% year-on-year.



Source: National Bureau of Statistics, China

Retail sales of consumer goods in urban areas in the first two months of 2014 were up by 11.7%, but February sales slipped from levels in January. In rural areas retail sales were up 12.8% year-on-year.

In terms of different sectors, catering service sales in the first two months grew by 9.6%, year-on-year while sales of goods was up 12.1% year-on-year.

For the full report see:

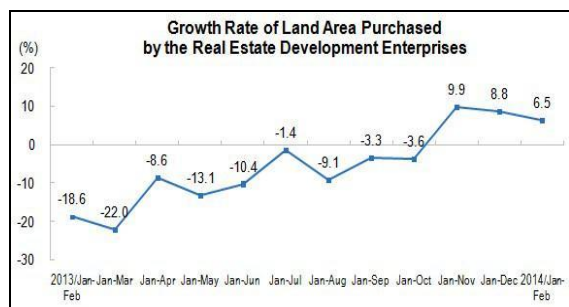
[http://www.stats.gov.cn/english/PressRelease/201403/t20140314\\_524633.html](http://www.stats.gov.cn/english/PressRelease/201403/t20140314_524633.html)

**100 million rural residents expected to migrate to cities by 2020**

Data from the National Bureau of Statistics shows that investment in real estate development in the first two months of 2014 was up a nominal 19.3 percent year-on-year. Investment in residential buildings expanded by 18.4% accounting for 68.2% of all real estate.

In the first two months of this year real estate investment in eastern region was up 19%; the increase in the central region was 21.5% while that in the western region was up almost 18%.

Looking at the area of floor space under construction, in the first two months of the year there was an increase of 16.3% year-on-year of which, residential building construction was up by 13.5 percent.



Source: National Bureau of Statistics, China

In the first two months of this year the area of land purchased by real estate development enterprises totalled

40.62 million square metres, a year-on-year increase of 6.5 percent, the second month of year on year declines.

Media reports highlight the sheer scale of real estate developments underway in China. One of the largest developments is being undertaken in Guiyang where some 150 square kilometres of property floor space will be built over the next three years.

This development is just one planned in anticipation of massive urbanisation as up to 100 million rural residents are expected to migrate to the cities by 2020.

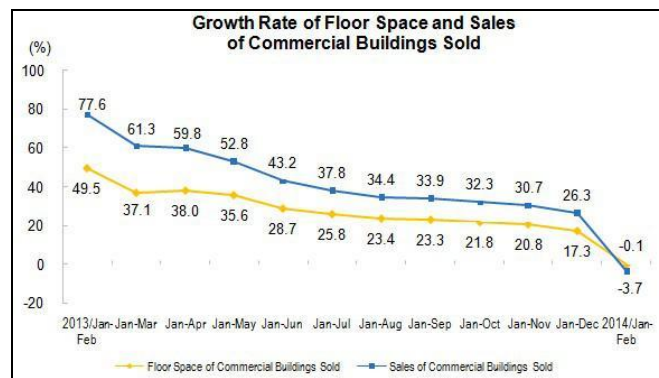
**Location of Guiyang, China**



Source <http://en.wikipedia.org/wiki/Guiyang>

**Lackluster sales of commercial buildings**

In the first two months of 2014 the area of commercial buildings sold fell with the office building sector falling 8%. However, the area of other buildings sold for business use increased 8.4 percent.



Source: National Bureau of Statistics, China

In terms of area, sales of commercial buildings in the eastern region fell 6% year-on-year decrease of 6.0; in the central region sales increased slightly while in the western region sales by area of floor space dropped almost 25%

See the following for the full analysis: [http://www.stats.gov.cn/english/PressRelease/201403/t20140314\\_524631.html](http://www.stats.gov.cn/english/PressRelease/201403/t20140314_524631.html)

**2013 trade in wood products**

According to the latest statistics from China's Customs the value of the national wood products trade in 2013 was almost US\$126 billion, a year on year increase of 6 percent. Of the total, imports value rose 4 percent to

US\$63.43 billion, exports value grew 9 percent to US\$62.56 billion.

#### Log imports dominated by softwoods

China's log imports totalled 45.16 million cu.m valued at US\$9.317 billion in 2013, up 19 percent and 28 percent respectively over 2012. The average landed price for imported logs was US\$206 per cubic metre.

Of the total, coniferous log imports amounted to 32.93 million cu.m, or 73 percent of all log imports, a year on year increase of 23%. Last year New Zealand replaced Russia as the main log supplier to China.

Hardwood log imports totalled 12.23 million cu.m, a year on year increase of 9% in volume. Tropical log imports rose 7 percent to about 9.33 million cubic metres, accounting for 21 percent of all hardwood log imports. The value of tropical log imports grew 22 percent to US\$3.571 billion

China's imports from Russia fell 8 percent but imports from Ukraine, Myanmar, US, Australia, France and New Zealand increased sharply as can be seen in the table below.

#### Top 10 log suppliers to China

	Import volume (million cu.m)	% of total imports	Average price (US\$/cu.m)
Total China	45.16	100	206
New Zealand	11.5	25	147
Russia	10.26	23	137
US	5.61	12	222
PNG	2.75	6.09	227
Canada	2.72	6.02	197
Solomon Is	2.04	4.51	198
Australia	1.74	3.86	127
Ukraine	1.39	3.08	131
Myanmar	0.97	2.15	552
France	0.68	1.5	190
Top ten	39.66	87.21	

#### Diversification of sawnwood sources intensifies

Sawnwood imports totalled 24.04 million cu.m in 2013 and were valued at US\$830 million in 2013, up 16% in volume and 24% in value on the previous year. The average price for imported sawnwood was US\$284 per cubic metre.

2013 imports of sawnwood came from a number of countries. Russia (29%), Canada (28%) and the US (11%). The pace of sawnwood imports from Sweden, Finland, Chile, Philippines and Thailand was significantly higher than in 2012.

#### Top 10 sawnwood suppliers to China

	Import volume (cu.m mil.)	% of total imports	Average price (US\$/cu.m)
Total China	24.02	100	284
Russia	7.03	29.26	194
Canada	6.86	28.58	226
US	2.58	11	417
Thailand	1.9	8	455
Chile	0.82	3.43	256
Philippines	0.7	2.93	138
New Zealand	0.5	2.08	293
Finland	0.4	1.67	257
Sweden	0.369	1.54	250
Indonesia	0.368	1.53	439
Top ten	21.527	90.02	

#### Specialty plywood imports drop further

While the plywood sector in China has been continued to expand in recent years on the back of strong domestic demand high quality plywood is still imported but have been falling in recent years as domestic manufacturers improve quality.

Plywood imports were 154,700 cubic metres valued at US\$103 million in 2013, down 13 percent in volume and 13.75 percent in value from 2012. China's plywood imports in 2013 came from Malaysia and Indonesia which together accounted for 71 percent of all imported plywood.

Other wood-based panels are imported also. Fibreboard imports amounted to 156,200 tonnes, valued at US\$101 million in 2013, up almost 8 percent in volume from 2012 levels. The main fibreboard suppliers to China were Thailand, Malaysia, Romania and Germany.

Particleboard imports totalled 381,400 tonnes valued at US\$ 128 million in 2013, up 8 percent in volume and 9 percent in value from 2012. The main countries supplying particleboard to China were Germany, New Zealand, Switzerland, Belgium and Australia.

#### Pace of paper pulp and waste paper imports largely unchanged

China's paper pulp imports totalled 16.85 million tonnes, valued at US\$ 11373 million in 2013, up 2 percent in volume and 4 percent in value from the previous year and came mainly from Canada, Brazil, Indonesia, the US and Chile.

Waste paper imports in 2013 totalled 29.24 million tonnes valued at US\$ 5930 million, down 3 percent in volume and down 5 percent in value from 2012. The waste paper supplier countries to China were the US, Japan, England, Canada and Holland.

#### Paper, paperboard and paper products

China's total imports of paper, paperboard and paper products in 2013 amounted to 2.97 million tonnes valued at US\$4374 million, a year on year decline of 9 percent in volume and 5 percent in value.

Paper and paperboard imports alone amounted 2.85 million tonnes, valued at US\$3700 million in 2013, down 9% in volume and up 5% in value from the previous year. The main paper and paperboard supplier countries to China were the US (708,600 tonnes, 25 percent) and Sweden (366,300 tonnes, 13 percent).

**Booming wooden furniture imports**

China imported a total of 7.38 million pieces of wooden furniture in 2013, valued at US\$708 million, up 16 percent and 19 percent respectively over the last year.

**Vietnam, Thailand and Indonesia supply wood chips**

Wood chips imports in 2013 totalled 9.16 million tonnes valued at US\$1554 million, a year on year increase of 21 percent in volume and 17 percent in value. The main wood chip suppliers to China were Vietnam (4.64 million tonnes, 51 percent), Thailand (1.45 million tonnes, 16 percent), Australia (1.42 million tonnes, 15 percent) and Indonesia (1.20 million tonnes, 13 percent).

**Plywood exports to US fall sharply**

Plywood exports totalled 10.26 million cubic metres, valued at US\$5034 million in 2013, up 2 percent in volume and 5 percent in value from 2012. The average unit price for exported plywood in 2013 was US\$490 per cubic meter, a year on year increase of 3 percent.

China's plywood was exported mainly to the USA (1,346,800 cu.m, 13 percent), Japan (815,500 cu.m, 8.0 percent), South Korea (771,440 cu.m, 7.5 percent) and UK (650,300 cu.m, 6.3 percent). China's plywood exports to the US fell 18 percent to 1.35 million in 2013 compared to levels in 2012.

Fibreboard exports totaled 2.37 million tonnes, valued at US\$1597 million in 2013, down 7 percent in volume and 4 percent in value respectively from last year. The average unit price for exported fibreboard was US\$675 per cubic metre, a year on year increase of 2 percent.

**Mongolia and Russian markets for export particleboard**

Particleboard exports totalled 169,800 tonnes, valued at US\$88.36 million in 2013, up 26 percent in volume and 40 percent in value respectively from 2012.

The average unit price for exported particleboard was US\$520 per cubic metre, a year on year increase of 11 percent. China's particleboard was exported mainly to Russia and Mongolia.

**Wooden furniture export post modest rise**

China's wooden furniture exports in 2013 were valued at US\$12.38 billion, a year on year rise in value of 4 percent. China's wooden furniture were mainly exported to the US (US\$3,984 million, 32 percent), Japan (US\$745 million, 6 percent), UK (US\$581 million, 4.7 percent), Australia

(US\$476 million, 3.8 percent) and Germany (US\$373 million, 3.0 percent).

**Report from Europe**

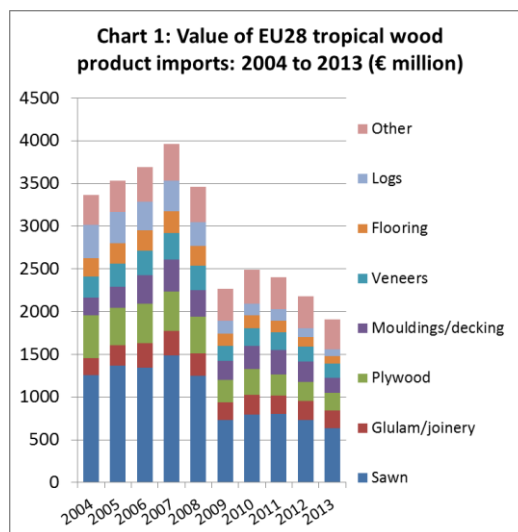
**EU tropical wood imports decline 13% in 2013**

The EU imported tropical wood products with a total value of €1.91 billion in 2013, 12.6% less than the previous year.

Between 2012 and 2013, import value declined across all product groups including:

- sawn wood (down 13.2% to €633 million),
- joinery products (down 8.8% to €208 million),
- plywood (down 5.6% to €206 million),
- mouldings and decking (down 26.4% to €177 million),
- veneers (down 4.9% to €168 million),
- flooring (down 21.7% to €88 million),
- logs (down 15.6% to €83 million)
- and
- other products (down 8.8% to €347 million).

EU tropical wood import value last year was around 50% of the peak achieved in 2007 and is the lowest recorded in recent years (Chart 1).

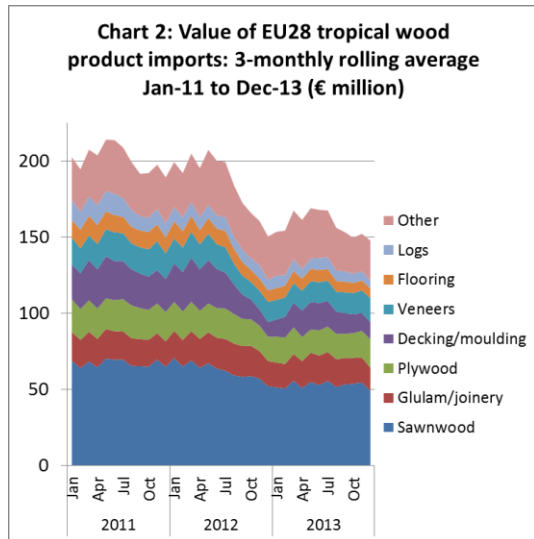


Source: FII Ltd analysis of Eurostat

Closer analysis of monthly data indicates that EU tropical wood imports hit a low of €150 million in December 2012 and then staged a brief recovery over the spring and summer period to reach a high of €169 million in May 2013 (Chart 2).

However, monthly imports fell back again to only €148 million in December 2013 when there was a particularly sharp downturn in sawn hardwood imports. The fall in EU imports of tropical wood products in 2013 was part of a wider trend of declining imports across nearly all forest product groups, including sawn softwood, temperate hardwood products, wood furniture and pulp and paper.

This is explained by the combined effects of recession in Europe, supply diversion to other more active global markets, and rising share of domestic production in EU consumption.

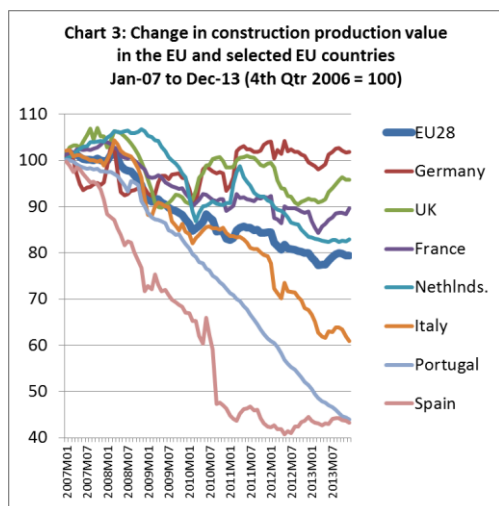


Source: FII Ltd analysis of Eurostat

**EU construction rises slightly but remains 20% below pre-crises levels**

A variety of indicators show that March 2013 was the point at which economic activity across Europe was at its lowest ebb at the end of a long cold winter. This is particularly true of the construction sector, such an important driver of timber demand in Europe.

Total construction value across the EU in March 2013 was 23% less than in early 2007 just prior to the financial crises. In the months following March 2013, EU construction activity increased marginally to around 20% below the pre-crises level.



Source: FII Ltd analysis of Eurostat

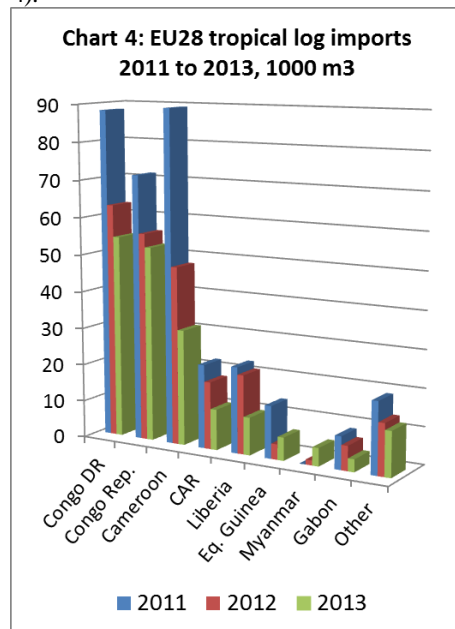
Chart 3 reveals how the timing and depth of construction industry recession and recovery have varied widely between countries. Construction activity in Germany, the UK and France has been relatively resilient over the last 5 years and was showing signs of revival in the second half of 2013.

This is in contrast to Spain, Portugal and Italy where the value of construction is well down on pre-recession levels and has yet to show any signs of recovery.

**EU tropical log imports fall another 20%**

EU imports of tropical hardwood logs were 186,000 m3 in 2013, down 20% compared to the previous year. Imports of this commodity into France, the main destination, were down 20% at 86,350 cu.m.

Imports from all the leading supply countries declined, including Congo (Kinshasa), Congo (Brazzaville), Cameroon, Central African Republic, and Liberia (Chart 4).



Source: FII Ltd analysis of Eurostat

The decline is due to the combined effects of weak European demand, supply constraints, and regulatory uncertainty. The European okoume plywood manufacturing sector, formerly a major buyer of logs, has struggled to compete during the recession and capacity is now small, with a significant share of production having relocated to Gabon.

Due to supply problems and rising log prices, more central European mills that formerly imported tropical hardwood logs for sawing and slicing have switched to temperate hardwoods this year.

On the supply side, political unrest restricted log availability from Central African Republic in 2013. The Liberian government placed a freeze on all logging activities in January 2013, including on the exportation of logs from the country.

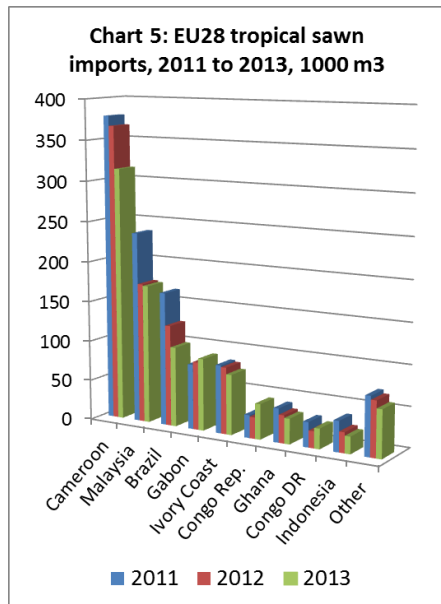
Meanwhile, encouraged by the EUTR, environmental groups have focused heavily on finding discrepancies in the legal documentation for log exports from the Congo basin. This has added to the already high level of uncertainty in the EU tropical hardwood log trade.



The only significant upward trend in EU tropical log imports was of teak from Myanmar. This has followed the end of trade sanctions and has also been encouraged by Myanmar's announcement of a ban on log exports from April 2014. The main European end users in the boat-building sector have been building stocks in advance of the measure.

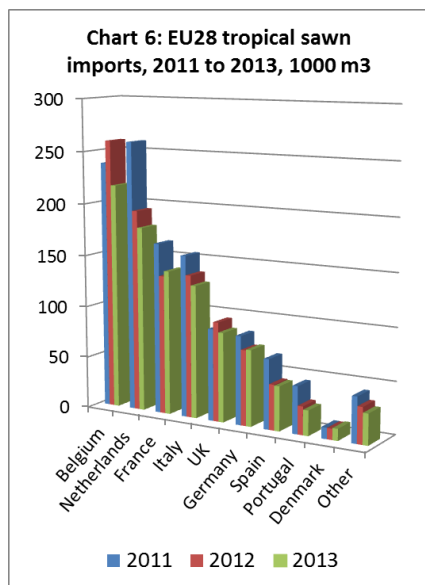
**EU sawn tropical hardwood imports down another 8%**

EU28 imports of tropical sawn hardwood in 2013 were 930,000 m3, 8% down on the previous year (Chart 5). Declining imports from Cameroon, Malaysia, Brazil, Ivory Coast, Ghana and Indonesia were only partly offset by rising imports from Gabon and the Congo countries.



Source: FII Ltd analysis of Eurostat

Imports of sawn tropical hardwood declined into Belgium, Netherlands, Italy, UK, Spain, and Portugal. However there was a 4% increase in imports into France and imports into Germany remained level (Chart 6).



Source: FII Ltd analysis of Eurostat

EU imported 314,000 m3 of sawn hardwood from Cameroon in 2013, 14% less than the previous year. This was partly due to mounting supply problems in Cameroon which have been particularly pronounced for sapele, the most popular commercial species in Europe.

By the end of 2013, lead times for delivery into Europe of new orders of sapele from Cameroon were around 6 months. This resulted in sharply rising prices both on an FOB basis and for landed stock in the EU.

EU imports of sawn wood from Cameroon were low in the first half of 2013 before recovering slightly in the third quarter. However they fell back sharply in December 2013, a short trading month when there was also a strike at Cameroon's main port of export in Douala.

Gabon was the second largest African supplier of tropical sawn wood into Europe in 2013, supplying 89,000 m3 during the year, a gain of 6% compared to 2012. In the early months of 2013, EU imports of sawn hardwood from Gabon were affected by the economic slowdown in France, the main market, and by harvesting restrictions which led to reduced log supply in the country.

However, both problems eased during the course of 2013 which led to a strengthening recovery in EU imports from the country.

Some of the large European owned operations in Gabon which have made a strong commitment to delivery of certified wood products may also now be benefitting from the introduction of EUTR in March 2013.

This might also partly explain the 65% increase in EU imports of sawn hardwood from the Congo Republic to 44,000 m3 in 2013.

EU imports of tropical hardwood from Cote d'Ivoire fell 10% to 75,000 m3 in 2013. Most of this decline occurred in the early months of the year when EU importers were concerned about possible EUTR conformance issues.

However, EU imports from the country recovered in the second half of 2013 as traders grew more confident that the available legal documentation would stand up to EUTR scrutiny. EU imports from Ivory Coast also benefitted from slow recovery in demand for key species like framire and ayous in the UK and Italian markets during the second half of 2013.

EU imported 172,000 m3 of sawn hardwood from Malaysia in 2013, 1% less than the previous year. Imports from Malaysia were particularly weak in the first half of 2013, due to very slow activity in the northern European construction market.

Orders picked up towards the end of the year, partly in response to improved demand, particularly in the German and UK construction sectors, together with restocking in advance of the increase in EU import duties on Malaysian



products from 3.5% to 7% on 1 January 2014 due to a change in Malaysia’s GSP status.

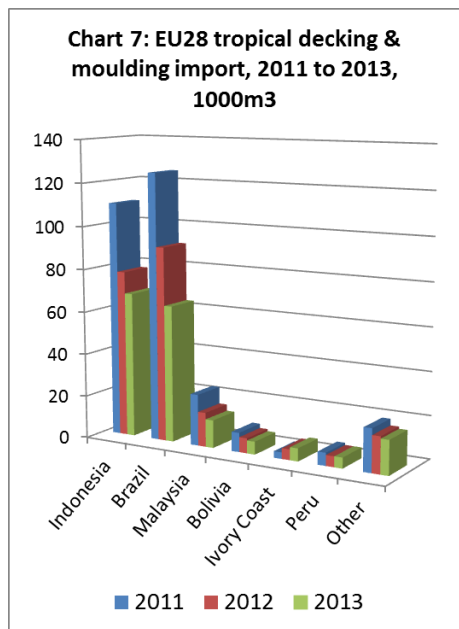
EU sawn hardwood imports from Brazil fell 21% to 99,000 m3 in 2013, continuing the sharp downward trend which set in at the start of the European recession.

The decline from Brazil is due to the combined effects of weak EU demand, exchange rate volatility and rising prices in response to improved US demand and more restricted supply as the Brazilian government has taken steps to curtail illegal logging.

The problems of obtaining legality assurance in the complex fragmented supply chains that exist in the Brazilian Amazon may be another contributing factor since implementation of EUTR.

**Downward trend continues in EU decking and mouldings imports**

EU imports of “continuously shaped” wood (HS code 4409) from tropical countries fell 19% in 2013 to 178,000 m3 (Chart 7).



Source: FII Ltd analysis of Eurostat

Imports from Brazil fell particularly heavily, down 30% to 64,000 m3. Imports also fell from Indonesia (-13% to 68,000 m3), Malaysia (-19% to 13,000 m3).

Continuously shaped wood products listed under HS4409 include both decking products and interior decorative products like moulded skirting and beading. The market for tropical hardwood decking timbers in Europe during 2013 was very slow.

Imports were impacted by a stock overhang after low levels of consumption in 2012. As prices for Asian bangkirai declined in 2013, Amazonian species like garapa and massaranduba became less competitive so that imports from Brazil fell particularly heavily.

Tropical hardwood also suffered a further loss of share in the decking sector both to other wood species and to Wood Plastic Composites.

EU imports of tropical mouldings for interior applications were also declining in 2013 due to falling competitiveness relative to EU domestic production.

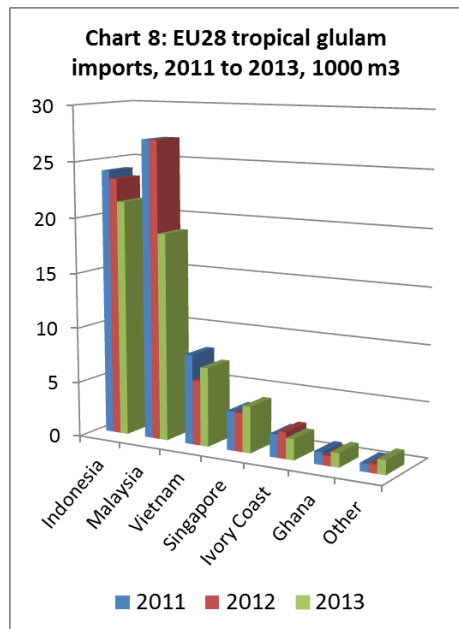
For example, Brazil’s hardwood industry continues to suffer from high and rising labour and other business costs. Hardwood decorative mouldings of all types are also coming under intense competitive pressure from pine and MDF.

However there were isolated reports in 2013 of some tropical interior mouldings products regaining market share at the expense of temperate hardwoods. For example, in recent years American tulipwood made significant inroads into the European market for painted mouldings.

In 2013 Ghanaian wawa was retaking share as the price of American tulipwood increased. During 2013, lack of log supply and rising US and international demand led to a significant increase in prices across the full range of American hardwood species.

**Falling EU imports of engineered wood window scantlings from the tropics**

Weak construction sector activity during 2013 led to further declines in EU glulam imports (Chart 8). EU imports of this product, which consist primarily of scantlings for the window sector, were 56,000 m3 in 2013, 12% less than the previous year.



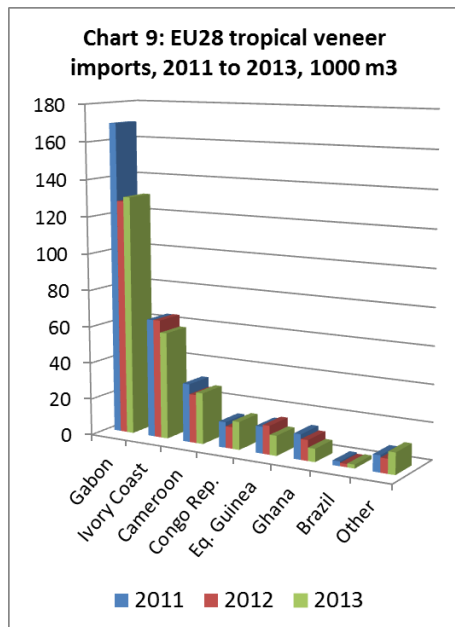
Source: FII Ltd analysis of Eurostat

EU imported 19,000 m3 of scantlings from Malaysia in 2013, 31% less than the previous year. Imports from Indonesia declined 9% to 21,000 m3 in 2013. However, there was a slight increase in EU imports of glulam products from some smaller suppliers, including Vietnam, Singapore and Ghana.

Short-term prospects for meranti window scantling in the EU market remain poor. Despite limited imports in 2013, importers' inventories are still quite high relative to slow demand.

However longer term prospects appear more promising. More building permits are now being issued in Germany, the leading European market, and there is rising confidence in the German construction sector.

The UK construction sector is also rebounding more strongly than expected this year. The UK has not been a significant market for tropical hardwood glulam in the past, but interest in engineered scantlings is now rising with introduction of tougher quality and energy-efficiency standards for wood windows.



Source: FII Ltd analysis of Eurostat

These factors, together with limited supply of sapele, the leading African wood used in European joinery, might lead to improving European demand for meranti window scantlings during summer 2014.

#### Tropical hardwood veneer imports stabilise at a low level

After significant falls in previous years, EU imports of tropical hardwood veneers stabilised at a low level in 2013 (Chart 9).

Imports were 263,000 m3, 1% down compared to the previous year. Imports from Gabon - which fell heavily between 2011 and 2012 - increased 2% to 130,000 m3 in 2013. Imports also increased 5% from Cameroon and 29% from the Congo Republic in 2013.

However imports from Ivory Coast fell 10% and imports from Equatorial Guinea were down 31%.

The EU market for hardwood veneers remains very difficult, with producers suffering from declining turnover

in the face of lower sales volumes, declining prices and continuing loss of market share to competitors.

Prices continue to be under pressure for mass-production grades for the plywood, flooring and furniture, and this pressure also now extends into the market for more specialist grades. Demand and prices are not expected to recover significantly in 2014.

#### ETTF reports only limited impact of EUTR so far

While it's possible that some of the recent downturn in EU imports of tropical wood was due to legal uncertainty following implementation of the EUTR, other economic and commercial factors were probably much more significant drivers of trade during 2013. According to a recent analysis of the trade impact of EUTR by the European Timber Trade Federation:

*"longer term trends are obscured by the overwhelming effect of the economic downturn and by supply problems due to capacity closures and diversion of wood fibre to other markets over recent years"*.

Furthermore, while EUTR has been enforceable since March 2013 in theory, it is still very early days in practice. This is clear from the recent survey of EUTR authorities in EUWID. The German trade journal reports that Competent Authorities are already active in Denmark, UK, Germany, and the Netherlands.

However the pace of implementation has been slower in France and southern and eastern Europe. The EC process to formally recognise Monitoring Organisations is also taking time, with only two so far appointed - Conlegno in Italy and Nepcon with EU-wide coverage.

Even in countries where Competent Authorities are active, building up the necessary capacity and knowledge required to provide advice and pursue successful prosecutions remains a challenge.

The real impact of EUTR will only become clearer as the EU economic recovery gathers pace and as more progress is made to develop enforcement capacity and impose sanctions.

### Report from North America

#### Tropical sawnwood imports down in January

Total US sawn hardwood imports increased from 57,396 cu.m in December to 62,602 cu.m in January, the increase was mainly due to higher imports of temperate species. Tropical sawnwood imports were 17,299 cu.m in January, down 10% from December.

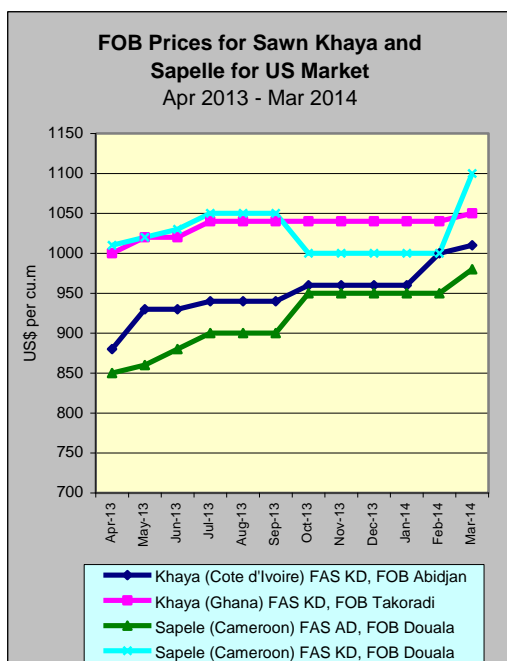
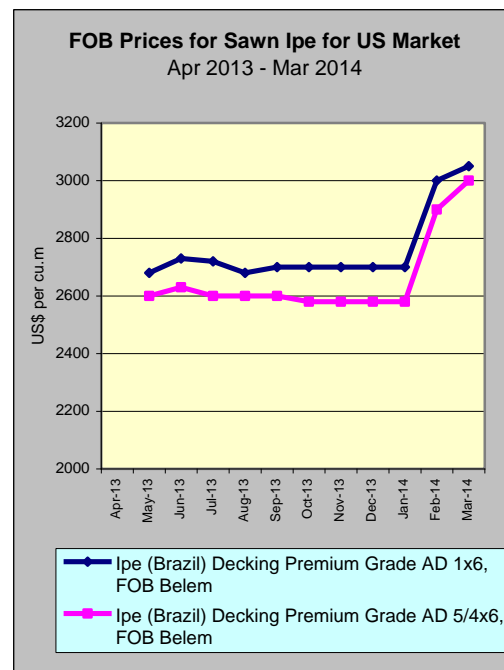
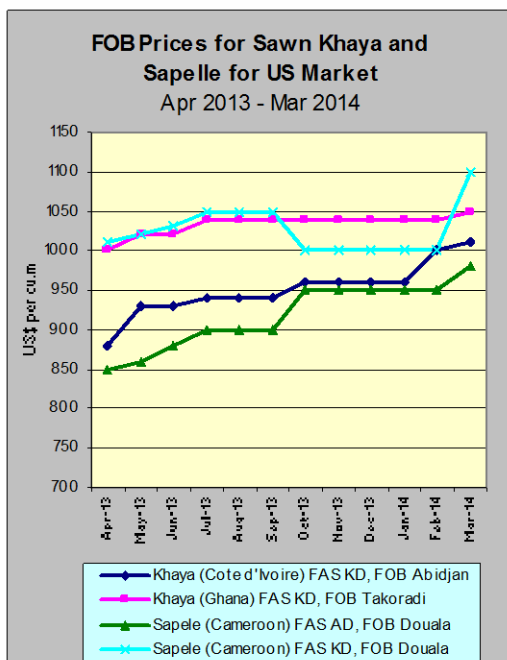
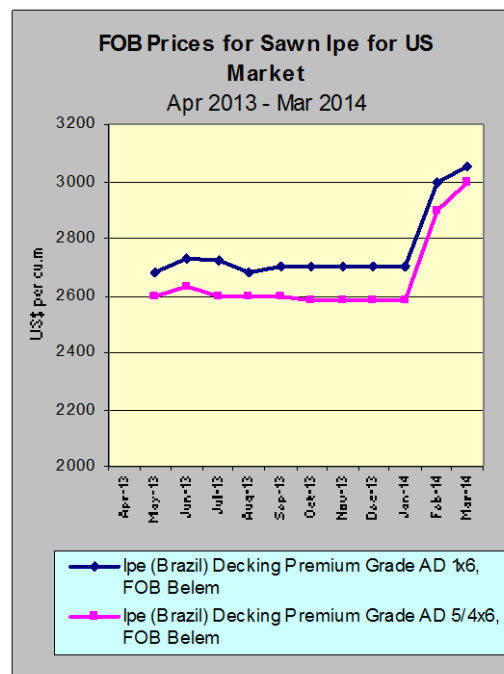
Imports from most tropical sawnwood suppliers declined in January, with the exception of Congo/Brazzaville (1,287 cu.m), Ghana (729 cu.m), Indonesia (720 cu.m) and Peru (420 cu.m). Imports from Cameroon fell by 19% to 1,960 cu.m in January, with sapelli accounting for 1,355 cu.m. 834 cu.m of sapelli sawnwood were imported from Congo/Brazzaville.

January shipments from Brazil were 3,170cu.m, down 12% from December. Ipe imports from Brazil recovered slightly compared to the end of last year (especially September to November) and reached 2,535 cu.m in January.

January imports of keruing fell a huge 35% from the previous month. Malaysian shipments were 984 cu.m in January, while Indonesia exported 177 cu.m to the US in January.

Imports of most other species also declined, except mahogany (2,059 cu.m, +12%), meranti (601 cu.m, +32%), teak (701 cu.m, +84%) and aningre (106 cu.m, +26%).

**Tropical sawnwood FOB prices shipped to the US market**



**Canada imported less from Brazil in January**

Canadian imports of tropical sawn hardwood were US\$2.09 million in January, down 16% from December.

However, imports were 9% higher than in January 2013. The largest drop was in imports from Brazil, which fell by 59% to US\$409,594 in January. Imports from Indonesia increased to US\$168,280 (+14%), while there were no imports from Malaysia in January.

The value of sapelli sawnwood imports by Canada doubled from the previous month to US\$408,353 in January. Imports of mahogany were worth US\$28,159 and imports of virola, imbuia and balsa were worth a combined US\$336,820.

US importers say ipe supplies are very tight this year. Global demand is rising, while supplies of ipe are limited. This year the rainy season has been longer than usual, essentially shutting down the flow of ipe from Brazil. Slightly improved demand in Europe is adding pressure on supplies and prices.

#### **More manufacturers offering 'tropical' look-alike but non-wood decking**

The market share of non-wood materials for residential decks has grown dramatically in the last decade. The materials substituting for wood include wood plastic composite, PVC and composites capped with a polymer shell.

Non-wood decking products are popular in northern US and along the west coast, with market shares approaching 50% in some areas in 2013. In the Southeast wood remains the most popular decking material, with approximately 80-90% of all decks are built in wood.

The leading manufacturers of non-wood decking are increasingly offering products that are made to look like tropical wood species, perhaps in an effort to gain a larger market share in the US South.

Home owners in the Southeast prefer dark, tropical colours in decking according to market information by TREX, the largest manufacturer of composite decking. Tropical wood colours and patterns are also popular in Southwestern US, where composite decking is more established.

Several producers of composite and PVC decking have introduced tropical look-alike product lines in 2014, such as AZEK Building Products who announced in March three 'tropical' colours.

TimberTech (owned by the same company as AZEK) emulates the look of ipe in its latest tropical collection of capped composite decking. Advanced Environmental Recycling Technologies (AERT) offers capped composite decking in the colours 'Ipe' and 'Brazilian chestnut'.

The colour and name choices reflect the popularity of ipe in the US decking market, and the use of non-wood decking the US South may increase in part because of limited ipe supplies from Brazil.

While the construction and renovation market has not yet fully recovered from the recession, demand for decking materials is likely to grow substantially in the coming years. Demand for tropical species is likely to outstrip supply and drive up prices which will provide market opportunities for composite decking manufacturers.

#### **Siding market study predicts good demand growth**

Siding demand is mainly driven by new home construction since almost every house and multi-family building in the US has siding (exterior cladding). In 2013, however, repair and renovation were the leading markets for siding because new home construction was still at relatively low levels.

Freedonia published a siding market study in March (Freedonia Study 3144) that forecasts an annual growth of 7% in siding demand in the next five years.

Freedonia expects a strong rebound in US housing starts and in the construction of hotels, resorts, offices and commercial buildings, which will support demand for siding.

Non-wood materials have dominated the siding market for many years now. Wood siding had a market share of less than 10% in 2013. Vinyl is the leading material with 27% of the market in 2013, but other materials (brick, stone and concrete) are expected to gain market share in the next five years at the expense of vinyl.

**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.*

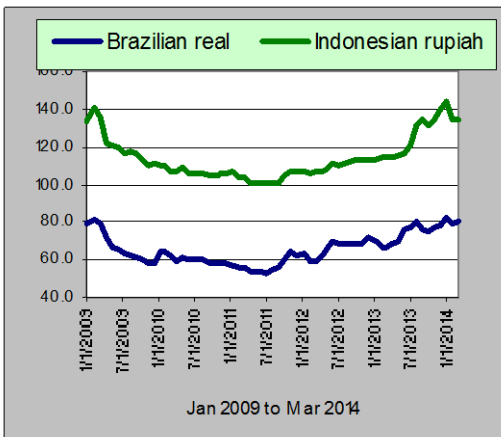
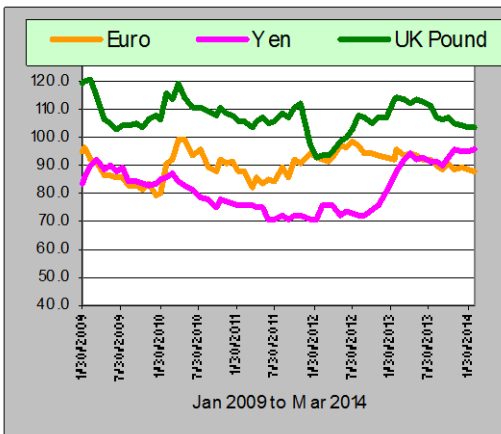
*The views and opinions expressed herein are those of the correspondents and do not necessarily reflect those of ITTO.*

## Main US Dollar Exchange Rates

As of 26th March 2014

Brazil	Real	2.3033
CFA countries	CFA Franc	476.23
China	Yuan	6.2108
EU	Euro	0.7255
India	Rupee	60.17
Indonesia	Rupiah	11444
Japan	Yen	102.05
Malaysia	Ringgit	3.2984
Peru	New Sol	2.8125
UK	Pound	0.6030
South Korea	Won	1075.45

Exchange rate index (Dec 2003=100)

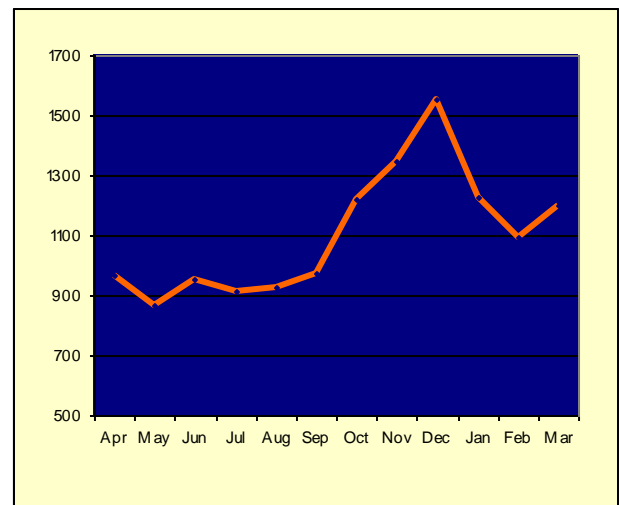


## Abbreviations and Equivalences

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 Saw n	square edged boule
cu.m cbm	cubic metre
FAS	First and second grade of saw nwood
FOB	Free-on board
Genban	Saw nwood 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	Saw mill Quality, Select Saw mill Quality
TEU	20 foot container equivalent

## Ocean Freight Index

Baltic Supramax Index April 2013 – Mar 2014



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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