

Tropical Timber Market Report

Volume 22 Number 15 1st – 15th August 2018



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.

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Top Story

Myanmar launches legality certification system

The Myanmar Forest Certification Committee (MFCC) launched its legality certification system at an 8 August workshop in Yangon.

There are four Certification Bodies, three local and one international, which will issue Legality Compliance Certificates under the Myanmar Timber Legality Assurance System (MTLAS).

The tracking and certification system was designed by international consultants funded by the Prince Albert II of Monaco Foundation.

See page 5

Central and West Africa

Market sentiment – “maintain stability”

Producers report that the over-riding sentiment of both sellers and buyers is one of ‘maintaining stability’. Once again there have been no changes in log and sawnwood prices over the past two weeks.

Prices have held steady because of the continued demand in all major markets. Demand in France is reported as the strongest amongst EU buyers followed closely by Germany.

Buyers for the Chinese market are active and the concentration of interest in the denser species continues. It is only okoume that has come under renewed downward pressure on prices. However, okoume prices appear to be holding up because of the willingness of producers to hold on to their stocks –at least for the time being.

Crises and brutal weakening of European timber operations in Africa

The reorientation of the African timber trade away from traditional markets in Europe and the US to China and India is quickening driven by supply-side issues, particularly the declining availability of timber species of interest to the European market; and on the demand-side as consumption is weakening in Europe at a time when demand in Asia is rising rapidly.

These issues are explored in two recent trade articles which refer to the “crises” and “brutal weakening” of European-owned forest and timber operations in Africa in recent years.

This is explored in depth on page 17

Cost of production rising as new regulations are introduced

Producers say that changes in government regulations are beginning to impact production costs which, in an environment where there is limited scope for price increases, becomes a serious problem for profitability and the viability of the processing sector.

Producers do not expect any real opportunity to raise prices this year but are content with the pace of business which is supported by buyers who appear to accept the need to ensure long term continuity of supply from reliable shippers.

Log export prices

West African logs Asian market	FOB Euro per cu.m		
	LM	B	BC/C
Acajou/ Khaya/N'Gollon	265	265	170
Ayous/Obeche/Wawa	2780	280	245
Azobe & Ekki	275	275	-
Belli	400	400	-
Bibolo/Dibétou	210	210	-
Bilinga	265	265	-
Iroko	370	350	270
Okoume (60% CI, 40% CE, 20% CS) (China only)	245	240	190
Moabi	355	345	265
Movingui	240	240	-
Niove	180	180	-
Okan	245	245	-
Padouk	350	300	245
Sapele	310	300	245
Sipo/Utile	335	315	245
Tali	415	415	-

Sawnwood export prices

West African sawnwood	FOB Euro per cu.m
Ayous FAS GMS	420
Bilinga FAS GMS	530
Okoumé FAS GMS	460
Merchantable	310
Std/Br GMS	360
Sipo FAS GMS	520
FAS fixed sizes	560
FAS scantlings	550
Padouk FAS GMS	920
FAS scantlings	1050
Strips	640
Sapele FAS Spanish sizes	510
FAS scantlings	510
Iroko FAS GMS	640
Scantlings	720
Strips	420
Khaya FAS GMS	500
FAS fixed	500
Moabi FAS GMS	630
Scantlings	630
Movingui FAS GMS	455

Ghana

Encouraging growth in sawnwood exports to Asian markets

Ghana’s wood product exports in the first five months of 2018 recorded a year-on-year growth in both volume and value according to available data from the Timber Inspection Development Division (TIDD) of the Forestry Commission.

The country exported a total of 144,300 cu.m of wood products between January and May 2018 to register a 24% growth when compared to 116,952 cu.m exported in the same period in 2017. Total export revenues for the first five months of 2018 also improved, rising 38% to Euro 86.32 million from Euro 62.65 million in 2017.

According to the TIDD, secondary wood products accounted for close to 88% of the total export volume in 2018 followed by primary wood products at 10% while tertiary wood products accounted for the balance the details are in table below;

Exports in first 5 months 2017 and 2018

	Jan-May 2017 cu.m	Jan-May 2018 cu.m	% change
Primary	8,045	14,541	81
Secondary	103,519	126,317	22
Tertiary	5,388	3,442	-36
Total	116,952	144,300	23

Source – TIDD (Research & Statistics)

Primary wood product exports (poles and billets) expanded 81% from 8,045 cu.m in 2017 to 14,540cu.m in 2018. Exports of secondary wood products, mainly sawnwood, boules, veneer and plywood also increased 22% while exports of tertiary wood products declined.

The major markets were in Asia with smaller quantities going to neighbouring African countries. Planation teak, rosewood, ceiba, papao/apa and wawa were some of the leading species utilised for exports.

Distressed banks merged – a move welcomed by industry associations

The Ghana Central Bank has announced that the government has taken control of 5 distressed local banks and merged them into a single entity known as the Consolidated Bank.

Governor of the Central Bank, Dr. Ernest Addison, said this action is part of ongoing reforms aimed at strengthening the country's financial sector. The new entity has benefitted from an almost US\$90 million recapitalization.

The Association of Ghana Industries (AGI) said it was hopeful the Central Bank would be able to get the new financial institution on a sound footing to service the needs of industry.

In related news, a press release from the AGI said “the Association notes with concern, related developments in the Ghanaian economy and reiterates that the influx of imports remains a major risk to the growth of industry and the country’s job creation prospects.

Instances of weak local currency and exchange rate volatilities as experienced in the second quarter reflect the import-oriented nature of our economy. Businesses came under intense pressure from cedi depreciation in Q2. Speculations about new taxes emerging in the mid-year budget review negatively impacted business confidence.”

See:

https://agighana.org/uploaded_files/document/b6cd3083881d1d74f7ec00c3fc03eefe.pdf

Boule Export prices

	Euro per m ³
Black Ofram	330
Black Ofram Kiln dry	400
Niangon	580
Niangon Kiln dry	598↓

Export Rotary Veneer Prices

Rotary Veneer, FOB	Euro per m ³	
	CORE (1-1.9 mm)	FACE (>2mm)
Ceiba	322↑	415
Chenchen	365	505
Ogea	473	590
Essa	546	649↓
Ofram	350	406

NB: Thickness

Export Sliced Veneer

Sliced face veneer	FOB Euro per m ³
Arormosia	-
Asanfina	1,077↑
Avodire	1,177
Chenchen	966↑
Mahogany	852↓
Makore	1,223↑
Odum	1,743↑

Export Plywood Prices

Plywood, FOB BB/CC	Euro per m ³		
	Ceiba	Ofram	Asanfina
4mm	378	640	641
6mm	396	535	626
9mm	367↑	446	560
12mm	470	463	480
15mm	450	398↓	430
18mm	405	417	383

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

Export Sawnwood Prices

Ghana Sawnwood, FOB FAS 25-100mm x 150mm up x 2.4m up	Euro per m ³	
	Air-dried	Kiln-dried
Afrormosia	860	925
Asanfina	490	564
Ceiba	240	320
Dahoma	442↓	608
Edinam (mixed redwood)	520	590↑
Emeri	490	564
African mahogany (Ivorenensis)	843	968↓
Makore	775	925
Niangon	530	657↑
Odum	918	930↓
Sapele	700	757↓
Wawa 1C & Select	360	432↓

Malaysia

MTC has new chairman

Dato' Low Kian Chuan has been appointed Chairman of the Malaysian Timber Council (MTC). Dato Low, 58, who holds a Bachelor of Economics and an Advanced Diploma in Business Administration started his career in the timber industry working in his father's sawmill in Terengganu shortly after graduating from the university in 1984.

He is currently the Executive Chairman of Low Fatt Wood Group of Companies. Low has a long history with the timber industry which revolves around his involvement in the Timber Trade Federation Malaysia (TTFM).

Established in 1957, TTFM was one of the pioneer organisations that consolidated and brought together those in the timber sector, especially the sawmillers. It was also one of the key associations instrumental in the formation of MTC.

Among Low's notable achievements was promoting the idea of producing premium grade laminated scantlings or lam-scants. Low initiated the R&D to produce high grade lam-scants for niche markets, which resulted in the 2004 registered trademark 'Lamtec Malaysia', a label for premium wooden laminated scantlings.

Low's vast exposure and experience in the timber industry and other sectors will further elevate MTC as an organisation that advances the collective interest of its stakeholders.

See:

http://www.mtc.com.my/images/media/625/Press_Release_on_Apointment_of_Chairman_-ENG_Final.pdf

Furniture exports continue to expand

The Malaysian Timber Industry Board (MTIB) has reported that the timber industry contributed RM23.2 billion to export earnings last year representing an almost 5% increase from a year earlier. Of the total RM8 billion was from the export of furniture of which 80% was rubberwood furniture. The MTIB has targeted a 3-5% growth in wooden furniture exports for 2018.

The Director General of MTIB, Dr. Jalaluddin Harun, said the Board aims to modernise the timber industry through automation and increased productivity so as to reduce the industry's reliance on semi-skilled foreign labourers.

Malaysian Forestry Conference (MFC)

The 18th MFC was hosted by the Forest Department of Sarawak and the Sarawak Forestry Corporation. The MFC is held every three years on a rotational basis amongst the Forestry Departments of Sarawak, Sabah and Peninsular Malaysia. The Conference provides a forum for Malaysian foresters to exchange and share information, views and experiences in the administration, management and developments of the nation's forest resources.

Sarawak Chief Minister, Abang Johari Tun Openg, told the MFC that the Sarawak government has made it mandatory for all holders of long-term forest timber licenses to obtain Forest Management Certification by 2022. He said the decision is in line with the state's policy reform.

He acknowledged that achieving certification in the State will be a challenge especially in terms of the capacity of both implementing agencies and the private sector. However, through good collaboration between State agencies, timber companies, the associations, NGOs and local communities a balance between environmental protection, economic growth and socio-economic development can be achieved.

One major challenge will be how to secure land for development without encroachment into the permanent forest estate. This will require a review of policies and ordinances to strengthen forest management and protection.

Sarawak and Vietnam cooperation on furniture

KTS Holdings and Pusaka Timber Industries (PTISB), both from Sarawak, signed memorandums of understanding with Sudima Panels and Wilsons Hill Vietnam to collaborate on furniture manufacturing.

The Sarawak companies have recognised the success Vietnam has achieved in utilising acacia to produce furniture. Currently, Sarawak's export of furniture is negligible, contributing less than 5% of total export earnings by the timber sector. Sarawak has plans to establish one million hectares of industrial forest by 2020. As of December 2017, 400,000 hectares have been planted, mostly with acacia.

July plywood prices

Plywood traders based in Sarawak reported the following export prices:

FB (11.5 mm)	US\$ 760 – 770 FOB
CP (3' x 6')	US\$ 560 C&F
UCP (3' x 6')	US\$ 660 C&F
Middle East (thick panel)	US\$ 465 FOB
South Korea (9 mm and up)	US\$ 515 C&F
Taiwan P.o.C (9 mm and up)	US\$ 500 FOB
Hong Kong	US\$ 500 FOB

Indonesia

Non-tariff barriers to hold back imports

In response to rising global trade tensions and a fear that Indonesia will become a target market for goods no longer competitive in the US market the government is considering ways to limit certain imports through non-tariff means.

The media in Indonesia has reported that Gati Wibawaningsih from the Ministry of Industry has said that while the government cannot ban imports of particular products it must act to protect domestic industry.

See: <https://nasional.kontan.co.id/news/pemerintah-menyiapkan-non-tariff-barrier-untuk-menahan-guyuran-impor>

Indonesia hopes US will maintain GSP facility

The Indonesian President has expressed the hope that the US would not revoke the Generalised System of Preference (GSP) facility for Indonesia. He reminded the US that over half of the items Indonesia exports to the US are raw materials for US companies.

Since 2011 Indonesia has enjoyed GSP benefits but the prospect that the US administration plans to review over 100 products from Indonesia including textiles, plywood, cotton and several marine products is of considerable concern.

Manufacturing output up 4%

Industry Minister, Airlangga Hartarto, has reported that manufacturing output increased 4.4% year-on-year in the second quarter of 2018. This was higher than 3.9% growth recorded in the second quarter of last year. Airlangga said the manufacturing sector is the backbone of the country's economy.

The press release from the ministry reported the natural rubber sector was the largest contributor to the economy excluding the oil and gas sectors followed by the leather and shoe sectors, food and beverages and textiles.

In contrast to the second quarter growth, during the first time in six months of 2018 manufacturing output declined as domestic demand weakened and demand in overseas markets continued to soften.

Forestry staff to study monitoring of production forests

Staff in the Ministry of Environment and Forestry (KLHK) Directorate General of Sustainable Production Forest Management (DG PHPL) will benefit from 'StuNed' scholarships and will travel to the Netherlands to undergo training in monitoring production forests using spatial technology in remote forest areas. The training will take place at the University of Twente.

Good prospects for Indonesia's 'Green Bond'

The World Bank has estimated the potential in Indonesia for environmental theme funding through green bonds and sukuk (sharia compliant bonds) and said these could reach around US\$27 billion by 2030.

Philippe Le Houérou, Chief Executive Officer of the International Finance Corporation, said Indonesia faces serious challenges in environmental conservation and there is a great opportunity for the development of innovative financial tools to support conservation work.

Five point plan for Indonesia's forestry sector development

The Ministry of National Development Planning has produced an assessment of what is required for Indonesia's forestry sector to contribute more to the national development agenda.

Arifin Rudiyanto, Deputy for Maritime and Natural Resources, has said the assessment has five main targets, namely rationalising the area and forest cover, improving the economy of forest-based communities, optimising bio-economic based multipurpose forests, forest management and the realisation of good forest governance.

Indonesian panel price indices



Data Source: License Information Unit. <http://silk.depht.go.id/>

Myanmar

Launch of third party certification

According to the domestic media the Myanmar Forest Certification Committee (MFCC) launched its Third Party Certification System at an 8 August workshop in Yangon.

It is reported that there are four Certification Bodies, three local and one international, which will issue Legality Compliance Certificates under the Myanmar Timber Legality Assurance System (MTLAS).

Barber Cho, Secretary of the MFCC, explained that the MTLAS Gap Assessment Project conducted in 2016-17 with the assistance of the EU and FAO recommended MFCC to initiate a system of third party certification. The Ministry of Natural Resources and Environmental Conservation (MONREC) assigned the MFCC to implement this.

To proceed the MFCC contracted international consultants to design the documentation tracking system and to conduct auditor training under an MFCC-PEFC supported project in order to strengthen the MTLAS. This effort was funded through a grant from the Prince Albert II of Monaco Foundation.

Cho explained that the MFCC has worked hard to overcome the challenges to achieve its aim but that the MFCC still has more to do to make the MTLAS credible and internationally recognised.

Greater transparency is high on the agenda of the MFCC. At a recent meeting in Brussels several Competent Authorities (CAs) complained of the lack of information being provided by Myanmar. To improve transparency and access to information the MFCC has launched a website <http://www.mfcc.com.mm>.

The Myanmar Timber Enterprise also has a website (www.myanmar-timber.com.mm) and the Secretary of the MFCC has urged the EU CAs to access these sites. A recent ‘hit’ analysis showed that few entities in the EU have been accessing the information that is available seeming to prefer to rely on third party sources. Cho appealed to the CAs in the EU to avail themselves of the latest information.

Bamboo resources waiting to be utilised

The MTE has announced through their website an invitation to investors. The invitation reads “With the growing shortage of raw materials around the world and maximised contribution required of the forestry sector to the national economy, priority is being given to downstream processing and value added production investments.”

The MTE is encouraging the use of lesser known species and bamboo saying bamboo is an inexhaustible resource especially for pulp and paper, bamboo chips and other uses.

MTE says investors interested in bamboo based industries could consider Rakhine Yoma for its abundant supply of bamboo and easy access to the sea. The MTE also says over 60 million pieces of rattan are available from rainforests of Myanmar yet no serious efforts have been made to develop this industry.

July teak tender prices

Grade	H.tons	Average US\$/H.ton
SG-1	-	-
SG-2	-	-
SG-4	66.4	3,245
SG-5	96.32	2,723
SG-6	180.1	2,285
SG-7	758.0	1,692

India

Surge in residential sales in top seven cities

A recent press release from CREDAI provides an overview of their August CREDAI NATCON 2018 (CREDAI’s national convention) at which over 1,000 real estate developers from 100 Indian cities discussed challenges and opportunities against the backdrop of tremendous growth in residential sales.

Participants reviewed reports which focused on the unprecedented growth displayed by the real estate industry in India which showed a 25% year on year rise in sales.

At the convention CREDAI revealed demands for incentives for developers to participate in affordable housing to continue the growth in this sector. The demands included enabling tax benefits, reducing land area utilisation to 50% and a 12% GST.

According to CREDAI these demands if met would provide further impetus to the growth of the real estate sector amidst the positive trends on investments and residential housing.

The growth witnessed in the first half of 2018, according to CREDAI, can be attributed to two main factors, firstly an improvement in buyers’ confidence on account of implementation of the Real Estate Regulation and Development Act (RERA) in most states and stable capital values that have started to show an upward bias.

These two factors have pushed many fence sitters and new home buyers to take the purchase decision. This is despite the fact that the Reserve Bank of India increased interest rates in the third monetary policy meeting making borrowing for home loans dearer.

The general consensus amongst the buyers has been that the markets have bottomed out and capital values are now expected to rise.

For more see: <https://credai.org/press-releases/credai-jll-report-reveals-25-surge-y-o-y-in-cumulative-residential-sales-in-top-seven-cities-of-india-in-h1-2018-at-natcon-2018-berlin>

Plantation teak

Demand for imported logs has started to improve and this has given traders the opportunity to raise prices on the local market by between 8-10%. However, this change has not resulted in any change in C&F prices.

The banks in India are coming under mounting pressure to resume import credit facilities and even the Reserve Bank of India has asked them revive the facility quickly.

Plantation teak prices

	US\$ per cu.m C&F
Angola logs	389-574
Belize logs	350-400
Benin logs	290-714
Benin sawn	530-872
Brazil logs	344-540
Brazil squares	333-556
Cameroon logs	405-616
Colombia logs	478-743
Congo D. R. logs	450-761
Costa Rica logs	357-780
Côte d'Ivoire logs	289-756
Ecuador squares	333-454
El-Salvador logs	320-732
Ghana logs	294-452
Guatemala logs	324-646
Guyana logs	300-450
Kenya logs	515-876

Laos logs	300-605
Liberia logs	265-460
Malaysian logs	225-516
Mexican logs	295-808
Nicaragua logs	402-505
Nigeria squares	434-517
Panama logs	335-475
PNG logs	443-575
Sudan logs	358-556
Tanzania teak, sawn	307-613
Thailand logs	511-700
Togo logs	334-590
Trinidad and Tobago logs	603-753
Uganda logs	411-623
Uganda Teak sawn	680-900

Price range depends mainly on length and girth

Locally sawn hardwood prices

As the housing market has started to improve demand for timber has also been rising which provides a welcome opportunity for importers to begin raising prices to off-set the weakness in the rupee/dollar exchange rate.

Prices in the domestic market have been increased as shown below.

Sawnwood Ex-mill	Rs per cu.ft.
Merbau	3500-3800▲
Balau	2200-2300▲
Resak	1500-1700▲
Kapur	1900-2100▲
Kempas	1350-1500▲
Red Meranti	1200-1300▲
Radiata pine AD	700-800▲
Whitewood	700-800▲

Price range depends mainly on length and cross-section of sawn pieces

Imported sawn Myanmar teak

Ex-yard prices for imported sawn Myanmar teak have been increased on the back of improved demand.

Confidence in the housing market has also lifted prices for Myanmar teak finally giving traders with large teak stocks to secure some sales. As stock levels fall analyst write further price increases are likely.

Myanmar teak prices

Sawnwood (Ex-yard)	Rs. per cu.ft
Myanmar Teak (AD)	
Export Grade F.E.Q.	10000-7000▲
Teak A grade	7500-8500▲
Teak B grade	5500-6500▲
Plantation Teak FAS grade	4500-5000▲

Price range depends mainly on lengths and cross-section

Locally sawn hardwood prices

Prices for imported kiln dry sawnwood have been raised for the first time in months

Sawnwood, (Ex-warehouse) (KD)	Rs per cu.ft.
Beech	1500-1650▲
Sycamore	1650-1800▲
Red Oak	1700-1850▲
White Oak	2350-2500▲
American Walnut	4500-5000▲
Hemlock STD grade	1350-1450▲
Western Red Cedar	2000-2200▲
Douglas Fir	1650-1800▲

Price range depends mainly on lengths and cross-section

Plywood up-date

Plywood manufacturers report satisfaction with the market acceptance of the recent price increases.

Analysts write that manufacturers are contemplating increasing prices by another 5% which will help them contend with the rising costs of raw materials and revive their profit margins which have suffered for almost all of this year.

Domestic ex-warehouse prices for locally manufactured WBP plywood

Plywood Ex-warehouse	Rs. per sq.ft
4mm	60.00
6mm	80.00
9mm	100.00
12mm	125.00
15mm	166.00
18mm	174.00

Domestic ex-warehouse prices for locally manufactured MR plywood

	Rs. per sq.ft	
	Rubberwood	Hardwood
4mm	30.00	44.00
6mm	45.00	57.00
9mm	57.00	70.00
12mm	70.00	82.00
15mm	83.00	100.00
19mm	96.00	114.00
5mm Flexible ply	60.00	

Brazil

Future of the forest debated

More than 20 industry federations from all over Brazil, governmental authorities, and forestry sector stakeholders attending the 106th meeting of the Thematic Council on Environment and Sustainability (COEMA) part of the National Industry Confederation (CNI) recently debated the future of the forest in Brazil.

On the agenda was the National System of Control of the Origin of Forest Products (SINAFLOR) and discussions focused on the many problems in implementation.

According to the Federation of Industries of the State of Rondônia (FIERO), the SINAFLOR platform is not working properly in Rondônia. FIERO highlighted the prospects of logging in the state under forest management plans; adding that "the state should promote the image of forest management as a differential and show the consumer market that the only way to undertake controlled exploitation/logging is through forest management."

In addition, FIERO says enterprises in Rondônia face difficulties because IBAMA will not authorise management plans for forests where there is no land title. This has eliminated vast harvestable forest areas from commercial use and seriously jeopardised companies in Rondônia as around 80% of the industrial roundwood comes from forest areas with only rights of possession.

The COEMA Council has become an important venue for debate and provide participants with the opportunity to identify issues of concern and offer solutions.

Logging law needs reviews

In July this year the 'Normative Instruction No. 005/2014-SEMA' came into effect. Article 9, paragraph 1, establishes that the minimum cutting diameter (MCD) shall be 0.60m.

The authors worked on the Instruction for 4 years and were required to provide technical and scientific reasoning to support the legal requirement but forestry sector

stakeholders claim none were submitted to justify the 60cm blanket limit. The apparent arbitrary increase in minimum diameter will result in many species being eliminated from the harvest because even at maturity they do not reach a diameter of 60cm.

The Forestry Technical Chamber – CTF (Câmara Técnica Florestal) composed of several entities such as SEMA (State Secretariat of Environment), IBAMA (Brazilian Institute for Environment and Renewable Natural Resources), SEDEC (State Secretariat for Economic Development), FAMATO (Federation of Agriculture and Livestock of Mato Grosso), AMEF (Association of Forest Engineers of Mato Grosso), OAB (Brazilian Bar Association), UFMT (Federal University of Mato Grosso), AREFLORESTA (Mato Grosso Reforestation Association) and CIPEM (Center for Timber Producers and Exporters of Mato Grosso State) drafted an amendment for IN No. 005/2014 based on scientific studies developed by the Brazilian Agricultural Research Corporation (EMBRAPA) and with unanimous agreement of all CTF members

The group is calling for revoking Article 9 of the Normative Instruction and redrafting to make it consistent with the decrees and resolutions of the National Environmental Council - CONAMA.

Panel export growth

The 50th IBÁ Report produced by the Brazilian Tree Industry (IBÁ) indicates that there was an increase of 8.6% in wood panel exports in the first six months of 2018. The main markets in June continued to be Latin America (US\$78 million), North America (US\$38 million) and Asia / Oceania (US\$18 million).

However the report notes a 28% decline in exports to Africa, falling from US\$7 million to US\$5 million year on year but there was an increase in exports to Europe.

In terms of domestic sales, after the sharp decline recorded in May, domestic sales picked up in June with some 3 million cu.m being sold. Domestic sales increased almost 2% in the first half of 2018 compared to the same period in 2017.

Business to business meetings generate US\$3 million in orders

The Bento Gonçalves Furniture Industries Union (SINDMÓVEIS) coordinates business dialogues as part of its 'Orchestra Brazil' project the aim of which is to encourage exports of furniture in partnership with the Brazilian Agency for the Promotion of Exports and Investments (Apex-Brasil). The latest activity of 'Orchestra Brazil' was during the ForMóBILE held in São Paulo.

See: <https://www.formobile.com.br/pt/home.html>

The 'Orchestra Brazil' project was established in 2006 and promotes competitive marketing of Brazilian wooden furniture in international markets.

During the ForMóbile fair more than 200 business to business meetings were arranged between Brazilian companies and importers from eight countries, such as South Africa, Argentina, Bolivia, Chile, Colombia, Mexico, Paraguay and Peru. Business deals worth around US\$230,000 were concluded with a forecast of almost US\$3 million in sales over the next 12 months.

Domestic Log Prices

	US\$ per m ³
Brazilian logs, mill yard, domestic	
Ipê	245
Jatoba	114
Massaranduba	110
Muiracatiara	111
Angelim Vermelho	108
Mixed redwood and white woods	90

Source: STCP Data Bank

Domestic Sawnwood Prices

	US\$ per m ³
Brazil sawnwood, domestic (Green ex-mill)	841
Ipê	419
Jatoba	399
Massaranduba	396
Muiracatiara	366
Angelim Vermelho	238
Mixed red and white	193
Eucalyptus (AD)	145
Pine (AD)	167
Pine (KD)	

Source: STCP Data Bank

Domestic Plywood Prices (excl. taxes)

	US\$ per m ³
Parica	528
4mm WBP	425
10mm WBP	358
15mm WBP	414
4mm MR	300
10mm MR	276
15mm MR	

Prices do not include taxes. Source: STCP Data Bank

Prices For Other Panel Products

	US\$ per m ³
Domestic ex-mill Prices	
15mm MDParticleboard	230
15mm MDF	257

Source: STCP Data Bank

Export Sawnwood Prices

	US\$ per m ³
Sawnwood, Belem/Paranagua Ports, FOB	
Ipe	1457
Jatoba	921
Massaranduba	841
Muiracatiara	826
Pine (KD)	199

FOB Belém/PA; Paranaguá/PR; Navegantes/SC and Itajaí/SC Ports. High quality wood (no cracks / without knots) / Measuring 2,50 m in length; 15 cm wide; and 30 mm thick.

Source: STCP Data Bank

Export Plywood Prices

	US\$ per m ³
Pine Plywood EU market, FOB	
9mm C/CC (WBP)	335
12mm C/CC (WBP)	319
15mm C/CC (WBP)	298
18mm C/CC (WBP)	297

Source: STCP Data Bank

Export Prices For Added Value Products

	US\$ per m ³
FOB Belem/Paranagua Ports	
Decking Boards Ipê	2,688
Jatoba	1,450

Source: STCP Data Bank

China scales back flooring purchases

The Association of Exporters (ADEX) has reported that Peruvian exports of wooden flooring were worth US\$23.8 million in the first four months of 2018 but that this was down 6% year on year. The main export items were tongue-and-groove flooring and decking.

During the first four months of this year wooden flooring exports went mainly to China which accounted for over half of all flooring exports but this was down almost 20% compared to the same period in 2017.

The other markets of note were France (US\$3.7 million), the United States (US\$1 million) and smaller quantities were shipped to Belgium, Denmark, Germany, Mexico, Australia, New Zealand and the Netherlands.

The main exporters were IMK Maderas S.A.C., Grupo Maderero Amaz S.A.C., Maderera Bozovich S.A.C., E & J Matthei Maderas del Perú S.A. and Forest Industry Huayruro S.A.C.

Shihuahuaco captures the attention of buyers

While overall sawnwood exports have declined over the past three years some companies have increased business in international markets.

One such company is Maderacre SA which has focused on developing wooden flooring. For many years mahogany was the most demanded timber but today it is shihuahuaco (*Dipteryx micrantha*) that has captured the attention of buyers.

Executive boards to be revived

The Ministry of Production has announced that the system of Executive Boards will be expanded to more sectors. Speaking on this the Minister of Economy and Finance, Carlos Oliva, said he considers it important to reactivate the Executive Boards to strengthen coordination between the public and private sectors.

The Government will soon publish its competitiveness strategy which will focus on structural, reforms to raise competitiveness. In promoting the idea of Executive Boards he pointed to the success of the Forest Executive Board which is helping development of the forestry sector.

Export Sawnwood Prices

	US\$ per m ³
Peru Sawnwood, FOB Callao Port	
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	556-599↑

Peru Sawnwood, FOB Callao Port (cont.)	US\$ per m ³
Virola 1-2" thick, length 6'-12' KD Grade 1, Mexican market	523-599
Grade 2, Mexican market	489-502
Cumaru 4" thick, 6'-11' length KD Central American market	894-942
Asian market	995-1022▲
Ishpingo (oak) 2" thick, 6'-8' length Spanish market	509-549
Dominican Republic	662-679
Marupa 1", 6-11 length KD Asian market	526-595▲

Domestic Sawnwood Prices

Peru sawnwood, domestic	US\$ per m ³
Mahogany	-
Virola	244-262
Spanish Cedar	332-374
Marupa (simarouba)	205-217

Export Veneer Prices

Veneer FOB Callao port	US\$ per m ³
Lupuna 3/Btr 2.5mm	221-249
Lupuna 2/Btr 4.2mm	234-266
Lupuna 3/Btr 1.5mm	219-228

Export Plywood Prices

Peru plywood, FOB Callao (Mexican Market)	US\$ per m ³
Copaiba, 2 faces sanded, B/C, 8mm	342-371
Virola, 2 faces sanded, B/C, 5.2mm	466-489
Cedar fissilis, 2 faces sanded 5.5mm	759-770
Lupuna, treated, 2 faces sanded, 5.2mm	389-412
Lupuna plywood B/C 15mm	449-495
B/C 9mm	379-399
B/C 12mm	350-360
C/C 4mm	389-425
Lupuna plywood B/C 4mm Central Am.	466-487

Domestic Plywood Prices (excl. taxes)

Iquitos mills	US\$ per m ³
122 x 244 x 4mm	508
122 x 244 x 6mm	513
122 x 244 x 8mm	522
122 x 244 x 12mm	523
Pucallpa mills	
122 x 244 x 4mm	503
122 x 244 x 6mm	511
122 x 244 x 8mm	513

Domestic Prices for Other Panel Products

Peru, Domestic Particleboard	US\$ per m ³
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 ³
Cabreuva/estoraque KD12% S4S, Asian market	1304-1391
Cumaru KD, S4S	
Swedish market	979-1098
Asian market	1085-1115
Cumaru decking, AD, S4S E4S, US market	1188-1222
Pumaquiro KD Gr. 1, C&B, Mexican market	479-554
Quinilla KD, S4S 2x10x62cm, Asian market	493-519
2x13x75cm, Asian market	732-815

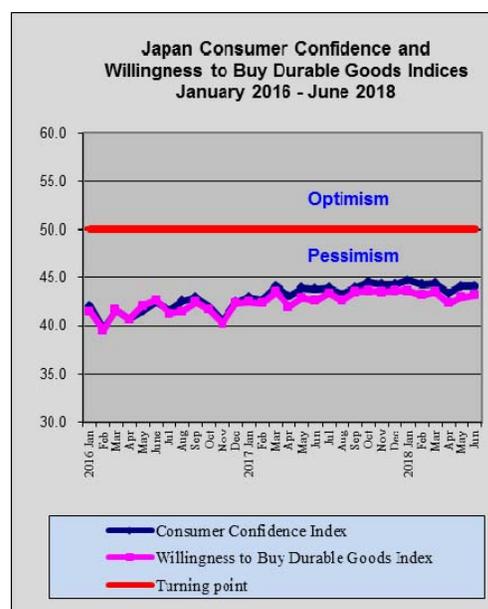
Japan

Labour shortage now a major problem

Japan's economy is beginning to feel the effects of the volatility in global markets, the result of US trade policies, as well as from the rising costs of imported raw materials and the domestic labor shortages.

The latest Tankan quarterly survey for June released by the Bank of Japan (BoJ) showed business confidence, even amongst the large manufacturers, was declining. June figures marked the second monthly fall in confidence.

Revised GDP indicated that the economy shrank at an annualised rate of 0.6 percent in January-March period but initial figures for the second suggest GDP improved which if the figures are not revised down would lift annualised GDP to 1.9%



Data source: Cabinet Office, Japan

Economic uncertainties did not drive the (BoJ) to change policy direction and at its latest policy board meeting the BoJ maintained its positive assessment of economic prospects and even revised upwards its assessment for private sector capital investment in three of the nine regions of Japan.

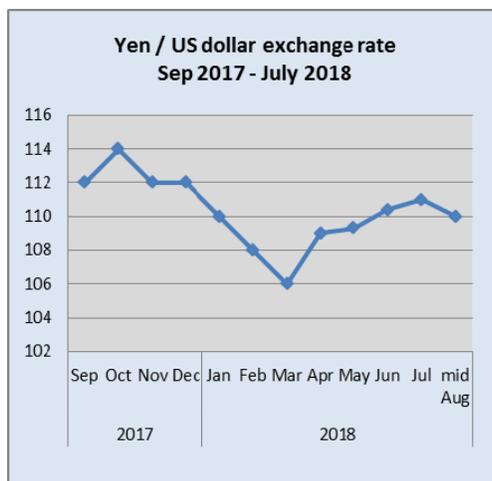
The labour shortage in Japan is now a major problem especially in the construction and manufacturing sectors and the latest population data indicate that there is no easy fix as Japan's population is falling at its fastest pace yet recorded.

Bank of Japan aims to keep yen competitive

After the BoJ decided to maintain its current monetary policy the yen fell against the US dollar. There was speculation that the BoJ would end to years of policy stimulus but this was put to rest with the BoJ Governor saying the Bank has no intention to raise interest rates and

that the current policy will be maintained until the inflation target has been achieved.

Some analysts say the decision to maintain the current policy is partly driven by the BoJ's interest in keeping the yen competitive, especially against the Chinese yuan which has fallen sharply against the US dollar.



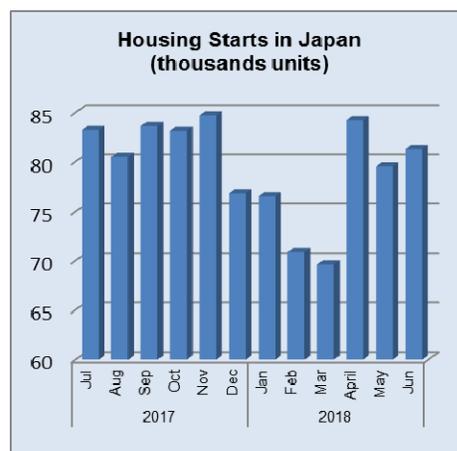
Japanese homes boil because of inadequate insulation
 Temperatures across Japan have soared this summer, with a record high of 41 degrees Celsius recorded in late July prompting the Japan Meteorological Agency to declare the high temperatures, combined with elevated humidity, a natural disaster.

Between the end of April and the end of the first week in August, at least 138 people have died from heat-related complaints and over 70,000 have been admitted to hospitals for heatstroke or heat exhaustion according to the Fire and Disaster Management Agency.

The searing temperatures are especially affecting the elderly who prefer not to use air conditioners or simply cannot afford to have them running. The impact of the summer heat has been aggravated by inadequate insulation in most Japanese homes.

Houses more than 25 years old rarely have roof insulation and wall insulation at about 5cm is wholly inadequate to prevent the inside wall becoming hot in direct sunlight.

Calls have been made for the authorities to help those at the greatest risk. In South Korea, which has also been affected by very high temperatures, the government has said it will reduce the price of electricity supplied to households for the months of July and August and that additional help would be provided to low-income families.

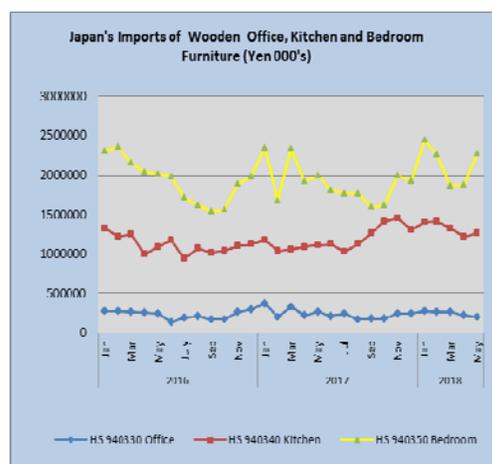


Source: Ministry of Land, Infrastructure, Transport and Tourism, Japan

Furniture imports

May saw a reversal of the April decline in the value of both wooden bedroom and kitchen furniture imports. May bedroom furniture imports were significantly higher than a month earlier and kitchen furniture imports rose moderately.

The month by month trends in imports of bedroom and kitchen furniture are quite different. Wooden bedroom furniture imports show consistent peaks and dips mirroring the cyclical trend in housing starts. On the other hand imports of wooden kitchen furniture, which could be expected to also mirror housing starts, show no regular pattern seemingly more closely related to consumer confidence.



Data source: Ministry of Finance, Japan

Office furniture imports (HS 940330)

The value of May imports of wooden office furniture was down on levels in the previous month and marked the third monthly decline after the peaks seen in January and February.

Year on year the value of May wooden office furniture imports was down 24% and there was a 10% decline in May imports compared to a month earlier.

The top three shippers of wooden office furniture to Japan remain China, accounting for 64% of total May wooden office furniture imports, followed by Portugal (7%) and Taiwan P.o.C also 7%.

In May, the value of imports from China was largely flat but, while small compared to China, imports from Portugal expanded by six times the level in April and shippers in Taiwan P.o.C saw a tripling of shipments of office furniture to Japan

Office furniture imports

	Imports May 2018 Unit, 000's Yen
S. Korea	-
China	129061
Taiwan P.o.C	13540
Vietnam	465
Thailand	-
Singapore	-
Malaysia	1054
Indonesia	2820
India	-
Sweden	-
Denmark	770
UK	1680
France	936
Germany	5207
Switzerland	-
Portugal	14528
Spain	511
Italy	5564
Poland	10060
Romania	-
Turkey	-
Lithuania	2375
Slovenia	-
Slovakia	1510
USA	10376
Mexico	398
Total	200855

Data source: Ministry of Finance, Japan

Kitchen furniture imports (HS 940340)

In contrast to the downward trend in office furniture, May imports of wooden kitchen furniture were up 13% year on year and up almost 4% compared to a month earlier.

Three suppliers account for the bulk of Japan's wooden kitchen furniture imports, the Philippines, (48%), Vietnam (35%) and China (13%).

The big winners in May were both the Philippines and China both of which saw shipments rise on the other hand shippers in Malaysia, Indonesia and Thailand saw sales fall in May compared to a month earlier. The only non-Asian shippers of wooden kitchen furniture in May were Germany and Italy.

Kitchen furniture imports

	Imports May 2018 Units,000's Yen
China	159759
Taiwan P.o.C	598
Vietnam	439896
Thailand	14867
Malaysia	8285
Philippines	603095
Indonesia	6319
India	-
Denmark	431
UK	-
Belgium	-
France	-
Germany	19052
Italy	7551
Finland	-
Poland	-
Austria	-
Romania	-
Canada	2510
USA	2648
Total	1265011

Data source: Ministry of Finance, Japan

Bedroom furniture imports (HS 940350)

Unexpectedly, Japan's imports of wooden bedroom furniture surged in May reversing two months of declines. The value of May imports of wooden bedroom furniture was up 21% compared to April and year on year May 2018 imports were 14% higher.

The top three shippers of wooden bedroom furniture to Japan in May were, in order of value, China, Vietnam and Thailand. Exporters in these three countries accounted for 90% of Japan's wooden bedroom furniture imports in May. Shippers in China accounted for 59% of May imports followed by Vietnam (28%) and Thailand.

Bedroom furniture imports

	Imports, May 2018 Units, 000's Yen
S Korea	574
China	1348376
Taiwan P.o.C	10082
Hong Kong	3232
Vietnam	636025
Thailand	72349
Malaysia	60927
Indonesia	37386
Cambodia	-
India	-
Sweden	20621
Denmark	1077
UK	-
Belgium	-
France	539
Germany	-
Switzerland	-
Italy	11444
Poland	50295
Austria	765
Romania	10467
Turkey	-
Estonia	-
Lithuania	12188
Ukraine	816
Bosnia Herzegovina	393
USA	265
Total	2277821

Data source: Ministry of Finance, Japan

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 reproduce news on the Japanese market precisely as it appears in the JLR.

For the JLR report please see:

<http://www.n-mokuzai.com/modules/general/index.php?id=7>

Unprecedented heavy rain hit Western Japan

Record breaking heavy rain hit Kyushu, Shikoku and Western Japan for four days since July 4, which caused inundations and landslides. Bursting dikes flooded many houses and landslides engulfed many houses. Death toll reached 200 with heavy tolls in Hiroshima and Okayama prefecture. Road system is heavily damaged and rail system is disrupted.

Chugoku Lumber in Kure, Hiroshima prefecture suffered little damages at the sawmills but supply of electricity and industrial water is stopped so mills operations are stopped. It has some inventories so lumber supply is possible but deliveries take time because of damaged road system.

Many other building materials manufacturing facilities in the area are damaged by muddy flood water. Heavy rain also damaged logging road system so log supply in the area is definitely affected.

Many houses are destroyed and people evacuated to temporary shelters as water and electricity supply is stopped. Hundreds of volunteers from all over Japan rush to the area to help clean up works in hot weather over 35 degrees after weather changed to scorching sunny day for more than ten straight days and many suffers heat stroke.

Log exports continue increasing

For the first four months of this year, log export was 347,476 cbms, 23.5% more than the same period of last year.

Lumber export also increased to 45,656 cbms, 14.8% more. 285,195 cbms or 82.1% of export logs went to China. By species, cedar is 290,175 cbms, 83.5% in total log export. Cypress is 44,421 cbms, 12.8%.

In lumber export, China is top buyer with 19,372 cbms, 42.4% then about 9,000 cbms for the U.S.A. and the Philippines. By value of lumber export, 680 million yen for China then 436 million yen for the U.S.A. 380 million yen for the Philippines so the U.S.A. becomes the second in value.

Cedar fence board for the U.S. market continues to be steady but growth is slowing. Lumber export by species is 24,032 cbms of cedar, 52.6% then cypress is 11,043 cbms, 24.2%. Pace of log export for 2018 seems to be over one million cbms but heavy rain in the Western Japan is likely to hamper log harvest and may influence export volume. Besides logs and lumber, export of plywood for the first four months is 40,142 cbms, 9.6% more.

Wood supply and demand projection for 2018

The Forestry Agency held the first wood demand projection meeting on June 26. The supply for 2018 seems to be the same as 2017 in general. Trend is increase of domestic wood and decrease of imports. Supply of structural laminated lumber would decline for both domestic production and imports. Domestic plywood production would increase some while imported plywood would decrease some.

Domestic log supply increased in 2017 and the supply would be the same as 2017. There is some comment that domestic wood supply replaces inflated imported wood products but in a long run, it would cause declining demand for wood.

Domestic log demand would increase as the new softwood plywood mill in Miye prefecture by Nisshin started and in the second half of the year, it would be in full production.

By record breaking heavy rains in early July in Western Japan hit major log producing prefectures like Hiroshima, Okayama, Ehime and Kohchi and it would take some time to restore logging road systems so log production would drop in these regions so some areas may suffer log shortage.

High prices of North American wood products would continue for the second half of the year and the supply would continue tight but the demand is also stagnating so both supply and demand would keep shrinking.

European wood supply would increase more than last year in the second half but structural laminated lumber would decline.

Radiata pine logs and lumber are only items to be more than last year. Increase of logs would be in the fourth quarter this year and lumber from Chile would increase during July and September.

Log supply from both Russia and South Sea countries would decrease considerably by supply side problems. Log export ban by Sabah of Malaysia would impact log supply. Log import from Far East Russia would drop by log export duty so the demand in Japan would shift to veneer for plywood mills in Japan, which have been using Russian larch logs.

Projection of new housing starts for 2018 by 12 private think tanks is 930,000 units, which is revised downward by 23,000 units from previous projection in last March. Negative factors are inflating building materials cost and labor.

South Sea (tropical) logs and lumber

At the recent Forestry Agency's demand and supply projection meeting, log supply from South Sea for the fourth quarter and first quarter next year is reduced by half of initial projection after Sabah, Malaysia bans log export. Plywood mills peeling Malaysian logs are now seeking log supply from other regions like PNG and Solomon Islands, Africa, South America then veneer supply from Russia and Indonesia.

Movement of merkusii pine laminated free board from Indonesia is recovering with start of more public facilities. Distributors carry ample inventories so they are not ready to place new orders yet.

Review of domestic logs

Share of domestic logs in total logs used for manufacturing lumber and plywood has been climbing.

While import of logs continues to decline, domestic log production continues increasing. For domestic wood products manufacturers, domestic logs are now indispensable.

Supply side price escalation of all the imported wood products is remarkable since second half of 2017. Facing such steep price inflation, it is challenge how much domestic wood can replace imported items such as SPF 2x4 lumber, green hemlock square for sill, KD Douglas fir square for girder and purlin, European laminated post and stud and floor base of South Sea hardwood plywood. Also another challenge is if stable log supply is achieved to satisfy growing demand.

In 2017, domestic log supply for industrial use expanded to 21,279,000 cbms when new housing starts did not increase. This proves that share of domestic logs in total log consumption increased.

Meantime percentage of kiln dried products in total lumber shipments exceeded 40% for the first time. This means increase of new domestic log cutting sawmills with kiln dry facilities so domestic KD lumber production increased, not imported species like Douglas fir.

Also, domestic log consumption for plywood manufacturing is now nearly four million cbms. Now a new softwood plywood mill in Miye prefecture by Nisshin has started running and Yamanashi plant by Keytec and Ohita plant by Shin-Ei will start up next year. These plants consume about 100,000 cbms a year so the volume will keep increasing for plywood manufacturing to over 4 million cbms next year.

New housing starts in 2017 are 964,641 units, 3,064 units less than 2016 but domestic log supply increased to 21,279 M cbms, 619 M cbms more than 2016. While housing starts decreased, domestic log demand increased.

By species, supply of all the softwood species increased over 2016. Cedar took 63.5% in total softwood then cypress increased to 12.2%. Larch production was less than the demand. Larch is used for laminated lumber and plywood so the demand is growing.

In the wood statistics made by the Ministry of Agriculture, Forestry and Fisheries, it is the first time since 1997 that the demand for domestic logs hit over 21,000,000 cbms but contents have changed a lot in last 20 years. Compared to 1997, logs for lumber decreased by 2,804,000 cbms while logs for plywood increased by 3,792,000 cbms. Hardwood log demand dropped by half while cedar increased.

Share of domestic logs in 1997 was 46.0% then it climbed to 80.8% in 2017 and 80% of logs consumed by sawmills is domestic.

Log demand has shrunk by about 40% in last 20 years. Demand for imported logs shrunk by one fifth so share of domestic logs almost doubled. Declining trend of log demand had been before 1997.

Demand decline for both imported and domestic logs had been lasting and in 2012, both were almost even with 15,000 M cbms each. Since then share of domestic has kept growing while that of imported has kept dropping.

As to imported logs, logs from all the sources have decreased. Sharp decline of Russian logs (7% of 1997) and South Sea logs (4% of 1997) is conspicuous. Some of log demand is replaced by finished products but shifting to domestic logs of plywood manufacturing is notable change.

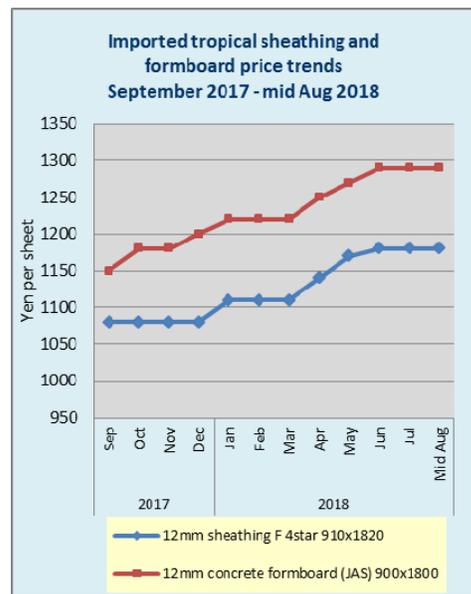
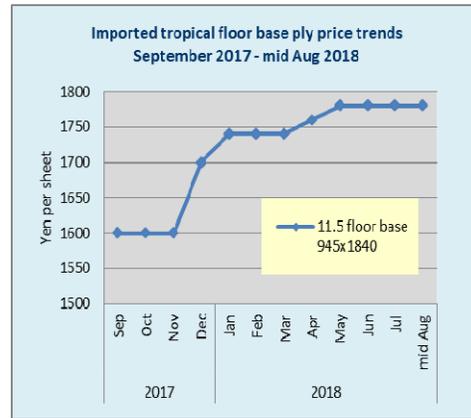
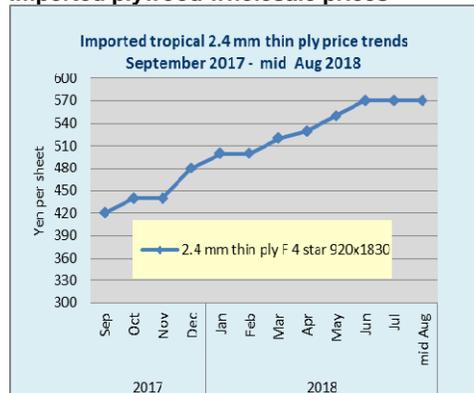
Cedar logs replaced imported logs. Cedar log demand in 2017 was 12,147,000 cbms while that in 2002 was 6,860,000 cbms so it is 1.8 times increase in fifteen years.

Domestic log production by the region is changing. Kyushu has been the top producer but it is now peaking off while the North East is growing. Log production by seven prefectures in Kyushu was 5,078,000 cbms while that by six prefectures in the North East was 5,201 M cbms and they have more room to grow. Log producers in these regions are seriously tackling replantation to make sustainable forest management to insure future log supply.

In 2017, log demand for lumber increased by 1.3% from 2016. Domestic log demand increased by 3.7% while demand for imported logs decreased by 5.4% so share of domestic climbed to 75.2%. Shifting from high cost North American logs to domestic logs progressed in 2017.

The most symbolic move is Cypress Sunadaya in Ehime prefecture, which had been cutting North American yellow cedar for years then by skyrocketing prices and tough availability, it gave up to cut North American cypress and changed to domestic cypress. By species of logs for lumber manufacturing in 2017, cedar was 8,200,000 cbms, 1.3% more than 2016 then cypress was 2,180,000 cbms, 9.9% more.

Imported plywood wholesale prices



China

Transformation of China's wood panel enterprises

China's production of wood products, especially woodbased panels, has increased rapidly in recent years. According to statistics from the China Timber and Wood Products Distribution Association (CTWPDA) output of wood-based panels rose 5% to 315 million cubic metres in 2017.

Of the total, output of plywood, fibreboard and particleboard was 182 million cubic metres, 67 million cubic metres and 35 million cubic metres respectively. 2017 output of particleboard surged over 30%.

However, most of wood-based panel enterprises are facing huge challenges resulting from their low level technology, overcapacity, inadequate raw material supply, environmental restrictions and fierce competition not to mention rising tariff barriers.

Because of this the sector is undergoing a transformation. For example, in Zhangzhou City of Fujian province, gas is replacing coal for energy generation and around 1,000 coal fired boilers have been replaced.

Rise in laminated floor exports through Changzhou port

According to the Changzhou Customs in Jiangsu Province the value of laminated floor exports between January and May 2018 through Changzhou Ports rose 6% to US\$206 million, a year on year increase of 3%. Of the total, 54% was exported to the USA, Russia and Canada.

There is a Changzhou Floor Export Demonstration Zone located in Henglin Town where there are more than 200 laminated flooring manufacturers and 300 supporting enterprises. The factories there have an annual flooring production capacity of more than 350 million square metres and annual exports of US US\$600 million.

Manufacturers adjust to new environmental protection policy

According to the Chinese government’s environmental policy called the “Three-Year Plan on Defending the Blue Sky” industrial enterprises in Beijing, Tianjin and Hebei Provinces will be required to present plans to ‘green’ production lines by the end of September 2018.

High risk enterprises including foundries, home furnishing producers, woodbased panel producers, paper makers, and chemical plants in 28 cities will be required to stop production to undertake refurbishment between 1 October 2018 and 31 March 2019.

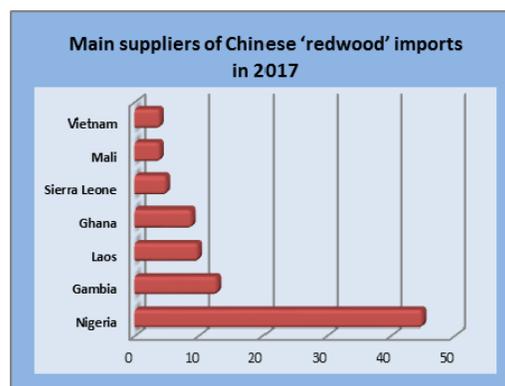
Forest industry enterprises will be affected by this new policy of environmental protection and face huge challenges.

Nigeria and Indonesia main suppliers of Chinese “redwood”

The average growth in the value of retail sales of commodities in 2017 was 8.2% but sales of furniture exceeded the average rate and sales of ‘redwood’ furniture represented the fastest growth.

Chinese ‘redwood’ log imports totalled 990,000 cubic metres valued at US\$914 million in 2017, up 24% in volume and 12% in value. Around 45% of Chinese ‘redwood’ log imports were from Nigeria in 2017 despite the log export ban and were worth US\$329 million.

In addition, Gambia, Laos and Ghana are also suppliers of Chinese ‘redwood’ log imports in 2017.



Chinese ‘redwood’ sawnwood imports amounted to 150,000 cubic metres valued at US\$210 million in 2017, surging 83% in volume and 66% in value. Some 37% of Chinese ‘redwood’ sawnwood imports were from Indonesia in 2017 and were worth US\$100 million, a year on year increase of 68%. In addition, Laos, Nigeria and Benin were also significant suppliers of sawn ‘redwood’.

Imported ‘redwood’ is used in furniture making. ‘redwood’ furniture has developed rapidly. Before 2014 annual value of production of ‘redwood’ furniture in China was about US\$46 billion. But after a temporary decline (the value of ‘redwood’ furniture production in Beijing alone fell 40% in 2015) it began to recover and grew to more than US\$15 billion in 2016.

Chinese ‘redwood’ has a wide range of application. Besides furniture making, Chinese ‘redwood’ is used in manufacturing various kinds of small ‘redwood’ products such as flower stand, incense burner table, wood carving, hand string, jewelry box, walking stick and musical instruments such as Chinese lute, erhu and pianos.

Guangzhou Yuzhu International Timber Market Wholesale Prices

	Logs	yuan/cu.m
Merbau	dia. 100 cm+	4-6000
Bangkirai	dia. 100 cm+	3200-4600
Kapur	dia. 80 cm+	2700-3000
Ulin	All grades	6500
Lauan	dia. 60 cm+	-
Kempas	dia. 60 cm+	2000-3000
Teak	dia. 30-60 cm	8500-8600
Greenheart	dia. 40 cm+	2300-2400
Purpleheart	dia. 60 cm+	3000-4500
Pau rosa	dia. 60 cm+	2800-3000
Ipe	dia. 40 cm+	3200-3400
yuan per tonne		
Cocobolo	All grades	40-70000

Sawnwood

	Sawnwood	yuan/cu.m
Makore	Grade A	9800-11800
Zebrano	Grade A	9500-12500
Walnut	Grade A	9500-15000
Sapelli	Grade A	5000-7500
Okoume	Grade A	3700-4700
Padauk	Grade A	15000-18000
Mahogany	Grade A	6500-7500

Sawnwood		yuan/tonne
Ulin	all grades	9000-10000
Merbau	special grade	7500-9500
Lauan	special grade	4300-4700
Kapur	special grade	5000-6000
Teak	special grade	14000-22000

Zhangjiagang Timber Market Wholesale Prices

Logs, All grades	Yuan/tonne
Sapelli	3000-4000
Kevazingo	8000-32000
Padouk de afric	2400-3100
okoume	1400-1800
Okan	2400-2800
Dibetou	2200-2500
Afrormosia	5500-6500
Wenge	4700-5500
Zingana	3400-4800
Acajou de afica	3000-3500
Ovengkol	3100-3600
Paorosa	5900-6600
Merbau	3500-5800
Lauan	1800-2020
Kapur	2020-2500
Keruing	1700-2200
Geronggang	1600
kauri	1700-1850
Amoora	1900-2080
Calophyllum	2150-2350
Red ganarium	1300-1400

Sawnwood		yuan/cu.m
Cherry	FAS 2 inch	9000-10000
Black walnut	FAS	15000-18000
Maple	FAS	8200-10000
White oak	FAS	7500-13000
Red oak	FAS	6500-8300
Finnish pine	Grade A	2600-2900
Maple	Grade A	9000-9500
Beech	No knot	9000-9500
Ash	No knot	5600-6300
Basswood	No knot	2800-3300
Oak	No knot	5300-5700
Scots pine	No knot	2100

Europe

Certified sustainable business model in Africa challenged by structural change

A major structural change is underway in the African timber industry as operations are reoriented away from the European market towards Asian markets.

This change is driven by factors both on the supply-side, particularly declining availability of timber species of interest to the European market; and on the demand-side as consumption is weakening in Europe at a time when demand in Asia is rising rapidly.

Although this shift has been going on now for over a decade, the full implications were laid bare in March this year with the announcement that the Rougier holding company was to be placed under court-ordered receivership proceedings in France with a view to rolling out extensive restructuring actions.

This event is encouraging a reassessment of the future role of European forest operations in the African region, and of the continuing validity of a business model heavily dependent on the profits anticipated from the sale of third party certified tropical wood products and other ecosystem services in “environmentally-aware” markets of richer industrialised nations.

These issues are explored in two recent trade articles, one by Alain Karsenty¹, the Research Director of CIRAD, the other by Emmanuel Groutel², an independent expert on the African timber industry currently affiliated to Caen University in France. These articles refer respectively to the “crises” and “brutal weakening” of European-owned forest and timber operations in Africa in recent years.

¹<http://www.willagri.com/2018/06/28/la-crise-de-la-filiere-europeenne-du-bois-tropical-en-afrique-centrale/>

²https://www.researchgate.net/publication/323665892_Quid_du_futur_de_s_concessions_forestieres_africaines_dans_le_Bassin_du_Congo

These events raise, in the words of M. Groutel, profound questions about “theories of change of all policies and projects currently underway that rely on the link between responsible companies and the European and American market”.

According to M. Karsenty, the bankruptcy filing of Rougier has come as a particular shock to Europe-based tropical forestry professionals because the company, which was founded in Niort in 1923, is “one of the oldest and largest timber companies in Africa” which is present in Cameroon, Congo and, since 2015, in the Central African Republic (CAR) and which owned over 2.3 million hectares and employed 3,000 people, mainly in Africa.

During the on-going restructuring process, Rougier has disengaged from all African operations, except those in Gabon. In a transaction concluded on July 16, 2018, ownership of four Rougier subsidiaries - Société Forestière et Industrielle de la Doumé (SFID), Cambois and Sud Participation in Cameroon and Rougier Sangha-Mbaéré (RSM) in the Central African Republic – was transferred to Sodinaf (Société de distribution nouvelle d’Afrique), a Cameroonian company.

Financial difficulties of Rougier part of a wider problem

M. Karsenty highlights that the financial difficulties of Rougier form part of a wider pattern of failure by European operators in the African tropical wood sector.

The Dutch-owned Wijma Cameroon Group sold four of its five forest concessions in Cameroon to a competing company (Vicwood SA, headquartered in Hong Kong) in 2017. The Italian company Cora Wood SA, a well-known plywood manufacturer operating in Gabon, had to sell one of its concessions to a Chinese company to pay off its debts.

M. Karsenty notes that “rumours are rife about possible future disposals of other European companies in Gabon or Congo”.

As M. Karsenty observes, the reasons given by the Rougier management when filing for bankruptcy this year refer to problems that are common to the entire tropical timber export chain in Africa. These include on-going serious problems and delays with shipping out of Douala port in Cameroon and delayed payment of VAT refunds by African governments, partly linked to low oil prices, which created additional financial challenges for operators in the region.

While these problems impact on all operators in the region, they have fallen particularly heavily on European-owned companies because of weak and declining consumption of tropical timber in the European market; the declining availability of African wood species that satisfy the narrow preferences of European buyers; and the particularly low profitability of certified sustainable timber operations which receive little or no market premium for higher operating costs.

Reasons for declining European tropical wood consumption

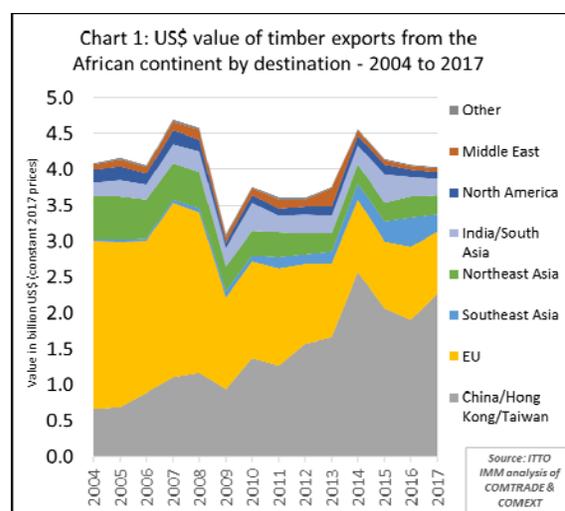
The reasons for declining consumption of tropical timbers in Europe are now well understood, having been widely reported by ITTO and others. They are also well articulated by participants at recent trade consultations in the UK and France hosted by the FLEGT Independent Market Monitor (IMM), an on-going ITTO project funded by the EC.

The logistical problems of supplying consistent commercial timber volumes from Africa into the European market are compounded by strong EU trends to favour engineered timber products which in turn require just-in-time delivery of wood in standardised grades and dimensions which tropical suppliers are not well placed to provide.

New thermally and chemically modified softwood and temperate hardwoods, together with wood plastic composites, are replacing tropical woods in many exterior applications. African species used in interior applications – like wawa, ayous, and movingui – are being replaced by beech, rubberwood, American tulipwood, MDF and a whole host of non-wood materials.

Meanwhile demand for tropical wood continues to suffer from the long-term effects of negative media campaigns linked to deforestation which the certification movement has not been able entirely to address.

As demand for African timber has weakened in Europe, it has continued to strengthen in Asia. Trade data analysed by IMM shows that the share of China in total African timber exports more than doubled from 25% in 2008 to 57% in 2017. The share of the EU in African exports fell from 49% to 21% in the same period. (Chart 1).



European African operations transferred to Asian companies

According to M. Karsenty, “European dealers, formerly essential in the African timber industry, are gradually giving up their assets to Asian investors. Malaysian operators have been present in Central Africa since the mid-1990s.

Chinese companies have entered the industry since the 2000s and, more recently, Indian investors, including the multinational Olam, have made their mark in Gabon and Congo”.

The process of transferring European-owned industry assets in Africa to Asian firms has been on-going now for some time, but there is a feeling that the withdrawal of Rougier, a company with such long and deep links to Africa, may mark a turning point.

The share of African timber exports to Europe increased slightly in 2015 and 2016, due both to a slight uptick in European consumption and a big fall in exports to China (mainly due to bursting of the speculative bubble in rosewood). However, Europe’s share of African exports slumped again in 2017 and appears to be falling fast in 2018.

The on-going trade dispute between China and the United States might strengthen these trends. On 2nd August, the Trump Administration announced a new round of tariffs on \$200 billion in Chinese goods, due to be implemented from 1st October.

In retaliation, the Chinese government announced that if the US goes ahead, it will impose a wide-ranging package of sanctions on imports of US products, including a 25% tariff on American hardwood.

Such measures are likely to enhance China’s demand for hardwood products from other regions, including Africa. And as around 50% of all American hardwood exports are currently destined for China, it’s also likely to encourage US hardwood exporters to focus more heavily on the European market, further increasing competition for tropical timber.

Declining availability of African timbers of most interest to European buyers

In addition to these global issues, forestry trends in Africa are reducing availability of timber species of most interest to the European market.

M. Karsenty notes that European operators in African have traditionally focused on a limited range of profitable species: okoumé in Gabon; ayous, sapelli and azobé in Cameroon; sapelli in northern Congo and okoumé in southern Congo; sapelli in CAR; a few precious species such as wenge and afrormosia in DRC.

Europe’s traditional focus on this handful of species means that gradually they have become commercially depleted - although not necessarily endangered.

According to M. Karsenty, “the problem is economic: the volumes remaining at the second rotation (legally, 25 to 30 years between two rotations) are generally insufficient to support industrial utilisation and to satisfy market demand”.

M. Karsenty notes that this problem is well illustrated by Rougier which purchased a concession in CAR just over the border from its main factory in Cameroon as a direct consequence of the decline in available volumes of sapelli and ayous in eastern Cameroon, a region that has been repeatedly exploited (both by industry and small artisanal operators) for several decades.

Similarly, observes M. Karsenty, Wijma’s abandonment of several concessions in Cameroon is also linked to the sharp drop in the volume of azobé at the end of the first rotation. Although there are other species that could be harvested in these forests during the second and subsequent rotations, they are either insufficiently abundant to replace traditional species, or their selling price is too low to cover the costs of harvesting, transport, and processing.

Risk of Africa’s over-dependence on commodities

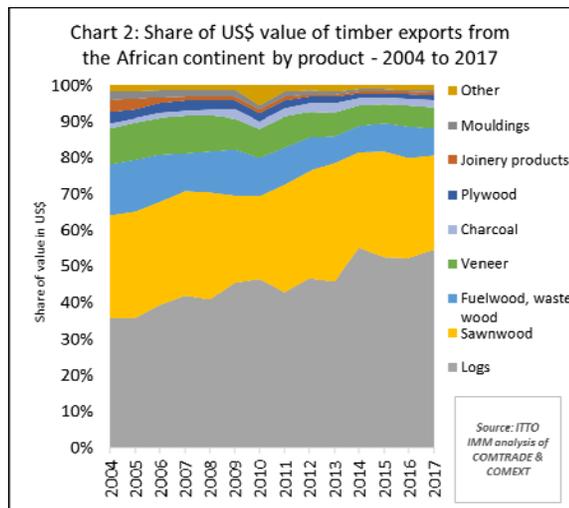
M. Karsenty also highlights the dangers of African operators remaining too dependent on exports of commodities such as logs, standard size lumber and rotary cut veneers rather than further processed products. He suggests that “to sell commodities is to be condemned to remain a ‘price taker’, dependent on international timber prices and the changing preferences of international buyers”.

Overseas buyers of timber will always tend to focus on the limited range of species and grades that meet their own production standards and agendas for market development. They often have little or no long-term stake in any specific supply country or region and will turn to alternatives – and play different suppliers off one another – when it suits them.

African suppliers of timber commodities face intense competition from Asian woods, and increasingly from modified temperate hardwoods and plantation timbers, even non-wood products, when prices of African woods are perceived to be too high.

Some African countries have now placed tight restrictions on log exports, particularly of the most commercially valuable species, to boost domestic wood processing. However, analysis by IMM shows that the rise in African exports to Asia has been accompanied by an overall shift away from exports of value-added products at a region-wide level.

According to IMM, the share of logs in total African timber exports increased from 41% in 2008 to 55% in 2017. During the same period, the share of higher-value products such as plywood, joinery products and mouldings – which has never been high – fell from 5.4% to 2.7% (Chart 2).



Asian operators better placed than European operators in Africa

M. Karsenty observes that Asian operators in Africa have been better able to overcome recent market challenges than their European counter-parts because they have significant capital and the markets in which they operate and can profitably utilise qualities different to those demanded by European buyers plus they have been successful in marketing a wide range of species.

Asian companies are under much less market pressure to demonstrate the legal and sustainable origin of their products in their domestic markets but this is changing, especially in China, but Asian exporters have to meet international standards.

According to M. Karsenty, “apart from the Olam company, which bought a large concession already certified in north Congo in 2011 from a Danish company, no Asian-owned operator has yet sought to obtain the FSC label for its African concessions”.

The business model pioneered by European operators for their African concessions seems to be unravelling. This model was built on the foundation of forest management plans developed in the 1990s and extended by a period of rapid uptake of FSC certification in the period 2005 to 2010.

The success of this model depends heavily on the market rewards to be derived from a clear commitment to sustainable forestry and social welfare standards. These rewards should derive from the combination of greater market access and prices for timber products, the anticipated development of new markets for eco-system services, notably carbon capture, and enhanced confidence of shareholders and other financial backers.

As M. Karsenty notes, “while certified woods are sold at a higher price in some sensitive markets, a good proportion of labelled timber is sold at current prices in the southern and eastern markets of Europe, the Middle East and Asia. And in this case, investment in certification is not profitable”.

Presentations at the FSC Dialogue meeting held in conjunction with the Gabon Wood Show in June also highlighted the continuing failure of this business model to deliver adequate financial returns. It was noted here that the total area of FSC certified had declined in the last two years from 5.5 million hectares to 4.85 million hectares.

The representative of one European-owned FSC certified operation in Africa said that “we have reached breakeven point after several years of negative performance - but sustainable tropical forest management models are still economically not attractive enough to motivate traditional investors to finance new developments.”

This company representative said that while efforts are being made to monetise carbon credits of certified forest operations, the returns on this and other ecosystem services are very low and timber sales still account for 90% of revenue. Furthermore, the large majority of this derives from their investments in plantation timber which from a financial perspective (although not from an environmental perspective) performs better than FSC certified natural forest.

Too early to dismiss “certified sustainable” business model

While this business model based on certification of natural forest has been losing ground in Africa over the last decade - and the problems at Rougier have turned a spotlight on its viability in the current market environment - the long-term potential for this model should not be dismissed out of hand.

To some extent the recent failures of European operations in Africa are due to economic conditions and policy failures that may yet be reversed. The timing of the rapid uptake of FSC certification – which occurred just as the global financial crises began to bite and which had a much larger effect markets in Europe and the US than in Asia – was particularly unfortunate for European operators in Africa.

The financial crises also distracted policy attention from efforts to develop markets from eco-system services and contributed to a general failure on the part of industrialised nations to back up their environmental commitments with funds.

More recently there have been some signs of recovery in total wood consumption in the EU market, buoyed by rising interest amongst architects and designers of wood’s environmental credentials.

All imports into the EU are now subject to the EUTR and while this law does not give FSC and PEFC certified wood a “green lane” through the due diligence requirements, it does state that certification is an appropriate tool for risk mitigation.

Both FSC and PEFC have also taken steps to ensure that their requirements for legal conformance and chain of custody of standards are fully aligned to EUTR. Consistent implementation of EUTR, and equivalent laws in other consuming countries, should eventually give certified products more of an edge over uncertified products in these markets.

Progress is slow but prospects for eco-system services are also improving. Capacity for REDD+ is being gradually built up, boosted by the strong endorsement of this approach in the 2015 Paris Agreement.

Global carbon markets are also set to expand, notably following the announcement by China in December last year that it is launching the world's largest cap-and-trade carbon market. This market, expected to be operating by 2020, is likely to allow use of forest carbon offsets, although the rules for this are still unclear.

The signing of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) in October 2016 also promises a significant expansion of demand for carbon offsets from the aviation industry.

Bolstering market awareness of benefits of sustainable tropical forestry

More concerted actions are also now being taken by African operators and certification advocates to bolster market awareness of the benefits of these systems. FSC representatives at the Gabon Dialogue particularly emphasised the work they are doing to raise consumer awareness of the role of certification in promoting progress in line with the UN Sustainable Development Goals.

The message being sent out is that “certified tropical timber products come preloaded with rural development and environmental conservation values”. FSC were confident that this message is gaining traction, benefitting from the links to the FSC brand which has gained widespread consumer recognition in western markets.

Other agencies are now working to promote this message. With wide-ranging support from major players in the tropical wood industry, ATIBT launched a new joint marketing initiative to develop the Fair & Precious brand in 2017.

Companies that carry the brand are required to sign up to 10 environmental and social values and to demonstrate progress through commitment to FSC or PEFC certification.

With support from the Dutch government, the European Sustainable Tropical Timber Coalition (STTC) is also raising awareness of the economic, social and environmental benefits of certified tropical forest operations. STTC is working to expand the European market for certified tropical forest products by developing pan-industry partnerships, promotion of lesser known tropical species, and provision of technical advice.

This work is beginning to show results. This was highlighted in a presentation by a representative of SNCF, the French national rail network, to the Racewood conference held alongside the Gabon Wood Show in June.

The French railways need more than 12000 m3 of wood every year. Until recently tropical timbers were not used because of preconceived ideas about delayed deliveries and the risk of illegal and unsustainable harvesting.

However, partly encouraged by mounting concerns about the environmental and health impacts of creosote-coated softwood alternatives, SNBG have reconsidered their use of tropical timber. They have developed an action plan to expand application of certified tropical hardwoods in collaboration with a wide range of actors – including ATIBT, the French timber association LCB, FSC, PEFC, and WWF, together with big distributors such as Alstom, Bombardier, Nestle, Saint Gobain.

SNBG have been particularly encouraged by whole-life costing exercise which has indicated that, due to the exceptional technical properties of azobe, when all costs associated with supply, installation, maintenance, disposal, and replacement are taken into account, the tropical timber performs very well against alternatives such as creosote treated softwood and concrete.

Lower cost certification options

While these initiatives on the demand side are essential to the long-term future of the certified sustainable tropical timber business model, the recent experience of European operators in Africa also highlights the importance of ensuring the costs of certification do not create an insurmountable barrier to profitability.

To a significant extent, the certification challenges faced by operators in Africa are symptomatic of the reliance on only one international system – the FSC – and the slow evolution of regional capacity for certification.

Speaking to the Racewood conference in June, Jean-Paul Grandjean of PPEFC II, an initiative of COMIFAC to encourage development of certification capacity in the Congo region, explained the many measures been taken to actively support forest operators to maintain their certificates, through training, building of certification institutions and networks, and scientific research.

However, M. Grandjean also observed that a specific barrier to FSC certification in Africa was raised in 2014 with passage of Motion 45 of the FSC General Assembly on Intact Forest Landscapes (IFL).

This led to greatly tightened FSC requirements for any forest identified as an IFL, for example that low-impact/small scale forest management and non-timber forest products must be prioritised in unallocated IFL areas, first access must be provided to local communities, and alternative models for forest management/conservation (for example for ecosystem services) must be developed within IFLs.

While the FSC requirements for IFL may appear desirable in principle, their implementation would always be extremely challenging in the business environment prevailing in the Congo region – with only limited returns to be gained from eco-system services, declining availability of the most commercially valuable species, very patchy and highly inconsistent international demand for certified wood, and lack of institutional capacity to certify large numbers of community forests.

In the light of these developments, the emergence of a new certification framework in Africa that is directly responsive to regional conditions and prioritises regional institutional capacity is a positive development.

Earlier this year, the first certificate covering an area of 600,000 hectares was awarded by PAFC Gabon, a certification system endorsed by the international PEFC in 2014 after 5 years of development. The PAFC Gabon standards are derived from ITTO principles and adapted specifically to the national context.

A similar PAFC process is also now underway in Congo, where it is supported by the Ministry of Forest Economy with financial assistance from the African Development Bank. A protocol agreement was signed between PAFC and the international PEFC in 2014, and the PAFC Congo was formally constituted as an independent agency in 2017.

North America

China announces retaliatory tariffs on US wood products

China announced US\$60 billion in tariffs on U.S. goods in retaliation to the Trump administration's latest announcement of tariffs on Chinese imports. Many wood products are on China's list, including hardwood logs, veneer, wood composite panels, various finished wood products and furniture.

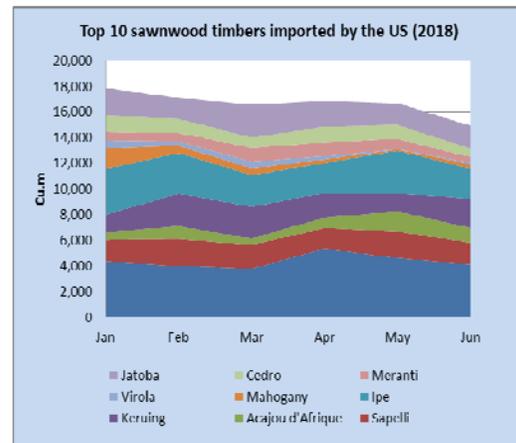
Hardwood trade associations in the US such as the National Hardwood Lumber Association are very concerned about Trump administration's tariffs and China's retaliation. Last year the US exported US\$1.6 billion in hardwood lumber, US\$800 million in hardwood logs and US\$260 million in veneer to China according to the American Hardwood Export Council.

Keruing sawnwood imports continue to expand

US imports of sawn hardwood (temperate and tropical) fell 37% in June, but the drop was mainly in imports of temperate species. Tropical imports declined 12% from May to 15,506 cu.m.

The largest decline was in ipe sawnwood imports, which fell 30% month-over-month to 2,332 cu.m. in June. Imports of balsa, sapelli, acajou and meranti were also down.

However, Keruing sawnwood imports increased significantly in 2018. Year-to-date imports were up 90% in June compared to the same time in 2017. More than 90% of the keruing sawnwood imported in June came from Malaysia.



Data source: US Census Bureau, Foreign Trade Statistics

Canadian tropical sawnwood imports lower in first half of 2018

Canadian tropical sawnwood imports grew in June but year-to-date imports remained lower than at the same time last year. Temperate sawn hardwood imports were down, despite strong demand for flooring and other finished products in the U.S. markets. Tropical imports were worth US\$2.1 million in June. The strongest month-on-month growth was in sapelli sawnwood imports, but year-to-date imports were down by one third compared to June 2017.

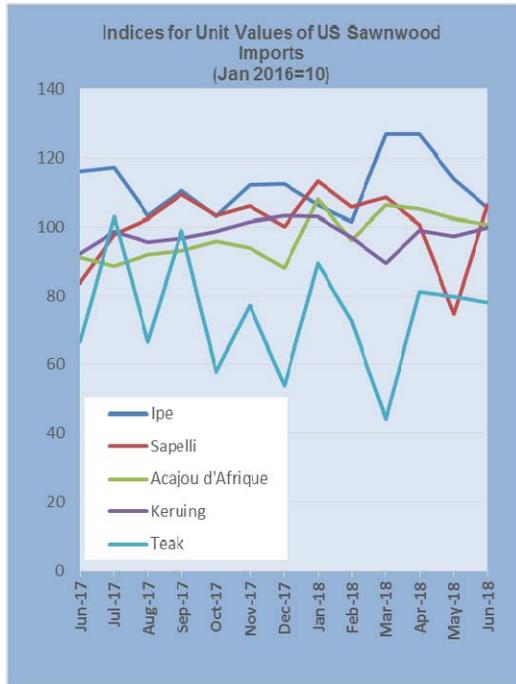
Cost of construction steady in July

Construction cost was unchanged in July according to the Bureau of Labor Statistics, despite US tariffs on key construction materials – on steel from several countries and sawn softwood from Canada. Several trade associations warn that costs are likely to rise again and possibly depress the housing market by making homes less affordable.

However, the July survey by the National Home Builders Association showed that builders were largely optimistic about the market for new single-family homes. The outlook for renovation and remodeling was also positive, compared to the first quarter of 2018.

Despite low unemployment and economic growth, both housing starts and sales of existing homes declined in June. Several economists warned of a slowdown in the housing market due to lower affordability/higher home prices and rising mortgage rates.

Price indices for imported sawnwood



Data source: US Department of Commerce, US Census Bureau, Foreign Trade Statistics

Note: Indices are derived from customs value and exclude shipping, insurance and duties

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

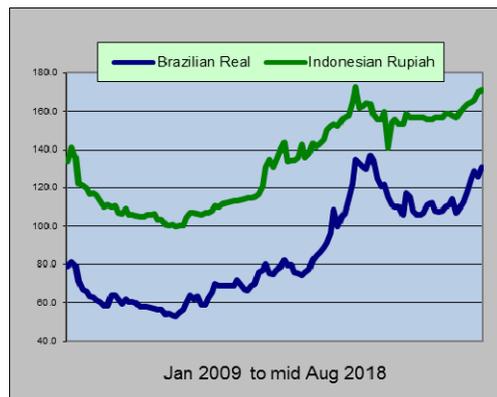
The views and opinions expressed herein are those of the correspondents and do not necessarily reflect those of ITTO.

Dollar Exchange Rates

As of 10 August 2018

Brazil	Real	3.864
CFA countries	CFA Franc	572.59
China	Yuan	6.8469
EU	Euro	0.8763
India	Rupee	69.10
Indonesia	Rupiah	14493
Japan	Yen	110.90
Malaysia	Ringgit	4.085
Peru	New Sol	3.27
UK	Pound	0.,783
South Korea	Won	1130.17

Exchange rate indices (US\$, Dec 2003=100)

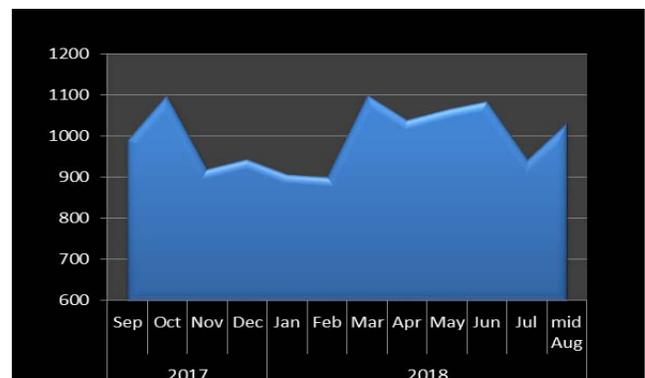


Abbreviations and Equivalences

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
TEU	20 foot container equivalent
CIF	Cost insurance and freight
C&F CNF	Cost and freight
cu.m cbm	cubic metre
FAS	First and second grade of sawnwood
FOB	Free-on board
Genban	Sawnwood for structural use in house building
GMS	General Market Specification
GSP	Guiding Selling Price
Hoppus ton	1.8 cubic metre
KD, AD	Kiln dried, air dried
Koku	0.28 cubic metre or 120 BF
LM	Loyale Merchant, a grade of log parcel
MR., WBP	Moisture resistant, Weather and boil proof
MT	Metric tonne
OSB	Oriented Strand Board
PHND	Pin hole no defect
QS	Qualite Superieure
SQ,SSQ	Sawmill Quality, Select Sawmill Quality

Ocean Freight Index

Baltic Supramax Index
September 2017 – mid August 2018

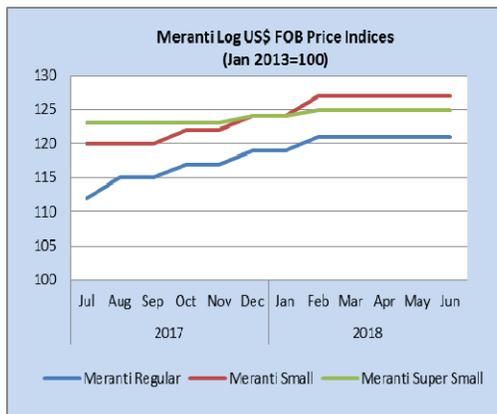


Data source: Open Financial Data Project

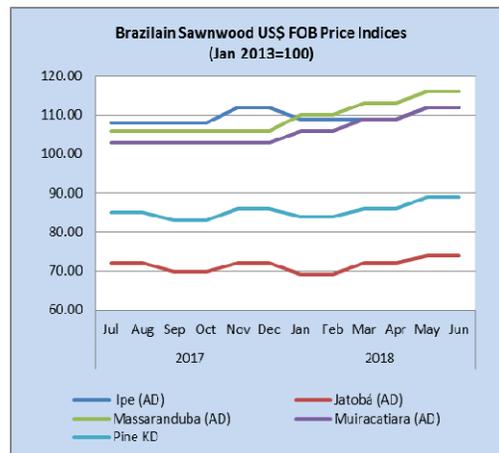
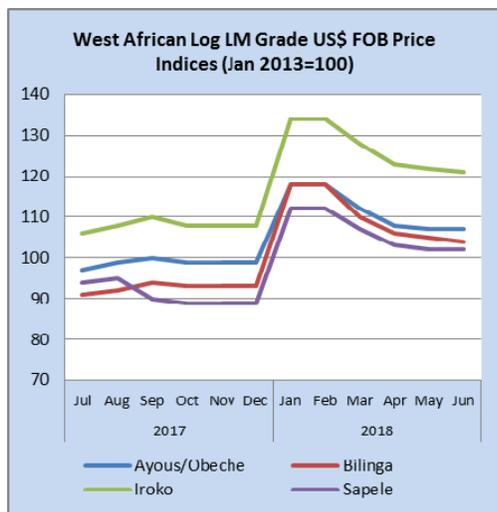
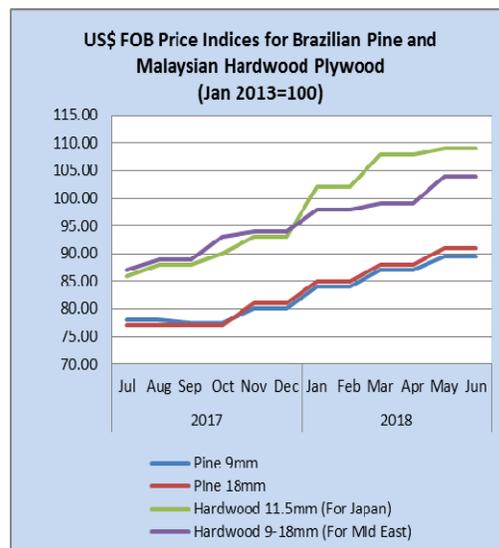
The BSI (Baltic Supramax Index), published by the Baltic Exchange, is the weighted average on 5 major time-charter routes.

Price indices for selected products

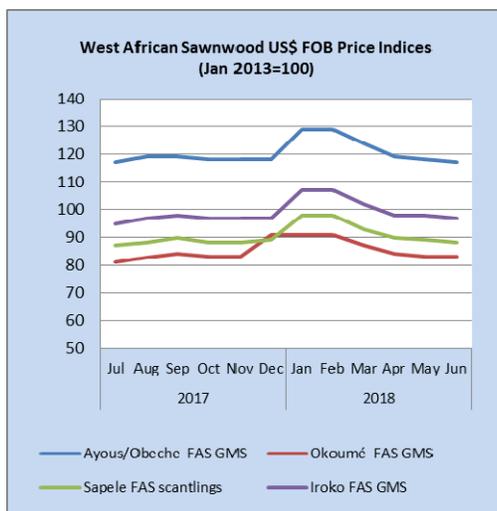
The following indices are based on US dollar FOB prices



Note: Sarawak logs for the Japanese market



Note: Jatobá is mainly for the Chinese market.



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