

# Tropical Timber Market Report

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## Contents

	page
Central/West Africa	2
Ghana	2
Malaysia	4
Indonesia	6
Myanmar	7
India	8
Brazil	10
Peru	12
Guyana	13
Japan	14
China	17
Europe	19
North America	22
Currencies and Abbreviations	22
Ocean Freight Index	24

## Headlines

<b>Ghana timber sector operating well below capacity</b>	<b>3</b>
<b>Malaysian industry raises concerns on new minimum wage</b>	<b>4</b>
<b>Indonesian legality verification system enters into force</b>	<b>6</b>
<b>Myanmar plans log export ban</b>	<b>7</b>
<b>Brazilian furniture Sector set to expand 2013</b>	<b>10</b>
<b>Plywood inventories in Japan remain tight</b>	<b>16</b>
<b>Chinese association Pilots work on legality verification</b>	<b>18</b>
<b>European plywood market undergoing rapid change</b>	<b>19</b>
<b>Release of US plywood dumping investigation postponed</b>	<b>22</b>

## Top Story

### V-Legal/FLEGT test shipment conducted by Indonesia

Indonesia has a Voluntary Partnership Agreement with the European Union and has legislated for a Timber Legality Assurance System (TLAS). Indonesian exporters who meet the requirements of the strict legality verification process in the TLAS can secure a FLEGT licence to satisfy the requirements of the EU Timber Regulation (EUTR).

In order to be fully ready for the EUTR the Indonesian Ministry of Forestry, in cooperation with other Ministries, stakeholders and industry successfully conducted a test shipment from Indonesia to some EU member states of products for which V-Legal documents/ FLEGT-license are mandatory.

See page 6

## Report from Central/West Africa

### 2013 price levels currently back at January 2012 levels

In January 2013 a surprising number W. African timbers, both logs and sawnwood, were being traded at prices little changed from levels reported at the end of 2011. This, however, disguises the ups and down in prices that were observed during 2012. There were some quite large price variations making it difficult to discern whether market demand in 2012 was positive or negative.

The firm demand for padouk logs and sawnwood in 2011, which pushed up prices, eventually subsided such that prices dropped quite strongly during 2012.

Prices for iroko logs were erratic throughout 2012 and analysts say prices for iroko have always tended to move in a fairly wide band. However, by the end of 2012 prices for iroko were at a slightly lower level compared to those at the beginning of the year.

### Sipo and sapele back in fashion

Both sipo and sapele attracted much more buyer interest throughout 2012 than in 2011; prices were firm but stable. The cause of the firm demand for sipo and sapele was, say observers, likely the result of a reduction in purchases of sawn sapele from the Central African Republic due largely to very high transport costs to a port in this landlocked country.

Consumer preference and 'fashion' also played a role in the steady demand for sipo and sapele, there was a growth in demand for these two timbers in Asian markets.

### African production more closely matched with demand

Azobe prices suffered from some oversupply in the early months of 2012 but the closure of a major sawmill and exporter in the region helped to stabilise prices as production became more closely matched to demand.

W. African exporters have seen some weakening of demand from buyers in China and India as the economies in both countries slowed.

As W. African exporters can now more closely match supply to demand prices have remained relatively stable even though demand fell slightly. However, analysts report that demand from both India and China is now picking up and demand is growing stronger which will impact prices.

### Exporters anxious over EUTR impact

European markets are best described as subdued as the euro crisis remains unresolved. Of concern to both W. African producers and EU importers is how the EU Timber Regulation, which comes into force in March this year, will impact the overall trade.

Few African countries have national systems for legality verification in place to comply with the EUTR. In most countries the responsibility for complying with the EUTR is falling on individual producers and exporters.

Demand from Middle East buyers was reportedly fairly consistent throughout 2012 and prices were stable but at the lower end of the price range for most species.

Many West and Central African producers are nervous about how the market will respond in the first quarter of the year. At present prices are stable having recovered from a marginally weaker trend in 2012, but there are expectations that a quiet period in the market may prevail until the practicalities of EUTR implementation can be assessed.

### Log Export Prices

West African logs, FOB	€ per m <sup>3</sup>		
Asian market	LM	B	BC/C
Acajou/ Khaya/N'Gollon	205	205	145
Ayous/Obeche/Wawa	215	210	135
Azobe & Ekki	205	205	122
Belli	210	210	-
Bibolo/Dibétou	145	130	-
Iroko	270	220	215
Okoume (60% CI, 40% CE, 20% CS) (China only)	245	225	200
Moabi	280	280	190
Movingui	185	155	150
Niove	165	165	-
Okan	320	320	-
Padouk	340	320	235
Sapele	270	255	170
Sipo/Utile	320	295	170
Tali	275	275	-

### Sawnwood Export Prices

West African sawnwood, FOB	€ per m <sup>3</sup>
Ayous FAS GMS	320
Bilinga FAS GMS	515
Okoumé FAS GMS	460
Merchantable	290
Std/Btr GMS	345
Sipo FAS GMS	500
FAS fixed sizes	-
FAS scantlings	465
Padouk FAS GMS	860
FAS scantlings	850
Strips	340
Sapele FAS Spanish sizes	475
FAS scantlings	505
Iroko FAS GMS	575
Scantlings	600
Strips	410
Khaya FAS GMS	425
FAS fixed	465
Moabi FAS GMS	550
Scantlings	555
Movingui FAS GMS	415

## Report from Ghana

### Ghana Revises Forest and Wildlife Policy

Ghana's cabinet has recently approved the revised Forest and Wildlife Policy which focuses on the non-consumptive values of the forest including

protection of water bodies, conservation of biological diversity and ecotourism.

The revised Forest and Wildlife Policy is a shift from the focus on timber production towards creating a balance between timber production and realigning the forestry sector to address poverty, contribute to employment generation through plantations development, promote good governance and forest industry development as a means of wealth creation in the rural areas and addressing rural-urban migration.

The new policy is therefore people centred providing guidance on sustainable financing mechanisms that are dependent on internally generated funds.

#### **Timber sector operating well below capacity**

The Chief Executive of the Ghana Timber Millers Organisation, Dr Kwame Asamoah Adam, has made it known that around 50-60 timber companies have collapsed over the past decade. Companies that have managed to survive the turbulence, mainly the result of the financial and economic crisis and the stronger monitoring and regulation of the forest resource, are running well below their installed capacity due to raw material shortage.

Estimates put the job losses from mill closures at around 30,000.

While the current situation in the industry is serious and exacerbated by high interest rates and electricity tariffs as well as high fuel costs the Millers Organisation said government policies to promote value added products and curb illegal logging are encouraging the industry.

The initiatives by the Forestry Commission and the private sector to develop plantations are giving hope to the Organisation for the future. The plantations being developed will help solve the problem of raw material shortages when ready for harvest.

The immediate problem is one of securing adequate supplies of raw materials to keep mills running. The government of Ghana is in consultations with the government of Cameroon for the supply of logs to firms in Ghana.

This arrangement is also expected to allow for collaboration between the two countries in the promotion of lesser used species from Cameroon.

#### **Getting tough on illegal operators**

The Ghana Forestry Commission (FC), is committed to continuing the fight against illegal logging and chainsaw operations in the country and has created a special Rapid Response Unit (RRU) to tackle these issues that challenge the sustainability of Ghana's forests.

A five-member team from the FC RRU was deployed to the Western, Ashanti and Brong Ahafo regions and

has been successful in carrying out a number of operations to combat illegal activities in the forest and wildlife sectors.

The Chief Executive Officer of the FC, Mr Samuel Afari Dartey, stated that 54 illegally constructed hamlets within the Sui River Forest Reserve catchment in the Sefwi Wiawso District in the Western Region had been demolished, while 31 hectares of illegal farms had also been destroyed in the Krokosua Hills and the Tano-Offin Forest reserves.

In addition, 18 chainsaw machines and some 11,000 pieces of assorted sawnwood were seized from illegal operators. A further 51 illegally felled logs were confiscated in the Nkawie and Goaso forest districts.

#### **Ghana set to access climate investment fund**

The Forestry Research Associates (FRA) website carries a story on the approval of Ghana's investment programme.

See: <http://www.forestry-research.com/forestry-investment/1692/fra-welcomes-news-of-ghana-forestry-investment-approval>

FRA is a research and advisory consultancy that focuses on forestry management, sustainability issues and forestry investment

The FRA site highlights, "Ghana's Forest Investment Programme has won approval from the World Bank in a move welcomed by Forestry Research Associates (FRA)".

The approval means the African nation is one step closer to gaining the \$50 million in funding it needs to help it implement climate change reduction strategies through the safeguarding of its forests.

The cash will come from the Climate Investment Fund and will be used to help engage the local community in sustainable forestry management under the REDD+ reforestation scheme."

#### **Government bond sale oversubscribed**

The government has successfully raised, a little over GHc400million from its bond issue for 2013, an offer which was oversubscribed by 450 percent.

Ghana accepted 402 million Cedis in bids for its three-year bonds at an oversubscribed auction last week, with the average yield dipping to 16.7% from 21% at the previous sale according to the Ghana Central Bank.

The Ministry of Finance and Economic Planning, on whose behalf the Bank of Ghana issued the bond, said the funds raised would be used to mainly to finance the country's maturing debts.

According to the Ministry, about 99% of the bids came from foreign investors, which is an indication of investor confidence in the Ghana's economy.

## Ghana's inflation dips

Ghana's annual consumer price inflation eased in December but economic growth slowed in the third quarter raising expectation of an interest rate cut.

Inflation dipped to 8.85 in December from 9.3% in November. The economy grew by 1.7% year-on-year in the third quarter of 2012.

## Domestic Log Prices

Ghana logs	US\$ per m <sup>3</sup>	
	Up to 80cm	80cm+
Wawa	150-160	163-180
Odum Grade A	165-170	175-185
Ceiba	118-130	132-148
Chenchen	90-100	105-120
Khaya/Mahogany (Veneer Qual.)	111-123	125-145
Sapele Grade A	145-155	160-185
Makore (Veneer Qual.) Grade A	128-135	140-166
Ofram	105-114	140-166

## Domestic Sawnwood Prices

		US\$ per m <sup>3</sup>
Wawa	25x300x4.2m	296
Emeri	25x300x4.2m	310
Ceiba	25x300x4.2m	240
Dahoma	50x150x4.2m	320
Redwood	25x300x4.2m	430
Ofram	25x225x4.2m	332

## Export Sawnwood Prices

Ghana Sawnwood, FOB	€ per m <sup>3</sup>	
	Air-dried	Kiln-dried
FAS 25-100mm x 150mm up x 2.4m up	855	945
Afrormosia	480	550
Asanfina	180	235
Ceiba	315	405
Dahoma	400	350
Edinam (mixed redwood)	370	430
Emeri	639	530
African mahogany (Ivorenensis)	600	499
Makore	569	605
Niangon	695	-
Odum	625	-
Sapele	260	315
Wawa 1C & Select		

## Export Veneer Prices

Rotary Veneer, FOB	€ per m <sup>3</sup>	
	Core (1-1.9mm)	Face (<2mm)
Bombax	315	350
Ofram,	295	355
Ogea & Otie	285	350
Chenchen	285	350
Ceiba	245	353

The above prices are for full sized panels, smaller sizes minus 15%. Thickness below 1mm would attract a 5% premium.

## Export Rotary Veneer Prices

Rotary Veneer 2mm and up, FOB	€ per m <sup>3</sup>	
	CORE (2mm & up)	FACE (2mm & up)
Ceiba	280	305
Chenchen	315	350
Ogea	315	350
Essa	215	350
Ofram	315	350

## Export Sliced Veneer Prices

Sliced Veneer, FOB	€ per sq. m	
	Face	Backing
Afrormosia	1.19	1.00
Asanfina	1.40	.90
Avodire	1.00	0.60
Chenchen	.70	.44
Mahogany	2.00	1.40
Makore	1.25	0.70
Odum	1.75	.95

## Export Plywood Prices

Plywood, FOB	€ per m <sup>3</sup>		
	Ceiba	Ofram	Asanfina
BB/CC			
4mm	395	571	622
6mm	392	565	600
9mm	332	409	461
12mm	330	406	422
15mm	296	352	359
18mm	286	345	355

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

## Export Added Value Product Prices

Parquet flooring 1st	FOB € per sq.m		
	10x60mm	10x65-75mm	14x70mm
Apa	12.00	14.47	17.00
Odum	7.80	10.18	11.00
Hyedua	13.67	13.93	17.82
Afrormosia	13.72	18.22	17.82

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

## Report from Malaysia

### Weak global demand affects exports

The most recent export data shows that Malaysian exports totalled RM 390.3 billion for the period January to September 2012; this generated an average monthly positive trade balance of around RM 10 billion.

By comparison, over the same period last year total exports were slightly lower at RM 381.2 billion. The marginal 2.4% increase year on year reflects the weak global economy which is lowering expectations for wood product exports.

### Industry raises concerns on new minimum wage

Two major issues are of concern to the timber industry at the moment; the changes in the statutory minimum wage provision in Malaysia which came to force on 1st January 2013 and the EU FLEGT which is due to enter into force in March.

Analysts report that Malaysian furniture manufacturers feel especially hard hit as they struggle to cope with the changes in wage structures while preparing for compliance with the EU FLEGT requirements.

The Malaysian government, trade bodies and associations have been holding consultations for stakeholders and have been disseminating information to exporters. Throughout the industry there is considerable apprehension on how the EUTR will affect the wood product exporters and Malaysia's exports to the EU.

By law, the Malaysian minimum monthly wage, by law, is now RM 900 (approximately US\$ 290) in Peninsular Malaysia while in Sabah and Sarawak, the new rate is RM 800 (approximately US\$ 260).

The timber industry in Malaysia is trying to adjust to this new wage structure which something of a problem for those companies which include room and occasionally food in their workers employment contract.

Some companies are saying the new law does not reflect the local living expenses, pointing out that it is more expensive to live in the cities than in the rural areas where logging and some timber companies operate.

This point is particularly pertinent in the eastern Malaysian states of Sabah and Sarawak.

**Sabah timber association calls for government support**

Recently, as reported in the Daily Express, 2 Jan 2013, James Hwong, president of the Sabah Timber Industries Association, called on the government to help the downstream timber industries in the state.

Hwong said that stricter regulations on logging natural forests could reduce the supply of raw materials to manufacturers forcing them to import the raw materials needed in their manufacturing processes. The report says a call was made for government to not impose any fees or restrictions on timber raw material imports.

Hwong noted that worldwide, the trend is towards ‘green’ products and said “In order to survive, the only way is plantation timber”.

**Sabah export statistics**

Data on timber exports from Sabah were released recently. For the period January to October 2012 exports were:

- Sawntimber 207, 988 cu.m, FOB value, RM335,065,148
- Laminated Boards 39,012 cu.m, FOB value RM64,053,276
- Mouldings 25,162 cu.m. FOB value RM82,079,441
- Veneer 38,512 cu.m. FOB value RM61,378,542
- Plywood 539,124 cu.m. FOB value RM852,061,570

**New minimum wage levels an issue for industry in Sarawak**

Comments on the new minimum wage structure for the state have focussed on the impact the changes will have on overall wage bills as, already, wages are trending up due to the problem of labour supply.

The plantation sector in Sarawak is especially dependent on foreign labour because of its low domestic population.

The domestic labour force is not attracted to working in the forestry and timber sectors, preferring to work in an urban environment instead.

**Sarawak log price indications**

Sarawak log export prices are provided as a range to take into account shipment size and variations in log quality and diameter.

FOB prices for Meranti SQ quality logs provides a good indicator of overall market price trends for Malaysia natural forest logs as prices for other species usually follow the same general trends as Meranti.

**Log Export Prices (Sarawak)**

Meranti SQ	US\$ 240 – 260 FOB
Kapur SQ	US\$ 320 – 350 FOB
Keruing SQ	US\$ 260 – 280 FOB
Selangan Batu regular	US\$ 320 – 360 FOB

**Sarawak export data**

Sarawak export data for the period January to November 2012 was recently released and is summarised below:

- Log exports 3,060,639 cu.m FOB value RM1,667,215,856;
- Sawntimber 769,088 cu.m FOB value RM730,846,657;
- Plywood 2,402,120 cu.m FOB value RM3,634,972;
- Veneer 207,552 cu.m FOB value RM248,088,773;
- Mouldings 7,742 cu.m FOB value RM18,358,923;
- Particle Board 110,906 cu.m FOB value RM58,323,120;
- MDF 172,583 cu.m FOB value RM275,566,889;
- Laminated board/Flooring 19,102 cu.m FOB value RM45,348,365.

For the period January to November the top buyers of logs from Sarawak were:

• India	(1,942,360 cu.m),
• Taiwan P.o.C	(359,750 cu.m),
• China	(310,029 cu.m),
• Japan	(174,191 cu.m),
• South Korea	(52,996 cu.m)
• Indonesia	(40,818 cu.m).

The top buyers of plywood from the state of Sarawak were Japan (1,297,092 cu.m), South Korea (299,462 cu.m) and Taiwan P.o.C (214,406 cu.m).

#### Export Plywood Prices

Malaysia ply MR BB/CC, FOB	US\$ per m <sup>3</sup>
2.7mm	445-506
3mm	427-457
9mm & up	378-448

### Report from Indonesia

#### Indonesian legality verification system enters into force

Indonesia and the European Union have finalised an agreement aimed at ending trade in illegally-sourced wood through the implementation of the Voluntary Partnership Agreement (VPA).

Indonesia has introduced the mandatory Timber Legality Assurance System (TLAS) or in Bahasa Indonesia, Sistem Verifikasi Legalitas Kayu (SVLK), which is defined in Forestry Regulation Number P.38/Menhut-II/2009 (amended by P.68/Menhut-II/2011).

Under the new arrangements Indonesian exports will be covered by a V-Legal/FLEGT license which verifies that the timber products conform with the timber legality assurance system (TLAS).

The new Indonesian legality regulation, which is now in effect, applies to 26 products defined by their HS Codes with a further 14 products to be included in January 2014.

These additional 14 categories of wood products are mainly manufactured by small and medium enterprises producing handicrafts and secondary wood products.

#### V-Legal test shipment concluded

Indonesia and EU have conducted a test shipment of some products for which a V-Legal documents/FLEGT-License is mandatory.

The test run will be conducted in two phases, the first was during the period of October-December 2012 in

Indonesia and the second in some EU countries during November-February 2013.

The first test shipment test from Indonesia was made from PT Kayu Lapis Indonesia (KLI) a company in Central Java .

The test run launch was attended by Deputy Minister of Trade Mr. Bayu Krisnamurti who explained that shipment tests of V-Legal products will be conducted by 17 Indonesian registered exporters of industrial forest products..

The Deputy Minister anticipated that this trial would identify any deficiency in the system so that exports of timber products from Indonesia will run smoothly and comply with the EUTR as well as demands formproof of legality from other countries.

The export shipment test was aimed at demonstrating the readiness of Indonesia to supply verified legal timber product to world timber markets.

#### Three certification schemes operate in Indonesia

Forest management certification plays a significant role in sustaining Indonesian forest resources and three schemes are currently operational in the country namely; FSC, LEI, and PEFC.

The implementation of certification in Indonesia has been supported by many agencies and organisations such as The Borneo Initiative (TBI), WWF, Ford Foundation, ITTO, Tropical Forest Foundation (TFF), the Multi-stakeholder Forestry Programme (MFP) and many local consultants.

The TBI has supported certification in 19 forest management units (FMUs) covering some 1.2 mil.ha. TFF has supported 7 FMUs and the FSC has certified six FMUs in a period of 12 months

The certified forest under LEI system amounts to around 0.4 mil. ha. of natural forests; 0.97 mil. ha .of plantations and 26.7 thousand ha. of community forests.

PEFC certification is new to Indonesia and PEFC recently inaugurated a national governing body called the Indonesian Forest Certification Cooperation (IFCC).

This body is now developing, with stakeholders, a consensus based standard and guidance for forest certification.

### Domestic Log Prices

Indonesia logs, domestic prices	US\$ per m <sup>3</sup>
Plywood logs	
Face and core logs	240-270
Sawlogs (Meranti)	229-292
Falcata logs	115-270
Rubberwood	94-125
Pine	78-160
Mahoni (plantation mahogany)	125-396

### Domestic Ex-mill Sawwood Prices

Indonesia, construction material, domestic	US\$ per m <sup>3</sup>
Kampar (Ex-mill)	
AD 3x12-15x400cm	729
KD	781
AD 3x20x400cm	750
KD	802
Keruing (Ex-mill)	
AD 3x12-15x400cm	417
AD 2x20x400cm	469
AD 3x30x400cm	480

### Export Plywood Prices

Indonesia ply MR BB/CC, export FOB	US\$ per m <sup>3</sup>
2.7mm	625
3mm	600

### Domestic Plywood Prices

MR Plywood (Jakarta), domestic	US\$ per m <sup>3</sup>
9mm	365-397
12mm	365-402
15mm	301-330

### Export and Domestic Other Panel Prices

Indonesia, Other Panels, FOB	US\$ per m <sup>3</sup>
<i>Particleboard</i>	
Export 9-18mm	175-205
Domestic 9mm	225-275
12-15mm	215-233
18mm	205-224
<i>MDF</i>	
Export 12-18mm	278-293
Domestic 12-18mm	210-280

### Export Added Value Product Prices

Indonesia, Mouldings, FOB	US\$ per m <sup>3</sup>
Laminated Boards	
Falcata wood	370-450
Red Meranti Mouldings 11x68/92mm x 7ft up	
Grade A	520-551
Grade B	478-500

## Report from Myanmar

### Change, the theme for 2012

In the words of a local analyst '2012 was a very eventful year for Myanmar as there were so many changes'. The newly elected civilian government now includes the internationally known Daw Aung San Suu Kyi who was recently elected to the legislative assembly.

The political party which she leads participated in the 2012 by-elections and won 43 of the 45 seats contested. In other developments, journals have been given more freedom to report on issues affecting the country and express more freely on matters which once had to be avoided.

### Myanmar plans log export ban

Taking advantage of the greater freedom in the press many commentators have expressed their views on the deteriorating situation in state-owned forests.

Except for some plantations, almost all the forest land in Myanmar is technically state-owned. Some writers have called for a logging ban. Daw Aung San Suu Kyi also spoke very strongly on the subject of the depleting natural resources during her December 2012 visit to Magwe in Central Myanmar.

The 'Myanmar Herald' has reported that the Minister of Environmental Conservation and Forestry (MOECAAF), in an interview for the newspaper, indicated that a total log export ban will be introduced to take effect starting April 1st 2014.

It was apparently explained that some 15 months will be needed to clear all current logging contracts. The Herald also reported that the Minister has met with the Chinese Ambassador on several occasions and that the issue of the illegal transport of logs into China was discussed.

News on steps to abolish log exports first came to light during October 2012 and the teak market reacted sharply.

At the moment reports suggest that there are considerable volumes of unshipped logs from outstanding contracts in Yangon and in upper Myanmar and that owners are trying to move the logs out of the country as soon as possible.

### Merit of total log ban questioned

Some analysts are questioning the wisdom of a total log export ban as Myanmar needs to build up its industrial capacity to process the higher grades teak logs internally.

As analysts point out, while there are specialist timber processing companies in Myanmar which can process high-end teak products there are too few for Myanmar to become a potential natural teak export 'tiger'.

Some really high grade teak logs fetch very high prices in the tenders and auctions and analysts argue that the domestic mills are not able to pay as much as foreign competitors.

It is argued that the highest grades should be auctioned in an open market where local and foreign buyers can participate and that, upon winning the bidding, the foreign buyers should be given permission to export the logs. However the proponents of a total log export ban remain adamant at present.

### Current log export market erratic

The Myanmar timber market is erratic and unstable at the moment and trends are difficult to discern. The trade in non-teak hardwood logs is much the same as in

previous years; fresh logs being sold and shipped quickly while logs which have been harvested some time ago are slow to move.

The pressure is now on buyers to ship logs which have been paid for as indications are that exports beyond the proposed date of entry into force of the log ban will not be entertained.

#### Myanmar Teak Log Auction Prices (natural forest logs)

Average prices during the Teak tender sales in the final quarter of 2012 are shown below. Prices are Euro per hoppus ton

Grade	Oct-12	Nov-12	Dec-12
4 <sup>th</sup> Quality	4289	5004	4801
Sawing Grade-1	3313	3600	3701
Sawing Grade-2	2782	3046	2778
Sawing Grade-4	2144	2325	2141
Sawing Grade-5	1639	1800	1777
Sawing Grade-6	1364	1482	1639
Sawing Grade-7	1205	1227	1313

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

### Report from India

#### 2013 begins on a confident note.

While the Indian economy could not avoid the impact of the weak global economy and also had its share of economic shocks, activity in wood based industry was rather resilient and demonstrated continued expansion, albeit more slowly than over the past few years.

Imports of logs and sawnwood in fiscal 2011 totaled Rs.94 billion compared to the level of Rs.60 billion in fiscal 2010.

Increased imports of plywood and veneers and other panel products such as MDF and Particleboard were recorded and imports of wooden furniture were higher than in previous years.

In total, fiscal 2011 wood product imports came to Rs.121 billion compared to Rs.81 billion in the previous financial year.

#### Domestic market buoyant

Weakness of the Indian Rupee resulted in a slowing of some imports but still a negative trade balance was recorded largely driven by imports of petro-products, prices of which remained firm throughout the year.

Despite the fall in exports, because of weak overseas demand, the colossal domestic market and continued overall economic growth generated record breaking foreign investments of some US\$ 22 billion in 2012.

#### Forecast decline in India's GDP

Unfortunately, India's GDP slipped below 6% over the past year. India's economy is forecast to grow by about 5.8% this year, the slowest rate for many years according to official forecasts.

The Ministry of Finance is on record as saying it anticipates India's growth rate to have accelerated slightly in the second half of the financial year which ends in March 2013 generating an annualized 5.8% growth. However the burst in growth will not be enough to improve GDP expansion to the forecast of 7.6%.

While India has recently introduced reforms to attract foreign investment in the retail sector analysts doubt it will be enough to generate the double-digit growth rates achieved in the past.

#### Businesses expect 2015 turn-around in global economy

Reports of a survey of over 250 executives of small, medium and large companies by the Indian PHD Chamber says most executives expect the domestic economic climate to improve in coming fiscal year despite continued weakness in the US and EU economies.

Almost half of those surveyed expected the global economy to begin a full revival no sooner than 2015 while most of the others surveyed were not so optimistic pointing to a 2017 recovery.

Domestic investment was not expected to improve but neither would it decline and there seemed to be more of a tendency in the responses of executives to anticipate that economic reform measures by government had the potential to stimulate investment.

The survey identified that the high the cost of doing business is a continuing burden and hampers industrial production. In terms of commodity supplies most of the executives expected raw material prices to continue moving upwards.

#### Slowing housing sector impacts timber industries

Home buyers in India now face additional costs in the form of stamp duty and VAT on transactions.

This is negatively affecting the housing market by slowing investment and this in turn is negatively affecting the timber industry.

The impact of the duty and VAT on housing demand has been taken up by the relevant ministries and analysts say the timber industry is hopeful that a solution will be found and that housing growth will expand.

The Indian timber industries are also being hard hit by increased imports of low price plywood and other panel products.



An anti-dumping duty is levied on some MDF suppliers which is some relief but they still feel the burden of rising raw material and labour costs.

There are reports of acute shortages of labour in many sectors in India especially the timber industries.

### Smuggling of rare woods continues

Sandlewood (*Santalum alba*) Agar wood (*Aquillaria agalocha*) and Red sanders (*Pterocarpus dalbergiodes*) are the target of illegal loggers, poachers and smugglers in India and the pace of criminal thefts of precious trees continued in 2012.

These timbers are used to satisfy demand for traditional medicines and perfumes, a demand that it is difficult to deflect. Analysts point out that to solve the problem of illegal harvesting and theft consumer demand must be met from sources other than the natural forests.

Some Sandalwood plantations are being established and plantations for Agar wood are being created in India and in Australia, Vietnam, Thailand and other neighbouring countries. These plantations, when mature, will augment supplies and help satisfy Indian demand.

Analysts point out that there is a need to take up large scale planting of red sanders by private and public organizations to increase availability and thus limit illegal felling.

### Sales of domestic teak and other hardwoods

Throughout 2012 demand for local hardwoods was buoyant and sales were brisk at the auctions where prices firmed throughout the year.

Indian teak is generally equivalent in terms of colour and quality to Myanmar teak, say local analysts, and this is one factor behind for the strong demand for locally grown teak.

In 2012 the Indian rupee lost ground to major currencies and thus imports became more expensive and this was another factor for the firm demand for local teak as opposed to imported Myanmar teak which is priced in US dollars or euro.

Imported plantation teak is a viable and lower cost alternative to natural teak however say analysts, while the volume of imported plantation teak has been increasing the quality continues to be poor.

Average prices realised in sales held at government teak depots in Western India are illustrated below. Freshly harvested logs attracted active bidding. The prices below are per cubic foot ex depot.

### Teak log prices

For shipbuilding

A quality Rs.3,000 per cu.ft

B quality Rs.2,800 per cu.ft

For sawing

A quality Rs.,1800~1,900 per cu.ft

B quality Rs.1,700~1,800 per cu.ft

long lengths for sawing

A quality Rs.1,600~1,700 per cu.ft

B quality Rs.1,400~1,500 per cu.ft

Medium quality sawlogs Rs.1,300 ~ 1,400 per cu.ft

### Domestic Ex-mill Sawwood Prices for Myanmar Teak

Sawwood (Ex-mill) Myanmar Teak (AD)	Rs. per cu. ft
Export Grade F.E.Q.	4200-10400
Plantation Teak A grade	3100-4200
Plantation Teak B grade	2600-3100
Plantation Teak FAS grade	2000-2600

### Calls to improve teak plantation stock

There has not been any appreciable rise in the C&F prices even though the weaker Rupee has increased the landed costs of plantation teak.

Some in the industry are complaining that the quality of plantation teak logs from West Africa and also Central and South America is deteriorating. Importers say it is high time that teak plantation managers in these regions take steps to improve the quality of the growing stock and in future plant quality cloned saplings.

Indian experts say that while such moves may increase the cost of plantation establishment the investment will earn excellent dividends by way of better prices for harvested good quality logs.

### Imported Plantation Teak Prices (C&F)

	US\$ per m <sup>3</sup>
Tanzania Teak sawn	450-800
Côte d'Ivoire logs	450-850
PNG logs	450-550
El-Salvador logs	400-550
Guatemala logs	400-500
Nigeria squares	300-500
Ghana logs	350-650
Guyana logs	300-450
Benin logs	425-650
Benin sawn	700-800
Brazil squares	400-600
Burkina Faso logs	-
Columbia logs	400-600
Togo logs	400-500
Ecuador squares	350-500
Costa Rica logs	400-650
Panama logs	350-450
Sudan logs	500-600

Variations exist based on lengths and average girths of logs in a parcel. Prices also vary with measurement allowances given for bark and sap in different countries of origin.

### Domestic Ex-mill Sawwood Prices for imported timbers

Sawwood, (Ex-mill) (AD)	Rs. per ft <sup>3</sup>
Merbau	1500-1650
Balau	1600-1700
Kapur	1100-1250
Red Meranti	800-900
Radiata Pine (AD)	500-550

Sawnwood, (Ex-warehouse) (KD)	Rs. Per ft <sup>3</sup>
Beech	110-1200
Sycamore	1200-1300
Red oak	1400-1550
White Oak	1400-1650
American Walnut	2000-2150
Hemlock clear grade	1000-1100
Hemlock AB grade	950-1000
Western Red Cedar	1400-1550
Douglas fir	1050-1100

#### Domestic Ex-warehouse Prices for Imported Plywood

Plywood, (Ex-warehouse) (MR Quality)	Rs. per sq.ft
4 mm	30.00
6 mm	43.00
12 mm	66.50
15 mm	79.00
18 mm	95.00

#### Domestic Ex-warehouse Prices for Locally Manufactured Plywood

Locally Manufactured Plywood "Commercial Grade"	Rs. per sq.ft	
	Rubberwood	Hardwood
4mm	Rs.14.10	Rs.24.00
6mm	Rs.20.60	Rs.32.00
8mm	Rs.26.50	Rs.35.00
12mm	Rs.32.00	Rs.40.00
19mm	RS.42.00	Rs.55.00
5mm Flexible ply	Rs.30.00	

## Report from Brazil

### 2012 export performance

Brazil's exports of wood products (except pulp and paper) delined 1.4% in 2012 compared to 2011, from US\$ 2,396.2 billion to US\$ 2,362.6 billion.

Pine sawnwood exports fell 7.4% in value in 2012 compared to 2011, from US\$ 170.5 million to US\$ 157.9 million.

In terms of volume, exports of wood products dropped 3.0%, declining from 741,400 cu.m to 718,900 cu.m over the period.

The volume of exports of tropical sawnwood declined 16.0% in 2012, from 451,900 cu.m in 2011 to 379,500 cu.m in 2012. The decline in export value was almost 19%, down from US\$ 238.2 million to US\$ 193.8 million, year on year.

On the other hand pine plywood exports increased 14.5% in value in 2012 compared to 2011, from US\$ 324.9 million to US\$ 371.9 million. The volume of pine plywood exports increased 13.7% during the same period, from 865,600 cu.m to 983,900 cu.m.

However, exports of tropical plywood fell from 74,500cu.m in 2011 to 58,200cu.m in 2012, representing a 21.9% decline.

In value terms, exports of tropical plywood fell 20.4% in 2012, declining from US\$ 45.5 million in 2011 to US\$ 36.2 million last year.

The value of Brazilian export of wooden furniture dropped from US\$ 496.1 million in 2011 to US\$ 474.9 million in 2012, representing a 4.3% decline.

### Tropical Sawnwood Exports from Mato Grosso

Mato Grosso accounted for around two thirds of the Brazilian trade balance surplus generated in 2012, equivalent to US\$ 12.89 billion of the total surplus US\$ 19.43 billion. Despite the ups and down in the global economy the State of Mato Grosso achieved positive overall export growth.

The Brazilian Ministry of Development, Industry and Foreign Trade of Brazil (MIDIC) has data indicating the contribution to the positive trade balance by various products, with soybeans and tropical wood products, especially sawnwood, featuring prominently.

Mato Grosso state exported 723,000 cu.m of tropical sawnwood in 2011 and this increased by 12% in 2012, to 812,000 cu.m.

On the other hand, there was a 4% drop in tropical sawnwood export values from Mato Grosso with revenues falling from US\$ 45.4 million in 2011 to US\$ 43.7 million in 2012.

### Pará State timber exports fell in 2012

Pará state is one of the principal exporters of tropical sawnwood in Brazil, according to the Ministry of Development, Industry and Foreign Trade of Brazil (MDIC). In 2012 tropical sawnwood exports from the state declined slightly in 2012 such that the state was responsible for 40% of Brazilian tropical sawnwood exports compared to 46% in 2011.

In 2012, Pará state exported 151,200 cu.m of tropical sawnwood, while in 2011 the state exported 206,800 cu.m, representing a 27% decline in export volumes. In value terms, the decline amounted to around 30%, from US\$ 119.5 million in 2011 to US\$ 84.2 million in 2012.

A significant decline in tropical plywood exports from Pará state has been reported. In 2012, the state exported 4,900 cu.m of plywood, while exports in 2011 were 8,900 cu.m. This represents a 45% decline year on year. In terms of value, the fall was 34%, from US\$ 6.2 million in 2011 to US\$ 4.1 million in 2012.

### Brazilian furniture Sector set to expand 2013

The Brazilian furniture sector is expected to continue to grow in 2013. According to consumer research by the Institute of Industrial Studies and Marketing (IEMI), some 90% of domestic consumers had, by the end of 2012, already planned their future furniture purchases.

The recent research identified that bedroom furniture, especially wardrobes, was the main feature for consumers in 2012. In 2012, the number of items of furniture sold increased 4.5% over levels reported in 2011 while, in terms of value, sales revenue jumped 8.0%.

For 2013 an almost 7% increase in the number of items sold is forecast and earnings are forecast to rise around 10%. The IEMI report foresees an overall 5.5% growth in the furniture sector during 2013.

#### Investment in construction to drive domestic furniture demand

The Association of Furniture Industries of the State of Rio Grande do Sul has reported that the performance of the furniture sector in 2012 was satisfactory and the association is anticipating an increase of 3.5% in the state's furniture production over levels in 2012.

The forecast growth in the sector is based on expectations of continued expansion of civil construction activity and the continued ease at which consumers can access credit for house purchases and purchases of durable goods such as furniture.

Further support for the IEMI forecasts derives from expectations of increased exports to new markets, establishment of specialized multi-brand shops, detailed retail research to target promotion through the internet and an expansion of e-commerce.

The growing purchasing power of the expanding Brazilian middle class is good news for furniture manufacturers as well as for importers of high end furniture from around the world.

#### State of Pará plans more plantations

The Government of State of Pará, in the Brazilian Amazon, has launched a state plantation programme to stimulate establishment of more forest and wood based industries.

This programme will require combining the resources of public institutions with technological development, re-organization of the production chain, changes in the law to provide guarantees for investors and the nurturing of family agriculture.

One of the main challenges, say analysts, will be regularising land registration issues in order to attract investments and provide legal certainty for investors. A further challenge will be to provide for swift state government responses to the environmental licensing processes required for plantation projects.

Some 70% of the State of Pará is covered by natural forests and under various forms of protection. It is reported that around 14 million hectares of degraded land will be included in the new plantation programme.

Plantation forests in the state currently amount to about 300,000 hectares which is considered far too small to

meet the demand of the growing timber sector in the state.

#### Domestic Log Prices

	US\$ per m <sup>3</sup>
Brazilian logs, mill yard, domestic	
Ipê	154
Jatoba	111
Guariuba	85
Mescla (white virola)	91

#### Export Sawnwood Prices

	US\$ per m <sup>3</sup>
Sawnwood, Belem/Paranagua Ports, FOB	
Jatoba Green (dressed)	1330
Cambara KD	705
Asian Market (green)	
Guariuba	354
Angelim pedra	800
Mandioqueira	302
Pine (AD)	215

#### Domestic Sawnwood Prices

	US\$ per m <sup>3</sup>
Brazil sawnwood, domestic (Green)	
<i>Northern Mills</i> (ex-mill)	
Ipê	862
Jatoba	642
<i>Southern Mills</i> (ex-mill)	
Eucalyptus (AD)	232
Pine (KD) 1st grade	217

#### Export Veneer Prices

	US\$ per m <sup>3</sup>
Veneer, Export (Belem/Paranagua Ports) FOB	
White Virola Face 2.5mm	338
Pine Veneer (C/D)	237

#### Domestic Veneer Prices

	US\$ per m <sup>3</sup>	
Rotary cut Veneer, domestic		
(ex-mill Northern Mill)	Face	Core
White Virola	266	214

#### Export Plywood Prices

	US\$ per m <sup>3</sup>
Plywood, FOB	
White Virola (US Market)	
5.2mm OV2 (MR)	498
15mm BB/CC (MR)	439
White Virola (Caribbean market)	
4mm BB/CC (MR)	612
12mm BB/CC (MR)	468

	US\$ per m <sup>3</sup>
Pine Plywood EU market, FOB	
9mm C/CC (WBP)	345
15mm C/CC (WBP)	323
18mm C/CC (WBP)	323

#### Domestic Plywood Prices

	US\$ per m <sup>3</sup>
Plywood, domestic (ex-mill Southern mill)	
Grade MR (B/BB)	
White Virola 4mm	764
White Virola 15mm	558

Domestic prices include taxes and may be subject to discounts.

#### Export Prices For Other Panel Products

	US\$ per m <sup>3</sup>
Belem/Paranagua Ports, FOB	
Blockboard Pine 18mm 5 ply (B/C)	405
<i>Domestic Prices</i> , Ex-mill Southern Region	
Blockboard White Virola faced 15mm	542
Particleboard 15mm	363

#### Export Prices For Added Value Products

	US\$ per m <sup>3</sup>
FOB Belem/Paranagua Ports	
Decking Boards	
Cambara	920
Ipê	2,400

## Report from Peru

### Concerns over forest concession management

Peru's agriculture minister, Milton Von Hesse La Serna has reportedly expressed deep concern about the current forest concession system in the country. He said that the forestry institutions are weak and that the regional governments are not managing the forests to the required standard.

To address these shortcomings the minister is calling for improvements in the institutional framework for forest concession allocation and management through dialogue between stakeholders including OSINFOR, the ministry of agriculture, regional governments, local governments and civil society.

Currently, forest concessions are granted by regional governments however, many of the regional institutions are said to be lack of technical and managerial capacity for this task and there are fears of favouritism in the decision making process when concessions are allocated.

### Only 21% of concessions operational in Ucayali

Reports indicate that the forestry authorities in Ucayali are facing a critical situation as only 21% of the allocated forest concessions are operational. A round table discussion has been held to try and identify the reason for this and to offer solutions.

Among the proposals put forward was a new payment structure moving away from an advanced payment system for which a flat rate is calculated on the assumption that the concessionaire will extract 65% of the allocated standing volume.

Another proposal was to allow small logging operators and sawmill owners to undertake harvesting in allocated areas. Apparently current policies do not take account of the needs and capacity of small operators.

The roundtable also proposed the creation of a Forest Recovery Fund and the need to streamline procedures for evaluating and approving environmental impact studies in forest management plans.

### Export Sawwood Prices

	US\$ per m <sup>3</sup>
Peru Sawwood, 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	532-586

	US\$ per m <sup>3</sup>
Peru Sawwood, FOB Callao Port (cont.)	
Virola 1-2" thick, length 6'-12' KD	
Grade 1, Mexican market	390-421
Grade 2, Mexican market	333-365
Cumaru 4" thick, 6'-11' length KD	
Central American market	834-849
Asian market	798-871
Ishpingo (oak) 2" thick, 6'-8' length	
Spanish market	509-549
Dominican Republic	564-573
Marupa (simarouba) 1", 6-11 length Asian market	365-389

	US\$ per m <sup>3</sup>
Peru Sawwood, FOB Iquitos	
Spanish Cedar AD Select Mexican market	887-909
Virola 1-2" thick, length 6'-13' KD	
Grade 1, Mexican market	399-434
Grade 2, Mexican market	311-347
Grade 3, Mexican market	161-176
Marupa (simarouba) 1", 6-13 length KD	
Grade 1, Mexican market	258-283

### Domestic Sawwood Prices

	US\$ per m <sup>3</sup>
Peru sawwood, domestic	
Mahogany	867-911
Virola	75-106
Spanish Cedar	264-305
Marupa (simarouba)	74-87

### Export Veneer Prices

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

### Export Plywood Prices

	US\$ per m <sup>3</sup>
Peru plywood, FOB Callao (Mexican Market)	
Copaiba, 2 faces sanded, B/C, 15x4x8mm	318-347
Virola, 2 faces sanded, B/C, 5.2x4x8mm	405-413
Cedar fissilis, 2 faces sanded 4x8x5.5mm	750-761
Lupuna, treated, 2 faces sanded, 5.2x4x8mm	363-385
Lupuna plywood	
B/C 15x4x8mm	366-382
B/C 9x4x8mm	345-350
B/C 12x4x8mm	350-360
B/C 8x4x15mm	396-408
C/C 4x8x4mm	384-396
Lupuna plywood B/C 8x4x4mm Central Am.	370-393

### Domestic Plywood Prices

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

### Domestic Prices for Other Panel Products

	US\$ per m <sup>3</sup>
Peru, Domestic Particleboard	
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

	US\$ per m <sup>3</sup>
Peru, FOB strips for parquet	
Cabreva/estoraque KD12% S4S, Asian market	1287-1388
Cumaru KD, S4S	
Swedish market	866-981
Asian market	990-1035
Cumaru decking, AD, S4S E4S, US market	934-996
Pumaquiro KD # 1, C&B, Mexican market	423-511
Quinilla KD, S4S 2x10x62cm, Asian market	477-503
2x13x75cm, Asian market	708-768

**Export prices at satisfactory levels**

For the period under review Guyana did not export any Greenheart logs however, there were exports of Purpleheart logs. Standard sawmill quality Purpleheart logs for export were priced at US\$ 385 per cubic metre FOB.

Purpleheart fair and small sawmill quality logs were also exported and satisfactory price levels were recorded.

Export FOB prices for Mora logs of standard and fair sawmill quality reached US\$ 150 per cubic metre while small sawmill quality logs achieved a price of US\$ 135 per cubic metre.

The demand for Guyana sawnwood was reportedly firm for the period and attractive prices were achieved. ‘Undressed’ Greenheart sawnwood attracted the best prices.

Undressed Greenheart (select) was priced at US\$ 1,410 per cubic metre FOB. Only select Undressed sawn Purpleheart was exported and the best price secured was around US\$ 1,100 per cubic metre FOB.

Undressed Mora (select quality) also made a notable contribution to export earnings as the top end price was US\$ 700 per cubic metre FOB.

**EU a major market for Guyana producers**

Guyana’s structural and durable timbers were marketed in Asia and the Caribbean but most went to markets in the EU. There were also buyers in the Middle East as well as South and North American markets.

Dressed Greenheart sawnwood prices were firm in the period reported at around US\$ 1,534 per cubic metre FOB. Exporters of sawn and dressed Purpleheart lumber also managed to secure good prices in the region of US\$ 1,080 per cubic metre FOB.

Guyana’s Washiba (Ipe) continues to attract firm demand in N. America as reflected in prices as high as US\$ 2,300 per cubic metre FOB in this market.

Only BB/CC plywood was exported in the period reviewed and the maximum price achieved was US\$ 584 per cubic metre FOB in the main market, the Caribbean.

Guyana’s Roundwood (Piles) secured maximum price of US\$ 616 per cubic metre FOB in the European market, while Pole prices were US\$ 354 per cubic metre FOB for the North America market.

**Caribbean market for shingles picks up amid slack in US demand**

Splitwood (Shingles) made a valuable contribution to export earnings at prices of US\$ 864 per cubic metre with the Caribbean being the primary export as the

building industry in N. America is subdued at this time of the year.

The export of doors and windows frames manufactured from timbers such as Kabukalli (Cupiuba) and Purpleheart (Amarante) continue to contribute to export earnings.

**LUS handbook for homeowners and builders**

The Forest Products Development and Marketing Council, the Guyana Forestry Commission and the Forest Products Association have jointly produced a handbook to encourage home owners and builders to use lesser know timbers.

This initiative came in the wake of the housing boom in Guyana which resulted in shortages of the popular timbers and thus caused timber prices to rise in the domestic market. It was recognised that the advantages of using Lesser Used Species in building projects for consumers and end users were both affordability and availability.

The handbook is designed for end users of timber as it provides information on the properties of the LUS alternative species in terms of application compared to the more commonly used timber species in Guyana.

The Guyana LUS e-handbook can be found on the FPDMC website [www.fpdmcguy.org](http://www.fpdmcguy.org).

**Export Log Prices**

Logs, FOB Georgetown	SQ - \$ Avg unit value per m <sup>3</sup>		
	Std	Fair	Small
Greenheart*	-	-	-
Purpleheart	225-385	175-300	150-270
Mora	150	140-150	130-135

\*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			\$ Avg unit val. per m <sup>3</sup>
Baromalli	BB/CC	5.5mm	Not available
		12mm	467-585
	Utility	5.5mm	No export
		12mm	"

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

**Export Sawnwood Prices**

Sawnwood, FOB Georgetown		\$ Avg unit val. per m <sup>3</sup>	
EU and US markets		Undressed	Dressed
Greenheart	Prime	860	-
	Standard	-	-
	Select	758-1410	-
	Sound	700	-
	Merchantable	-	-
Purpleheart	Prime	-	-
	Standard	-	700-966
	Select	650-1100	-
	Sound	-	-
	Merchantable	-	-
Mora	Prime	-	-
	Select	500-700	-
	Sound	-	-
	Merchantable	500	-

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

### Business sentiment in Japan

Business sentiment among large manufacturers remains extremely low as 2013 begins. The Japanese Tankan survey released in mid December 2012 painted a gloomy picture of business sentiment

The various indices in the Bank of Japan survey of business represent the views of companies seeing good business conditions minus those feeling pessimistic. The December data indicated a sharp drop from minus 3 in the July to September survey.

The data for the last quarter of 2012 recorded the first double-digit minus figure since March 2010, the lowest in almost 3 years.

The decline in Japanese business sentiment is attributed to the global economic slowdown, the strong yen, strained relations between Japan and China and the end of most government subsidies for consumer products, especially automobiles

The forecast business sentiment does not anticipate any further slowdown, rather expecting a slight improvement. This is attributed to expectations that the global economy will slowly pick up in early 2013 giving a boost to exports.

The new Japanese government has indicated that the economy is a major priority and has introduced emergency economic measures to try and stimulate the stagnant economy.

The stimulus package aims to overcome deflation through massive investments in public works. The immediate effect of the new stimulus package, financed largely through the issue of special government bonds, has been to drive down the Yen in the currency market.

The new economic package includes around US\$115 billion in central government spending with around half of this going to increased public works.

### Direct support for businesses

In addition to the spending on public works the government has allocated some 500 billion Yen to help businesses acquire overseas companies.

The Liberal Democratic Party (LDP) spending packages are causing concerns that Japan's public debt burden, already the highest in the developed world, could become unmanageable. Many economists are of the opinion that reforms of the economy would have a more lasting impact than the stop-start growth that Japan has experienced over the last decades.

Apparently, the Development Bank of Japan (DBJ), a state-owned lender, will disburse around 100 billion Yen to support firms developing new technologies especially in the renewable energy field.

### Japan's economic stimulus package

The government is pressuring the Bank of Japan to concentrate its efforts on reversing the current deflationary cycle in the country by pumping more money into the economy.

The Japanese government plans to spend most of the new budget on public works and disaster preparedness projects, subsidies for companies that invest in new technology and financial aid to small businesses.

The moves by the new LDP government has already driven the yen to a 24 month low against the US dollar, a welcome relief to exporters whose international competitiveness improves with a weaker currency

### Government targets deflation

In its December 2012 assessment of the current state of the Japanese economy the government Cabinet Office reaffirmed that the economy remains weak reflecting the deceleration in the global economy. In summary:

- Exports have fallen moderately recently
- Industrial production has continued to decline
- Corporate profits remain weak especially for manufacturers
- Business investment has not improved
- Firms consider business conditions poor and remain cautious
- The earlier reported improvement in the employment situation has not been maintained and some severe negative aspects still remain
- Private consumption is almost flat
- Recent developments indicate that the Japanese economy is in a deflationary phase

The Cabinet Office report suggests that the economic weakness will remain until there is improvement in overseas economies. However, there is much uncertainty about recovery in overseas economies and the downside risks to the Japanese economy remain.

Domestically, reconstruction efforts are propping up demand.

### Government and Bank of Japan to tackle deflation

The Government and the Bank of Japan are forging a new relationship driven by the new government and have pledged to make their utmost efforts to overcome deflation as early as possible and to return to a sustainable growth path. One aim of the new government is to address the cycle of Yen appreciation and deflation.

To address deflation the government has said it will deploy a broad range of policy measures and it expects the Bank of Japan to continue powerful monetary easing. Recently the Bank of Japan decided to increase its Asset Purchase Programme which had the effect of driving the Yen lower against major currencies.

### Yen weakens significantly

The Japanese Yen has now fallen to a two year low against the U.S. dollar. The fall was triggered by statements from the new finance minister who pledged to weaken the Yen in an effort to boost exports and therefore help the economy.

The Yen has been weakening against the dollar since late 2012 due to threats from the LDP that, to end Japan's recession, chronic deflation and Yen strength it intended to push the Bank of Japan to ease monetary measures further.

Japan's finance minister, Taro Aso, has said he is determined that the new stimulus measures include strong support for fighting the strength of the Yen which, at current levels, is a drag on exports.

Unusually direct language during the Japanese general election campaign and now the confirmation of the massive government stimulus package has driven the Yen lower.

Analysts point out however that these moves by the new Japanese administration could complicate relations with the US and regional trading partners.

Many Asian countries have been trying to weaken their currency which strengthened after the US Federal Reserve and European Central Bank adopted very loose monetary policies.

The recent moves by the Japanese government is clearly aimed at helping domestic exporters who have faced very tough trading conditions for the last two years because of the strength of the Yen.

The weakened Yen will have an impact in Asia as other countries will be tempted to follow the lead given by Japan.

South Korea, Taiwan P.o.C and increasingly China rely on exports of electronic, automotive and industrial goods to drive the economy. Because these countries will lose a competitive edge as the Yen weakens they may move to weaken their own currencies.

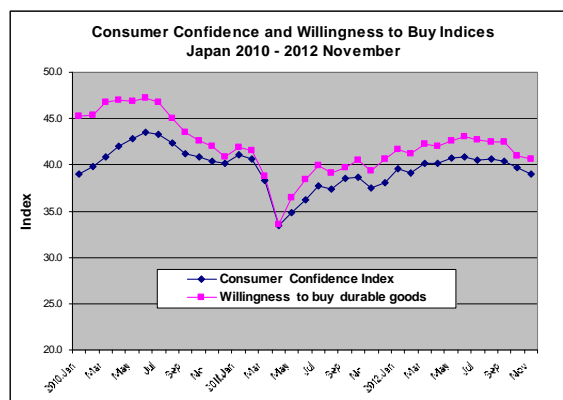
JP Morgan Chase and Co. has recently revised the Yen projections forecasting a fall to 90 Yen to the dollar in the second quarter of this year. Nomura Holdings also reduced its forecast to 90 Yen per dollar for the same period.

### Consumer confidence slips

Consumer confidence in Japan fell in the last quarter of 2012 due mainly to the failure of the government to come out with coherent policies to create more job opportunities and bring the economy out of recession.

The latest data suggests that the new government in Japan is being given credit for some of the bold, some say reckless, plans it has for increasing public works projects and the consumer confidence index halted its downward slide.

Over the coming months consumers will be watching to see if the Bank of Japan can deliver on its inflation target, if it does this could possibly result in greater consumer spending.



### Housing starts in Japan

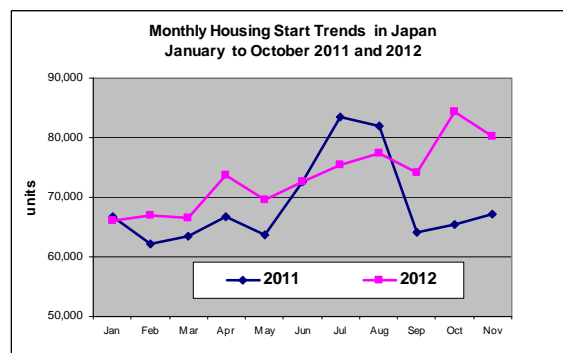
Data from the Japanese Ministry of Land, Infrastructure, Transport and Tourism released in December shows that November housing starts totalled 80,145 units up around 11% year on year and but the pace of growth is lower than the 25% rise in October.

Owner-occupier units totalled 28,200 (+9%) while homes built for rent were 30,100 in November (+23%). Sales of condominiums and houses increased marginally

The rate of growth in housing starts slowed after the government's eco-reward programme expired as of Oct. 31, 2012. Eco reward points were given to owners of homes built to new energy saving standards.

Annualised housing starts totalled 907,000 calculated on the basis of the year to November compared to 978,000 based on developments up to October.

The general consensus is for 2012 starts to reach 911,000. However it is reported that construction orders received by the 50 largest contractors fell 2% in November, following a steep decline in October.



**Increase in wooden buildings**

The number of new wooden buildings is growing in Japan especially in the suburbs where fire resistant standards are not as strict as in the built up areas.

Wooden structures are considered cost-competitive in Japan especially in one-story construction. Wooden buildings are now popular for care facilities, convenience stores and educational facilities such as schools, nursery schools, and preschools.

**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>

**Restoration of Seihoku's damaged plants**

(source JLR Dec 21 2012)

Seihoku group's plants on the North East coast of Japan suffered considerable damages by the earthquake and tsunami in March 2011. The plants recovered one after another and the production is coming back. Production of coated concrete forming plywood made by local softwood and particleboard is back on right track.

Seihoku's plywood mills have been adjusting production to maintain supply and demand so that the mill inventories are less than one month.

Seihoku Plywood mill has started producing coated concrete forming panel with local softwood since last July and the production moved up to 50,000 sheets for October and November. Also five plied 100% cedar 15 mm panel is now tested. There is some concern that softwood concrete forming panel may cause cracks in concrete but the mill says there is no such worry.

**Plywood**

(source JLR Dec 21 2012)

Domestic softwood plywood production in October was 213,900 cbms and the shipment was 219,500 cbms. Both are the highest monthly record this year.

The inventories have been below 200 M cbms for three straight months. October's inventory was 193 M cbms. Dealers say that November shipment seems higher than October. The market is very firm.

Current market prices are 730-750 yen per sheet delivered on 12 mm 3x6 (special type/ 4 star), 10 yen up from November. 1,550-1,580 yen on JAS 24 mm

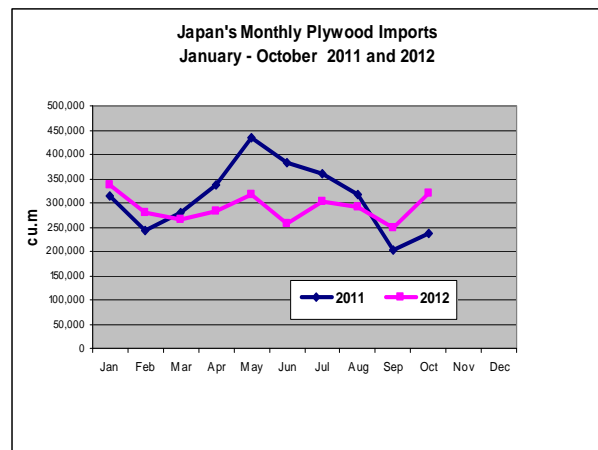
3x6. 1,150-1,180 yen on 9 mm 3x10. Both are holding steady.

Market of imported plywood is also firm. Port inventories are down while shipment continues busy. Some warehouse recorded that the November shipment was the highest since last April.

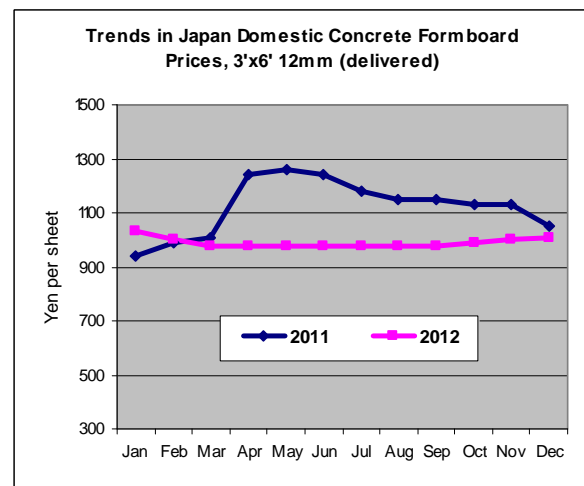
There are more than 13 ships waiting for unloading at the port of Yokohama, which may not be unloaded in this month.

Bullish suppliers' attitude of Malaysia and Indonesia is impacting the market in Japan so that the prices continue edging up.

The market prices for 3x6 JAS concrete forming for coating are 1,030 yen per sheet delivered, 20 yen up from November. Concrete forming is 870-890 yen, 10 yen up. 12 mm structural panel is 920-930 yen, 10 yen up.

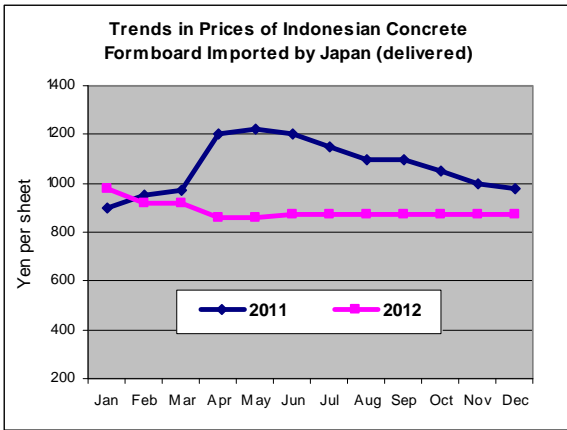


Data source: JLR Dec 21 2012

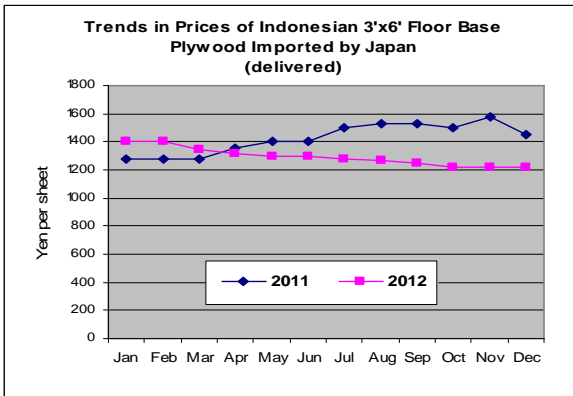


Data source: JLR Dec 21 2012





Data source: JLR Dec 21 2012



Data source: JLR Dec 21 2012

**Japan-China Wood Use Promotion Seminar**

The Japan Wood-Products Export Promotion Council and the Japan External Trade Organization (JETRO) co-organized a seminar titled “Japan-China Wood Use Promotion Seminar 2012” in Tokyo in this fall. Four lecturers from Chinese enterprises visited Japan to introduce completed buildings

**Japan’s furniture imports**

Japan’s imports of Office Furniture (HS 9403.30) in November 2012 totalled Yen 179,896,000, marginally lower than the Yen 209,187,000 imported in the same month in 2011 but higher than the Yen 90,695,000 imported in October 2012.

Of imports of office furniture in November 2012 Chinese manufacturers provided Yen 81,909,000 or around 45% followed by Indonesia with 8%. China’s exports of office furniture to Japan in November 2012 were almost double that in October 2012.

Japan’s imports of Kitchen Furniture (HS 9403.40) in November 2012 amounted to Yen 845,786,000, marginally down on levels in October (Yen 876,267,000). China’s contribution to Japan’s imports of Kitchen Furniture amounted to Yen 140,098,000 once again placing China third in the rank of supply countries behind Vietnam (Yen 316,968,000 and Philippines (Yen 171,083,000).) Both countries managed to increase exports to Japan.

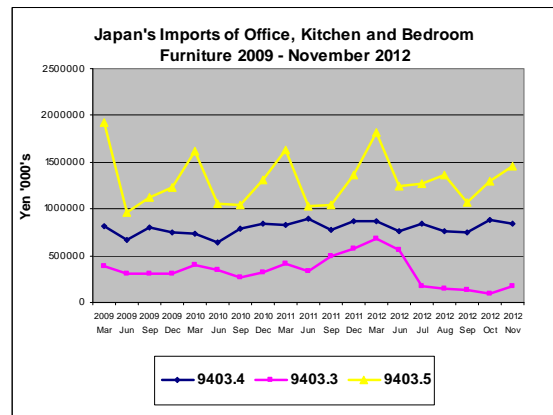
Indonesian exports of Kitchen Furniture continued but it appears Indonesian exporters lost ground to exporters in Vietnam and Philippines.

China’s exports of Kitchen Furniture valued at Yen 140,098,000 in November 2012 were below levels recorded in November 2011.

Japan’s imports of Bedroom furniture (9403.50) in November 2012 at Yen 1,452,561,000 were, once again, higher than levels recorded in November 2011.

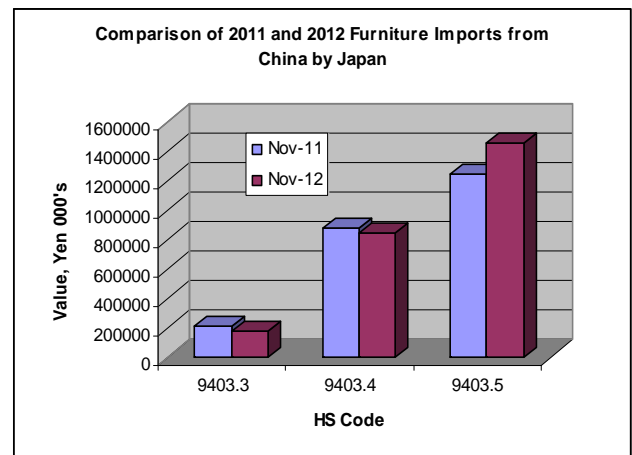
China’s contribution to Japan’s imports of Bedroom furniture in November was Yen 826,005,000, a marked improvement on levels in October 2012 and higher than levels in November 2011.

In November 2012, apart from China, the other major suppliers of Bedroom furniture to Japan were Vietnam (Yen 317,582,000) and Malaysia (Yen 141,841,000).



The figure below illustrates the changes in Japan’s imports of Office, Kitchen and Bedroom furniture in November 2011 and 2012.

It will be seen that Japan’s imports of Bedroom furniture from China increased in 2012 compared to levels in 2011 but for the other products illustrated declines were recorded.



### **Forestry sector sees growth despite global uncertainties**

According to information from a recent conference of heads of national provincial forestry departments, the total output value of China's forest products industry is forecast to have increased by 21% to RMB3.7 trillion in 2012.

The Chinese forestry and forest industry sectors continue to drive development momentum despite being adversely affected by the weak global economy. The RMB3.5 trillion output target set by government for the sectors in the Twelfth Five Year Forestry Development Plan has been achieved three years ahead of the schedule.

The output values of the forestry and forest products sectors in Shandong, Guagndong, Zhejiang and Jiangsu provinces are expected to have exceeded RMB300 billion in 2012.

Output from the national forests products sector continued to expand in 2012. It is expected that, when the final figures are compiled, log output will be more than 80 million cubic metres, the output of wood-based panel could reach more than 200 million cubic metres and the output of other forest based industries could be as high as 146 million tones.

### **Plans to further expand forestry sector**

The Chinese forestry authorities have pledged to further promote expansion of the forestry sector. The following measures have been proposed:

- develop and implement "Forestry products industry doubling plan during 2013 to 2020 period". This will be through identifying and supporting major national forestry enterprises, through national standardisation and through modern forestry industrial development zones.
- continue to improve the planning of forestry products industry development, strengthening the industry base, fostering the formation of forest products industry clusters and supporting development of specialised forestry sub-sectors.
- Standardise the development of forest products exhibitions, implementation of a branding strategy for wood products, supporting the lead enterprises, universities, colleges and research institutes to encourage technological innovation and strategic alliances throughout the forest products industry and promoting the upgrading of the industrial structure.
- increase support for the wood extractives industry and forest biomass energy industry, support the development of emerging industries such as forest tourism, flower commercialisation, bamboo and rattan product improvement and promote a strategic reserve base in construction timber.

- strengthen the monitoring of forest product quality, establish a forecasting and early warning mechanism and create an information delivery platform for the sector.

### **Chinese association pilots work on legality verification**

A second Forest Products International Trade Forum was held recently in Nanning, Guangxi, Zhuang Autonomous Region. At this gathering the China National Forest Products Industry Association (CNFPPIA) launched its pilot Legality Verification Standard, and signed agreements with 8 association members committed to using the new standard. This marks an important step in efforts by China to verify the legality of the raw material used in the industry.

The piloting of the new standard will be conducted over a 12 month period and a total of 30 timber enterprises will participate.

The procedure for verification involves association members applying for membership of the CNFPPIA scheme after which the enterprise signs a self-disciplinary pledge with CNFPPIA. When this initial step is concluded the enterprises will be issued with verification certificates for various products and given authority to use a logo "Legal Timber". This logo will confirm that the company is registered with the CNFPPIA and has fully implemented the legality verification standard.

Advocates of the new verification standard say that this will promote the sustainable development of China's international trade in wood products, combat illegal logging, maintain China's international image, strengthen the competitiveness of enterprises' as well as help enterprises respond to new requirements and challenges in the international market.

### **New branch association formed**

It has been reported that a new branch of China's Timber and Wood Products Distribution Association was established in April 2012 after approval was granted by the Ministry of Civil Affairs.

The China Timber and Wood Products Distribution Association is a national, non-profit and professional organization consisting of enterprises and institutions from trade, research, education and industrial management, social groups, experts and scholars. One aim of the association is to forge a bridge between government and timber enterprises.

The new branch has a wide range of activities such as:

- providing information on national policies and on timber import and export regulations,
- strengthening self-discipline in the sector,
- safeguarding legitimate rights and interests of timber importers and exporters,
- providing information on domestic and foreign timber trade policies and timber distribution and stocks

- providing technical services promoting establishment of responsible procurement policies within industry,
- participation in the legality verification scheme
- advising government on technical standards for the industry,
- conducting credit rating evaluation for enterprises
- conducting certification work
- implementing technical and operational training courses,
- managing conferences and encouraging international cooperation and exchange

### **Rubberwood development in Hainan**

Rubber plantations are found in the Hainan, Yunnan and Guangdong provinces of China. The area of rubberwood plantations is reportedly around 750,000 hectares, of which 52% is in Hainan Province, 43% in Yunnan Province the balance is in Guangdong Province.

Hainan island, the most southerly province in China, fall in the tropics and has rich tropical forest resources as well as rubberwood plantations.

Wood based enterprises in Hainan Province provide rubberwood sawnwood, laminated timber, particleboard, plywood, veneer and furniture. Hainan rubberwood furniture is exported to the USA, EU and marketed regionally.

The planting of commercial rubber in Hainan began in the 1950s but the boom years for development of the rubber processing industry was during 1980s to 1990s.

In 1998 the production of rubber sawnwood, plywood and MDF reached 400,000 cubic metres, 20,000 cubic metres and 39,000 cubic metres respectively.

The annual average output of provincial rubberwood products was 350,000 cubic metres from 1988-1997.

According to the available data, currently annual felling produces around 800,000 cubic metres but this is insufficient for the installed capacity in the industry

At present there are about 100 enterprises processing rubberwood in Hainan. Most of these enterprises are small and most use low technology processes. This, combined with the age of the processing plant, results in output of low quality products.

Sawnwood is the main product sold, the output of high value rubber wood products such as laminated board and veneer is limited.

Much of the rubber plantations in Hainan are managed by Hainan Rubber Industry Group Co. Ltd, a leading agricultural enterprise. The company comprises 12

subsidiaries involved in finger-jointing, solid wooden door manufacture, cabinet and furniture manufacture and veneer.

## **Report from Europe**

### **European plywood market undergoing rapid change**

The European plywood market is changing rapidly. Since the start of a recession in 2008, the market has become less willing to pay premium prices for tropical hardwood plywood. Instead it has opted for plywood manufactured from alternative hardwood species.

The emergence of China as a major supplier of large volumes of hardwood plywood at competitive prices played an important role to drive this change. Now the market looks set to alter again.

This time the main driver is likely to be the EU Timber Regulation (EUTR), to be enforced from March 2013. The EUTR will require that EU importers have access to documents demonstrating negligible risk of any wood product coming from an illegal source.

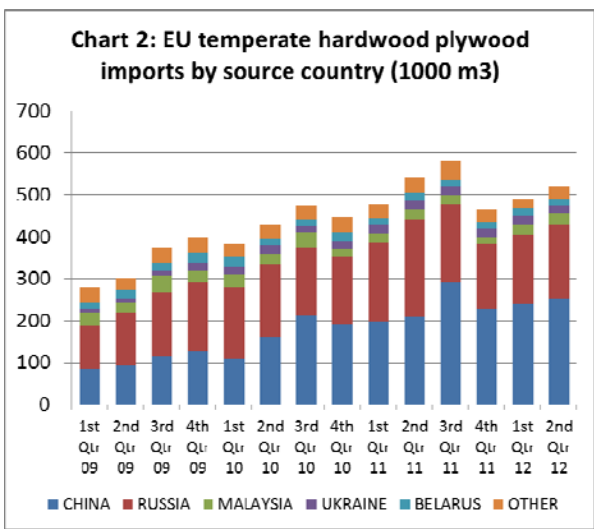
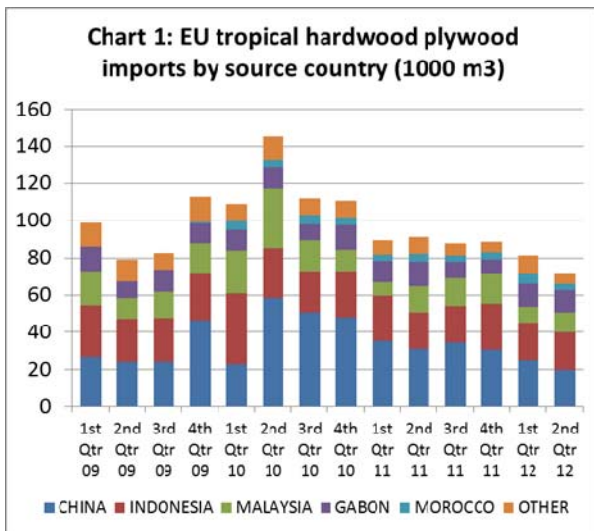
This will present challenges for suppliers of wood products that rely on long and complex supply chains - such as many Chinese plywood manufacturers.

### **Switch from tropical to temperate plywood**

EU imports of tropical hardwood plywood have been falling since the middle of 2010 (Chart 1). Between January and June 2012, the EU imported 153,000 cu.m of tropical hardwood plywood, 15% less than the same period in 2011.

In the first half of 2012, tropical hardwood plywood imports into the EU fell 33% from China (to 45,000 cu.m), 8% from Indonesia (to 40,000 cu.m) and 9% from Malaysia (to 20,000 cu.m).

European domestic manufacturing of tropical hardwood plywood – using imported African okoume logs - has also fallen dramatically and is now negligible. This follows implementation of a ban on exports of okoume logs by Gabon in May 2010.



In contrast, EU imports of temperate hardwood plywood increased dramatically between 2009 and 2011 (Chart 2).

In the first 6 months of 2012, imports were 1.01 million cu.m, little changed from the same period in 2012. Imports from China were up 21% at 493,000 cu.m, while imports from Russia were down 18% at 344,000 cu.m.

The recent switch from tropical hardwood to temperate hardwood plywood in the EU market is the result of various factors. These include relatively high and volatile prices associated with tropical hardwood plywood and lack of availability. These trends became strongly apparent following the tsunami in Japan in March 2011 which led to a large volume of tropical hardwood plywood being diverted to reconstruction work in Japan.

EU plywood imports from Indonesia were particularly affected by shipment delays and large fluctuations in container rates during this period.

Meanwhile China's ability to competitively produce okoumé plywood for the EU market has been impaired

due to imposition of anti-dumping duties on EU imports of this product from China since 2004. The duty levels imposed range from 6.5 % to 23.5 % for four Chinese producers and 66.7 % for all other producers.

However, availability of poplar and eucalyptus plywood from China has increased rapidly. These products have become increasingly important in international plywood supply.

Although not offering equivalent durability, strength and quality as tropical hardwood plywood products, prices for Chinese hardwood plywood products are extremely competitive (see table). The EU market has increasingly accepted these products for a wide range of utility applications requiring a lower level of technical performance.

There is speculation that tropical hardwood plywood from Indonesia and Malaysia may reclaim some market share in the EU market during 2013. This is partly because supply has improved over the last 12 months.

Prices for South East Asian plywood remained more consistent and have been less volatile than in the past. In addition, moves to develop comprehensive legality verification systems in these countries are expected to boost competitiveness following implementation of EUTR.

A notable trend in the EU hardwood plywood market during 2011 was replacement of Indonesian film-faced plywood with cheaper Russian birch plywood products. However availability of Russian birch plywood declined in 2012 as manufacturers struggled to source adequate volumes of good quality logs.

This led to a particularly sharp fall in availability of high quality 5x10ft Russian birch plywood. This situation is expected to ease in January and February 2013 with the onset of large scale winter felling in Russia.

**Slow plywood consumption in recent months**

The market for plywood in the EU during the last quarter of 2012 has been very challenging. Weak construction sector activity meant that plywood consumption was very slow. However production costs for plywood manufacturers continued to rise. But with supply generally in excess of demand, it is very difficult to raise prices. Margins in the trade have been declining.

Some Chinese suppliers of plywood to the EU are seeking price increases of 2-3% to compensate for rising production costs and strengthening of the yuan against the US dollar. But these efforts have proved unsuccessful so far.

Shipping lines attempted to force through significant freight rate increases on the Asia-Europe route during

December 2012 in an effort to protect margins following recent fuel price increases.

However, demand for container space on the route remained low overall during the Christmas vacation period and the recent rate increases are now expected to be short-lived.

One result of low demand for container space is that European importers are having little difficulty securing stock. Importers can satisfy their immediate needs for most plywood products quite easily and lead times between ordering and delivery of new stock are short. For example lead times for delivery of Indonesian plywood to Europe currently average around 5 weeks.

Despite relatively high log prices in Malaysia, Malaysian shippers of tropical hardwood plywood to Europe have been reducing prices in recent months in an effort to maintain market share. But while the price differential in Europe between comparable Malaysian and Chinese products has reduced in recent months, it is still more than 10%.

#### **Uncertainty created by EUTR**

In addition to slow consumption, there is much uncertainty in the EU plywood market concerning the likely impact of the EU Timber Regulation. In the short term, EUTR has led to very large bookings of product from China to arrive prior to the Chinese New Year festivities in February and just before the EUTR is due to come into force.

These orders are well in excess of demand anticipated in the first quarter of 2013. In contrast, forward orders of both Chinese and tropical plywood for arrival after the beginning of March 2013 have been very subdued. The longer term impacts of EUTR are difficult to predict.

There is still some uncertainty as to how effectively the law will be enforced.

Many EU Member States have been slow to announce which government departments will take responsibility for enforcement and to set out details of monitoring systems and sanctions.

The European Commission has yet to publish detailed guidelines for EU importers. This fact, combined with the high level of plywood import prior to the March 2013 deadline, suggest that it will take time for the full effects of EUTR to become apparent.

Nevertheless, EUTR may well lead to major changes in the EU wood products trade over the long term. This is particularly true of the plywood sector which is traditionally very dependent on imports from outside the EU.

It is also a sector which relies heavily on hardwood species from regions considered high risk of illegal

wood supply, including some tropical countries and Russia.

EUTR enforcement action in Europe may be weak in the initial stages. But the personal liability imposed by the law, and the risk to the reputation of operators that fail to comply, suggest most importers will take the new law seriously. It is possible many importers will become more risk averse than strictly necessary under the terms of the EUTR.

#### **Chinese plywood and EUTR**

Some large EU importers have been working hard with their Chinese suppliers to ensure that all plywood imported from the country complies with EUTR requirements. However, there is still scepticism in the EU trade that Chinese manufacturers will be able to secure robust documentary evidence of legality for many plywood product lines.

This is due to the complexity of supply chains in China's plywood manufacturing sector. It is also due to lack of reliable systems to demonstrate legal origin in many countries from which China imports logs for plywood manufacture.

An article in the UK Timber Trades Journal in December 2012 quotes a major UK plywood importer. He suggests that due diligence work in advance of EUTR has already ruled out 20% of the Chinese factories with which his company deals. Many more are expected to be added to the list as the process proceeds.

Particularly affected will be Chinese plywood manufactured from tropical species lacking FSC or PEFC certification.

European importers are already identifying uncertified wood from Papua New Guinea, the Solomon Islands and most African nations as high risk.

European imports of uncertified Chinese softwood plywood products, suspected of containing wood of Russian origin, are also likely to be scrutinised closely. Analysts suggest that many EU plywood buyers will be only sourcing FSC or PEFC certified plywood after March 2013.

On the other hand, EU importers are likely to be less concerned about Chinese plywood manufactured using only plantation-grown poplar and eucalyptus.

Environmental groups are keeping up the pressure and raising the stakes for European importers engaged in trade in Chinese plywood. They are sending out strong signals that wood products from China will be first in the firing line for EUTR scrutiny.

#### **Malaysian and Indonesian measures to ensure EUTR compliance**

Indirect imports of tropical hardwood plywood via transit processing countries like China may well suffer

as a result of EUTR. However, the EUTR may again favour direct imports of tropical hardwood plywood from Malaysia and Indonesia. This is because of simpler supply chains and moves to develop third party certification.

Indonesia is progressing rapidly towards full implementation of a Voluntary Partnership Agreement (VPA) with the EU on illegal logging.

Under the terms of the VPA, all timber products exported from Indonesia will comply with the Indonesian mandatory chain of custody certification to ensure legality of product.

Similarly, a large proportion of Malaysian production is PEFC-certified. All these measures are expected to make the EUTR due diligence process for Malaysian and Indonesian plywood much simpler.

#### **Alternatives to tropical and Chinese hardwood plywood**

The high perceived risks associated with sourcing plywood from some tropical countries, or countries with complex supply chains like China, is already encouraging a search for replacement products. EU importers have been making more enquiries about radiata pine and eucalyptus plywood from plantations in South America.

European panel manufacturers have also been encouraged to develop new products that may be used to replace tropical hardwood plywood in external applications.

For example, the Ireland-based MDF manufacturer Medite recently won the UK Timber Expo Innovation award for their "Tricoya" MDF panels.

Tricoya utilises the latest advancements in acetylation technology, which naturally alters the wood's chemical structure so that it is not affected by the effects of water absorption. According to the manufacturer's claims, MDF may now be used even in highly exposed environments.

\* The market information above has been generously provided by the Chinese Forest Products Index Mechanism (FPI)

### **Report from North America**

#### **US Import trends**

US year-to-October 2012 imports were 6% above the previous year. China's share in total imports year-to-date remained at around 66%, Year-to-October imports from Indonesia soared by 29%, compared to a 5% growth in imports from China.

#### **Softwood plywood**

US imports of softwood plywood were down 16% from 2011 on a year-to-date basis. Chile remains the top supplier, but imports from Chile continue to decline. China's share of US imports increased from just 3% in 2011 to 12% in 2012, on a year-to-date basis.

#### **Mouldings**

Total US 2012 moulding imports (year-to-October) declined by 8% compared to levels in 2011. Much of the decline was in Brazilian shipments, but imports from China were also down. Softwood moulding imports as of October 2012 were up by 12% from 2011. Softwood moulding imports from China increased by 27% on a year-to-date basis.

#### **Flooring**

US year-to-October imports of assembled hardwood flooring panel increased by 10% from the previous year. China's share of imports was around 68%, down slightly from levels in 2011. Canada and Brazil increased their share of US imports.

Hardwood flooring imports are less than a third of assembled flooring panel imports, but they grew by 57% year-to-date from 2011. The main beneficiaries of the growth in US imports were Indonesia and Malaysia.

#### **Doors**

While US wooden door imports declined in October 2012 overall the level of imports was still 5% above levels in 2011. Most major suppliers to the US market increased their shipments compared to 2011, but door imports from China had dropped by 5% up to October 2012.

#### **Furniture**

Year-to-October US imports of wooden furniture were up 9% compared to 2011. China was a major supplier and China's share of total US imports grew by 9% year-on year.

China's share in total US furniture imports year-on year was 49%, slightly up from levels in 2011 Vietnam's share of US imports year on year from 13% in 2011 to 15% in 2012. India, Mexico and Malaysia also substantially increased furniture shipments to the US.

#### **Release of US plywood dumping investigation postponed**

The US Department of Commerce has postponed the release of preliminary countervailing duty from its probe into plywood imports from China. The countervailing duty results would demonstrate the value of subsidies by China's government for plywood producers in China.

The preliminary results were scheduled for release in December, but the Department postponed the release to 26 February 2013 at the request of US producers.

The US began investigating antidumping and countervailing duties on imports of plywood from China in November 2012. The release of the preliminary antidumping duty (in addition to the countervailing duty) is still expected for 6 March, 2013.

A group of American hardwood plywood manufacturers, the Coalition for Fair Trade of Hardwood Plywood, initiated the investigation, while another industry group, American Alliance for Hardwood Plywood, and the International Wood Products Association oppose the introduction of duties on plywood from China.

#### **Housing market forecast to recover**

Demand for windows and doors are forecast to grow significantly over the next four years, according to information in two recently published market research reports.

The steep decline in housing starts between 2007 and 2010 resulted in a decline in demand for windows and doors. Most US door and window manufacturers (millwork companies) are small to medium-sized and between 2007 and 2012 the number of millwork companies in the US because of the collapse in demand from house builders.

Over the next five years new housing construction in the US is expected to recover and demand for windows and doors will improve. Demand from the home repair and remodelling sector is also expected to grow, but at a slower pace.

The US government offered tax credits to home owners between 2009 and 2011 for installing energy efficient windows and doors but this scheme has ended which will further affect demand.

#### **Growth in door and window market**

US demand for wood windows and doors is forecast to grow by an average of 10% annually until 2016 and will be worth around US\$10 billion in 2016.

The market share of wood in total window and door demand is forecast to be stable at around 30%. Plastic windows and doors are expected to continue taking market share from wood and metal because of their low cost.

#### **Residential construction**

Construction of new homes in the US fell 3% in November 2012 driving the seasonally adjusted annual rate to 861,000. Analysts are forecasting that the annual 2012 starts will come in at 865,000.

The US housing starts rate for October was revised down to 888,000 from an estimated 894,000.

Despite the decline in November, US housing starts expanded more than 20% over the past 12 months but the rate of new home building is far below the peak of nearly 2.3 million in 2006.

The US housing market continues to recover but discussions in the US Congress about reducing the popular tax deduction on mortgage interest may reduce demand for homes.

It seems unlikely, however, that the tax deduction would be completely eliminated. President Obama has suggested a limit on deductions by high-income earners. It is possible that such changes could reduce the price of homes, especially when renting is an attractive alternative to owning a home.

Housing starts increased by 3.6% in October to a provisional 894,000 units, at a seasonally adjusted annual rate. Single-family starts remained the same from October at 594,000, while multi-family housing starts increased by almost 12% to 300,000 units.

Building permits for new homes fell in October to 866,000 units (seasonally adjusted annual rate). The decline was in multi-family housing permits, while permits for single-family home construction increased. The number of permits issued is an indicator of future building activity.

#### **Decline in 2013 Canadian housing starts expected**

In Canada, housing starts declined further to 204,107 in October, at a seasonally adjusted annual rate. The Canada Housing and Mortgage Corporation expects a slight decrease in housing starts for 2013.

In 2012, the growth in housing starts was driven by multi-family home starts, while single-family home construction was stable. Multi-family construction is expected to decline in 2013, which will moderate the total number of starts. Canadian sales of existing homes slightly declined to an estimated 457,400 in 2012, but they are forecast to rise again in 2013, to 461,500.

#### **US Consumer confidence falls in December**

The Thomson Reuters/University of Michigan US consumer sentiment index was 30% higher in November 2012 than in the same month in 2011.

However, the US consumer confidence index fell almost seven points in December 2012 because of uncertainty over prolonged negotiations in the US aimed at avoiding the fiscal cliff.

The US Conference Board, which conducts the consumer survey, reported that the consumer confidence index dropped to 65 in December 2012 from close to 72 in November of the same year, (1985=100).



Data source US Conference Board

Consumers' optimism seen in November was short lived. The proportion of consumers expecting an improvement in business conditions over the next six months fell three points, those consumers expecting conditions to worsen increased by six points

\* The market information above has been generously provided by the Chinese Forest Products Index Mechanism (FPI)

**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*

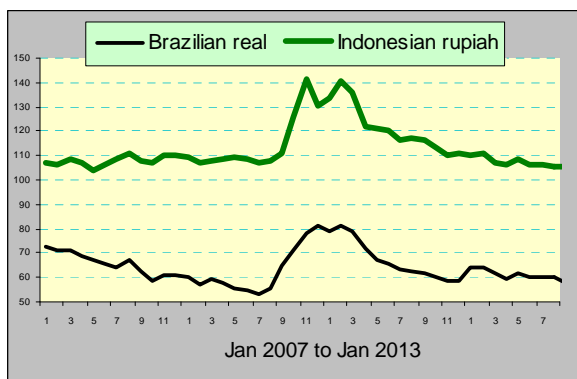
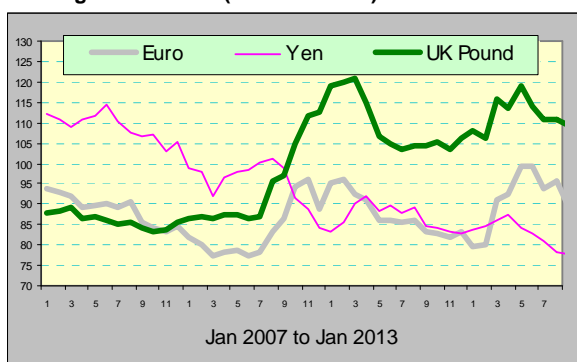


## Main US Dollar Exchange Rates

As of 10<sup>th</sup> January 2013

Brazil	Real	2.043
CFA countries	CFA Franc	491.6
China	Yuan	6.3556
EU	Euro	0.7645
India	Rupee	54.966
Indonesia	Rupiah	9670
Japan	Yen	87.04
Malaysia	Ringgit	3.045
Peru	New Sol	2.548
UK	Pound	0.632
South Korea	Won	1065.05

Exchange rates index (Dec 2003=100)



## Abbreviations and Equivalences

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

## Ocean Freight Index



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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