

Tropical Timber Market Report since 1990

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Snapshot

From mid to late January, little movement occurred in log and timber markets. Prices in West Africa held to mid-month levels while prices in Malaysia and Indonesia continued to fall. Demand was strong for logs in Myanmar and PNG and prices correspondingly rose.

In South America, Bolivia's wood products exports grew 10% in 2007. Guyana's forest products exports also rose USD20 million from 2005-2007. Brazil's wood products exports, however, decreased marginally in 2007. Opportunities abounded for small and medium-scale enterprises in Brazil and for investors in Peru.

Meanwhile, the U.S. Federal Reserve dropped interest rates in an effort to stave off a recession and ease the 'credit crunch'. Japan experienced a slight rebound in housing starts at the end of 2007, although plywood imports were struggling to recover at the start of the year. European and UK markets were also off to a slow start this month as experts held a cautious outlook for the timber trade in 2008.

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Report from Central/West Africa

Mid-month price levels hold in West Africa

Continuing price trends from mid-January, West African exporters have held all log prices unchanged through the end of January. Demand has not changed and buyers for China are maintaining their policy of purchasing a more limited number of species. Indian demand remains firm for belli, but at slightly lower prices than negotiated at the end of 2007. There are signs of a revived interest in okan and it is possible prices may recover from the recent lower levels resulting from falling demand in the past year. Sipo and sapele have held firmly to recent price gains for both logs and lumber. Exporters are less nervous about more competitive prices for Far East species. The early February celebrations for the Chinese New Year will cause the normal slow down in logging and sawmilling. Consequently, there is unlikely to be any surge in production until mid-February.

Although all traders are watching the global market carefully, the full impact of the market seems not to have a sharp bearing on the industry. The fall of U.S. housing prices and house demand, together with a reported surplus of unsold new-build housing in Spain, are affecting timber markets. However, it does appear that the major impact of the U.S. market is likely to be on South American and Asian suppliers rather than on the lesser volume of trade with West Africa. Freight rates are high and have not changed after the moderate hikes in December 2007, although this has not yet inhibited trade volumes. One exporter recently noted some difficulty in obtaining shipping space for Europe, although this seemed not to be a significant problem.

As with logs, prices for sawn timber are unchanged from mid-month levels. Although markets are still said to be quiet, demand has remained moderate, possibly helped by the mild winter conditions so far in Europe, where rain is more of a problem for the construction sector than the normal snow and ice. However, continental European and UK buyers are being very cautious over concerns about the full effects of the U.S. credit crunch. Sapele and sipo are in demand and moabi also continues to be popular. Okoume, douka/makore and movingui remained in good demand and are unchanged at recent higher prices. While there are no forecasts for the medium term, experts say prices should remain stable at least until the end of February.

DRC receives USD64 million for forest reforms

TTJ Online reports that the World Bank will provide funds to strengthen forestry reforms in the Democratic Republic of Congo after the Bank's Inspection Panel found 'significant policy compliance failures' in the country. A total of USD64 million will be provided by the Bank to address these deficiencies, including measures to improve consultations on forest strategies with indigenous people. The funds will enable the country to develop new forest management strategies and schemes.

West Africa Log Prices

| West Africa logs, FOB | | € per m ³ | | |
|---------------------------------|-----|----------------------|-----|------|
| Asian market | | LM | B | BC/C |
| Acajou/ Khaya/N'Gollon | 221 | 190 | 175 | |
| Ayous/Obéché/Wawa | 221 | 205 | 168 | |
| Azobe & Ekki | 152 | 152 | 91 | |
| Belli | 198 | 198 | - | |
| Bibolo/Dibétou | 168 | 167 | 114 | |
| Bubinga | 533 | 457 | 381 | |
| Iroko | 289 | 274 | 259 | |
| Okoume (60% CI, 40% CE, 20% CS) | - | 150 | - | |
| Moabi | 335 | 335 | 282 | |
| Movingui | 205 | 190 | 152 | |
| Niove | 129 | 129 | - | |
| Okan | 198 | 198 | 152 | |
| Padouk | 289 | 289 | 267 | |
| Sapele | 297 | 297 | 282 | |
| Sipo/Utile | 335 | 305 | 267 | |
| Tali | 190 | 190 | 152 | |

| Gabon Okoumé logs, FAS* | | € per m ³ | |
|-------------------------|----|----------------------|--------|
| Grade | QS | Asia | Europe |
| | CI | 213 | 219 |
| | CE | 171 | 171 |
| | CS | 146 | 150 |
| | | 108 | 111 |

*Based on SNBG official prices

West Africa Sawnwood Prices

| West Africa sawnwood, FOB | | € per m ³ |
|---------------------------|-------------------------|----------------------|
| Ayous | FAS GMS | 396 |
| | Fixed sizes | 427 |
| Okoumé | FAS GMS | 375↑ |
| | Sel. & Bet. GMS Italy | 310 |
| | Sel. & Bet. fixed sizes | - |
| Sipo | FAS GMS | 630↓ |
| | FAS fixed sizes | - |
| | FAS scantlings | 645↓ |
| Padouk | FAS GMS | 600 |
| | FAS scantlings | 630 |
| | Strips | 425 |
| Sapele | FAS Spanish sizes | 620↑ |
| | FAS scantlings | 635 |
| Iroko | FAS GMS | 458 |
| | Scantlings | 519 |
| | Strips | 304 |
| Khaya | FAS GMS | 396 |
| | FAS fixed | 427 |
| Maobi | FAS GMS | 630 |
| | Scantlings | 645 |
| Movingui | FAS GMS | 460 |

Report from Ghana

Government revises forest revenue sharing ratio

The government has revised the sharing ratio of revenue from the country's forests. Traditional authorities will now receive 60% instead of 40% of revenue accruing from outside forest reserves. Resource owners will receive 50% of the revenue from on-reserve forests and the Forestry Commission will receive the remaining 50% of the revenue, instead of the previous ratio of 40/60 respectively.

The Deputy Ministry of Lands, Forestry and Mines, Mr. Adjei Yeboah, who made the announcement at the first National Forest Forum (NFF) in Accra, explained that the changed ratios were designed to stimulate community enthusiasm in forest management and alleviate poverty among the local people. The Forum was attended by delegates from 10 regions comprising traditional leaders and officials from the Forestry Commission and the Ministry of Lands, Forestry and Mines. The Forum, the first of its kind, was designed to serve as a neutral

platform for stakeholders to discuss the numerous forestry issues at both the national and local levels. It is anticipated the Forum will in the future serve as a basis for advocacy to effect changes in policies and laws inimical to sustainable forest management and collaborative forest management practices. Mr. Yeboah said the NFF was complementary to the government's efforts to promote collaborative resource management in the country. He said the Ministry was pursuing various policies and programmes aimed at securing and restoring the resource base and ensuring equitable distribution of benefits from the resource to relevant stakeholders.

Mr. Alex Asare, Manager of the Collaborative Resource Management Unit of the Forestry Commission, reminded delegates that the foremost task of the new Forum would be to pressure political parties to make sustainable forest management a priority. The Chief Executive Officer of the Forestry Commission, Prof. E.N. Ashie-Kotey, emphasized that the Forum would enable all stakeholders in the forestry sector to have access to knowledge, skills and information, thus promoting transparency, accountability, effectiveness and coherence in the management of Ghana's forests.

Ghana wins emerging economy award

Thomson Financial's International Financing Review (IFR) has recognized Ghana as the world's most renowned emerging economy in 2007, said the *Daily Graphic*. Ghana emerged as the winner following a year of intense scrutiny and monitoring of emerging global economic activities by Thomson IFR. The award represents the key industry benchmark of global capital markets and national economic excellence. The award was presented in London at the 13th Annual Awards Gala Dinner attended by over 1,500 senior investment bankers, economists and representatives of governments from around the globe.

Ghana's Minister of Finance and Economic Planning, Mr. Kwadwo Baah-Wiredu, expressed delight that his country's economic upturn had impressed the world. He extended invitations to investors to participate in Ghana's economy. The Editor of Thomson Financial's IFR, Mr. Matthew Davies, said lessons on Ghana's economic progress were very relevant, particularly for countries in Africa and other developing economies.

Inflation inches up

The rate of inflation for December 2007 stood at 12.7%, compared to 11.4% in November 2007, the Ghana Statistical Service reported. The December increase was due to higher spending patterns of consumers during the Christmas holidays. The Bank of Ghana also maintained the prime interest rate at 13.50%.

Ghana Log Prices

| Ghana logs, domestic | US\$ per m ³ | |
|-------------------------------|-------------------------|---------|
| | Up to 80cm | 80cm+ |
| Wawa | 90-105 | 110-130 |
| Odum Grade A | 160-170 | 175-185 |
| Ceiba | 75-90 | 95-120 |
| Chenchen | 55-80 | 85-105 |
| Khaya/Mahogany (Veneer Qual.) | 70-90 | 95-120 |
| Sapele Grade A | 130-150 | 155-175 |
| Makore (Veneer Qual.) Grade A | 125-135 | 140-166 |

Ghana Sawnwood Prices

| Ghana Sawnwood, FOB | € per m ³ | |
|-----------------------------------|----------------------|------------|
| | Air-dried | Kiln-dried |
| FAS 25-100mm x 150mm up x 2.4m up | 855 | - |
| Afrormosia | 480 | 560 |
| Asanfina | 205 | 260 |
| Ceiba | 330 | 400 |
| Dahoma | 390 | 450 |
| Edinam (mixed redwood) | 400 | 435 |
| Emeri | 580 | 660 |
| African mahogany (Ivorenensis) | 510 | 590 |
| Makore | 550 | - |
| Niangon | 650 | 730 |
| Odum | 510 | 575 |
| Sapele | 255 | 280 |
| Wawa 1C & Select | | |

| Ghana sawnwood, domestic | | US\$ per m ³ |
|--------------------------|-------------|-------------------------|
| Wawa | 25x300x4.2m | 225 |
| Emeri | 25x300x4.2m | 305 |
| Ceiba | 25x300x4.2m | 166 |
| Dahoma | 50x150x4.2m | 306 |
| Redwood | 50x75x4.2m | 230 |
| Ofram | 25x225x4.2m | 280 |

Ghana Veneer Prices

| Rotary Veneer, FOB | € per m ³ | |
|---------------------------|----------------------|-------------|
| | CORE (1-1.9mm) | FACE (<2mm) |
| Bombax | 325 | 350 |
| Kyere, Ofram, Ogea & Otie | 325 | 360 |
| Chenchen | 315 | 360 |
| Ceiba | 235 | 315 |
| Mahogany | 425 | 460 |

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

| Rotary Veneer, FOB Core Grade 2mm & up | | € per m ³ |
|--|--|----------------------|
| Ceiba | | 245 |
| Chenchen, Ogea & Essa | | 295 |
| Ofram | | 305 |

| Sliced Veneer, FOB | € per m ² | |
|--------------------|----------------------|---------|
| | Face | Backing |
| Afrormosia | 1.80 | 1.00 |
| Asanfina | 1.80 | 0.88 |
| Avodire | 1.12 | 0.75 |
| Chenchen | 0.72 | 0.58 |
| Mahogany | 1.50 | 0.79 |
| Makore | 1.70 | 0.80 |
| Odum | 1.54 | 1.10 |

Ghana Plywood Prices

| Plywood, FOB B/BB, Thickness | € per m ³ | | | |
|---------------------------------|----------------------|-----|-------------|-----|
| | Redwoods | | Light Woods | |
| | WBP | MR | WBP | MR |
| 4mm | 560 | 465 | 500 | 360 |
| 6mm | 380 | 315 | 335 | 285 |
| 9mm | 388 | 305 | 290 | 280 |
| 12mm | 340 | 285 | 300 | 280 |
| 15mm | 350 | 290 | 300 | 260 |
| 18mm | 300 | 290 | 265 | 260 |

Grade AB/BB would attract a premium of 5%. BB/BB would be 5% less, C/CC 10% less and CC/CC 15% less.

Ghana Added Value Product Prices

| Parquet flooring 1st | FOB € per m ² | | |
|----------------------|--------------------------|------------|---------|
| | 10x60x300mm | 10x65-75mm | 14x70mm |
| Apa | 12.00 | 14.47 | 17.00 |
| Odum | 7.90 | 10.18 | 11.00 |
| Hyedua | 13.67 | 18.22 | 17.82 |
| Afroomsia | 13.25 | 15.70 | 17.82 |

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

Report from Malaysia

Malaysian forest plantation fund breaches 1 billion ringgit level

According to *Bernama* online, the Malaysian government will add RM865 million to its Forest Plantation Development Fund that will raise the total value of the fund to over RM1 billion. The purpose of the Fund is to develop 375,000 hectares of forest plantations over a 15-year period. The Malaysian Timber Industry Development Board (MTIB) has already dedicated RM267.65 million to the fund and has formed the Forest Plantation Development Sdn Bhd to help disburse the funds. The Minister of Plantation Industries and Commodities, Datu Peter Chin Fah Kui, noted that the Ministry of Finance has already agreed to lower the interest rate on loans from 3.5 to 3.0% for borrowers under the Fund. He noted the companies listed on the local stock exchange were also eligible to apply for the funds if the local equity level of the stock was above 51%. The Minister also said degraded land or land with secondary forests would also be used for activities under the Fund.

As reported in *The Edge Daily*, Minister Chin also responded to the proposed EU ban on fuel imports derived from crops on land including forests, wetlands and grasslands. In response to this announcement by the EU, the Minister said that Malaysia only grew oil palm on designated agricultural sites, not within its forest reserves.

Malaysia Log Prices

| | |
|---------------------|-------------------------|
| Sarawak log, FOB | US\$ per m ³ |
| Meranti SQ up | 295-315↓ |
| Small | 270-292↓ |
| Super small | 256-266↓ |
| Keruing SQ up | 269-280↓ |
| Small | 232-262↓ |
| Super small | 223-232↓ |
| Kapur SQ up | 243-260↓ |
| Selangau Batu SQ up | 268-294↓ |

| | |
|---|----------|
| Pen. Malaysia logs, domestic (SQ) US\$ per m ³ | |
| DR Meranti | 350-392↓ |
| Balau | 285-315↓ |
| Merbau | 413-435↓ |
| Rubberwood | 233-251↓ |
| Keruing | 278-294↓ |

Peninsular Malaysian meranti logs are top grade and are used for scantlings for the EU. Their prices are higher than Sarawak's.

Malaysia Sawnwood Prices

| | |
|-------------------------------|-------------------------|
| Malaysia Sawnwood, FOB | US\$ per m ³ |
| White Meranti A & up | 428-451↓ |
| Seraya Scantlings (75x125 KD) | 710-749↓ |
| Sepetir Boards | 321-333↓ |
| Sesendok 25,50mm | 444-474↓ |
| Kembang Semangkok | 426-442↓ |

| | |
|------------------------------|-------------------------|
| Malaysian Sawnwood, domestic | US\$ per m ³ |
| Balau (25&50mm,100mm+) | 343-363↓ |
| Merbau | 561-581↓ |
| Kempas 50mmx(75,100 & 125mm) | 286-302↓ |
| Rubberwood 25x75x660mm up | 277-305↓ |
| 50-75mm Sq. | 299-323↓ |
| >75mm Sq. | 315-345↓ |

Malaysia Plywood Prices

| | |
|----------------------------|-------------------------|
| Malaysia ply MR BB/CC, FOB | US\$ per m ³ |
| 2.7mm | 478-504↓ |
| 3mm | 455-480↓ |
| 9mm & up | 410-433↓ |

| | |
|-----------------------------|-------------------------|
| Meranti ply BB/CC, domestic | US\$ per m ³ |
| 3mm | 454-464↓ |
| 12-18mm | 390-398↓ |

Other Malaysia Panel Prices

| | |
|---------------------------------------|-------------------------|
| Malaysia, Other Panels, FOB | US\$ per m ³ |
| <i>Particleboard</i> Export 12mm & up | 225-243↓ |
| Domestic 12mm & up | 212-229↓ |
| <i>MDF</i> Export 15-19mm | 293-318↓ |
| Domestic 12-18mm | 266-287↓ |

Malaysia Added Value Product Prices

| | |
|---|-------------------------|
| Malaysia, Mouldings, FOB | US\$ per m ³ |
| Selagan Batu Decking | 683-700↓ |
| Red Meranti Mouldings 11x68/92mm x 7ft up | |
| Grade A | 721-740↓ |
| Grade B | 631-649↓ |

Malaysia Furniture and Parts Prices

| | |
|---|-------------------------|
| Malaysia, Rubberwood, FOB | US\$ per piece |
| Semi-finished dining table | |
| solid laminated top 2.5'x4', extension leaf | 55-71 |
| As above, Oak Veneer | 62-76 |
| Windsor Chair | 53-56 |
| Colonial Chair | 46-54 |
| Queen Anne Chair (soft seat) | 47-60 |
| without arm | 51-60 |
| with arm | 51-60 |
| Chair Seat 27x430x500mm | 34-39 |
| Rubberwood Tabletop | US\$ per m ³ |
| 22x760x1220mm sanded & edge profiled | |
| Top Grade | 616-626 |
| Standard | 583-601 |

Report from Indonesia

Indonesian Central Bank to defend sagging rupiah

In light of recent fears over the value of the rupiah, the Indonesian central bank, Bank Indonesia, said it would defend the rupiah to minimize any 'impact...from the current shift in global sentiments', reported *Antara News*. On 22 January 2008, the rupiah fell to 1-1/2 year lows against the U.S. dollar, due to heightened volatility in U.S. markets. Consequently, some speculated the central bank might intervene, although it said it would not be disturbed by recent global market events. However, the weakness of the Indonesian currency has benefited the Indonesian timber industry for now, as more buyers move away from the Malaysian market and enter the Indonesian market. Nevertheless, prices of Indonesian and Malaysian timber products continue to decline in tandem with the slide in global financial markets.

Indonesia Log Prices (domestic)

| | |
|---------------------------------|-------------------------|
| Indonesia logs, domestic prices | US\$ per m ³ |
| Plywood logs | |
| Face Logs | 233-273 ↓ |
| Core logs | 175-205 ↓ |
| Sawlogs (Meranti) | 230-270 ↓ |
| Falcata logs | 176-192 ↓ |
| Rubberwood | 210-233 |
| Pine | 204-229 |
| Mahoni (plantation mahogany) | 606-655 ↓ |

Indonesia Sawnwood Prices

| | |
|--|-------------------------|
| Indonesia, construction material, domestic | US\$ per m ³ |
| Kampar (Ex-mill) | |
| AD 3x12-15x400cm | 244-253 ↓ |
| KD | 327-340 ↓ |
| AD 3x20x400cm | 348-369 ↓ |
| KD | 370-382 ↓ |
| Keruing (Ex-mill) | |
| AD 3x12-15x400cm | 280-290 ↓ |
| AD 2x20x400cm | 269-279 ↓ |
| AD 3x30x400cm | 275-284 ↓ |

Indonesia Plywood Prices

| | |
|-----------------------------|-------------------------|
| Indonesia ply MR BB/CC, FOB | US\$ per m ³ |
| 2.7mm | 470-500 ↓ |
| 3mm | 412-471 ↓ |
| 6mm | 389-411 ↓ |

| | |
|--------------------------------|-------------------------|
| MR Plywood (Jakarta), domestic | US\$ per m ³ |
| 9mm | 327-340 ↓ |
| 12mm | 302-324 ↓ |
| 15mm | 300-331 ↓ |

Other Indonesia Panel Prices

| | |
|------------------------------|-------------------------|
| Indonesia, Other Panels, FOB | US\$ per m ³ |
| <i>Particleboard</i> | |
| Export 9-18mm | 234-244 ↓ |
| Domestic 9mm | 197-215 ↓ |
| 12-15mm | 185-200 ↓ |
| 18mm | 181-187 |
| <i>MDF</i> | |
| Export 12-18mm | 308-320 ↓ |
| Domestic 12-18mm | 250-272 ↓ |

Indonesia Added Value Product Prices

| | |
|---|-------------------------|
| Indonesia, Mouldings, FOB | US\$ per m ³ |
| Laminated Boards Falcata wood | 379-398 ↓ |
| Red Meranti Mouldings 11x68/92mm x 7ft up | |
| Grade A | 676-700 ↓ |
| Grade B | 599-640 ↓ |

Report from Myanmar**Solid demand for teak pushes prices higher**

Demand for teak was reported to be good, with prices for lower grade logs increasing at the end of the month. Tamalan, also known as Myanmar tulipwood, had been sold this month and was equally expensive as padauk.

Below is a sample of sawn teak prices from the private sector. While these are price samples for export destinations, the actual sales price quotations may vary on a case by case basis. Only prices for teak boards, teak planks, teak decks, and teak mini decks are given.

| Nomenclature | Specification | Special Quality | 1st Quality | 2nd Quality |
|--------------|--------------------------------------|-----------------|-------------|-------------|
| Short Planks | 2.25" & up x 6" & up x 3.5'-5.5' | 2500-3500 | 2000-3000 | 1500-2500 |
| Long Planks | 2.25" & up x 6" & up x 6' & up | 3500-4500 | 3000-4000 | 2500-3500 |
| Short Boards | 0.5"-2" x 6" & up x 3.5'-5.5' | 3000-4000 | 2500-3500 | 2000-3000 |
| Long Boards | 0.5"-2" x 6" & up x 6' & up | 4500-5800 | 3500-5000 | 3000-4500 |
| Decks | 2" & up x 3" & up x 6'-9' | 4000-7500 | nil | nil |
| Decks | 2" & up x 3" & up x 10' & up | 4500-10000 | nil | nil |
| Mini Decks | 10mm & up x 50mm & up x 1m to 1.95 m | 3200-5500 | nil | nil |
| Mini Decks | 10mm & up x 50mm & up x 2m to 2.95 m | 4200-8500 | nil | nil |
| Mini Decks | 10mm & up x 50mm & up x 3m & up | 4700-11000 | nil | nil |

Prices are US\$ per cubic ton or 1.415 cubic meters.

Myanmar Log Prices (natural forests)

| Teak Logs, FOB | € Avg per Hoppus Ton (traded volume) | | |
|-----------------------|--------------------------------------|---------------------|-----------|
| | Dec | Jan | 6 mo. Avg |
| <i>Veneer Quality</i> | | | |
| 2nd Quality | 5,287 (5 tons) | 5,555 (5 tons) | 5,296 |
| 3rd Quality | 5,301 (6 tons) | 2001 (6 tons) | 4,936 |
| 4th Quality | 4,423 (36 tons) | 4,538 (31 tons) | 4,211 |
| <i>Sawing Quality</i> | | | |
| Grade 1 (SG-1) | 2,688 (392 tons) | 2,614 (364 tons) | 2,711 |
| Grade 2 (SG-2) | 2,198 (511 tons) | 2,163 (588 tons) | 2,329 |
| Grade 3 (SG-3) | 1,527 (56 tons) | 1,961 (13 tons) | 1,810 |
| Grade 4 (SG-4) | 2,127 (401 tons) | 1,931 (371 tons) | 2,136 |
| Grade 5 (SG-5) | 1,636 (435 tons) | 1,629 (475 tons) | 1,706 |
| Grade 6 (SG-6) | | | |
| Domestic | 1,215 (426 tons) | 1,395 (547 tons) | 1,409 |
| Grade 7 (ER-1) | 1,008 (330 tons) | 1,018 (306 tons) | 1,060 |
| Grade 8 (ER-2) | 1,168 (32 tons) | 1,239 (13 tons) | 1,124 |

Hoppus ton=1.8m³; 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.

| Logs, FOB | € Avg per Hoppus Ton (traded volume) |
|------------------|--------------------------------------|
| Pyinkado | -- |
| Gurjan (keruing) | -- |
| Tamalan | 2426 (51 tons) |
| Taungthayet | 152 (108 tons) |

Prices differ due to quality or girth at the time of the transaction.

Report from Papua New Guinea

PNG logs show stability in prices and exports

During the first three weeks of January 2008, PNG forest products showed active trading for logs. However, there appeared to be no apparent improvement in PNG log prices. China continued to be the dominant buyer of logs, while Taiwan and Australia imported more processed timber products. The summary of forest products exports are as follows:

| January Exports | Volume (m ³) |
|------------------|-----------------------------|
| Logs | 242,866 (includes Dec 2007) |
| Sawn timber | 2,587 |
| Plywood | 250 |
| Balsawood (sawn) | 825 |

PNG to establish State Marketing Agency for forest products

By June 2008, the PNG government intends to establish the State Marketing Agency (SMA) to assist industry with the promotion of PNG's timber trade. The Minister of Forests, Honorable Belden Namah MP, made public his intention to increase forest products trade by promoting products as well as clearing any misunderstanding about the legality and source of tropical timber. The SMA is not meant to compete with the timber industry, but to assist with the development of effective marketing and

promotional networks. Under the National Forest Policy, the government expresses the need to promote PNG's forest products, including non-timber forest products. The policy also intends to minimize transfer pricing through active involvement in market promotion. One element that needs further resolution under the Policy is the State Purchase Option (SPO) agreed between the government and concession holders. The SPO clauses are in every permit and project agreement. Under the SPO, the government seeks to obtain 25% of export volumes from exporters. The State, through the PNG Forest Authority, would sell the SPO logs to any buyer who would offer better than average FOB prices. This will assist the government in keeping the log price at par or close to the market price. The current method of monitoring price levels is, according to experts, inconsistent and sporadic, which will not serve the purpose of an SPO. The SMA will, therefore, take over the SPO functions as well as spearhead promotional programmes.

National Agricultural Development Plan piques concern over forests

The PNG government has committed USD35 million annually to be spent over the next 10 years under the National Agricultural Development Plan, although experts are concerned actions under the Plan may result in permanent forest loss. The Forestry Act has been amended to facilitate the Plan and some say it may target forested areas to be cleared for agriculture development. The changes to the Forestry Act will also result in less control of forest clearance operations by the PNG Forest Authority once an area is designated for agriculture development.

Log Prices (average unit values)

| Saw/veneer log grade | \$ Avg unit value FOB per m ³ | |
|--------------------------|--|-----|
| | Dec | Jan |
| Malas | 67 | 70 |
| Calophyllum (bintangor) | 82 | 90 |
| Taun | 79 | 88 |
| Terminalia | 63 | 68 |
| Pencil Cedar | 80 | 80 |
| PNG Mersawa | 90 | 95 |
| Red Canarium | 67 | 69 |
| Erima | 67 | 67 |
| Dillenia | 70 | 69 |
| Burckella | 66 | 70 |
| Kwila/Merbau | 166 | 170 |
| Plantation kamarere logs | \$ Avg unit val. FOB per m ³ | |
| Diameter | Dec | Jan |
| 60+cm (Vietnam market) | 60 | 84 |

Report from Brazil

Brazilian CPI doubles as Real remains firm

The Brazilian Consumer Price Index (IPCA) increased 0.74% in December 2007. This was the largest increase in 2007 and nearly twice as much as the November 2007 rate (0.38%).

In December 2007, the average exchange rate was BRL1.78=1USD, resulting in a 20.8% appreciation in the currency from December 2006 levels. The Committee on Monetary Policy (Copom) decided for the second time to maintain the prime interest rate (Selic) at 11.25% per year.

Cattle ranching drives recent Amazon deforestation

Agência de Notícias da Amazônia indicated that deforestation in the Amazon may be increasing due to rising financial incentives given by state banks such as the Bank of Amazon (BASA). According to one major newspaper, small to large-size cattle ranchers in the state of Pará have received BRL80 million from the National Program of Family-Owned Agriculture (PRONAF) and the Constitutional Fund of the Northern Region (FNO) to expand their activities in the region, which in turn has led to increased deforestation. It is estimated that cattle ranchers in the Northern region received BRL1.89 billion from the FNO from 2003 to 2007. News reports also suggest that an internal rule of BASA exempts loan applicants from providing proof of legal forest reserves. BASA offers subsidized interest rates for cattle ranching activities ranging from 0.5% to 10.5%, a rate considered one of the lowest in the country.

Real-time inspections to control logging in public forests

Radiobrás reported that the government may conduct real-time forest inspections on publicly-owned land. The first public bidding process for public forests began in the second week of January, with eight participants competing for three areas of the Jamari National Forest, located in the Amazonian state of Rodônia. The Ministry of the Environment noted the forest areas would be awarded to a company that presents the best proposal from an environmental, social and economic perspective. The winner of the bid also receives concession rights for a 40-year period, calculated on the natural forest regeneration cycle of about 30 years. The inspection of the logging process in the Jamari Forest would be done by the Brazilian Institute of Environment and Natural Resources (IBAMA), the Brazilian Forest Service (SFB) and by the state and local government agencies. This will facilitate the National Environment System (SISNAMA) in monitoring logging activities.

Exports of wood products dip marginally in December

In December 2007, Brazil's exports of wood products (except pulp and paper) fell 0.8% compared to the same period of 2006, dropping from USD341.1 million in 2006 to USD338.2 million in 2007. The following charts indicate wood products exports for December 2007:

Brazil's Exports by Value in December 2007 (USD mil)

| | | 2006 | 2007 | % change |
|-----|-------------------|-------|-------|----------|
| DEC | Solid wood* | 341.1 | 338.2 | 0.8 |
| | Tropical plywood | 15.6 | 19.7 | 4.5 |
| | Pine plywood | 32.4 | 54.5 | 68.3 |
| | Tropical sawnwood | 59.5 | 57.1 | (3.9) |
| | Pine sawnwood | 15.6 | 19.1 | 22 |
| | Wood furniture | 68.2 | 62.2 | (8.8) |

*Figures for solid wood exclude pulp and paper exports

Brazil's Exports by Volume in December 2007 (000 m³)

| | | 2006 | 2007 | % change |
|-----|-------------------|--------|--------|----------|
| DEC | Tropical plywood | 32.11 | 33.55 | 26.2 |
| | Pine plywood | 123.86 | 158.83 | 28.2 |
| | Tropical sawnwood | 145.08 | 119.41 | (17.7) |
| | Pine sawnwood | 82.75 | 92.11 | 11.1 |

Falling dollar dampens exports from West-Central Brazil

The falling U.S. dollar may continue to influence the forest sector of the state of Mato Grosso, the major tropical timber producing state in the Amazon, said *Só Notícias*. While the Wood Industry Union (SINDUSMAD) said that exports were likely to continue falling, the domestic market may grow in 2008. Exporters of plywood and other wood products have faced difficulties due to exchange rate losses that have drastically affected profit margins. On the other hand, the domestic wood market has been expanding due to developments in the civil construction market, which may balance the difficulties faced with export levels. The timber industry sector is likely to focus on the domestic market in 2008 to recover any financial loss, although SINDUSMAD did not dismiss the alternative option that companies would continue investing in exports. The weaker value of the U.S. dollar makes exporting difficult, since the selling price does not cover production costs. The favorable trends seen in the domestic market, which focuses on expanding agribusiness and high-value commodities, will likely spur civil construction. As a result, there is an expectation of more investment and higher wood demand in the Amazon region.

Asian SMEs seek business opportunities in Brazil's forest sector

Globo noted that small and medium-sized companies in Asia and the Middle East are seeking business opportunities in the Brazilian forest products sector. Many partnerships have already been established through international agreements, business missions and product fairs. The Brazilian Agency for the Promotion of Exports and Investments (APEX-Brazil) will convene a meeting this year with 61 sector companies that maintain export projects in Brazil. Already, China, Cuba, and Arab countries have been engaged in early discussions.

One goal of APEX is to design a commercial strategy for Asian countries by 2008. Special attention has been given to China and the Agency aims to jointly collaborate with a Chinese partner in setting up the strategy. In addition, the Minister of Foreign Relations of Cuba visited the Industrial Federation of São Paulo (FIESP) in search of new commercial partnerships. The Arab-Brazilian

Chamber of Commerce, which facilitates trade with 22 countries of the League of Arab States is positive about new opportunities in Brazil. In 2007, trade between Arab States and Brazil reached BRL14 billion and projections for 2008 suggest a possible growth of 10%. The opportunities available to these countries and regions would be especially beneficial to micro and small-scale furniture enterprises in addition to companies targeting civil construction.

Brazil Log Prices (domestic)

| | |
|-------------------------------------|-------------------------|
| Brazilian logs, mill yard, domestic | US\$ per m ³ |
| Ipê | 137 |
| Jatoba | 98↑ |
| Guariuba | 66↑ |
| Mescla (white virola) | 73↑ |

Brazil Sawnwood Prices

| | |
|--------------------------------------|-------------------------|
| Sawnwood, Belem/Paranagua Ports, FOB | US\$ per m ³ |
| Jatoba Green (dressed) | 839 |
| Cambara KD | 465 |
| Asian Market (green) | |
| Guariuba | 265 |
| Angelim pedra | 593 |
| Mandioqueira | 234 |
| Pine (AD) | 193 |
| Brazil sawnwood, domestic (Green) | US\$ per m ³ |
| <i>Northern Mills</i> (ex-mill) | |
| Ipê | 637↑ |
| Jatoba | 487↑ |
| <i>Southern Mills</i> (ex-mill) | |
| Eucalyptus (AD) | 196↑ |
| Pine (KD) 1st grade | 259↑ |

Brazil Veneer Prices

| | |
|-------------------------------------|-------------------------|
| Veneer, FOB (Belem/Paranagua Ports) | US\$ per m ³ |
| White Virola Face 2.5mm | 295 |
| Pine Veneer (C/D) | 211 |
| Rotary cut Veneer, domestic | US\$ per m ³ |
| (ex-mill Northern Mill) | Face Core |
| White Virola | 258↑ 216↑ |

Brazil Plywood Prices

| | |
|---|-------------------------|
| Plywood, FOB | US\$ per m ³ |
| White Virola (US Market) | |
| 5.2mm OV2 (MR) | 460 |
| 15mm BB/CC (MR) | 398 |
| White Virola (Caribbean market) | |
| 4mm BB/CC (MR) | 507 |
| 12mm BB/CC (MR) | 407 |
| Pine Plywood EU market, FOB | US\$ per m ³ |
| 9mm C/CC (WBP) | 306 |
| 15mm C/CC (WBP) | 275 |
| 18mm C/CC (WBP) | 277 |
| Plywood, domestic (ex-mill Southern mill) | US\$ per m ³ |
| Grade MR (B/BB) | |
| White Virola 4mm | 883↑ |
| White Virola 15mm | 645↑ |

Domestic prices include taxes and may be subject to discounts.

Other Brazil Panel Prices

| | |
|---|-------------------------|
| Belem/Paranagua Ports, FOB | US\$ per m ³ |
| Blockboard Pine 18mm 5 ply (B/C) | 315 |
| <i>Domestic Prices, Ex-mill Southern Region</i> | |
| Blockboard White Virola faced 15mm | 576↑ |
| Particleboard 15mm | 362↑ |

Brazil Added Value Products

| | |
|---------------------------|-------------------------|
| FOB Belem/Paranagua Ports | US\$ per m ³ |
| Edge Glued Pine Panel | |
| Korean market (1st Grade) | 651 |
| US Market | 503 |
| Decking Boards | |
| Cambara | 603 |
| Ipê | 1670 |

Peruvian bank calls for strong forest investment framework

According to the fourth quarter 2007 report of Banco Continental of Peru, the promotion of investment in forest activities holds a huge potential for the country. However, a sound framework must be created to ensure investments are environmentally and socially sustainable. The report noted such a framework is needed to determine the involvement of sub-national entities linked to the management of geographic areas and to incorporate legal mechanisms for properties belonging to communities surrounding concessions or in sale zones. The report suggested the need for clarity of ownership so properties could be integrated and communities could be the direct beneficiaries of investments instead of individual owners. The report says it is essential to have such elements, to avoid the same problems faced by the mining sector such as social conflicts, environmental problems and the negative impact on the general population's quality of life.

Peruvian Bank shows interest to invest in Amazon region

Wilfredo Lafosse Quintana, President of the Bank of Commerce, revealed the bank was willing to invest in the Amazon region, and will work specifically to promote certification in forest concessions. He said that 'concession owners cannot use nor exploit lumber because they do not know exactly how many hectares they own...and don't...have certification [of their lands].' The Bank of Commerce was holding talks with foreign entities interested in the project. Lafosse noted that the bank's aim is to certify a million hectares of the Peruvian forest. He also said that a pilot scheme would first be developed in the zone of Mazan (province of Maynas, region of Loreto), where around a million hectares could be certified.

SNV calls for development of Peru biofuels sector

The Netherlands Development Organization (SNV in Dutch) reported that biofuels in Peru, and in particular the Amazon region, should be promoted under policies designed to guarantee sustainable development. This can be done, they noted, by establishing mechanisms to allow farmers engaged in productive biofuels chains to obtain income. The SNV report also said that the impact on natural forested areas must be avoided when developing areas for biofuels and priority must be given to the use of degraded and abandoned forested areas. The SNV stressed that it was necessary to foment research on introduced crops and develop a profitable technology package. According to SNV, the research could be the baseline of the biofuel business in the Peruvian Amazon. The report also clarifies many points of confusion related to biofuels management such as supporting the private sector and regional governments in the development, implementation and diffusion of inclusive and sustainable business patterns of biofuels in the Peruvian Amazon.

Peruvian shipping company acquires new vessel

Naviera Yacu Puma S.A., the only shipping line with a Peruvian flag, will shortly acquire a new vessel in order to complement its cargo service from Iquitos Port, located in the Loreto region, to North American ports. The company

pointed out that the new vessel will facilitate a monthly to ensure the constant flow of wood products exports. Due to the current shortage of capacity, most of the forest companies located in Loreto need to ship their products through Callao Port on the Peruvian coast and bear the resultant increase in costs. Loreto accounts for about 20% of total Peruvian exports and foreign exports of wood products from the Loreto region have grown sustainably in the last twelve years.

Peru Sawwood Prices

| Peru Sawwood, FOB Callao Port | US\$ per m ³ |
|--|-------------------------|
| Mahogany S&B KD 16%, 1-2" random lengths (US market) | 1850-1878↓ |
| Spanish Cedar KD select | |
| North American market | 940-995↓ |
| Mexican market | 960-990↓ |
| Pumaquiro 25-50mm AD Mexican market | 490-525 |

*Cheaper and small-dimension sawwood for this market.

| Peru Sawwood, FOB Callao Port (cont.) | US\$ per m ³ |
|---|-------------------------|
| Virola 1-2" thick, length 6'-8' KD | |
| Grade 1, Mexican market | 286-332 |
| Grade 2, Mexican market | 242-265 |
| Cumaru 4" thick, 6'-11' length KD | |
| Central American market | 760-795 |
| Asian market | 720-760 |
| Ishpingo (oak) 2" thick, 6'-8' length | |
| Spanish market | 550-585 |
| Dominican Republic | 565-575 |
| Marupa (simarouba) 1", 6-11 length Asian market | 395-415 |

| Peru Sawwood, FOB Iquitos | US\$ per m ³ |
|--|-------------------------|
| Spanish Cedar AD Select Mexican market | 939-978↓ |
| Virola 1-2" thick, length 6'-13' KD | |
| Grade 1, Mexican market | 280-334 |
| Grade 2, Mexican market | 255-265 |
| Grade 3, Mexican market | 153-176 |
| Marupa (simarouba) 1", 6-13 length KD | |
| Grade 1, Mexican market | 248-258 |

| Peru sawwood, domestic | US\$ per m ³ |
|------------------------|-------------------------|
| Mahogany | 1298-1338↓ |
| Virola | 115-120↓ |
| Spanish Cedar | 485-495 |
| Marupa (simarouba) | 135-138 |

Peru Veneer Prices

| Veneer FOB | US\$ per m ³ |
|--------------------|-------------------------|
| Lupuna 3/Btr 2.5mm | 220-228 |
| Lupuna 2/Btr 4.2mm | 220-250 |
| Lupuna 3/Btr 1.5mm | 245-255 |

Peru Plywood Prices

| Peru plywood, FOB (Mexican Market) | US\$ per m ³ |
|--|-------------------------|
| Copaiba, 2 faces sanded, B/C, 15x4x8mm | 368-385 |
| Virola, 2 faces sanded, B/C, 5.2x4x8mm | 420-427 |
| Cedar fissilis, 2 faces sanded 4x8x5.5mm | 755-765 |
| Lupuna, treated, 2 faces sanded, 5.2x4x8mm | 365-380 |
| Lupuna plywood B/C 15x4x8mm | 350-358 |
| B/C 9x4x8mm | 345-350 |
| B/C 12x4x8mm | 350-360 |
| B/C 8x4x15mm | 420-430 |
| C/C 4x8x4mm | 380-388 |
| Lupuna plywood B/C 8x4x4mm Central Am. | 385-395 |

| Lupuna Plywood BB/CC, domestic (Iquitos mills) | US\$ per m ³ |
|--|-------------------------|
| 122 x 244 x 4mm | 426 |
| 122 x 244 x 6mm | 397 |
| 122 x 244 x 8mm | 403 |
| 122 x 244 x 12mm | 398 |
| (Pucallpa mills) | |
| 122 x 244 x 4mm | 450 |
| 122 x 244 x 6mm | 439 |
| 122 x 244 x 8mm | 427 |
| 122 x 244 x 12mm | 419 |

Other Peru Panel Prices

| Peru, Domestic Particleboard | US\$ per m ³ |
|------------------------------|-------------------------|
| 1.83m x 2.44m x 4mm | 277 |
| 1.83m x 2.44m x 6mm | 230 |
| 1.83m x 2.44m x 12mm | 198 |

Peru Added Value Product Prices

| Peru, strips for parquet | US\$ per m ³ |
|--|-------------------------|
| Cabreuva/estoraque KD12% S4S, Asian market | 1445-1500 |
| Cumaru KD, S4S Swedish market | 650-695 |
| Asian market | 920-945↑ |
| Cumaru decking, AD, S4S E4S, US market | 930-950 |
| Pumaquiro KD # 1, C&B, Mexican market | 492-534 |
| Quinilla KD, S4S 2x10x62cm, Asian market | 590-620 |
| 2x13x75cm, Asian market | 700-730 |

Report from Bolivia

Bolivian wood exports surge 10% in 2007

In 2007, Bolivian wood exports reached a total of USD115 million, a 10% jump from the total value of exports in 2006. Despite slower overall export growth from 2006, high value-added (HVA) products exports accounted for more of the total amount of exports. In terms of value, HVA products represented 62.5% of total wood exports in 2007 compared to 55.5% in 2006. In terms of volume, HVA products made up 39.3% of the total in 2006 and 42.5% in 2007. As sawn lumber exports have stagnated in terms of volume and prices, the growth in HVA products supported the overall sector's growth. The US share of total Bolivian exports by volume represented 35.6%, compared with 46% in 2006. Other markets, such as the UK, gained in importance and surpassed China as the second main buyer of Bolivian exports. Other markets like Argentina, the Netherlands, France and Italy also increased their intake of Bolivian wood products exports in 2007.

Bolivia Sawwood Prices

| Sawwood 1-3"x3x5"x7-19', FOB Arica Port | \$ Avg un. val. per m ³ |
|---|------------------------------------|
| Mahogany (US market) | 1615-1800↑ |
| Spanish Cedar (US market) | 535-965↓ |
| Oak (US and EU market) | 615-775↓ |

Bolivia Added Value Product Prices

| Doors 13/4"x36"x96", FOB Arica Port | Avg \$ per piece |
|-------------------------------------|------------------|
| US market Mara macho/Tornillo (FSC) | 100-405↑ |
| Yesquero | 125-490↑ |
| Ochoó | 120-495 |

Report from Guyana

FPMC highlights achievements of Guyana forestry sector

Minister of Agriculture Robert Persaud, officials of the Forest Products Marketing Council of Guyana (FPMC), the Guyana Forestry Commission, including Commissioner James Singh, the Guyana Manufacturers Association (GMA) and the Forest Products Association met to discuss the FPMC's performance and its future directions. The FPMC was established in December 2005 by the Government, after an ITTO diagnostic review of the forestry sector in 2002 recommended the establishment of the Council. The Council was established to coordinate marketing activities, provide advice on the types of wood in demand and address and explore lesser-used species (LUS).

Minister Persaud highlighted the consultative approach taken with regard to the Council's operations over the past two years and said the country would continue to place emphasis on valued-added production. FPMC's Director, Luvindra Sukraj, reported on the success of the Council's operations, saying that forest products exports earnings jumped from USD43 million in 2005 to USD61.5 million in 2007, when there was a reduction in log exports.

It was noted that the Council addressed almost all the areas outlined in its business plan, including exposure for value-added production and understanding the use and promotion of LUS. Another area of emphasis was on training in such areas as timber grading and saw-doctoring. To address market requirements, the Council also developed a Legal Verification System (LVS) and operational plans are in place for its implementation.

As a result of the consultations on the FPMC, a working group has been established to brief Minister Persaud on forthcoming consultations in the next three weeks. The consultations will continue to ensure that the views and recommendations of all stakeholders are included. Currently, Guyana's forestry sector contributes about 6% to the country's GDP, employs some 25,000 workers and plays a key role in the country's development, particularly in the rural and hinterland communities where forestry activities generate income for many households and contribute to the national economy.

Guyana Log Prices

| Logs, FOB Georgetown | SQ - \$ Avg unit value per m ³ | | |
|----------------------|---|---------|---------|
| | Std | Fair | Small |
| Greenheart | 130 | 120 | 115 |
| Purpleheart | 130-190 | 145-185 | 135-180 |
| Mora | - | - | - |

*Small SQ is used for piling in the USA and EU. Price depends on length.

Guyana Sawnwood Prices

| Sawnwood, FOB Georgetown | | \$ Avg unit val. per m ³ | |
|--------------------------|-----------------|-------------------------------------|---------|
| EU and US markets | | Undressed | Dressed |
| Greenheart | Prime | - | 424-760 |
| | Select/Standard | 530-551 | - |
| Purpleheart | Prime | - | 594-657 |
| | Select/Standard | - | 487-602 |
| Greenheart scantlings | | - | - |

Guyana Plywood Prices

| Plywood, FOB Georgetown Port | | | \$ Avg unit val. per m ³ |
|------------------------------|-------|-------|-------------------------------------|
| Baromalli | BB/CC | 5.5mm | - |
| | | 12mm | 335 |
| Utility | | 5.5mm | - |
| | | 12mm | - |

Report from Japan

Japanese executive sees bright skies for plywood in 2008

The Japan Lumber Journal recently interviewed Tatsuo Koyanagi, the new general manager of the plywood department of Japan Kenzai, on trends in the plywood market for 2007 and the outlook for 2008. Mr. Koyanagi provided an overview of the supply and demand situation for plywood, indicating that the amount of imported plywood from January to December 2007 is likely to be about 3.95 million m³. He said there was a good balance of supply and demand for imported plywood by September 2007, but that stock conditions were much different for domestic plywood, which was in oversupply by about 200,000 m³ in 2007.

For 2008, Mr. Koyanagi said he expected a number of 2007 trends to continue for imported plywood. He expected Malaysian plywood to be used for foundations and composite panels. Indonesian plywood would continue to be used for thin and medium-thick plywood and Chinese plywood would be utilized as packaging. Regarding lauan, Koyanagi said that as the volume received was decreasing in a manner similar to that of Indonesian plywood, it was likely that lauan would be used for medium-thick and thin plywood. He noted that if new orders for imported products arrived, suppliers are likely to ask for increased prices and the purchasing price of plywood would increase to cover the higher costs of adhesives and shipping charges. Finally, he mentioned the growing market for long softwood plywood in 2008, which would be used to make housing more earthquake resistant.

Southsea Lumber Conference notes shipping problems

In December 2007, the Tokyo chapter of the Japan Southsea Lumber Conference met to discuss the current state of the market, reported the *Japan Lumber Journal*. The chairperson of the Conference noted that 2007 had been a 'troubling year' for the market and participants noted the problems associated with transport of Southsea lumber and logs from Sarawak. One participant explained the ongoing problems with negotiations associated with ships belonging to the Southsea Lumber Transport Agreement (NFA). As a result of the situation, it was noted that imports had been on only 7-8 ships and reached about 70,000 m³ per month since October 2007, representing the lowest imported volume of the year. The participant also suggested that log importers were somewhat anxious about being able to provide a stable supply of logs to plywood manufacturers given the shipping situation.

Regarding prices, some participants noted that there was a slump in log prices. Others suggested that the high prices demanded by suppliers made it difficult to obtain logs from Malaysia, especially keruing logs. As a result of the monsoons in Malaysia, prices had been high since cutting of logs was low.

The total amount of logs received from January to October 2007 was 883,000 m³, a 22% decrease from the same period in 2006. The amount of Southsea lumber imports for January to November was 417,800 m³, a 11.8% fall from the previous year. This drop was attributed to the significant lack of lauan planks imported. In addition, the sluggishness of domestic sales was also noted, a trend which began in midway until the end of 2007.

Plywood imports struggle as production eased in Malaysia and Indonesia

At the beginning of January, many distributors were selling plywood at lower prices and plywood movements continued to be slow, said the *Japan Lumber Journal*. It was noted that some producers in Malaysia and Indonesia reduced plywood production for Japan, since producers could not cope with the increasing production costs. Some items were also relatively scarce.

Japan Lumber Reports (JLR) drew attention to the current weakened state of the market and manufacturers' pessimistic outlook for the first quarter due to slow housing starts. Manufacturers are likely to curtail production of domestic plywood and reduce imports of plywood through March in order to reduce supply. *JLR* indicated that log production in Sarawak and Sabah were nearly 30% less than previous years and suggested that there were some difficulties in filling ships with logs.

Regarding price trends, *JLR* noted the uncertainty associated with prices for Sarawak meranti logs, since there was limited demand from Japan. However, kapur and keruing logs were being actively bought due to sustained demand from China, which drove up prices for these species. It was also anticipated that there would be a further rise in ocean freight rates this year, thereby further impacting the Southsea log market.

In November 2007, plywood imports dropped 41% from November 2006 levels. *JLR* noted that plywood shipments in November were the lowest in five and a half years. However, December shipments were expected to be nearly double those in November.

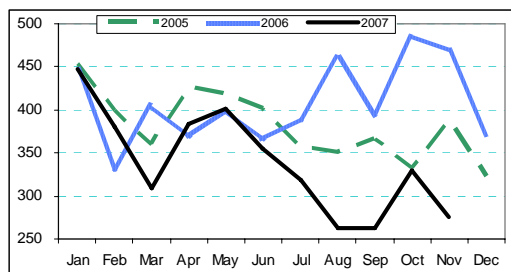


Chart 1: Japan Plywood Imports (000 m³), 2005-2007

Housing starts show signs of recovery

Japan Lumber Reports noted a 9.5% rise in housing starts in November 2007 from the level in the previous month, even though they represented a 27% fall from the same period in 2006. The November 2007 starts reached nearly 276,000 and it was speculated that this may reflect the resolution of problems associated with the revised Building Standards Act.

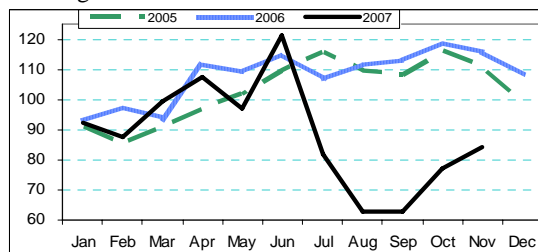


Chart 2: Japan Housing Starts (000 units), 2005-2007

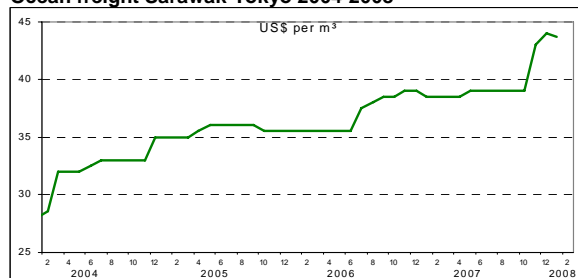
Log and Sawwood Prices in Japan

| | |
|--|------------------------------|
| Logs for Ply Manufacture, CIF | Yen per Koku |
| Meranti (Hill, Sarawak) | (Koku=0.278 m ³) |
| Medium Mixed | 8,500 |
| Standard Mixed | 8,600 |
| Small Log (SM60%, SSM40%) | 7,600 ↓ |
| Taun, Calophyllum, others (PNG) | 7,850 ↑ |
| Mixed light hardwood, G3/4 grade (PNG) | - |
| Okoumé (Gabon) | 14,000 |
| Keruing MQ & up (Sarawak) | 9,900 |
| Kapur MQ & up (Sarawak) | 9,400 |
| Logs for Sawmilling, CIF | Yen per Koku |
| Melapi (Sarawak) High Select | 11,000 |
| Agathis (Sarawak) High Select | - |
| Lumber, FOB | Yen per m ³ |
| White Seraya (Sabah) 24x150mm, 4m, Grade 1 | 150,000 |
| Mixed Seraya, Sangi 24x48mm, 1.8-4m, S2S | 53,000 ↑ |

Wholesale Prices (Tokyo)

| Product | Size (mm) | Dec (¥ per sheet) | Jan |
|---|-------------|-------------------|--------|
| Indonesian & Malaysian Plywood | | | |
| 2.4mm (thin plywood, F 4star, type 2) | 920 X 1830 | 370 | 370 |
| 3.7mm (med. Thickness, F 4star, type1) | 910 X 1820 | 560 | 560 |
| 5.2mm (med. Thickness, F 4star, type 1) | 910 X 1820 | 670 | 670 |
| 11.5mm for sheathing (F 4star, type 2) | 910 X 1820 | 930 | 930 |
| 12mm for foundation (F 4star, special) | 910 X 1820 | 950 ↓ | 950 |
| 12mm concrete-form ply (JAS) | 900 X 1800 | 930 | 930 |
| 12m coated concrete-form ply (JAS) | 900 X 1800 | 1110 ↓ | 1050 ↓ |
| 11.5mm flooring board | 945 X 1840 | 1380 ↓ | 1350 ↓ |
| 3.6mm baseboard for overlays (OVL) | 1230 X 2440 | 900 ↓ | 900 |
| OSB (North American) | | | |
| 12mm foundation of roof (JAS) | 910 X 1820 | 1000 | 1000 |
| 9mm foundation for 2 by 4 (JAS) | 910 X 2440 | 1050 | 1050 |
| 9mm conventional foundation (JAS) | 910 X 2730 | 1250 | 1250 |
| 9mm conventional foundation (JAS) | 910 X 3030 | 1350 | 1350 |

Ocean freight Sarawak-Tokyo 2004-2008



More information on Japan in www.n-mokuzai.com

Report from China

China agrees to discontinue trade subsidies

The Chinese government signed a Memorandum of Understanding (MOU) with the U.S. on 29 November 2002, in which China agreed to end twelve trade subsidies on items including timber, steel and information technology by 1 January 2008. Of the trade subsidies, nine are export subsidies and three are import subsidies. China does not intend to use these subsidies again, and the U.S. has the right to file a case with the World Trade Organization should China not comply with the terms of the MOU. Since foreign enterprises in China manufacture over 60% of commodities for export, it is expected that these enterprises will be greatly affected by the changes in subsidy policies.

China issues Catalogue of Prohibited Commodities

The Ministry of Commerce, the General Administration of China Customs Agencies, and the State Environmental Protection Administration of China recently issued the 'Catalogue of Prohibited Commodities in the Processing Trade'. Over 990 kinds of commodities are listed, including non-recycled resources, some raw materials of chemicals and animal products, and 'homemade' wooden furniture, or furniture made exclusively from domestic wood sources. However, furniture made of imported timber is not listed in the Catalogue. This is significant as furniture enterprises in the north of China mainly use domestic timber to manufacture and export furniture. Furniture enterprises in the south of China are less impacted by this policy, since they mainly use imported timber to manufacture furniture.

Zhanjiang Port posts strong gains in timber exports

The Zhangjiagang Exit-Entry Inspection and Quarantine Bureau reported that 2007 timber imports through the port rose 18% in volume and 23% in value from 2006 levels. Timber imports through the port totaled 3.35 million m³ and were valued at USD826 million. The imported timber was from 35 countries and regions. The top three countries exporting timber to this port were Gabon (1.17 million m³), Papua New Guinea (990,000 m³) and the Solomon Islands (263,500 m³), representing a year on year rise of 29%, 19% and 175% respectively. At the same time, timber imports shipped in containers through the port reached a record high and represented a volume of 134,000 m³.

According to local experts, imported timber from Cameroon accounted for 37% (49,000 m³) of the total timber imports in containers through the port. Imports were also received from Sudan and Romania, although their timber imports accounted for less than 100 m³. Sawntwood imports shipped in containers also were up 94% from the previous year to 15,500 m³. It was forecast that timber imports in containers would further increase due to rising international ocean freight costs, as it was cheaper and more effective to use container shipping.

Jiangmen City bolsters processing and exports of forest products

From January to November 2007, the export value of forest products from Jiangmen City, Guangdong Province, was close to USD140 million. Of the total, the export value of wood forest products was USD44.1 million, the export value of furniture products USD90.8 million, and the export value of bamboo, rattan, grass and willow products USD4.82 million. These products were mainly exported to the U.S., Japan, Southeast Asia, the EU, the Middle East and Hong Kong.

Jiangmen City has a significant domestic supply of forest products, which enable it to supply its growing forest products processing industry. Exports of forest products have increased year by year and the products have become diversified. There has been a push to create more high quality downstream products, and there are already 85 forest products manufacturing enterprises in the City. These enterprises mainly manufacture wooden products, wooden furniture as well as bamboo, rattan, grass and willow products.

Guangzhou City Imported Timber Market

| Logs | Yuan per m ³ |
|----------------------------|-------------------------|
| Radiata 6m, 30cm diam. | 1300 |
| Luan | 2200-2400 |
| Kapur | 1900-2500 |
| Merbau 6m, 60cm diam. | 5300-5700 |
| Keruing 60cm+ diam. | 1900-2300 |
| Beech 6m,30cm veneer Qual. | 3300-3600 |
| Sawntwood | Yuan per m ³ |
| Teak sawn grade A | 7400-8800 |
| US Maple 2" KD | 8800-12500 |
| US Cherry 2" | 14800-15000 |
| US Walnut 2" | 12500-14500 |
| SE Asian Sawn 4m+, KD | 3700-3900 |
| Plywood | Yuan per sheet |
| 4x8x3mm | 20-34 |
| 4x8x18mm | 149-188 |

Shanghai Furen Wholesale Market

| Sawntwood | Yuan per m ³ |
|----------------------------|-------------------------|
| Beech KD Grade AB | 2500-3200 |
| US Cherry, 25mm | 10500-11000 |
| US Red Oak, 50mm | 9800-10500 |
| Sapele 50mm FAS (Congo) AD | 8200-9000 |
| KD | 7500-7800 |

Shandong De Zhou Timber market

| Logs | Yuan per m ³ |
|------------------------------|-------------------------|
| Larch 6m, 24-28cm diam. | 1220 |
| White Pine 6m, 24-28cm diam. | 1280 |
| Korean Pine 4m, 30cm diam. | 1500 |
| 6m, 30cm diam. | 1550 |

Hebei Shijiazhuang Wholesale Market

| Logs | Yuan per m ³ |
|--------------------------------------|-------------------------|
| Korean Pine 4m, 38cm+ diam | 1750 |
| Mongolian Scots Pine 4m, 30cm diam. | 1350 |
| 6m, 30cm+ diam. | 1450 |
| Sawntwood | Yuan per m ³ |
| Mongolian Scots Pine 4m, 5-6cm thick | 1600 |
| 4m,10cm thick | 1650 |

Tian Jin City Huan Bo Hai timber Market

| Logs | Yuan per m ³ |
|-----------------------------------|-------------------------|
| Okoume 80cm+ | 3000 |
| Sapele 80cm+ | 5350 |
| Padauk 40cm+ | 6000 |
| <i>Sawnwood</i> | |
| US Black Walnut 2.2-4m, 5cm thick | 16000 |
| Padauk 2.2-3.2m, 5cm thick | 11000 |
| Sapele 2.2-2.6m, 5cm thick | 6800 |
| Ash 4m, 5cm thick | 4300 |

For more information on China's forestry see: www.forestry.ac.cn

Report from Europe and the UK

European hardwood market off to slow start in 2008

Forward demand for meranti lumber and scantlings in the Netherlands and Germany is subdued at present due to relatively high stocks, with most business now focused on higher density more durable products. Due to low levels of demand, importers report no problems in securing adequate stock despite a major reduction in production levels in the Far East. Forward prices for South East Asian wood products offered to EU importers have stabilized in recent weeks, the current relatively low level of demand balanced by the tight supply situation.

Prices for meranti tembaga, a popular joinery species in the UK, which weakened significantly during the second half of 2007, now seem to have stabilized. Large stocks of this species built up in Port Klang in Malaysia in the third quarter of last year, but these stocks are now reported to be much reduced. Although sapele remains the favored tropical hardwood joinery species in the UK, prices for meranti tembaga are currently very competitive against sapele encouraging some movement back to the Malaysian species.

In recent weeks, EU imports of bangkirai decking have remained slow with high stocks continuing to be reported at the North Sea ports of Rotterdam, Hamburg and Antwerp. There is some expectation of a slight pick up in orders in advance of the Chinese New Year in February as importers aim to ensure delivery in time for the 2008 spring season, but volumes of new orders are expected to be down on previous years.

Expectations amongst European importers are that lumber prices from South East Asia may rise after the Chinese New Year due to tighter log supply in the rainy season and rising costs. There should also be a pick up in demand for garden products in the spring months. Already some meranti lumber shippers have made minor upward adjustments.

Prices for African logs and lumber have generally remained firm and stable in European markets in recent weeks, with slow demand balanced by tight supply. Supplies of high quality redwood logs, which are favored in Europe, are now limited as increasing emphasis is placed on value-added processing in the main supply countries.

Existing landed stocks of kiln dried sapele sawn lumber in the Benelux countries are reported to be relatively good so that at present European distributors are having little

difficulty obtaining material. However, reports of tight sapele lumber supply in the leading supply countries suggest that replacement costs may well rise, feeding through into price increases on the EU market in coming months.

Forward prices for iroko sawn lumber on offer to European buyers have been a little weak in recent months, with demand relatively subdued and mills in Côte d'Ivoire concentrating heavily on processing of this species. But as Côte d'Ivoire mills have concentrated on iroko, supplies of Côte d'Ivoire framire – which has become a popular joinery species in the UK – have become more restricted. As a result prices for framire have remained firm.

European importers report that very little white wawa is now coming out of Ghana, with much of the available wood now comprising darker material with stain. Buyers seeking the whiter material are tending to shift to samba from Côte d'Ivoire. However, EU demand is now less than in the past as European manufacturing capacity in relevant sectors (for example window frames) has declined under the influence of Chinese imports.

Ocean freight rates from key hardwood supplying regions into the European market have risen in recent weeks. The Far East Freight Conference raised rates by USD600 per 40 foot container on 1 January 2008 adding around USD25/m³ to the cost of shipping from South East Asia into the EU. Ocean freight rates increased significantly from Africa at the start of the fourth quarter of 2007. Also freight rates from North America into Europe increased by USD500 per 40 ft. container in early January, adding about USD18/m³ to shipping costs.

Following a decision taken at the European foreign ministers meeting in Luxembourg on 15 October 2007 to introduce economic sanctions against Myanmar, a full import ban on teak is expected to come fully into force in February.

UK timber trade faces uncertain prospects in 2008

Economic activity has been slowing in the UK in recent months, undermining confidence in the timber importing and manufacturing sectors. The Economist Intelligence Unit forecasts that real GDP growth will slow from 3.1% in 2007 to 1.9% in 2008. New house starts are falling, while concerns are also mounting over the international 'credit crunch', jitters in the stock market and rising costs, particularly for energy. The government's weak fiscal position suggests that there is now less scope for public sector spending on further improvements in public services.

The UK joinery sector reports adequate workloads at present, but there are significant concerns about the prospects for the rest of year as economic indicators have taken a turn for the worse. Joinery companies recently interviewed by the *Timber Trade Journal* suggest that their labor, energy and material costs had risen by between 7% and 10% last year. This has had an impact on profitability in the sector with the British Woodworking

Federation reporting that it lost 2% of its core membership last year as several companies fell victim to bad debts.

But it is not all doom and gloom. Joinery companies operating at the higher end of the UK market report a reasonable flow of orders, particularly from the top end commercial and retail sectors. One mass producer also reported a pick-up in demand for timber windows and stairs at the end of last year, although the demand for doors remained flat. This company is now pushing up prices for its windows and doors by around 5% to absorb rising costs.

UK agents report mixed views on the current level of hardwood purchasing in the UK. While some note that the current economic situation has dampened purchasing by importers and distributors at the beginning of the year, others report a good level of demand in the opening weeks of 2007. One leading hardwood agent said they had been very busy in the last 3 weeks with strong sales in all the leading species, including white oak, sapele, framire, meranti, ash and walnut. This agent speculated that his good order book may be short-term due to importers' restocking after curtailing purchases at the end of last year and may not be indicative of how the market will progress in the coming weeks. Certainly, the UK softwood market is quiet at present, indicative of slow construction activity, a factor which is likely to filter through into weaker hardwood demand in coming months.

Sterling prices for many hardwood species imported into the UK have firmed up since December as both the US\$ and Euro have strengthened against the UK currency.

Environmental issues continue to be a major focus for the UK trade as a whole. The UK government's Central Point of Expertise on Timber (CPET) has been preparing the ground for the April 2009 deadline whereby all wood used in UK government procurement must either be verified sustainable or covered under the terms of a Forest Law Enforcement Governance and Trade Voluntary Partnership Agreement license. New guidance for procurement officers is due to be published in February. The UK government has also just launched a public consultation on possible new laws at national level to prevent illegal wood imports into the country.

Concerns mount in the Spanish door sector

Spain's construction sector is stuttering, raising fears for the hardwood importing and manufacturing sector. Spanish housing prices rose 17% in 2004 and 9.1% in 2006. Final figures for 2007 are not yet out, but are predicted by the Spanish government to be only around 5%. Spanish interest rates have jumped three points in as many years, there is a glut of housing on the market and Spanish banks worried by the sub-prime crisis in the United States are now much tighter when it comes to lending.

Spain's construction sector has been a major driver of demand for hardwoods, including for doors, flooring and other joinery applications. Already there are signs that the

slowdown is impacting on key manufacturing sectors, with reports of redundancies and slower sales amongst Spain's major door manufacturers. The problem is compounded in the door sector which is very dependent on the domestic market and which has not succeeded in developing a large export market. There is also mounting pressure from Chinese and other overseas competitors.

Spanish door manufacturers are seeking to respond to these problems by moving up-market, focusing on design and product quality to sell a higher margin product. This might bode well for hardwood consumption longer-term. There is also some optimism that the slowing demand from new-build projects may be partially off-set by rising interest in hardwood interiors and flooring for renovation projects.

UK Log Prices

| | | € per m ³ |
|---------------------|------------|----------------------|
| FOB plus commission | | |
| N'Gollon (khaya) | 70cm+ LM-C | 330-350▲ |
| Ayous (wawa) | 80cm+ LM-C | 220-230▼ |
| Sapele | 80cm+ LM-C | 365-375▲ |
| Iroko | 80cm+ LM-C | 297-310 |

UK Sawnwood Prices

| | Pounds per m ³ |
|---------------------------|---------------------------|
| FOB plus Commission | |
| Teak 1st Quality 1"x8"x8" | - |
| Tulipwood FAS 25mm | 220-250▼ |
| Framire FAS 25mm | 450-470 |
| DR Meranti Sel/Btr 25mm | 440-450▲ |
| Sipo FAS 25mm | 620-660 |
| Sapele FAS 25mm | 600-620▲ |
| Iroko FAS 25mm | 550-570▲ |
| Wawa No.1 C&S 25mm | 250-260▲ |
| Balau/Bangkirai Decking | 600-620 |
| White Oak | 430-440 |

UK Plywood and MDF Prices

| | US\$ per m ³ |
|--------------------------------------|-------------------------|
| Plywood Panels 8x4", CIF | |
| Brazilian WBP BB/CC 6mm | 545-555 |
| Malaysian WBP BB/B 6mm | 545-555 |
| China (hardwood throughout) 18mm | 430-440 |
| China (hard face, poplar core) 18 mm | 400-410 |

Report from North America

Uncertainty over U.S. markets continues

The *Hardwood Review Express* discussed U.S. economic prospects for 2008, indicating that housing industry could see a 'turning point' in 2008. According to *Forex.com*, housing starts dropped to 1.0 million units in December 2007, a 16-year low. Housing permits also fell by 8.1% in December 2007. It was also hoped that recent interest rate reductions by the Federal Reserve would reverse the housing market's downturn.

Internet News

Below are web links to news items published by the press. These items do not necessarily reflect the views and policies of ITTO.

According to assessments of most of analysts, the Asia Pacific region will soon become the world's 'axis' and primary 'driving force' of economic development. Today, Asia Pacific is a home for over 60 per cent of population on earth with its economy supporting almost 28 per cent of global GDP.

<http://www.turkishweekly.net/articles.php?id=269>

The Dubai World Trade Centre's (DWTC) two major commercial destination projects - Dubai Exhibition City and Dubai Trade Centre District - will add more than 10,000 hotel rooms to the UAE's overall capacity when all phases of development are completed by 2015.

http://www.gulfnews.com/business/Hotel_and_Tourism/10183562.html

In Saudi Arabia, Riyadh looks like a boom town: sprawling over 40 miles, it is teeming with shopping malls, electronics stores and luxury boutiques. But while times are good today, many Saudis realize that their country is locked in a race against time to create industries that produce more than just oil in order to keep a young and growing population employed.

http://www.nytimes.com/2008/01/20/business/worldbusiness/20saudi.html?ex=1201410000&en=5ee3986aeb5a5a6e&ei=5053&partner=NYTHEADLINES_BIZ

Japan and the Asian Development Bank (ADB) are helping prepare an investment project that will ease the flow of goods, services and people across Bangladesh, Bhutan, India and Nepal to promote economic cooperation and integration among the four member-countries of the South Asia Subregional Economic Cooperation (SASEC). The Japan Special Fund is extending a USD1 million grant to draw up the design for the SASEC Transport Logistics and Trade Facilitation Project. ADB will manage the grant.

<http://www.adb.org/Media/Articles/2008/12363-south-asian-transport-networks/>

Long thrashed by swings in the U.S. economy, Mexico now boasts a thriving housing sector whose record growth leads Latin America — a sign of increased economic stability and an outlet for investors looking to escape the U.S. downturn. Giants including the California Public Employees Retirement System, the largest U.S. public pension fund, are already bankrolling projects in Mexico, where they see 'more bang for the buck', said Clark McKinley, spokesman for CalPERS, which has invested more than USD300 million in Mexican real estate funds.

http://money.excite.com/jsp/nw/nwdt_rt_top.jsp?cat=TOP_BIZ&src=601&feed=ap§ion=news&news_id=ap-d8u9t6100&date=20080120&alias=/alias/money/cm/nw

The National Association of Homebuilders (NAHB) is forecasting that the housing market could reach bottom by the second quarter of 2008, with a 'pretty good expansion'

occurring once again in 2009. The top builder association shared the news during a pre-holiday conference call hosted by CEO Jerry Howard and David Seiders, NAHB's Chief Economist. Seiders sees new home sales bottoming out in the first quarter of 2008.

http://www.hgtvpro.com/hpro/nws_ind_nws_trends/article/0.2624.HPRO_26519_5779246.00.html

Norway is to step up its development assistance to South Africa, in order to boost the country's response to the threats posed by climate change. Work on carbon capture technologies, action against deforestation, the scaling up of Clean Development Mechanism projects in Africa along with technology transfer, as well as further emission cuts topped the agenda as the Norwegian Prime Minister passed through Cape Town.

<http://www.buanews.gov.za/view.php?ID=08012111451001&coll=buanew08>

Japanese Prime Minister Yasuo Fukuda has warned of growing risks to the world economy in a speech at the World Economic Forum in Davos, Switzerland. Mr. Fukuda said the issue would be discussed at a meeting of the Group of Seven leading industrialized nations in Tokyo next month.

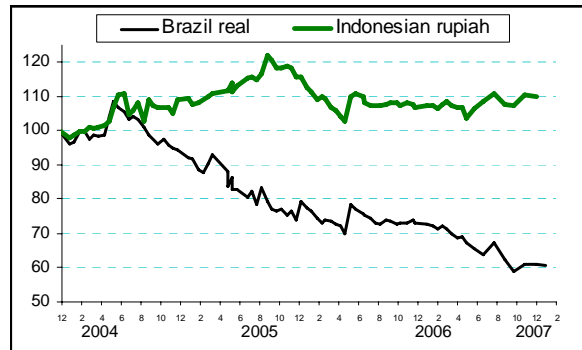
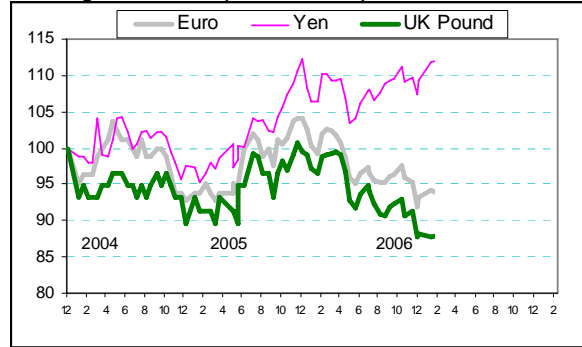
<http://news.bbc.co.uk/2/hi/asia-pacific/7210696.stm>

Main US Dollar Exchange Rates

As of 31 Jan 2008

| | | | |
|---------------|-----------|----------|---|
| Brazil | Real | 1.780 | ▲ |
| CFA countries | CFA Franc | 440.803 | ▲ |
| China | Yuan | 7.191 | ▼ |
| EU | Euro | 0.6720 | ▲ |
| Indonesia | Rupiah | 9,285.00 | ▼ |
| Japan | Yen | 106.43 | ▼ |
| Malaysia | Ringgit | 3.2352 | ▼ |
| Peru | New Sol | 2.9351 | ▲ |
| UK | Pound | 0.5022 | ▼ |

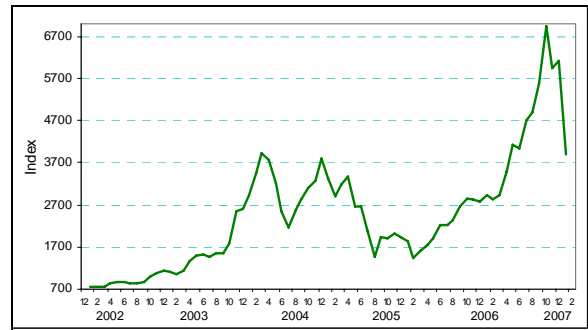
Exchange rates index (Dec 2003=100)



Abbreviations and Equivalences

| | |
|-------------|--|
| LM | Loyale Merchant, a grade of log parcel |
| QS | Qualite Superieure |
| CI, CE, CS | Choix Industriel, Economique or Supplimentaire |
| FOB | Free-on-Board |
| CIF; CNF | Cost, insurance and freight; Cost and freight |
| KD; AD | Kiln Dry; Air Dry |
| Boule | A log sawn through and through, the boards from one log are bundled together. |
| BB/CC, etc. | Log/plywood grades. Letter(s) on the left indicate face veneer(s), on the right backing veneer(s). Grade decreases in order B, BB, C, CC, etc. |
| BF; MBF | Board Foot; 1000 Board Feet |
| Hoppus ton | 1.8 m ³ |
| Koku | 0.278 m ³ or 120 BF |
| SQ; SSQ | Sawmill Quality; Select Sawmill Quality |
| FAS | Sawnwood Grade First and Second |
| GMS | General Market Specifications |
| GSP | Guiding Selling Price |
| MR; WBP | Moisture Resistant; Water and Boil Proof |
| MDF | Medium Density Fibreboard |
| PHND | Pin hole no defect grade |
| \$; ▲▼ | US dollar; Price has moved up or down |

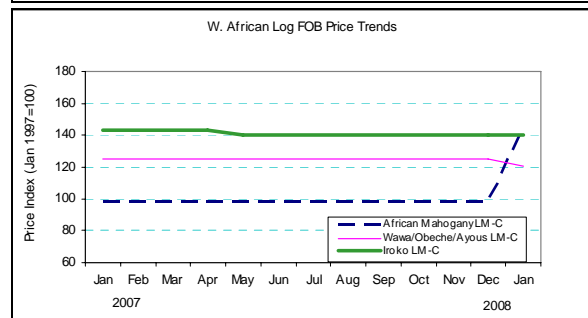
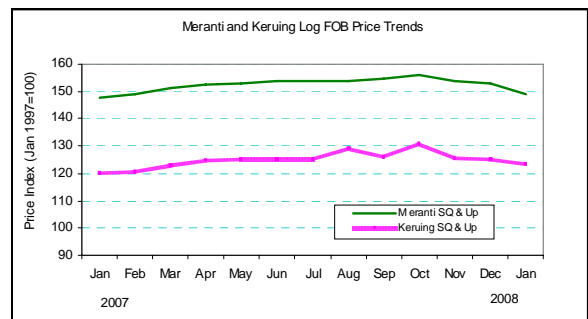
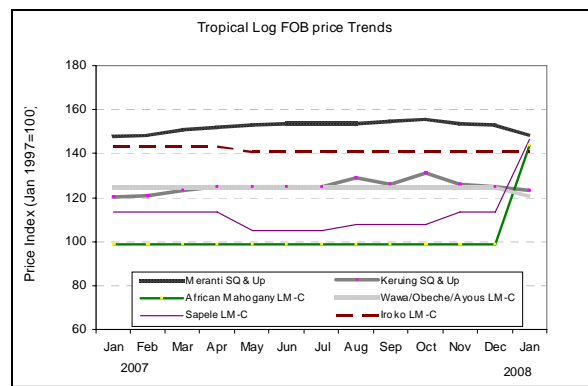
Ocean Freight Index



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.

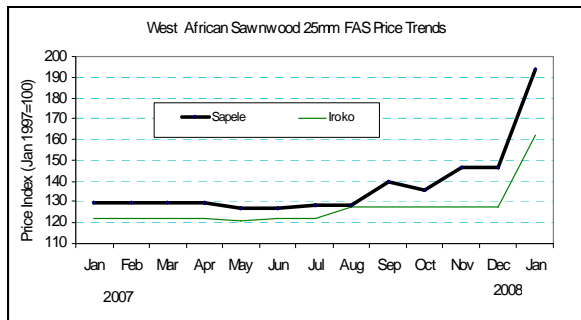
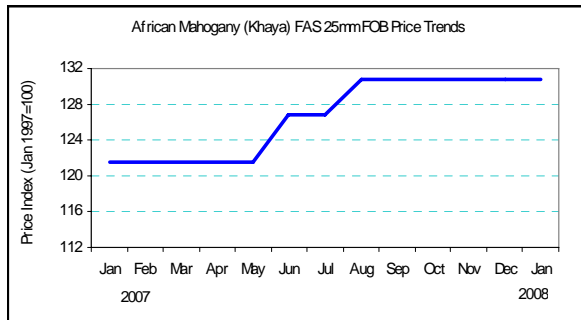
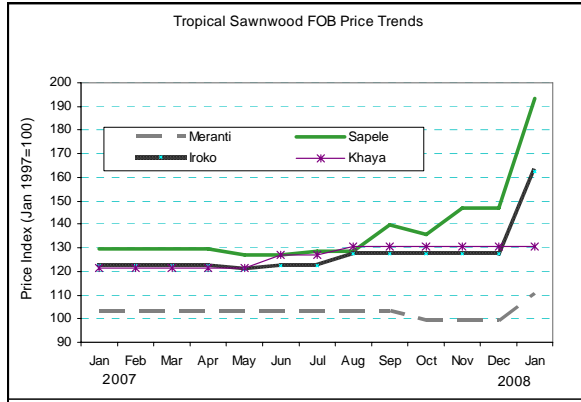
Appendix. Tropical Timber Price Trends

Tropical Log Price Trends



More price trends in Appendix 4, ITTO's Annual Review <http://www.itto.or.jp/live/PageDisplayHandler?pagelid=199>

Tropical Sawnwood Price Trends



Tropical Plywood Price Trends

