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Indonesia

Solid Wood Products

Annual

2005

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Report Highlights:
Illegal logging and log trading are major problems for the government and wood industries. They diminish resources and threaten forest sustainability. Supported by resources from the community forest, timber estates, and reforestation program, total annual allowable logging has been increased from 5.4 million CUM in 2005 to 7.9 million CUM in 2006. Nevertheless, the plywood industry suffers from short supple of logs. Log exports are prohibited, but illegal exports are common.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SECTION I. SUMMARY

The GOI increased the annual allowable cutting of logs from 5.4 million cubic meters during 2005 to 7.9 million CUM for 2006. Sustainable forest management continues to be implemented and improved including restriction of exports. However, illegal logging and trading are a persistent feature of the Indonesian wood products sector.

Some estimates suggest that up to 68 million CUM are cut illegally, with approximately 10 million CUM of logs illegally shipped out of the country. Annual forest deterioration resulting from forest fire, slash/burn logging practices, and shifting cultivation, is estimated around 2.8 million ha.

Indonesia's wood products (mostly wood working, plywood) industry requires other than tropical wood species. Total imports are estimated around 1.0 million CUM annually including species from the United States (oak, cherry and birch).

Illegal log exports have placed Indonesian wood products firms in a difficult situation, increasing production costs and reducing competitiveness in the world market. Irreconcilable central and local government regulations and various levies imposed on wood products also cause the costs of production to increase.

SECTION II. STATISTICAL TABLES

Table 1: PSD Hardwood Plywood

PSD Table						
Country	**Indonesia**					
Commodity	**Hardwood Plywood**				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Production	6400	5700	6100	6100	0	6100
Imports	0	0	0	0	0	0
TOTAL SUPPLY	6400	5700	6100	6100	0	6100
Exports	5500	5100	5200	5500	0	5500
Domestic Consumption	900	600	900	600	0	600
TOTAL DISTRIBUTION	6400	5700	6100	6100	0	6100

Table 2: PSD Tropical Hardwood Lumber

PSD Table						
Country	**Indonesia**					
Commodity	**Tropical Hardwood Lumber**				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Production	6100	5400	6100	5700	0	5800
Imports	0	0	0	0	0	0
TOTAL SUPPLY	6100	5400	6100	5700	0	5800
Exports	0	0	0	0	0	0
Domestic Consumption	6100	5400	6100	5700	0	5800
TOTAL DISTRIBUTION	6100	5400	6100	5700	0	5800

Table 3: PSD Tropical Hardwood Logs

PSD Table						
Country	**Indonesia**					
Commodity	**Tropical Hardwood Logs**				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Production	25000	23000	25000	24000	0	26000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	25000	23000	25000	24000	0	26000
Exports	0	0	0	0	0	0
Domestic Consumption	25000	23000	25000	24000	0	26000
TOTAL DISTRIBUTION	25000	23000	25000	24000	0	26000

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

PRODUCTION

Forest Situation/Outlook

Total forest inventories increased from 42.3 million CUM in 2004 to an estimated at 45.9 million CUM in 2005. This consists of natural forest (5.4 million CUM), timber estate/plantation (22.8 million CUM), timber from state-owned forestry company (0.8 million CUM), rejuvenation plantation, such as: rubber and palm oil (7.2 million CUM), community forests (8.7 million CUM), and import 1 million CUM. Export industry requires about 40.5 million CUM raw material, while local consumption absorbs around 5.4 million CUM.

For timber estate (HTI) development, the government has targeted 5 million ha by the end of 2009 to produce 53 million CUM of logs a year. Logging will cover 0.33 million ha a year of the 5 million ha. Currently the HTI project covers 2.16 million ha.

Solid Wood Products Situation/Outlook

The wood products industry is concentrated in Kalimantan, with political instability in several parts of the country such as Aceh, Maluku and Papua contribute to declining wood industry performance in those locations. With a lower supply of raw materials, increasing production costs, and incompatible policy (regional vs. central government policies), industries are struggling with a variety of constraints.

Due to scarcity of logs and competitive prices from China and Malaysia, many lumber, plywood and wood working industries are closed down or reducing their output. They also concentrate on production of particle/block/medium density fiberboard or mdf (medium densified fiberboard), using by-products from plywood milling and producing more value-added products such as fancy plywood that use imported veneer. Plywood production is expected to rise slightly from 5.7 million CUM in 2004 to an expected volume of 6.1 million CUM in 2005. The Sustainable Forest Operation Program (OHL) caused log prices to rise during March - May 2005, for example: Meranti species increased from US$ 61/CUM to US$ 122/CUM; Merbau species increased from US$ 77/CUM to US$ 204/CUM; Teak wood was sold at US$ 173/CUM to US$ 255/CUM. As of May 2005 the price of thin plywood (2.7 mm thickness) has range between US$ 1.3 – 2.6/sheet depend on the size. While thick plywood (18 mm) was sold between US$ 13.5 – 13.8/sheet. Fuel price increases instituted by the GOI have also served to increase prices.

TRADE

Plywood is Indonesia's most important forest product, in terms of revenue. Plywood export volume is expected to reach 5.5 million CUM in 2005 and is forecast to remain stable at the same level for 2006. The value of plywood exports in 2005 estimated at US$ 2.2 billion, a slightl increase compared to US$ 1.8 billion in 2004. Plywood products mainly are exported to Japan, Middle East countries, the United States, and Europe countries.

The import value of veneer (coniferous, hardwood and other woods) in 2004 reached US$ 19.3 million, slightly higher than in 2003. Major suppliers in 2004 were the United States, China and Japan with their shares of US$ 5.5 million (28.6%), US$ 5.4 million (28.4), and US$ 1.6 million (8.2%) respectively. Imports of veneer from the U.S. were slightly lower than in 2003, while those from China more than doubled. Temperate hardwood logs (HS Code: 440391) imports in 2004 totaled US$ 18.3 million, dominated by temperate hardwood species from the United States valued at US$ 15.5 million or around 85 percent of the total. Total value of temperate hardwood lumber (HS Code: 440791) import increased significantly from US$ 4.9 million in 2003 to US$ 11 million in 2004. As the United States continued to be the largest supplier with import valued at US$ 5.4 million (49%), and followed by Germany at US$ 1.5 million (13.7%).

Marketing

To promote their products in international markets, the Plywood Association is attending conferences and participating in a variety of expos. The industry focuses on producing secondary plywood and other finished products to increase the added value of the products.

A positive response has been received as a follow up of the Quality Sample Program (QSP) promoting U.S. hardwoods to companies in East Java. This shows that U.S. hardwood have potential market in Indonesia, especially facing tight supply of logs and growing demand for modern office and residential buildings.

The wood industry considers the approved regulation by the International Plant Protection Convention (IPPC) regarding Solid Wood Packing Material (effective on September 2005) as a barrier to exports. The cost fumigation (around US$ 5/CUM) will increase costs significantly, in their view.

POLICY

Sustainable forest management is the most important requirement for activities dealing with forest explorations, trading and processing of wood/forest products. Forest concession rights (HPH-Hak Pengusahaan Hutan) were granted under strict assessment and monitoring. Logging activities can only be carried out in compliance with the approved annual work plans (RKT-Rencana Kerja Tahunan).

The government requires the industry to perform selective cutting (log diameter should be > 50 cm), replanting with the same wood species, pay reforestation fund and Forest Royalty Fund. In addition, official certificate of origin should accompany every log that has been cut. Logging permit will not be granted if all requirements were not convened. Export permit and endorsement by the Forest Industry Revitalization Agency (BRIK- Badan Revitalisasi Industri Kehutanan) should be obtained to guarantee that products use legal logs.

Nevertheless, illegal logging and log exports are a continual feature in the Indoesian forest products sector. Lack of enforcement on the part of the GOI, and lack of consolidation of central versus district and provincial regulation hinders implementation of the rules already promulgated.

Although it is developing slowly, the GOI continues to support increasing the expansion of timber estates, which will be function as potential sustainable sources of timber for the industry. It is also important that the industry obtains Ecolabels certificate to show the accomplishment application of sustainable forest/wood management practices.

Industries have urged the government to free log imports from import duties, taxes, and other fees, which reach about 20% of import value.

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